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RESEARCH ARTICLE

CREDIT POLICY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The study sought to investigate the effects of credit policy on financial performance of commercial banks in Kenya. Specifically the research sought to examine the relationship between loan terms and conditions and financial performance, and to determine the relationship between credit information and financial performance. The problem of the study was that some commercial banks use stringent credit policy thus losing customers to other banks with lenient credit policy, this has led to decline in performance of such banks. The study was carried out using descriptive research design. The population for the study was all the forty three commercial banks headquarters located within Nairobi CBD. Primary data was collected through the use of close-ended questionnaire, drop and pick procedure was used to collect the instrument. The target population was credit officers of the commercial banks in Kenya. Descriptive and inferential statistics were used to analyze the data. . The results shows that the nature of loan terms and conditions has a large effect on the bank's competitiveness, the study also found that most commercial banks rely to a large extent on the borrower's credit history in awarding loan amounts. The results shows that credit policy positively affect the performance of commercial banks.

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INTRODUCTION

Credit making is considered by the banking industry as the most important function for the utilization of funds. Since banks earn their highest gross profits from loans, the administration of loan portfolio seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of banks failure. Non-performing loans can be treated as undesirable outputs or cost to a lending bank which decreases a bank's performance. For most banks, loan accounts for half or more of their total assets and about half to two thirds of their revenue. The quality of a bank's loan portfolio and the soundness of its credit policy are the areas bank examiners look most closely. Credit services offered by commercial banks play an important role in the development of Kenya's economy and general infrastructure. This development has been achieved through giving credit to prospective customers in private investment, as well as those in corporate sector. However funds acquired from customer's deposits being the main source of credit funds have long since become a commodity bought and sold for the highest profits by commercial banks. Banks are learning to review their risk portfolio using the criteria laid down. Kantor and Maital (2009) have indicated that bank's goal is to induce bankers to improve their risk management capability including how the institution's price products, reserve for loss, and control their operations to reduce a bank's operational risk during the lending process through a better monitoring of employees in the credit department. Credit policy is a statement of philosophy, standards and guidelines that bankers must observe in granting or refusing a loan requests www.marronfoods.com. These policies determine which sector of the industry or business will be approved loan and which one will be avoided and must be based on the country's relevant laws and regulations. Banks have instructions which regulate their credit creation. Although there is delegated decision making, bank managers make their lending decision against a background of rules and head office's instructions. There are many variables which influence the rules and the work environment that affect the lending decision (for example, training, internal guidelines, upward referral system and discretionary limits, specific head directives). Therefore the credit decision is a process of interaction between the rules and managers experience. To efficiently manage banks and financial institutions, identifying relevant metrics and performance indicators for the banking industry is very crucial. Banks exists to provide consumers and business financial services. They are financial institutions that receive, lend, safeguard and invest money on behalf of its customers or depositors. Services provided by banks are extremely important in the free market economies, like United States and

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Canada (Saunders, 2006). Two of their primary functions are to supply customers with mediums of exchange like checking accounts, credit cards, and cash and to accept money from depositors and lending to borrowers. In the face of tight competition and changing customer's loyalties, the use of key performance indicators (KPIs) and relevant metrics will help managers and executives make good corporate decisions that will help achieve their organizational performance. The metrics used as KPIs should yield information that will be useful for managers who are running banks. Key performance indicators may be financial and non-financial. Liquidity ratios are considered as crucial KPIs by many financial institutions .The amount of un-invested fund is another indicator that helps bank managers to determine the amount or percentage of bank funds that are fully invested and income-generating. Another indicator is the amount of loan commitments the bank has from the beginning to the end of a certain period. Moreover, to obtain profitability information, it is a good idea to monitor outstanding loans, new loans, ending total loans and principal reduction. According to Rose (2002) credit analysis refers to what makes a good loan. Credit policy is the document determining the approaches and methods accepted by the management of bank for risk management, arising when crediting. Credit policy establish procedures for decision making about crediting and restrictions for loan amounts for each credit worker involved in process of issuance of credits depending on the position and the employee competence. Credit policy act as a base for determining the type of credit to grant to customers. Adekanye (2010) identified three types of credit policy; restrictive, moderate and liberal. Restrictive credit policy is adopted by bank that has no plan to grow beyond minimal rate; liberal credit policy is a high risk policy with the probability of heavy loss of receivable. Such banks have a risk of undercapitalization and liquidity problem. Moderate credit policy is a mixture of restrictive and liberal policy and matches receivable to provide adequate cash flow. The credit department must ensure that the borrower is credit worthy. Borrower's credit worthiness is the ability of a customer to pay out the credit when due with a comfortable margin of five aspect of loan application; character, capacity, cash/capital, collateral and conditions.

Character: This refers to Customer's responsibility, truthfulness, serious purpose and intention to repay loan makes up character. If the customer is insincere in promising to use borrowed funds as planned and in repaying as agreed, the loan should not be made to avoid a credit problem. The loan officer must be convinced that a customer has a well defined purpose for requesting credit and a serious intention to repay.

Capacity: According to Garman and Forgue (1997) capacity refers to the income available to make repayment. Having a substantial income, holding the same job for several years and having few other debt payments suggest a strong financial capacity to repay.

Cash/Capital: This refers to borrower ability to generate enough cash, inform of cash flow to repay the loan. Three sources used by a customer to repay a loan are cash flows from sale or income, sale or liquidation of assets or funds raised by issuing debt or equity securities. There is strong preference for cash flows as the principal source of loan repayment since assets sales can weaken a borrowing customer and make the creditor position less secure.

Collateral: Refers to borrower's possession of adequate quality assets to provide adequate support for the loan. Its property offered and pledged to secure repayment of a loan and subject to seizure, should the borrower fail to repay a (Garman and Forgue, 1997).

Conditions: Refers to recent trends in the borrower's line of work and how changing economic conditions might affect the loan such as inflation, declining income or sales etc. For instance when the government actions and market conditions result in a restriction in the supply of money, less money is available for lending this led to rejection of many applicants who would have been approved for credit. Borrower's credit worthiness is assessed after considering the 'five C's'. Credit risk management should include strict delinquency monitoring, loan loss provision and collection procedures. Credit risk is measured most accurately when loans are approved and processed on the basis of 'five C's. Loans must be disbursed according to established credit policies and procedures (David and Murungi, 2004) Loan analysis should therefore be guided by policies; terms and conditions of lending requirements, amount of loan disposable and credit information.

Loan terms and conditions and their effects on financial performance

These are the basic requirements a member is required to meet to quality for a loan in the financial institution. The stricter the loan terms and conditions are, the less the members are willing to go for the loan. Borrowers are encouraged to borrow if the repayment period is long, which refers to the period a member is given to repay the amount of loan given. Other terms include interest rate on loan which is based on the estimated risk of a certain borrower, the higher the interest rate the lesser the loan is attractive to customer. To eliminate the adverse selection problem i.e. the higher credit interest rate associated with higher loan risk, the internal performance measure tries to reduce the asymmetric information between the borrower and bank by monitoring the employees and accurately assess the borrower's management capability. Small business operators and small business aspirants across the country have for several years been complaining about what many believe has been a generally negative posture on the part of local commercial banks towards lending for modest business venture. Their primary goal has to do with the banks' lending conditions, which they would-be borrower's contend that are not met by small struggling businesses. They also point out that since the vast majority of the local business sector comprises small businesses, they contend that commercial banks ought to put in place more accommodating credit postures if they are concerned about their role in helping the local economy to grow. The banks for their part have been quick to point out that prudent management of risk lies at the very heart of their credit policies and that since in many cases the risks involved in lending for small business purposes are somehow greater; their risk management systems must be both efficient and effective. In this case commercial banks have terms and conditions with requirements which must be met when a customer needs a loan with them. Atieno (2004) contend that many organizations find it hard to meet the necessary requirements in terms of interest rates, and repayment terms among others. This prevents them from accessing loans from commercial banks.

Credit information and the length of credit relationship with the Bank and their effects on financial performance

This refers to information supplied by a borrower to the lender. The information helps lenders assess the risk of lending money to loan applicants. Though there are different scoring systems that exist, they all use the borrower's credit history to predict the likelihood of repayment based on the past behavior of borrowers with similar profiles. Credit information and length of lending relationship with bank are important factors that a lender considers when making decisions either to reject or approve a borrower's application, and they also affect the rate and terms that lenders will offer (Deakins and Hussein, 2005). A long lending relationship reduces severity of information asymmetries experienced by the banks through providing information on the borrower's credit history, and her account movements. The firm's economic performance may convey valuable information to the banks for it reveals the degree of competitiveness in the aggressive markets and indicates productive diversification against domestic shocks, thus lowering the default probability of such firms. According to Atieno (2004) Information asymmetry refers to a situation where one party has more information than the other. This creates an imbalance in transaction which sometimes causes the transaction to breakdown (Stiglitz, 2010). When two or more individuals are about to agree on a trade, and one of the two have more information, this situation is adverse selection. In credit market the lender has difficult in distinguishing between good risks and bad risks investment because the borrower has information that the lender lacks (Rothschild and Stiglitz 1976). On the other hand, a case in which information asymmetry occurs after an agreement between individuals is moral hazard. It arise when a person does not take full consequences and responsibilities of the transaction and hence has the tendency to act careless than he ought to, leaving the other party to hold some responsibilities for the consequences of his actions (Mirrless, 1999). In capital market a financial bailout lending institution by government can encourage risky lending in the future if those that take the risks realize that they will not carry the full burden of risks. Lending institutions need to take risks by granting loans most risky loans that have the capacity for making the highest risks. Lending institutions can make risky loans that will pay handsomely if investment turn out well but will be bailout by the tax payers if the investment turn out badly.

Problem Statement

Various studies (Rouse 2003, Deakens and Philpott 2005, Bradford, 2003) have shown that there is a relationship between credit policy and the performance of banks. Change in credit policy affect bank performance and depends on the sensitivity of banks decision towards variations in open market policy, this implies that the credit policy is used as a planning and controlling tool of various banks and that there exists a relationship between credit policies and bank performance. Other studies in Kenya (Mwaura 2003, Kithuci 2008; Kimutai 2006) have dwelt more on the credit policy without specific references to the nature of relationship between credit policy and performance of commercial banks in Kenya. Furthermore, prior studies on credit policy were mainly confined to developed countries and very limited evidence is available on developing countries especially from the Africa region. This study therefore sought to investigate the effect of credit policy on performance of commercial banks in Kenya, the specific objectives were;

- To examine the effect of loan terms and conditions on financial performance of commercial banks in Kenya.
- To determine the effect of credit information on financial performance of commercial banks in Kenya.

Research Design and methodology

The study adopted a descriptive research design, instrument this design was chosen due to its suitability in describing the characteristics of a particular individual, or a group of individual, since the researcher did not have control over the variables. Creswell (2008) stated that the descriptive method of research is to gather information about the present existing condition. The emphasis was to describing rather than interpreting .The target population was 43 commercial banks licensed under the Kenya Banking Act. A census of 43 commercial banks in Kenya was carried out where the respondents were credit officers at the headquarters of each of the commercial banks. Census was adopted because commercial banks in Kenya are relatively few and their headquarters are mostly found within Nairobi CBD, thus it became necessary to include all of them in the study. Primary data was collected using structured questionnaire administered to credit officers at the headquarters of each of the commercial banks .Coopers and Schindlers (2003) suggest that data collected using questionnaire are easier to analyze. To establish the reliability and validity of the instrument. The questionnaire was pre-tested using 4 credit officers of branches of commercial banks in Kenya which were selected using simple random sampling. These respondents did not participate in the main study. According to Mugenda and Mugenda (2003), pretest sample should be at least 10% of the population. Reliability of the study was ensured using cronbach's alpha coefficient of internal consisitency. Zinbarg (2005) argued that a cronbach's alpha value of above 0.70 is regarded as an indication of reliability and is considered acceptable in most social science research, in this study 0.70 was used to indicate reliability of the research instrument. Before testing the fitness of the model, multicollinearity analysis was conducted to establish the possibility of collinearity problem of the predictor variables. Menard (1995) suggested that a Tolerance value of less than 0.1 indicates serious multicollinearity problem. Field (2005) suggested that Variance Inflation Factor (VIF) of more than 10 signals cause of concern about multicollinearity. Data was tabulated and analyzed using descriptive and inferential statistics.

Results and Interpretation

From the below table, majority of the banks 83% have a written credit policy in force while a sizeable proportion of the banks 17% do not have .Owing to the importance of credit policy as understood by Kantor and Martal (2001), the banks that operate without a written credit policy may lack a standard way of administering credit to customers which may adversely affect their ability to compete with other players in the market. Most of the banks 49% review their credit policy very often, 27% of the banks review their credit policy often, 14% do not review often and 10% never review their credit policy. The findings report that in the banks where credit policies are in force, the policies are reviewed regularly. Most of the respondents54% reported that their banks set the interest rates for the loans procured from the banks at the prevailing market rates, 27% of the respondents said that their banks set the interest rates below the prevailing market rates at a subsidized rate while only a small proportion of the respondents 19 % reported that their banks set the interest rates at a premium rate that is above the prevailing market rates.

To determine the effect of loan terms and conditions on financial performance of commercial banks in Kenya

	Response	Frequency	Percentage
Presence of written credit policy	Yes	30	83
	No	7	17
Total		37	100
Frequency of reviewing credit policy	Very often	18	49
	Often	10	27
	Not often	5	14
	Never	4	10
Total		37	100
Setting interest rate charged on loan	subsidized	10	27
	Prevailing	20	54
	At a premium	7	19
Total		37	100
Setting repayment schedule	Negotiated with client	13	35
	Pegged on type of loan	11	30
	Depend on principal amount	7	19
	Fixed by Bank	6	16
Total		37	100

The findings therefore imply that most banks offer loans at the market rate or at a premium rate. Most of the respondents 35% said that their banks negotiate with their clients in order to come up with the repayment schedules, 30% of the respondents reported that their banks peg the repayment schedules to the type of the loan, 19% said that their repayment schedules are determined by the principal amount of the loans granted 16.2% said that the interest rates are fixed by the banks. The findings therefore indicate that majority of the banks are responsive to their clients as far as the fixing of repayment schedules are concerned. This is likely to boost the competitiveness of the banks that negotiate with their clients in fixing the repayment schedules for the loans.

To establish the effect of credit information on financial performance of commercial banks

Approving loan	Response	Frequency	Percentage
Reliance on borrower's credit history	Very large extent	3	8
	Large extent	12	32
	Small extent	20	54
	Very small extent	2	5
Total		37	100
Reliance on account movement	Very large extent	24	65
	Large extent	5	13
	Small extent	5	14
	Very small extent	3	8
Total		37	100
Reliance on personal behavior	Very large extent	4	11
	Large extent	20	54
	Small extent	9	24
	Very small extent	4	11
Total		37	100

The study sought to establish the extent to which respondents agree with the above statement concerning credit information. From the findings most banks 54% rely on the borrower's credit history to a large extent, 32% to a small extent, 8% to very large extent and 5% to a very small extent. This indicates that most commercial banks rely to a large extent on the borrower's credit history in awarding loan. Majority of the banks 65% rely on the account movement of customers to a very large extent,14% that the banks rely on the account movement to a large extent, 14% that the bank rely to a small extent and 8% of the banks rely on account movement to a small extent. The findings indicate that account movement is considered to be an important factor in considering and approving loans. Most of the banks 54% were of the opinion that their banks rely on the borrower's personal behavior to very large extent, 24% to a small extent, 11% to a very large and 11% to a small extent. The findings therefore indicate that majority of the commercial banks consider borrower's personal behavior while approving loans.

Transaction costs and loan processes

	N	Minimum	Maximum	Mean	Standard Deviation
Percentage of loan taken by transaction cost	37	2.5	5.5	3.7838	0.84344
Relying on account movement	37	2.00	5.0	3.2703	0.99019

The findings of the study show that the transaction costs charged by the banks range between 2.5% to 5.5% of the loan amount granted. The average transaction cost charged by the banks is 3.7838% and the standard deviation of 0.84344. The findings therefore imply that the deviation between the transaction costs charged by the banks is low and thus the banks charge almost equal transaction costs on the loans. The findings of the study shown above indicate that the number of processes of approving the loan application forms range from 2 to 5 among the banks with a mean of 3.27 and standard deviation of 0.99. This implies that the number of processes of approving a loan application is fairly uniform across the banks. This further implies that the number of processes involved in the approval of loans is a factor considered to be instrumental to the revenue generation through lending by most of the banks

To establish the effects of loan terms and condition on financial performance of commercial banks in Kenya

Model Summaries

Model	R	R Square
1	.849[a]	.721

a. Predictors: (Constant), Nature of loan affect credit seekers, Transaction cost, Loan conditions bank loan volume, Lending risk, Interest rates, Frequency of reviewing credit policy, Payment schedules and Credit policy
b. Dependent Variable: Performance of Commercial Banks

R squared is the coefficient of determination that tells the variation in the dependent variable due to the changes in the independent variables. From the findings the value of R squared was 0.721 and indication that there was variation of 72.1% on the performance of commercial banks in Kenya due to changes in reviewing of credit policy, payment schedule, interest rates and lending risks is the correlation coefficient which shows the relationship between the variables, the findings indicate that R=0.849 implying that there was a strong positive relationship between the dependent and independent variables.

ANOVA-loan terms and conditions and financial performance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.083	8	.760	9.062	.000[a]
	Residual	2.349	28	.084		
	Total	8.432	36			

a. Predictors: (Constant), Nature of loan affect credit seekers , Transaction cost , Loan conditions bank loan volume , Lending risk, Interest rates, Frequency of reviewing credit policy, Payment schedules and Credit policy
b. Dependent Variable: Performance of Commercial Banks

From the statistics of ANOVA, there was significance level of 0.000 which implied that the data was ideal for making conclusion since the p value is less than 0.05. This therefore implies that payment schedule, lending risks, interest rate, frequency of reviewing credit policy significantly influence performance of commercial banks in Kenya. The model was statistically significant. The findings showed that all the variables have significant influence on the financial

R squared is the coefficient of determination that tells the variation in the dependent variable due to the changes in the independent variable. From the findings the value of R squared was 0.706 and indication that there was variation of 70.6% on the performance of commercial banks in Kenya brought about by changes in reviewing of credit policy, payment schedule, interest rates and lending risks is the correlation coefficient which shows the relationship between the variables, the findings indicate that there was a strong positive relationship between the variables as R was 0.849

ANOVA-credit information and financial performance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.30	5	.280	40	.000[a]
	Residual	0.217	31	0.007		
	Total	14.217	36			

a. Predictors: (Constant), Borrower's credit history, Account movement and personal behavior in approving loans or disapproving
b. Dependent Variable: performance in commercial banks

Regression coefficient -loan terms and condition on financial performance and the results of collinearity statistics

Coefficients								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.134	.879		1.290	.008		
Credit policy	.408	.568	.334	.717	.009	.146	6.859
Frequency of reviewing credit policy	.024	.153	.051	.155	.000	.294	8.664
Interest rates	.268	.235	.378	.002	.003	.191	5.017
Payment schedules for loan	.047	.165	.097	.004	.008	.285	6.775
Loan transaction cost	.262	.134	.606	`.324	.006	.104	9.587
Lending risk	.523	.150	.901	.477	.002	.148	6.746
Terms and conditions affect bank loan volume	.064	.208	.053	.309	.000	.343	2.918
Nature of loan terms and conditions affect credit seekers	.204	.139	.565	.460	.005	.366	5.040

a. Dependent Variable: Performance of Commercial Banks

Regression coefficient -credit information and financial performance and results of collinearity statistics

Coefficients									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.063	.483		2.203	.035		
	borrowers history in approving or disapproving loans	.140	.085	.351	1.649	.009	.596	1.679
	account movement in approving or disapproving loans	.072	.100	.174	.725	.004	.468	2.137
	personal behavior in approving or disapproving loans	.075	.178	.172	.420	.007	.161	6.203

a. Dependent Variable: Performance of commercial banks

performance; frequency of reviewing credit policy b=0.51, p=0.000; payment schedule b=0.097, p=0.008; interest rate b=0.378, p=0.003; loan transaction cost b=0.606, p=0.006. All these variables have p value less than 0.05 implying that they influence the financial performance of commercial banks. All the variable explained 72.1 percent of the total variance on financial performance while 27.9 percent of the variability is explained by other variable not in the model.

To establish the effect of credit information on financial performance of commercial banks in Kenya

Model Summary

Model	R	R Square
1	.817[a]	.706

a. Predictors: (Constant), Borrower's credit history, Account movement and personal behavior in approving loans or disapproving
b. Dependent Variable: performance in commercial banks

The results on ANOVA test showed F statistics of 40 (significance level 0.000) which implies that it was statistically significant as $p<0.05$. This shows that the model adopted in the study was significant and that the variables tested fitted well in the model. The findings showed that all the variables have significant influence on financial performance of commercial banks in Kenya: borrowers history b=0.351, p=0.009; account movement=0.174, p=0.004, personal behavior=0.172, p=0.007. All the variables explained 70.6 percent of the total variance on the financial performance while 29.4 percent of the variability is explained by other variables not in the model. All the predictors variables had their Variance Inflation Factor (VIF) values less than 10 and tolerance value of more than 0.1 thus ruling out any possibility of multicollinearity. The results shows that most of the variables were weakly correlated hence, there was no serious multicollinearity problem with the data.

Reliability testing

Reliability Statistics	
Cronbach's Alpha	N of Items
.827	11

Reliability results had an overall coefficient of 0.827 therefore good for analysis. Zinbarg (2005) recommended an alpha value of 0.70 and above which indicates high internal consistency and this implies that the data could be representative of the target population.

Reliability test for credit policy

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Credit policy	25.68	45.614	.614	.817
Frequency of reviewing credit policy	25.00	37.611	.821	.786
setting of interest rates	24.95	40.886	.884	.794
Payment schedules for loan	24.54	36.866	.921	.778
loan transaction cost	24.70	41.326	.451	.818
lending risk	24.70	59.604	.873	.889
Terms and conditions influence bank loan volume	25.68	52.614	.644	.762
loan terms and conditions affect credit seekers	23.84	32.862	.935	.768
terms and conditions affects performance in commercial banks	25.51	47.146	.253	.827
Relying on borrowers history for approving loans or disapproving	24.62	37.408	.688	.796
relying on account movement in approving loans or disapproving	24.49	42.590	.337	.821
relying personal behavior in approving loans or disapproving	24.73	35.814	.905	.776

The overall cronbach's alpha was 0.827.Cronbach of individual variable greater than this value should be deleted to improve reliability. From the table above lending risk with a cronbach's of 0.889 should be deleted in order to improve the overall cronbach's alpha value. All the other variables did not affect the overall cronbach's value.

CONCLUSION AND DISCUSSION

The study aimed at determining the effect of credit policy on financial performance of commercial banks. It was guided by two objectives which were, to examine the relationship between loan terms and conditions and financial performance of Commercial banks and to determine the relationship between credit information and financial performance of commercial banks in Kenya. On the relationship between loan terms and conditions and financial performance of commercial banks, the study found that, majority of the respondents 91.9% were of the opinion that loan terms and conditions influence the volumes of loans sought from a bank and only a small proportion8.1% of the respondents said that loan terms and conditions have no influence on the volume of loans sought from a bank. Further, on the effect of loan terms and conditions on the bank's competitiveness, majority of the respondents37.8% said that loan terms and conditions affect a bank's competitiveness to a large extent while only 8.1% said that loan terms and conditions have no effect on the bank's competitiveness. The findings therefore imply that the nature of loan terms and conditions have a large effect on the bank's competitiveness. The study concluded that there was strong relationship between loan terms and conditions and financial performance. On the relationship between credit information and performance of commercial banks, the findings indicated that most banks 54% rely on the borrower's credit history to a small extent, and only 5% were of the opinion that banks rely on the borrower's credit policy to a very small extent. This indicates that most commercial banks rely to a large extent on the borrower's credit history in awarding loan amounts. On the reliance on account movement in approving loans, majority of the respondents64.9% of the respondents were of the opinion that their banks rely on the account movement to a large extent and only 8.1% of the respondents were of the opinion that their banks rely on the account movement to a very small extent. The findings indicate that account movement is considered to be an important factor in considering and approving loans. Further, on the reliance on the borrower's personal behavior in approving loans, majority of the respondents 54% were of the opinion that their banks rely on the borrower's personal behavior to a large extent and only 11% felt that banks rely on borrower's personal behavior to a very small extent. The findings therefore indicate that majority of the commercial banks consider borrower's personal behavior as an important factor in approving loans sought from the banks. The study therefore concluded that there was strong relationship between credit information and financial performance of commercial banks. Based on the findings of the study, various recommendations can be made. First, the banks need to develop credit policies that will give them a competitive advantage over the other players in the market. Secondly, the banks should review their credit terms and conditions regularly in order for them to remain competitive against the changing lending environments. Finally through credit appraisal, commercial banks in Kenya will be in a position to evaluate credit worth clients thereby reducing the number of non-performing loans thereby improving the performance of commercial banks.

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