

THE EFFECT OF CREDIT INFORMATION SHARING ON LOAN PERFORMANCE
IN COMMERCIAL BANKS IN NAIROBI COUNTY

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ABSTRACT

Information remains a crucial input in the banking industry. Banks are confronted with asymmetric information problems because of borrowers' informational opacity. Banks overcome this problem by accumulating information about their borrowers' creditworthiness, using their superior ability to collect and process information. Obtaining useful unique information about their borrowers can be costly for banks, but it provides a competitive advantage and a source of rents over the lifetime of the relationship. Commercial banks play a pivotal role in the economy in the intermediation process by mobilizing deposits from surplus units to deficit units. The surplus is channeled to deficit units through lending. Lending is the main activity of commercial banks in Kenya. The Kenyan banking sector was in the 80's and 90's saddled with a momentous Non-Performing Loans (NPLs) portfolio. This invariably led to the collapse of some banks. One of the catalysts in this scenario was "Serial defaulters", who borrowed from various banks with no intention of repaying the loans. Undoubtedly these defaulters thrived in the "information asymmetry" environment that prevailed due to lack of a credit information sharing mechanism. Credit Reference Bureaus complement the central role played by banks and other financial institutions in extending financial services within an economy. CRBs help lenders make faster and more accurate credit decisions. They collect, manage and disseminate customer information to lenders within a provided regulatory framework – in Kenya, the Banking (Credit Reference Bureau) Regulations, 2008 was operationalized on 2nd February, 2009. The Regulations govern licensing, operation and supervision of CRBs by the Central Bank of Kenya. The development of a sustainable information sharing industry is therefore recognized as a key component of financial sector reforms in almost all developing and emerging economies. It is on this background that this study was carried out to establish the effects of Credit Information Sharing (CIS) on performance of loans in Commercial Banks in Nairobi County in Kenya. Specifically, the study aimed to investigate the effects of Credit Information Sharing (CIS) on loan uptake, interest rates, default rates and the use of collaterals as security to loans. The study was carried out on 35 commercial banks in Nairobi County. The results indicate that improved screening effects from the CIS system caused the level of loan portfolio arrears to decline after it was implemented in most banks. The Researcher also observed an even more substantial and significant effect of the information system in reducing late payments that occur during the loan cycle. The researcher also found out that when information is shared by an information exchange

institution, such as credit bureaus and public credit registers, the higher competition drives down interest rates and reduces benefits derived from otherwise monopolistic information. Credit Information Sharing allows banks to better distinguish between good and bad borrowers and over time, potential borrowers with a "Good Credit Report" or "Good Credit History" are able to access loans more cheaply and easily than high risk defaulters.

Keywords: *Credit Information Sharing On Loan Performance in Commercial Banks*

INTRODUCTION

Information remains a crucial input in the banking industry. Banks are confronted to asymmetric information problems because of borrowers' informational opacity. Banks overcome this problem by accumulating information about their borrowers' creditworthiness, using their superior ability to collect and process information (Diamond 1984, Diamond 1991, Ramakrishnan and Thakor 1984). Obtaining useful unique information about their borrowers can be costly for banks, but it provides a competitive advantage and a source of rents over the lifetime of the relationship: under asymmetric information borrowers will find it difficult to switch from their incumbent bank to its competitors (Sharpe 1990, Von Thadden 2004). Incumbents are therefore able to appropriate monopolistic rents.

Recent development in technology and information sharing institutions provide possibilities for expanding exchange of information. When information is shared by an information exchange institution, such as credit bureaus and public credit registers, the higher competition drives down interest rates (Brown, Jappelli and Pagano 2007, Jappeli and Pagano 1993, Love and Mylenko 2003), and reduces benefits derived from otherwise monopolistic information. As a result, it is natural to think that banks will lose their incentives to acquire information on their borrowers: first, competitive pressure may drive down interest rates; second, borrowers are no longer informationally locked in and are able to switch to rival banks, that have access to similar information. And if these hypotheses are true, and incentives to acquire information indeed go down, this may lead to less accurate lending decisions, and challenge the importance of information sharing. Many borrowers make a lot of effort to repay their loans, but do not get rewarded for it because this good repayment history is not available to the bank that they approach for new loans. On the other hand, whenever borrowers fail to repay their loans, banks are forced to pass on the cost of defaults to other customers through increased interest rates and other fees.

Credit Information Sharing allows banks to better distinguish between good and bad borrowers. Someone who has failed to pay their loan at one bank will not simply be able to walk to another bank to get another loan without the banks knowing about it. Over time, potential borrowers with a "Good Credit Report" or "Good Credit History" should be able to access loans more cheaply and easily than high risk defaulters. Commercial banks play a pivotal role in the economy in the intermediation process by mobilizing deposits from surplus units to deficit units (CBK, 2010). The surplus is channeled to deficit units through lending. Lending is one of the main activities of commercial banks and any other financial institutions in Kenya. This is evident by the size of loans that form banks assets and the annual substantial increase in the amount of credit granted to borrowers in the country. Loan portfolio is naturally the largest asset and the largest source of income for banks. In view of the significant contribution of loans to the financial health of banks through interest income generated, these assets are considered the most important assets of banks (CBK, 2007).

Statement of problem

The Kenyan banking sector was in the 80's and 90's weighed down with a momentous nonperforming assets portfolio. This habitually led to the end of certain banks. One of the promoters in this situation was serial defaulters, who borrowed from a range of banks with no purpose of repaying the loans. Certainly these defaulters thrived in the "information asymmetry" environment that prevailed due to lack of a credit information sharing mechanism. Information asymmetry refers to a situation where business owners or managers know more about the scenario, for and risk facing, their business than do lenders. Information asymmetry describes the condition in which relevant information is not known to all parties involved in an undertaking (Ekumah and Essel, 2003). It has been used extensively to explain a diversity of concept, including those in different market condition (Misukin, 1991).

Banks in Kenya have had a high rate of loan default from the borrowers which have caused significant losses to the banks. This is because commercial banks have varied credit information and credit history about their borrowers and the credit seekers have taken this shortfall to get many loans from these banks which increases their rate of default because they might fail to service back all the loans. Prof. NjugunaNdung'u, governor Central Bank of Kenya during annual address in year 2008, noted that the realization of credit information sharing in the banking sector will not only bring good news to the banks and the banking sector but also to the borrowers and the economy as a whole. This national success stands to significantly benefit the

economy and is bound to stir changes in the way credit is managed in the industry in the sense that lenders will be in a position to access comprehensive credit data and will be able to price risk accordingly for both good and bad borrowers(CBK, 2008).

This study was therefore guided by objectives that sought to; find out the effect of credit information sharing on performance of loans in Commercial Banks in Nairobi County and specifically to establish the trend of loan uptake, interest rates, loan default and use of collaterals before and after the introduction of CRB. Data was collected from secondary data, collected from Central Bank of Kenya website and from published financial statements of the commercial banks and relevant journals. The researcher adopted a descriptive research design and stratified proportionate random sampling technique was used to select the sample and data was analyzed using both qualitative and quantitative methods and explanation given.

Objectives of the Study

General Objective

The main purpose of this study was to establish the effect of Credit Information Sharing on the performance of loans in Commercial Banks in Nairobi County.

Specific Objectives

The specific objectives of this study were

- i. To determine the effect of CIS on the loan uptake in commercial banks in Nairobi County.
- ii. To establish the effect of CIS on interest rates on loans in commercial banks in Nairobi County.
- iii. To explore the effect of CIS on the loan default in the commercial banks in Nairobi County.
- iv. To investigate the effect of CIS in the use of collateral in the commercial banks in Nairobi County.

Research Questions

- i. What are the effects of CIS on the loan up take in the commercial banks in Nairobi County?
- ii. How does CIS affect the interest rates on loans in commercial banks in Nairobi County?
- iii. What is the effect of CIS on loan default in commercial banks in Nairobi County?

- iv. How does CIS affect the use of collaterals in commercial banks in Nairobi County?

Justification of the Study

The results of this study will fill in the knowledge gaps by providing information on the effect of Credit Information Sharing on loan performance in Commercial Banks in Kenya. Findings of the study would be useful to all the commercial bank Managers and stakeholders in the financial sector and would assist the government in policy formulation to improve the CIS sector.

The study contributes to literature and forms part of empirical review and may inspire prospective researchers to explore more dimensions on the effect of CIS on performance of loans and would therefore form the basis for future research.

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LITERATURE REVIEW

Theoretical Framework

Theory of Asymmetric information

The theory of asymmetric information indicates that it may be complex to distinguish between good and bad borrowers (Auronen, 2003) in Richard (2011), which may result into adverse selection and moral hazards problems. The theory expounds that in the market, the person that possesses more information on a particular item to be transacted (in this case the borrower) is in a position to negotiate optimal terms for the transaction than the other party (in this case, the lender) (Auronen, 2003) in Richard (2011). The party that knows less about the same specific item to be transacted is therefore in a position of making either right or wrong decision concerning the transaction. Adverse selection and moral hazards have led to significant accumulation of nonperforming loans in banks (Bester, 1994; Bofondi and Gobbi, 2003).

Adverse Selection Theory

Pagano and Jappelli (1993) show that information sharing reduces adverse selection by improving banks information on credit applicants. In their mode of doing business, each banking institution has private information about local credit applicants, but has no information about foreign applicants. If banks exchange information about their clients' credit worth, they can

assess also the quality of foreign credit applicants and lend to them as carefully as they lend to local customers. By reducing information asymmetry between lenders and borrowers, credit registries allow loans to be extended to safe borrowers who had previously been priced out of the market, resulting in higher aggregate lending.

Moral Hazard Theory

The moral hazard problem implies that a borrower has the incentive to default unless there are consequences for his future applications for credit. This result from the difficulty lenders have in assessing the level of wealth borrowers will have accumulated by the date on which the debt must be repaid, and not at the moment of application. If lenders cannot assess the borrower's wealth, the latter will be tempted to default on the borrowing. Forestalling this, lenders will increase rates, leading eventually to the breakdown of the market Alary and Goller (2001).

Loan Uptake

Lending is one of the main activities of commercial banks and any other financial institutions in Kenya. This is evident by the size of loans that form banks assets and the annual substantial increase in the amount of credit granted to borrowers in the country. Loan portfolio is naturally the largest asset and the largest source of income for banks. In view of the significant contribution of loans to the financial health of banks through interest income generated, these assets are considered the most important assets of banks.

Interest Rates

Interest rate is the price a borrower pays for the use of money they borrow from a lender financial institutions or fee paid on borrowed assets, Crowley(2007). Interest can be thought of as “rent of money”. Interest rates are fundamental to a “capitalist society” and normally is the expressed as a percentage rate over one year. Interest rate as a price of money indicates market information concerning probable change in the purchasing power of money or future inflation (Ngugi, 2001). Financial institutions facilitate mobilization of savings, diversification and pooling of risks and allocation of resources (Collins NJ, et al, 2011). However, since the receipts for deposits and loans are not harmonized, intermediaries like banks incur certain costs (Ngugi, 2001). They charge a price for the intermediation services offered under uncertainty and set the interest rate levels for deposits and loans. The disparity between the gross costs of borrowing and the net return on lending defines the intermediary costs which include information costs, transaction costs, administration, default costs and operational costs (Rhyne, 2002). Interest rate spread is well-defined by market microstructure characteristics of the banking sector and the policy environment (Ngugi, 2001).

Loan Default (non performing loans)

Lending is the main business of financial institutions and loans is naturally the main asset and the major source of revenue for banks. Despite the huge income created from lending, available literature shows that huge shares of banks loans regularly go bad and therefore affect the financial performance of these institutions. The issue of bad loans can fuel banking crisis and result in the collapse of some of these institutions with their attendant repercussions on the economy as a whole. Kane and Rice (2001) stated that at the peak of the financial crisis in Benin, 80% of total bank loans portfolio which was about 17% of GDP was nonperforming in the late twentieth century. Certainly bad loans can lead to the collapse of banks which have huge balances of these nonperforming loans if measures are not taken to minimize the problem. Many borrowers that are potentially good credit risk fail to get funding because the lenders cannot objectively establish their credit history due to the underlying challenge of information asymmetry. Also, some bad loan borrowers, who know that banks operate in isolation, have exploited the information asymmetry to create multiple bad debts in the banking industry in Kenya. The operation nature of these loan serial defaulters have distorted the lending business in the credit market, adversely affecting bank performance, threatening banking sector stability and curtailing growth of the credit to the private sector due to the high interest charged on facilities to compensate on the credit risk. Therefore, this upsurge of nonperforming loans has caused a spiral effect on the interest charged to all borrowers across the market. In addition, the fear of lending to bad debtors has led to the tendency by banks to scramble for less risky lending in the form of government securities such as treasury bills and treasury bonds.

Collateral

Collateral can be defined as property or other assets that a borrower offers a lender to secure a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Because collateral offers some security to the lender in case the borrower fails to pay back the loan, loans that are secured by collateral typically have lower interest rates than unsecured loans. A lender's claim to a borrower's collateral is called a lien (Rajan (1995)).

In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default - that is, any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that

borrower forfeits (gives up) the property pledged as collateral—and the lender then becomes the owner of the collateral. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral. Should the buyer fail to pay the loan under the mortgage loan agreement, the ownership of the real estate is transferred to the bank. The bank uses a legal process called foreclosure to obtain real estate from a borrower who defaults on a mortgage loan obligation.

Concept of Collateral

Collateral, especially within banking, traditionally refers to secured lending (also known as asset-based lending). More recently, complex collateralization arrangements are used to secure trade transactions (also known as capital market collateralization). The former often presents unilateral obligations secured in the form of property, surety, guarantee or other as collateral (originally denoted by the term security), whereas the latter often presents bilateral obligations secured by more liquid assets such as cash or securities, often known for margin. Another example might be to ask for collateral in exchange for holding something of value until it is returned. Some forms of lending are solely based on the strength of the collateral such as gold, jewelry and property. Certain non-conservative lending practices such as lending against antique items or art works are also known to exist (Anielski, 2006).

Marketable Collateral

Marketable Collateral is the exchange of financial assets, such as stocks and bonds, for a loan between a financial institution and borrower. To be deemed marketable collateral assets must be capable of being sold under normal market conditions with reasonable promptness at a fair market value. Conditions are based upon actual transactions on an auction or similarly available daily bid, or ask price market. For national banks to accept a borrower's loan proposal, collateral must be equal or greater than 100% of the loan or credit extension amount. The bank's total outstanding loans and credit extensions to one borrower may not exceed 15 percent of the bank's capital and surplus, plus an additional 10 percent of the bank's capital and surplus (Garrett & Joan, 1995).

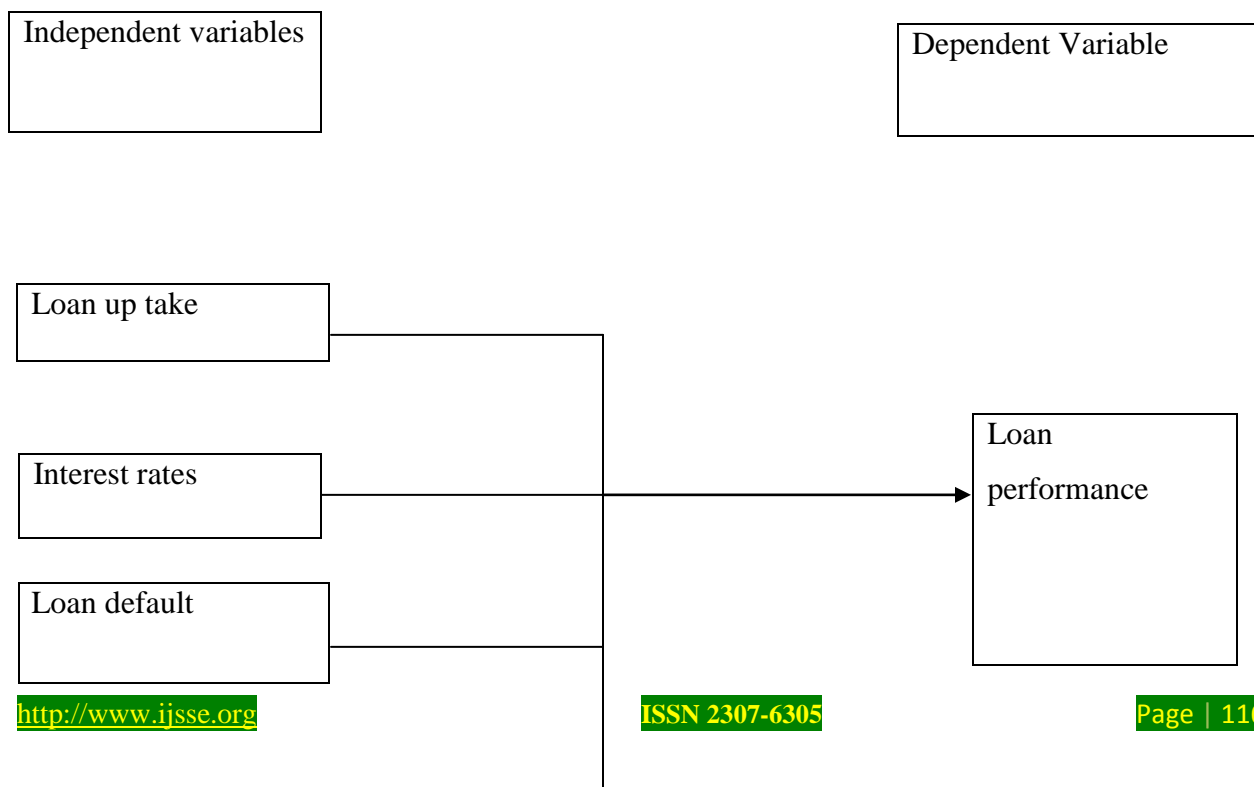
Declination of collateral value is the primary risk of securing loans with marketable collateral. Financial institutions closely monitor the market value of any financial asset held as collateral and take appropriate action if the value subsequently declines below the predetermined maximum loan-to-value ratio.

Conceptual Framework

A conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical/ synthetically aspects of a process or system being conceived. The interconnection of these blocks completes the framework for certain expected outcomes.

According to Miles and Huberman (1994) a conceptual framework is a narrative or graphical explanation of the most important concepts to study. It is crucial to be selective and choose the most relevant variables and relationships that have the highest probability to be relevant for the study (Miles and Huberman, 1994)The conceptual framework emerges from the literature reviewed in the thesis, is created to help the researchers collect data necessary to answer the research questions. Therefore only the most relevant literature to the research will be chosen and presented in the same order as the research questions are presented.

A conceptual framework is a graphical or diagrammatic representation of the relationship between variables in a study (Borg, Gall & Gall, 2005). It helps the researcher to see the proposed relationship between the variables easily and quickly. A conceptual framework’s proposition summarizes behaviours and provides explanations and predictions for the majority number of empirical observations (Cooper & Schindler, 2008).



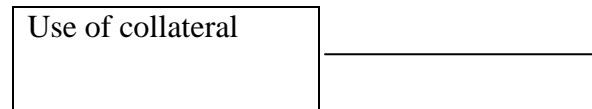


Figure 1: Conceptual Framework

Empirical Review

Although theory is ambiguous on the impact that information sharing will have on the credit market, empirical evidence has provided plenty of evidence supporting the claim that credit sharing institutions have a positive effect on lending. For instance, Jappelli and Pagano (2002) show that strong credit-sharing institutions are positively related to the size of the credit market. Other empirical studies, including Jappelli and Pagano (1993), Love and Mylenko (2003), Galindo and Miller (2001) and Powell, et al. (2004) have shown that credit is more abundant when borrowers and lenders benefit from credit-sharing institutions. Brown, Jappelli and Pagano (2006) found that credit sharing between lenders is associated with increased and cheaper credit in transition countries in Eastern Europe. Djankov, McLiesh and Shleifer (2007) show that such institutions are associated with higher ratios of private credit to gross domestic product. Berger, Frame and Miller (2005) demonstrate how such institutions increased the quantity of small business loans in the United States, and, more importantly, served to expand credit to riskier, —marginal borrowers – i.e. firms that, in the absence of credit information sharing institutions would probably not receive credit.

Evidence also supports the theory that information sharing reduces moral hazard. Doblaz-Madrid and Minetti (2009) found that if lenders enter credit information sharing institution, their borrowers improve their repayment performance – delinquent payments on leases and loans decrease. Brown and Zehnder (2007) found empirical evidence that the lending market would collapse in the absence of information sharing institution and reputational banking. However, their study also showed that establishing a credit registry encouraged borrowers to repay their loans by allowing lenders to identify borrowers with a good payment history.

According to Jared Getenga (2007), one of the features that banks deliberate when deciding on a loan credit application is the estimated chances of recovery. To arrive at this, credit information is required on how well the applicant has honoured past loan obligations.

This credit information is important because there is usually a definite relationship between past and future performance in loan repayment. Very often, this history is not within the bank's reach because the potential borrower's repayment records are scattered in the various archives of the other financial institutions where the customer has previously borrowed.

Whenever a borrower has credit information that the lender cannot access, this is officially referred to as information asymmetry. Kalberg and Udell (2003) also point out that information exchange from multiple sources improves the precision of the signal about the quality of the credit seeker. As a result, the default rate reduces. In contrast, the effect on lending is vague, because when banks exchange credit information about borrowers' categories, the implied increase in lending to good borrowers may fail to compensate for the reduction in lending to risky borrowers. Banking competition for borrowers strengthens the positive effect of information sharing on lending: when credit markets are competitive, information sharing reduces informational interest charged and increases banking competition, which in turn leads to increased lending. Information sharing can also create incentives for borrowers to perform in line with banks' interests. Klein (1992) shows that information sharing can motivate borrowers to pay their loans, when the legal atmosphere makes it difficult for banks to implement credit agreements. In this model borrowers repay their loans because they know that defaulters will be blacklisted, reducing external finance in the near future.

Kenya government recognizes the chronic burden of NPLs in the banking industry. For instance, in the budget speech of June 2003, the Minister of Finance indicated that, the government was exploring possibilities of setting up a non-performing loan agency with judicial powers to deal with the issue of bad debts (Oloo 2003). In the year 2007, government introduced the in-duplum rule providing that interest on NPLs be stopped from accruing further interest, as soon as the interest already levied equals the principal borrowed (Oloo 2007). This bill was meant to check further escalation of NPLs. Further, enactment of the Finance Act 2006 by parliament, made sharing information on non-performing loans compulsory, in an effort to reduce the incidence of non-performance of loans (Banking supervision Annual Report 2007). Oloo (2001) traced the genesis of NPLS in Kenya to the external environment in which the Kenyan banks operate. He argues that when the government was faced by the clamour for, multiparty, it held an election in 1992 for which it was ill prepared. Out of desperation, the CBK was compelled to imprudently print money ostensibly to fund the elections. The result was a sharp increase in interest rates as the government thereafter, sought to clear up excess liquidity. The domestic debt rose from Kshs.

45 billion in 1992 to Kshs.166 billion, in 1993. Oloo further comments that the interest rate on treasury bills rose from 23% in early 1992 to 76% in 1993. This argument points that external environment had an influence on the level at NPLs in the banking industry in Kenya.

METHODOLOGY

The research design

Cooper & Schindler (2008) define research design as the plan and structure of investigation so conceived as to obtain answers to research questions. It includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of the data (Kerlinger, 1986). The study was exploratory and used descriptive survey and ex- post facto research design. Exploratory research study formulates a problem for more precise investigation for the discovery of ideas and insights and therefore it becomes flexible to provide opportunity for considering different aspects of the problem under study (Kombo & Tromp, 2006; Kothari, 2006). Descriptive research is a process of collecting data to answer questions concerning current status of the subjects in the study. It determines and reports the way things are with the subjects. It attempts to describe such things as the behaviour, attitudes, values and characteristics (Mugenda & Mugenda, 2008; Cooper & Schindler 2008).

DATA ANALYSIS AND RESEARCH FINDINGS

Effect of CIS on the loan uptake

From the desktop research and secondary data, the research established both positive and negative effects of CIS on loan up take in commercial banks. For those who felt that CRBs reduced credit access in Kenya, they indicated that consumers with poor credit repayment histories were barred from accessing credit; they further indicated that the process of accessing the information was dilatory and therefore increased the waiting period for the loans to be processed. The study demonstrated that, after establishing Credit Reference Bureaus, banks were able to issue smaller and shorter-term loans and to require more guarantees. This showed that sharing information allowed lenders to see the entire indebtedness of their borrowers. In cases where this was high, they could reduce overall indebtedness. The study also found that credit sharing between lenders was associated with increased and cheaper credit for the borrowers. It was also established that introduction of CIS improved the quantity of small business loans and helped to expand credit to riskier borrowers.

Effect of CIS on interest rates

The presence of Credit Information Sharing Institutions reduced the information monopoly of a lender on its borrowers, thus reducing the extra interests that lenders charged their clients.

The study also established that due to the competitiveness of credit markets, information sharing reduced informational interest charged and increased banking competition, which in turn led to increased lending.

Effect of CIS on loan default

The credit information enables banks to make informed credit decisions and is in turn expected to deter incidences of non-performing loans. Without CIS, borrowers had a tendency to repay loans only when they planned to maintain their current lending relationship. However, with the introduction of CIS borrowers had a higher chance of repaying their loans regardless of whether they were planning to continue their current lending relationship or not. Thus, it can be implied that Credit Information, positively impacted borrower repayment. This in effect reduces the rate of loan default.

Another finding of the study was that Credit Information Sharing (CIS) helped lenders avoid serious losses from short term borrowers. The existence of the blacklist helps lenders to avoid risky borrowers, and the fact that borrowers want to avoid being on the black list improves repayment incentives for borrowers who make it into the lending portfolio therefore reducing the rate of default. Borrowers repay their loans because they know that blacklisting would reduce external finance in the near future. Credit information systems first create a screening effect that improves risk assessment of loan applicants, thereby raising portfolio quality, which in turn reduces rates of arrears. The study established that information exchange from multiple sources improved the precision of the signal about the quality of the credit seeker. As a result, the default rate reduces.

Effect of CIS on use of collateral

The credit sharing mechanism enables customers develop personal collateral based on their credit track records. This enables particularly those in the informal sector and small and medium enterprises to access credit. This segment of lending market is at times constrained by lack of physical security to offer banks as collateral for loans. The sharing of positive information allows for the debtor to create vital “reputation collateral” often in the form of a credit score, which can provide valuable information to the credit market, and signal a borrower's individual credit worthiness to a large pool of lenders. The sharing of positive information is expected to allow

potential borrowers to use their profiles to bargain for softer terms of credit which include lower interest rates and zero collateral.

Summary of Findings

The study showed that Credit Information Sharing (CIS) positively impacted the credit market in the following ways: Without a CIS, borrowers had a tendency to repay loans only when they planned to maintain their current lending relationship. However, with the introduction of CIS borrowers had a higher chance of repaying their loans regardless of whether they were planning to continue their current lending relationship or not. Thus, it can be implied that Credit Information Sharing institutions, positively impacted borrower repayment. The presence of Credit Information Sharing Institutions reduces the information monopoly of a lender on its borrowers, thus reducing the extra interests that lenders can charge their clients. Another finding of the study was that Credit Information Sharing (CIS) helped lenders avoid serious losses from short term borrowers.

That after establishing a credit bureau, lenders issued smaller and shorter-term loans and required more guarantees. Sharing information allowed lenders to see the entire indebtedness of their borrowers. In cases where this was high, it reduced overall indebtedness. Information sharing allowed borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and more affordable. Credit information sharing assisted in making credit accessible to more people, and enabled lenders and businesses reduce risks and fraud. Sharing of information between financial institutions in respect of customer credit behavior, therefore, has a positive economic impact. The results indicated that improved screening effects from the system caused the level of portfolio arrears to decline after CRBs were introduced in the banking industry. The researcher observed an even more substantial and significant effect of the information system in reducing late payments that occur during the loan cycle.

Conclusions

The study concludes that credit information sharing and loan performance are indeed related. Credit Information Sharing, increases transparency among financial institutions, helps the banks lend prudently, increases loan uptake, lowers the risk level to the banks, acts as a borrowers discipline against defaulting, reduces the borrowing cost i.e. interest charge on loans, and reduces the use of loan collateral for the good borrowers.

CRB has come of age and has helped the banks to lend with care. The effect of it therefore has led to improved loan performance in the commercial banks. Finally, the study concludes that loan performance has improved in the past five years. The improvement is as a result of introduction of credit information sharing mechanism through CRB.

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