FACTORS INFLUENCING LOAN UPTAKE RATE FROM COMMERCIAL BANKS BY CIVIL SERVANTS IN KENYA: A CASE OF MINISTRY OF EDUCATION HEADQUARTERS

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ABSTRACT

For many years commercial banks have not been involved in provision of credit to small scale borrowers or low income earners. The sector has remained the preserve of micro finance institutions (MFIs) and SACCOs which they have aimed at fostering savings mobilization and providing access to credit amongst individual members within a defined common bond. Initially commercial banks had not regarded offering loans to civil servants and employees of medium sized companies as a genuine option due to the risk and expenses involved. However with the liberalization of the financial sector, which has increased the level of competition in the formal banking market banks are looking for avenues to expand their revenue base. The major objective of this study is to determine the factors influencing loan uptake rate from commercial banks by civil servants in Kenya with a focus in the ministry of education headquarters. To achieve the desired objective of the study, a descriptive research design was used... The study targeted 195 respondents from the five major departments in the ministry of education headquarters. A thirty percent (30%) of each stratum was used and this gave a sample size of fifty nine (59) respondents. Questionnaires were used as the only key data collection tool. MS Excel was used to capture the data, while Statistical Package for Social Sciences (SPSS) which is a data analysis tool was used...A major finding in this study was that in today’s competitive environment, information is not an option but a life blood for any organization that aims to excel and be competitive. It is therefore recommended that both the borrowers and the lenders require adequate and valuable information for successful loan transactions and that Lending institutions should move with speed and embrace information asymmetry in all her transaction else, serious customers will lose confidence with the service.

Keywords: loans, Commercial banks, civil servants, cooperative organizations, collateral

INTRODUCTION

Commercial banks are institutions which accepts deposits, makes business loans, and offers related services. They are owned by a group of individuals or some are owned by the government. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit. They also provide custody for money belonging to individuals, corporate organizations, institutions and the government. In addition the commercial banks have facilities for instance credit facilities whereby the banks offer loans at a given interest rates. Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions.

In the US, the first savings and loan association became a strong force in the early 20th century through assisting people with home ownership, through loan lending, and further assisting their members with basic saving and investing outlets, typically through passbook savings accounts and term certificates of deposit (Horst, 2003). However according to Loechel (2008) mortgages and high loans were not offered by savings and loan association, but by insurance companies and commercial banks, and they differed greatly from the mortgage or home loan that is familiar today. Most early mortgages were short term with some kind of balloon payment at the end of the term, or they were interest-only loans which did not pay anything toward the principal of the loan with each payment. As such, many people were either perpetually in debt in a continuous cycle of refinancing their home purchase, or they lost their home through foreclosure when they
were unable to make the balloon payment at the end of the term of that loan. Also the savings and loans required members to hold accounts across multiple institutions in order to have access to both checking privileges and competitive savings rates and were not allowed to offer checking accounts and therefore this led to long loan processing periods which reduced the attractiveness of savings and loans to civil servants and other customers (Diagne, 1999).

The US government passed the Federal Home Loan Bank Act in 1932, during the Great Depression as observed by Loechel (2008). It established the Federal Home Loan Bank and associated Federal Home Loan Bank Board to assist civil servants in providing funding to offer long term, amortized loans for home. The idea was to get banks involved in lending, not the savings and loans association and other Cooperative societies, and to provide realistic loans which people could repay and gain full ownership of their homes (Akpalu, 2001).

Banking sector has since sprung up all across US because of the power given by the government to make consumer and commercial loans and to issue transaction accounts. The Depository Institutions Deregulation and Monetary Control Act (DIDMCA 1980) was designed to help the banking industry to combat disintermediation of funds to higher-yielding non-deposit products such as money market mutual funds (Saurina, 2006).

Hunter and Udell (2004) further stated that the thresholds also allowed thrifts to make consumer loans up to 20 percent of their assets, issue credit cards, and provide negotiable order of withdrawal (NOW) accounts to consumers and nonprofit organizations. Over the next several years, this was followed by provisions that allowed banks and thrifts to offer a wide variety of new market-rate deposit products. For S&Ls, this deregulation of one side of the balance sheet essentially led to more inherent interest rate risk inasmuch as they were funding long-term, fixed rate mortgage loans with volatile shorter-term deposits.

In Nigeria as seen by Ajetomobi and Olagunju (2000), 54 percent of the civil servants obtain credit from (credit) cooperatives. In December 2006, there were over 3,500 savings and cooperative societies registered with the Ministry of Cooperatives and Marketing, with approximately 420,000 members mostly civil servants. Over the past two years, the number of credit cooperatives has increased rapidly to a large extent, however according to Nweze (1994), the effectiveness of cooperative societies supervision in Nigeria is currently very low due to several reasons, including low income and lack of relevant information from formal sources auditing. Also according to Udry (1990) the objectives of cooperative associations are to pool capital resources, provision of financial assistance to members in need and economic development. In these associations, information asymmetric between borrowers and lenders are unimportant, and their institutional consequences, the use of collateral and interlinked contracts, are absent. Jerome (1991) posits that these roles are not officially appreciated because of the rudimentary nature of their operations and the lack of legislation guiding and standardizing their operations. The gaps unfilled by informal associations are taken over by money lenders like commercial banks. These charge high interest rates but are willing to lend money at great risk to other members (Johnson et al. 2005). Due to this therefore Commercial banks in Nigeria has been increasing in size and scope of services over the past few years, as more and more civil servants move in to seek bank services.

In Kenya Most civil servants are members of one or more Savings and Credit Cooperative Organizations (SACCOS). They join them with an aim of making savings so as to borrow loans and as investment vehicles. SACCOS are known to offer credit facilities like loans and their rates are usually lower as compared to commercial banks. For instance SACCOS lend to their members on savings basis where a member can borrow up to three times their savings at low interest rates of below 10% depending on the SACCOS. They are allowed however to charge a maximum of 12% interest rate on loans compared with between 17 percent and 30 percent of bank loans (Supervisory report released by the Sacco Societies Regulatory Authority (SASRA) 2011).

However according to (Wamuyu, 1998), despite the lower interest rates by SACCOS civil servants still prefer commercial banks to SACCOS.

The Ministry of Education is one of the Kenyan government ministries which co-ordinates and promotes the provision of quality basic education at the primary and secondary school levels as contribution towards sustainable development. It also ensures provision of the requisite training to education personnel and
conducts research to make sure Kenya attains the ‘Education for All (EFA)’ goals by 2015. The ministry of education headquarters is located in Jogoo house which is along Harambee Avenue in Nairobi.

**Statement of the Problem**

There has been a dramatic shift by borrowers from SACCOs to commercial banks according to a survey carried by Financial Post (2009). The Ministry of co operative development strategic plan (2008) also revealed some decline in loan uptake by civil servants from SACCOs and they are shifting to commercial banks. SACCOs lend to their members on savings basis as collateral where a member can borrow up to three times their savings at low interest rates of below 10 percent depending on the SACC. They are allowed however to charge a maximum of 12 percent interest rate on loans compared with between 17 percent and 30 percent of bank loans (Supervisory report released by the Sacco Societies Regulatory Authority (SASRA) 2011). From the above it is clear that while commercial banks’ interest rates are quite higher than those charged by SACCOs there has been a paradigm shift by civil servants borrowing loans from the commercial banks instead of the SACCOs. It is because of this paradigm shift therefore that this study aims to find out the factors influencing the uptake of loans from commercial banks by civil servants in Kenya with a focus on the Ministry of Education Headquarters guided by the following objectives:

- To find out how Collateral influence the loan uptake rate from commercial banks.
- To establish how Loan Information Asymmetry determine the loan uptake rate in commercial banks
- To find out how Loan Threshold influences loan uptake rate from commercial banks

**THEORETICAL FRAMEWORK**

**Credit Market Theory**

This is a theory of the neoclassical credit market which was formulated by Stiglitz and Weiss (1981). The theory postulates that the terms of credits clear the market. If collateral and other restrictions (covenants) remain constant, the interest rate is the only price mechanism. With an increasing demand for credit and a given customer supply, the interest rate rises, and vice versa. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium (Ewert et al, 2000).

In this case therefore, this theory is applicable in that it creates the impression that collateral has no effect on lending rate, and if a risky borrower would wish to face the same lending rate as a borrower with a lower risk, then all that is required is to pledge more collateral to lower his risk profile and therefore enjoy a lower risk premium. This brings about the ‘moral hazard’ and ‘adverse selection’ phenomena, firstly because of information asymmetry existing between the lender and borrowers (Loechel, 2003). The borrower has a more accurate assessment of the risk profile of this investment that is not known by the lender and thus may perform secret actions to increase the risk of his investment without the realization of the lender. The adverse selection problem appears as lenders raise their interest rates to shield themselves from default and on the other hand attract only high risk borrowers and eliminate low risk borrowers.

**The Signaling Arguments theory**

This theory was formulated by Michael Spence in 1973. The theory states that good companies or individuals should provide more collateral so that they can signal to the banks that they are less risky type borrowers and then they are charged lower interest rates. Meanwhile, the reverse signaling argument states that banks only require collateral and or covenants for relatively risky firms that also pay higher interest rates. According to this theory, borrowers who always have private information will be forced to reveal (signal) their better quality through pledging of collateral to show their better status as opposed to lower quality borrowers. This is because in the absence of full information the bank is not able to assess the true quality of a borrower and may resort to credit rationing or lowering the loan threshold, in an attempt to mitigate the problem of adverse selection. Pledging more collateral is therefore viewed by borrowers a most credible signal of their commitment towards repayment of the advance amount (Greenspan, 2005). Lower quality buyers who have private information regarding the true risk profile of their investment will shy away from pledging valued collateral, since they privately know that there is a higher chance of losing it because they will be unable to service the loans. Thus, they unknowingly send a signal regarding their ability to meet the contractual obligations. Higher premiums will be observed in borrowers pledging lower collateral while lower premiums will be observed for borrower pledging more collateral (Horst, 2006).
However, there is the adverse signaling theory that is a counter to the signaling theory and it postulates that firms perceived to be less risky will pledge low or not premium.

On the other hand Pal (2002) shows that more land holdings and less labor income significantly increase the probability of formal loan use, but this (or the opposite) relationship does not hold in the case of informal loans.

Keynesian Theory

This theory is based on the economic growth theory which was developed by J.M. Keynes (1891). It is about the relationship between consumption and income. Jhingan (2001) points out that one of the important tools in Keynesian economics is the propensity to consume, when income increases, consumption also increases but by less than the increment in income. This behavior of consumption further explains the rise in savings as income increases Schmidt and Kropp (1987) pointed out that in most cases the access problem especially among formal financial institutions, is one created by the institutions mainly through their lending policies. What is displayed in form of prescribed minimum loan amounts (Threshold), complicated application procedures (long processing periods) and restrictions on credit for specific purposes (Shriell et al., 1998). The type of financial institution and its policy will often determine the access problem to credit borrowers. Where credit duration i.e the loan processing period, terms of payment, required security (collaterals) and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access (Schmidt and Kropp, 1987). Development Financial Institutions (DFIs) have their lending policies which according to Schmidt and Kropp (1987) assumption, the loan borrowing policies that the DFIs put up play a part in influencing credit demand among civil servants. Atieno (2001) pointed two major factors related to the choice between formal and informal credit sources as those associated with borrowers characteristics which were found to affect the borrowers’ decision about which segment of the credit market to borrow from and mainly determine the supply of credit. The aspect under this was identified as application fees, collateral value, application period and repayment period. Loan ratio in the informal credit market is attributed to the limited resource base while for the formal sector it is due to the lending terms and conditions.

Conceptual Framework

One of the objectives of a conceptual framework is to classify and explain concepts relevant to the study and plot relationships between the concepts as well as defining how variables interrelate. Figure 1 below gives an illustration of the Conceptual framework.

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
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<tbody>
<tr>
<td>Loan Collateral</td>
<td></td>
</tr>
<tr>
<td>Loan Information Asymmetry</td>
<td></td>
</tr>
<tr>
<td>Loan Threshold</td>
<td>Loan Uptake Rate</td>
</tr>
</tbody>
</table>

**Fig. 1 Conceptual Framework**

Empirical Review

Informal lending institutions including credit cooperative organizations have the potential to reach low income earners and the poor households with affordable credit (Bratton, 1986), despite their apparent advantages, credit cooperatives have had mixed results as far as their performance is concerned (Deschamps, 1989).

The global credit uptake from commercial banks by low income earners and poor households is estimated to increase to 79 percent in 2009 and is expected to keep increasing Bonalos,(2009). Emergence of
technology and increased competition has enabled commercial banks and other formal institutions to offer efficient and more reliable credit facilities. Nowadays therefore savings and credit cooperative societies despite their size are facing challenges in maintaining their members due to improved services of commercial banks Wanyama, (2008).

A study by Olokoyo (2011), on the predictors of the lending behavior of Nigerian Banks shows that volume of deposits, foreign exchange, investment portfolio; minimum cash reserve ratio, lending rate, liquidity ratio and GDP. Utilizing time series data for the period 1980-2005, the vector error correction estimates indicate that the rate of lending from commercial banks increased significantly from 3 percent to 57 percent, while the coefficients of foreign exchange, investment portfolio, deposits and liquidity ration have significant impacts upon the lending volumes, the coefficients of lending rate and minimum cash reserve ratio were insignificant implying that monetary policy instruments do not affect bank lending volumes in Nigeria. The study does not, however, consider collateral as one of the explanatory variables; thus it is not possible to tell the impact of collateral requirements on the bank lending behavior and if collateral is a determinant of loan uptake in Nigeria.

Another study by Wafula (2008) indicates that land-related assets are the most utilized as collateral in Kenya. Land system in Kenya has its unique challenges, making clearing of the said asset quite slow and costly. For example to create and perfect a building in the capital city of Nairobi as collateral for a loan of Ksh.10,000,000, it will cost a total of Ksh.577,995 or 5.78% of the loan amount and sixty working days (FSD-Kenya, 2009), this will lead to a long for the loan to be approved. This in turn erodes the value of the loan advanced against such collateral because lenders transfer all the related financial and time costs to the borrower. Although there are measures being implemented by various stakeholders to remove these inefficiencies, they are likely to take a longer period to bear outcome and cannot promise an immediate solution to the policy concern of high cost of credit in the country.

Ewert et al. (2006) study the determinants of bank lending performance in Germany using credit file information of 260 medium-sized firm borrowers for the period 1992-1998. The study aims at testing the several theories relating collateral and loan processing period to interest rate premiums and therefore lending performance, using a random effects model on panel data analysis to eliminate the borrower and time-specific effects. Two models were estimated with interest rate premiums and probability of distress as the two predicted variables. Interest rate premium was set to be predicted in a random effects model by among other variables: collateral, loan thresholds and banks time in processing credit. The highlight of this study’s finding was that interest rate premium increased with rise in the collateral pledged. This was contrary to the signaling theory, where we would expect higher interest rate premium for firms pledging little or no collateral. However, estimation of distress probabilities of the same firms revealed that more collateral and covenant in credit contracts lead to lower distress probabilities. Combining the above results, the study gives controversial finding that riskier credit contracts are assigned lower interest rate premiums by banks.

**RESEARCH METHODOLOGY**

The research adopted a descriptive survey design. According to Kothari, (2004), descriptive design allows the researcher to describe record, analyze and report conditions that exist or existed. The study used quantitative approach where data was collected regarding the factors influencing loan uptake rate from commercial banks by civil servants in Kenya with a focus on ministry of education headquarters.

The study targeted the employees of Ministry of Education headquarters Nairobi. From the ministry of education annual report (2011), the ministry has 10 support departments. The research purposively selected five key departments out of the ten for the purpose of this study. The five departments according to the Ministry of Education Annual Report (2011) have a total population of 195 employees from where the sample size was drawn. Since the population of 195 respondents is too large, Mugenda and Mugenda’s (2004) proposed that a population is considered to be normally distributed or statistically significant when n > 30 and that a 10% to 30% of the targeted population is feasible. The study purposively picked a 30% sample to calculate an optimal sample size. The sample size therefore was 59 respondents as illustrated by Table 2. Probability sampling technique was applied and a simple random procedure employed. This technique has a wide range of sampling technique which can be used across quantitative research designs,
and are capable of providing the study justification. This helped to make generalization from the sample that is being studied. The study used structured questionnaires as the major tool for data collection.

<table>
<thead>
<tr>
<th>Department</th>
<th>Target population</th>
<th>Percentage (%)</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource</td>
<td>40</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td>Finance</td>
<td>70</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Accounts</td>
<td>50</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Procurement</td>
<td>20</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>ICT</td>
<td>15</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>195</td>
<td>30</td>
<td>59</td>
</tr>
</tbody>
</table>

**Reliability and Validity of the Research Instruments**
A pre-test was carried out to check validity and reliability so as to minimize vagueness of the results to be generated. First the validity was tested using the content validity index (CVI). While the reliability (internal consistency and stability) of the instruments was tested using Cronbach’s Alpha Coefficient. Then the inter-item consistency reliability was tested to ensure that there was consistency of respondents’ answers to all items in the measure. The pilot study was to enable the researcher to be familiar with research and its administration procedure as well as identifying items that require modification. The revised research was then used in the final study.

**Data Processing and Analysis**
Descriptive statistics was used to analyze the collected data with the aim of generalizing to the whole population. The data collected was cleaned and coded to enhance basic statistical analysis. The analysis involved quantitative (numerical) methods where statistical Package for Social Sciences (SPSS) was used because it is capable of analyzing large data within a short time. Also correlation was used to measure the association of the dependent and independent variables that is Loan Uptake Rate versus collateral, Loan information asymmetry and loan Threshold. The study applied Spearman rank-order correlation coefficient which is a non-parametric measure of the strength and direction of association that exists between two variables measured on at least an ordinal scale. It is denoted by the symbol $r_s$ (or the Greek letter $\rho$, pronounced rho). Chi-Square ($X^2$) method was run to test the hypothesis of the study. Data was then presented using statistical techniques which include percentages and frequency distribution tables.

**RESULTS AND DISCUSSION**

**Correlation between Loan uptake and collateral**
The correlation matrix on Table 2 shows there is no significant association of the dependent variable Loan uptake rate and collateral. The correlation coefficient (RHO = 0.18, $r^2 = 0.0324$) indicates that the independent variable Loan collateral does not significantly affect loan uptake rate. The P-Value (significance level) 0.532 is greater than 0.01 which indicates that there is no significant correlation between the two variables. The correlation is based on what the respondents said about the question on employment is one of the considerations for loan uptake rate. These findings clearly show that there is a very insignificant relationship between collateral and loan uptake rate from commercial banks as demonstrated by a correlation coefficient ($r$) of 0.18. Correlation is significant at the 0.01 level (2-tailed).

<table>
<thead>
<tr>
<th>Influence on Loan Uptake rate</th>
<th>Spearman correlations coefficient on Collateral and loan uptake rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment is one of the consideration for loan uptake rate</td>
<td>0.17</td>
</tr>
<tr>
<td>Employees agree on the terms and conditions about security type offered for loan uptake</td>
<td>0.18</td>
</tr>
<tr>
<td>Security asset posted for loan is of the same value as the loan</td>
<td>0.19</td>
</tr>
<tr>
<td>Average</td>
<td>0.18</td>
</tr>
</tbody>
</table>
Correlation on Loan Uptake Rate against the effect of loan information asymmetry

The Spearman correlations coefficient (RHO = 0.933, r² = 0.870) as observed in the correlation matrix above, it indicates that Information Asymmetry and loan uptake rate has a great association with a P-Value (0.000 < 0.01). A conclusion can be made therefore that loan uptake rate is highly determined adequate and valuable information flow between the employees and the lending institutions within the industry as illustrated by correlation coefficient (r) of 0.943 tested at a confidence interval (P-Value) of 0.01

Table 3. Correlation on Loan uptake rate against the effect loan information asymmetry

<table>
<thead>
<tr>
<th>Influence on Loan Uptake rate</th>
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</table>
| Employees provide adequate information to the lending institutions | 0.886  
| Lending institutions emphasize on non financial information about the employees | 0.956  
| Lending institutions provide necessary information about the loans they offer | 0.956  
| Average | 0.933  

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

Correlation on Loan Uptake Rate against loan threshold

The Spearman correlations coefficient (RHO = 0.94, r² =0.883) as observed in the correlation matrix as shown in table 4, indicates loan threshold plays a crucial role on loan uptake rate. The correlation is based on what the respondents said about the lending institutions willingness to provide the requested loan and the terms and conditions imposed by the lending institutions about the minimum and maximum amount of loan. The P-Value (0.000 < 0.01) also indicates strong association between loan uptake rate and loan threshold.

Table 4. Correlation on loan uptake rate against the effect of loan threshold

<table>
<thead>
<tr>
<th>Influence on Loan Uptake rate</th>
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</table>
| Lending institutions provide the requested amount of loan | 0.926  
| Employees agree on the terms and conditions imposed by the lending institutions concerning the minimum and maximum amount of loan | 0.924  
| The type of security demanded by lending institutions influences the amount of loan uptake | 0.970  
| Average | 0.94  

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

Hypothesis Testing

Statistical hypothesis tests define a procedure that controls the probability of incorrectly deciding that a default position (null hypothesis) is incorrect based on how likely it would be for a set of observations to occur if the null hypothesis were true. The probability of making an incorrect decision is not the probability that the null hypothesis is true, nor whether any specific alternative hypothesis is true. A result therefore is considered statistically significant if it has been predicted as unlikely to have occurred by chance alone, according to a pre-determined threshold probability, the significance level. Small significance values which are less than 0.05 indicate that the observed distribution does not conform to the hypothesized distribution. A Chi-square denoted by X² is used to carry out the statistical hypothesis test.
Collateral influences loan uptake rate from commercial banks
Table 5 shows that there is no meaning relationship between collateral and loan uptake rate from commercial banks. This is explained by the fact that the statistical significance is 0.023 which is smaller than 0.05. It can be concluded that though employment is a decisive component for security and often is used most of the time to secure loans, the opposite is true in lending institutions because there are some alternative sources of security according to the respondents in this study. The findings therefore reject the null hypothesis and accept the alternative that employment is not a key consideration for loan uptake.

<table>
<thead>
<tr>
<th>Table 5. collateral and loan uptake rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment is a key considerations for loan uptake</td>
</tr>
<tr>
<td>Chi-Square(a)</td>
</tr>
<tr>
<td>Df</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
</tr>
</tbody>
</table>

Information Asymmetry influences loan uptake rate
Findings from the study show that there is a big statistical significance between information asymmetry and loan uptake rate from commercial banks at 0.061 as illustrated by table 6. With adequate and valuable information in the industry, loan uptake rate has been highly influenced. This finding consequently accepts the null hypothesis and rejects the alternative hypothesis.

<table>
<thead>
<tr>
<th>Table 6. Information Asymmetry and Loan Uptake Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information adequacy between the lending institutions and employees influences loan uptake</td>
</tr>
<tr>
<td>Chi-Square(a)</td>
</tr>
<tr>
<td>Df</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
</tr>
</tbody>
</table>

Loan Threshold influences loan uptake rate
Table 7 shows that there is a very huge statistical significance (0.09) between Loan threshold and loan uptake rate. The willingness of the lending institutions to provide the requested loan is strength and it can use it to influence loan uptake rate. This finding therefore accepts the null hypothesis.

<table>
<thead>
<tr>
<th>Table 7. Loan Threshold and Loan Uptake Rate</th>
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<tbody>
<tr>
<td>Lending institutions willingness to provide the requested loan amount influences loan uptake</td>
</tr>
<tr>
<td>Chi-Square(a)</td>
</tr>
<tr>
<td>Df</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
</tr>
</tbody>
</table>

Major Findings
A major finding of this study revealed that most civil servants in Kenya are members of a SACC and that majority (over 50%) of the respondents borrow loans from these institutions for a duration of over 3 years. Another finding of the study showed that effect of collateral on loan uptake rate is very low as portrayed by a 66% of the total respondents who strongly disagreed that loan collateral is low and probably because employment is not the key consideration for loan uptake and that there are alternative sources of security (98% response rate).

Further findings showed that majority of the employees strongly agreed on the terms and conditions of the lending institutions about the security type presented by the borrowers, as illustrated by 41% of respondents who strongly agreed to this fact. But besides this scenario collateral still remains a major factor considered.
in loan uptake rate as the type of material asset which the employees post highly influences them to uptake loans with a majority response rate of 81% in agreement with this. This study therefore clearly shows that collateral cannot be a key determinant of loan uptake rates simply because every loan requires security. It is therefore safe to conclude that loan uptake rate is less influenced by collaterals.

This study further found out that information adequacy is very crucial in loan uptake, as illustrated by this study shows that the highest number of respondents (66.1%) agreed that they gave adequate information to lending institutions for credit assessment. This kind of finding is a detail to show that though the highest respondents agreed to give adequate information; they may give inaccurate information which may lead to poor assessment of the loans. Besides this the study established that the 31% of the respondents were in agreement with the lending institutions emphasis on non-financial information. This nature of extreme scenarios explains the fact that lending institutions need this information to ascertain the worthiness of the borrower and the amount of loan to issue. Further on the findings, the study has evidently established that majority of the employees believed that the lending institutions provide the necessary information about their loans as illustrated by 44% response rate. This explains the fact that there is a high correlation between information adequacy in the industry and loan uptake rate. But the study has equally established that as a result of information asymmetry, loan uptake rate has been greatly influenced and this by itself is an indication that valuable and adequate information has some positive impact on loan uptake rate.

This study has further found out that lending institutions highly emphasizes on the need of borrowers to provide information on how they are going to use the loan. Although this condition is not of much importance, 66% of the respondents specified to the lending institutions how they are going to spend the loan. This is important according to the study in that it enables the lending institutions to determine the type of security and the amount of loan to offer. Also the study found out that the information about their abilities to repay the loan is a requirement of the lending institutions; this is agreed by the majority respondents as demonstrated by 91% response rate. The Spearman correlations coefficient gave an interesting revelation where loan uptake rate was found to be highly influenced by information asymmetry within the industry as illustrated by correlation coefficient (r) of 0.943 tested at a confidence interval (P-Value) of 0.01. Study findings from this work have revealed that loan threshold is a key determinant on profitability as illustrated by a 71% of the respondents who agreed that the value of the security type which they posted influenced them to determine the amount of loan they apply for. It is therefore evident that lending institutions formulate terms and conditions to regulate the maximum and minimum amount of loan one is entitled based on the value of the security asset posted, this is illustrated by a 42% response rate who agreed on the terms and the conditions.

Further on the findings it has been established that the relationship that exists between the borrowers and the lending institutions is of great significance in influencing the uptake of loans, it is evident from the study as 63% of the respondents are in agreement with this scenario, the willingness of the lending institutions to offer required loans according to this study is also as a result of the relationship that exists between the lenders and the borrowers as shown by the highest respondents at 80% response rate. Another major finding of this study revealed that Spearman correlations coefficient gave an r of 0.891 with a P-Value of 0.000 tested at a confidence interval of 0.01. The P-Value (0.000<0.01) also indicates strong association between Loan threshold and loan uptake rate. Loan security type is an important factor which the majority of the respondents believed to be the most influencing factor in determining the amount of loan uptake. This is illustrated by 71% of the respondents who indicated that loan uptake rate is highly influenced by loan threshold.

CONCLUSION AND RECOMMENDATIONS

Conclusions

Based on the findings, the study concluded that employment is not a necessary security for loans and that alternative security assets are accepted by lending institutions. The employees of the ministry prefer alternative security assets which are of the same value with the amount of loan they request for. It is also clear that the majority of the employees in the ministry do not agree on the terms and conditions of the lending institutions about the security type they demand. On the other hand it is clear that unless the
lending institutions especially the Saccos, reformulate their terms and conditions about loan lending most of the employees will turn to commercial banks for loan uptake. This study therefore concludes that with adequate information asymmetry, proper security measures on loans and improved terms and conditions involving the maximum and minimum amount of loans lending institutions are willing to offer to borrowers, the uptake of loans from these institutions will increase significantly.

Recommendations

In light of the research findings the study recommends that lending institutions should invest more heavily on information adequacy because it is the only way to transform the borrower’s perception in this era of information. The organization could be doing quite well as compared to the competitors, but due to inadequate information, customers still think negative about the service. In today’s competitive environment, information is not an option but a life blood for any organization that aims to excel and be competitive. The study found out that both the borrowers and the lenders require adequate and valuable information for successful loan transactions. Lending institutions should move with speed and embrace information asymmetry in all her transaction else, serious customers will lose confidence with the service.

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