

FACTORS CONTRIBUTING TO LOAN DEFAULTING AMONG SAVINGS AND CREDIT SOCIETIES IN KIRINYAGA COUNTY, KENYA

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ABSTRACT

The specific objectives of this study was to establish the effect of loan appraisal system to loan defaulting by Sacco client, to establish the effect of management skills to loan defaulting, to establish the effect of loan policy to loan defaulting and to establish whether poor loan use contributed to loan defaulting. A descriptive research design was employed in the study. Random samples were drawn from all credit managers and clients in the selected Sacco's from Kirinyaga County strata which formed the sampling frame. A proportional approach to sampling was utilized within the strata. A total of 30 credit managers and 383 Sacco clients were picked through simple random technique for each stratum using a table of random numbers. Quantitative data was collected from the respondents. Statistical Package for Social Scientists (SPSS) version 19 was utilized to do the regression and correlation analysis with a 0.05 level of significance. The data collection instruments, questionnaires were distributed to the credit managers and the clients from the selected Sacco's in Kirinyaga County. The response rate was 92%.The data collected was presented in form of tables, pie charts, cross tabulations, correlations and figures. From the study, it was found that loan appraisal system related well to loan defaulting. Where poor loan appraisal was done, it resulted to loan defaulting. It was also found that the management skills also related well to loan defaulting. Where the management applied poor skills it resulted to loan defaulting. Loan policy related well to loan defaulting. Where poor loaning policy was applied, it resulted to loan defaulting. It was also found that loan use related to loan defaulting. When the loan granted was diverted to other uses other than investing in income generating projects, it resulted to loan defaulting. The results from this study

showed that loan appraisal system, management skills, loan policy and loan use have a relationship to loan defaulting. The major contributors to loan defaulting were poor loan appraisal system, poor management skills, poor loan policy and poor loans. These can be controlled and avoided if only the Sacco was under good supervision. The researcher recommended the Sacco's to formulate a comprehensive loan appraisal system and train the credit officers on how to use it effectively to reduce loan defaulting.

Keywords: Loan Appraisal, Management Skills, Loan Policy, Loan Use and Loan Defaulting.

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