CREDIT POLICY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA.

A CASE STUDY OF EQUITY BANK,

NAKURU BRANCH, KENYA.

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BBA/ 20058/ 82/ DF

A RESEARCH DESRETATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

DECEMBER 2011

DECLARATION

I hereby declare that this is my original work and has not been submitted to this university before or to any other institution of higher learning for an academic award.

Signed.............................

MURIMI LEWIS JOHN

Date. 20/1/2012

APPROVAL

This work has been done under my supervision as a university supervisor and submitted to the faculty with my approval.

Signed..

DR.STANLEY KINYATA

Date......18/12/2011.....

DEDICATION

To my mother, Mrs. Jean Ann Namu, my sister Ms. Hildah Murugi Namu, my niece Cynthia Kathomi and nephew Cadel Ngugi, and lastly but not least Mr Ireri Mbarire, for their support and guidance.

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ABSTRACT

The research topic was chosen due to the fact that there has been an intense global competition in the finance and banking sectors whereby some of the institutions in the industry do not believe that the various credit policy they provide and the way they provide them and the way in which these credit policies are finally delivered can affect their performance either positively or negatively.

The research topic was therefore to establish the effect of credit policy on the performance of commercial banks. Specific objectives of the study were to; determine the relationship between credit policy and performance of commercial bank, establish the effect of credit policy on performance of commercial bank and identify the various credit policy by the banking institutions. The research was particularly carried out at Equity Bank, Nakuru Branch, Kenya.

The data was collected using both quantitative and qualitative methods. Research design included; study population, sample size technique while the research instruments used were; Questionnaires and interviews together with other instruments such as observations.

The data obtained was interpreted, analysed and presented in tabular forms showing the percentage and frequencies and also illustrated in diagrams on the basis of the analysed information. These provided a clear meaning and therefore easy understanding of the data presented.

Finally summaries were drawn recommendations and conclusions were made from the interpreted, analysed and presented information. It was recommended that the management of commercial bank should make sure that they explain to their customers the credit policy available and how they operate.

CHAPTER ONE

1.0 Introduction

This chapter begins with background of the study. A brief background of the case study, the problem statement, and purpose of the study, research objectives, research questions and significance of the study.

1.1 Background of the study

A country's financial system, including its banking institutions is the oil that greases the engine of its economic growth. Commercial banks provide the vital functions of mobilizing savings from those who have it and allocate such saving to those who wish to borrow to invest in economic development. It's with context that credit policy arises. The word policy can be a broad and frightening term while most banks have their own policies, procedures and guidelines; it's unlikely that any two banks will define them in similar manner. Therefore, credit policy is a general course of action developed for recurring situations designed to achieved established objectives based on how commercial banks facilitates their credit ability to dispose and retain back. The primary goal of credit policy is to avoid extending credit to customers who are unable to pay their accounts.

The objective of any commercial bank is to see their performances which are based on their market share that are profitable, reputable and able to meet their targets. Performance of commercial banks determines the viability of the bank, measuring managerial performance, determining whether or not the bank adheres to the government regulations and signaling the market about the opportunities for others to perform.

1.2 Background of the case study

Equity Bank, Nakuru branch establishments was necessitated by the growth of business volume and outreach and motivated by the desire to create a financial service provider which would touch base with majority of the Kenyan population. The need to come up with the branch was out of the realization that most people of Nakuru municipality lacked access to financial services or simply could not afford them. It's the first finance institution providing a wide range of financial services and other products. In the year 2007, the branch opened the first Automatic Teller Machine (ATM) in the municipality that has enabled the people to have direct access to their money any time. This change contributed to an increase in productivity and expansion of the portfolio.

1.3 Statements of the problem

Some commercial banks have closed in Kenya due to poor management of loan portfolios. Economic conditions and banks credit policy are the chief influences on the level of bank account receivable. Economic conditions of course are largely beyond control of financial manager; hence central bank of Kenya has initiated some measures to improve the performance of these financial institutions by strengthening its supervisory role and ensuring compliance of all commercial banks to the financial regulations. Therefore, the research was intended to investigate and analysis the uses, role and impact of credit policy on the performance of commercial banks in Kenya, particularly, Equity bank, Nakuru branch.

1.4 Purpose of the study

The purpose of the study was to examine the effect of credit policies on the performance of Equity bank, Nakuru branch, Kenya.

1.5 Research objectives

I. To determine the various credit policy variables that the bank can implement to manage its credit properly and worthiness of their customers.
II. Establish costs associated with credit policy managements
III. To establish the effect of credit policies on the performance of Equity Bank.
IV. To establish the relationship between credit policy and performance of commercial banks.

1.6 Research questions

I. What are the various credit policy variables that the bank can implement to manage its credit properly and worthiness of their customers.
II. What are the costs associated with credit policy managements?
III. What are the effect of credit policies on the performance of Equity Bank.

IV. What are the relationship between credit policy and performance in commercial banks?

1.7 Scope of the study

Equity bank, Nakuru branch was established in the year 1988 in Nakuru municipality, Eastern Province of Kenya. The Equity bank Nakuru branch is situated along Kimathi road, opposite Al-miran plaza. The research focused on the aspects of credit management policy of the performance of commercial banks in Kenya but it was restricted to Equity bank, Nakuru branch for the period between august 2007– July 2009. The data collection took one month of which data analysis followed. The study included respondents from each department including the clients.

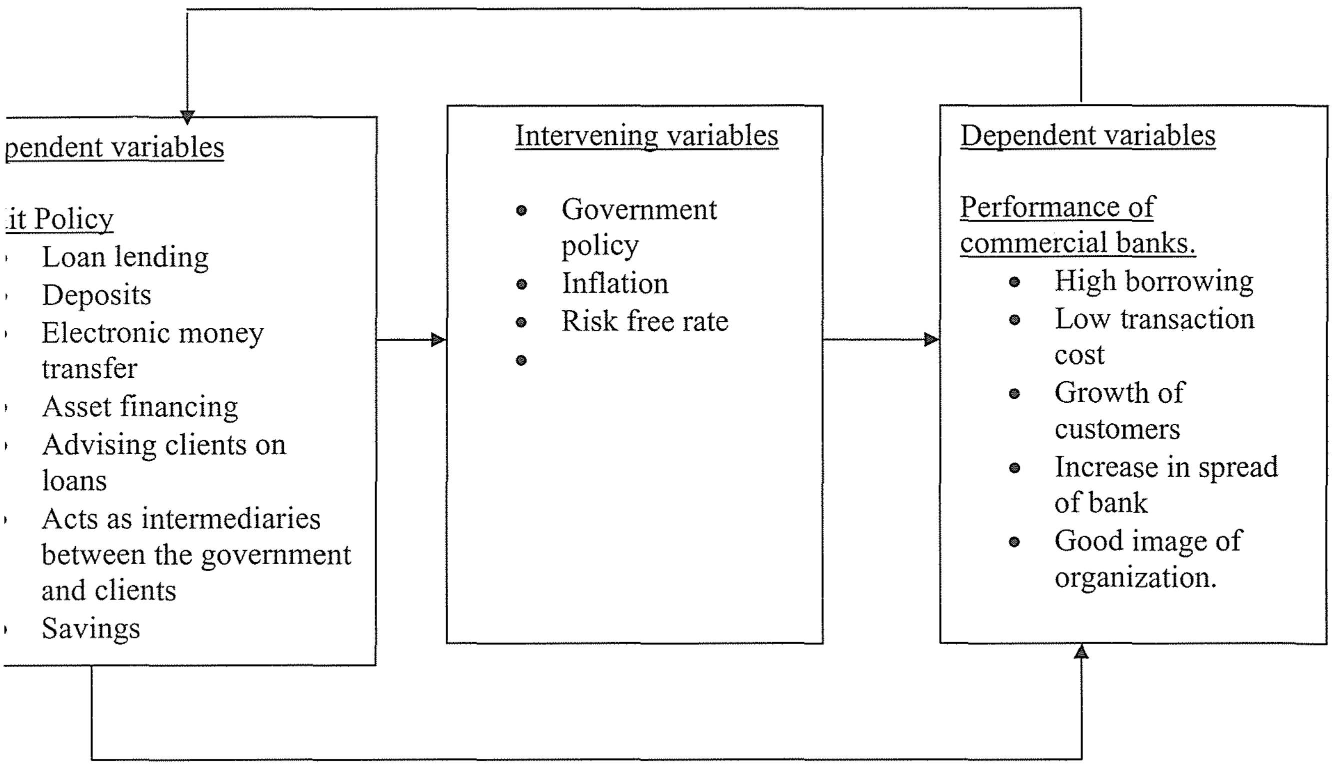
1.8 Significance of the study

It is meant to give a clear insight into management of credit function by Equity bank as well as recommendations that would help them better their performance.

The study would also add to the existing stock of knowledge. The researcher benefited from the research he carried out because he went to the field with an open mind. This helped to get knowledge, skills and experience and became more expert in the field, and in addition, researcher met people with different experience, knowledge and talent and hence a great exposure to the field.

The study will be of great help to scholars and academicians with particular interest in credit management policies in banking industries as well as secondary data for future research.

1.9The conceptual framework.



Source: Srivistava, 2000

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looked at the various credit policy variables that the bank can implement to manage its credit properly and worthiness of their customers, costs associated with credit policy managements, effects of credit policies on the performance of Commercial Banks, and relationship between credit policy and performance of commercial banks.

2.1 Credit policy concepts

According to Kakuru (2007), Credit policy is a set of policy actions designed to minimize costs associated with credit while maximizing the benefit from it. The objective of this policy was to have optimal investment in debtors. An optimal investment is that level of investment where there is a trade off between the benefit and costs associated with it. In other words at optimal level of investment, both objectives of profitability and liquidity are realized.

Brigham and Houston (2001) defines credit policy as the combination of the three decisions variables namely credit standard, credit terms, collection efforts that influence the amount of credit extended by commercial banks. Credit period, which is the length the customer are given to pay their dues. Credit standards which refer to the required financial strength of acceptable credit customers. Collection policy, which is measured by its toughness or laxity in attempting to collect or slow paying accounts.

Similarly, Shekher (1997), Credit policy is the conscious effort of the part of the banks to allocate their loan able funds among sectors according to priorities in terms of the overall national policies. This is the good omen especially because it may be remembered that if fruitful orientation of banking policy require a credit plan attuned to the target of investments and production laid down. The credit plan prepared by some of the lead bank contain development schemes in the various sector of the economy, which can be financed by the commercial and co-operatives banks and other financial agencies operating in the district concerned.

2.1.1 Credit standards and analysis

According to Block and Hirt (2002), a credit standard refers to financial strength and creditworthiness. A customer must exhibit in order to qualify for credit. It is a basic stage in lending process. It's a process by which the financial institutions establish the credit worthiness of a customer. It involves the appraisal of customer to identify possible risk in lending as well as establishing the customer capacity to repay the loan. The successful credit standards and analysis would require the use of the standard credit application form looking for characters, which indicate the possibility of risk and other relevant information for credit analysis.

Setting credit standards requires a measurement of credit quality which is defined in terms of the possibility of a customer's default. The probability estimate for a given customer is for the most part, a subjective judgment.

Since the forces of competition often leave a bank little discretion in setting credit terms, credit managers focus on credit analysis along with collection and receivable monitoring. The process of deciding whether to expand credit to particular customers involves two steps that is; gathering relevant information and determine credit worthiness.

Ross, Westerfield and Jeff (1996), suggests that different institutions should use credit information to analyze credit thus banks will generally provide some assistance to their business customers in acquiring information of the credit worthiness of other firms. Customers payment history with the firm; this is the most obvious way to obtain an estimate of customer's probability of anon payment whether he or she has paid previous bills. Financial statements; a bank may ask the customer to supply financial statements. This rule of thumbs based on the financial ratios can be calculated. Credit reports on customer's payment history with other firms. In granting credit a bank determines how much effort to expand to distinguish between customers who pay and those who do not. A bank uses a variety of device and procedure to determine the probability that a customer will not pay and put together.

According to Emery and Finnerty (1997) credit standards are criteria used to grant credit. They depend on variables that determine Net Present value, probability of payment, investment, required rate of return and payment period. A higher probability of default, delayed payments and the necessity of the expensive collection efforts all reduce the net present value.

According to Kakuru (2007) these are stipulation under which a firm grants credit customers. The firm should try as much as possible to make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts. Therefore the term offered should conform to the average industrial terms.

Block and Hirt (2002), once the decision to extend credit to customers is made then a decision regarding the terms of credit follows. Credit term specify the duration of credit that is credit period and terms of payment in any commercial bank. He also articulated that credit period affect probability, liquidity and survival since increase in credit period increases the loan portfolios.

2.1.2. Determinants of credit terms in commercial banks.

Greuning and Bratonivic (1999), the world bank concluded that in determining the credit term of any customer, the following need to considered, credit policies and procedures, prior experiences, loan growth, quality and depth of management in the lending areas, loan collection like recovery procedures, changes in natural and local economic business conditions and general economic trends. Therefore many banks and regulations believe that an understanding of a bank's credit risk management provide a leading indicator of the quality of the bank's loans portfolio at a given period of time.

Henry (1994), pointed out that to consider when adopting credit terms which include credit application history with his or her banks viability of project to be financed, willingness to repay the principal and interest accrued, loan write off, purpose of the loan and the loan security documentation

2.1.3 Collection policy

According to Kakuru (2007), collection policies are the efforts applied in order to accelerate collections from slow paying customers and reduce bad debt losses. Collection procedures should be defined for each credit customer. A programme of reminders should be worked out systematically to ensure customer retention as well as efficient and timely collection.

According to Eugene (1985), collection policy refers to the procedures the bank or firms use to collect past dues accounts or receivable. A collection policy is needed because all customers do not pay the firm bills in time. Some customers are slow payers while others are not payers. The collection effort should therefore aim at accelerating collection from slow pay and reducing bad debt losses. The firm's collection policy is measured by its toughness or laxity in following up slow paying accounts.

Attaining a high rate of loan collection is necessary condition for a commercial bank to become self sustainable, losses have been the largest cost boom by banks and the principal causes of insolvency and in liquidity. This emphasize the fact that loans not paid decreases the funds available to lend, make it difficult to assure safe deposits and attract savings, absorb scarce marginal time, undermine the financial integrity of the lender and tarnish the intermediary's reputation. When an individual does not pay loan, the process of creating debt capacity is reserved and repayment capacity is destroyed.

According to Ross, Westerfield, and Jeff (1996), after credit has been granted, the bank has the potential problem of collecting the cash when it becomes due for which it must establish a collection policy. High percentage of nonperforming loans means that funds are not available to provide loan to new borrowers and if loans are not repaid, they eventually affect the profitability of the bank.

2.1.4 Consumer Bank Credit

Henry (1976) defines credit policy as tool that provides framework for the entire credit management process. It's aimed at optimizing the efficiency of credit management of commercial bank and other related credit institutions. The bank must gain an acceptable level of confidence to extend the loans facilities at the lowest possible risk of loss since the bank's funds are committed for returns.

According to Kakuru (2007), to estimate the probability of default, the financial manager considers the following aspects and attributes about the customers. There are generally termed as the 5 C which includes Character, capacity, collateral, capital, and conditions.

Capacity: this is the ability of a customer to pay the credit advanced to them. In analyzing the capacity, one should look at financial statements previous experience with the client trade reference, bank reference and the amount and purpose of the credit.

Character: this relates to willingness of a customer to settle his obligations. To ascertain this willingness, much consideration is accorded to moral factors. One should able to determine whether the costumer would make honest effort to meet his obligations.

Conditions: this includes the assessment of prevailing economic and other factors like social and political, which may affect the customer's ability to pay. Economically under inflationary conditions, it is unsuitable to grant credit because of low returns expected.

Capital: this is the contribution or interest of the customer in his business and is shown by; ***capital =Assets – liabilities***. Therefore, considering capital you are determining the stake of the person in his/her business. Its undesirable to grant credit to persons who have got little capital. The reverse is true.

Collateral: this is the security against failure to pay. The person seeking to credit should offer this security before credit is granted. This should be safe and easily marketable. However, this collateral whether good or not, should be the last to consider. It cannot be the primary focus.

2.2 Effects of credit on performance of commercial banks

Credit policy provides a framework for the harmonization of the lending process which affects the performance of the commercial. However, loans have carrying costs when unpaid in term as they constitute the credit risk factor with associated costs supporting the credit functions since the costs of capital will increase in relation to added risk as capital is outstanding for long period in the events of today payments.

The dilemma of credit management of varying the level of consumer credit or loans the trade off between profitability and liquidity or solvency of any commercial bank which affects its survival.

According to Kakuru (2007), credit can be useful in maintaining the market share in a declining market. On the hand, it can keep increasing the market share in growing market. Building customer goodwill, credit is extended so as to build long term relationships with the buyers or as a reward for their loyalty.

Similarly Elderd (1996), the influence of credit on performance is either way: first credit earns financial institution interests that contribute to its profitability and on the other hand, the borrowers benefits by way of achieving a financial boost in business but which depends on the commercial bank's innovativeness, exhibited or manifested on the credit policy as well as outreach by way of branch coverage.

As a minor element in the struggle for the rural poor to achieve an economic break through of the vicious of poverty, the provision of micro credit constitute the primary function of commercial banks and micro credit institutions in Kenya.

However, a good credit policy which ignores saving mobilization affects negatively the financial viability of the financial institutions or intermediary. It is beneficial to focus on what the policy does to the performance of the financial system and therefore performance in the commercial bank should be measured by number of people who have regular access to financial services, costs of financial transactions quality of services provided, proxy being the repayment rates and saving mobilization.

It is therefore true that the success of commercial banks depends on financial self sustainability and substantial outreach to the targeted population rather than credit policy since financial self sustainability is achieved when the returns on equity, net of any subsidy received equals to or exceeds the opportunity costs of funds.

2.2.1 Importance of credit

According to Horne (1971*)*, the principal function of credit in commercial bank is to transfer the property from those who own it to those who wish to use it, as in granting loans by the bank to individuals who plan to initiate or expand their business venture. The transfer is temporary and is made for a price know as interest which varies with the risk involved and also with the demand for and supply of credit.

2.2.2 Costs associated with credit policy

According to Kakuru (2007*),* as much as extending credit is beneficial it accrues costs which are inevitable to the banks and link to the process of credit lending.

Collection costs-these are incurred at the time of collection of receivable. These could be inform of sending reminding letter, meeting telephones charges, and making reminders through the press is some cases.

Bad debt losses: these are associated with the collection costs. Some client may fail to honor their credit obligation, which leads to some receivable becoming uncollected. This will ultimately leads to the debt being written off

Administration *costs*-theses are normally incurred in supervising and investigating the receivables accounts. These costs arise in the form of processing costs, costs of application analysis and the clerical work in checking the applicants and the accounts.

Opportunity *costs*. For banks investing in receivables, it is very clear that funds will be tied up in debts. Some business opportunities such as expansion are therefore forgone during the time funds are tied up. This is aggravated where banks goes ahead to finance its business opportunities by seeking borrowed funds that involve credit.

Production and selling costs. These increase with expansion in sales which arise from investments in receivables. When a bank's credit policy is loosened so as to expand sales, then incremental sales revenue and production and selling costs increased. The difference between incremental sales revenue and production and selling costs is the incremental contribution of the change in the credit policy.

2.3 The relationship between credit policy and performance of commercial banks

2.3.1 Reducing the rate of defaulters

According to Halter (1991) all debt instruments carry some degree of risk; risk management is an integral part of investment portfolio management and of the overall management of funds. Banks must take great care in evaluating what levels of risk are inherent in the various assets they acquire and the liabilities they assume. They must make sure that they are compensated with earnings proportionate to the risks they accept, and they must balance the levels of risk that exist within and among their various portfolios. Risk is much more difficult to measure, however, because its key character is uncertain. Thus credit risk and interest rate risk are the basic types of risk in bank investments and loans.

Credit risk is the possibility that the borrower of a loan or the issuer of a security may be unable to meet interest and principal payments when they fail due. The failure of borrowers to carry out their financial obligations to their lenders are pledged by contract is called default. A borrower may be unable to perform up to expectations for a variety of reasons, many of which are not always predictable. Hence anything that affects the borrower's financial position may contribute to credit risk.

According to Kohn (1991), defaulting is a fail to pay off the amount owed when the loan matures. There is a risk of loss that adheres to generals in general. The lending bank cannot tell in advance which loans will turn bad or will cause trouble, but know from experience that loans of different classes offer varying possibilities for risk. Credit management policy helps to reduce this risk by reducing the rate of defaulters through monitoring loan given. A good credit policy enables that loaned amount is paid back by all clients in the right time.

2.3.2 Maintaining liquidity

According to Srivistava (2000), liquidity is the word that the banker uses to describe his ability to satisfy demand for cash in exchange for deposits. The banker should attach great significance to his obligation to pay his depositor's money, on demand, because his inability to do so, may lead to the public loosing confidence in the bank.

Halter (1991), liquidity is the ability to obtain needed cash quickly and at a reasonable cost since funds may be unpredictable and uncontrollable, banks must maintain adequate liquidity to ensure that cash or access to it, can be obtained on short notice and with little or no loss of transactions, to cover emergency needs of funds, to satisfy the customers' demand for loans, and to provide flexibility in taking advantage especially favourable investment opportunities. A bank with no little liquidity is able to fix and rearrange its mix of assets and liabilities to respond to changing business conditions. A bank with too little liquidity may be forced to obtain needed funds at high cost or may find it difficult to obtain needed funds at any reasonable cost. A bank with excess liquidity also pays a penalty for failing to manage its liquidity position efficiently because the cost of liquidity is usually lower earnings.

2.3.3 Maintains a favourable spread

According to Brigham and Houston, spread income comes when the cost of funds does not exceed the interest rate earned on the loan portfolio. When loan is given to a client, he / she pays it back with interest and the institution earns interest income. Credit policy enables the bank to acquire interest income greater than interest expense thus making profit.

According to Hatler (1991), spread management focuses on maintaining an adequate spread between a bank's interest expense on liabilities and its interest income on assets to ensure an acceptable profit margin regardless of interest rate fluctuations. Thus, spread management attempt to reduce the bank's exposure to cyclical rates and mobilize earnings over the long term.

2.3.4 Enhances customer growth

A good client policy enables the institution to get more clients. This is because the loan policies will be appropriate to every customer making the loan cheap. Cheap, loans attract more clients hence improving on the number of customers.

CHAPTER THREE
RESEARCH METHDOLOGY

3.0 Introduction

For this research to be effective, research design, data collection and analysis were used to arrange the information in such a way that enabled the researcher to come up with the reliable recommendations and conclusions. The following are the methodologies employed starting with the research design, study population, sampling design, research instruments and analysis of data.

3.1 Research Design

The research design that was used for the study was cross selection survey including both quantitative and qualitative forms. The qualitative design was used to collect information from respondents on the attitude and opinion in relation to the role and use of credit policy to the performance of commercial banks. On the other hand, quantitative design was used to collect numerical data.

3.2 Study population

The study population constituted of staff members of equity bank, both male and female employees in various departments, and customers all totaling to 150 people. The respondent included selected employees from various departments and some customers of the bank.

3.3 Sampling Techniques.

The sample size was selected using purposive sampling technique. It was used to select employees who are experienced on the bank operations and some who were not experienced on the bank operations plus some of the bank customers.

3.4 Sample Size.

The sample size was selected using purposive sampling technique. The sample size consisted of a total of 60 respondents out of 150 people comprising of five (5) managers (from various department), ten (10) accountants, ten (10) cashiers, ten (10) cleaners, two (2) security guards, two (2) receptionists and twenty one (21) customers.

3.5 Data, collection and analysis

To achieve the research objective both primary and secondary data were used in the study.
The main primary data sources were in depth from interviews which were conducted on the staff and questionnaires administered to Equity bank staffs. Secondary data sources were obtained from monographs (text book), annual reports of Equity banks of Kenya and quarterly reports. Equity bank news, Equity bank Director's reports and Audited accounts, credit registers, journal and other publications to provide a yardstick against responses from primary data gathered in order to deliver meaningful objective interpretation of the efficiency of the existing credit policy on the performance of the bank.

3.5.1 Data collection methods and instruments

3.5.1.1 Interviewing

The personal interviews was carried out by the researcher as a follow up of the questionnaires so that the interviewee was aided in the areas of difficulty and seek an in depth discussion and explanation on matters missed on the questionnaires. Detailed information was obtained since it was conducted face to face and also created a right type of friendly atmosphere which was very conducive for obtain desired data.

3.5.1.2 Questionnaires

Data was be collected by the use of structured questionnaires designed by the researcher. The questionnaires were sent to the department heads, staff and other subordinate staff. The technique was used because all the respondents are literate. The major advantage of this method included; free of biased information and enough time for the respondent to consider his/her points carefully than in an interview.

3.6 Data processing and analysis

The data collected was analyzed in the form of descriptive statistical method which included tables, bar graphs, histograms, pie charts and percentages. Data processing and analysis involved the following.

3.6.1 Editing

The completed structured questionnaire was scrutinized in order to reduce errors and omission. Each questionnaire underwent through study to clarify on the responses given in order to establish their eligibility and accuracy. Where quantitative, was organized in such a way that meaningful interpretations could be deduced from such data during analysis stage.

3.6.2 Coding

Where questions were open ended, data and responses were be further coded so as to categorize the responses exhaustively. This enabled the researcher to easily depict the findings of the study and to interpret them appropriately so as to come up with adequate conclusions from the data collected.

3.6.3 Tabulation

The data was then analyzed using the computer statistical package to show the numerical scores and percentage.

3.7 Limitations of the study

The researcher was bound to face the following limitations in the process of this research:

Banker's information and business finance sources are a very sensitive issue in most organizations. Some of the respondents might be unwilling to answer the questionnaires thus leading to the delay in data collection. To cope with this researcher used her introductory letter from the university to show that the information got was kept with utmost confidentiality.

There was the problem of information access by the researcher. The management of Equity bank- invokes confidentiality and internal use only clauses and regulations and thus the researcher is bound to follow the necessary clauses and the regulations.

Respondents did not act in time due to unfavorable timing, especially during times they were busy with the office work thus this led to delay of data and therefore the researcher availed himself to them during their free time.

Financial constraints greatly hindered the scope of the study. This was due to the fact that the researcher had to finance other academic programs and such cost like word processing, transport cost, telephone bills can be felt practically. Bound with this, the researcher used the small finances available to him to enable the study successful.

CHAPTER FOUR

PRESENTATION OF FINDINGS INTERPRETATION AND ANALYSIS.

4.1 Introduction

This chapter presents the results and analysis of the findings of data collected from the questionnaire and interview schedule in order to provide possible explanation for the findings of the study.

4.1 Bio data

4.1.1 Respondents Designations

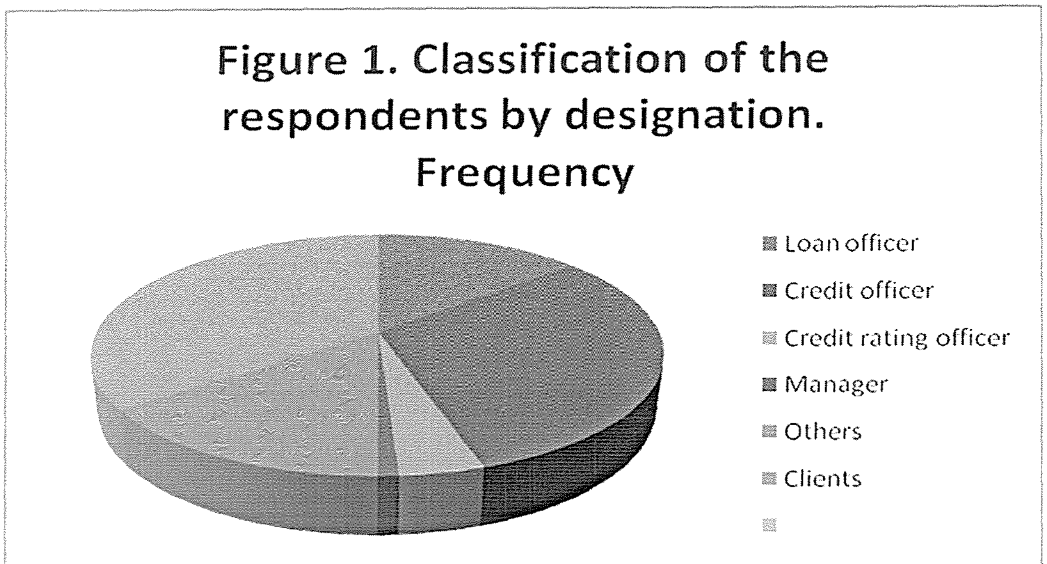
In this study the researcher sought to understand who the respondents were by designation. The table 1 below presents this information and the figure 1 presents a diagrammatic presentation of the same. In the category of others, it includes people working in the finance, accounting, administration, legal departments in Equity bank.

Table 1: Classification of the respondents by designation

Designation	Frequency	percentages
Loan officer	5	8%
Credit officer	17	28%
Credit rating officer	4	7%
Manager	1	2%
Others	3	5%
Clients	30	50%
Total	60	100%

Source: primary data

Figure 1. Graphical presentation of respondents by designation/ job title



From the above analysis, it is easily deduced that the highest number of respondents classified with their occupation were clients constituting 50% of the respondents and minority of the respondent classified with their occupation were managers which were 2% of the respondents.

4.1.2 Respondents by Age, Sex and education level.

The researcher sought to analyze the respondents by the age, sex and education as in the table below.

Table 2. Respondents by sex categories

Sex	Frequency	Percentages
Male	33	55%
Female	27	45%
Total	**60**	**100%**

Source: primary data

From the above table, the majority of the respondents represent the male which is 55% of the respondents unlike female who are the minority of the respondents.

Table 3. Respondents by Age groups

Age group	Frequency	Percentages
18- 25 years	13	22%
26- 33 years	27	45%
34- 41 years	8	13%
42- 49 years	7	12%
Over 50 years	5	7%
Total	60	100%

Source: primary data

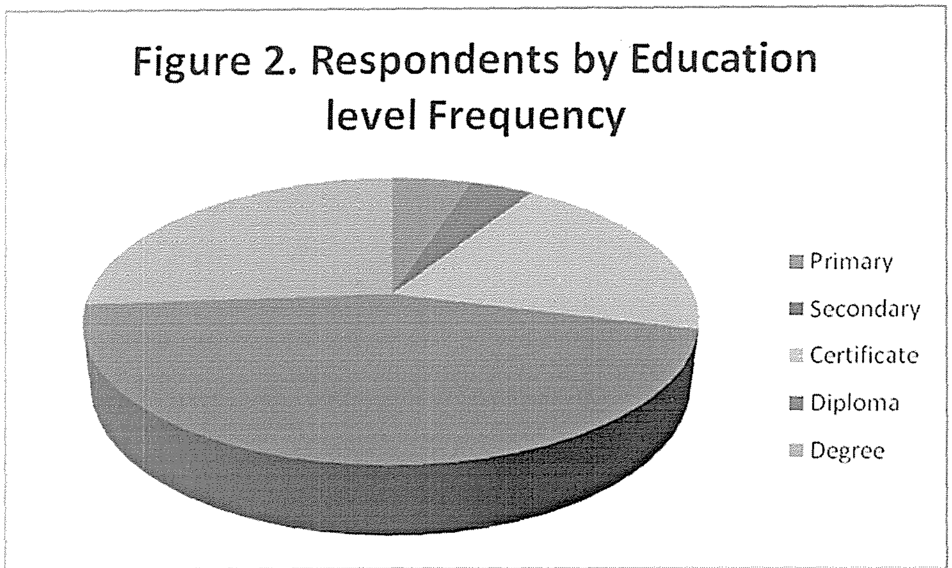
For the analysis of the above table, majority of the respondents represents respondents aged 26-33 years comprising 45% unlike respondents over 50 years were the minority adding up to 7% of the respondents.

Table 4. Respondents by Education level

Educational level	Frequency	Percentage
Primary	2	3%
Secondary	3	5%
Certificate	12	20%
Diploma	27	45%
Degree	16	27%
Total	60	100%

Source: primary data

It was also note that only 45% of the respondents were Diploma holders and thus represents the majority of the respondents. In addition, minority of the respondents were primary level comprising 3% of the respondents.



Source: primary data

4.1.3 Length of service

The researcher was also interested to find out how much time the respondents have spent working with the Equity bank so as to effectively interpret their views in relation to the performance of the Equity bank.

Table 5. Respondents' length of service

Period in service	Frequency	Percentage
Less than 2 years	10	17%
2- 5 years	25	41%
5- 8 years	14	23%
Over 8 years	11	19%
Total	**60**	**100%**

Source: primary data

From the above illustration, it is evident that the largest proportions of the respondents were age period between 2- 5 years which is 41%. This therefore proves that their views are largely based on past personal experiences with the bank. And less than 2 years represents the minority of the respondents which has 17% of respondents thus this shows that the respondents of 41% have a fairly sound knowledge on the operations of the bank.

4.2 Existence and the use of credit policy in Equity bank.

The performance of any commercial bank depends on its existing credit policy at any given time period. The elements of credit risk management which includes market definition, credit initiation, credit documentation and credit culture which are discussed below.

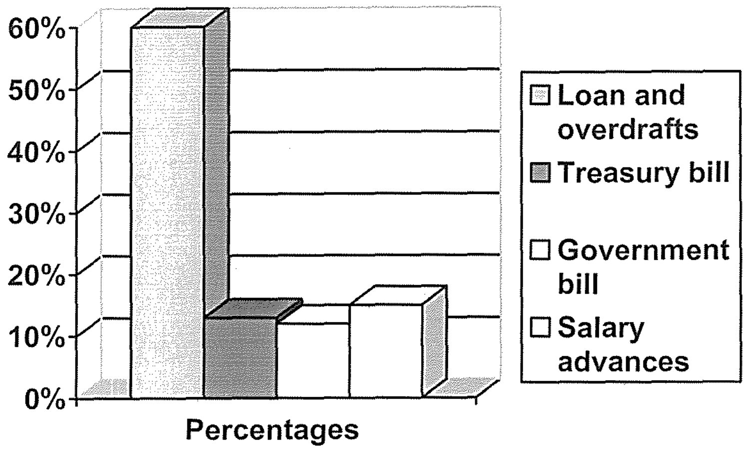
4.2.1 Market definition.

This is the first element of the credit risk management process. The bank's defined target market should be ensured with the use of the banks drawn up credit policies, procedures and directives. The bank credit policy should be able to comprehensively guide all the banks action relating to credit. By knowing the market that are defined, the bank employees will then know the type of risk that is acceptable to the bank and then constrain themselves within the acceptable limits.

The questions of finding the extent of applicability of the banks target market and the performance of loan portfolio is discussed below. This is in respect to whether the bank has written credit policies, the drawing up of the credit policy and the use of the credit policy in making credit decisions.

4.2.1.1. Equity bank investment portfolio as defined by the market

Items	Percentages
Loan and overdrafts	60%
Treasury bill	13%
Government bill	12%
Salary advances	15%



Source: primary data

From the above loans and overdrafts is the most significant investment of Equity bank at 60% of the bank total investment. Despite this the bank has also invested in Treasury bills, government bonds, and salary schemes hence all the respondents agree that their resulting loan portfolio is good.

4.2.1.2 Existence of written credit policy and its review.

Equity bank has written credit policies, procedures and directives that are guided by the bank's mission and strategies plan. These are used to guide the credit decision made and define the target markets of the bank. The respondents had varying perception of their bank's credit policy as regard to what it comprises and how clear it is in guiding their credit decisions. 95% of all the respondents said that their credit policy clearly guide them on issues like guidelines for loans, setting geographical limits as well as lending authorities by committees and individuals. It also guide them on appraisal policies, acceptable loans, loan maturity, loan pricing policy and the information needed for credit assessment. The guidelines also cover loans to directors, shareholders, interested parties and credit officers, loan portfolio objectives, collection procedures and duties of credit officer, the credit committee and credit supervisors.

Despite the above 95% of the respondents in Table 6 strongly agreed that Equity bank has written policy guidelines that guided them in their credit decisions unlike the minority of the respondents strongly disagree with the use of credit policy in the bank.

Table 6: Credit policy respondents

Response	Frequency	Percentage
Strongly agree	50	84%
Agree	6	10%
Neither agree nor disagree	4	6%
Strongly disagree	0	0
Disagree	0	0
Total	**60**	**100**

Source: primary data

The management in Kenya commercial bank reviews the credit policy, procedures and directives as shown in table 7 below

Table 7: management's review of the bank's credit policy

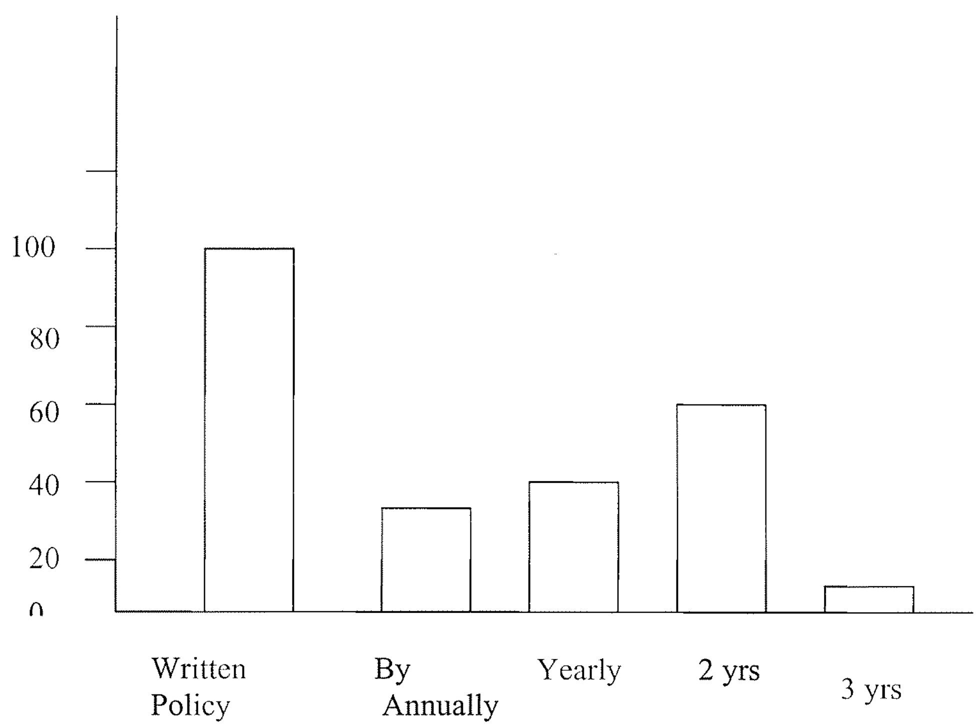
Response	Respondents			
	Strongly agreed	**% -age**	**Strongly disagreed**	**%-age**
Review policies	60	100%	0	0%
Changing market condition	42	70%	18	30%
Increasing risks of credit	46	76%	14	24%
Central bank directives	6	10%	54	90%
Legal considerations	0	0%	60	100%
Increased competition	12	20%	48	80%
Review every:				
By annually	21	35%	39	65%
Year	24	40%	36	60%
2 years	36	60%	24	40%
3 years	5	8%	55	92%
Never	0	0%	0	0%

Source: primary data

Manager and head of departments review the bank's credit policies, procedures and directives periodically with 60% of the respondents strongly agree reviewing the credit policy at least every 2 years. The minority of the respondents strongly agree that the management review their credit policy after 3 years. Many issues taken into consideration by the managements in reviewing of the credit policies and procedures are shown in table 7 above.

The response of credit supervisors on the question of extent of applicability of market definition was also examined. We examined the credit supervisor's perception of the bank credit policy and defined market as well as their involvement in the review of the same. However they indicated that this depends on commercial bank directors, prudential requirements and banks policy and therefore influences the operation.

Figure 3: Equity bank Credit Writes Off Policy



4.2.2 Credit initiation

This is the second element of credit risk management. The credit initiation management involves credit origination, credit evaluation, negotiation and approval. All the aspects of credit initiation process are based on collection of information that should be timely wholesome and reliable.

The question of the extent of applicability of the credit initiation process in Equity bank as well as the question on the relationship between the credit initiation process and the performance of loan portfolios is answered below. The survey findings are presented and discussed at three levels of the organization hierarchy, which is the management level, supervision level and the operation level.

The extent of applicability of the credit initiation process, was assessed basing of the element of this process which includes credit origination, credit evaluation, negotiation and approval

4.2.2.1 Credit Origination in Equity bank.

Credit origination involves the initial assessment of credit applicants. This is done with the guidelines in the bank credit policy, if a client does not conform to the guidelines, they are immediately eliminated. These guidelines include business sector, industry client profession, amount of credit facility and type of market which it involved in.

4.3.2.2 Credit evaluation in Equity bank.

Credit evaluation looks at the in depth analysis in a client application. Table 8 shows the responses on how long it takes a client to access the funds from the time an application on credit facility is tendered in. According to the table below 76% of the respondents agreed that for big loans it takes a month for a loan to be approved.

Table 8. Response on Approval of loan facilities

Response	Frequency	%- age
Less that 15 days	2	3%
15- 30 days	46	77%
One and a half months	12	20%
Two months	0	0%
More than two months	0	0
Total	**60**	**100%**

Source: primary data

77% of majority of the respondents agreed that it takes around 15 -30 days for one to access the funds from the bank while 3% of minority of the respondents agreed that it only takes less than 15 days for loan application to be approved . All respondents mentioned that the following are important factors in evaluation of a client credit application, credit limit summery, security documentation, credit approval memo, collateral evaluation, customer visit, basic information, customer profitability, competitive analysis report, financial spreadsheet, cash flow projections, management assessment and the investigation summery, press report and quarterly risk classification.

In the assignment of rates, the factors considered include the cash flow of the business, management, quality of the assets of the company and collateral. Other factors include liquidity of the business, profit margins, and owner's level of dependence on the business, cyclical trends, industry conditions, leverage levels, type of the business and type of the company. However, all supervisors agreed that cash flow projection were not important in assessment of a client for credit.

Table 9: Importance factors used in assessment of credit.

onse	VI		I		FI		HI		NI		Total
	F	%	F	%	F	%	F	%	F	%	
it limit summary	27	45%	24	40%	3	5%	4	7%	2	3%	**60**
ose of the credit	36	60%	18	30%	4	7%	2	3%	0	0%	**60**
teral/ security	42	70%	18	30	0	0	0	0	0	0	**60**
city of customer to pay	36	60%	24	40	0	0	0	0	0	0	**60**
acter of the management	9	15%	18	30%	15	25%	6	10%	12	20%	**60**
icial assets of the company	27	45%	6	10%	12	20%	12	20%	3	5%	**60**
icial projection	24	40%	12	20%	6	10%	16	27%	2	3%	**60**
er level of dependence	26	43%	27	45%	3	5%	2	3%	2	4%	**60**

Source: primary data

Key: VI- Very important **I-** Important **FI-** Fairly important **HI-** Hardly important
NI- Not important **F-** Frequency

From the above, the majority of the respondents agreed that its is very important to use important factors like credit limit, collateral, security in the assessments of credit worthiness of the clients. And minority of them agreed that it's not important to use the factors in the assessments of credits.

4.3.2.3 Credit negotiation process in Equity bank

In the negotiation process, the terms of the agreed credit product are agreed. These terms may include pricing collateral covenants of loans agreements. Pricing of the credit product is considered critical. It is important for the credit officer to know acceptable price of the credit product as well as the upper and the lower limits of the same. The respondents pointed out that the factors which influenced the price of the credit products are mainly going market rate, past set interest rates, central bank directives, expenses and cost of the bank inflation rate, marginal cost of funds, demand for credit products, risk of the individual and market risk.

4.3.2.4. Credit approval in Equity bank.

In Equity bank, credit and management committees in the bank do the approval of credit products. For each of the credit proposal, the credit staffs assign a rating and forward the recommendations to the higher level of credit selection process. The proposed risk rating is either reaffirmed or recalibrated at the time of the final approval and sanction. All respondents indicated that the aspects of credit approval included document witnessing, payment administration, notes validity, company assets and risks classification.

4.3.3 Credit documentation and disbursement.

The credit documentation and disbursement process is the third element of credit risk management. It is important because it ensures that proper documentation is in place before the disbursement is done and that any modifications are approved before disbursement. It also ensures timely disbursement of funds after approval.

The extent of applicability of the credit documentation and disbursement process as well as the relationship between the credit documentation and disbursement process and performance of loan portfolio were reviewed as follows. All the respondents agreed that the bank has standard and formal loan agreements. The covenants may be included in the loan agreement involves the maintenance of minimum level of working capital, limitations of changes in ownership and disposal of fixed assets and limitations of level of leverage. When the conditions of the loan agreement are violated, the clients always pay a penalty fees, the credit facility may be increased, outright cancellation of the credit facility, acceleration of payments, being put under receivership and forcing new management on the company.

4.3.4 Portfolio management in Equity bank.

Portfolio management is the fourth element of the credit risk management which focuses on the measuring individual credit worthiness and trying to contain individual credit risk within set strategic guidelines. Once the credit worthiness of a client has been established, the portfolio management process tries to ensure through monitoring that it is maintained. When it deteriorates or lost, portfolio management process tries to correct problem before it becomes a bad debt. The extent of applicability of the portfolio management process as well as the relationship between the portfolio management process and performance of loan portfolio had been analyzed thus all the respondents agreed that the management reviews the loan portfolio periodically. Table 10 shows management's involvement in the credit function.

Table 10: Management of the credit function

Action of credit function	Frequency	Percentage
Monitoring	12	20%
Scrutinizing records	27	45%
Regular forms filling	15	25%
Course in credit management	6	10%
Total	**60**	**100%**

Source: primary data

From the above table the management of the credit function involves credit monitoring, scrutinizing records, filling in regular forms and taking courses in credit management. In the monitoring of clients, the bank personnel face several challenges like: poor communication, hostile clients, transport, clients' change of premises, and accessibility of clients and large portfolio of clients.

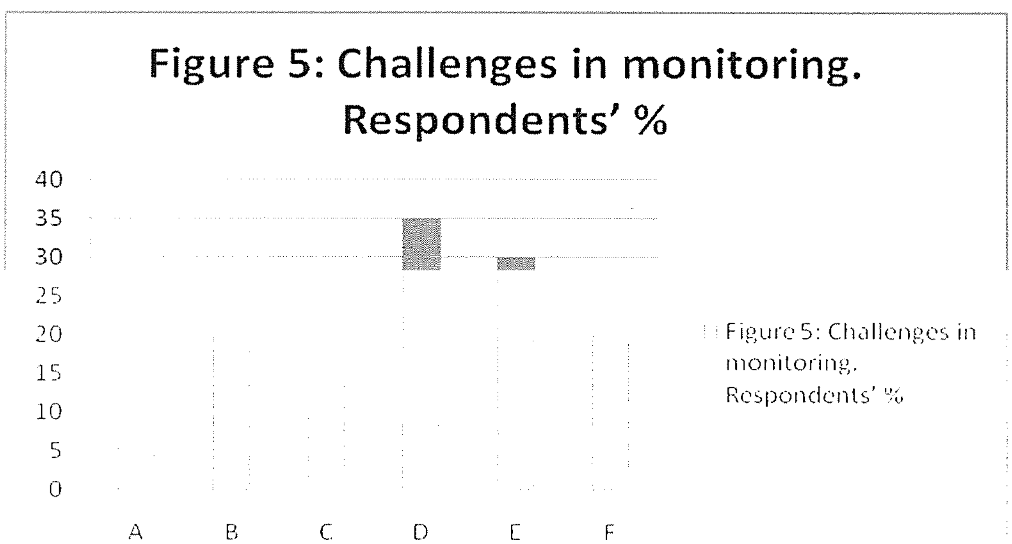


Figure 5: Challenges in monitoring. Respondents' %

Source: primary data

Key:

A-	Poor communication
B-	Large portfolio of clients
C-	Clients change of premises
D-	Hostile clients
E-	Transport
F-	Accessibility of clients

4.3.4.1 Loan loss reserve account

The respondents considered several factors as the cause of bad debts namely: improper appraisal, conmen, poor supervision, political influence, weak legal system, diversion of funds, non-compliance and poor payment.

Under the portfolio administration function, the bank maintains loan loss reserve account so that in case any losses are incurred in credit, this allowance may cover the loss of that period.

4.3.5. Credit culture

Credit culture looks at the overall bank approach to managing risk and the credit function of the organization. It is important for all members in the bank to be aware of all the function areas and details in the credit risk management process, and know the position of the bank to the respective aspect of credit. 70% of the respondents of the bank credit employees listed the following factors as what comprises the credit culture in Equity bank, bank's approach to managing risk, business strategy, and credit policy, shared assumption about credit, financial institutions laws and regulation, top management to credit and action of Board of Directors.

4.4 Effects of credit policy on the bank's performance.

4.4.1 Clients position on the bank's credit policy.

From table 11, results of the survey and interviews conducted indicated that a highest majority of the respondents took pride in the bank's credit policy considering the high repayment rates, due to strictness of the guideline in the policy and the clients also find the bank's credit policy bearable. This comprises of 45% of the respondents unlike 15% considers low repayments of rates due to some weakness. The respondents revealed that the policy encourages the clients to borrow. This was due to the facts that loan processing takes less days, additionally, credit officers readily recommended active clients for reasonable loan amounts and granted reasonably long grace period, enough for borrowers to repay.

Table 11: Response of the clients on the bank's credit policy

Response	Frequency	Percentage
The policy encourages clients to borrow.	24	40%
The policy discourages clients from borrowing	0	0%
High repayment rates due to the structures of the guidelines in the policy.	27	45%
Low repayment rate due to some weakness in the policy	9	15%
Total	**60**	**100%**

Source: primary data

4.4.2 Equity bank recovery rates

The study findings confirm that the recovery rates of Equity bank is high. This has been attributed by the credit evaluation procedures and close supervision of customers due to enough available credit officers. Thus in table 12, the average recovery rate of Equity bank as a whole for the periods 2006- 2008 is 70.5%.

That is average recovery rates = total recovery rates / 3 years.

Table 12: Equity bank summarized performance as at 31st December 2009.

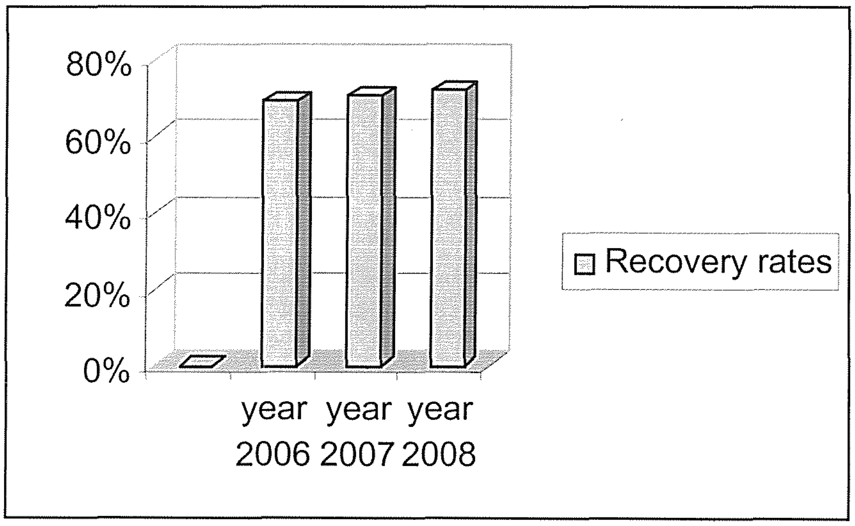
Year	2007	2008	2009
Application received	10,332	23,700	29,870
Application approved	9,200	18,900	21,090
Application disbursed	7,012	12,232	18,670
Application approved (K Shs)	300m	453m	1200m
Volume disbursed (K Shs)	220m	346m	1020m

Volume recovered (K Shs)	120m	304m	900m
Volume matured	198m	339m	998m
Recovered rate (%)	69%	70.4%	71.8%
Default rate	27%	29.8%	29.9%

Source: Bank documents

From Table 12, the average recovery rate of Equity bank from the periods 2007- 2009 is 70.4%. This is good enough to reflect that the bank is not being mismanaged. The high recovery rates are due to close supervision of all loan clients.

Figure 6: Graphical presentation of Equity bank recovery rates at difference years.



From the above graphical analysis it is evident that a high proportion of loan clients meet their financial obligation.

The various credit approaches used in Equity bank include continuous supervision to ensure purposeful use of the loans, continued customer sensitization, reminders on phone (using letters and physical customer contact), use of court bailing and mortgage of collateral, approaching or visiting their client whenever need be, auctioning the clients property, references made to the guarantors and warning to the customers. These different credit recovery approaches seem favourably effective with regard to risk mitigation and the banks objective of profitability.

However, other respondents had mixed reactions on the effectiveness of these credit recovery approaches.

Table 13 below presents a summary of how they rated the approaches using:
High effective (**HE**), Fairly effective (**FE**), Not effective (**NE**), Non response (NR)
Frequency (**F**)

Table 13: Effectiveness of credit recovery approaches

Response	**HE**		**FE**		**NE**		**NR**		**Total**
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	
ıtinuous supervision to ensure ɔoseful use of the loan.	18	30%	18	30%	24	40%	0	0%	**60**
ıtinuous customer sensitization ut their financial obligation	30	50%	24	40%	5	8%	1	2%	**60**
ɿinder on phone, letters and sical customer contact.	42	70%	18	30%	0	0%	0	0%	**60**
of court bailiffs and mortgage of ateral	36	60%	24	40%	0	0%	0	0%	**60**
ting clients whenever need be.	33	55%	24	40%	2	4%	1	1%	**60**
tioning clients property	40	66%	19	32%	1	2%	0	0%	**60**
ɜrees to guarantors	29	48%	29	48%	1	2%	1	2%	**60**
ning to the customers	39	65%	21	35%	0	0%	0	0%	**60**

Source: primary data

Judging from the above analysis, it is clearly evident that the majority of the respondents find the approaches highly effective, whereas very few of the respondents find the approaches fairly effective. In the reinforcement of the above, results revealed that none of the respondents found the recovery approaches inefficient as they always realize on an overwhelmingly high repayment rate.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introductions

This chapter presents the summary of findings, conclusion, recommendation and suggestion for future research in line with study objectives and research question.

5.1 Summaries of main findings of the study

5.1.2 Various credit policy variables undertaken by the bank

The various credit policy variables that the bank can implement to manage its credit properly and worthiness of their customers, it was noted that the credit initiation process is carried out in commercial bank. Using the credit rating system to assess the clients' credit worth, credit officers, credit supervisors and head of departments do the assessment of credit rates (figure 4). It was noted that the credit initiation process has a significant effects on the performance of the bank. This implies that if the credit initiation is effectively carried out, the performance of commercial banks would be enhanced. This was basically based on the three variables of credit policies which are credit standards, credit terms and the credit collection.

5.1.3 Establishing the effect of credit policy on the performances of commercial banks

To establish the effect of credit policies on the performance of Equity Bank, the study findings confirm that the recovery rates of Equity bank is high. This has been attributed by the credit evaluation procedures and close supervision of customers due to enough available credit officers. Thus in table 12, the average recovery rate of Equity bank as a whole for the periods 2007- 2009 is 70.5%.

The bank maintains a loan loss reserve and the actual losses for the period. It was also noted that portfolio management has a significant effect on the performance of commercial banks. If the portfolio management of the credit management process is ignored then a deterioration of good credit may occur and ultimately bad debts. Hence it should be managed effectively so that the performance of commercial banks is enhanced.

5.1.4 The relationship between the credit policy and performance of commercial banks

When the bank defines its market and constrains itself within the set target, the risk arising from credit will be contained. This will however lead to less bad debts and thus good quality portfolio. This was noted in the table 7. Using the credit rating system to assess the clients' credit worth, credit officers, credit supervisors and head of departments do the assessment of credit rates (figure 4). It was noted that the credit initiation process has a significant effects on the performance of the bank. This implies that if the credit initiation is effectively carried out, the performance of commercial banks would be enhanced.

Equity bank considers documentation critical in the drawing up of loan agreement. Covenants may be included in case of defaults thus various measures are instituted against the client. In the study, it was noted that there is relationship between credit documentation and disbursement and the performance of the loan portfolio.

5.2 Conclusion

Elderd (1996), the influence of credit on performance is either way: first credit earns financial institution interests that contribute to its profitability and on the other hand, the borrowers benefits by way of achieving a financial boost in business but which depends on the commercial bank's innovativeness, exhibited or manifested on the credit policy as well as outreach by way of branch coverage

The good performance of Equity bank was mainly contributed by the credit control measures as a result of well established credit risk screening mechanism in place before credit is extended to clients. It's evident from this study that indigenous commercial banks in Kenya use all the elements of credit risk management process, but are not comprehensively using the aspects of the various elements of the process in the management of their credit function.

There is a significant and positive relationship between the elements of credit policy management and the performance of Equity bank thus these findings reveal that the credit policy management in the bank has a strong impact of the quality of the bank's loan portfolio and thus the performance of the bank.

It is clear that all credit collection methods are used such as remainder letters, personal visits, collection agencies and telephoning although collection agencies and legal action are specifically employed to accelerate payment of outstanding debts.

Basing on the objectives of the study, it was concluded that the bank has undertaken all variables of credit policy to ensure that it can meets its obligations. However, it was also noted that credit policy has effect on the performance of commercial banks, this can be seen from loans having carrying costs when unpaid in term as they constitute the credit risk factor with associated costs supporting the credit functions since the costs of capital will increase in relation to added risk as capital is outstanding for long period in the events of today payments.

5.3 Recommendations

It's important for a commercial bank to determine its investment portfolio and know the risk implication of the portfolio. The bank should be aware of all factors that have impact on their investment decision and try to control those that are internal, that is within the bank. The bank should then be able to decide on its clients as well as their management in order to get a well performing portfolio.

In the assessment of a client, the banks should look at all the elements of the credit policy managements and to ensure that they all were well done. This may include proper customer's information, scrutinizing customer's performance, regular visits, follow laid down rules, extending proper loans and ensure close supervision. This will help improve the performance of Equity bank.

The bank should always provide timely and reliable information about provisions made, institute active commercial sections in the bank, ensure better security and ensure viable project funding. Banks should discourage political loans, insist on the client regular visits and institute a monitoring unit in the bank.

It's critical for the banks to ensure proper file keeping as well as full documentation before disbursement. This will ensure that the interest of the bank is taken care of especially in case of customer default. The documentation relation to loan agreements as well as security registration and liens should also be kept at par. These files should be periodically up-dated with new and relevant information relating to a client when it comes to light. The bank should ensure that all credit funds are disbursed after set formalities are in place, and that the funds when disbursed are managed actively and well to ensure that the credit facility does not deteriorate.

5.4 Issues for further research

There is still need for research to be done on other functions in the bank outside the credit policy like internal control on debtors in Equity bank..

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APPENDIX 1: RESEARCH INSTRUMENT

(A) QUESTIONNAIRE.

QUESTIONNAIRES TO THE MANAGEMENT.

Dear Sir/ Madam

I humbly ask you to participate in this research on the effects of credit policy on the performance of commercial banks in Kenya, taking Equity bank, Nakuru branch as the case in point. The study is purely for academic purposes, thus it will not be disclosed in any way for any other causes. It is a partial requirement for the award of Bachelors Degree in Business Administration of Kampala International University to the researcher.

Instructions: please help by answering the following questions as honestly as possible. Please Tick where appropriate on the provided space.

All the information availed to me is to be treated with maximum confidentiality

Personal Background.

Section A

1. Sex.

Male ( )　　Female ( )

2. Age group

21- 30 years ( )　　31- 40 years ( )　　41- 50 years ( )　　Over 50 years ( )

3. Marital status.

Single ( )　　Married ( )

4. Education background.

Secondary level ( )　　Certificate level ( )　　Diploma level ( )

Degree level ( )　　Others ( )

5. Occupation.

Loan officer ( ) Credit officer ( ) Credit rating officer ( ) Manager ( )

6. Duration taken in working in that department?
Less than 2 years ( ) 2-5 years ( ) 5-8 years ( ) 8-15 years ( ) Over 15 years ( )

7. Who is responsible for credit rating?
Credit officers/ credit supervisors ( ) Head of the credit department ( )

Section B

Questions	**Agree**	**Strongly agree**	**Neither agree nor disagree**	**Strongly disagree**	**Disagree**
Credit policy					
3. Does your organization have a written credit policy?					
). Are credit policies, procedures and lirectives realistic to the performance of Equity bank?					
0. Do you always use procedures and lirective for all loan applicants?					
1. Are borrowers outstanding liabilities hecked to determine appropriate line of redit prior to granting additional credit?					
2. Does the credit policy encourage clients) borrow?					
3. Does Equity bank conduct review on its redit policy?					
redit rating					
4. Does your Bank use a system of credit ting in evaluation of clients' application r credit facility?					
5. Are credit rating of clients often viewed?					
5. Has the performance of the Equity ınk been between the periods of 2003-)07 been effective?					

Section C

How clear are the policies, procedures and directives in the following areas?

Questions	Very clear	Clear	Fairly clear	Not clear	Not included
Credit terms.					
18. In defining duties and responsibilities of credit officers, credit supervisors and credit committees.					
19. In defining acceptable types of loans?					
20. In setting guidelines for categorizing loans.					
21. In establishing maximum financial information required at the inception of credit.					
22. Establishing leading authority of committees, individuals or officer.					
23. Credit analysis and credit information.					
24. Establishing limits and guidelines for loans to bank officers and directors.					
25. Establishing maximum maturities for the various loans					
26. Establishing geographical limits for loans.					
27. Establishing limits and guidelines for loans to any related interests.					
28. In submission and processing of credit application.					

Section D

In evaluation an application for a credit facility, how important are the following?

Criteria	Very important	important	Fairly important	Hardly important	Not important
29. Purpose of the credit					
30. Collateral/ security					
31. Capacity of customer to pay					
32. Character of management					
33. Financial assets of the company.					
34. credit limit summary					
35.credit approval memo					
36. Financial projection					
37. Owner level of dependence					

Section E

In evaluating credit recovery approaches, how effectiveness are the following
High effective (**HE**), Fairly effective (**FE**), Not effective (**NE**), Non response (NR)
Frequency (**F**)

nse	**HE**	**FE**	**NE**	**NR**
Continuous supervision to ensure seful use of the loan.				
ntinuous customer sensitization about inancial obligation				
minder on phone, letters and physical ner contact.				
e of court bailiffs and mortgage of ral				
siting clients whenever need be.				
ictioning clients property				
ferees to guarantors				
arning to the customers				

QUESTIONNAIRES TO THE CLIENTS.

Dear Sir/ Madam

I humbly ask you to participate in this research on the effects of credit policy on the performance of commercial banks in Kenya, taking Equity bank, Nakuru branch as the case in point. The study is purely for academic purposes, thus it will not be disclosed in any way for any other causes. It is a partial requirement for the award of Bachelors Degree in Business Administration at Kampala International University to the researcher.

Instructions: please help by answering the following questions as honestly as possible. Please Tick where appropriate on the provided space.

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Personal Background.

Section A

1. Sex.

Male ( ) Female ( )

2. Age group

21- 30 years ( ) 31- 40 years ( ) 41- 50 years ( ) Over 50 years ( )

3. Marital status.

Single ( ) Married ( )

4. Education background.

Primary level ( ) Secondary level ( ) Certificate level ( ) Diploma level ( ) Degree level ( ) Others (specify)

5. Occupation.

Casual worker ( ) Civil servant ( ) Business man ( ) Farmer ( )
Others (specify)

)uestions	Agree	Strongly agree	Neither agree nor disagree	Strongly disagree	Disagree
. Does the policy encourage clients to orrow?					
. Does the policy limit the borrowers' apacity from securing loans?					
. Are there some weaknesses in the policy, 'hich might result to low repayment rate ·om the borrowers due to its strict terms nd conditions?					
0. Does the policy discourage you as lients from borrowing?					
1. Does the loan process take a lot of time luration) for the clients to get loan?					
2. Does the policy limit the borrowers' apacity from securing a loan?					
3. Does the policy establish guidelines for ›ans to the clients and determine the ›payment terms?					
4. Does Equity bank check and evaluate ›llateral before giving its clients loans?					
5. Are first time borrowers given short uration i.e. 3 - 6 months to repay the loan › the bank?					
5. Are second time borrowers given long me duration i.e. 6 months to one year for iem to repay their loans?					

19. On average, how long does it take from one lender in application for credit facility and when the client has access to the funds?

Less than 15 days ( ) 15-30 days ( ) One month and a half months ( )

Two months ( ) More than two months ( )

THANK YOU

(B) INTERVIEW GUIDE.

Good morning sir/madam,

My name is Murimi Lewis John a student of Kampala International University. I am carrying out a research study that is meant to find information on Credit Policy and Performance of Commercial banks. The research study is mainly to fulfil the requirements of the award of a degree of Kampala international University. Therefore, the information obtained will be treated with utmost confidentiality.

PART A (personal data)

1. Age (18-24, 25-30, 31-45, 46 and above.)
2. Sex (Male, Female.)
3. Marital Status (Married, Single.)
4. Level of Education (certificate, Diploma, Degree, Masters, Others.)
5. Department (Management, Accounts, Human Resource, Others.)
6. Work Experience (1 year, 2 years, 3 years, 4 years and above)

PART B (Research Questions)

7. How do you come up with credit policies in Equity Bank?
8. What credit policies are in use at Equity Bank?
9. How has the credit policies affected the performance of Equity Bank?
10. Do customers cope up with the credit policies applied?

I am very grateful for your audience and the time you have offered to me.

APPENDIX 3; Dissertation budget estimate

ITEM	TOTAL COST (Ushs)
Stationeries including internet	30,000
Printing and binding	80,000
Data collection instruments and transport	100,000
TOTAL	**210,000**