

Effects of Credit Uptake on Performance of Commercial Banks in Kenya.

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Abstract

The interest rate capping law targeted to limit the volume of interest rates charged on lending by financial institutions. In Kenya, the capping of lending rate was effected in 2016, September from protests from financial institutions among them the International Monetary Fund (IMF). The main aim of the Kenyan government in introducing the capping on the rate charged by banks was to escalate the financial inclusion among consumers so as to increase the amount of loans disbursed by the commercial banks. Before interest rate capping, financial institutions generated abnormal profits by high interest rates they charged customers. The general objective of the study was to establish the effect credit uptake on performance of commercial banks. This study was guided by loanable fund theory, theory of rational expectations, and liquidity preference theory. The population for this study consisted of the current Equity bank branch staff and complete census study was carried out. The main findings of the research were that interest rate capping decreased credit uptake led to a reduction in the number of approved loan facilities, increased selection criteria for new loans and had an effect on increase in non-performing loans Regression analysis model revealed positive and significant correlation between the credit uptake with the banks performance, The study recommended for the banks to improve on the loans criteria selection to increase uptake since it was revealed to have an effect on bank performance. The study further recommended for further study to be done using regional perspectives with extended time periods to establish the effect of interest capping in different regions in the country.

Key Words; *credit uptake, interest capping, liquidity preference theory*

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I. Introduction

Background of the study

A profitable banking sector is always in a good position to perform its functions hence; a profitable banking sector makes a great foundation to the stability of the financial system in the economy of any given country. On the other hand, a non-performing financial sector may lead to a failure in the banking sector and therefore crisis in the growth of the economy. The government uses diverse procedures of financial control among them being the interest rate capping. However, financial control has been declining over years as most of the developed and developing countries have continued to effortlessly ease up their financial policies.

According to Kavwele, Ariemba and Evusa (2018), financial institutions generate abnormal profits by high interest rates they charge customers and at the same time the government has not achieved its aim of growing the economy and this is due to lack of interest rate capping. This capping of interest rates according to Al-Muharram (2015) distorts the market system and leads to biasness whereby financial institutions lend only to low-risk customers thereby locking other customers from financial access which also affects growth of these financial institutions. This leads to discrimination of such kind lock customers who are in dire need of the financial support since financial institutions classify them as high-risk (Wong & Reddy, 2018). Rate capping as opined by Ferrari, Masetti, and Ren (2018) results in minimal lending, opaque loan pricing, and minimal loan approval rates. These authors also established that more than 76 nations worldwide did utilize interest rate caps with scope of capping varying from a country to another.

According to Samuel Maimbo & Gallegos (2014), the financial crisis of 2008 revived the debate on interest rate caps as a tool for consumer protection. The financial wrangles of 2008 that kicked off in United States and which spread in the whole world, noted the critical roles which financial institutions take in the

economy of the whole world. As a result of the 2008 financial crisis, countries like Japan introduced more restrictive caps.

The interest rates on loans have been capped in several nations in sub-Saharan Africa. Many modifications have been made to South Africa's interest rate regulations (Samuel & Claudia, 2014). In 1993, the usury legislation was passed, removing minor loans from interest rate caps. The interest rate capping was re-imposed on the small loans with a cap of five percent per month on short term loans through the National credit act which took effect in 2007. Interest rate caps can be introduced for different reasons such as economic reasons or the political reason. According to the Office of Fair Trading (2010), interest rate limits may be a useful strategy to restrict access to credit facilities for low-income customers who are financially disadvantaged since they keep them away from social damage.

It was established that 24 countries by World Bank study in 2014 in Sub-Saharan Africa had interest rate controls, of which eight were from West African Economic and Monetary Union (WAEMU). In 1997, WAEMU's interest rate limit was 18 percent, and in 2013, it was lowered to 15 percent for banks (Siriba, 2019). Usury rules targeting small loans were first repealed in South Africa in 1993, but in 2007 they were reinstated with a monthly limit of 5 percent. In 2013, Zambia introduced a 9 percent interest rate limit over the central bank's policy rate.

In Africa about 17 countries did introduce legislation on interest capping and this resulted to reduction of growth of financial institutions initially from 39% to 14%. Legislation of interest rate capping was introduced in the year 2013 in Zambia with capping of microfinance institutions at the rate of 30 percent while commercial banks being capped at 42 percent (Khandker, Samad, & Ali, 2013). This legislation of interest capping had a negative effect on commercial banks which made various banks to look for legal means to abolish laws which made borrowing to consumers very expensive. Zambia did scrap this legislation of interest rate in 2015 due to negative effect on financial institutions in Zambia (Wambua, 2018).

Ng'ang'a (2017) said that the regulation of interest rates resulted in a decrease in the performance of banks. Interest rate limiting has an impact on the banking sector in a number of ways. For example, the Central Bank of Kenya (CBK) stated in 2017 that 59 percent of banks believed that interest rate regulation had an impact on their performance in terms of profitability and loan growth. According to the results of the CBK, small banks' Return on Equity (ROE) and Return on Assets (ROA) decreased to 19.8 percent and 2.3 percent, respectively. Further restriction of interest rates led in rationing of credit to micro, small, and medium-sized enterprises (MSMEs), which resulted in a 0.4 percent reduction in the country's economic growth as of 2017. (CBK, 2018).

Commercial banks mobilize money from depositors and transfer those monies to borrowers, who in turn invest the funds they have borrowed in a variety of key sectors of the economy, according to the Bank of England. In actuality, financial institutions assist the transfer of money from depositors to borrowers through facilitating the circulation of funds (Ongore, 2013). Banks strive to earn sufficient revenue to cover the operating costs incurred in the course of facilitating the transfer of funds between borrowers and depositors, which is known as intermediation. The difference between the interest rate that banks pay to depositors and the interest rate that they charge borrowers is the primary source of income for banks.

Cost of funding, overheads, non-performing loans, and earnings were identified by Howard (2013) as the four components of a bank's interest rate, as opposed to other variables. The interest rate is the percentage of a loan that is charged to the borrower as interest, and it is usually stated as a percentage of the loan's outstanding balance on a yearly basis. It said to be the main income generating in form of revenues for the commercial banks. It also impacts greatly the economic growth and performance of any county. The improved performance and profitability ensure continued rewards to the shareholders and the investors, encouraging them to invest more therefore boosting the growth of the economy.

The government through the CBK introduced the interest rate capping in order to protect the credit consumers from the exorbitant interest rates offered on by the commercial banks and on the other hand to increase the number of loans uptake. However, this affected the commercial banks negatively as the banks introduced rules that are more restrictive and the collaterals and only the customers with high levels of security can get financed while the clients with less are left out. (Miller, 2013). The consumer survey carried out in 2017 by Kenya Bankers Association (KBA) did recommend this law to be repealed as a result of lack credit growth with reduced growth of credit in the private sector at single digit levels of 4% which does affect economy negatively (Musyimi & Kising'u, 2018).

Due to the increased default rate by the borrowers, the banks protect themselves on default risk brought about by the lending elements through fixing the appraising of credit facilities to the possibility of repayment failure in that high risky unsecured credit facilities attracted high interest rates than lower risk unsecured credit facilities offered to borrowers' good credit worthiness. According to (Horcher, 2006) the high risk of default corresponds to higher interest rates.

The banking sector in Kenya has for the decade witnessed drastic changes (Irungu, 2013). The rise in profit making in the banking sector was found to be growing as opposed to the decreased access to credit in Kenyan economy. This situation triggered a debate by the legislative arm of the government and the general public on control of interest rates charged by commercial banks to the borrowers.

The members of Parliament tabled the bill to cap the interest in Kenya in August 2016. The amended law capping interest rates came into effect in September 14th 2016 after it was signed by the president in August, setting limits on lending and deposit rates. It put the ceiling of lending at four percent above the CBR; and the lowest rates on fixed deposit accounts which earns interest rates to at least seven per cent of CBR.

The revised banking Act (Section 33B) was aligned with the CBK Act Section 36(4), the central bank set the CBR as the base rate. The amendment was however not the first attempt to introduce the capping as well as to control the interest rates. There was an attempt to amend the CBK rates Act in 2001, proposing the loan interest rates to be put at four percent above and below the 91day Treasury bill rate leading to 8% interest rate spread. Despite the negative impact associated with interest rate capping, the financial report of Equity Bank Limited showed that despite the interest rate capping, the bank's deposits grew by 11 percent from KES 303 billion to KES 337 billion (Maigua & Mouni, 2016). This study therefore aimed to establish indeed if aspects of interest rate capping in terms of credit uptake, non-performing loans and staff layoff have an impact on performance of commercial banks in Kenya.

Statement of the Problem

The major source of income for commercial banks comes from interest of loans disbursed and thus capping of interest rate is seen to negatively affect existence of the banking sector. Despite the fact that there have been studies that have investigated the impact of interest rate on bank's financial performance, among them (Onaya & Maniagi, 2020; Ng'ang'a, 2017; Kiseu, 2017), these studies have used correlation analysis, whereas this study will use regression model to establish relationship between the study variables, unlike the previous studies. Further none of these studies investigated the effect of these study variables (credit uptake, non-performing loans and staff layoff) on performance of commercial banks and thus this study intends to fill this gap.

Empirical research have shown a conflicting and inconclusive link between interest rate limiting and commercial bank financial performance. Meja (2017) conducted research on the impact of interest rate limiting on the number of personal loans issued by commercial banks, and the results showed that the legislation boosted the amount of personal loans disbursed. Ng'ang'a (2017) conducted research on the effect of interest rate limiting on the financial performance of Kenyan commercial banks, concluding that interest rate capping had a detrimental impact on Kenyan commercial banks. Okwany (2017) investigated the impact of interest rate limiting on commercial banks' operational performance metrics in Kenya and found that interest rate capping decreased credit intake, increased non-performing loans, and reduced profitability. As a result, the purpose of this research was to determine the nature of the connection between credit uptake, non-performing loans, and layoffs at Equity Bank.

Research Objective

The general objective of the study was to investigate the effect of credit uptake on performance of commercial banks in Kenya, specifically Equity Bank.

Scope of the study.

The study aimed to assess interest rate capping on performance of commercial banks in Kenya by focusing on Equity Bank Kenya Ltd. Interest rate capping would only be restricted to credit uptake, non-performing loans and staff layoff as there were other variables associated with it. Due to time constraints this study was done at Equity banks branches in Nairobi County as the bank has other various branches in other 46 counties all over Kenya. Since there are various theories that are tied to performance of financial institutions, this study only discussed loanable fund theory, theory of rational expectations, and liquidity preference theory. The time scope for data was done for the financial year 2020. The scope of the study was limited to the banking sector as this sector is well regulated by the Central Bank of Kenya (CBK) which also regulates the interest rate in the country.

II. Literature Review

Theoretical literature review

Liquidity preference theory

It was in his book "The General Hypothesis of Employment, Interest, and Money" published in 1936 that John Maynard Keynes first proposed the liquidity preference theory. Keynes created the theory to explain the determination of interest rates by supply and demand via three distinct money motivations, each of which

was developed independently of the others. Hicks (1939) found that, in conjunction with a constant supply of money, liquidity preference was the most important element in determining the interest rate in the market. That is, the transactional incentive, as well as the preventive and speculative reasons, are all present.

The desire for money or the requirement for cash for current transactions in both individual and corporate exchanges is referred to as the transaction motivation. In order to bridge the gap between the receipt of income and the expenditure of money, individuals maintain a cash reserve of some kind.

The cautious motivation for keeping money refers to the desire to have money on hand in case of unexpected events. Individuals, on the other hand, will not be prepared to keep money if the profit on interest is sufficiently great (Keynes, 1936). Individuals and businesses keep money in reserve in order to avoid market circumstances that are unfavorable or to profit from anticipated business agreements that are favorable.

In contrast, keeping cash for the purpose of taking advantage of future changes in interest rates or bond prices is referred to as speculative motivation. Bond prices may fall substantially, presenting a good investment opportunity with potentially lucrative returns on investment. The speculative motivation for money is reduced by high interest rates, according to John M.K., while the speculative drive for money is increased by low interest rates. Long-term assets are in great demand among investors, who seek large interest rates. This is due to the fact that long-term securities have a high-risk money motive since they cannot be converted into cash as fast as short-term assets when other lucrative chances emerge, as opposed to short-term securities.

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This theory has been criticized in that it is narrow based to explain the rate of interest since it unduly treats interest rate as the price necessary to overcome the desire for liquidity. The strength of this theory is that it shows the relationship between the motives of people with income and interest rates whether transactions motive, precautionary motive or speculative motive.

III. Empirical Literature

Credit uptake in relation to interest rate capping.

Credit loan is a facility granted to customers in pursuit of investing it somewhere it is needed.

The main reason for the credit facility is to bridge the gap between the assets owned and the capital required for the smooth running of the business. The existence on imbalance create the demand for credit. The credit demand falls under potential, revealed and perceived demand. According to Aryeetey, (1994), a perceived demand is felt when the investors experience a financial constraint in their investment and are in dire need of cash.

The intention of the government when it effected the interest rate capping was to attract more borrowers at lower interest on loans. However, many financial institutions decreased the lending by tightening the credit issuing standards hence denying the borrowers mortgage funds. The banks concentrated on the less risky funding especially the government securities.

Most of the banks indicate that interest rate capping has affected their lending negatively. The immediate uptake of interest rates capping has resulted to several commercial banks have recorded a drop in their lending. According to Guguyu (2017) the commercial banks have been pressurizing the government to withdraw the interest rate controls since they have reduced the credit lending to the private sector and as a result, they have failed to increase saving is it had been intended.

From the evidences found in most cases on countries which employ interest rate cap on loans, the effects were negative but in USA, some countries posted some positive outcomes. According to Miombo and Gallegos (2014), financial institutions in South Africa avoided caps by charging for credit life insurance and other services. This would decrease the transparency of the entire cost of credit for the consumer.

Ellison and Forster (2006) conducted a study on the economy of Japan, which has the longest history of interest rate control among major economies. They found that capping interest rates below the prevailing market rate reduced the supply of credit to borrowers, reduced the number of loans accepted by banks, and increased the level of illegal lending in the economy. After doing research in Europe, Ellison and Forster (2006) came to the conclusion that interest rate capping has an effect on a variety of loan facilities offered by commercial banks to low-income customers. Low-income individuals were excluded from bank loans as a consequence of Germany's interest rate limit, which was implemented in response to the capping of interest rates.

Following up on their findings in 2003, Helms and Reille (2004) discovered that the introduction of interest rate caps on microfinance loans caused microfinance institutions to withdraw from poor and remote

areas while increasing the average size of loans to improve the efficiency and returns. This was due to the fact that the interest rate ceiling was considered to be extremely low.

Equity group recorded a drop of 4 percent to 16.5 billion profit for the fiscal year ended 31st December 2016. The establishment of ceiling on interest rate had impeded the business environment making it hard to evaluate some of the borrowers such as SMEs.

Nkwoma (2014) posits that interest rates capping in Tanzania and Nigeria influenced the performance of the banks as the stock prices improved

Conceptual Framework

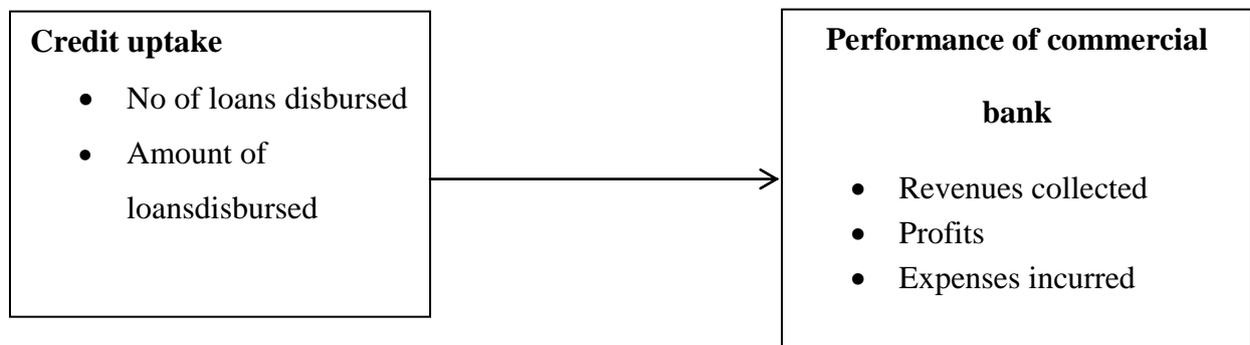


Figure 1: Conceptual Framework

Research Design

It was decided to use a descriptive survey approach for this research. The design establishes a link between the study's questions or objectives and the data gathered. Survey designs result in a data description, which may be expressed in words, images, charts, or tables, depending on whether the data analysis demonstrates or is just descriptive in nature. A research design is a strategy or structure that guides the conduct of a study. The technique is chosen because it enables for data to be gathered from respondents in their natural environment (Mugenda & Mugenda, 2010).

Target Population

As defined by (Sekaran, 2010), a population is defined as the set of units from which a sample is to be drawn. Schindler and Cooper (2006), on the other hand, defined a population element as a person participant or an item on which a measurement is performed, respectively. The entire collection of components about which the researcher wants to make reference for the study is referred to as the population (Cooper & Schindler, 2008). This study targeted 105 Equity Bank branch employees in Nairobi's central business district.

Sampling Procedures and Techniques

The study adopted census for data collection. This being a census, there was no sampling and therefore all bank staff targeted participated in this study as respondents

Research Instruments

Questionnaire and interview were the main data collection tools. Since this was a census study, questionnaire was self-administered to all operation managers, credit managers and credit officers from branches and then an interview was conducted to the regional credit manager.

Data Analysis Techniques and Procedures

Response Rate

Out of total of 105 questionnaires issued, 105 responses were received from various banks departments which represented 100% response rate achievement. The high response rate was attributed to the good relationship created with the senior management team, and the follow-up method that was employed by the researcher.

Reliability Test

A pilot study was conducted to pre-test the tool used in data collection. Ten questionnaires were administered to 10 respondents randomly selected from the credit team of Kenya commercial bank in Eastleigh branch Nairobi County. An internal consistency was done using Cronbach's Alpha to measure how well the items were correlated to each other for all the questionnaires issued to pilot respondents. The rule of the thumb for

Cronbach Alpha is that the closer the alpha is to 1 the higher the reliability (Sekaran, 2003) and a value of at least 0.7 is recommended. Table 1 shows the findings obtained.

Table 1: Summary of Cronbach's Alpha Reliability Coefficient

Variable	Cronbach's Alpha	No of Items
Credit uptake	0.992	7

From the results the findings indicated that credit uptake had a Cronbach Alpha of 0.992. This implies that all the measures had Cronbach Alpha values greater than 0,7 an indication that the data collection instrument was reliable and acceptable for the purposes of the study.

Respondent Demographic Information

This section presents the general information obtained from the research. The demographic information was collected because it enables determination of whether the study participants are representative of the target population. Information on demographic variables namely gender, Age, education levels, working experience and department attached to in the hospital.

Gender of Respondents

The study sought to establish the gender representation in this study. The results of the participants' gender are indicated in Figure 2.

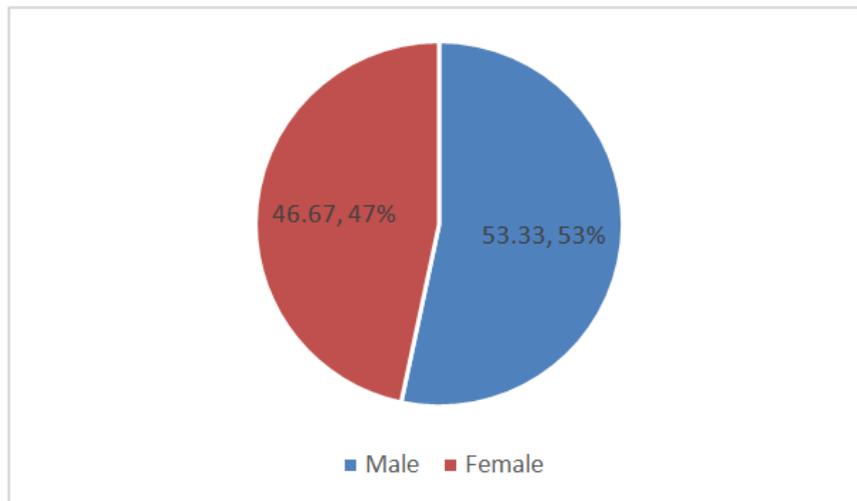


Figure 2: Gender of Respondents

Figure 4.1 above shows that 53.33% of the respondents were male and 46.67% were female. This indicate that majority of the branch, operations, credit managers and credit officers in Equity Bank Nairobi region were male. the gender balance was catered for so the responses were not gender biased.

Age of Respondents

The study sought to establish the ages of the respondents and the findings were as shown in Figure 3.

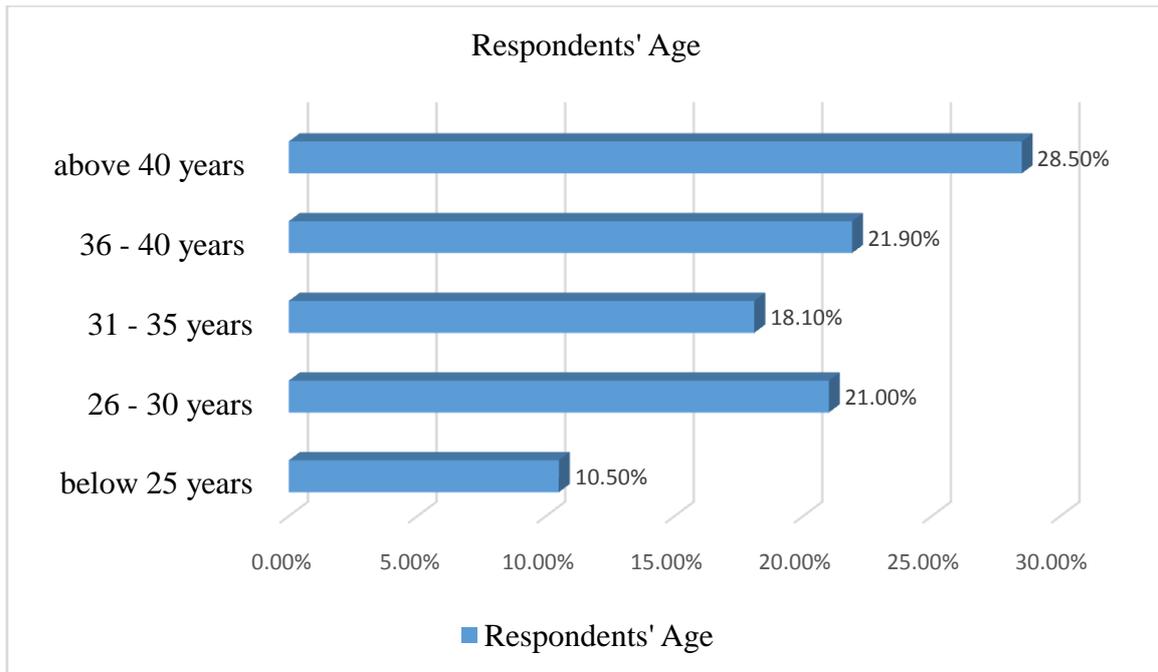


Figure 3: Age of Respondents

Findings in figure 3 above revealed that the respondents aged below 25 years represented 10.5%, while those aged between 26 -30 years representing 21.0%, while those aged between 31-35 years representing 18.1%, 36 - 40 years was represented by 21.9%, and those above the age of 40 years represented by 28.5% as indicated in Figure 3. This implies that the Bank has majority of relatively young employees who are able to steer the bank into the future and they were at an age to give desired information by the researcher.

Level of Education

The study sought to establish the respondents highest level of education and the result of the items are indicated in Figure 4.

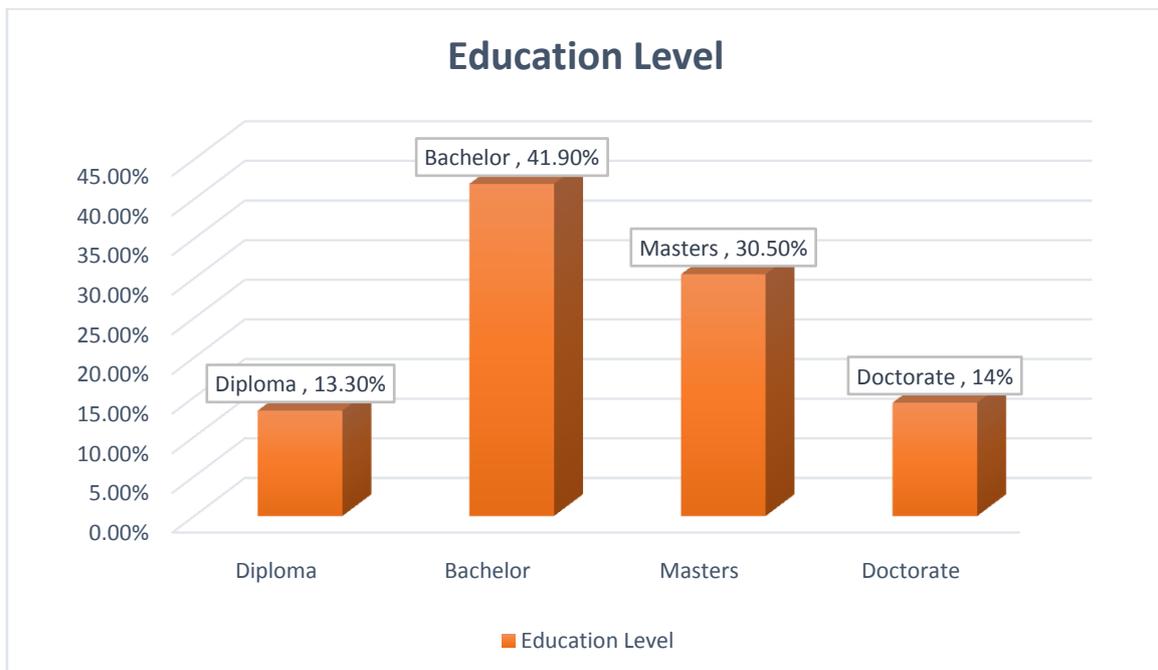


Figure 4: Respondents' Level of Education

Findings in Figure 4 above show that most of the staff are holders of undergraduate degree representing 41.9% of the respondents. There were 30.5% bank officials with master’s degree, 13.3% with diplomas, and 14.3% had doctorate degrees. This finding that majority of the respondents have undergraduate degree indicates that Equity Bank has made significant progress toward human capital development. The availability of skilled personnel in the Bank has a positive impact on the effectiveness and efficiency of service delivery.

Years in the Organization

The study sought to establish the number of years the respondents had been with the Bank and the findings indicated as shown in Figure 5.

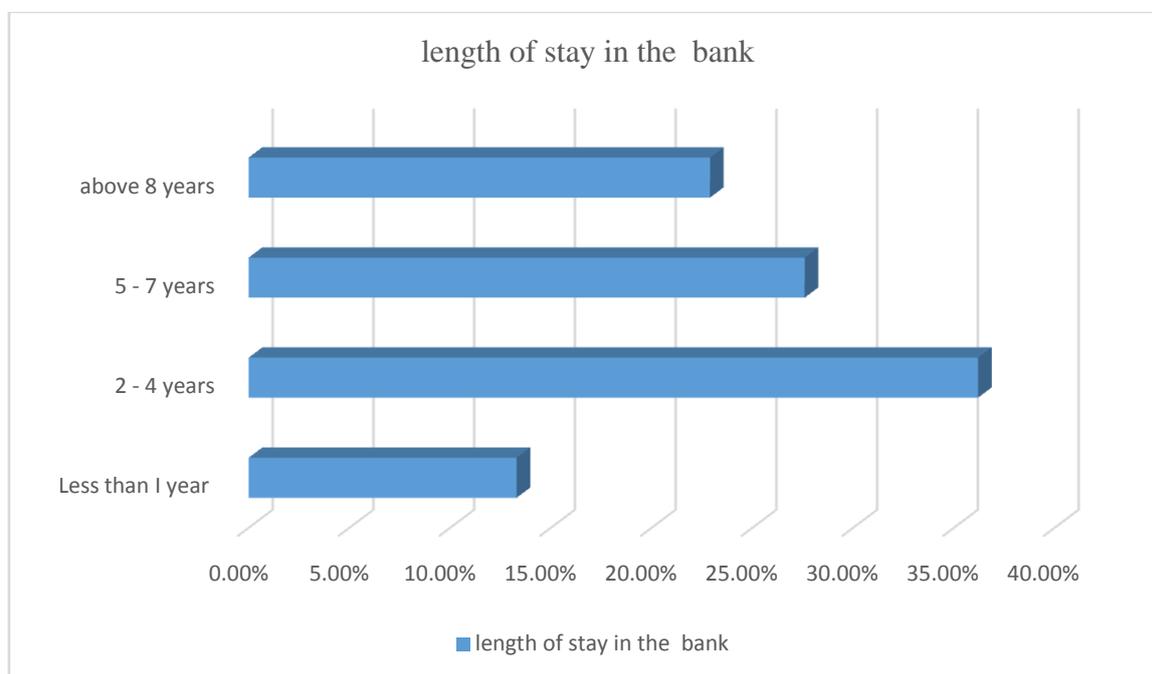


Figure 5: Years in The Organization

Figure 5 showed that the respondents who had worked for 2– 4 years represented 36.2%, those who worked for 5-7 years represented 27.6%, while those who had worked for more than 8 years represented 22.9% of the respondents. However, those who worked for less than one year represented 13.3% and majority were credit officers in different bank branches. This implies that majority of the respondents had worked for more than 2 years making them proper candidates for the study.

Descriptive Analysis of Study Variables

The main objective of the study was to investigate the effect of interest rate capping on performance of commercial banks in Kenya, a case of Equity Bank. Through literature review the study intellectualized three main variables: credit uptake, portfolio of non-performing loans and bank staff layoff as independent variables and bank’s performance as the dependent variable. These variables were measured by different components of the variables and quantified using a five point Likert scale as well as open ended questions.

Effect of Credit Uptake on Performance of Commercial Banks.

The study first objectives sought to investigate the effects of credit uptake on performance of commercial banks in Kenya. Descriptive statistics regarding the credit uptake on performance is presented in Table 2.

Table 2: Credit Uptake on Banks Performance

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The bank had many borrowers before the capping of interest rates	105	1	5	4.05	1.041

The number of approved loans have increased since the law came into effect	105	1	5	3.99	1.105
The requirements for new loans have increased since the law came into effect	105	1	5	4.17	1.004
The interest rate capping law has increased the number of customers accessing credit	105	1	5	4.19	.982
More customers are turning to informal lending since the law came into effect	105	1	5	4.02	.915
The bank's liquidity has improved since the interest rate cap law came into effect	105	1	5	4.16	1.051
The bank has slowed down on lending since the law came into effect	105	1	5	4.56	.917
Valid N (LISTWISE)	105				
Composite Mean and Std. Deviation				4.163	1.002

Results in Table 2 established that the respondents agreed with all the statements used to describe the effect of credit uptake on performance of the commercial banks as indicated by a composite mean of 4.163 and a composite standard deviation of 1.002 indicating that their responses were close. The study established that the respondents agreed that the bank had many borrowers before the capping of interest rates as indicated by response mean of 4.05 and a standard deviation of 1.041, on whether the law reduced the approval of new loans, the study established that the respondents agreed that the number of approved loans had increased since the law came into effect supported by response mean of 3.99 and a standard deviation of 1.105. The study noted that respondents agreed that the requirements for new loans have increased since the law came into effect as indicated by response mean of 4.17 and a standard deviation of 1.004, however, this did not decrease the number of borrowers as supported by respondents' agreement on the construct that the interest rate capping law has increased the number of customers accessing credit a response with a mean of 4.19 and a standard deviation of 0.982.

The study also established that more customers are turning to informal lending since the law came into effect as indicated by a response mean of 4.02 and a standard deviation of 0.915, this signal a decrease in performance if the clients opt not to take the facility from the commercial banks. The study further established that the bank's liquidity has improved since the interest rate cap law came into effect as indicated by responses mean of 4.16 and a standard deviation of 1.051, on the bank slowing in lending the respondent strongly agreed that the bank has slowed down on lending since the law came into effect as indicated with the responses mean of 4.56 and a standard deviation of 0.917, this may be attribute to bank reduction in offering unsecured loans to individuals and organizations as it was indicated by the key informant. .

The study findings were similar to those taken by Okwany (2017) that argued interest rate capping reduces the number of new borrowers due to strict regulations by both regulators and the bank. The study also established that interest rate capping increases the selection criteria. Aliam (2016) did an empirical studies and established that interest rate capping leads to enhancement of selection criteria in loans to avoid default and credit risk. Loan selection involves an appraisal process that may involve several stages in which a customer is assessed on eligibility for the loan requested. The study findings were also similar to Mughal and Freda (2015) that indicated that banks lend to fewer borrowers and majorities are locked out forcing them to opt for informal lending and this affect banks performance. This support the argument of Jane and Meul (2014), that interest rate caps lead to banks increasing other bank charges as they seek to have insurance for the lost income through low interest rates. The study also found correlation between increase in informal lending and interest rate caps as people seek alternative access to credit having been denied access to credit through formal lending institutions.

Correlation Analysis

Correlation analysis was conducted to find out the strength of relationships between the independent variables (credit uptake,) and the dependent Variable (performance). Pearson correlation analysis was performed to determine the association between the variables. The results were presented in Table below.

Table 3: Correlation Analysis on the Relationship Between Interest Capping and Banks Performance

		Credit uptake	Portfolio of non-performing loans	Staff layoff
Credit uptake	Pearson Correlation	1	.347*	.332*
	Sig. (2-tailed)		.024	.032
	N	105	105	105

*. Correlation is significant at the 0.05 level (2-tailed).

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

The findings reveal that credit uptake had a positive and significant correlation with the banks performance ($r=0.588$, $p=0.000$) at 0.001 significance level. The results were consistent with the results of Gichuki *et al*, (2018) who realized a positive and significant relationship between credit uptake and Banks financial performance among the banks listed on the Nairobi Securities Exchange.

Linearity Test –ANOVA Test

ANOVA test was used to determine of how well the observed data fit in the model. The results obtained are summarized in Table 4:

Table 4: Results for linearity test-ANOVA test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.529	3	.906	6.572	.000 ^a
	Residual	3.722	102	.138		
	Total	8.251	105			

a. Dependent Variable: Bank performance

b. Predictors: (Constant), credit uptake, portfolio of non-performing loans, staff layoff

The ANOVA test results on Table 4 show an F value of 6.572 and p value of 0.000 ($P < 0.05$) for model, it is therefore concluded that the overall ordinary regression model fit significantly. This implies that the coefficients derived can be substituted in the ordinary regression model.

Multiple Regression

The study analysed the overall effect of credit uptake on performance of commercial bank in Kenya using ordinary least square equation. using multiple regression equation. Table 5 shows the overall models summary results.

Model summary

Table 5: Model Summary Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.741 ^a	.549	.465	.37128	.549	6.572	5	27	.000

a. Predictors: (Constant), credit uptake, portfolio of non-performing loans, staff layoff.

The results for model show that the interest capping has strong relationship with the Bank’s performance ($R = 0.741$, $R^2 = 0.549$). This indicate that 74.1% of the performance of the commercial banks could be explained by interest capping components (credit uptake, portfolio of non-performing loans, staff layoff). This shows that 25.9% of the performance of the commercial banks can be explained by other factors, other than the interest capping.

Coefficient of Determinant

The multivariate regression equation took the form:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

In the equation, Y denoted performance of Commercial Banks, β_1 denoted the regression coefficients, β_0 denoted a constant while X_1 = Credit uptake, and ε = Error. The results of regression analysis are highlighted in Table 5.

Table 6: Regression Results on Interest Capping and Bank's Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
(Constant)	2.017	1.661	-.052	.135	1.215	.000
Credit uptake	.328	.131			-.362	.003

Results in Table 6 shows regression weights of credit uptake. The t values and p values are also indicated. Ordinary regression model was used in analysis of the effect of interest capping on performance of commercial banks. The coefficients obtained from test are substituted in ordinary least square model used give model that follow:

$$\text{Performance (Y)} = 2.017 + 0.328 \text{ credit uptake}$$

The results indicated in the model indicate that for every unit percentage increase in credit uptake (X_1) there is 32.8% increase in bank performance (Y).

IV. Summary of the Results

Credit Uptake

The study first objectives of the study sought to investigate the effects of credit uptake on performance of commercial banks in Kenya. From the findings the respondents agreed with all the statements used to describe the effect of credit uptake on performance of the commercial banks as indicated by a composite mean of 4.163 and a composite standard deviation of 1.002 indicating that their responses were close. Specifically, the study established that the respondent strongly agreed that the bank has slowed down on lending since the law came into effect as indicated with the responses mean of 4.56 and a standard deviation of 0.917, this may be attribute to bank reduction in offering unsecured loans to individuals and organizations as it was indicated by the key informant. The study also revealed that the bank had many borrows before the law was effected as demonstrated by the responses mean of 4.05 and a standard deviation of 1.041. this was also supported by the key informant who indicated that after the law was effected a number of the borrowers were not able to meet the conditions.

The study also established that more customers are turning to informal lending since the law came into effect as indicated by a response mean of 4.02 and a standard deviation of 0.915, this signal a decrease in performance if the clients opt not to take the facility from the commercial banks. This was mostly due to the introduction of the collateral which majority of the individual borrowers and new institutions could not afford.

The findings reveal that credit uptake had a positive and significant correlation with the banks performance ($r=0.588$, $p=0.000$) at 0.001 significance level and that the model indicate that for every unit percentage increase in credit uptake there is 32.8% increase in bank performance

V. Conclusion

The study established various concerns on credit updates that affect bank performance namely: decreased number of borrowers, increased selection criteria for new loans, increased informal lending and slow lending of loans. The positive effect of interest rate capping on bank performance in the study was improved bank's liquidity, increased number of approved loans

Any law implemented by the government should be of benefit to the organizations or institutions concerned. From the study it can be concluded that interest rate capping did not lead to increased credit uptake despite the lower and controlled cost of credit even through this was among the key considerations made and effects desired when the law came into effect, this may affect the performance of the bank negatively in one way or the other. In this regard, a review of the rate cap law is considered necessary to evaluate the effects it is having on lending including and the wider consequences to the economy.

VI. Recommendations

The findings of this study show that the credit uptake which is the main source of revenue for the bank performance did not do very well with the introduction of the law which indicate unfavourable performance on the side of the bank. The number of the new borrowers reduces and others opting to seek help from other lenders, though there has been an increase in the credit request the criteria does not allow all to qualify. The study recommends the banks to improve on the loans criteria selection to increase uptake

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