# Combined Influence of Selected Predatory Loan Practices on Loan Performance Among Commercial Banks in Kenya.

Majory Wangari[1], Prof. David Kiragu[2], Dr. Allan Kuria[3], Dr. Beth Kariuki[3]

PhD Candidate[1]

[23]School of Business Management and Economics, Dedan Kimathi University of Technology

## Abstract

As in most economies worldwide, commercial banks are crucial in the Kenyan economy. Their importance stems from the various functions and services they provide, which contribute to economic growth, financial stability, and the country's overall development. In Kenya, the Government aspires to achieve an economic growth rate (GDP) of 10% p.a., as enshrined in Vision 2030 and beyond, which can only happen in a stable financial economy. Equally, the attainment of the Kenya Kwanza Bottom-

Up Economic Transformation Agenda (BETA) plan is also dependent on a robust financial sector. In 2022, the commercial banks in Kenya contributed approximately Kes. (Million) 13,368,340, about 5% of the Gross Domestic Product in Kenya. A vibrant banking sector depends on good loan performance, the primary source of bank income. Sound loan performance enables banks to maintain adequate capital reserves, meet operational expenses, and provide essential financial services. However, loan performance has deteriorated over the last decade from a ratio of non-performing loans to gross loans of 4.96% in 2013 to 14.5 % in June 2023. The gross non-performing loans stood at Kes 541 billion by June 2023. The risk categorization indicated a deterioration of 41 billion from December 2022 to June 2023. This is a cause of great concern for the sustainability of commercial banks in Kenya. This study aimed to analyze the combined influence of the selected predatory loan practices (borrower, lender, and loan processing practices) on loan performance among commercial banks in Kenya. The study adopted a positivist research philosophy and a descriptive research design.

The sampling frame and unit of analysis were the 39 commercial banks in Kenya (CBK,2022). The unit of response was 234 managers of these 39 commercial banks. A closed-ended questionnaire and a secondary data collection sheet were used to collect data for the prediction. A pilot test was carried out to assess the instrument's internal consistency using managers of three Micro Finance Banks in Nairobi, Kenya. Further, Confirmatory Factor Analysis (CFA) was utilized to enhance construct validity by generating the Kaiser-Meyer-Olkin coefficient and Bartlett's Chi-square for factorability analysis. Total variance explained scree plot and rotated component matrix were generated and further interpreted. After testing the data for Gaussian distribution, linearity, and autocorrelation, simple linear regression was used for inferential analysis. The study found that the three (3) predictors, borrower practices, lender practices, and loan processing practices, respectively, jointly explained approximately 58.5% of the variations of loan performance among commercial banks in Kenya. Borrower practices and lender practices were found to have a positive and statistically significant influence on the loan performance of commercial banks in Kenya. Loan processing practices were found to have a positive but no statistically significant influence on the loan

performance of commercial banks in Kenya. For borrower practices, the study recommended that commercial banks review the borrower-driven predatory loan practices leading to weak loan performance and incorporate them in the Know Your Customer (KYC) tool for loan evaluation(s) and pricing. The interventions include assessing the borrower's financial literacy, providing financial counselling services, and strengthening loan processing practices within the banks. For lender practices, the study recommended that commercial banks review or develop a profiling tool that identifies customers who have been on loan without a break, a customer who might need financial counselling, analyze the possibility of managing loan appetite for customers with questionable ability to repay, reevaluate certain products associated with relatively higher default rates, review policy on recharging securities successively and allow potential borrowers to review all the loan terms and conditions before loan award.