

**ASSESSMENT OF INDIVIDUAL CREDIT APPRAISAL ON
AMOUNT OF LOAN APPROVED TO BORROWERS.**

(A CASE OF MICROFINANCE INSTITUTIONS IN THIKA,
KIAMBU COUNTY)

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ABSTRACT

The main goal of every microfinance institution (MFI) is to operate profitably in order to maintain its stability, improve growth and enhance sustainability. MFIs therefore lend to individuals at an interest with an aim of their growth and stability as well as benefitting their clients. The credit standing of an applicant for a personal loan is investigated intensively for the likelihood of repayment. The selection of borrowers must therefore rest on probabilities. Various countries use various factors for credit appraisal process. Some of the factors considered include education level, age, savings, income pattern, credit history, dependants and valid collateral. On the other hand, various scholars' emphasis on credit appraisal process and models with little regard on impact of specific credit appraisal factors on amount borrowed by individuals. Some of the models include 5Cs, 5Ps and CAMPARI models. The research study aimed at finding out the effects of specific credit appraisal factors on amount of loan approved to borrowers by microfinance institutions (MFIs) in Kenya. The study adopted causal effect research design. The study targeted 121 loan applicants from MFIs within Thika town. The study used primary and secondary data. Primary data was collected using questionnaires while secondary data was obtained from loan application forms. data was analyzed using SPSS where descriptive and inferential statistics were deduced. Tables, pie charts and bar graphs were applied to present the data. The study found that MFIs render a wider range of products and services to their customers. These include deposit schemes, overdraft facilities safety vaults, personal loans, mortgage financing, money transfer, and micro-finance services among others. All the MFIs have credit manuals whose contents are employed in credit risk appraisal, evaluation and assessment and are revised on an annual basis. For the salaried individuals, MFIs requires their pay slip; mostly for the last three consecutive months. On the other hand, self employed, individuals are required to present their books of accounts for consideration. It emerged that MFIs may provide up to 400 percent of the net income of the individual. In addition, the study found that privately employed individuals were less considered in loan approval. On the issue of collateral, it emerged thematically that MFIs in Kenya provide up to 80 percent of the book value of the appraised asset. Individual's savings with MFIs is viewed as part of share which can guarantee for loan. Also, MFIs may provide up to 400 percent of individual contribution to the institution. According to the findings age factor is significantly related to credit risk. The middle aged (31-50 years) individuals were considered more creditworthy than the rest of age bracket. From the findings level of education is insignificantly related to credit risk and loan repayment. From the findings, borrower's collateral and net income are the most significant factors in credit risk assessment, appraisal and evaluation process followed by personal savings with MFIs, age of the loan Applicant and Borrower Educational level in that order. The study recommend the following: MFIs should adopt more liberal technique of credit appraisal especially through the use 5Cs in evaluating creditworthiness of their client. As the findings revealed, education level of a borrower is not related to credit appraisal and hence should be eliminated. MFIs should also cease discriminating borrowers on basis of employment sector; this is eminent in civil servants and the private sector of borrowers. The study findings are of great significant in that they can be used by MFIs to improve credit appraisal process and eliminate redundant factors. Also researchers may find an interesting concern.