Credit Information and Asset Quality of Commercial Banks in Nakuru Town, Kenya

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ABSTRACT

The study sought to establish the effect of credit information on the asset quality of commercial banks in Nakuru Town, Kenya. The specific objectives of the study are to determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya, to determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya, to determine the effect of consumer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya, to determine the effect of customers credit status information on asset quality of commercial banks in Nakuru Town, Kenya and to establish the effect of consumer default information details on asset quality of commercial banks. The literature review focused on bank risk management theory, loanable funds theory, Merton’s default risk model and asymmetric information theory. Primary data was collected using questionnaires in order to get accurate results. The study used regression analysis and the findings revealed that Business Ratings and Collateral Information significantly influences up to 59.4% and 17.6% positive variation on Asset quality respectively. This implies that for every one unit increase in business ratings information asset quality increases by 59.4% while collateral information increases asset quality increase by 17.6%. It was also observed that consumer default information significantly influences 36.3% positive variation on asset quality. However, it was noted that Customer’s Credit Status Information significantly influences 32.5% negative variation on Asset quality. This implies that for every one unit increase in Customer’s Credit Status Information, Asset quality decreases by 32.5%. Similarly, Consumer Identity Verification Information influences negatively Asset quality by 9.3%. In this study, Business ratings information is the best predictor of asset quality. It was concluded that Collateral information, business ratings information and consumer default information influences positively asset quality. However, consumer identity verification information and customer’s credit status information influences negatively on asset quality. The study recommends that Collateral information should be controlled in order to promote positive loan performance by commercial banks as well as that business ratings information should be adequately provided in order to enhance quality assets of commercial banks.

Key Words: Credit Information, Asset Quality, Collateral Information, Business Ratings, Consumer Identity, Credit Status, Consumer Default, Commercial Banks in Nakuru

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1. INTRODUCTION

The Kenya banking industry is a highly lucrative industry which has reported profits year on year despite the fact that losses have been reported by many other industries (Otieno, 2017). The Kenya banking industry is an old industry dating back to the pre-colonial period and today it has attracted forty-three commercial banks. The banks that initially started their operations were financing international trade along the Europe-South Africa–India axis. The banks widened their customer base by targeting the growing number of farming settlers and businessmen to whom they provided lending and deposit services. Lending started with the Indian money lenders who operated quasi banking services in the 18th century. The first recognizable bank in Kenya was the Jetha Litha Bankers of India followed by the National Bank of India (Central Bank of Kenya, 2017). The banks offered credit facilities to traders and farmers in the country. Therefore, lending is an old trade that determines the performance of commercial banks. Globally, banks have faced various financial crises and the global financial crisis of 2008 was the most significant. During this time, banks in the USA offered mortgages to their clients at a value that was 100% or more of the value of the home (Oldani, Kirton, & Savona, 2013). “Banks engaged in trading profitable derivatives that they sold to investors. These mortgage-backed securities needed mortgages as collateral. The derivatives created an insatiable demand for more and more mortgages that the banking industry could not support and it lead to the collapse of the Lehman Brothers Bank in 2008” (Amadeo, 2017).

In Kenya, banks have faced financial crises in the past that have led to closure of some banks; and the most notable are the collapse of Imperial Bank and Chase Bank. There have been three major bank crises in Kenya that have led to the collapse of twenty-four commercial banks between 1986 and 1998 (Kithinji and Waweru, 2007). The collapse of these banks was caused by huge non-performing loans, poor lending practices, non-adherence to policies, regulations and guidelines set out by the banks themselves and by the Central Bank of Kenya (CBK) (Waiguchu, Tiagha, & Mwaura, 1999). Most of the banks that collapsed were Kenyan owned and they were family businesses. The collapse of these banks triggered the development of better lending policies since all other banks started to improve the quality of their credit portfolios. As a result of this, Owuor (2013) noted that the provision of credit by commercial banks creates many challenges, particularly in the developing world, where the legal and policy framework is weak, where information is not always available, the ability and willingness of borrowers to repay their debts is not always present and where many borrowers are from poor backgrounds, many of whom have never before borrowed and cannot pledge collateral to guarantee repayment. Non-performing loans present challenges to commercial banks as they dilute the quality of a bank’s credit portfolio. There are also other challenges that the banking and financial sectors face. The role of deposit taking and lending has, historically, predominantly been offered by commercial banks. However, in the recent past there has been intense competition from the non-banking sector, such as from the Telecommunication industry (Gude, 2012). As a result, banks have had to be proactive in protecting their traditional sources of income, which is mainly interest income, by embracing technology to reach out to as many customers as possible. To this end, banks have introduced mobile phone-based loan facilities (Rosingh, Seale, & Osborn, 2001) but this has led to further problems with the quality of their credit portfolios (Opiyo, 2016) as most of this lending is, of necessity, unsecured.

Lending by commercial banks was carried out in an environment of uncertainty where information asymmetry complicated the lending processes of commercial banks. Bank clients
became increasingly aware that they could borrow funds from more than one financial institution without this being noticed. They did this in an attempt to defraud the commercial banks and this presented a huge moral hazard to commercial banks since the banks lent their money based on general market behavior as opposed to the intrinsic behaviors of the customer (Spadafora, 2009). The Kenyan Government, through the CBK after consulting with other stakeholders in the financial sector, therefore introduced the Banking (Credit Reference Bureau) Regulations 2008 to help track loan defaults in an attempt to improve the quality of credit portfolios held by commercial banks in Kenya. These regulations resulted in Credit Reference Bureaus (CRBs) providing commercial banks with information on all the loans taken out by their customers, whether with themselves or other banks. The introduction of such credit information sharing through the licensed CRBs brought sanity in commercial banks as it helped identify loan defaulters from good customers Wamahiu (2015).

2. STATEMENT OF THE PROBLEM

One of the main functions of commercial banks in Kenya is lending and commercial banks in Nakuru town usually pride themselves in having sound credit lending policies and regulations and strong corporate governance structures. However, the commercial banks in Nakuru town lend recklessly without following the due process of appraisal they have put in place. When the policies and procedures in lending are not followed, then it erodes the asset quality of commercial banks and it may lead to collapse of the banks (Waiguchu, Tiagha, & Mwaura, 1999). The problem of poor asset quality has been an enormous challenge to commercial banks for ages and the problem seems to persist year on year as evidenced from the various Banking Annual Reports. In the last five years to December 2016, the total NPL in commercial banks rose from KShs 60.7 billion in December 2012 to Ksh 214.3 billion in December 2016 which represented a 71.6% increase in the level of NPL for the five years. In the last five years ending 2016, there was an increase of Ksh. 5,094,077,540.00 in non-performing loans which represented 85% increase in the level of nonperforming loans in Nakuru town alone. This represented a 4% contribution of nonperforming loans to the entire commercial banks in the country. This presented a good problem for the study to determine the causes of the deteriorating asset quality in Nakuru tow.

Commercial banks usually go extra miles to control the problem of NPLs in their books, including legal mechanisms, regulatory mechanisms and using the services of debt collectors. Thomas & Vyas (2016) studied the various loan recovery mechanisms employed by Indian banks and their study was occasioned by the deteriorating asset quality of commercial banks in the Indian Banking Sector. Other scholars, Wairimu (2013), Odwuor (2016), Nzoka (2014) and Nganga (2015) also delved into the issue of credit information with the aim of explaining the thorny issue of asset quality in commercial banks and their objective of the study, mainly focused on the aspects of liquidity, banks financial performance, management efficiency, capital adequacy and banks’ earnings. This study aimed to enrich the foregoing studies by looking on the information pertaining security provided by borrowers, consumer identity verification, customer default details and business ratings with a view of researching on the effects of credit information sharing on asset quality of commercial banks in Nakuru Town, Kenya. The quality of the credit portfolio held by commercial banks is of great importance since it generates interest income; which in most cases contributes a bigger chunk of commercial banks net income. Poor asset quality in the financial sector is a cause for alarm to the investors who expect a return on their investment. Shareholders expect dividend payments at the end of the year, the management
expects bonuses and pay increases, the government looks upon the commercial banks to perform well so that they can pay taxes and the general public wants to do business with a company that is performing well. CIS comes in to help commercial bank ease the problem of poor asset quality through sharing information they have about potential borrowers.

3. OBJECTIVES OF THE STUDY

The main objective of the study was to establish the effect of credit information on the asset quality of commercial banks in Nakuru Town, Kenya.

The specific objectives of the study were:

i) To determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya.

ii) To determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya.

iii) To determine the effect of consumer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya.

iv) To determine the effect of customers credit status information on asset quality of commercial banks in Nakuru Town, Kenya.

v) To establish the effect of consumer default information details on asset quality of commercial banks in Nakuru Town, Kenya.

4. THEORETICAL REVIEW

4.1 Asymmetric information theory

Asymmetric information theory was advanced by three economists, George Akerlof (1970), Michael Spence (1973) and Joseph Stiglitz (1981) who won the Nobel Prize in economics in 2001 for their contribution in the field of asymmetric information. Asymmetric information refers to a situation in which one party to a financial transaction has perfect information about the transaction while the other party has less than perfect information, leading to moral hazard and adverse selection problems. Akerlof (1970) developed the theory of asymmetric information in his paper, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." Akerlof related quality against uncertainty in the market and found out that car buyers seek a complete set of information from sellers. The buyer of a car can only know its quality after purchasing the car and staying with it for some time. This gave the seller the incentive to sell goods of less than the average market quality. Michael Spence (1973) advanced the debate through a paper on Job Market Signalling, whereby different individuals were able and willing to provide any information required by another party and in the process help in resolving the problem of information asymmetry. Stiglitz (1981) came up with the idea of screening, whereby the party with no or little information is in a position to induce the other party to give more information. The theory of asymmetric information states that it is very difficult to differentiate between good borrowers from defaulters and this gives rise to moral hazard and adverse selection problems.

The theory of asymmetric information is important to the current study since it will help commercial banks avoid the problems developed by moral hazard and at the same time help to select good borrowers from bad borrowers and in the process help in improving the asset quality.
of commercial banks. The theory, through screening, will ensure that identity verification of each client is guaranteed. Borrowers are required to provide their identification details, residence, biometrics, photos, signatures and postal address. The theory also helps to cure the moral hazard and adverse selection by ensuring that clients, who in most cases have perfect information, provide collateral/security for the facilities advanced. This covers the commercial banks since in case of default; they have a fallback position in term of the security provided.

4.2 Merton’s Default Risk Model

The model was initiated by Robert C. Merton in 1974 and it is a model that shows that the probability of default by companies, mortgage firms or borrowers can be shown through the appraisal and valuation of companies in order to rate them. The model was based on some simplifying assumptions about the structure of the typical firm’s finances. The event of default was determined by the market value of the firm’s assets (collateral) in conjunction with the liability structure of the firm. When the value of the assets falls below the required threshold, referred to as the default point, the firm is considered to be in default. A critical assumption is that default can only take place at the maturity of the debt when the repayment is due. The model is linked to the current study through business rating variable. The model is relevant since it will help security analysts and officers who attempt to determine an organization’s credit default risk point. Credit analyst rate business through appraisals and valuation by looking at the financial statements to determine the strength of the business to repay loans once advanced. This determines the market value and liability structure of the firm and if the business rating falls below the default point, the firm is considered risky to lend to.

4.3 Loanable Funds Theory

The Loanable Funds Theory was postulated by Wicksell and Robertson (1980) and it was an extension of the classical investment theory developed by Keynes. Wicksell and Robertson (1980) stated that the loanable funds theory is a theory that is based on market interest rates. They argued that the interest rate that was charged by commercial banks was determined by the supply and demand for loanable funds. They argued that the demand for commercial bank loans reflected the plans borrowers had for funds and the supply for loanable funds reflected the lending plans the lenders had. They observed that the quantity demanded of loanable funds was inversely related to the interest rate while the quantity supplied of loanable funds is directly related to the interest rate (Burton & Brown, 2014). The loanable funds model determines interest rates based on the supply and demand in the bond market. In the loanable funds approach, the equilibrium interest rate is determined by the quantity (supply) of loanable funds, which consist of savings, and the quantity demanded of loanable funds, that comprise investment and the government deficit financed by local bonds (Khandker & Khandker, 2008). The theory is based on interest rates and it helps commercial banks in pricing their loans. The theory connects to the current study through customers’ credit status. A customer with a positive credit status may enjoy low interest rates charged by the commercial bank while a customer with a negative credit status will pay more to compensate for his riskiness. The supply of loanable funds reflects the lending plans the commercial bank has. Commercial bank lent’s out depositors’ money and their plan is to lend and earn interest on the loans advanced. Therefore, the credit status of a borrower will largely inform the decision the commercial bank takes.
4.4 Bank Risk Management Theory

Bank risk management theory was advanced by Pyle (1997) and the scholar showed the importance of bank credit risk management. Pyle (1997) defined risk management as “the process where managers identify key risks, obtain consistent, understandable, operational risk measures, chooses which risks to reduce and which risks to increase and by what means and establishing procedures to monitor the resulting risk position”. The theory argues that commercial banks can reduce the level of nonperforming loans by the use of credit scoring through CIS, ratings and through credit committees which are meant to assess the overall credit worthiness of counter parties. Pyle noted that the risks that commercial banks face are mainly market risk, operational risk, performance risk and credit risk. Pyle observed that credit risk occurs where there are changes in the value of the portfolio held by commercial banks due to the failure of one party usually the borrower to meet their part of the contractual obligations. Otwori (2013) observed that the main source of credit risk includes inappropriate credit policies, poor management structures, lack of post disbursement follow-ups and poor credit assessments.

The theory connects to the current study by showing how commercial banks can mitigate against defaulters by ensuring that they check key variables such as customers’ credit status information and consumer default information. This can be done using the laid down procedures such as pulling the credit reports and studying the credit scores of the borrower. The credit report helps lenders manage risks in a number of ways. When a customers’ report has many non-performing facilities, then the commercial bank may decide to avoid taking the risk of lending or it may lend at high interest rate. The theory also advocates for other mechanisms of managing the bank risk such as following up on the policies and procedures laid down and by ensuring that loans are approved by well constituted committees and approved by the management of the commercial bank. The bank risk management theory ensures that banks do a cross reference with bureaus to ensure that they do not lend to organizations that have defaulted and in the process they improve their asset quality.

5. RESEARCH METHODOLOGY

The study used a descriptive research design. The target population for the study comprised of the twenty five licensed commercial banks operating in Nakuru Town as at December 31, 2017 (CBK Annual Report, 2017). The target respondents were the credit administrators, credit managers and branch managers of the respective commercial banks in Nakuru town. The exact number of individuals targeted in the study was eighty seven. The study sampled twenty five commercial banks that have branches in Nakuru town. Purposive sampling was used and it enabled the researcher to obtain the exact information required from a limited number of people who have that exact information. Out of the eighty seven individuals targeted, seventy eight were directly involved which represented ninety percent of the targeted individuals. The study used primary data in order to obtain accurate results. The study used open-ended and closed-ended structured questionnaires which were administered to each member of the population. Data collection involved the drop and pick procedure. The questionnaires were dropped off at the respondents work stations and given enough time to fill them. After the questionnaires were duly filled the researcher picked them for analysis. The data was analyzed using descriptive statistics to describe the data and examine the relationships between the variables under investigation. The data was analyzed through the use of descriptive statistics such as mean, median, mode and percentages. The Statistical Package for Social Sciences was used to analyze the data. The study
used inferential statistics such as correlation analysis and multiple linear regression analysis. Multiple linear regression model was used in measuring each variable.

### 6. CONCEPTUAL FRAMEWORK

<table>
<thead>
<tr>
<th>Collateral Information</th>
<th>Asset Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Nature of collateral</td>
<td></td>
</tr>
<tr>
<td>• Value of the collateral</td>
<td></td>
</tr>
<tr>
<td>• Cost</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Ratings Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The credit score (points)</td>
<td></td>
</tr>
<tr>
<td>• Financial strength</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer Identity Verification</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Biometrics</td>
<td></td>
</tr>
<tr>
<td>• Identification documents (ID)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customers Credit Status Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Positive listing</td>
<td></td>
</tr>
<tr>
<td>• Negative listing</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Consumer Default Details Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Number of days in default</td>
<td></td>
</tr>
<tr>
<td>• Amounts defaulted</td>
<td></td>
</tr>
<tr>
<td>• CRB rating</td>
<td></td>
</tr>
</tbody>
</table>

### 7. RESEARCH RESULTS

Pearson correlation analysis was to determine the nature of the relationship between the independent and dependent variables. The finding is presented in Table 1.

**Table 1: Correlations between Independent and Dependent Variables**

<table>
<thead>
<tr>
<th></th>
<th>Asset Quality</th>
<th>Security/Collateral Information</th>
<th>Business Ratings Information</th>
<th>Consumer Identity Verification Information</th>
<th>Customer’s Credit Status Information</th>
<th>Consumer Default Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security/Collateral Information</td>
<td>Pearson Correlation: .393**</td>
<td>Sig. (2-Tailed): .000</td>
<td>N: 78</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Ratings Information</td>
<td>Pearson Correlation: .546**</td>
<td>Sig. (2-Tailed): .000</td>
<td>N: 78</td>
<td>.505**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Consumer Identity</td>
<td>Pearson Correlation: .243*</td>
<td></td>
<td></td>
<td>.217</td>
<td>.499**</td>
<td>1</td>
</tr>
</tbody>
</table>
The finding revealed that there exists a positive and statistically significant relationship between Security/Collateral Information and Asset Quality ($r=0.393^{**}; p<0.01$). This implies that when the nature of collateral, charges associated with collateralization and all the collateral information is improved in the bank, its Asset Quality improves. Similarly, when collateral information is not properly documented will lead to non-performance in loans. This finding corroborates Owino (2013) who emphasized that lending policies and non-performing loans are indeed related. Lending policies help the banks lend prudently and lowers the risk level to the banks, and strict adherence to lending policies therefore has led to reduced non-performing loans. Moreover, the finding revealed that there exists a positive and statistically significant relationship between Business Ratings Information and Asset Quality ($r=0.546^{**}; p<0.01$). This indicates that development and implementation of Business Ratings Information will improve Asset Quality of a bank. However, lack of implementation of Business Ratings Information will decrease its Asset Quality. In other words commercial banks should lend to individuals and businesses that have a high credit rating in order to improve on their loan performance. This finding is consistent with Wanjiria (2010) who noted that there was a positive relationship between non-performing loans management practices and the financial performance of commercial banks in Kenya which implies that adoption of nonperforming loans management practices leads to improved financial performance of commercial banks in Kenya. Similarly, it was noted that there exists positive and statistically significant relationship between Consumer identity verification information and Asset quality ($r=0.243^{*}; p<0.05$). This shows that once procedure in consumer identity verification is accurately documented, asset quality of banks will improve. However, lack of proper verification of clients before acquiring loans will lead to downward trend in the asset quality of banks. Satish and Sumanta (2018) advises that without an appropriate governance structure and operational setup, banks will not be able to address their NPL issues in an efficient and sustainable way. Similarly, Shahbaz, Tabassum, Muhammad, Mansoor, Hafiz and Yasir (2012) concluded that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks.

The study found that there exists positive and statistically significant relationship between Customer’s credit status information and Asset quality ($r=0.232^{*}; p<0.05$). This indicates that proper enhancement of Customer’s credit status information will improve on Asset quality of a
bank. Conversely, lack of correct customer’s credit status information could lead to decrease in Asset quality, characterized by non-performing loans. Akehege (2011) found out in a research that character of a loanee was most considered when appraising loan applications being one of the characteristics included in the credit scoring card. As a result, it was clear that all banks loan books contained a significant level of non-performing loans. Also, the finding agrees with Kisengese (2014) who states that all banks had challenges of non-performing loans. Sharing of customer credit information affected the Non-performing loans as it helped the banks to decline loaning chronic defaulters; Including all credit history from other credit suppliers (positive information) would increase credit approval by commercial banks, while low default rate would result from lending to borrowers based solely on all credit suppliers positive information which would increase credit approval by commercial Banks. Additionally, the study established that there exists positive and statistically significant relationship between Consumer default information and Asset quality ($r=0.511^{**}; p<0.01$). This indicates that proper documentation in Consumer Default Information enhances Asset quality in commercial banks. Conversely, lack of appropriate regarding consumer default information may reduce banks Asset quality. This view agrees that of Kisaka (2016) who found a positive relationship between credit rating practices and performance of the loan book in commercial banks of Kenya. The author further concluded that commercial banks consider the historical background of borrowers, capacity to pay loan, credit reference report, and collateral for the loan and credit rationing in assessment of the credit risk.

To determine the effects of credit information on asset quality, multiple linear regression was used. Table 2 shows the model summary.

**Table 2: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.645a</td>
<td>.416</td>
<td>.375</td>
<td>.860</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Consumer Default Information, Consumer Identity Verification Information, Security/Collateral Information, Customer’s Credit Status Information, Business Ratings Information*

It is reported that R-squared is a goodness-of-fit measure for linear regression models. This statistic indicates the percentage of the variance in the dependent variable that the independent variables explain collectively. R-squared measures the strength of the relationship between your model and the dependent variable (Frost, 2018). Regarding Table 4.9, the model indicates that 37.5% in Asset quality is explained by consumer default, consumer identity verification, security/collateral, customer’s credit status and business ratings information. Fischer distribution test called F-test (ANOVA) was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at 5% confidence level. Table 3 presents the ANOVA test.

**Table 3: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>37.926</td>
<td>5</td>
<td>7.585</td>
<td>10.255</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>53.254</td>
<td>72</td>
<td>.740</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>91.179</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Asset Quality*
b. Predictors: (Constant), Consumer Default Information, Consumer Identity Verification Information, Security/Collateral Information, Customer’s Credit Status Information, Business Ratings Information

In this study, the p-value for the F-statistic was applied in determining the robustness of the model. If the p-value is less than 0.05 then it will be concluded that the model is significant and has good predictors of the dependent variable and that the result are not based on chance. According to Table 4.10, the model is significant in predicting the dependent variable at 0.05 level, $F(5, 72) = 10.255, p < 0.05$. It was therefore concluded that the model was significant and has good predictors of the dependent variable and that the result are not based on chance.

**Table 4: Regression Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.933</td>
<td>.407</td>
<td>2.294</td>
</tr>
<tr>
<td>Security/Collateral Information</td>
<td>.176</td>
<td>.130</td>
<td>1.351</td>
</tr>
<tr>
<td>Business Ratings Information</td>
<td>.594</td>
<td>.163</td>
<td>3.635</td>
</tr>
<tr>
<td>Consumer Identity Verification Information</td>
<td>-.093</td>
<td>.118</td>
<td>-1.792</td>
</tr>
<tr>
<td>Customer’s Credit Status Information</td>
<td>-.325</td>
<td>.119</td>
<td>-2.720</td>
</tr>
<tr>
<td>Consumer Default Information</td>
<td>.363</td>
<td>.144</td>
<td>2.514</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Asset quality*

To determine the effect of credit referencing on asset quality, the unstandardized beta for this regression model was used. From the results in Table 4, the regression equation can be fitted as follows:

$$Y = 0.933 + 0.176X_1 + 0.594X_2 - 0.093X_3 - 0.325X_4 + 0.363X_5 + 0.86$$

Asset quality is influenced by:

- **Business Ratings Information**, which significantly influences up to 59.4% positive variation on Asset quality.
- **Collateral Information**, which influences 17.6% positive variation on Asset quality.
- **Consumer Default Information**, which significantly influences 36.3% positive variation on Asset quality.
- **Customer’s Credit Status Information**, which significantly influences 32.5% negative variation on Asset quality.
- **Consumer Identity Verification Information**, which influences 9.3% negative variation on Asset quality.

This implies that for every one unit increase in Business Ratings information, Asset quality increases by 59.4%. Similarly, Collateral Information increases Asset quality by 17.6%. It was also observed that Consumer Default Information significantly influences 36.3% positive variation on Asset quality. However, it was noted that Customer’s Credit Status Information significantly influences 32.5% negative variation on Asset quality. This implies that for every one unit increase in Customer’s Credit Status Information, Asset quality decreases by 32.5%. Similarly, Consumer Identity Verification Information influences negatively Asset quality by 9.3%. In this study, Business ratings information is the best predictor of asset quality. Therefore, the effect of the independent variables on the dependent variable is significant with business rating significantly influencing asset quality by 59.4%. On the other hand, customer’s credit status information was insignificant since for every one unit increase in customer’s credit status information, asset quality decreases by 32.5%. Customer’s credit status variable could be eliminated from the model without significantly impacting the accuracy of the model.
8. CONCLUSION

On the basis of the findings of the first objective, the study concludes that security/collateral information influences positively on asset quality. This implies that when proper documentation regarding the nature of collateral as well as the charges associated with collateralization is developed in the bank, its asset quality improves. Regarding the findings of the second objective, the study concludes that business ratings information significantly influences positively on asset quality. This indicates that commercial banks should lend to individuals and businesses that have a high credit rating in order to improve on their asset quality. Concerning the findings of the third objective, the study concludes that consumer identity verification information influences negatively on asset quality. Therefore, lack of proper verification of clients before acquiring loans will lead to plunging trend in the asset quality of banks. On the basis of the findings of the fourth objective, the study concludes that customer’s credit status information significantly influences negative variation on asset quality. Therefore, lack of correct customer’s credit status information could lead to decrease in asset quality, characterized by non-performing loans. Vis-à-vis the findings of the fifth objective, the study concludes that consumer default information significantly influence positive variation on asset quality. This indicates that proper records regarding consumer default enhances asset quality in commercial banks.

9. RECOMMENDATIONS

The study recommends that collateral information should be controlled in order to promote positive loan performance by commercial banks. Moreover, business ratings information should be adequately provided in order to enhance the quality of asset portfolio held by commercial banks. The study further recommends that proper verification of clients should be promoted by commercial banks in order to control Non-Performing Loans. In this regard, the study highly recommends the use of biometric signature for loan applicants to avoid instances of fraud and misrepresentation. The study also recommends implementation of correct customer’s credit status information to avert incidences of serial Non-Performing Loans. Finally, the study recommends that holistic recording concerning consumer default should be developed in order to improve asset quality in commercial banks. Updating and reporting of consumer default information should be done regularly to enable the commercial banks have the most updated information concerning a loan applicant.

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