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INTEREST LENDING RATES AND CREDIT POLICY AND HOW THEY DETERMINELOAN REPAYMENT IN KENYA: A CASE STUDY OF DEPOIT TAKING SACCOS IN KENYA

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ABSTRACT

The researcher studied deposit-taking Saccos in Nairobi County to find out the determinants of loan repayment in Kenya. The Kenya Financial Sector comprises banks, microfinances and SACCOs, however due to their competitive lending charges and affordable options the latter have, contributed a great deal in economic prosperity through advancement of capital, savings mobilization and wealth creation to young and existing entrepreneurs as well as big corporate entities. However, while the above hold true the financial industry has been suffered the blow of poor loan repayment by the borrowers. In view of the above, two specific objectives acted as the independent variables influencing loan repayment in the DTSs this comprised to; determine the influence of interest lending rates, explore the influence of credit policy on loan repayment in DTSs. in Kenya. The Agency Theory was used as the main theoretical framework and anchored on the Fisher Interest Rates Theory. Descriptive Research Design was adopted, using a target population of 92 employees, which delivered the appropriate sample of 46 respondents to facilitate data collection using closed and open-ended questionnaire delivered to the respondents, which were accurately and precisely designed and easy to fill. Finally, multiple linear regression model, charts and bar graphs were used for data analysis and presentation. Study results indicated interest lending rates in deposit taking Saccos to have a big impact on loan repayment, in that, it favourably and adversely affected loan repayment accordingly, the credit policy seemed to quite significantly impact on the loan repayment. In conclusion, lending rates significant impacted on loan repayment, credit policy ought to be fully and well implemented. The study recommended proper internal control system to monitor and control those specific variables from being over ridded by the loan officers. Same area of study should be advanced to MFIs and explore other variables like open loan guarantors, member education, collateral adequacy and leadership style.

Keywords: *Interest Lending Rates, Credit Policy, Loan Repayment, Deposit Taking Saccos, Kenya*

INTRODUCTION

Poor loan repayment can cause serious issues, tying up the operating capital of financial institutions and reducing liquidity (Jackson, 2018). According to (Makri, Tsagkanos and Bellas, 2019), the European Union's subpar loan repayment led to defaulted loans totaling close to 4.0% of the overall loan portfolio in December 2017 compared to 4.3% the year before. According to studies, the US Citibank group has written off losses totaling more than $40 billion as a result of the global financial crisis (Onno, Aokki, and Nishiokka, 2018).

Numerous banks have closed as a result of the high rate of loan non-repayment and the resulting credit risk in Asian countries including Indonesia, Thailand, and Malaysia. In addition, Japan alone as a nation has had defaulted debts as a result of loans (Shintani and Yasui, 2018). According to Ahmed and Ariff (2017), default led to a significant rise in NPLs internationally, which had a detrimental effect on bank credit lending and their ability to continue making loans to their clients.

Due to the steady increase in credit risk in Sub-Sahara Africa since 2015, availability of borrowings has reduced too. Evidences indicates that, by 2015 8 percent of financial institutions in Sub-Saharan Africa had poor records on loan repayment due to increase in credit default (Hernández, and Kriesi, 2016). Meyer (2015) emphasizes that, the situation deteriorated further in 2017 by an increase of 10 percent. This was attributed by three regional banking sectors in West African States, Angola and Ghana (Florence, 2017).

According to a report by The East Africa Region Economy (2017), there is a spike in non-performing loans. For instance, in Uganda, despite a drop of 6.2 percent in NPLs in June 2017, the credit default rate rose sharply, shocking lenders. The country has a strong narrative regarding the regulatory standstill in "October 2016," which showed that approximately half of the loans were not performing owing to loan non-repayment, according to research conducted in Uganda by Otchere, Sentbet, and Simbanegavi (2017).

Despite all of these efforts made by commercial banks, the quality of the loan portfolio is still declining, as shown by the amount of credit defaults or loan non-payments. Gross

NPLs, for instance, increased by 5.2% from 2005 to 2016 alone. NPLs increased from 8.2% to 10.8% at the end of April due to an increase in loan non-repayment (Abbas & Li., 2017). According to a report by KPMG from August 2020, the number of non-performing loans (NPLs) in Tanzania had steadily risen above the typical 5% threshold.

According to SASRA (2018), loan repayment acts as the lifeblood of the SACCOs as they form the main revenue streams for the same from the interest earned on such repayment as well as acting as the revolving funds for more loan disbursements. However, loans repayment in most deposit taking Saccos depend on controllable and non-controllable factors leading to high-risk exposure and prevalence of NPLs. In view of the afore-mentioned, proper loan repayment, help in the regeneration of more loan disbursements, which act as the financial assets to SACCOs as well as playing critical part on building portfolio as well as maintaining the SACCOs asset base.

The administration of a financially sound loan scheme on loan disbursement, reflect how well the loan recovery procedures are implemented for example, a higher rate of loan repayment default will attract higher administration costs on recovery follow-up, and this is likely to result to loan repayment shortfall in relation to size of the loans. In view of aforementioned, initiative to conduct this study was propelled by motivation to explore the determinants credit settlement in the Kenyan Sacco sector.

Interest Lending Rate refers to as the price charged to the borrower on the money advanced to him by the lender or in other words rent for money Crowley (2007). High lending rates are one of the major contributors to loan non-repayment since they act as influencers on the borrowers ability to settle the loan, an increase in interest lending rates may accelerate occurrence of NPLs. (Atoi, 2018). Lending rates are both controllable and controllable factors which affect the Kenyan economy.

In light of the above information, SACCOs continue to face stiff competition from commercial banks since the latter offer their loan products at favourable lending rates thus fetching members from the Saccos. The increased lending rates has set the loan non-

repayment on an upward trajectory in most territories of Europe making them to segregate them into loan loss depending on loan ageing categories depending on loan ageing duration (Ghosh, 2018).

Interest lending rate charged by financial institutions on lend money concerns the lending industry, this is a major concern because there are no standard guidelines that governs the same to be followed by the lending institutions. In this regard, lending institutions have found a niche of charging high interest lending rates, thus exploiting the borrowers causing them to default on their loan repayment.

These are the terms and conditions for issuing loans facilities, through proper appraisal, using credit standards and processes and collection procedures in order to avoid credit losses that are likely to occur from borrower non-loan repayment or credit default (Zambrano, Moral-Benito and Vegas, 2018). The advancement of credit in a lending or financial institution is a process that is guided by the institution credit policy, which defines the procedure, and the guidelines that led proper loan appraisal in order to issue the loan. This implies that, if the credit policy are poorly applied by the financial institutions then there will be higher chances that, the borrowed amount are likely to turn into non-performing loan due to default by the borrower thus occurrence of credit losses leading to poor portfolio qualities (Kofarmata & Danlami, 2019).

The Application of credit policies in loan management is paramount since prudent appraisal of loans as well is ascertainment in provisioning of credit facilities to cushion occurrence of non-repayment. Saccos and other financial institutions should institute a reliable framework for categorization of non-performing loans occurring from loan repayment default. Credit management policies will also enable the loaners to assess loanee potential to honour their financial obligation by evaluating his/her financial conditions. In addition, credit policies define the framework for valuation of client collateral in order the cushion the loan facility advanced to the borrower against any loss in case the borrower default. The policy will also lay out the recovery procedure that should be followed to recover and defaulted loan by the borrower (Mburu, Mwangi & Muathe, 2020).

The concept of loan repayment is quite critical to many financial institutions, since determines the lender and borrower contractual obligation on financial settlement. The probability of higher lending interest revenue collection is dependent on loan repayment performance that is when the borrower repays without default, this may in return lead to non-occurrence of loan losses in the end, (Onno, Aoki, Nishioka, Shintani and Yasui 2019). Conversely, poor loan repayment is likely to impact negatively on a financial institutions' capital, profitability as well as not achieving its objectives thus, leading to organization downfall. The concept of loan repayment is anchored on four main concepts, which are; loan appraisal and recovery procedure, which act as the determinants of loan repayment in deposit taking SACCOs.

. This scenario highlights the significance of loan repayment performance by examining the factors that will either aid or hinder a borrower ability to repay his loan. SACCOs must maintain a high portfolio quality, which is based on 100% loan repayment, in order to be financially sustainable or profitable. The worst-case scenario should involve low loan default rates or delinquent reports and improved cost recovery, which can only be attained by effective lending.

In Kenya, Saccos comprises those that receive cash deposit and those, which dot receive cash deposits. The former encompasses those SACCOs that take cash deposits from the members as well as allowing withdrawal of the same by the members. On the other hand, non-deposit taking SACCOS do not take deposits in form of cash nor do they allow over the counter cash withdrawal from their members with a mission to advance the same as credit facilities to the same members (Odhiambo, 2017). Such deposit remains attached to the extent that, they act as buffer security against any credit advanced to the members, and no partial withdrawal can be allowed until the loan is full repaid, the same case applies to deposit taking SACCOs, that no partial withdrawal is allowable until the loan is full repaid in case its self-guaranteed (SASRA 2018). Kenya had 198 registered Saccos from which Nairobi County hosted 41 as DTSs; however, the number had grown to 46 Deposit Taking Saccos by December 2021 (SASRA 2022).

Deposit-taking SACCOs have improved productivity at the individual, national, and worldwide levels by promoting economic growth through the adoption of special bases (Shaughnessy 2015; Formisano, Fedele, and Antonucci 2016). Overall, the SACCO subsector's efforts have been improved through expanded branch networks, unique products, financial literacy initiatives, cheap interest lending rates for borrowers, and returns on investment in the form of dividends and interest for members.

STATEMENT OF THE PROBLEM

The continued high rate of increase in the level of NPLs due to loan non-repayment has aroused an alert, According to World Bank Report (2.0.18), defaulted loans to total loans missed 15.00% from 14.92% by a small margin. In another report submitted by Central Bank (2018), the trend of NPLs has had an upward trajectory such that, there has been a continuous growth in nonperforming loans from 4.96% in 2013 to 5.9% in 2014, 8.97% in 2015, 9.02% in 2016, 11.38% in 2017 and 14.92% in 2018. In view of the aforementioned, Kenya has witnessed recent collapse of some commercial banks due to poor or lack of successful implementation and utilization of utilization of the credit policies, loan appraisal and recovery procedures that come through poor management practices. In order to reverse these trends, credit policies that dictates on lending rates, loan appraisal and recovery procedures needs to be examined.

The main aim of deposit taking SACCOs other financial institutions and commercial banks is to offer development loans its customers in order to promote economic development. However, these financial institutions have received so much global focus as far on loan repayment through maximization of loan repayment performance. Having a focus on this study, SACCOs have tried to put their efforts in formulating credit policies and standard guidelines to avoid borrowed money falling into default and more so to ensure sustainability of borrower and lender relations. The number of DTSs has increased to 46 from year 2019 to 2022 respectively (SASRA 2022), this has heightened the competition in the industry in advancing credit facilities to credit worthy borrowers. Despite the fierce competition among these financial institutions facts, interest lending rates have remained high. This has caused a decline in the rate of borrowing and loan repayment capacity.

Studies conducted by Serwadda (2018) on how policy formulation governing credit advancement on credit settlement of the same in banks in West African countries turned out to, poor implementation of policies gave continued rise in credit risk through occurrence of loan non-repayment. Noveles and Chamizo (2019) studies found the bank-specific factors to be connected to loan repayment in MFIS in governing loan disbursement and repayment had a direct connection to NPLs. However, despite the SACCOs endeavoring to ensure timely loan repayment, the largest percentage go to losses after being irrecoverable. This problem does not only negatively affect the SACCOs objective to profitability growth, but also put the SACCOs sustainability and efficiency at stake, since its solvency and going concern is premised on proper loan repayment. In view of the aforementioned, the researched aimed to analyze factors comprising interest lending rates, credit policy, loan appraisal and recovery procedures, which act as the study objectives on loan repayment determinants in Deposit taking Saccos in Kenya.

GENERAL OBJECTIVE OF THE STUDY

The General Objective of the Study was to establish the effect of interest lending rates and credit policy on Loan Repayment in Deposit taking Saccos in Kenya.

Specific Objectives

The following Specific Objectives guided the Study

(i) To determine how the interest lending rates influence loan repayment in deposit taking Saccos in Kenya.

(ii) To explore the influence of credit policy on loan repayment in deposit taking Saccos in Kenya.

Research Questions

The study was guided by the following research questions:

(i) How do interest lending rate influence loan repayment in deposit taking Saccos in Kenya?

(ii) How do Credit Policies influence Loan Repayment in deposit taking Saccos in Kenya?

SIGNIFICANCE OF THE STUDY

The management and staff of deposit taking Saccos could formulate and implement policies and procedures that could aid in improving loan repayment, to cut-down on borrowers defaulting; this was through the implementation of the recommendations that were given upon study completion. They could also rely on the directives issued by the government regulation framework based on researchers' findings. Safeguarding the interest of illiterate investors and borrowers is a government indispensable role through appointment of its agents as the regulators of the deposit taking Saccos, an example of this is SASRA where by, it acts as the watchdog on behalf of the government on regulation of the same. In this view, the recommendations of this study could guide the government and the respective regulator in formulation of policies and procedures that would guide all the deposit taking SACCOs as far as credit management on reduction of loan repayment default is concerned. Academician and future researchers are valuable assets in developing and adding to the fountain of knowledge in any study, since they link the future and the present. Therefore, the study was quite significance to the academicians and future researchers as they could use the existing data and literature to advance more knowledge in the same and fill gaps which could be existing. They would test whether this study would add value to others which could be undertaken.

LITERATURE REVIEW

Review of Theoretical Literature

The study was premised on the Agency Theory and supported by three following theoretical frameworks: Fishers Theory of Interest Rates, Information Asymmetric Theory and Financial Accelerator Theory.

Agency Theory

The theory of agency was developed and published by Jensen and Meckling (1976), in 1976 during their discussion on the issues regarding principle agent relationship in the earlier

years. The theory states that, partial goals will always exist between or among parties, holding the fact that efficiency and effectiveness goes hand in hand and there will be asymmetrical information between the principal. In their proposition, since agents have the first heard information than their principal, about their tasks, an organization would maximize its net value of shareholders wealth if such information is shared at no agency cost.

The theory proposition can be applied in an organization context based on the fact a firm hires employee as agents in order to maximize on job specialization. However, the employees may work against the interest of the employer (that is the principal) which may lead negative impact on shareholders wealth maximization. This is likely to occur because, the principal and the agent goals e sometimes divergent and inconsistence with each other this is called goal incongruence. Additionally, the principal cannot fully control the actions of the agent without incurring monitoring costs on the agent information this is called information asymmetry. According to Odhiambo (2019), the theory has found a niche in many areas of technical discipline like in the financial industry. The theory emphasizes that, a good governance structure in an organization is delegated to the organizational employees and therefore there is need for their accountability and responsibility.

The application of the theory rest on the premise that, it can be deployed in the installation of efficient and effective loan recovery process or system which can be instituted by the loan recovery officer who can stand in for the agent of the principle (employer), which can improve on loan repayment, reducing the instances of loan-non repayment or credit default in Sacco deposit takers. In this case, the mutual connection of the employer and the agent will persist and improve. In the same vein, a deposit taking Sacco will employ the services of a loan recovery agency to follow up and collect the unpaid loans from defaulters. Ahmmad and Arriff, (2017) states that, motivation on applicability is premised on management of credit policies and loan recovery are firmly based the theory of agency. However, the theory is subject limitation in the sense that, the strength of principal agency relationship diminishes when the former open a new venture. In addition, Mitnick (2005),

states that, the agency relationship between the principle and the agent portrays the latter as potentially deceitful, thereby becoming motivated and monitored to create wealth.

The Fisher Theory of Interests

The Fishers' interest rate theory was developed in 1930 by Ivy Fisher, stated that, "the interplay between the capital and income is the interest rate." His proposition is pegged on peoples behaviours on their earnings and consumption patterns that is, they are impatient to use their earnings and have no opportunity to use the same. In this case, it follows that, the cost of borrowing base is gotten by the capital nature and income of the individual. Fishers theory states that, interest rates seems to be part of the premium demanded by the lender at a certain date from the date of loan disbursement.

This theory finds its relevancy to this study in the sense that, people willingness to repay the loans rest on the premise that, they wish to borrow when the borrowing cost declines. On the contrary, high charges will act as barrier to borrow since the cost of repayment will likewise be high. Loan repayment will also become difficult if the interest rates or surpasses the consumer income. In this phenomenon, if the increase in interest persist for a longer period than income, some borrowers will be hampered from their timely loan repayment consequently, resulting to loan default (Celikoz & Arslan, 2011).

In the context of financial institutions and in particular SACCOs, one of the widely used policy tools are ceilings on lending or interest rates since it shield the borrower from exorbitant rates Ferrari, Masetti, Ren, (2018). According to the interest rates rationale, interest rate ceilings can affect loan repayment. The interest rate volatility determines the changes in interest rates over short-run periods. Thordens and Nathan (2009) states that, the level of borrowing charges dictates the borrowers credit commitment. The criticism of this theory is that, lenders are not likely to bear with any slight or subtle change in interest rates on either bonds or loans, before inflation occurs. Similarly, lenders may not reap any arbitrage gains since the interest rates parity. The increase in interest rates is quite crucial in understanding the phenomenon of interest rates changes.

Information Asymmetry Theory

The theory was brought about by Akerlof, Spence and Stiglitz, (1970) in 1970. The Theory states that, in a trade transaction, parties possess information while others do not. In this situation, some parties will have more information than the others will, despite this fact; other parties in the similar transaction will not possess the same. The occurrence of information imbalance is likely to be caused by the lender inadequate access of information from the borrower. The theory proposes that, in any transaction a party or a group that possess more information and resources than the other is likely to win in the market. In addition, Auronen (2003) proposes that, when someone has knowledge on a particular item of transaction he can be able to negotiate at transaction in better terms than the other party in the deal can. This way, the group with lack of knowledge of the same item to be transacted is less likely to make a right decision about the transaction.

Kipyego (2017) states that, the lender is likely to be barred from distinguishing between a credit worthy borrower and the opposite, in this regard it may be difficult for the lender to trust the loanee on the loan repayment. In this regard, the lender is forced to check whether the loanee is worthy to be lend or not, through analysis of the borrowing history as it appears in the past records. Nevertheless, this may not shed enough light to the lender since such information is limited.

On this note, Onkundi (2016) laid a proposition that; the situation can be reversed to a truthful state if the borrower provide can compressively inform the creditor their credit worthiness when borrowing. This would help the DTS decide on methods which can reduce credit exposure connected to the credit advanced. This would see, the reduction of Saccos credit risk, consequently leading to reduced rate of loan repayment default.

This study find relevancy in this theory in the fact that, differentiating would loan debtors can be quite a haunty task in the sense that, one party may possess more information than the other may, leading to wrong appraisal and loan repayment default (Auronen, 2003; Richard, 2011). Inability of deposit taking SACCOs management to monitor loan repayment can be anchored on the lack of ideas sharing, leading to instances of increase in loan repayment default, thus resulting to worsening in loan recovery.

However, much as the above is true, critics surround the theory; For example, the theory may negatively impact on a D.T.Ss., and expose the same to credit risk that could not have been discovered during the initial stage of borrowing. According to Gaithi, (2015), inadequate and inaccurate availing of credit information has led to poor decision making on advancement of credit and follow up on loan repayment as the existence information asymmetry has indicate.

Review of Empirical Literature

Kavwwele, Arriemba and Eevusa (2018) studied the effect of interest lending rates on non-repaid loans in commercial banks using research survey design and used stratified random sampling, where collection of data took place in various quarters before and after capping was done and data evaluated through t-statistics to assess the link in the sampled factors. The study discovered that, when the lending rates are capped, it results to and adverse significant impact on the loan repayment. It also emanated that, there is a quite substantial effect on interest lending rates by the C.B.K. rates adversely affecting loan repayment.

Ngondo (2018) used periodic journals and other commercial banks publications ranging from the year 2013 to 2017 to test CBK on regulation lending rates on borrowers in Kenyan commercial banks through exploratory research where stratified random sampling was applied. It produced a positive significance correlation in the lending rates and the loan non-repayment. In addition, the interest lending rates in Commercial banks were affected by those of Central Bank of Kenya.

Wamukota, M., & Otuya W (2021), focused on the study of interest lending rates on loan repayment in Kenya through document and empirical reviews of previous literature through research survey design where stratified random sampling was applied. The study results affirmed that, lending rates eagerly influenced loan repayment; higher lending rates were likely to lead to credit default by the borrower, while loan lending rates accelerated loan repayment by the borrower.

Kjosevski and Petkovski (2020) conducted a study in South Africa on how lending rates acted on loan repayment default in West African States through ordinary least square method; the result indicated a trajectory of NPLs with increase in leading rates. Their analysis indicted a strong linkage between NPLs and the lending rates such that, credit advanced at a higher lending rate had a high chance of being defaulted, while the opposite is true.

Bredl (2018) conducted a study in Nigeria banks on how the loan repayment was affected by higher interest lending rates, he used descriptive research design through stratified random sampling, his studies concluded that lending rate majorly contributed to credit default in that, as the lending rates rises, borrowers with ability to pay are crippled to repay the loans and forced out of the market as their willingness to pay is thwarted by the market rates.

Mulinge (2019) studied the impact of credit policies framework in DTSs in Kenya using through census where he used the total population as the sample size. His studies note that, credit policy and loan repayment had high positive correlation. He also concluded that, when proper credit policy framework is in place, the borrower is able to afford the loan and commit to the same without defaulting.

Claesens, (2018) conducted an analysis on borrowers rating by assessing banks potential to advance credit under funds inadequacy in Islamic banking in Kenya through research survey design and applied stratified random sampling technique. Their study indicated that, credit standards criteria set a base on whether to advance credit facility or not to a potential borrower. Their study also found the security and collateral availability dictates on the loaning of credit facility to a borrower. Institution should not have so stringent credit policies that are likely to cripple the customers on loan repayment. On the contrary, the credit policies should not be too loose such that the borrower will take advantage of and become reluctant on loan repayment.

Bergbrant and Hunter (2018) investigation how loan repayment was influenced by credit policy, and how they affected the conditions influencing credit market and an enterprise

hedging activities through research survey design and also employed stratified random sampling to study the homogeneous population. The study indicated that, a firm is likely to be vulnerable to lack of adherence to credit polices thus causing the borrower to default. The study concluded that, formulated loan policy should combat any challenge that is posed by stringent and loose credit standards deployed by an entity.

Kule et al. (2020) undertook a study on how Saccos in Uganda applied credit management practices on lending and ensuring that, the borrowed money does not fall into losses through descriptive research design where stratified random sampling was adopted. The study was driven by an urgent to know the link between credit management processes and their effect on loan repayment. A very close association between credit management processes and the loan repayment resulted from the study. This implied that, for Saccos to improve on the loan repayment, proper credit management policy and process must be in place.

Zambrano, Moral-Benito and Vegas (2018) investigated the effect of lending standards adopted by micro financial institutions to prevent the occurrence borrowers default in West Africa states. Stratified Random Sampling was adopted through descriptive survey design and the findings indicated, credit standards being the major determinant in qualifying potential borrowers to lend money to, however this cannot be achieved without proper credit procedure in put in place. This ensure that, there is no risk exposure to any borrowed funds.

Summary of the Research Gaps

Based on the findings of Kavwwele, Arriemba and Eevusa (2018) on the effect of interest lending rates on non-repaid loans in commercial banks where he used research survey design and stratified random sampling, even if the lending rates are capped resulting to significance impact on the loan repayment the studies were conducted within the banking sector leaving the deposit taking Saccos outside the circle, leaving a gap for comparison purpose. Second the study under took stratified random sampling giving an allowance for margin of errors thus not likely to arrive to an accurate solid conclusion.

Studies conducted by Kjosevski and Petkovski (2020) in South Africa on how lending rates acted on loan repayment default in West African States through ordinary least square method; even though the result indicated a trajectory of NPLs with increase in leading rates. Indicting a strong linkage between NPLs and the lending, whereas, this is true the current study felt that, a study gap exist since the study was not conducted within the Kenya boundaries, therefore lacking a bases for comparison of study findings.

On the conclusion of Bredl (2018) study in Nigeria banks on how the loan repayment was affected by higher interest lending rates, the methodology used leaves a gap since there was a room for sampling error which could not have arose, if he had used census methodology, in addition the study was not conducted within the boundaries of the local country Kenya. Therefore, it may not form a reliable base for comparison purpose. Claesens, (2018) conducted an analysis on borrowers rating by assessing banks potential to advance credit under funds inadequacy in Islamic banking in Kenya through research survey design and applied stratified random sampling technique. Even though their study finding were true on how credit standards criteria set a base on whether to advance credit facility or not to a potential borrower. This researcher was of the opinion that, a study gap existed on the bases of comparability in the current study is focusing on DTSs while the Clasesens (2018) focused on Islamic banking.

Studies conducted by Kule et al. (2020) in Uganda on how Saccos in applied credit management practices on lending and ensuring that, the borrowed money does not fall into losses through descriptive research design where stratified random sampling was adopted. Even though their findings may be true, a gap existed in that, their study was outside the scope of the Kenyan boundaries where the current study is being undertaken this curtailed the basis for comparison and generalization of the study findings.

Even though the findings of Zambrano, Moral-Benito and Vegas (2018) seems to be true on their investigation on the effect of lending standards adopted by micro financial institutions to prevent the occurrence borrowers default in West Africa states. The researcher found a study gap in the fact that; their studies are not within the local scope of

Kenyan boundaries. Secondly, the authors should have gotten more results that are accurate if they had used census methodology instead of stratified random sampling technique. Third, the authors focused on the MFIs whereas the current study is focusing on DTSs, these gaps limited the researcher to compare the current study with the previous ones thus lacking a comparative bases and generalization of the study findings.

THE CONCEPTUAL FRAMEWORK

This indicates how independent variables relates to the dependent variables the formers being; interest lending rates and credit policy, while the latter is the Loan Repayment in Deposit taking Saccos.

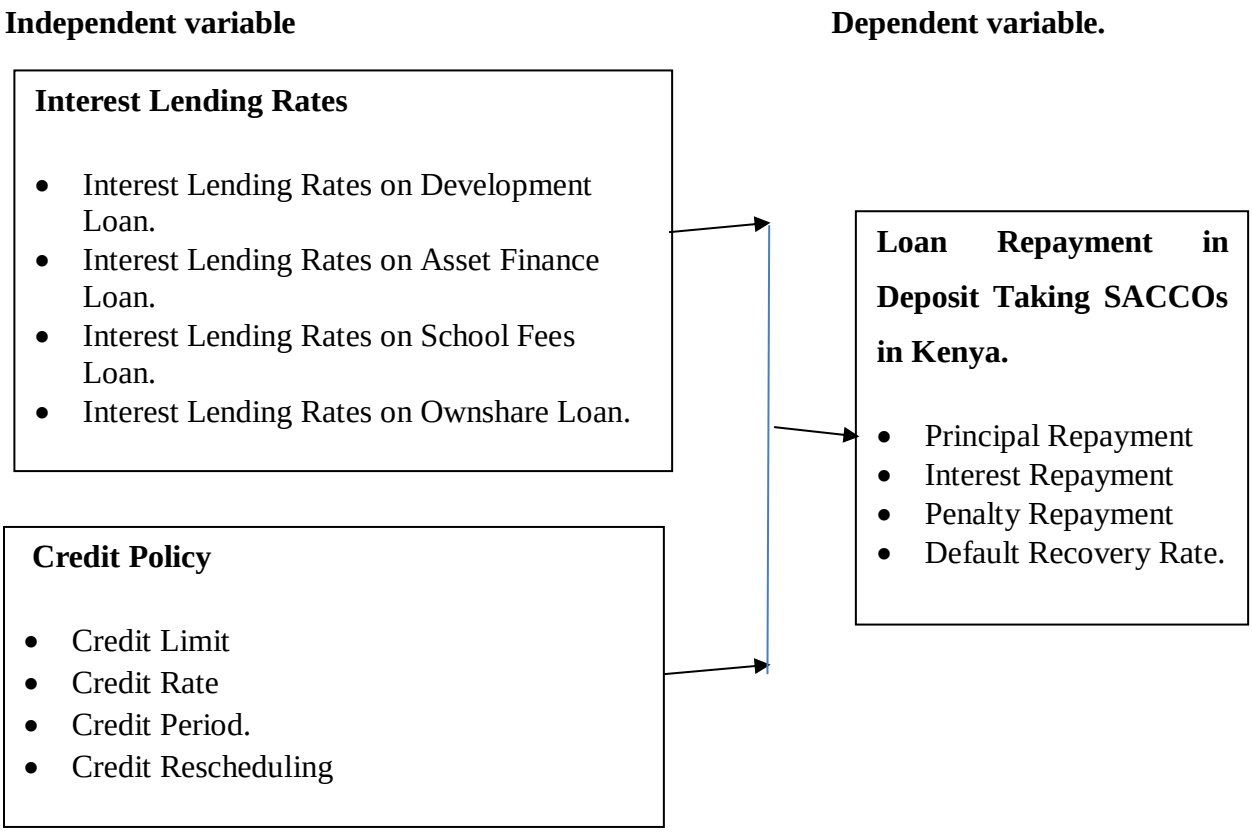

Figure 1 Conceptual Framework

RESEARCH METHODOLOGY

Descriptive study design was used as it relates to description of the characteristics of specific individual, or of a group. The target population of this study was 92 respondents which two respondents per SACCO directly linked to credit and finance department drawn from the 46-deposit taking SACCO's, in Nairobi (SASRA 2022). Primary data was collected through the administration of the questionnaires. Validity and reliability tests were carried out. Data analysis was conducted using descriptive and inferential statistics through the deployment of SPSS Model. The multivariate model was as follows;

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \mu$

Where; Y = Loan Repayment

X1 = Interest Lending Rate.

X2 = Credit Policy.

RESEARCH FINDINGS

Response Rate

The study indicated that, only 9.78% did not respond from 92 questionnaires issued, while 83 were duly filled representing 90.22% response rate. The results were presented in table 1.

Table 1 Response Rate

Response Category	Frequency	Valid Percent	Cumulative Percent
Non Response	9	9.78	9.78
Response	83	90.22	100.00
Total	92	100.00	

Source: Researcher (2023)

Table 4 and Figure 2 illustrates the respondents who were issued with the questionnaires, 92.22% were duly filled and returned as opposed to 9.78% who did not respond neither did they return the questionnaires and therefore were not analyzed. Therefore, the largest number took involvement in the survey.

RESULTS FROM DESCRIPTIVE STATISTICS

Effect of Interest Lending Rates on Loan Repayment in Deposit taking Saccos in Kenya.

The researcher, performed descriptive statistics for the effect of interest lending rates on loan repayment in deposit taking Saccos in Kenya and presented the results in table 2.

Table 2 Effect of Interest Lending Rates

Statement	N	Very Low	Low	Medium	High	Very High	Min	Max	M	S. D.
Interest Lending Rate on Development Loan is highly charged.	83	6.00%	7.80%	12.88%	45.00%	28.32%	1	5	3.83	1.113
Interest Lending Rate on Asset Finance Loan is highly charged	83	4.00%	12.88%	16.72%	39.25%	27.15%	1	5	3.76	1.100
Interest Lending Rate on Own share Loans are favorable	83	11.84%	7.48%	19.40%	40.25%	21.03%	1	5	3.52	1.253
Interest Lending Rate on School Fees Loans are highly charged	83	7.82%	9.24%	6.05%	62.42%	14.47%	1	5	3.71	1.065
To what extent does the interest lending rate affect the loan repayment in deposit taking Saccos in Kenya?	83	3.83%	13.64%	5.06%	35.26%	42.21%	1	5	4.00	1.158
Average									**3.76**	**1.138**

Source: Researcher (2023)

Table 2 illustrate the Interest Lending Rates on loan repayment in deposit taking Saccos in Kenya. The results indicates that, 73.32% (45.00 % and 28.32%) stated that, interest lending rate on development loan is highly charged. 66.40% felt that, interest lending rate on asset finance loan is highly charged. 61.28% indicated that interest lending rate on own share loans are favorable. Those who comprised 76.89% concurred to the statement that, interest lending rate on school fees loans are highly charged. 77.47% of respondents represented majority who agreed with the statement that loan repayment was affected by interest lending rates.

The above analysis indicated an average mean and standard deviation of 3.8120 1.1361 respectively this affirms that, majority agreed that, interest lending rates affected loan repayment with a quite small deviation from the mean of 1.1361, this falls in agreement from the studies conducted by Wamukota and Otuya (2021), when they linked the interest lending rates and loan repayment and arrived to the point that, the former had greatly influenced the latter; higher lending rates were likely to lead to credit default by the borrower, while loan lending rates accelerated loan repayment by the borrower.

Effect of Credit Policy on Loan Repayment in Deposit taking Saccos in Kenya.

The researcher conducted descriptive study on the effect of credit policy on loan repayment in deposit taking Saccos in Kenya and respective results presented in table 3.

Table 3 Influence of Credit Policy on Loan Repayment in Deposit Sacco in Kenya.

Statement	N	Very Low	Low	Medium	High	Very High	Min	Max	M	S. D.
Good Credit Limit is adhered to during loan disbursement	83	18.30%	6.00%	7.00%	11.00%	57.70%	1	5	3.84	1.589
Attractive Credit Rates prevails in deposit taking Saccos.	83	3.00%	16.60%	10.35%	42.34%	27.71%	1	5	3.76	1.111
Considerable Credit Period is allowed to borrowers in deposit taking Saccos.	83	3.00%	3.00%	13.36%	44.17%	36.47%	1	5	4.10	0.905
Proper Credit Rescheduling is followed in Deposit taking Saccos.	83	5.24%	6.92%	7.23%	41.22%	39.39%	1	5	4.04	1.098
To what extent does credit policies affect the loan repayment in deposit taking Saccos in Kenya?	83	11.45%	6.14%	13.34%	43.11%	25.96%	1	5	3.67	1.260
Average									**3.88**	**1.193**

Source: Researcher (2023)

Respondents comprising 68.70 % agreed that, good credit limit is adhered to during loan disbursement; respectively. 70.05% of the survey participant believed that, attractive credit rates prevail in deposit taking Saccos. 80.64% of respondents concurred that, considerable credit period is allowed to borrowers in deposit taking Saccos. 80.61% conferred with the statement that, proper credit rescheduling is followed as per the credit policy. 69.07% agreed with the statement that, credit policy affects the loan repayment.

On 5 points Likert scale respondents who comprised majority proportion agreed that, credit policy affects loan payback in Saccos taking deposits, this represented a mean of 3.88; however, there was a small deviation from the mean by 1.193 in terms of standard deviation. The above observation confers with the findings of Berggbrant and Huntter (2018) who investigated how the credit policies influenced the hedging activities in an enterprise. A firm is likely to be vulnerable to lack of adherence to credit polices thus occurrence of loan repayment default. The study concluded that, well-formulated credit policy should be able to combat any challenge that is posed by stringent and loose credit standards deployed by an entity.

Correlation Analysis

A correlation analysis on the independent and the dependent variable was conducted to investigate the influence of one variable on the other and the respective results presented in table 4.

Table 4 Pearson Correlation Matrix

Variable	Details	Interest Lending Rate	Credit Policy
Interest lending Rate	**Pearson Correlation**	1.000	0.824 0.000
Credit Policy	**Pearson Correlation**	0.824 0.000	1.000

Correlation is significant at the 0.01 level (2-tailed)

Table 4 presents the Pearson correlation co-efficient analysis. On how cost of borrowing impacted loan repayment, results of Pearson correlation indicated that the interest rate was positively correlated with credit policy with a Pearson correlation of 0.824, this showed that, Interest lending rate was significantly with credit policy.

Results of the R-Square

The researcher conducted a test on the extent to which the independent variables influenced the dependent variable in percentage terms and the respective results presented in table 16.

Table 5 Results of the R-Square

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.921[a]	0.849	0.845	0.401

Source: Researcher (2023)

In order to test the model fitness for predication purpose, the predictor variables were regressed. Table 5 indicates the results of the model fitness, which shows a value of 84.50% variation as the value of Adjusted R Square. This implies that, though there are other factors that could have caused some variation, 84.50% of the model output was accounted for by the independent factors; interest lending rates and credit policy. Meaning that, there other factors comprising 15.50% probably not covered in the study could have affected the dependent variable. According to the rule of thumb by Cooper and Schinder (2016), a lower value of R Square between 10%-20& is considered acceptable level for social research, and since the Model indicated a value of 84.50 % then we can conclude this as a strong model for prediction purpose.

Analysis of Variances (ANOVA)

Table 6 Analysis of Variance (ANOVA)

	Sum of Squares	d.f	Mean Square	F	Sig.
Regression	72.291	2	36.145	224.752	0.00[b]
Residual	12.866	80	0.161		
Total	**85.157**	**82**			

Source: Researcher (2023)

Results of regression model indicated ("a p-value of 0.00") just below acceptable alpha of 0.05, which implies that, statistical significance in predicting. Considering that, the analysis was carried out within confidence level of 95%, this indicated quite highly reliable results indicting the model being significant at F= 224.752, p=0.000.

Results from Inferential Statistics

The independent variable was regressed against the dependent variable through a regression model and the respective results presented in table 7.

Table 7 Regression Co-efficient

Variables	Standardized Coefficient				
	B	Std. Error	Beta	T	Sig.
Constant	0.474	0.172		3.328	0.001
Interest Lending Rate	-0.809	0.171	0.428	2.342	0.001
Credit Policy	0.315	0.175	0.500	2.732	0.046

Source: Researcher (2023)

Regression equation was represented as follows:

$Y=0.474-0.809X_1+0.315X_2$

Where Y= Loan Repayment in Deposit taking Saccos in Kenya

X_1= Interest Lending Rates

X_2= Credit Policy

CONCLUSION

Regression analysis results in table 7 indicates a constant of 0.474 and a coefficient of interest lending rate of -0.809 this implies that, the loan repayment remains constant at 0.474 without any influencing factors, however when regressed against the interest lending rate, there is a negative significant relationship with a co-efficient of -0.809 which indicates that, holding other variables constant, rising interest borrowing rates trigerred a unit decrease in loan repayment showing a negative relationship.

The inferential statistic indicates a ("p value less than the accepted alpha of 0.05"), when tested at 95% level of confidences (p=0.001), for this reason a significance difference existed between interest lending rates and loan repayment. These results align with those from descriptive statistics "(Mean=3.76; SD=1.138)", concurring with Wamukota and Otuya (2021), on their exploration on how the interest lending rates influenced loan repayment when they conveyed that, interest lending rates really affected loan repayment; higher lending rates lead to credit default by the borrower, while loan lending rates accelerated loan repayment by the borrower.

The results are also affirmed by Fisher Theory of Interest Rates developed by Ivy Fisher in that, financial institutions especially the deposit taking Saccos deploy interest ceilings as policy tools on lending in order to protect the borrower from high or exorbitant interest lending rates which can accelerate. In this respect, the changes in interest rates determine a negative or a positive trend on loan repayment, when the interest are favourably the loan repayment is high and vice versa.

Referring from table 17 results derived from the regression analysis indicated a constant of 0.474 and co-efficient of 0.315, which implied that, loan repayment remained at 0.474 without influence by of any of the variables, on the other hand credit policy indicated a co-efficient of 0.315 when tested at 95% level of confidence, the co-efficient of 0.315 signify a significance connection on the credit policy and the loan repayment which implied that, other variables remaining constant , a unit change in credit policy caused a corresponding positive unit change in loan repayment and vice-versa.

Results from inferential statistics indicated that, credit policy had a positive significance variation from loan repayment "(p=0.046)", when tested at 95% level of confidence. This is also affirmed by the results from descriptive statistics "(Mean=3.88; SD=1.193)" significantly agreeing credit policy largely influenced the loan repayment.

The above observation confers with Bergbrant and Hunter (2018) observations while conducting an investigating credit policy on hedging activities in an enterprise. A firm is likely to be vulnerable to lack of adherence to credit polices thus occurrence of loan repayment default. The study concluded that, well-formulated credit policy should be able to combat any challenge that is posed by stringent and loose credit standards deployed by an entity.

The results of descriptive statistics indicated that, interest lending rates had a significantly affected loan repayment by majority agreeing that, interest charged greatly affected loan repayment. Inferential statistic results showed a significance difference these aligns with descriptive statistics which indicated significance difference.

Results from the descriptive statistics in the second variable indicated that, credit policy greatly influenced loan repayment; with an average ("mean =3.88 and a standard deviation = 1.193)". These results agreed with those from inferential statistics, which indicated that, the difference was significance when p=0.046.

RECOMMENDATIONS

The initial goal was to ascertain the influence of interest lending rates on loan repayment in deposit taking Saccos in Kenya, the descriptive and inferential statistics indicated a strong link between the loan payback and the interest lending rate. Descriptive statistic suggested that, lending had a significant impact on the loan repayment, while the results of inferential statistics "(p= 0.001)" indicated that, a significance difference between the same. Conclusively the researcher recommended that, the deposit taking Sacco ought to keep on

reviewing the interest lending rates in order to be favourable to the borrowers and to cut down on loan repayment default.

The researcher also based his recommendation on the second objective and the conclusion of the study. Descriptive statistics results "(Mean=3.88; SD=1.193)" this shows quite high significance relationship. Inferential statistics results "(p= 0.046)" also affirmed the same by showing a significance difference. Deposit-taking Saccos should continue with the same culture and even make them more favourable to attract potential borrowers. However, even if this is the case, it should not be left to the discretionally of management to override the policy for their own personal interest, the audit function should venture in for control purpose.

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