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# Credit Rationing Practices and Financial Performance Of Commercial Banks In Kenya.

**Mary Jebiwot Kibet[1], Dr.Ruthwinnie Munene[2]**
*1. Jomo Kenyatta University of Agriculture and Technology,.*
*2. Lecturer, Jomo Kenyatta University of Agriculture and Technology,*

**Abstract:** The study sought to examinethe effect of credit rationing practice on the financial performance of commercial banks in Kenya.The study was based oncredit rationing theory.A descriptive research design was used for this study.The study targeted one credit manager in the 39 commercial banksin Kenya. The sample size was 39 respondents and the census was to select all the respondents. Both primary and secondary data were collected primary data was collected through structured questionnaires while secondary data was collected from financial statements of commercial banks and central bank annual reports. Statistical Package for the Social Sciences Version 25 was used for the analysisof the data. Both descriptive andinferential statistics were used to examine the data. Frequencies, means and percentages were used to analysedescriptivestatistics., Pearson's correlation and multiple regression models were employed to understand more about the relationships between the variablesin inferential statistics. Tables displayed the results of the analysis. The study resultsshowed a strongpositive statistically significant correlation between credit rationing and the financial performance of commercial banks in Kenya ($r=707; p=0.000<0.05$).From the regression analysis R Square value of 0.569, the variable predicted in the model is responsible for approximately 56.9% of the variability in financial performance,

**Keywords:**Credit rationing,Financial Performance, Loan default, Loan management practices.

## I. INTRODUCTION

### 1.1 Background

Loan management in commercial banks refers to the systematic and strategic administration of the bank's lending activities, encompassing the processes involved in approving, disbursing, monitoring, and recovering loans. It is a critical function that aims to optimize the allocation of financial resources, balance risk and return, and ensure the overall health and stability of the bank's loan portfolio. The consequences of loan mismanagement can have far-reaching implications for both individual banks and the banking sector as a whole. One significant consequence is the occurrence of loan defaults. When borrowers fail to meet their repayment obligations, it not only leads to financial losses for the bank but also disrupts the normal flow of funds within the banking system. As mentioned by Clarke and Deacon (2022), defaults on problematic loans have the potential to trigger crises within the banking sector, impacting the stability of financial institutions.

Loan management practices in commercial banks are pivotal for mitigating the adverse consequences associated with high lending default rates, as outlined by Balogun and Alimi (2020). The repercussions of defaults extend beyond individual banks, potentially impeding economic growth by inducing risk aversion and reducing lending activities. This underscores the significance of effective loan management strategies to maintain a stable lending environment and support economic development. Moreover, loan defaults can erode trust and credibility in the banking sector, as noted by Chen, Zhang, and Ng (2022). This lack of trust may hinder access to financing for small borrowers, exacerbating the financial repercussions of defaults. Thus, implementing transparent and responsible loan management practices is imperative to uphold trust among stakeholders and foster a resilient banking system. Furthermore, Addae-Korankye (2022) emphasizes the financial costs associated with loan defaults, including lost interest and legal expenses. Effective loan management practices, such as rigorous risk assessment and proactive monitoring, are essential for minimizing these costs and preserving the financial health of banks. By implementing prudent lending policies and robust risk mitigation strategies, banks can mitigate non-payment risks and sustain profitability, as highlighted by Oganda&Mogwambo (2022).

Additionally, as discussed by Barseghyan (2020) proper loan management practices, including comprehensive credit analysis and liquidity management strategies, are crucial for safeguarding banks' financial stability and ensuring their ability to meet financial obligations. This underscores the importance of proactive risk management in maintaining operational resilience and liquidity. Effective loan management practices are essential for commercial banks to mitigate the risks associated with loan defaults and maintain stability and profitability. By implementing transparent lending policies, robust risk assessment processes, credit rationing and proactive monitoring mechanisms, banks can uphold trust, minimize financial costs, and contribute to the overall health of the financial system (Wang, Cho, & Denton, 2022).

### 1.2 Statement of the Problem

Effective loan management is vital for the financial stability of commercial banks and the broader economy. However, poor loan management practices have led to significant challenges within the Kenyan banking sector, characterized by a troubling increase in non-performing loans (NPLs). As of December 2023, the total amount of NPLs in Kenya rose by Ksh 133.6 billion, reaching Ksh 621.3 billion ($4.1 billion), which constituted 14.8% of the sector's total loan book. This figure further escalated in 2024, with the ratio of gross NPLs to gross loans increasing to 15.5% (CBK, 2024). The implications of these trends are severe, as evidenced by KCB Bank's 172% increase in loan loss provisions and Equity Group's 54% increase in the same period, highlighting a growing risk that threatens overall financial performance.Numerous studies have been conducted globally on the impact of loan management and NPLs on bank performance. For instance, Çollaku and Aliu (2021) examined the influence of NPLs on the profitability of banks in Kosovo. In Nigeria, Gabriel, Victor, and Innocent (2022) assessed how NPLs affected the financial performance of commercial banks. Additionally, Mwangi and Wambui, (2022) explored the influence of macroeconomic variables on NPLs. Furthermore, Oballa (2022) focused on unsecured bank loan portfolios in Nairobi County. It has been determined that the majority of the studies have been conducted on organizations other than commercial institutions. Additionally, these studies have investigated a variety of variables. Some concentrated on the factors that affect the performance of banks, while others affected loans that demonstrated no performance. Others employed profitability as the dependent variable, as opposed to commercial banks' financial performance. However, none of the studies examined the practices of loan management in banks. Consequently, this investigation will endeavour to address these deficiencies by evaluating the impact of credit rationing practices on the financial performance of commercial banks in Kenya.

### 1.2 Specific Objective

The specific objective was:

To determine the effect of credit rationing practice on the financial performance of commercial banks in Kenya

### 1.3 Research Hypotheses

**H01:** There is no significant effect of credit rationing practice on the financial performance of commercial banks in Kenya

## II. LITERATURE REVIEW

### 2.1 Theoretical Review

#### 2.1.1 Credit Rationing Theory (CRT)

CRT was developed by Stiglitz and Weiss (1981). CRT focuses on credit markets when information asymmetry inhibits banks' ability to acquire accurate information on loan applicants and assess their conduct. The CRT believes commercial banks determine interest rates and need greater collateral to boost profits. The goal is to reduce loan nonpayment and dissuade most prospective borrowers from maximizing project revenues. Companies know a project will succeed, but commercial banks don't owing to knowledge asymmetry. Borrowers may switch to riskier, higher-return projects with slower development.

However, banks find it hard to monitor loan debtors. Using an interest rate to identify good and poor risks to increase commercial banks' competitiveness. Despite seeking fixed-interest loans to fund equitable projects, borrowers with poor credit ratings must pay higher interest rates due to the current economic situation. High interest rates encourage borrowers to switch from low-risk to high-risk businesses and negatively impact loan application selection, which may lower commercial banks' expected earnings.Jaffe and Stiglitz (2020) analyse pure credit rationing, in which banks lend to certain borrowers while rejecting others with equivalent credit needs at equal rates and non-price factors. Theorists also discussed credit rationing, which occurs when groups with a limited credit supply cannot get loans at any interest rate but may with a larger supply. CRT believes lenders can't differentiate risky borrowers. According to the theory that loan

agreements have limited liability, the client is not expected to repay the loan from sources other than the invested project if the return is below loan requirements. Since debtors repay loans if they can, only involuntary default is evaluated. It simplifies loan default and credit rationing factors.

Okurut et al. (2021) evaluated loan features such as interest rate, loan term, amount demanded, and collateral given, as well as loan applicant qualities like wealth, age, experience, and credit history. Commercial banks ration loans via screening, quantity, and assessment, according to Lapar and Graham (2021). Commercial bank management interviews loan applicants to determine their loan demand, creditworthiness, and favourable terms. Hoff and Stiglitz (2020) also say risk affects loan rationing. Banks are more reluctant to lend to borrowers with unclear loan repayment conditions. Banks can face default risk when borrowers fail to pay. He agrees with Guido (2022) that banks' refusal to assess loan applicants' risk contributes to credit rationing. Assets value affects credit rationing because the bank must auction assets to recoup defaulted loans. It reduces the firm-bank knowledge gap. The collateral used to secure a loan, especially if the borrower has profitable assets, determines a project's real value. CRT ignores endogenous money generation and focuses on banks' resource allocation, making it biased. Wolfson (2022) opposed banks adjusting lending reserves to demand. Commercial banks prioritize creditworthy consumers to meet their needs. Credit limitations explain this time's demand gap. A commercial bank's creditworthiness assessment may affect the effective demand curve and credit rationing.

In this study credit rationing theory helps us understand how and why banks ration credit, and how these practices can impact the banks themselves, borrowers, and the overall financial system. Also, credit rationing theory provides insights into how client appraisal practices, which involve evaluating the creditworthiness of borrowers, can affect the financial performance of Commercial banks in Kenya. Client appraisal is a crucial aspect of credit risk management, and it influences the banks' lending decisions and overall portfolio quality

### 2.2 Conceptual Framework

Mugenda and Mugenda (2019) describe conceptual frameworks as hypothesized models that specify the model under research and the nature of the relationship between independent and dependent variables.

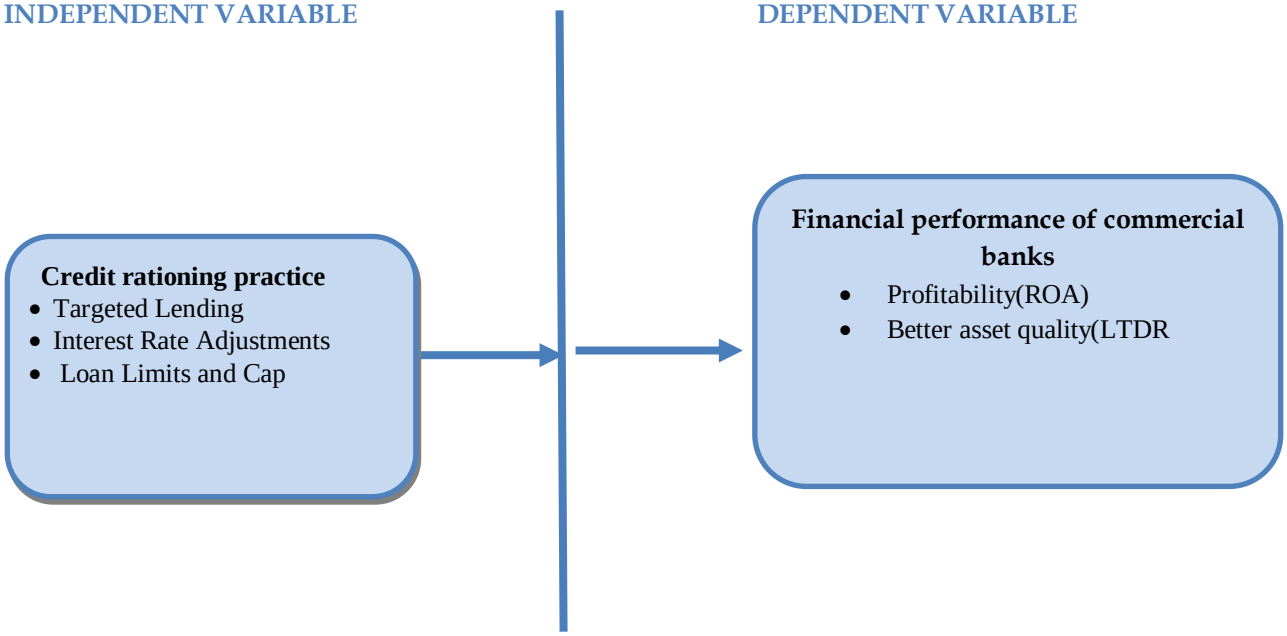


Fig 2.1: Conceptual Framework

### 2.3 Review of Literature on Variables

#### 2.3.1 Credit Rationing Practices and Financial Performance Of Commercial Banks

Credit rationing occurs when a lender refuses to extend credit to a borrower at the interest rate set for that borrower class. This situation is distinct from cases where a potential borrower declines credit because they consider the rate too high or "unfair." The key aspect of credit rationing is that the lender denies credit at its own chosen rate. Even if the borrower proposes a higher interest rate, the lender may still refuse to grant the loan. (Greenbaum, Thakor and Boot,2020).During the screening stage, the bank manager interviews the potential borrowers to assess their eligibility for credit based on their creditworthiness, loan requirements, and desired terms. The manager then decides if the applicant is qualified to proceed with a loan application. A thorough assessment of the investment proposal is conducted by the loan officer during the evaluation stage. This evaluation includes a detailed examination of the borrower's credit history, the type and value of collateral, the firm's management, and the probability of repayment. The loan officer or loan committee determines whether the bank would be advantageous by providing the loan based on this analysis. Borrowers deemed not creditworthy are denied loans entirely. In the quantity rationing stage, the bank determines the optimal loan size for a borrower at a given interest rate, considering the probability of repayment, the marginal cost of granting the loan, and the collateral value. Quantity rationing occurs when borrowers are granted smaller loan amounts than they applied for. In this instance, the bank adjusts the terms of the loan agreement based on its subjective evaluation of the loan's and borrower's riskiness and how these factors would affect the anticipated profit (Lapar & Graham, 1988, as referenced in Jerono and Maina, 2020).

Credit rationing practices, including targeted lending, interest rate adjustments, and loan limits, are vital tools for commercial banks in managing risk while optimizing financial performance. Targeted lending allows banks to focus on specific sectors or borrower types, improving portfolio diversity and potentially enhancing profitability, though it carries sector-specific risks (Brealey, Myers, & Allen, 2019). Interest rate adjustments help banks price risk appropriately by offering higher rates to riskier borrowers, which safeguards margins but may reduce loan demand. Loan limits and caps further protect banks by restricting credit exposure to high-risk borrowers, though stringent caps can limit growth opportunities with larger clients (Jerono & Maina, 2020). Overall, these practices help maintain financial stability and profitability, but banks must balance risk management with competitive lending strategies to ensure long-term success (Allen & Gale, 2021).

### 2.4 Empirical review

Researchers Kofarmata and Danlami (2022) examined the practice of credit rationing in rural Kano State using a multinomial logistic model. According to the study's findings, credit rationing and farm profit were significantly affected by farmers' participation in agricultural activities. Agricultural credit rationing was studied as an alternative to commercial banking. Domeher, Musah, and Poku used a multinomial logistic model to study the rationing of small and medium enterprise loans in Ghana in 2022. Limitations on small and medium-sized enterprise (SME) loans were discovered in the study. Results show that SME credit rationing differs according to business and owner attributes. Based on the responses, this study's survey method revealed biases related to credit rationing. This investigation could only use indirect methods due to the absence of publicly available data.

Kisaka (2022) examined how credit restrictions affected Kenya's commercial banks' loan books using a cross-sectional survey. Commercial bank credit rating processes were the primary data, while loan book performance was the secondary data. The regression analysis found that credit rating, especially capacity to pay, improved loan book performance. Credit rationing reduces loan defaults and improves risk assessment; the investigation found. Because loan performance data was multi-year, a cross-sectional approach was inappropriate. Using logistic regression and discriminant analysis, Ata, Korpi, and Ugurlu (2021) established credit rationing. Firm borrowing was influenced by ethics, liquidity, and credit history, according to the study. Industrial firms were the primary focus of the research since their loan portfolios differ from those of commercial banks.

Research by Obae and Jagongo looked at how commercial banks in Kenya handled their loans and how well they managed their credit. A total of 38 commercial banks in Kenya were the focus of the descriptive survey that was used in the research. Credit management practices' main data was gathered using a questionnaire, and loan performance secondary data was derived from a document review form based on loan records for 2018-2020. Credit restriction significantly affected commercial banks' lending performance, according to the research.

## III. RESEARCH METHODOLOGY

### 3.1 Research Design

The research design used in the study was descriptive. The goal of doing research using a descriptive research design is to provide a detailed description of a subject, setting, or population. Instead, then investigating the causes of events, its main goal is to provide answers to the "what," "when," "where," and "how" questions related to a research subject. This strategy entails exploring the relevant factors using a variety of research approaches. The researcher in descriptive research only watches and notes things as they happen in real life, as opposed to controlled factors in experimental research. This approach seeks to provide a thorough comprehension of the topic being studied without influencing any factors (Siedlecki, 2020).

### 3.2Population

The study targeted one credit manager from each of the 39 commercial banks' main offices.

### 3.3 Sampling Frame

Thirty-nine (39) credit managers were the unit of analysis while 39 registered commercial banks constituted the unit of observation. Therefore, the sample frame is composed of 39 respondents.

### 3.3 Sampling size and Sampling technique

The sample size was 39 respondents.

A census was used to select all the 39 commercial banks registered in Kenya.

### 3.5 Data Collection Instrument

Data collected was both primary and secondary data.Questionnaires were used to collect primary data Secondary data was collected from Financial reports of the Commercial Bank and annual reports from the Central Bank for five years

### 3.6 Data analysis and presentation.

Data obtained from the questionnaires was first cleaned and edited before being coded. The analysis was done using SPSS (Statistical Package for Social Sciences) Version 25. The data was analysed using both descriptive and inferential statistical methods. Descriptive analysis was done using means and standard deviations to describe the basic characteristics of the population. Inferential statistics involved the use of Pearson's Product Moment correlation and multiple regression models to determine the nature of the relationship between the variables. The multiple regression model was assumed to hold under the equation;

Since the finance performance (Y) is a function of loan management practices.

Financial Performance = f (X1, X2, X3, X4

Hence, $Y = \beta o + \beta 1\, x1 + \beta\, x2 + \beta 3\, x3 + \beta 4x4 + \varepsilon$

Where,

Y =Financial Performance

$\beta o$ = Constant

X1 = Credit rationing,

$\varepsilon$ = Error term.

## IV. RESEARCH FINDINGS AND DISCUSSION

### 4.1 Response Rate

**Table 4.1: Response Rate**

| Responses | Frequency | Percentage |
|---|---|---|
| Expected Responses | 39 | 100 |
| Received Responses | 36 | 92 |
| None Responses | 3 | 8 |
| **Total** | **72** | **100** |

The researcher issued 39 questionnaires and 36( 92%) were successfully filled and returned while 3 (8% ) were not used for the study. This gave a 92% response rate and was considered sufficient for the study. Kothari and Gang, (2020) assert 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; therefore this response rate was adequate for analysis

### 4.2 Descriptive Analysis

The study evaluated the views of the respondents on the influence of i. To determine the effect of credit rationing practice on the financial performance of commercial banks in Kenya

#### 4.2.1 Descriptive Analysis for credit rationing practice

The study sought the respondents' view on the influence on the effect of credit rationing practice on the financial performance of commercial banks in Kenya their views are as shown in Table 4.2.

**Table 4. 2: Credit rationing practice**

| Statement | n | SA (%) | A (%) | N (%) | D (%) | SD (%) | Mean | Std. Dev |
|---|---|---|---|---|---|---|---|---|
| Our bank engages in targeted lending initiatives to build lasting relationships with borrowers in priority sectors. | 36 | 4(11) | 25(69) | 2(6) | 3(8) | 2(6) | 3.72 | 0.974 |
| Interest rate adjustments by the bank have led to increased default rates | 36 | 7(19) | 21(57) | 2(6) | 5(15) | 1(3) | 3.78 | 1.017 |
| Imposing loan limits and caps is prudent for the bank's financial stability. | 36 | 12(33) | 17(47) | 4(11) | 1(3) | 2(6) | 4.00 | 1.042 |
| The bank's targeted lending practices excessively limit access to credit for deserving clients. | 36 | 8(22) | 22(61) | 3(8) | 2(6) | 1(3) | 3.94 | 0.893 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| The bank's interest rate adjustments are well-tailored to market conditions. | 36 | 7(20) | 1(3) | 2(6) | 14(39) | 12(33) | 2.36 | 1.477 |
| The selected project aligned closely with the preferences expressed by the beneficiaries | 60 | 35(58) | 19(32) | 0(0) | 5(8) | 1(2) | 4.37 | 0.974 |
| The group members were instrumental in identifying available resources within the community. | 60 | 2(3) | 1(2) | 0(0) | 25(42) | 32(53) | 1.60 | 0.867 |

The descriptive results presented in Table 4.6 showed that 80% of the respondents agreed that their bank engages in targeted lending initiatives to build lasting relationships with borrowers in priority sectors (Mean=3.72; std=0.974)Targeted lending is crucial as it allows banks to allocate resources efficiently while fostering loyalty among borrowers in key industries. This approach typically strengthens financial performance by reducing risk and increasing customer retention. The results collaborated finding by Ababa (2023) which indicated that 81% of respondents agree that their bank engages in targeted lending initiatives with borrowers in various sectors.

The research findings revealed that 76% of the respondents agreed that interest rate adjustments by the bank have led to increased default rates (Mean=3.78; std=1.017). These findings highlight the delicate balance banks must maintain when adjusting interest rates, as significant hikes can negatively impact borrowers' capacity to repay loans, thereby increasing the risk of default. Findings by Buiter (2022) indicated that rising interest rates can also lead to increased default rates, as holders of adjustable-rate debt find themselves faced with higher payments.

Furthermore, 76% of those who took the survey think that setting limitations and quotas on loans is a good idea for the financial health of the bank (Mean=4.00; std=1.042). This is in line with research by Kim Lee (2023), which suggested that implementing loan ceilings helps banks maintain a healthy financial position by preventing over-lending, especially in risky sectors. Such practices ensure the institution’s solvency and stability by managing credit risk and avoiding exposure to potential defaults.

Further, the study indicated that 87% of the respondents agreed that the bank's targeted lending practices excessively limit access to credit for deserving clients (Mean=3.94; std=0.893). This is a departure from Smith (2023), who found that 86% of respondents disagreed with the notion that targeted lending restricts access to credit. This disparity could indicate that targeted lending, while beneficial for certain priority sectors, may inadvertently exclude other deserving clients who do not fall within these priority groups. It highlights a potential area of concern for banks that may need to reassess how inclusive their lending practices are.

Lastly, 72% of those who took the survey did not think the bank's interest rate changes are adapted to the market properly (Mean=2.36; std=). This aligns with Ahmed (2023), who also found that the majority of participants believed their bank’s interest rate modifications did not accurately reflect prevailing market circumstances. This perception could be due to delays in adjusting rates in response to inflation, monetary policy, or market competition, which may hinder the bank’s ability to remain competitive and responsive to borrower needs.

**4.3 Inferential Statistics Findings**

This section discusses the findings of the inferential statistics analysed from the data collected concerningthe effect of credit rationing practice on the financial performance of commercial banks in Kenya.

**4.3.1 Effect of credit rationing practice on the financial performance of commercial banks in Kenya**

The study determined theeffect of credit rationing practice on the financial performance of commercial banks in Kenya using Pearson's Correlation as shown in Table 4.3.

**Table 4. 3: Pearson's Correlation between Credit rationing and Financial Performance of Banks**

| Variable | | Financial performance of commercial banks in Kenya |
|---|---|---|
| **Credit Rationing** | Pearson Correlation | .707** |
| | Sig. (2-tailed) | 0.000 |
| | N | 36 |

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

The results suggested that there was a reasonably robust and significant positive correlation betweencredit rationing and financial performance (r=.707, P=0.000) at a 95% confidence level.

The analysis of the findings indicated p=0.000 which is less than sign. Value (α=0.05) therefore the null hypothesiswas rejected and the study concluded that credit rationing practice has a significant effect on the financial performance of commercial banks in Kenya.The results of the study on credit rationing are consistent with those of Obae and Jagongo (2022), who demonstrated that credit rationing has a substantial effect on the performance of commercial banks

**4.4 Regression Analysis**

**4.4.1 Regression Model Summary**

The study conducted a regression analysis to find out the strength of the relationship between independent and dependent variables as shown in Table4.4

**Table 4. 4:Regression Model Summary**

**Model Summary**

| | | | | | Change Statistics | | | |
|---|---|---|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change |
| **1** | .754[a] | .569 | .537 | 37200.95736 | .569 | 25.488 | 4 | 31 | .000 |

a. Predictors: (Constant), Credit Monitoring

The regression model summary and the relationship between the dependent variable (Financial performance) and the variables that predict it ( Credit Rationing) are detailed in Table 4.4. This value of R, 0.754, suggests a robust positive correlation between the financial performance and the variables that are predicted. According to the R Square value of 0.569, the variables that are predicted in the model are responsible for approximately 56.9% of the variability in financial performance. This implies that the model is relatively well-fitted, as it explains a significant portion of the variance. This implies that the predictor that has been incorporated makes a substantial contribution to our understanding of financial

performance and can be regarded as reasonably effective in depicting the intricacies of financial performance about the specified variable.

**4.4.2Multi-regression Analysis**

The study also conducted a regression analysis to establish the regression coefficients and the results are shown in Table 4.5

**Table 4. 5:Regression Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | T | Sig. |
| 1 | (Constant) | .537 | .256 | | 2.040 | .000 |
| | | .071 | .24 | . | 13.65 | .001 |

a. Dependent Variable: Financial Performance of Commercial Banks

The study also conducted a regression analysis to establish the regression coefficients connecting the independent and dependent variables as illustrated by the equation illustrated below.

$Y = \beta 0 + \beta 1X1 + +\varepsilon$

The results indicated the suitability of the regression model which was interpreted as follows.

$Y = 0.537 + 0.071X1 + \varepsilon$

The results shown above implied that a change of 1 unit in the financial performance of commercial banks was subject to a change of 0.071 unit in credit rationing, while at the same holding other factors (0.537) constant. Thus, while holding all other factors (including the variables) constant, 0.071 units in credit rationing, would result in a 1-unit change in the financial performance of commercial banks.The findings on the variable credit rationing contrasted with findings by Cherono and Kimani(2017)that revealed that credit rationing had a negative relationship and moderately strong and significant effect on financial accessibility by SMEs in Eldama Ravine Sub-County ($r = -0.566; p < 0.01$). The results implied that as credit rationing increases financial accessibility reduces and the reverse was true.

## V. CONCLUSION

The study concluded that credit rationing practices have a significant effect on the financial performance of commercial banks in Kenya. Targeted lending initiatives were found to foster long-term relationships with borrowers, but excessive limitations on credit access can hinder deserving clients. Interest rate adjustments were linked to higher default rates, suggesting that they were not optimally aligned with market conditions. Loan limits and caps, however, contributed positively to the financial stability of banks. This illustrates how credit rationing strategies such as targeted lending, interest rates, and loan limits impact financial performance.

## RECOMMENDATIONS

The study recommended commercial banks should reassess their targeted lending initiatives to ensure they align with their goals of building lasting relationships with borrowers in priority sectors by refining the criteria for targeted lending to enhance the effectiveness of these initiatives. Considering the observed increase in default rates linked to interest rate adjustments, the bank should evaluate and optimize its interest rate policies. Aligning these adjustments more closely with market conditions can contribute to a more stable and sustainable financial environment. Also, while imposing loan limits and caps is considered prudent for financial stability, a careful evaluation of these limits is necessary. The bank should assess whether the current limits excessively restrict access to credit for deserving borrowers, striking a balance between stability and facilitating credit availability. To address concerns about the adequacy of interest rate adjustments to market conditions, the bank should focus on improving the tailoring of these adjustments. Regular assessments and adaptations to market dynamics can enhance the responsiveness of interest rate policies. Banks should engage with stakeholders, including borrowers and industry experts, to gather insights and feedback on the effectiveness of credit rationing practices. This collaborative approach can provide valuable perspectives for refining and improving the bank's strategies.

The main objective is to evaluate the impact of loan default management practices on the financial performance of commercial banks in Kenya. The research concentrated on commercial institutions in Kenya. It is necessary to conduct a study in other financial institutions and industries to identify the differences in loan default management practices. An additional investigation is warranted to investigate the potential of predictive analytics and machine learning to improve credit monitoring practices.

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