Factors Affecting Customer Loan Defaults Within Commercial Banks in Nairobi: A Case Study of Equity Bank, Dagoretti Branch

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DECLARATION

This research project is my original work and has not been submitted to any other university or institution of higher learning for any academic award.

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DEDICATION

I dedicate this project to God the Almighty my source of inspiration, knowledge, wisdom and understanding. I also dedicate this work to my late dad John Wachaiyu for the career inspiration and to my mum Martha Wanjiku for the financial support, motivation and encouragement throughout the study period.

ABSTRACT

The purpose of this study was to investigate factors affecting customer loan defaults within commercial banks in Nairobi with reference to Equity Bank Kenya, Dagoretti branch. The study achieved its purpose through four objectives namely; to examine whether loan factors have an effect on customer loan defaults, to determine the effects of borrower's factors on customer loan defaults, to investigate whether lender's factors do affect customer loan defaults and to study the relationship between economic factors on customer loan defaults at Equity Bank. The study included staff of Equity Bank, Dagoretti Branch which included loan officers and credit administration officers. The target population included 20 respondents. The research design used in this study was descriptive statistics. The study reviewed relevant literature with the aim of establishing a gap which the research filled. The methods that were used to collect data were questionnaires and interview schedules. The study showed that there was a significant relationship between loan factors, borrower's factors, lender's factors and economic factors and customer loan defaults at Equity Bank. However, loan factors had an insignificant relationship with customer loan defaults. It was concluded that economic factors had a great effect on customer loan defaults at Equity bank. The study recommends that commercial banks should collaborate with Credit Reference Bureau and other credit organizations where references can be made before disbursement of a loan to the customer to ensure that there are no previous cases of default. The study also recommends that banks should focus on leading problem indicators like slow payment and late supply of information. Banks should not rely solely on lagging indicators, such as past due payments which is much later in the process and leaves the lender with fewer options correct the situation and help the borrower. The study recommends that banks should ensure that collateral pledged by a customer is protected and will not deteriorate because this will cost the bank money. Then, it must be sure that they have legal title to the collateral and are entitled to sell it. The study further recommends that there is also need for the Government to control the inflation rate in Kenya as there is some evidence to suggest that low inflation rate will lead to better performance of loans in Kenyan commercial banks.

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ABBREVIATIONS

NPL	Non-Performing Loans
CBK	Central Bank of Kenya
EBHL	Equity Bank Holding Limited
SACCO	Savings and Credit Cooperative Organization
GDP	Gross Domestic Product
KBA	Kenya Bankers Association
MFI	Micro-Finance Institution
CAR	Capital Adequacy Ratio
COVID-19	Corona Virus Disease

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter entails the background of the study, statement of the problem, the objectives of the study, research questions, significance of the study, assumptions of the study, and the conceptual framework.

1.1 Background of the study

A commercial bank is a financial institution which accepts deposits from the public and gives loans for the purpose of consumption and investment to make profit. It can also refer to a bank, which deals with corporations or large and middle-sized business to differentiate it from a retail bank and an investment bank. Commercial banks include private sector bank and public sector bank (Gaitho, 2020). The CBK is the primary regulator of the banking industry. Currently, there are 28 domestic and 14 foreign commercial banks with branches, agencies and other outlets throughout the country; one mortgage finance company; eight representative offices of foreign banks; eleven licensed deposit taking microfinance institutions; 49 insurance companies; Post Office Savings Bank with a large network of branches around the country; 79 forex bureaus; three licensed credit reference bureaus , 14 money remittance providers and about 200 deposit taking licensed SACCOS with a membership of over 3 million Kenyans. However, the banking sector is essentially dominated by seven tier 1 commercial banks namely Equity Bank, KCB, Barclays Bank of Kenya, Diamond Trust Bank, Cooperative Bank, Central Bank of Africa and Standard Chartered. In addition, small banks have emerged and experienced tremendous growth in recent years. (Kenya Country Commercial Guide 2020).

Equity Bank Kenya Limited is a financial services provider headquartered in Nairobi Kenya. It is licensed as a commercial bank by the CBK. It was founded in 1984 and incorporated in 2014, as a result of the corporate restructure of its parent company Equity Bank Holdings Limited. Prior to November 2014 EBHL operated both as a licensed bank and a holding company of its subsidiaries. It has customer base in excess of 9.2 million in six East African countries making it one of the largest commercial banks on the African continent by number of customers. The bank has assets base estimated to over KES:339.44 billion, and shareholders' equity in excess of KES:57.1 billion.

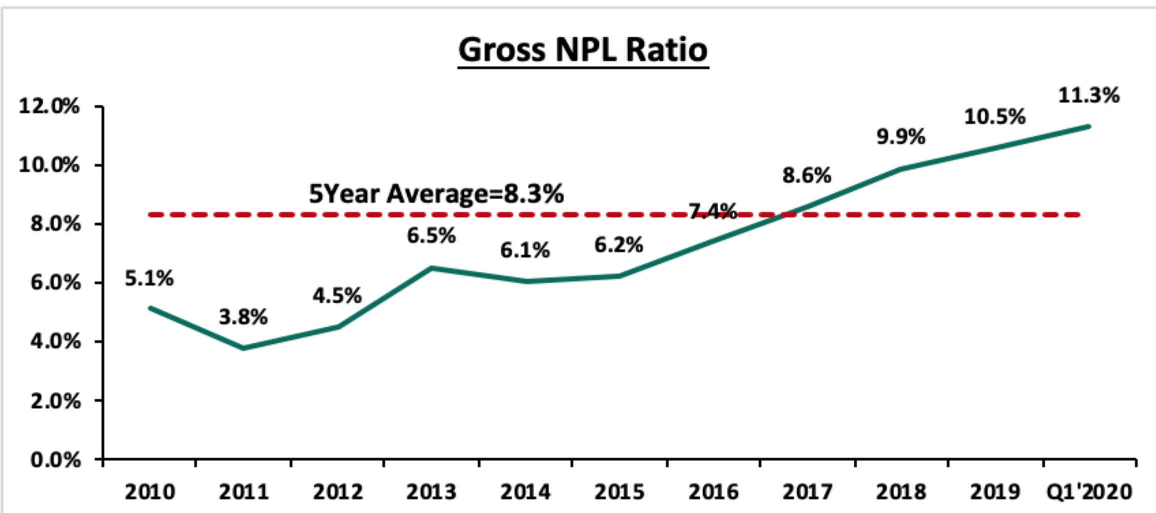
Equity bank maintains a network of 190 branches across Kenya, which includes 52 branches in Nairobi. (CBK, 2014)

The banks profit for the year ended 31 December 2020 dropped 12 per cent to Sh20.1 billion compared to Sh22.6 billion the previous year. Equity bank's loan provision grew five folds with restructured loans hitting Sh171 billion or 32% of total loan book due to the Covid – 19 pandemic which made the year 2020 an extremely difficult year characterized by lost jobs, unemployment, lost investments and human misery. Even so, the bank's net interest income grew by 23% to Sh55 billion up from Sh45 billion driven by a 30% growth in customer loan book and 26% growth in government securities. The NPL ratio rose from 9.5% in 2019 to 11.5% in 2020. (Amadala, 2021).

A Non-Performing Loan is a loan that is in default or close to being in default. A loan is non-performing when payments of interests and principal are past due by 90 days or more, or at least 90 days of interest payment have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payment will be made in full (Muriithi, 2013). NPLs can be treated as undesirable outputs or costs to loaning banks which decreases the bank's performance. Hennie and Sonja (2009) define NPLs as assets not generating income. This is when principal or interest is due and left unpaid for 90 days or more. Loan defaults are inevitable in any lending. What banks do is to minimize the risk of defaults. NPL are loans that have defaulted or in danger of defaulting, when payment is no longer able to be made. Typically, loans that have not received payments for three months are considered to be non-performing though specific contract terms may differ occasionally.

The financial sector has started to register significant achievements out of the outlined reforms and initiatives among others. Some of these achievements are: the contribution of the financial services sector to Kenya's economic growth has been an upward trend from 3.7% of GDP in 2009 to 9.2% of GDP in 2013. Over the same period the sector grew faster than the economy. The financial sector grew by 9.3% in 2013 as compared to the economy which grew by 5.7%. this was an improvement from 4.9% growth by the sector in 2008 compared to the GDP growth of 0.2%. as a result, the financial service sector is one of the main drivers of the Kenya's economic growth. Sustainability and growth of commercial banks is undoubtedly relevant for industrial development. This is because the banking sector is among the very few sectors that contribute to economic growth in various dimensions. Commercial banks contributed to economic growth by paying taxes and also creating employment. They also serve as an anchor of growth for other sectors of the economy by providing them access to credit facilities in the form of loan (Asante and Tengey, 2014). Availing credit to borrowers is one means by which banks contribute to the growth of economies. Lending represents the heart of the banking industry. Loans are the dominant asset and represent 50-75 percent of the total amount at most banks, they are the major contributor of operating income and represent the banks greater risk exposure (MacDonald and Koch, 2006). Moreover, its contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of funds for their viable projects (creditors) thereby ensure that the money available in economy is always put to good use. The Equity Bank (2017) puts non-performing loans as loans left unpaid for a period of 90 days.

Figure 1.1 Gross NPL Ratio



(Source: Cytonn, 2020)

According to the CBK report (2018), credit risk is the single largest factor affecting the soundness of financial institutions and the financial system as a whole. This is because lending is the principal business for banks. The ratio of gross loans to total assets for the quarter ended September 30, 2018 was 57.27 percent compared to 58.42 percent reported in the quarter ended June 30, 2018.

Following the release of the Q1’2020 results by the Kenya listed banks, the Cytonn Financial Services research team undertook an analysis of the financial performance of the listed banks and identified key factors that shaped performance of the sector, and our expectations of the banking sector for the rest of the year. Asset quality deteriorated in Q1’2020 with the gross NPL ratio increasing by 0.9% points to 11.3% from 10.4% in Q1’2019. This was high compared to the five-year average of 8.5%. in accordance to IFRS 9, banks are expected to provide both the incurred and expected credit losses. Consequently, this saw the NPL coverage increase to 57.4% in Q1’2020 from 54.5% in Q1’2019 as banks adopted a cautious stance on the back of the expected impact of COVID-19 pandemic. (Cytonn, 2020)

The pattern of NPLs’ evolution is not uniform across the market. Over the past two years during which private sector credit growth has been muted, the industry’s growth of the Gross NPLs / Gross Loans ratio declined from 1.7 percent to 1.2 percent. Overall, the denominator effect is at play over the past two years and the upward trend, even with the observed tapering, is as much about the challenges enterprises and households are facing in meeting their obligations with lenders as it is about the slow pace of credit growth. On the balance though, a double-digit level of the Gross NPLs/Gross Loans ratio is an issue that needs redressing both from quality improving measures and asset growth standpoints. KBA (2019). The reason as to why the study chose to focus on Dagoretti branch is because it is most common to the residents and SMEs in the area. The branch offers banking, credit and financial services to the individuals and small businesses in Dagoretti area.

1.2 Statement of the problem

It is analyzed that loan defaults are one of the most common issues that contribute to the collapse of most of the banking institutions in Kenya. Eradication of loan defaults is necessary to improve banks performance and economic sectors. If they are kept existing and continuously rolled over, the resources are locked up in unprofitable sector, thus hindering the economic growth and impairing the economic efficiency. Kenya has experienced banking problems leading to major bank failures (37 failed banks as at 1998) following the crisis of; 1986 to 1989, 1993/1994 and 1998 (Kithinji and Waweru, 2007). This crisis was mainly attributed to non-performing loans.

Maigua, (2017) investigated the determinants of loan repayment default in micro-finance institutions in Kenya. The study established that borrowers’ factors determined loan repayment among customers of MFIs in Kenya. Age of the borrower, the number of years the customers has banked with MFI, the kind of collateral pledged for the security of the loan and the type of account a customer maintains determined the rate of repayment determined the rate of loan repayment to a very large extent.

A study by Makorere (2014) examined the factors affecting loan repayment behavior in Tanzania and established that many financial institutions still face a problem of high balances of defaulters caused by unpaid loans. In Kenya a study done by Kadogo and Kendi (2013) examined the relationship between non-performing loans associated with SME sector and its determinants among commercial banks in Kenya.

Atem (2017), investigated on the factors affecting non-performing loans, a case study of KCB Bank Kenya Limited, Nairobi region. According to the research findings, the study concluded that customer factors, gender and age did not significantly influence the non-performing loans. A review of the related literature revealed a general consensus from the theoretical and empirical studies that there is indeed a relationship between the factors affecting non-performing loans in KCB Bank in Kenya.

Mileris, (2013) studied on macroeconomic determinants and loan portfolio credit risks in banks. The findings indicate that NPLs are highly dependent on macroeconomic factors. The above study is inconsistent and inadequate because it only dwelled on macroeconomic factors neglecting other factors like bank, borrowers' and loan specific factors. Therefore, the essence of this study is to fill the knowledge gap by assessing the relationship between the bank and borrowers' factors and their effects on NPL.

The studies stated above concentrated on different sectors such as microfinance enterprises, other different factors affecting NPL and other banks such as KCB bank. Therefore, this study will provide relevant information for the Equity Bank and also sought to fill the existing contextual and conceptual gaps and investigate the factors affecting loan defaults among commercial banks customers in Nairobi, specifically the Equity Bank of Kenya, Dagoretti branch.

1.3 Objectives of the study

The main aim of this research will be determining the factors affecting loan defaults among commercial banks customers in Nairobi.

1.3.1 Specific objectives

The specific objectives of this study are;

i. To examine whether loan factors, have an effect on customers' loan defaults at Equity Bank.
ii. To determine the effects of borrower's factors on customers' loan defaults at Equity Bank.
iii. To investigate whether lender's factors do affect customer loan defaults at Equity Bank.
iv. To study the relationship between economic factors on customer loan defaults at Equity Bank.

1.4 Research questions

i. How do loan factors affect the rate of customer loan defaults at Equity Bank?
ii. Do borrower's factors affect the rate of customer loan defaults at Equity Bank?
iii. To what extent do lender's factors affect customer loan defaults at Equity Bank?
iv. How do economic factors affect the rate of customer loan defaults at Equity Bank?

1.5 Significance of the study

The results of this study will make the commercial bank managers appreciate the need to control non-performing loans and also improve their loan collection methods as it equally affects the profitability and performance of the bank through provision made by the commercial banks. The findings will also encourage bank managers to participate more in policy formulation as far as bad debts management is concerned.

The information of this study will also be of help to the government and the Central Bank of Kenya in formulation of policies that will lead to a reduction in the factors leading to loan defaults in commercial banks within Nairobi and other counties. This is because the financial sector helps in the growth of the country at large and non-performing loans can hinder the growth of the economy.

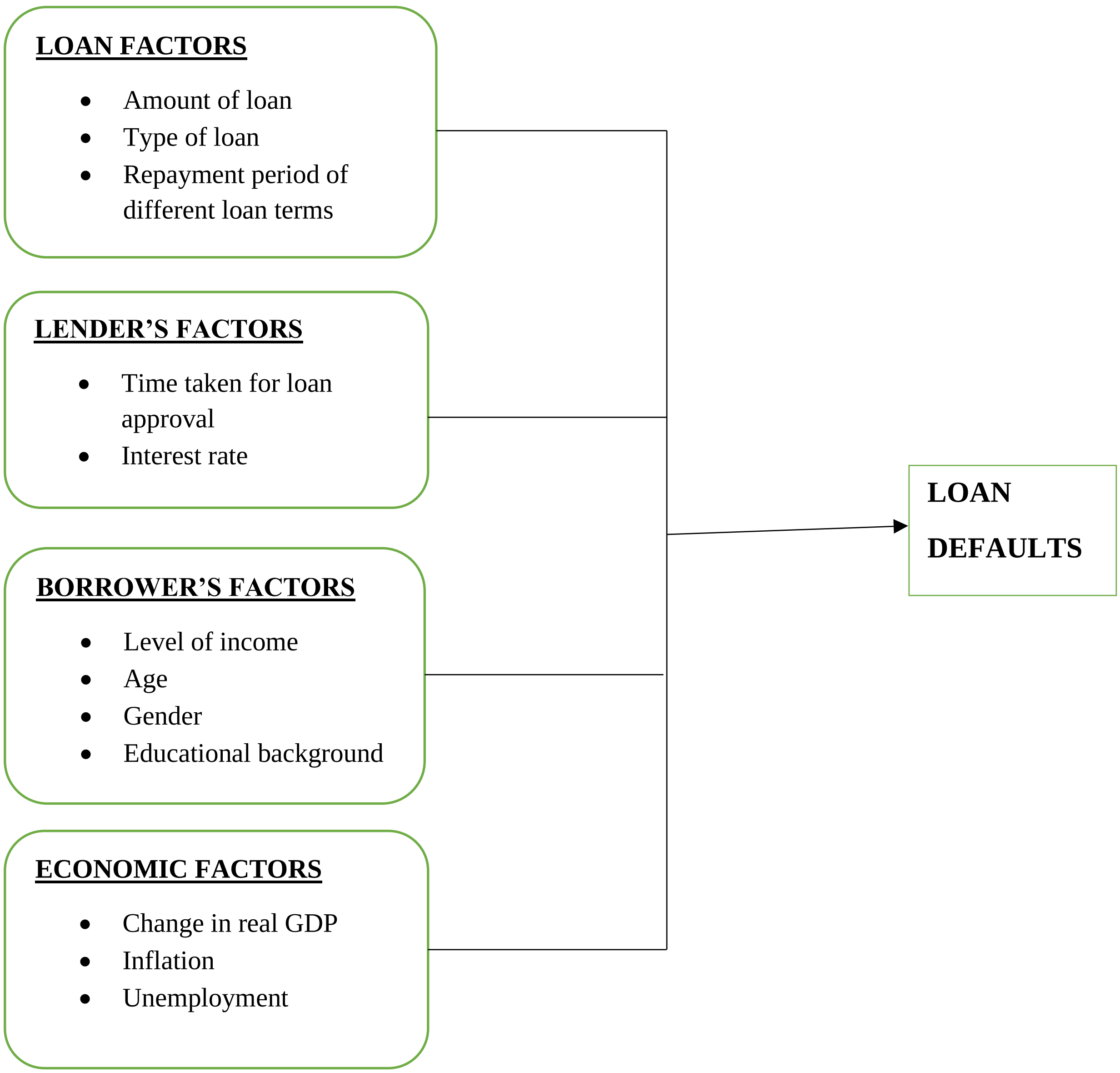
The results of this study will also be useful to the borrowers because they will be able to pay their loans at the required period of time. This will boost the growth of the economy and reduce the rate of non-performing loans. It will also help the borrowers to avoid the commercial banks' penalties after failing to repay their loans, like acquisition of property as a means of collateral.

1.6 Scope of the study

Loan defaults are a factor that affects both financial institutions and the government at large all over the world. The scope of this study is however limited to Equity Banks within Nairobi County, Dagoretti branch

1.7 Conceptual framework

Based on the objectives of the study, the following conceptual framework has been developed. It shows the relationship between the dependent variable (loan defaults) and independent variables which are loan factors, lender's factors, borrower's factors and economic factors.



(Source: Researcher 2022)

Figure 1.2: Conceptual framework

CHAPTER TWO: LITERATURE REVIEW

2.0 introduction

This chapter captures literature on the various theories that underpin the study and empirical literature review relevant to the study.

2.1 Theoretical literature review

This part contains some of the theories that explain the concept of non-performing loans. Some of these theories include: theory of finance, asymmetry theory and moral hazard theory.

2.1.1 Adverse Selection Theory

The theory of adverse selection was pioneered by George Akerlof, Michael Spence and Joseph Stiegliz (2001). It describes the situation where the probability of a loan default increases with rising interest rates and the quality of borrowers worsens as the cost of borrowing rises. This theory states that it may be complex to distinguish credit-worthy borrowers, from a pool of loan seekers with different credit risk exposure which may result into adverse selection and moral hazards problems. The theory explains that in the market, the party that possesses more information on a specific item to be transacted is in a position to negotiate optimal term for the transaction than the other party (Auronen, 2003). Therefore, financial intermediaries are more likely to lend to high-risk borrowers who are not concerned about the harsh lending conditions and are prone to loan defaults (Atoi 2018). Adverse selection and moral hazards have led to significant accumulation of non-Performing loan in banks Atem (2017). According to Prof. Njuguna Ndung'u, the former governor of Central Bank of Kenya during annual address in year 2008, noted that the realization of credit information sharing in the banking sector will not only bring good news to the banks and the banking sector but also to the borrowers and the economy as a whole. This national success stands to significantly benefit the economy and is bound to stir changes in the way credit is managed in the industry in the sense that lenders will be in a position.

2.2 Determinants of Loan Defaults

2.2.1. Loan Factors.

Loan factors are characteristics that are specific to the loan facility being offered that may affect loan defaults. They include the amount of loan, the type, repayment period of loan term, maturity period of the loan and interest rates charged on the loan. According to Karanja (2019), If the borrower is underfunded, he/she is likely to default because the business may not be able to generate enough cash flows to repay back the loan. The interest rate that the lender charges on the loan is a major determinant of loan repayment rate. High interest rates may make the borrower unable to service their loans as required

2.2.2 Lender's Factors.

Lender's factors are the factors within the financial institutions lending out the loan facility that may affect loan defaults. They include time taken for loan to be approved, interest rates charged by the lender, lender's performance, investment opportunities and business management. The Financing cost is considered as a factor influencing loan default. Financing of the borrowers' projects may be caused by delayed loan disbursement and as a result it may delay cash flows as projected by the borrower hence leading to a loan default.

2.2.3 Borrower's Factors.

Borrower's factors are characteristics relating to the individual client who borrows credit from a bank or financial institution that may influence loan defaults. They incorporate; gender, age, credit history and marital status. Previous studies suggest that lenders should look at a borrower's past record and economic prospects to determine whether the borrower is likely to default or not. In addition, characters of the borrowers, collateral requirements, capacity or ability to repay and condition of the market should be considered before giving loans to the borrower.

2.2.4 Economic Factors.

These are factors relating to the economy that may influence loan defaults. They include inflation, unemployment, change in the real GDP and government policies. Several studies conducted in the economies of the development indicate that macroeconomic factors influence credit risk. Several factors have since been identified as being particularly crucial in determining NPLs. These include exchange rates, unemployment levels, loan performance and GDP (Nasieku, 2014).

2.3 Empirical review

This section contains evidence that identify the major factors affecting non-performing loans in commercial banks. The first subsection presents evidence from researches done in international countries and the second subsection presents prior studies on factors affecting NPL in Kenya.

2.3.1 International empirical review.

For the researchers, the issue of NPLs and its effect on commercial banks are vibrant topics all over the world for a very long time. A huge number of studies have been done. Some of them include:

Trujillo-Ponce (2013), revealed the association between NPLs and efficiency of commercial banks of Spain for the period of 1999-2009. The experimental results stated that NPLs have a significant inverse effect on ROA of commercial banks of Spain. Pham (2013), examined how NPLs stimulate the commercial banks of Vietnam in making profit. The study used the data from 2005-2012. It was noticed that NPLs have a significant inverse association with profitability ratio of banks. The results of the above-mentioned literatures stated multiple empirical supports regarding the effect of NPLs on the profitability of banking industry of different countries. According to Shingjergji (2013), Capital Adequacy Ratio (CAR) endures an insignificant inverse correlation with NPLs. Nevertheless, the total loans and the interest margin are significantly connected with NPLs. Kaaya and Pastory (2013) studied the impact of default risk on banks' profitability by adjusting the control of bank size and deposits. The study used total eleven banks of Tanzania. Based on the correlation and regression analysis, default risk measures of NPLs, loan loss to net loans and loan loss to gross loans, have noteworthy inverse impact on banks profitability. It is proven that profitability of banks can be improved by the successful management of risk as it assists to minimize NLPs and loan losses. Samir & Deepa (2013), stated in their findings based on the heavy analysis that NPLs is significantly affecting both the commercial banks and other depository institutions in expressions of their financial performance. The intentional defaulters should be identified and treated properly to recover the loans.

Islam and Rana (2017), used a panel regression model for a six years' period from 2005-2010 on Private commercial banks of Bangladesh. They revealed a noteworthy effect on return on assets and provisions of classified loans that at the end minimize the profits. In a research, Lata (2015), has stated that increased amount of NPLs of State-owned Commercial Banks affected the banks' profitability adversely which in turn created massive pressure on the overall banking industry of Bangladesh. Asante and Tengey (2014) stated that NPLs limit banks revenue which leads banks borrowings resulting in added expenditure. If a bank encounter NPLs, it negatively affects its conscientious standing and spoils forthcoming business opportunities. In a study, Adhikary (2006), mentioned that the growing amount of NPLs within the industry might not only interrupt the financial performance but also declines the credit quality of banks in Bangladesh. The author also emphasized on the maintenance of loan loss provisions and timely debt recovery actions of the banks in order to control the amount of NPLs in Bangladesh. In another study, Barseghyan (2003), revealed that if NPLs are inappropriately addressed, loans defaulter may create inverse influence on quality borrowers to delay their future repayments, and finally affect banks profitability. This problem becomes worse in an economy where recovery process is very poor. Based on the study of Munniappan (2002), banks with high NPLs have to suffer with greater carrying costs. This exerts stimulate on both Capital Adequacy Ratio (CAR) and profitability of a bank.

Also, a study by Bercoff et al (2002), confirmed that asset growth explains NPLs. Skarica (2013), also conducted a study on the determinants of NPLs in Central and Eastern European countries. By employing the Fixed Effect Model and seven Central and Eastern European countries between 2007-2012 periods, the study revealed that loan growth, real GDP growth rate, market interest rate, unemployment and inflation rate as determinants of NPLs. The results show that GDP growth rate and unemployment rate have statistically significant negative association with NPLs with justification of rising recession and falling during expansions and growth has impact on the levels of NPLs. This implies that economic developments have a strong impact on the financial stability. The result also discovered that inflation has positive impact on NPLs with a justification that inflation might affect borrowers' debt servicing capacities.

Hyun and Zhang (2012), investigated the impact of macroeconomic and bank-specific factors of non-performing loans in US for two distinct sub-sample periods that is from 2002-2006 the pre financial crisis and 2007-2010 during financial crisis. The variables included both macroeconomic factors namely GDP growth rate, unemployment rate and lending rate, and bank specific variables such as Return on Equity (ROE), solvency ratio, inefficiency, bank size and non-interest income. In pre-financial crisis period, the study found as solvency ratio, ROE, lending rate, GDP growth rate and unemployment rate negatively affect NPLs. Negative effect of lending rate on NPLs implies that an increase in lending rate curtail peoples' or business entities' ability to borrow, which decreases the amount of loan and then reduce NPLs. Besides, statistically significant and negative solvency ratio effect on NPLs, implies that the higher the Solvency ratio, the lower the incentives to take riskier loan policies, and consequently, reduce the amount of problem loans. However, bank size has no effect. During financial crisis also solvency ratio, GDP growth rate, unemployment rate and ROE all have a negative impact on NPLs while lending rate has no significant effect on NPLs. Size allows for more diversification opportunities as larger banks can compose less concentrated portfolios that include borrowers from different industries, geographical Locations, capital size and other customer segments (Atem, 2017).

Louzis et al. (2012), used bank specific factors and macroeconomic variables to examine the determinants of NPLs in the banking industry. All the selected independent variables (Total Loans, Inflation, Real GDP and Per Capita GDP) have significant impact on the depended variable (NPLs Ratio), although, values of coefficients are not much significant. Banks should tightly control and update their credit advancement strategy with respect to stated variables to have lesser NPLs ratio (Saba et al. 2012). Mohammed (2012), investigated the bank's profitability in association of corporate governance for which mainly the NLPs ratios and loans to deposits ratios have been used. The study used nine Nigerian banks for a period of 10 years from 2001 to 2010. Based on the generalized OLS regression outputs, NPLs ratio has significant inverse impact while loans to deposits ratio have insignificant inverse impact on performance. Guy (2011), stated that NPLs have been broadly used as a measure of asset quality among financial institutions and is often connected with letdowns and financial disasters in both the developed and the developing economy. Podder (2012), studied on 30 PCBs of Bangladesh for the time period of 2001-2010 and found NPLs, loans to deposits ratios, total asset, equity to total asset ratio as some foremost determinants of profitability of banks (Abedin, 2020).

2.3.2 Empirical evidence from Kenya

Muriithi (2013), studied on the title “the causes of non-performing loans in Commercial Banks in Kenya”. University of Nairobi. The study adopted the Descriptive Design and applied both multiple regression models on secondary data to determine the relationship between causes of Non-Performing Loans in Commercial Banks in Kenya. The study used secondary data for the period 2008-2012. The Interest rates, Inflation and growth in loans were used as independent variables. Non-performing loan was used as dependent variable. The population of this study comprised of 43 commercial banks in Kenya and data was analyzed using SPSS. The study revealed that non-performing loans of commercial banks in Kenya are positively correlated with inflation rate (0.316). The study also found that non-performing loans are negatively correlated with real interest rate (0.468) and growth rate in loans (-0.013) respectively. Further the study indicated that the study variables jointly influenced the non-performing loans with an adjusted R2 of 0.553. The study concludes that the independent variables considered in the study jointly caused the non-performing loans in commercial banks in Kenya. The study also found that the non-performing loans were positively correlated to inflation rate. The study further concludes that non-performing loans are negatively correlated with real interest rate and growth rate in loans in Kenya.

Warue (2012), used a causal comparative research design based on bank structures was adopted and studied the effects of Bank Specific and Macroeconomic factor on NPLs in commercial bank in Kenya. The period under this study was 1995 to 2009. The study found evidence that bank specific factors contribute to NPLs performance at higher magnitude compared with macroeconomic factors. Kiayai (2003), argued that the poor fiscal policy had resulted to high inflation rates and that this could be one of the contributors of NPLs. Inflationary expectation is a factor that is embedded in the interest rate. Interest will remain high if investors believe that the government will introduce inflation in future by adding money in circulation through extended credit form the central bank (Muriithi, 2013).

Waweru and Kalani (2009), conducted a study to investigate the commercial banking crisis in Kenya, causes and remedies, according to the study many financial institutions that collapsed in Kenya since 1986 failed due to non-performing loans. Using a sample of 30 managers from the ten largest banks the study found that national economic downtown perceived as the most important external factor. Customer failure to disclose vital information during the loan application process was considered to be the main customer specific factor. The study further found that lack of an aggressive debt collection policy was perceived as the main bank specific factor, contributing to the loan performing debt problem in Kenya. The researcher only considered only one customer's specific factor, that is, disclosure of vital information he did not consider factors like the Treasury Bills, Inflation or exchange rate volatility.

Irungu (2009), carried out a study to investigate pressure of bad loans burden on Kenyan banks and found that the continuing built up loans burden, is causing stress in a number of Kenyan banks, prompting the International Monetary Fund (IMF) to demand increased vigilance from the regulator. The IMF used Capital Adequacy Ratio (CAR) which measures the level of capitalization against its total assets. The higher the ratio the more stable a bank is. Kenyan banks have a minimum of 12 percent CAR. High capital to asset ratio means an institution is better protected against operating losses than those with lower ratios. The researcher did not define clearly what causes these bad loans and if there is any strategy to reduce the pressure of bad loans (Mboka, 2013).

In view of the above discussions, numerous studies have been conducted on the determinants of loan defaults both locally and internationally. Most of these studies focused on lenders or bank specific factors and borrower's factors. Moreover, very few studies have been carried out on Equity Bank Limited and no further research has been conducted on Dagoretti branch therefore creating a gap which my study seeks to fill.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.0 introduction

This chapter entails the research methodology that is necessary to obtain the objectives of the research. It identifies the techniques and procedure that will be used in collecting, processing, analyzing and interpreting the data. This chapter is subdivided into different sections, namely, the research design, target population, sample size, data collection and data analysis.

3.1 Research design

A research design is a strategic framework for action that serves as a bridge between research questions and the execution or implementation of the research. Research designs are plans that guide the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the purpose of research (Durrheim, 2007). To achieve the objectives of the study, this research used the descriptive research design to identify the factors affecting loan default within commercial banks in Nairobi. Descriptive research determines and reports the way things are and also helps a researcher to describe a phenomenon in terms of attitude, values and characteristics. (Mugenda and Mugenda, 2003). The descriptive research method is preferred because a researcher is able to collect data, describe the state of affairs and answer the questions concerning the subject of the study (Ochung, 2013).

3.2 Target population

A population is all the elements in a field of study, which a sample maybe drawn (Weeks, 2019). The population of the study comprise the management staff, preferably the loan officers and the credit administration officer at Equity Bank Kenya due to their knowledge on the subject of the study and because they deal directly with the loan administration. The study focused on the Dagoretti branch and sought to obtain information from 20 staff members as respondents.

The research study considered Equity bank amongst the 42 banks in Kenya because it not only received 22 accolades in the 2021 Banking Awards by Think business, but also, for the 10th year in a row, Equity was ranked Best Overall Bank in Kenya (Equity Group Holding, 2021).

3.3 Sample size and sampling techniques

According to Atem (2017), sampling is a technique of selecting a suitable sample for the purpose of determining parameters of the whole population. This study applied the convenience method of sampling. This method was suitable for the study because the participants were selected based on the availability and willingness to take part. Since the study was focusing on a branch of the Equity Bank, a sample size of 11 loan officers and 9 credit administration officers were sampled making a total of 20 respondents, since they are not many.

3.4 Data collection

There are two main types of data that is, primary and secondary data. Primary data is information gathered directly from the source for purpose of the study while secondary data is information gathered from the published work of the authors (Wilson, (2010) cited in Ochung, (2013)).

The study used both primary and secondary methods of data collection as the source of information. Secondary data was obtained from published works such as internet, Kenya National Bureau of Statistics Publications and Equity bank surveys while primary data was obtained from the field survey using a questionnaire. The researcher obtained an introductory letter from the University to collect data from the organization then personally delivered the questionnaires to the respondents and had them filled in and then collected later: the drop and pick later method.

3.5 Data analysis

Data analysis was done after all data had been collected, edited, and cleaned. It is a process used to make sense of the data and convert it into a form that is suitable for use in drawing conclusion that are in line with the subject under study. To analyze the quantitative data that was collected, descriptive statistics such as the measures of central tendency (mean), percentage composition and frequencies were applied in order to identify the extent to which customer loan defaults affect commercial banks. For cases that were based on two or more variables, contingency tables were used to join the frequency distribution. The grouping and organization of data was done using frequency distribution. This showed the number of observations in their corresponding percentage composition and mean scores.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS.

4.0 Introduction

This chapter entails the discoveries of the study, analysis of data and the interpretations of the findings. To indicate the relationship among different factors, data was presented inform of tables, percentages and frequencies where appropriate.

4.1 Response Rate

The study focused on a sample size of 20 respondents from which, 15 (8 loan officers and 7 credit administration officers) filled in and returned the questionnaire making it a response rate of 75%. This response rate fits in with Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic information for staff

This section shows the demographic information of the staff including the gender, the position held at Equity Bank, duration of service and their opinion on which factor has the greatest impact on customer loan defaults within Equity Bank.

4.2.1 Gender of the respondents

The study sort to establish the gender of the staff members at Equity Bank and the results are as shown on the table 4.1 below.

Table 4.1: Gender of the respondent

	Frequency	**Percentage**
Male	9	60
Female	6	40
Total	**15**	**100**

Source: (Research Data, 2022)

The findings reveal that 60% of the respondents were male while 40% were females. This implies that there are more male than female credit staff members in Equity Bank as shown by the percentages in the above table.

4.2.2 Position held by the respondent

This was to establish the position held at Equity Bank by the respondent. The results of the study are as shown in the table 4.2 below.

Table 4.2: Position Held

	Frequency	Percentage
Loan Officer	8	53.3
Credit Administration Officer	7	46.7
Total	**15**	**100**

Source: (Research Data, 2022)

From the findings, 53.3% of the respondents indicated that they were loan officers while 46.7% of the respondents indicated that they were credit administration officers. The number of credit administration officers is less as compared to loan officers at Equity Bank and this is due to the fact that loan officers are in charge of ensuring the eligibility to proceed with loans and evaluate how creditworthy or not a person might be based on their history and current finances before recommending them for approval. This helps in avoiding the possibility of a loan defaulter. The findings of this study correspond to a study done by Ogol (2013).

4.2.3 Duration of Service

The study sort to establish the amount of time the respondent has been working at Equity Bank and the results are as shown on the table 4.3 below.

Table 4.3: Duration of Service

	Frequencies	Percentages
Below 5 years	2	13.3
6-10 years	6	40
11-15 years	5	33.4
Above 16 years	2	13.3
Total	**15**	**100**

Source: (Research Data, 2022)

With regards to the staff members duration of service, 13.3% of the respondents indicated that they have worked with Equity Bank below 5 years, 40 % of the respondents indicated between 6-10 years, 33.4% of the respondents indicated between 11-15 years and 13.3% of the respondents indicated above 16 years. This implies that the respondents have a good understanding and a vast experience on the topic being researched on. The findings of this study do not correspond to a study by Ochung (2013) who studied the factors affecting loan repayment among customers of commercial banks in Kenya, a case study of Barclays Bank of Kenya, Nairobi County. In his results, majority of the respondents (48.3%) had worked with BBK between 11-15 years.

4.2.4 Respondents opinion

In this section, the study sort to establish the respondent's opinion on which factor greatly affects the level of customer loan defaults in Equity Bank. The results are indicated in the table 4.4 below.

Table 4.4: Respondents' Opinion

	Frequencies	Percentages
Lender's factors	3	20
Borrower's factors	2	13.3
Loan factors	1	6.7
Economic factors	9	60
Total	**15**	**100**

Source: (Research Data, 2022)

From the findings, 20% of the respondents indicated that lender's factors greatly affect the level of customer loan defaults, 13.3% indicated borrower's factors, 6.7% responded loan factors while 60% of the respondents said that economic factors are the ones that greatly affect the level of loan defaulters in Equity Bank.

This section also requested the respondents to explain their answers and some of those who went with economic factors stated that the changes in the prices of commodities, that is inflation, is the main cause of loan defaults. They sated that when the prices of commodities shoots, customers tend to spend more on the basic needs, leaving them with less money to service their loans.

In a study by Maigua (2017), the study findings established that the borrower's characteristics significantly affected loan repayment defaults by customers of Micro-Finance Institutions in Kenya, which does not tally with the results of this study. Through the years, these changes might have been caused by the COVID- 19 Pandemic. The toll of COVID- 19 pandemic has exacted on the global economy has been significant, with the International Monetary Fund (IMF) estimating that median global GDP dropped by 3.9% from 2019 to 2020, making it the worst economic downturn since the great depression.

4.3 Loan Factors

This section presents data findings on statements that highlight loan factors that could lead to loan defaults and the extent to which loan factors affect loan defaults.

4.3.1 Statements on Loan Factors

The study sort to establish the level of agreement or disagreement in regards to a number of statements with which loan factor affected customer loan defaults. The results are as shown in the table 4.5 below.

(The abbreviations stand for, **D**- Disagree, **N**- Neutral, **A**- Agree and **M**-Mean score.)

Table 4.5: Statements on Loan Factors

	D		N		A		M
Statement	**F**	**%**	**F**	**%**	**F**	**%**	
The amount of loan given to a customer	2	**13.3**	8	**53.3**	5	**33.3**	3.3
The type of loan (variable or fixed interest)	7	**46.7**	3	**20.0**	5	**33.3**	2.8
Repayment period of different loan terms	8	**53.3**	4	**26.7**	3	**20.0**	2.5
Grace period before repayment starts	10	**66.7**	1	**6.6**	4	**26.7**	2.4
Maturity period of the loan	10	**66.7**	2	**13.3**	3	**20.0**	2.3

Source: (Research Data, 2022) N=15

According to the findings, majority of the respondents, disagreed that the repayment period of different loan terms, grace period before repayment starts and maturity period of the loan affected customer loan defaults as shown by their percentages of 53.3%, 66.7% and 66.7%, and their mean scores of 2.5, 2.4 and 2.3 respectively. The respondents were neutral that the amount of loan given to a customer and the type of loan whether variable or fixed interest led to customer loan defaults as represented by their mean score of 3.3 and 2.8 respectively. The findings do not fully agree with findings of Karanja (2019) who found that loan repayment duration influences the loan repayments and the amount of loan advanced has no effect on loan repayment.

4.3.2 Extent That Loan Factors Affect Customer Loan Defaults.

The respondents were asked to indicate the extent to which loan factors affect the rate of loan defaults among Equity Bank customers. The results are as shown in the table 4.6 below

Table 4.6: Extent That Loan Factors Affect Customer Loan Defaults.

	Frequency	Percentage
Great Extent	4	26.7
Moderate Extent	11	73.3
Total	**15**	**100**

Source: (Research Data, 2022)

From the findings, 73.3% of the respondents indicated that loan factors, affected customer loan defaults at Equity bank to moderate extent while 26.7% of the respondents indicated to great extent.

4.4 Lender's Factors

This section presents data findings on lender's factors and their effects on customer loan defaults at Equity Bank. It contains the lender's features that could possibly affect loan defaults, statement on lender's factors that affect the level of loan defaults and the extent to which they affect loan defaults.

4.4.1 Lender's Features That Affect Customer Loan Defaults.

The study sort to establish the respondents' level of agreement to lender's/ bank features that affect the possibility of a loan default among Equity Bank customers. The results of the findings are as shown in the table 4.7 below.

Table 4.7: Effects of Lenders Features on Customer Loan Defaults.

	D		N		A		M
Statement	**F**	**%**	**F**	**%**	**F**	**%**	
The time taken for the loan to be approved	2	**13.3**	11	**73.3**	2	**13.3**	3.0
Interest rates charged by the lender	2	**13.3**	9	**60.0**	4	**26.7**	3.2
The amount of loan taken	0	**0**	10	**66.7**	5	**33.3**	3.5
The Bank's performance	8	**53.3**	0	**0**	7	**46.7**	2.9
Investment opportunities	10	**66.7**	1	**6.7**	4	**26.7**	2.4

Source: (Research Data, 2022)

According to the findings, majority of the respondents agreed that the amount of loan given out to a customer affected the level of customer at Equity Bank as shown by a mean score of M=3.5 The respondents disagreed that the investment opportunities of the bank affected the level of customer loan defaults as shown by a mean score of M=2.4 The respondents were neutral on the fact that the time taken for the loan to be approved, interest rates charged by the lender and the bank's performance have an effect on customer loan default at Equity Bank as shown by a mean score of 3.0, 3.2, and 2.9 respectively. Contrary to the findings of a study by Atem (2017) on the factors affecting non-performing loans at KCB Bank, whose findings concluded that the relationship between interest rates offered by the bank and non-performing loans is strong, positive and statistically significant but bank size and credit size did not influence non-performing loans significantly.

4.4.2 statements on lender's factors.

The study sort to establish the level of agreement to which statement affects customer loan defaults. The results are as shown on the table 4.8 below.

Table 4.8: Statements on lender's factors.

	D		**N**		**A**		**M**
Statement	**F**	**%**	**F**	**%**	**F**	**%**	
The information requested by the bank accurately predicts the repayment ability of the loan applicant.	4	**26.7**	0	**0**	11	**73.3**	3.7
The amount of information provided by the loan applicant affects the payment	2	**13.3**	2	**13.3**	11	**73.3**	3.9
The information requested by the bank from the loan applicant is readily available.	3	**20**	0	**0**	12	**80**	3.9
The performance of the bank in form of performing loans, affects the amount of loans advanced to customers.	10	**66.7**	0	**0**	5	**33.3**	2.5

The speed of loan approvals in the bank affects customer loan repayment.	3	**20**	1	**6.7**	11	**73.3**	3.8
The loan repayment period.	1	**6.7**	1	**6.7**	13	**86.6**	4.2
The amount of loan the lender advances.	3	**20**	3	**20**	9	**60**	3.6

Source: (Research Data, 2022)

According to the findings, majority of the respondents agreed that the repayment period, the amount of information provided by the loan applicant, the information requested by the bank from the loan applicant is readily available, the speed of loan approvals in the bank, the information requested by the bank accurately predicts the repayment ability of the loan applicant, and the amount of loan the lender advances affects customer loan defaults at Equity Bank as shown by a mean score of 4.2, 3.9, 3.9, 3.8, 3.7 and 3.6 respectively. The respondents disagreed that the performance of the bank in form of performing loans, affects the amount of loans to customers as shown by a mean score of M=2.5.

In a similar study by Ochung (2013), some of the results from the statements tallies with the results from this study. The findings showed that information requested by the bank from the loan applicant is readily available, the amount of information provided by the loan applicant, the amount of loan advanced, the speed of loan approvals and the loan repayment period affected the loan repayment of customers at Barclays Bank of Kenya.

4.4.3 The Extent to which Lender's Factors Affect Loan Defaults

The respondents were asked to indicate the extent to which lender's factors affect the rate of loan defaults among Equity Bank customers. The results are as shown in the table 4.9 below

Table 4.9: The extent to which lender's factors affect loan defaults.

	Frequency	Percentage
Great Extent	10	66.7
Moderate Extent	5	33.3
Total	**15**	**100**

Source: (Research Data, 2022)

From the results, 66.7% of the respondents indicated that lenders' factors affect customer loan defaults to a great extent while 33.3% indicated to a moderate extent.

4.5 Borrower's Factors

This section contains the data finding from individual borrower's factors that affect the level of loan defaults at Equity Bank, statements on borrower's factors and the extent to which borrower's factors affect loan defaults.

4.5.1 Borrower's Factors that May Affect Customer Loan Defaults.

The study sort to investigate some of the borrower's factors that may affect customer loan defaults at Equity Bank. The results are as shown in the table 4.10 below.

Table 4.10: Borrower's factors that affect customer loan defaults

	D		N		A		M
Statements	**F**	**%**	**F**	**%**	**F**	**%**	
The borrower's level of income.	0	**0**	0	**0**	15	**100**	4.5
Borrower's age.	1	**6.7**	1	**6.7**	13	**86.6**	4.2
Borrower's gender.	14	**93.3**	1	**6.7**	0	**0**	1.6
The educational background of the borrower.	10	**66.7**	0	**0**	5	**33.3**	2.5
The profession of the borrower.	9	**60**	3	**20**	3	**20**	2.4
The amount of loan borrowed.	10	**66.7**	0	**0**	5	**33.3**	2.5

Source: (Research Data, 2022)

From the findings, all the respondents 100% strongly agreed that the borrower's level of income affects the rate of customer loan defaults at Equity Bank as shown by a mean score of 4.5. Some respondents pointed out that customers of lower incomes tend to have a greater probability of default compared to customers of higher incomes. Majority of the respondents also agreed that the borrower's age affects loan defaults as shown by a mean score of 4.2 However, the respondents disagreed that the educational background of the borrower, the amount of loan borrowed and the borrower's profession have an effect on customer loan defaults as shown by their mean scores of 2.5, 2.5 and 2.4 respectively. The respondents strongly disagreed that the borrower's gender had an effect on customer loan defaults at Equity Bank as shown by a mean score of 1.6. The findings of this study correspond to the findings of Karanja (2019) that the income level of the borrower and the high loan amounts advanced to borrowers with low-income levels influences high loan default rates.

4.5.2 statements on borrower's factors

This section shows the results obtained from asking the respondents to rate their level of agreement to the statements on borrower's factors that affect customer loan defaults. The results are as shown below in the table 4.11

Table 4.11: Statements on borrower's factors

	D		**N**		**A**		**M**
Statement	**F**	**%**	**F**	**%**	**F**	**%**	
The number of years a customer has banked with Equity Bank Kenya.	5	**33.3**	8	**53.3**	2	**13.3**	2.7
The type of account a customer maintains with Equity Bank Kenya.	11	**73.3**	4	**26.7**	0	**0**	1.9
The kind of collateral pledged as security for the loan.	9	**60**	0	**0**	6	**40**	2.7

Source: (Research Data, 2022)

According to the findings, the respondents were neutral about the number of years a customer has banked with Equity Bank and the kind of collateral pledged as security for the loan having an effect on customer loan defaults as shown by a mean score of 2.7 and 2.7 respectively. The respondents disagreed that the type of account a customer maintains with Equity have an effect on customer loan default as represented by a mean score of 1.9. The findings of this study do not fully agree with the study by Maigua (2017) that the kind of collateral pledged as security for the loan, the number of years the customer has banked with the institution and the type of account a customer maintains with the institution effected the ability to repay a loan.

4.5.3 The Extent to which Borrower's Factors Affect Loan Defaults.

The respondents were asked to show the extent of borrower's factors on loan defaults and the results are as shown on the table 4.12 below.

Table 4.12: Extent of borrower's factors on loan defaults.

	Frequency	Percentage
Moderate Extent	14	93.3
Low extent	1	6.7
Total	**15**	**100**

Source: (Research Data, 2022)

From the results, 93.3% of the respondents indicated that lenders' factors affect customer loan defaults to a moderate extent while 6.7% indicated to low extent. Contrary to a study by Ochung (2013) whose results indicates 45.8% of the respondents reported that borrowers' characteristics affected loan repayment to a very great extent, 25% indicated to a moderate extent, 16.7% to a great extent 6.9% to a less extent and 5.6% to no extent.

4.6 Economic Factors

This section contains the data finding from individual economic factors that affect the level of loan defaults at Equity Bank, and the extent to which borrower's factors affect customer loan defaults.

4.6.1 Economic Factors that Affect Customer Loan Defaults

The study sort to establish the economic factors that affect customer loan defaults and the results are as shown on the table 4.13 below.

Table 4.13: Economic Factors and Their Effects on Customer Loan Defaults.

	D		N		A		M
Statement	**F**	**%**	**F**	**%**	**F**	**%**	
The change in real GDP.	0	**0**	1	**6.7**	14	**93.3**	4.4
The rate of inflation.	0	**0**	0	**0**	15	**100**	4.5
The level of unemployment.	0	**0**	1	**6.7**	14	**93.3**	4.4
The tax rates.	1	**6.7**	0	**0**	14	**93.3**	4.3

Source: (Research Data, 2022)

According to the findings, majority of the respondents strongly agreed that the change in real GDP, rate of inflation, level of unemployment and tax rates have an effect on customer loan defaults at Equity Bank as shown by a mean score of 4.4, 4.5, 4.4, and 4.3 respectively. A study by Muriithi

(2013) revealed that NPLs of commercial banks in Kenya are positively correlated with inflation rate. It also found that NPLs are negatively correlated with real interest rate and growth rate in loans. A study done by Foglia (2022) on non-performing loans and Macroeconomic factors, further found that GDP and public debt have a strong negative impact on the level of NPLs while unemployment rate and the credit to the private sector positively impact NPLs. In Italy NPLs have substantially decreased during the last year caused by improved general economic conditions and the effects of government measures to support businesses and households (debt guarantees, subsidies, contributions and salary increases). In the current pandemic context, the impact of the crisis triggered by the spread of COVID- 19 on future credit quality is difficult to assess.

4.6.2 Extent to which Economic Factors Affect Loan Defaults.

In this section, the respondents were asked to indicate their opinion on the extent to which economic factor affect customer loan defaults. According to the findings, 100% of the respondents indicated that economic factors affect customer loan defaults to a great extent. The findings of this study agree with folgia (2022) that NPLs have become an increasingly popular term since the financial crisis of 2007. As a result of the recent financial crises (the US and Eurozone sovereign debt crises), the quality of banks' loan portfolio in all countries of the world has substantially changed (worsened). The reduction of output, high unemployment, lower liquidity of households and enterprises and lower-income has given rise to NPLs. It further stated that macroeconomic factors play a crucial role in the dynamics of NPLs, broadly agreeing with the relevant literature.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the research findings, conclusion, recommendations and suggestions for further research.

5.1 Summary of Findings

The main objective of this study was to determine the Factors Affecting Customer Loan Defaults Among Commercial Banks in Nairobi, A Case Study of Equity Bank, Dagoretti Brach. The study sort to examine whether loan factors have an effect on customer loan defaults, to determine the effects of borrower's factors on customer loan defaults, to investigate whether lender's factors do affect customer loan defaults and to study the relationship between economic factors on customer loan defaults at Equity Bank. This study adopted descriptive design and applied descriptive statistics that is frequency distribution percentage composition and mean on primary data to determine the relationship between causes of loan defaults in commercial banks in Nairobi.

The study established that there is a significant relationship between loan factors and customer loan defaults among commercial banks in Nairobi. The study revealed that the amount of loan requested by a customer determined customer loan default at Equity Bank. It was also revealed that loan factors affect customer loan defaults to a moderate extent. Karanja (2019) found that the interest rate that is being charged on loan is a major determinant of loan repayment rate it is therefore important for the institution charge interests that will enable the borrower to service their loans as required. According to Maina (2018), banks need to classify customers to mitigate on failing to pay loans and that preventing defaulters from receiving more loans from any other bank in the future is compulsory.

Lender's factors were found to determine customer loan defaults at Equity Bank. Characteristics such as the amount of loan the lender advances, the repayment period, the amount of information provided by the loan applicant, the information requested by the bank from the loan applicant is readily available, the speed of loan approvals in the bank, the information requested by the bank accurately predicts the repayment ability of the loan applicant determined customer loan defaults at Equity Bank to a great extent. According to Chijoriga, (1997) awarding credit is a journey, the success of which depends on the methodology applied to evaluate and award the credit. This journey starts from the application for credit through acquisition of credit sales and ends at the time the loan is fully paid. (Cited in Ochung (2013))

The study revealed that there is a significant relationship between borrower's factors and customer loan defaults at Equity Bank. From the findings, characteristics such as the borrower's age and level of income significantly affect customer loan defaults, while borrower's gender, educational background and profession do not have a huge impact on customer loan defaults. The study found that customers of lower incomes tend to have a greater probability of default compared to customers of higher incomes. Other borrower's factors affect customer loan defaults to a moderate extent. According to Evusa *Et al* (2015), proper records of all borrowers should be well kept and accessible. It is recommended that steps in credit rationing process should investigate the borrower's repayment background and determining borrower's ability through savings and deposit as well as examining borrower's loan objectives and getting additional information from either relatives or neighbors. The final step in credit rationing process should include the borrower's loan collateral. A more comprehensive insurance cover should be available for all borrowers to cater for the unforeseen circumstances.

The study established that there is a significant relationship between economic factors and customer loan defaults at Equity Bank. The study found that change in real GDP, rate of inflation, level of unemployment and tax rates have a great effect on customer loan defaults. Economic factors affect customer loan defaults to a very great extent. Nasieku (2014) found that a positive change in the economic conditions perceptibly leads to a reduction in the level of unemployment. This invariably results in the reduction in the level of NPLs as more people who are now employed become more capable of servicing their loans. However, these macroeconomic factors are sometimes beyond the control of the government especially in the contemporary globalized world in which the economies are so interconnected. Therefore, the government may in most be incapable of addressing these macro-economic factors which may often be international.

Based on the analysis conveyed, it can be concluded that it seems the greatest impact in regards to customer loan defaults are economic factors, then lenders factors, followed by borrowers' factors and lastly loan factors. This is in relation to the question that asked the respondents' opinion on which factor greatly affects loan defaults.

5.2 Conclusion

The study concludes that loan factors have an effect on customer loan defaults at Equity Bank. The amount of loan requested by a customer significantly affects the possibility of a loan default. Therefore, Equity Bank should first evaluate of their customers for capability before disbursing loans to them.

The study concludes that lender's factors affect customer loan defaults at Equity Bank. The repayment period of a loan, speed of loan approval, availability of the information requested by the bank and amount of information provided by an applicant affect loan defaults. Loan applicants should provide all necessary information and it should be readily available to the banks before requesting for a loan to avoid defaulters.

Borrowers' factors were found to have an effect on customer loan defaults at Equity Bank. Borrowers age and level of income determined loan repayment. Banks should screen borrowers and monitor them. This is important to make sure that the customers can pay back their loans.

The study further concludes that economic factors significantly affect customer loan defaults at Equity Bank. The government should take into account that loan defaults can lead to the collapse of the banking sector and should therefore implement policies that would lead to a sustainable growth of the economy.

5.3 Recommendations

This study recommends that banks should focus on leading problem indicators like slow payment and late supply of information and should not rely solely on lagging indicators, such as past due payments which is much later in the process and leaves the lender with fewer options correct the situation and help the borrower.

Since borrowers' factors such as age and level of income affect loan defaults, the study recommends that it is important for the management to conduct a thorough and in-depth appraisal of the borrowers before advancing credit to them. This will reduce the rate of loan defaulting.

The study recommends that commercial banks should apply strict policies on loan advances so as loans are awarded to those with ability to repay and mitigate moral hazards such as insider lending and information asymmetry. It further recommends that a close relationship between the lender and borrower should be established through monitoring, business adviser and regular meetings. Lender can introduce reward system to those that pay on time such as rebate or discount.

Lastly, the study recommends that there is need for the Government to control the inflation rate in Kenya as there is some evidence to suggest that low inflation rate will lead to better performance of loans in Kenyan commercial banks.

5.3 Suggestion for Further Studies.

The study investigated the factors affecting customer loan defaults among commercial banks of Nairobi, a case of Equity Bank Kenya. The banking Industry in Kenya however is comprised of various other banks which differ in their way of management and have different settings. The study therefore recommends that a study should be done to determine the causes and management of loan defaults on performance of commercial banks in kenya as a whole.

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APPENDICES

Appendix I: Introduction Letter

MARIST INTERNATIONAL UNIVERSITY COLLEGE (MIUC)
Constituent College of the Catholic University of Eastern Africa
Langata Road P.O. Box 24450- 00502 Karen, Nairobi
Phone 254-020-2012797/020-2012787; Fax 254-020-2389939

OFFICE OF THE REGISTRAR

Our Ref: REF/17/05/2022

TO WHOM IT MAY CONCERN

21st June, 2022

Dear Sir/Madam,

RE: WACHAIYU HANNAH WACU BBM/G/22/17/18

The person named above is registered as a full-time student at Marist International University College. We kindly request you to assist him carry out the research exercise.

The research topic is:

Factors Affecting Customer Loan Defaults within Commercial Banks in Nairobi. A Case Study of Equity Bank, Dagoretti Branch.

The research project is being undertaken in partial fulfillment of the requirements for the award of Bachelor's Degree in Business Management in this institution.

We would, therefore, be grateful if you kindly facilitate the exercise in whichever way possible.

Thank you very much in advance for your assistance.

Yours sincerely

MARIST INTERNATIONAL UNIVERSITY COLLEGE
OFFICE OF THE REGISTRAR
21 JUN 2022
Sign.
P.O. Box 24450 - 00502, KAREN, KENYA

Mr. Moses Ayiga
REGISTRAR

E-mail: registrar@miuc.ac.ke; Website: www.miuc.ac.ke
Founded in 1986 by the Institute of the Marist Brothers of the Schools

Appendix II: Questionnaire for staff

SECTION A: DEMOGRAPHIC INFORMATION

1. Please indicate your Gender.
   Male [ ] Female [ ]
2. Please indicate your position at Equity Bank Kenya?
   Loan Officer [ ] Credit Administration Officer [ ]
3. How many years have your worked with Equity Bank Kenya?
   Below 5 years [ ] 6-10 years [ ] 11-15 years [ ] Above 16 Years [ ]
4. In your opinion, which of the following factors has the greatest impact on loan defaults among Equity Bank customers? (Tick only one)
   Lender's factors [ ]
   Borrower's factors [ ]
   Loan factors [ ]
   Economic factors [ ]
   Explain your answer above

   ____

SECTION B: LOAN FACTORS

5. Please indicate how strongly you agree or disagree with the following statements which highlight loan factors that could possibly lead to a loan default among Equity Bank customers. On a scale of 1 to 5, where 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The amount of loan given to a customer.					
The type of loan (variable or fixed interest)					
Repayment period of different loan terms					

Grace period before repayment starts					
Maturity period of the loan					

6. To what extent do loan factors affect the rate of loan defaults among Equity Bank customers?

   Great extent [ ] moderate extent [ ]

   Low extent [ ] no extent [ ]

SECTION C: LENDER'S FACTORS

7. Below is a list of some lenders features that affect the possibility of a loan default among Equity Bank customers. Please select the option which most accurately reflects your agreement/disagreement with each factor. On a scale of 1 to 5 where, 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The time taken for the loan to be approved.					
Interest rates charged by the lender.					
The amount of loan taken.					
The Bank's performance.					
Investment opportunities.					

8. Below are statements on lender's factors that affect the level of loan defaults among commercial bank customers. On a scale of 1 to 5 where 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree, please rank your level of agreement with each statement.

Statement	1	2	3	4	5
The information requested by the bank accurately predicts the repayment ability of the loan applicant.					
The amount of information provided by the loan applicant affects the payment.					
The information requested by the bank from the loan applicant is readily available.					
The performance of the bank in form of performing loans, affects the amount of loans to customers.					
The speed of loan approvals in the bank affects customers loan repayment.					
The loan repayment period.					
Amount of loan the lender advances.					

9. To what extent do Bank/Lenders factors affect loan defaults at Equity Bank Kenya?

   Great extent [ ] Moderate extent [ ]

   Little extent [ ] No extent [ ]

SECTION D: BORROWER'S FACTORS

10. The following statements indicate individual borrower's factors that affect the level of loan defaults among Equity Bank customers. On a scale of 1 to 5, please indicate by ticking, how strongly you would agree or disagree with each of the following statements. (5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree)

Statement	1	2	3	4	5
The borrower's level of income.					

Borrower's age.					
Borrower's gender.					
The educational background of the borrower.					
The profession of the borrower.					
The amount of loan borrowed.					

11. Below are statements on the borrower's factors that affect the loan default rate. Use a scale where 5-strongly agrees, 4-agree, 3-neutral, 2-disagree, 1-strongly disagree, please indicate your level of agreement with each statement.

Statement	1	2	3	4	5
The number of years a customer has banked with Equity Bank Kenya.					
The type of account a customer maintains with Equity Bank Kenya.					
The kind of collateral pledged as security for the loan.					

12. To what extent do borrower's factors affect the level of loan defaults at Equity Bank Kenya.

    Great extent [ ] Moderate extent [ ]

    Low extent [ ] No extent [ ]

SECTION E: ECONOMIC FACTORS

13. Below is a list of economic factors that affect loan defaults among Equity Bank customers. By ticking, please indicate your level of agreement with each factor on a scale of 1 to 5 where, 5 is strongly agrees, 4 is agree, 3 is neutral, 2 is disagree and 1 is strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The change in real GDP.					
The rate of inflation.					
The level of unemployment.					

The tax rates.					

14. To what extent do economic factors affect the level of loan defaults among Equity Bank customers?

Great extent [ ]   Moderate extent [ ]

Low extent [ ]   No extent [ ]

THANK YOU FOR YOUR FEEDBACK