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Influence of Strategic Credit Risk Management Practices on Loan Performance in Agricultural Finance Corporation of Kenya - Eldoret Branch

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Abstract
The study was on the influence of strategic credit risk management practices on loan performance in the Agricultural Finance Corporation of Kenya (AFC) – Eldoret Branch. The researcher specifically sought to establish if credit reference bureau information and use of wholesale lending have significant influence on the loan performance in AFC-Eldoret Branch. The Study further explored the staff perceptions on the effectiveness of these practices in managing credit risk and provided suggestions on how to effectively manage credit risk. This was checked against the trend of loan performance from 2008 to 2014 at the Agricultural Finance Corporation Kenya -Eldoret Branch. The findings of this study would form the basis in formulation of the policies related to credit risk management by the top level management of the Agricultural Finance Corporation. Literature was reviewed based on the objectives of the study. The theoretical and conceptual framework hypothesized the relationship between the independent and depend variables. The researcher found descriptive research design appropriate for this study. Target population was 45 employees of AFC working at Eldoret Branch. A sample size of 24 (53%) of the target population was found representative of the target group which included 2 managers; a branch manager and a credit manager and 22 credit officers. The managers were selected using purpose sampling while random sampling was used to select the credit officers. Questionnaires were used to collect data from the credit officers and an interview was carried out with the managers. Document analysis was used to collect secondary data. The quantitative data was analysed using simple descriptive statics, while inferential statistics- chi-square was used to determine if strategic credit risk management practices have a significant influence on the loan performance at AFC. The quantitative findings were presented using tables and figures, while qualitative data was presented in descriptive and narrative form in chapter 4. The study revealed that Credit reference bureau information contributed to reduced credit risks and hence good loan performance. On the contrary, wholesale lending, as a credit risk management did not actually reduce credit risks though the corporation uses it a practice to reduce credit risks. The study therefore recommends that the corporation reconsiders how best to ensure that wholesale lending contributes to positive loan performance. The study also recommended that AFC puts in place a credit risk management team whose mandate will be to establish well defined credit control policy and guidelines that are within the corporation's range of implementation. AFC should also develop an integrated and comprehensive strategy aimed at reducing cases of loan defaults. If AFC implemented these recommendations, there would probably be reduced cases of credit risks. Consequently, the corporation would realize a positive loan performance.
Keywords: strategic credit management, lending conditions, loan performance

Background of the study

Credit refers to the provision of resources such as granting a loan by one party to another party where the second party does not reimburse the first party immediately, thereby generating a debt, and instead arranges either to repay or return those resources or material(s) of equal value at a later date (Ingham, 2004). While, Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs (Ross et al, 2008). Similarly, Henderson (2011) pointed out that credit risk occurs when there is a loss in value as a result of a debtor's non-payment of a loan or other line of credit, either the principal or interest (coupon) or both. According to the International Monetary Fund (IMF, 2009), a non- performing loan is any loan in which interest and principal payments are more than 90 days overdue; or more than 90 days' worth of interest has been refinanced .On the other hand the Basel Committee (2001) puts non-performing loans as loans left unpaid for a period of 90 days

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Statement of the Problem

It is evident from the background that there is a growing concern on the credit risk resulting from high levels of loan default (non-Performing Loans) among lending financial institutions. Consequently, this has negatively affected the sustainability and constrained the scope of credit available to borrowers as these firms have to compensate for loan delinquency losses (Warue, B. N., 2011). In addition, it discourages the financial institutions from refinancing the defaulting members, which put the defaulters once again into vicious circle of low productivity.

The Agricultural Finance Corporation is a key financial institution established by the state to increase access to credit on the basis that, Credit is an important input into the production system and it contributes to increased food productivity (Tegemeo household Survey, 2004). In Kenya's Vision 2030, increasing access to credit by farmers is seen as flagship project in agriculture under the economic pillar that would enable Kenya realize food security and alleviate poverty. This is also among the priorities in the Constitution of Kenya 2010 that the government of Kenya has committed itself to alleviating hunger and poverty by promoting agriculture.

Studies have been carried out to establish accessibility of credit to farmers by various scholars and also determining the default rates, its causes but no specific study has been done on credit risk management practices used in agricultural finance institutions.In an attempt to address the problem of credit risk resulting from non-performing loans, CBK established a CRB in Kenya in July 2010 where, banks and non-formal financial institutions are expected to share information on borrowers. Since then, banks and non-formal financial institutions have accessed 1,306,439 reports from licensed credit reference bureau in Kenya.

However, despite licensing of CRB in Kenya and their facilitation of data sharing, no study has ever been undertaken to determine its influence on loan performance specifically in State owned Agricultural financing institution in Kenya. In the same vein, AFC in its restructuring in 2005/06 adopted wholesale lending as a credit risk management practice that would provide collateral to the loans advanced to the farmers, which was a departure from the traditional retail lending to individual farmers (Iyadi O., 2005). The management did this with the hope that by using this practice the credit risk would be reduced as well as increase accessibility of credit to rural communities. Some of the institutions under this partnership include Micro Finance Institution's, Rural SACCOs, Building Societies and Contract Farming Organizations. Funds are loaned to these existing intermediaries who in turn disburse loans to the rural community in a risk-sharing arrangement with AFC. Since adoption of this practice, no study has been conducted to establish its influence on loan performance at AFC.

It is therefore against this background that the researcher sought to carry out this study to identify the contribution made by use of information from CRB towards managing credit risk; and also establish the effect of wholesale lending on loan performance at AFC-Eldoret Branch. The purpose of this study was thus to assess the influence of the selected strategic credit risk management practices on loan performance at the Agricultural Finance Corporation, Kenya- Eldoret Branch.

Objectives of the Study

The study sought to specifically to:

a) Establish the extent to which use of information from credit reference bureau has influenced the management of credit risks – loan performance at the Agricultural Finance Corporation of Kenya-Eldoret Branch.
b) Determine whether use of wholesale lending has any significant influence on credit risk management-loan performance at the Agricultural Finance Corporation of Kenya - Eldoret Branch.
c) Find out other measures that can be undertaken to manage credit risks with an aim of achieving optimal loan performance at the Agricultural Finance Corporation of Kenya- Eldoret Branch.

LITERATURE REVIEW

According to Mugenda and Mugenda (2003), literature review involves the systematic identification, location and analysis of documents containing information related to the research problem being investigated. The broad objective of this study is to determine the influence of credit risk management practices on loan performance at Agricultural Finance Corporation of Kenya, Eldoret Branch. This chapter presents a theoretical framework on two selected credit risk management practices used by the AFC-Eldoret Branch: Credit Reference Bureau and Wholesale Lending; provides a conceptual framework on the hypothesized relationship between the independent and depend variables, Empirical review of related studies, summary and the research gap.

Social Psychological Theory

Social psychologists Kraut R. E., Fussell, S. R., Brennan, S. E., & Siegel, J. (2002), developed a rich theoretical base for understanding and predicting group behavior. It is further asserted that this theory attempts to analyze the nature of groups with the intent of understanding the group behavior and how the theory could contribute to the design of collaborative systems. There is substantial agreement among social psychologists about the classes

of factors that influence group outcome. Among the most useful frameworks for thinking about groups and their effectiveness are the input-process-output models (McGrath, J.,1984; and Naomi, E., Paulien K. & Jaap, W. O., 1999).

These theories hold that the success of a group depends upon inputs or resources which the group has to work with and the interaction among the group or team members. Social psychological theory brings to the fore the fact that groups on average perform better than the average of their members or than a member selected at random. For instance, they produce more and better ideas than a single individual when brainstorming, or solve problems more accurately than the typical person in the group (Kumar, N., 2012).

Groups are argued to do better through two basic mechanisms: aggregation and synergy. Essentially, the different individuals who make up a group bring unique resources to it. It is said that the way group members interact with each other could directly influence the group outcomes and could mediate the impact of inputs to the group. Factors which could influence the group's outcomes in terms of production, maintenance and member support include: communication, conflict, conformity, socialization, leadership, status, and in-group out-group differentiation. Based on this theory, wholesale lending would help spread the risk to intermediary financial institutions that borrow from the AFC to lend to its members. The intermediary financial institution takes up the risk to collect the loaned amounts from its individual members.

Theory of Group Lending

The theory of group lending which essentially looks into ex ante moral hazard and the role of joint responsibility was first put across by Varian, H. (1990). This theory set out an ante moral hazard approach to group lending. Their main argument was that the group-lending contract circumvents ex ante moral hazard approach by inducing borrowers to monitor each other's choice of projects and to inflict penalties upon borrowers who have chosen excessively risky projects. Laffont, J., Rey, P. (2003), input their assertion regarding this theory when they opined that, due to the fact that group members are affected by the actions and inactions of other members meant that they would take steps to punish anyone who happened to put in little effort and as such burdens the group with excessive risk. The joint liability contract relies on the group's capacity to sanction individual members who may try to shirk. Granted the contract, in principle both group members will never shirk. As such, it turns out that the sanctions are never actually affected.

Credit Reference Bureau (CRB)

CRB is a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. It is an organization providing detailed information on a person's credit history, including information on their identity, credit accounts and loans, bankruptcies and late payments and recent inquiries. Other information shared include: proven frauds and forgeries; cheque kiting; false declarations and statements; receiverships, bankruptcies and liquidations; credit default and late payments; use of false securities; and misapplication of borrowed funds. The borrower could be individuals, businesses, companies, sole proprietors and Government entities. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Prospective lenders access the information only when they have permissible reason as defined in law, to determine the borrower's creditworthiness (Sullivan and Sheffrin 2003). The individual information collected by CRBs is made available on request to customers of the credit bureau for the purposes of credit risk assessment, credit scoring or for other purposes such as employment consideration or leasing an apartment.

In a nutshell, CRB plays three roles: first, they enable lenders to lend to more and better risk clients (avoiding dead beats) and to determine better (and lower) the bad loan spread that they need to cover expected losses of credit to good payers. Second, credit bureaus reduce the borrowing cost by forcing creditors to be more competitive for good borrowers. Those lower costs for good credit risks motivate those borrowers to be more careful with repayment. Third, credit bureaus reduce moral hazard by developing a credit culture where they operate as borrowers become aware that credit market becomes aware of their credit history and rewards or punishes them accordingly (Sullivan and Sheffrin 2003).

Conceptual Framework

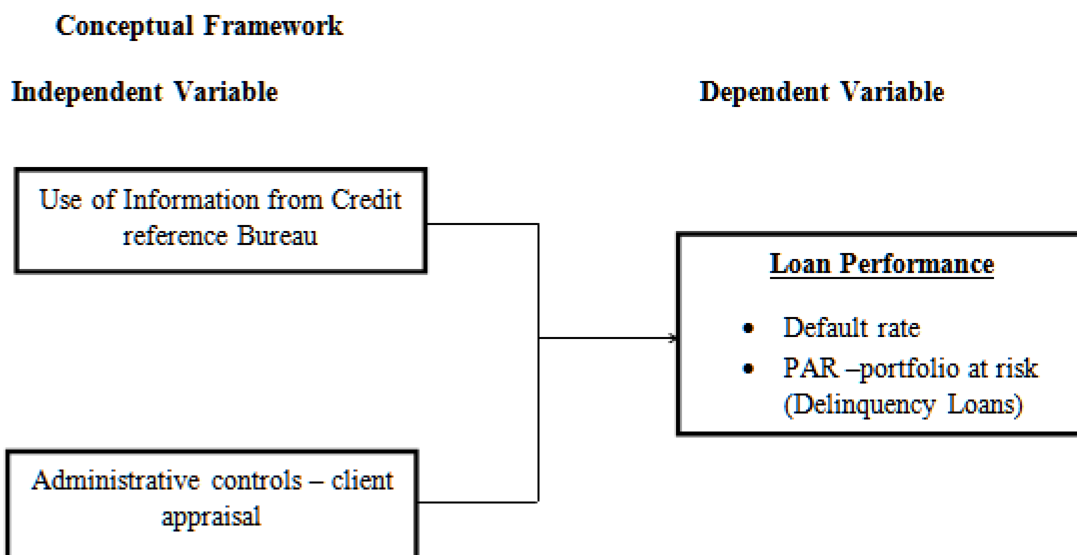

Figure 1: Conceptual framework

Review of variables

Use of Information from Credit Reference Bureau

Research by Armstrong, (2008) based on information from several countries across the globe show that the existence of credit registries is associated with increased lending volume, growth of consumer lending, improved access to financing and a more stable banking sector. Further, Hansen *et al*, (2004), highlighted that 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. 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. Put simply - good borrowers are paying for bad.

Credit reporting allows banks to better distinguish between good and bad borrowers. Angulin and Scapens, (2000) in their study indicated that it is difficult to have accurate information on the financial ability of prospective borrowers and even more difficult to have accurate information on their credit history. This makes it extremely difficult for the lenders to assess the credit worthiness of potential borrowers and their ability to pay the loans. For many years, Kenyan banks have had to contend with having incomplete information about borrowers that in turn translated to higher risk premiums on interest rates.

Bank industry players also say lack of credit reference information leads to a risk of overpricing low risk borrowers and under-pricing high risk borrowers. The Central Bank of Kenya (CBK) established credit reference bureaus in 2010 to step up sharing of borrowers' information among banks. Perennial defaulters had been the cause of high lending rates (Rukwaro, 2001). Negative reports would be used as a basis for denying habitual defaulters to access loans from any bank. Credit information sharing is a mechanism introduced by Central Bank requiring all banks to share data on the credit history of their customers. This information will be shared by banks through credit reference bureaus when they want to establish the credit worthiness of a customer seeking a loan.

Banks and other credit providers use credit reports obtained from credit bureaus as part of the lending decision process. Walsh, (2003) warns that having only one half of the picture (negative information) runs the risk of it becoming the only deciding factor - a blacklist with the potential of restricting access to credit. In the past, credit scoring focused on measuring the risk that a customer would not fulfill his/her financial obligations and run into payment arrears. More recently, credit scoring evolved to loss and exposure risk as well (Glennon *et al,* 2008). Scoring techniques are nowadays used throughout the whole life cycle of a credit as a decision support tool or automated decision algorithm for large customer bases. With increasing competition, electronic sale channels and recent saving, credit and cooperative regulations have been important catalysts for the application of semi- automated scoring systems.

Credit bureaus enable lenders to lend to more and better risk clients (avoiding dead beats) and to determine better (and lower) the bad loan spread that they need to cover expected losses of credit to good payers. Those lower costs for good credit risks motivate those borrowers to be more careful with repayment (Djankov, McLiesh & Shleifer, 2005). Fulton, (2004) indicated that originally, the credit approval decision was made using

a purely judgmental approach by merely inspecting the application form details of the applicant and commonly focused on the values of the 5 Cs of a customer. These 5Cs are Character which measures the borrower's character and integrity including virtues like reputation and honesty; Capacity which measures the borrower's ability to pay for example job status, source of income and finally Conditions where the members' borrowing circumstances are evaluated for example market conditions, competitive pressure, and seasonal character (Bessis, 2003).

Risk identification is vital for effective risk management. With the presence of a CRB, there is strong motivation for clients to repay their loans. Credit reports that include both positive and negative information help build "reputation collateral" in much the same way as a pledge of physical collateral, which may improve credit access for the poorest borrowers. To be effective, credit bureaus gather information on all borrowers from as many of all available creditor sources, including financial institutions of all types, credit card companies, utilities, department and specialty stores, and other commercial, distribution, industrial, and service firms under reciprocity agreements (Berger & Frame, 2005). Creditors then receive a report on the borrower or applicant that they request giving a comprehensive picture of that individual's credit history and obligations.

Credit bureaus strive to provide credit reports with information that is relevant, complete, accurate and recent. They provide information through a variety of means but electronic means allow them to quickly and inexpensively process and provide massive amounts of information. A credit bureau score is based on the contents of the credit report at a particular point in time. The designers of a Credit Scoring system, through years of experience, determine which details are best able to predict future ability to repay (Beck *et al,* 2004). Effective risk management requires reporting and reviewing structure to ensure that risks are effectively identified, assessed and that appropriate controls and responses are in place. Risk monitoring can be used to make sure that risk management practices are in line and it also helps banks management to discover mistake at early stage (Al-Tamimi and Al-Mazrooei, 2007). According to Christen and Pearce (2005), the shareholders of the corporation can use their rights to demand information in order to judge the efficiency of the risk management system.

Delinquency is the situation that occurs when loan payments are past due. A delinquent loan (or loan in arrears) is a loan on which payments are past due, while delinquent payments/payments in arrears are loan payments which are past due (Koch and MacDonald, 2000). Credit without strict discipline is nothing but charity. It must be pointed out that proper credit policy and procedures require that credit references be ordered by creditors on a borrower and his guarantors or co-makers each time that creditors consider a new extension of credit, or a renewal or increase of existing credits facilities.

Effective system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information problems and in reducing the level of loan losses, thus the long-term success of any banking organization (Basel, 1999 and IAIS, 2003). Effective CRM involves establishing an appropriate CR environment; operating under a sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over CR (Basel, 1999, Greuning and Bratanovic, 2003 and IAIS, 2003).

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing CR (Heffernan, 1996). Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables (Donaldson, 1994 and Mwisho, 2001), and also very important in dealing with moral hazard problem (Derban, Binner and Mullineux, 2005).

MATERIALS AND METHODS

Research Design

This study employed a mixed research orientation. Both the independent variable which is credit risk management practices and the independent variable, which is loan performance, were measured quantitatively and qualitatively. For quantitative data the interval scale was used to allow for computation of means and standard deviations. This made it easy to draw comparisons from the scores obtained and their distributions across variables. Data that was qualitative was analysed in a narrative form. A case study research method was used for the study. A case study is usually used to explore an empirical subject by following a set of pre-specified activities and procedures (Saunders et al. 2007). The researcher found it appropriate since the study sought to establish the influence of the credit management practices on loan performance at the Agricultural Finance Corporation Eldoret. It also allowed the researcher to carry out detailed analysis of the financial institution at the branch level.

The study adopted a descriptive research design. This design was found appropriate because quantity data was collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the same time. Descriptive research design was chosen because it enabled the researcher to generalize the findings to a larger population (Shaughnessy et al. 2009).

Target Population

Mugenda and Mugenda (2003) and Bryman et al (2003), describe a population as a set of people, services, elements and events, group of things or households that are being investigated. The population of this study was 45 employees of the Agricultural Finance Corporation of Kenya – Eldoret Branch. The study's population comprised the Branch manager, credit manager, and 43 credit officers at transactional level. The distribution is as shown on table 3.1.

Table 1: Distribution of target Population as per Category

Respondents	Population (N)
Branch Manager	1
Credit Manager	1
Credit officers	43
Total	**45**

Sampling Frame and Technique

Sampling frame describes the list of all population units from which the sample will be selected from (Kothari, 2008). The two managers were selected through the purposive sampling technique. This allowed the researcher to select respondents deemed to be custodians of vital information on the issue being studied. The study also used simple random sampling technique in selecting 22 (51%) of credit officers to be involved in the study, is found representative of the target population since it is above recommended sample size of between ten per cent (10%) and thirty percent (30%) found to be appropriate for a descriptive study that involves a homogeneous population (Mugenda and Mugenda, 2003). The study used this sampling technique to allow equal opportunity to all the study elements.

Data Collection Tools

Researcher collected primary data from the respondents using questionnaire, interview and document analysis. A semi-structured questionnaire was used to collect information from the AFC staff on the influence of the credit risk management practice on loan performance at the Agricultural Finance Corporation of Kenya, Eldoret Branch. This was found appropriate since, the study was concerned with variables which cannot be directly observed such as opinion, perception and feelings of respondents which can best be obtained through a questionnaire. The tool was also deemed to be reliable because it assured confidentiality and provided uniformity of questions to the respondent.

An interview schedule was used to get supplementary information to authenticate the information received using the questionnaire because they allow for probing enabling researcher to get more detailed information. The researcher sought for written authority from the management of JKUAT-Kitale CBD Campus. He then visited the AFC-Eldoret Branch and requested for permission and consent from the Branch manager to administer the questionnaire to the respondents and also conduct interviews between 15thJanuary, 2016 and 15thMarch, 2016 during the working hours.

Validity and Reliability of the Instruments

a. Validity

To test validity of the instruments, researcher relied on the lecturers teaching strategic management and Finance at JKUAT as experts who helped realize content, productive, construct and face validity; which is acceptable according to Kothari (2004). A pilot study was conducted at Equity Bank Eldoret Branch, which is a commercial bank advancing agricultural loans to the farmers in the same region. This aimed at determining the reliability of the questionnaire.

b. Reliability

According to Mugenda and Mugenda (2003), in a research study, the reliability coefficient can be computed to indicate how reliable data are. A coefficient of 0.80 or more implies that there is a high degree of data reliability. The survey instrument was subjected to overall reliability analysis and was found to be highly reliable (Cronbach alpha = 0.918). It was found that the relationship between selected credit management practices and loan performance was highly reliable (Cronbach alpha = 0.906). A test should have a Cronbach alpha correlation coefficient greater than 0.70 (Hair, Babin, Money & Samouel, 2003). A measuring instrument and its items are more reliable if the Cronbach alpha correlation coefficients are higher than 0.7, therefore this was an excellent reliability.

Data Analysis and Presentation

Upon complete return of questionnaires and conduct of document analysis the researcher carried out a preliminary check to ascertain that all the questionnaires returned have been duly filled. The researcher then coded the responses according to the research objectives. Quantitative data was analyzed using simple

descriptive statistics such as weighted mean, percentages, mode and inferential statistics of chi square tests to determine if there is significant influence of the credit risk management practices on the loan performance of AFC-Eldoret branch. Qualitative data were analyzed in narrative form. The qualitative findings were presented in descriptive and narrative form, while quantitative findings were presented using tables, and charts to facilitate comparison.

FINDINGS AND DISCUSSIONS

Mandate of the Credit Reference Bureau

AFC uses information from CRB for risk identification through scenario analysis or risk mapping, credit bureaus serve creditors as an impartial and efficient means to quickly exchange references on the paying habits and current debt of credit applicants and that CRB provides credit reports that include both positive and negative information help build or destroy "reputation collateral".

Credit Reports

AFC use credit reports obtained from credit bureaus as part of the lending decision process. However, Majority of the respondents (80%) were not sure whether credit reports were routinely used to assess risk and whether the use of the credit reports had a great impact on loan default reduction rates. Of the respondents, 32.73% disagreed, 22.91% strongly disagreed, 9.82% agreed while 6.55% agreed that credit reports obtained from the credit Bureaus were used routinely used to assess risks and whether it was the use of the credit reports that led to reduced loan defaults. The Pie chart below represents the respondents opinion on the use of credit reports at AFC Eldoret branch.

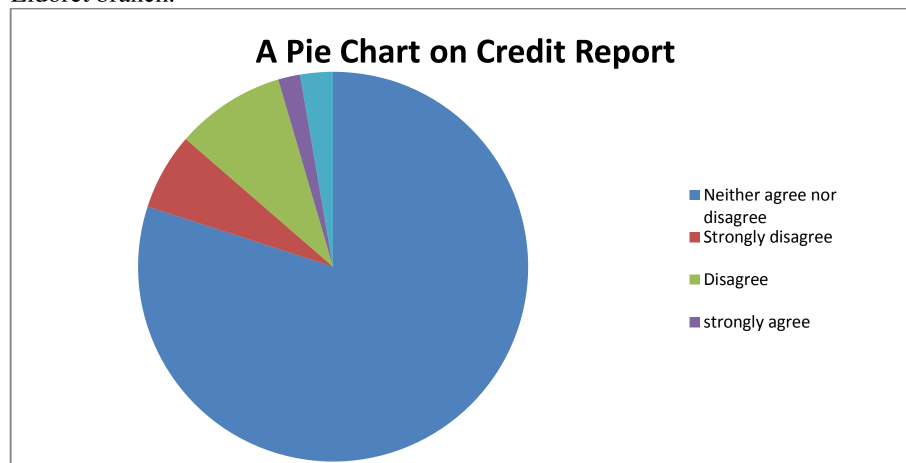

Figure 2: A Pie Chart on credit reports

The managers said that the credit reports were used whenever a client wanted a loan since it was from the credit reports of the farmer that they would determine his potential in terms of getting the loan. In such a case, they said they would use both their records and those obtained from the credit reference bureau. Walsh, (2003) warns that having only one half of the picture (negative information) runs the risk of it becoming the only deciding factor – a blacklist with the potential of restricting access to credit. In the past, credit scoring focused on measuring the risk that a customer would not fulfil his/her financial obligations and run into payment arrears. More recently, credit scoring evolved to loss and exposure risk as well (Glennon *et al,* 2008). Scoring techniques are nowadays used throughout the whole life cycle of a credit as a decision support tool or automated decision algorithm for large customer bases. With increasing competition, electronic sale channels and recent saving, credit and cooperative regulations have been important catalysts for the application of semi- automated scoring systems.

Credit bureaus enable lenders to lend to more and better risk clients (avoiding dead beats) and to determine better (and lower) the bad loan spread that they need to cover expected losses of credit to good payers. Those lower costs for good credit risks motivate those borrowers to be more careful with repayment (Djankov, McLiesh & Shleifer, 2005). Fulton, (2004) indicated that originally, the credit approval decision was made using a purely judgmental approach by merely inspecting the application form details of the applicant and commonly focused on the values of the 5 Cs of a customer. These 5Cs are Character which measures the borrower's character and integrity including virtues like reputation and honesty; Capacity which measures the borrower's ability to pay for example job status, source of income and finally Conditions where the members' borrowing circumstances are

Loan Defaults

While majority of the respondents constituting 77% agreed that loan defaults were still very common at AFC,

22% of the respondents either disagreed or were not sure whether loan defaults were on the increase. Figure 4.2 below indicates the respondent's opinion on the issue of loan defaults.

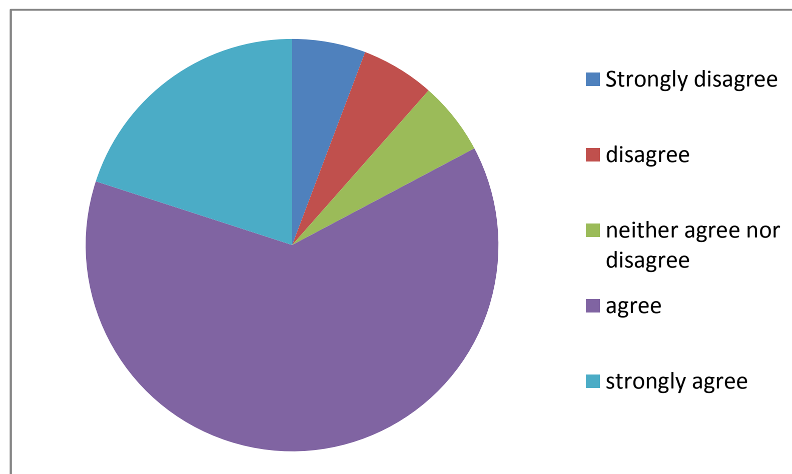

Figure 3 A Pie chart showing the percentage of respondents views on loan defaults

On the question of whether credit reference bureaus had helped to reduce loan defaults, the respondents agreed that it did. Table 4.1 below shows the results.

Table 2: Credit Reference Bureaus and Loan defaults

	Mean	Std. Deviation
CRB reduced default rates as borrowers seek to protect their "reputation collateral" by meeting their obligations in a timely manner	4.26383	.43632
CRB provides credit reports that include both positive and negative	3.9332	.53733
AFC uses information from CRB for risk identification through scenario analysis or risk mapping.	4.1452	.34522
Information from CRB helps identify defaulters in terms of credit history and obligations and thus mark them a risky clients	3.7235	.73924
Credit bureaus serve creditors as an impartial and efficient means to quickly exchange references on the paying habits and current debt of credit applicants.	4.0428	.63722
CRB has helped instil culture of financial discipline since consumers know that they are monitored.	3.6272	.51711

The Table 2 above indicates CRBs has reduced default rates as borrowers seek to protect their loans "reputation collateral" by meeting their obligations in a timely manner The study has also shown that information from CRB helps identify defaulters in terms of credit history and obligations and thus mark them risky clients and that CRB has helped instil culture of financial discipline since consumers know that they are monitored. The study findings correlate with Christen and Pearce (2005) indication that credit reports include both positive and negative information and helps build "reputation collateral" in much the same way as a pledge of physical collateral, which may improve credit access for the poorest borrowers. Further, the findings also conform with Anderson, (2007) indication that with CRB a culture of financial discipline will be instilled since consumers know that they will be monitored.

When interviewed about why there were still cases of loan defaults at AFC despite the engagement of CRBS, The branch managers quoted cases of unfavourable economic environment, political activities in the area which have made people unsettled and internal factors. The issue on internal factors conforms with what Khan and Ahmed (2001) observed that some risk management structures put in place by banks encourage loan defaults.

Credit reference Bureau and Character of the borrower

Respondents constituting to 87% agreed that giving priority to the customer base will help expand opportunities with the best customers and reduce risk in the portfolio. This was also expressed by the managers at the branch level. They felt that granting a loan based on an individual's character would help reduce loan defaults.

From the table below, credit bureaus provides reliable and inexpensive system to exchange information on the character and ability to pay of borrowers enhancing credit access, has reduced cases of multiple borrowing, over-indebtedness and loan defaults, offers financial institutions access to databases that capture relevant aspects of clients' borrowing behaviour and thereby reducing vetting process and strive to provide credit reports with information that is relevant, complete, accurate and recent to assist the creditor in decision making.

Armstrong, (2008) indicated that the existence of credit registries is associated with increased lending volume, growth of consumer lending, improved access to financing and a more stable banking sector.

Results from the study also indicated that CRB has helped reduce borrowing cost in AFC to a moderate extent. This confirms Walsh (2003) statement that if banks are aware of a customer's good payment history, that consumer could benefit from lower interest rate, easier terms and/ or less collateral.

Table3: Credit Reference Bureaus and Borrowers Character

Credit Reference Bureaus and Borrowers character	Mean	Std. Deviation
Credit bureaus provides reliable and inexpensive system to exchange information on the character and ability to pay of borrowers enhancing credit access	4.3547	.43863
CRB has reduced cases of multiple borrowing, over-indebtedness and loan defaults.	4.2562	.68223
CRB offers financial institutions access to databases that capture relevant aspects of clients' borrowing behaviour and thereby reducing vetting process	3.9635	.65337
Credit bureaus strive to provide credit reports with information that is relevant, complete, accurate and recent to assist in creditor in decision making.	3.7252	.65242

Credit Reference Bureau and Terms of Loan Sought

Majority of the respondent (96.8%) agreed that the manager should establish the effect that economic factors might have on the customers and their decisions on payment performance. The top management interviewed also expressed the need to agree with the farmer on the term of the loan before credit is advanced. The table below gives a summary of the findings

Table4: Credit Reference Bureaus and Term of the Loan Sought

Credit Reference Bureaus and Term of the Loan Sought	Mean	Std. Deviation
CRB providing information about borrower's income, employment, living costs and existing loan repayments to help the creditor decide whether the borrower can afford to repay a loan and therefore reduce chances of loan delinquencies.	4.0357	1.24994
Creditors in general, incorporate credit investigation and background checks as part of their credit process to reduce loan delinquencies.	4.3571	1.13504
Through provision of up to date borrower credit information, CRB has significantly reduced cases of nonperforming loans.	3.5714	1.17330

The table 4. indicate AFC, incorporate credit investigation and background checks as part of their credit process to reduce credit risks. CRB providing information about borrower's income, employment, living costs and existing loan repayments to help the creditor decide whether the borrower can afford to repay a loan and therefore reduce chances of loan defaults and that through provision of up to date borrower credit information, CRB has significantly reduced cases of non-performing loans. The study indicated therefore that indeed, use of information from CRB has helped reduce credit risks. These finding are in line with Fuser, Gleiner and Meier (1999) who indicated that CRBs incorporates credit investigation and background checks as part of their credit process and thereby reduce cases of non-performing loans and loan delinquencies.

Wholesale Lending and Credit risk management

Most of the respondents indicated that wholesale lending did not help reduce credit risks, did not reduce loan delinquencies and did not lead to enhanced credit extension in the corporation. They had mixed reaction on whether wholesale lending had a positive impact on loan performance at the corporation with majority of them neither agreeing nor disagree to this fact. The table below gives a summary of the findings

Table 5: Wholesale lending and Credit Risk management

Wholesale lending and Credit Risk management	Mean	Std Deviation
Wholesale lending has led to curb credit risks	2.0302	1.1915
Wholesale lending has led to reduced loan delinquencies	1.8911	1.1019
Wholesale lending has enhanced credit extension in AFC	2.8632	0.9955
Wholesale lending has had a positive impact on loan performance	2.654	0.6210

From the study it is evident that at AFC other factors may have contributed to credit risk management but not wholesale lending. This is contrary to a research study carried out by Cornett etal(2011) whose findings showed that commercial banks with whole sale funding dependence and lending had increased cash holdings during crisis.

By comparison, Calem (2002), observed that wholesale lending is viewed as having almost diametrically opposed credit risk characteristics. Corporate loan portfolios generally contain relatively fewer, but significantly larger, transactions with widely varying risk profiles. In this environment, banks generally

experience lower expected losses but wide variations around the mean. This leads to a greater probability of large unexpected losses that could threaten capital adequacy and institutional solvency. In this sense, it is no surprise that both regulators and bank risk managers have historically focused risk-based capital allocation methodologies on the corporate side of the balance sheet and paid less attention to retail portfolio credit risk.

Other Measures to Curb Credit Risks

The table below gives the summary of the opinion of the respondents of the study on the measures that can help reduce credit risks.

Table 6: Measures of curbing credit risks

	Mean	Standard Deviation
Establishing credit limits will help reduce credit risks	3.6272	.51711
Effective use of credit administration and monitoring will reduce credit risk	4.3547	.43863
Benchmarking will help reduce credit risk	3.7235	.73924
Use of information systems reduce credit risk	3.9635	65337
Establishing appropriate credit risk environment will reduce credit risk	3.7252	.652422
Operating under sound credit granting process will help reduce credit risk	4.26383	.43632
Developing an internal risk rating system will reduce credit risk	3.9332	.53733
Staff training on management of full file reporting on credit appraisal and risk management models will help reduce credit risks	4.0428	.63722

The table indicates that if AFC implemented the measures above effectively, there would be limited credit risks. These measures included establishing credit limits, use of credit administration and monitoring, bench marking, use of information systems, establishing an appropriate credit risk environment, operating under sound credit granting process, developing an internal risk rating system, staff training and educating the farmers on credit risks.

Establish Credit Limits

The research findings indicate that establishing credit limits is an effective measure of curbing credit risks. Besis (2003) asserts**, "**The bank should establish overall credit limits at the level of individual borrowers and counterparties. These limits should never be violated unless reviewed by the top management of the bank and communicated in writing to the credit/lending officers."

Effective Credit Administration and Monitoring

The research findings indicate that using effective credit administration and monitoring will help in reducing credit risks. Grennon and Bratanoyic (2003) stressed on the fact that the bank should maintain appropriate credit administration, measurement and monitoring process. A system for administration of all credit facilities (including setting up a department to focus solely on credit administration), especially all credit risk-bearing should be put in place. Monitoring the condition of individual loans including the determination of the adequacy of provision should also be carried out on regular basis using a specific system. The senior management interviewed also felt that they should have responsibility for implementing the credit risk and recovery strategy as approved by the board. They should also develop policies and procedures for identifying, measuring, monitoring and controlling credit risks to help ensure all loan are recovered in full plus interest.

Develop use of Information Systems

Respondents had the opinion that implementing a more fully automated credit management solutions will help reduce the cost, reduce risks and spend up processes and offer a better service. The development of information system and analytical techniques that can enable management and lending staff to measure the credit risk inherent in a loan and monitor the progress of credit repayment at the touch of a button should be in place. Carlin and Mayer,(2003), state, " The information system should be integrated with the core banking system in order to provide for adequate information on the composition of the credit portfolio, including identification of any concentration risk."

Operate under Sound Credit Granting Process

Respondents opined that a sound credit granting process will help reduce credit risks. The criteria for availing credit should include clear indication of the corporation's target market and a thorough understanding of the borrower as well as the purpose and structure of the loan and the source of repayment of the credit extended.

Develop Internal Risk Rating System

Respondents were in agreement that developing an internal risk rating system would help reduce credit risks. Risk ratings are the primary summary indicator of risk for a financial institutions individual credit exposure. As

Oyama and Yoneyama (2005) assert, "Internal rating systems are not only a tool for advancing credit risk management but also basis for making accurate self-assessment and credit risk and adequate write offs and loan loss provisioning." However, William, (1998) is of the opinion that incentives associated with ratings- sensitive profitability analysis can reduce the effectiveness of administrative management of problem loans.

Training Staff and Educating Clients

Respondents to the study agreed that the credit staff and the farmers should be trained on credit risk issues. On training of credit staff and clients on credit risks issues, Bester (1994) , says, "Financial education of clients and training staff on effective use of capital and credit risk management respectively should be carried out on regular basis through simulation trainings and seminars. Door to door visit of clients through the use of customer relationship managers to walk the customer through the loan repayment process should also be encouraged to ensure satisfied customer and building of loyal customers who regularly service their loans."

Conclusion

The study sought to establish the influence of credit risk management practices on loan performance. Of the credit risk management practices studied to establish their influence on loan performance were the use of credit reference bureaus and wholesale lending. The study established that the information obtained from credit reference bureaus had an impact on loan performance. This is because the study established that the information obtained from credit reference bureaus if implemented effectively led to reduction on credit risks. If credit risks were well managed, it would mean less loan defaults hence good performance on loans. From the study findings, it is observed that CRBs have helped reduce borrowing cost to a moderate extent this is because when the corporation is aware of a customer's good payment history, consumer benefits from lower interest rate, easier terms and/ or less collateral. Also the study indicated that CRBs has enhanced effective risk identification/monitoring. With CRBs default rates have reduced as borrowers seek to protect their "reputation collateral" by meeting their obligations in a timely manner and that the corporation uses information from CRB for risk identification through scenario analysis or risk mapping. CRB has reduced loan delinquency in AFC to a moderate extent. CRBs incorporate credit investigation and background checks as part of their credit process to reduce loan delinquencies; provides information about borrower's income, employment, living costs and existing loan repayments to help the creditor decide whether the borrower can afford to repay a loan and therefore reduce chances of loan delinquencies and through provision of up to date borrower credit information. On the issue of wholesale lending, the study established that this did not have an influence on loan performance since it was not considered to reduce credit risks. Several measures were considered to reduce credit risks. If well implemented, these would greatly influence loan performance at AFC. It is upon AFC top management and other stakeholders mandated to ensure the smooth running of the corporation to identify those credit risk management practices suitable for their branch and effectively diversify means of implementing them.This is key to reducing loan defaults and hence enhancing loan performance.

Recommendations

This study recommends that AFC should develop a well-defined credit control policy as a key strategy to minimizing credit risks by reducing cases of loan defaults. A credit control policy is considered as the general guideline governing the process of giving credit to customers. It sets the rules on who should access credit, when and why they should obtain the credit. It also indicates the methods of assessment and evaluation of credit risk of each client applying for credit facility.

This study also recommends that AFC should put in place credit risk management team or department that will be responsible for establishing credit policies and standards that conform to regulatory requirements, developing and maintaining credit approval structure, granting approval authority to all clients after thorough review, assessing and continuously monitoring portfolio credit exposures through special management information system, reviewing the adequacy of credit training at AFC , and ensures that all portfolios are adequately collateralized by cash equivalents and fixed and current assets.

This study recommends that AFC should develop an integrated and comprehensive strategy aimed at reducing cases of loan defaults among clients. The integrated strategy should include specific practices touching portfolio diversification, limiting loan size to address concentration risks, financial education of clients, thorough training of staff on credit risk management, effective evaluation and credit monitoring practices, and efficient collection or recoveries practices for all credit advanced.

Finally, this study recommends that AFC should reconsider how best to ensure that wholesale lending as a credit risk management contributes to positive loan performance. If the right procedure was followed in wholesale lending, it would minimize loan defaults and hence improve on the performance of the loan

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