

# **The Effects of Interest Rates on Profitability of Microfinancial Institutions in Kenya Embu County: Case Study of Faulu Bank**

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## **Abstract**

This study seeks to examine the impact of interest rates on Profitability of MFIs a study case of Faulu Bank. The main objectives were to assess the impacts of mortgage interests on MFIs profitability, to assess effect of business loans interest on MFIs profitability and to examine the effects of operational costs on profitability of MFIs. The target population for the study consists of all the accounting staff of Faulu Bank, Embu County.

Data was analyzed and presented in tables. The study found that when MFIs set low interest rates, they fetch low profits but the rates should not be too high as this will lead to defaulting of payment by customers thus leading to lower profits, when interest rates on the loans are too high, less customers pay the loans thus lowering the profitability of the MFI but when lower rates are charged, more customers go for the loan and are able to pay the Loan in time and thus increasing the profitability of the MFI. The study recommends that when MFIs wish to consolidate gains in profits, they should consider factors such as availability of set kitty for expansion, travel costs buffer kitty to cushion against unpredictable costs, salary adjustment plans as well as renting costs buffers. Competition from commercial firms and other financial players therefore should be mitigated to arbitrate interest rates and make profits.