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Effect of Loan Terms and Conditions on Loan Volume Granted By Selected Deposit Taking Saccos in Nyeri County, Kenya

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Abstract: *Savings and Credit Co-operative Societies (SACCOs) in Kenya have been investing over the years with the objective of maximizing their wealth. Sound lending procedures in financial institutions involve identifying high-risk loan applicants, modifying lending conditions such as security requirements and monitoring repayments. This research was designed to investigate the effects of loan terms and conditions on loan volume granted by SACCOs. The study was guided by the following objectives; how loan terms and conditions. The target population of the study was selected from all SACCO employees of the five licensed deposit taking SACCOs in Nyeri County. The total target population is 135. The researcher used stratified random sampling technique resulting to a sample size of 100 respondents. Data from the respondents was done by use of questionnaires which contained both open and closed ended questions. Data analysis involved the use of inferential statistics especially the correlation coefficient (r) and coefficient of determination (r^2) which is a simple descriptive statistics. Data analysis was carried out with the aid of Statistical Package for Social Science (SPSS 22.0). The p - values obtained from the data analysis using SPSS were used to test the hypothesis and determine the statistical significance of each hypothesized factor The data is presented in the form of frequency distributions, percentages, bar graphs and pie charts. The study was carried out to establish effects of loan terms and conditions on loan volume granted by SACCOs in Nyeri County. The study revealed that, loan terms and conditions have significant influence on the loan volume granted by deposit taking SACCOs in Nyeri County according to the evidence gathered, the $p-$ values were less than the acceptable significance level (α); hence the null hypothesis is rejected. The study recommends that SACCOs should review their credit policy regularly in order for them to remain competitive against the changing lending environment and that the credit policy should be flexible and responsive enough to the lending environment in order to suit various categories of the customers and situations. This will boost the volumes of loans granted by SACCOs. The researchers also suggested on areas of further study since this research dealt with only one effect that is credit policy on the loan volume advanced by deposit taking SACCOs in Nyeri County.*

I. Chapter One

Introduction

1.1 Background of the Study.

The formal and informal financial sector comprises players from banking industry, micro finance institutions, capital markets, insurance companies, mutual funds and development finance institutions, CBK (2007). A Study by ICA (2002) shows that, in Kenya, SACCOs (Savings and Credit Co-operative Societies; owned, governed and managed by its members who have the same objectives) remain the most important players in provision of financial services and have deeper and extensive outreach than any other type of financial institution. SACCO societies are playing a very key role on savings mobilization for the benefit of the members, Branch (2005). SACCOs are registered and regulated under the Co-operative Societies Act.

SACCO is required in the Vision 2030 strategy among other things to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present.

Loan volume granted by SACCOs refers to sum of money loaned to a customer that must be repaid with interest at some point in the future, T Beck & P Honohan (2007). The types of loans offered by SACCOs are mainly short-term and long-term loans. Good loan volume granted by SACCOs depends on capital accumulated (membership and volumes of members deposit) leading to high capital formation as well as high profits for the SACCOs as they will be able to meet high demand for loans.

SACCO credit policy is a statement of its philosophy, standards, and guidelines that its credit appraisal staff must observe in granting or declining a loan request. These polices determine which loans will be approved and which will be declined and must be based on the country's relevant laws and regulations, Kantor

& Maital (2009). SACCOs use stringent credit policy thus losing customers to other institutions with lenient credit policy; this has led to decline of loans granted. Credit policies adopted by SACCOs influence the volume of loans procured by the SACCOs, hence the competitiveness of the SACCOs in lending and thus performance in the industry. The loan policy gives the management specific guidelines in making individual loan decision and in shaping the institution's overall loan portfolio, Kenya Societies Act (2008). This ensures that regulatory standards are met and promotes profitability in the organization. The commercial banks review loans more efficiently such that they are able to top up loans faster for instance, due to use of modern technology unlike SACCOs, Rose (2002).

SACCO's are restricted in terms of where to invest their funds of deposits, SACCO Act (2008).The Societies Act 2008 requires that, loan policy and procedures manual specifying the criteria and procedures applicable in the evaluation, processing, approval, documentation and release of loan credit facilities is put in writing by every licensed society. Loans must be distributed according to the established credit policy and procedures as argued by Kairu (2009).

Currently large populations of SACCO members are seeking financial services from other financial institutions especially commercial banks which threaten their survival into the future. This is because the stringent and traditional credit policy of SACCOs causes delay in turn-around time of the loans and limit the amount of loan granted thus making them unattractive to customers. Attracting new members coupled with prudent credit policy will translate to the increase in number of loan applicants, contrary to this which is the key problem in SACCOs meaning the loan applications will reduce hence affecting profits of SACCOs. This is because the growth of SACCOs depends largely on savings and credit facilities from the members. On 17th Nov 2010 the then Minister for co-operatives development commented on the local dailies that most SACCOs do not have clear loaning policies which should be strictly complied with when granting loans to management committees, staff and members. This has not been put into practice because many members are not aware of existence of such policies. Also the management committees do not follow the policies before granting loans.

SACCOs in Africa are still crawling as they are newcomers, among those offering savings and credit. In fact they have a small share in providing financial services; their market share is insignificant when compared to other player in financial service provision, Mwakajumilo (2011). There are 28 countries in Africa that have established SACCOs, Savings Plus (2010). The financial SACCOs constitute over 45% of the total number of co-operatives in Kenya and have become a major player in the financial sector.

The SACCO sub sector in Kenya comprises both Deposit Taking (FOSA operating SACCOs) and non-deposit Taking SACCOs (BOSA operating SACCOs). Deposit Taking SACCOs are licensed and regulated by SASRA while non-Deposit Taking SACCOs are supervised by the Commissioner for Co-operatives. SASRA licenses SACCOs that have been duly registered under the Cooperative Societies Act CAP 490, SASRA report (December 2012).

The total SACCO sub sector assets stood at Kshs. 293 billion in 2012 an increase of 17.7% from Kshs. 249 billion in 2011. The total membership for the sector grew by 15% from 2.6 million members in 2011 to 3million in December 2012. Total deposits for the sector stood at Kshs.213 billion in 2012 posting an increase of 18.4 % from Kshs. 179.9 billion in 2011. Loans to members increased by 23% to stand at Kshs. 221 billion in 2012 up from 179.9 billion in 2011. As at 31st December 2012, the total number of deposit taking SACCOs was 215 of which 124 had been licensed. The remaining 91 SACCOs were at different levels of compliance with the provisions of the law. All deposit taking SACCOs were in operation prior to establishment of SASRA in 2009 and have applied to be considered for licensing as undertaking depositing hence taking SACCO business, SASRA report (December 2012).

Deposit taking SACCOs are spread across the Counties and are categorized as follows:-

Table 1.1: Deposit Taking SACCOs Categories in Kenya

CATEGORY	TOTAL
Teachers Based SACCOs	45
Government Based SACCOs	41
Farmers Based SACCOs	73
Private Institutions Based SACCOs	24
Community Based SACCOs	32
TOTAL	**215**

Source: SASRA Report (2012)

There were 53 active SACCOs in Nyeri County at the end of the year 2009, Muthui C.M. (2011). There are 32 active SACCOs in Nyeri County in the four market segment namely trade, urban, rural and transport industry, Esther Maina (2010).

From the SASRA 2012 reports, there are 10 SACCOs operating Deposit Taking Activity only (FOSA) in Nyeri County, 5 of which have been licensed as shown in the tables below.

Table 1.2: Deposit Taking SACCOs Only in Nyeri County

Number of SACCOs	Branches	Members	Share Capital	Members Deposit	Turnover	Loans/ Advances	Total Assets
10	36	204,042	842,091,075	4,409,426,866	1,077,813,653	3,696,922,000	6,540,546,475

Source: SASRA Report (2012)

Table 1.3: Licensed Deposit Taking SACCOs in Nyeri County

	SACCO	Certificate No.	Members	Share Capital	Members Deposit	Turnover	Loans/ Advances	Total Assets
1	Biashara SACCO Society Limited	6432	1,668	75,607,285	256,078,482	72,959,488	265,972,843	357,485,317
2	Nyeri Teachers SACCO Society Limited	2567	8,469	339,399,000	1,822,523,000	379,146,000	2,059,072,000	2,914,760,000
3	Taifa SACCO Society Limited	8315	93,017	212,408,820	1,163,675,984	307,733,597	570,460,567	1,502,384,614
4	Wakulima Dairy SACCO Society Limited	10226	16,134	33,797,981	106,646,870	29,050,634	97,510,176	147,323,842
5	Wananchi SACCO Society Limited	6531	58,004	66,556,095	546,274,312	195,529,568	414,142,013	894,164,732
	TOTALS		**177,292**	**727,769,181**	**3,895,198,648**	**984,419,287**	**3,407,157,599**	**5,816,118,505**

Source: SASRA Report (2012)

1.2 Statement of the problem

SACCOs help those who have been excluded from accessing financial services from formal and informal financial institutions and also contribute to reduce negative impacts of local money lenders in the areas where they operate. From the year 2010 new developments and intense competition in lending industry in Kenya's economy has been witnessed since the introduction of the economic liberalization which has posed serious challenges to the SACCO's. The emergence of formal and informal segments in the financial sector fragmentation implies that different segments approached problems such as high transactions costs, risk management, mobilization of funds, grants and capitalization, Steel (2008). SACCOs have some good impact in the improvement of their member's economic well-being and bringing people together hence tightening member's societies. SACCOs offer services to individuals who must first save some of their incomes with them and apply for credit commensurate with their savings.

This is not the case always since credit is not always availed promptly mainly because of credit policies followed within the SACCOs. SACCOs lack a prudent credit policy and this has a big challenge in retaining current members and attracting new members, Kibinge (2008). For example, loan terms and condition are many and rigid. Also loan procedures are very lengthy. Attracting new members should be coupled with a prudent credit policy thus translating to increase in number of loan applicants. Repayment of SACCO loan is not being taken seriously by the current members due to poor management system for loan collection, lack of suitable guarantors and low interest rate charged, T Beck & P Honohan (2007). This threatens their survival in future since they will not be in a position to grant loans to other members. Due to lack of a prudent credit policy, there was need to investigate effect of credit policy on loan volume granted by SACCOs for the benefit of the members and the SACCOs at large.

1.3 Purpose of the Study

The purpose of the study was to analyse the effects of credit policy on loan volume granted by selected deposit taking SACCOs in Nyeri County in Kenya to discover new and useful knowledge and give recommendations. This study also explained the effects of credit policy on loan volume granted by selected deposit taking SACCOs in Nyeri County in Kenya

1.4 General Objective

i. Effect of loan terms and conditions on loan volume granted by selected deposit taking SACCOs in Nyeri County.

1.4.1 Specific Objectives

i. To establish the clients repayment period and the interest rate considered
ii. To identify the credit limit for loan granted

1.4 Hypothesis

i. H_0 : Loan terms and conditions have no significant effect on the loan volume granted by selected deposit taking SACCOs in Nyeri County.

H_1: Loan terms and conditions have significant effect on the loan volume granted by selected deposit taking SACCOs in Nyeri County.

1.5 Scope of the Study

The research study analyzed the effects of credit policy on the loan volume granted by selected deposit taking SACCOs in Nyeri County in Kenya. The study dealt with only one effect that is credit policy, on the loan volume advanced by deposit taking SACCOs in Nyeri County. Five deposit taking SACCOs in Nyeri County were covered in the study namely: Biashara, Nyeri Teachers, Taifa, Wakulima Dairy and Wananchi SACCO Society Limited. This is because they were licensed deposit taking SACCOs in Nyeri County and thus their information was easily available from the SACCO regulatory body (SASRA) reports. The study was carried out from the month of October 2013 to April 2014. The total number of employees from the five licensed deposit taking SACCOs in Nyeri County was 135, SACCOs Human Resource Department (2013), SASRA Supervisory Report (2012) and KUSCCO reports (2012). Out of the 135 SACCO employees, there were 100 respondents for the purpose of the research. To enable correct sampling procedures and sample size use, the researcher first understood the five SACCO executive board members, management team and credit officers' structure.

1.6 Justification of the Study

The study was carried out to establish whether credit policy has a major influence on the loan volume granted by selected deposit taking SACCOs in Nyeri County. It was hoped that the results from the study will be useful to SACCOs in creating a competitive edge against their competitors. The researcher also suggested on areas of further study since this research dealt with only one effect (credit policy) of loan volume granted by selected deposit taking SACCOs in Nyeri County.

1.7 Significance of the Study

The SACCOs will have an advantage over their competitors from the study in that they will be able to compete favorably by adopting sound loan policies which will stimulate economic development in the country. Amendments in the governing credit policy that impedes SACCO's competitiveness against its rivals due to poor loan volume granting was suggested in the study for consideration by commission of co-operatives to assist in formulating a prudent credit policy. The study will assist the government in achieving the Millennium Development Goals if the measures to be recommended will be adopted; since these measures will ensure the sustainability and future survival of SACCOs is achieved. This will be crucial for employment creation and poverty alleviation. The study finding will help the prospective loan seekers to make an optimal decision whereby they will be able to choose a source of finance with minimum cost and more benefits both in the short run and long run. Hence their choice of either SACCO or commercial bank loan will be a knowledgeable decision unlike the current scenario where many people are ignorant about the terms of credit policy.

1.8 Limitation of the study

The study dealt with busy employees of the five licensed deposit taking SACCOs in Nyeri County who required ample time to respond adequately to the questionnaire. This could have influenced the result of the study and thus the researcher used drop and pick method to administer the questions in the questionnaires, since it allows the respondents to have ample time to complete the questionnaires.

1.9 Delimitation of the study

The research was narrowed down to licensed deposit taking SACCOs in Nyeri County, since their information was easily available at the SACCO regulatory body reports. This assisted the researcher in using accurate information resulting to findings with minimum errors. Also accurate data projects more on what the entire population is thinking.

1.10 Assumption of the Study

i. Every staff of the SACCO understands by-laws and credit policy of the SACCO.
ii. Every staff of the SACCO understands the difference between SACCO credit policy and by-laws.

II. Chapter Two

Literature Review

2.1 Scholarly Review of Literature

SACCOs offers services to individuals who must first save some of their incomes with them and apply for credit commensurate with their savings. The credit is not always going to be availed promptly mainly because of the credit policies that are followed within the SACCOs hence the need to investigate the effects of credit policy of such financial organizations**.**

2.1.1 Loan Terms and Conditions

Terms and conditions of SACCOs are many and rigid and a member is required to provide guarantors, boost his share savings and cannot be granted a loan which will attract a deduction of more than two thirds of his/her gross pay despite amount of shares held, which allows him/her to get a loan of three times her/his shares. This eventually leaves the amount loan disposable to a member less than that granted by banks thus banks becomes preferred by many members, KUSCCO report (2007).

The main loan security for SACCOs is member's salary and his/her good character while banks require collaterals such as title deed which is more demanding to acquire, Ouma (1990). This was the case until 2001 when unsecured loans were introduced by commercial banks targeting the SACCO members among other potential clients. Ndungu (2008) observed that unless the loan applied for is equal to or less than member's shares it must be secured by guarantors who must be members of the society while in banks there is no such condition. The two thirds rule must hold always for SACCOs unlike banks which do not strictly adhere to it always. SACCOs are facing stiff competition especially from commercial banks due to this, hence the need for changes of its credit policy in order to be more competitive. The credit terms will be measured using the ease of meeting them by considering the total number of loan applications received and those not eligible due to not observing certain terms of the policy. A study by Chege (2006) found that loan volume granted by SACCOs and loan default was subjected to changes in interest rates, loan products, repayment schedules, client ability to repay a loan and client credit limit. The recommendations were that there should be; lower interest rates; participatory involvement in regulating monetary policy; introduction of new loan products; and issue of loans of low value for growth to be experienced. The main concern of the study by Chege (2006) was loan default though the study didn't showed how this default affected the growth of wealth leave alone showing the determinants of growth of SACCOs' wealth. In a study by Kaupelytė and McCarthy (2006) it was found that risk management related to credit union development stages such that as a SACCO Society matures, higher standards of risk management should be implemented. In some cases, these changes were accompanied by shifts in the regulatory framework. The study recommended that the regulatory regime was not always aligned with the stage of credit union development and indeed, reflected the economic policies of the country in which they operate. Nanka-Bruce (2006) conducted another study where it was found that good corporate governance practices positively impacted on performance and recommended that firms needed to impose effective good governance to grow.

The main objective of SACCOs is to offer cheaper savings and loan to its members. Saving is made through check-off system from the member's monthly salary and farm produce every month. The loans are charged interest rate at 12% per annum which is cheaper than that of commercial banks excluding other conditions of credit policy. Kaloi (2004) in another study found that there were delays in remittance; loan default; low monthly earnings and failure to invest in illiquid investments led to losses hence no growth of wealth. The study recommended that Ministry of Co-operative Development and Marketing should introduce sound remittance policies. The study by Kaloi (2004) only shallowly dwelt with issues that affected liquidity; financial stewardship but failed to show they contribution to growth of loan volume granted by SACCOs.
granted due to loan default rate and level of credit.

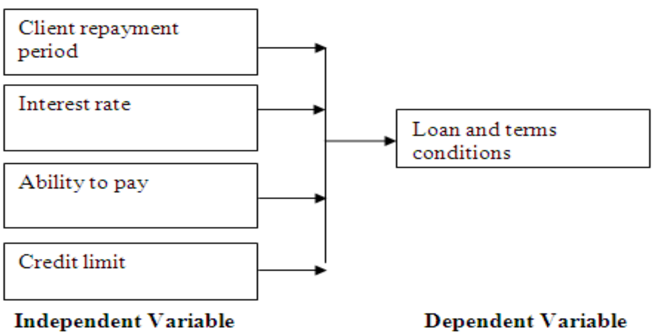

Figure 2.1 Conceptual Framework

Source: Author (2013)

III. Research Methodology

3.0 Introduction

This chapter contains the research methodology which was used for the study. It specifically addresses the research design, population, sampling technique, instruments of data collection and data analysis.

3.1 Research Design

The research design used in this study was descriptive survey. Descriptive Survey is a method of collecting or administering questionnaires to a sample of individuals, Orodho (2003). Orodho & Kombo (2003) notes that descriptive survey research is intended to produce statistical information about aspects of the population that interest policy makers without manipulating any variables. The study aimed at collecting information from respondents on their attitudes and opinions in relation to the effects of credit policy on the loan volume granted by SACCOs. The study used primary data that was obtained from questionnaires. Also to obtain the degree of relationship that exists between the variables, the researcher used correlational design. Correlational design analyzes the correlation between two or more variables, Orodho (2003).

3.2 Target Population

The total number of employees from the five licensed SACCOs in Nyeri County was 135, thus the target population for this study is 135, SACCO Human Resource Department (2013) SASRA Supervisory Report (2012) and KUSCCO report (2012).

The research dealt with only the five licensed deposit taking SACCOs in Nyeri County since their information was easily available and therefore it helped in using accurate and needed information in answering the objectives of the study. The target population comprised the SACCO Executive Board Members which included C.E.O., Chairman, Operations Manager and members, Management Team which included Branch Managers, Head of various SACCO Departments which included Credit, Debt Recovery, Portfolio or Investment, Marketing, Administration, Legal, Audit, Accounts, IT, Procurement and Human Resources department and SACCO Credit Officers. The study drew conclusive information from the target population which helped in critical decision making and in answering the objectives of the study.

Table 3.1: Target population

		Target Population Categories			
	SACCO	**SACCO Executive Board Members**	**SACCO Management Team**	**SACCO Credit Officers**	**Total Target Population**
1	**Biashara SACCO Society Limited**	9	14	5	28
2	**Nyeri Teachers SACCO Society Limited**	4	12	6	22
3	**Taifa SACCO Society Limited**	11	14	7	34
4	**Wakulima Dairy SACCO Society Limited**	11	15	4	30
5	**Wananchi SACCO Society Limited**	4	12	5	21
	TOTAL	**41**	**67**	**27**	**135**

Source: KUSCCO Report (2012), MCDM Report (2012), SACCO Human Resource Department (2013) and SASRA Supervisory Report (2012) **.**

3.3 Sampling procedure and size

Since the target population was stratified according to the five SACCOs, the researcher used stratified random sampling technique which involves dividing the target population into homogeneous subgroups, or strata, and then randomly selecting the final subjects proportionally from the different strata, Mugenda O. & Mugenda A. (2003). This type of sampling is used when the researcher wants to highlight specific subgroups within the population. Each SACCOs was divided into three categories, that is, SACCO Executive Board Members, Management Team and Credit Officers. The sampling technique used in social science research was used. The following formula was used to get the desired sample size from the target population.

$$n = \frac{z^2 pq}{d^2}$$, Mugenda O. & Mugenda A. (2003)

Where:

$n =$ The desired sample size if the target population is greater than 10,000.

$z =$ The standard normal deviation at the required confidential level.

$p =$ Proportion in the target population estimated to have characteristics being measured.

$q = 1 - p$

$d =$ The level of statistical significance set (Statistical significance is the probability that an effect is not due to just chance alone).

If there is no estimate available for the proportion in the target population assumed to have the characteristics of interest, 50% should be used as recommended by Fisher et al. (1985).

Using the z-statistic of 1.96 and if the researcher desired an accuracy at the 0.05 level, then the sample size is

$$n = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} = 384$$

If the target population is less than 10,000, the required sample size will be smaller. In such case, we calculate a final sample estimate (n_f) using the following formula:

$$n_f = \frac{n}{1+(n/N)}$$

Where: n_f = The desired sample size if the target population is less than 10,000

n = The desired sample size if the target population is greater than 10,000 that is 384

N = The estimate of the population size, in this case it was 135, Mugenda O. & Mugenda A. (2003).

Thus $$n_f = \frac{n}{1+(n/N)} = \frac{384}{1+(384/135)}$$

$$\approx 100$$

This sampling technique was an appropriate technique because it ensured that all SACCO Executive Board Members, Management Team and Credit Officers to be sampled had an equal chance of being included in the samples that yielded the data that would be generalized within minimal margin of error and would be determined statistically, Borg R.W. & Gall P. G. (1996) and Mugenda O. & Mugenda A. (2003).

The following stratified random sampling formula was used to select a sample size for each stratum

$$Z = \frac{a}{b} * n$$

Where: Z = The sample size for each stratum

a = The population of each stratum

b = The target population for the survey which in this case, it was 135

n = The desired sample size, in this case, it was 100

The sample size was from the five stratums as per the table below. The research sample size was approximately 100 respondents drawn from the five licensed deposit taking SACCOs in Nyeri County.

Table 3.2: Sample size

	SACCO	Target Population Categories				Sample Size			
		SACCO Executive Board Members	SACCO Management Team	SACCO Credit Officers	Total Target Population	SACCO Executive Board Members	SACCO Management Team	SACCO Credit Officers	Total Sample Size
1	Biashara SACCO Society Limited	9	14	5	28	7	10	4	21
2	Nyeri Teachers SACCO Society Limited	4	12	6	22	3	9	4	16
3	Taifa SACCO Society Limited	13	14	7	34	10	10	5	25
4	Wakulima Dairy SACCO Society Limited	11	15	4	30	8	11	3	22
5	Wananchi SACCO Society Limited	4	12	5	21	3	9	4	16
	TOTAL	41	67	27	135	31	49	20	100

Source: Author (2014), KUSCCO Report (2012), MCDM Report (2012), SACCO Human Resource Department (2013) and SASRA Supervisory Report (2012).

3.4 Research Instruments

The data was collected using structured and non-structured questionnaires. Open and closed ended questions were asked in order to get the answers sought by the research questions. This method was chosen primarily due to its practicability and applicability to the research problem and the size of the population. It was chosen due to its invaluable simplicity and sense of anonymity by the respondent. It' truthful and gives

respondents ample time to respond to the questions, Mugenda O. & Mugenda A. (1999) and Orodho and Kombo (2003). They were also meant to ensure that a wider range of respondents' perception was captured.
The administration of the questionnaires was done by "drop and pick" method as it allowed ample time to complete the questionnaires. The respondent's approval to participate in the study was sought before administering the questionnaires. A letter of identification introducing the researcher was also obtained from the Institution of learning.

3.5 Data Analysis and Presentation

The data collected from the questionnaire was carefully organized according to the research questions. For the closed ended questions, a code was assigned to each category whereas for the open ended, the responses were listed and tally marks used to note the identical ones. Data analysis involved the use of inferential statistics especially correlation coefficient (r) which is a simple descriptive statistics. Trochim (2008) inferential statistics is carried out to draw conclusions about the unknown parameters of a population based on statistics, which describes a sample from that population, thus inferential statistics enabled the researcher to infer the sample results to the population.

Data analysis was carried out with the aid of Statistical Package for Social Science (SPSS) 22.0 version. SPSS allows extensive data-handling capabilities and numerous statistical analysis routines that can analyze small to very large amounts of data statistics. The data was presented in the form of frequency distributions, percentages, bar graphs and pie charts

3.6: Hypothesis Testing

The p - values that was obtained from the data analysis using SPSS was used to test the hypothesis and determine the statistical significance of each hypothesized factor. In statistical significance testing, the p-value is the probability of obtaining a test statistic at least as extreme as the one that was actually observed, assuming that the null hypothesis is true.

According to the electronic textbook, StatSoft (1984-2008) one could say that the statistical significance of a result tells us something about the degree to which the result is "true", in the sense of being "representative of the population". More technically, the value of the p-value represents a decreasing index of the reliability of a result. A 0.05 level of significance is the standard margin of error recognized in most areas of researchers, meaning that probability of error that is involved for most researchers is 5% of their results. A researcher often "rejects the null hypothesis" when the p-value turns out to be less than the significance level, in this case the significance level was 0.05. Such a result indicates that the observed result would be highly unlikely under the null hypothesis.

Many common statistical tests, such as z-tests or Pearson's chi-squared test, produce test statistics which can be interpreted using p-values. The researcher used the z-test since the sample size (which was 100) was greater than 30. Z-test was used also because even when the data do not follow a normal distribution, it can still be possible to approximate the distribution of these tests statistics by a normal distribution by invoking the central limit theorem for large samples, as in the case of Pearson's chi-squared test.

The analysis also used inferential statistics, coefficient of determination (r^2) to test the hypothesis. It was useful because it gives the proportion of the variance (fluctuation) of one variable that is predictable from the other variable. It is a measure that allows the researcher to determine how certain one can be in making predictions from a certain representation. The coefficient of determination is the ratio of the explained variation to the total variation. The coefficient of determination is such that $0 \leq r^2 \leq 1$, and denotes the strength of the linear association between two variables.

The analysis in addition used inferential statistics, the correlation coefficient (r) to test the hypothesis. The correlation coefficient (r) informs the researcher the magnitude of the relationship between two variables. In addition it enables a researcher to assess the strength of a relationship between the dependent variable and independent variables. It also shows the direction of the relationship between the two variables. The value of r is such that r lies between -1 to +1 that is $-1 \leq r \leq +1$. The + and – signs are used for positive and negative correlations respectively.

The study was carried out to establish the relationship between the effects of credit policy (independent variables) on loan volume granted by selected deposit taking SACCOs in Nyeri County (dependent variable).
In a nutshell hypothesis testing was as per the table below

Table 3.3: Hypothesis Testing

	Hypothesis	Test Statistic	Results Interpretation
i.	H_0: Loan terms and condition have no significant effect on the loan volume granted by selected deposit taking SACCOs in Nyeri County	• Z-test • Correlation coefficient	If p-value < 0.05, then the result would be considered statistically significant and the null hypothesis would be rejected.

IV. Chapter Four

Data Analysis and Presentation

4.0 Introduction

This chapter presents data from the field and it is analyzed inform of research objectives. The researcher tested the research hypothesis and conclusions are provided at the end of the chapter.

4.1 General information

4.1.1 Gender of respondent: The data gathered from the field showed that 54% of the respondents were male while 46% were female hence the respondents were evenly represented.

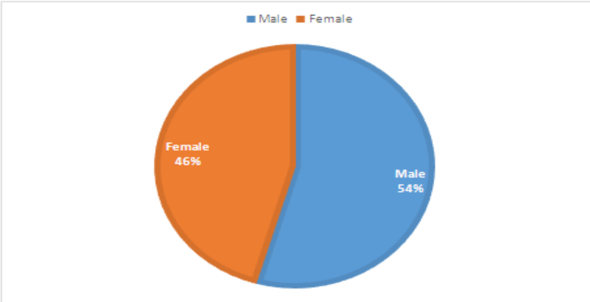

Figure 4.1: Gender

Source: Research Data (2014)

4.1.2 Age of respondent

The researcher had wished to gather data from different age groups in the field. Data showed that 38% of the respondents were aged between 18 and 30 years, 36% aged between 31 and 40 years, 20% aged between 41 and 50 years while 5% were above 50 years. This showed that workers in SACCOs are youthful and full of energy and are evenly represented.

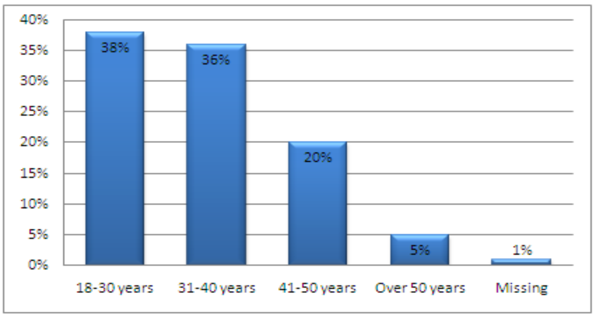

Figure 4.2: Age of Respondents

Source: Research Data (2014)

4.1.3 Length of Employment

Length of employment shows the experience level of the employees and how they are conversant with the organization. The data showed that 11% of the respondents served for less than a year, 17% served between one and two years and 71% had served over two years. This showed that most of the respondents had worked for long time within their SACCOs, hence were in a position to provide relevant data.

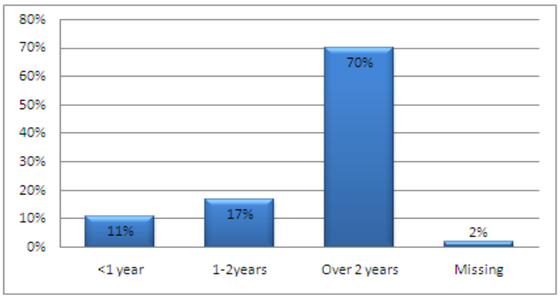

Figure 4.3: Length of Employment

Source: Research Data (2014)

4.1.4 Respondents position

The type of information the researcher wanted was to be gotten from SACCO Executive Board members, management team and credit officers, the researcher found that 31% were executive board members, 49% were management team and 20% were credit officers.

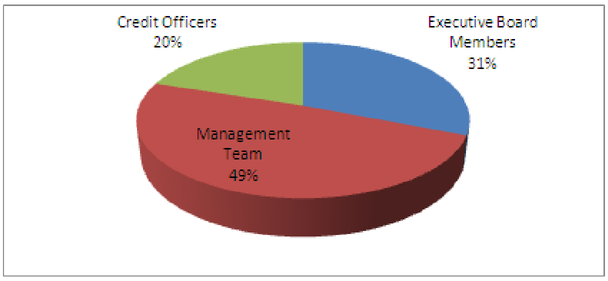

Figure 4.4: Respondents Position

Source: Research Data (2014)

4.1.5 Highest level of education

From the information gathered in the field, 17% of the respondents had a diploma, 62% were undergraduates while 21% were post graduates. This showed that the level of education in SACCOs was high hence the SACCOs were attracting educated persons in their work.

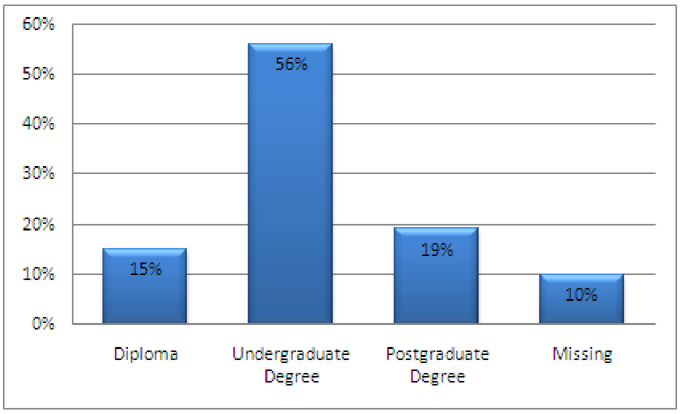

Figure 4.5: Highest Level of Education

Source: Research Data (2014)

4.2 Loan Term and Condition

The first objective was on loan term and conditions and its effect on SACCOs credit policy. The researcher sought to find out effects on loan terms and condition on the SACCO credit policy.

4.2.1 Repayment schedules for SACCO loans

The researcher found out that the repayment schedules were negotiated with the client before issue of the loan (7%), 60% said they were pegged to the type of the loan, 15% said they were dependent on the principal amount of the loan and 18% stated they were fixed by the SACCO.

Table 4.1: Repayment schedules for SACCO loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Negotiated with the client	7	7.0	7.0	7.0
	Pegged to the type of the loan	60	60.0	60.0	67.0
	Dependent on the principle amount of the loan	15	15.0	15.0	82.0
	Fixed by the SACCO	18	18.0	18.0	100.0
	Total	100	100.0	100.0	

Source: Research Data (2014)

4.2.2 Interest rate charge on Loans

The researcher sought to find out how the SACCO set the interest rates they charge on the loan. 52% of the respondents stated it was at a subsidized rate, 40% said it was set at the prevailing market rate while 8% stated it was set at a premium rate. This basically showed that the members have comfortable with the interest rate charged on the loans.

Table 4.2: Interest rate charge on Loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	At a subsidized rates	51	51.0	52.0	52.0
	At the prevailing market rate	39	39.0	39.8	91.8
	At a premium rate	8	8.0	8.2	100.0
	Total	98	98.0	100.0	
Missing	System	2	2.0		
Total		100	100.0		

Source: Research Data (2014)

4.2.3 Customers ability to repay loan consideration in loan grant

The researcher wanted to establish to what extent does the customers' ability to repay a loan is considered when granting or declining the loan application. 1% stated to a very small extent, 4% to a small extent, 28% to a large extent and 68% to a very large extent.

Table 4.3: Customers ability consideration in loan grant

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	To a very small extent	1	1.0	1.0	1.0
	To a small extent	4	4.0	4.0	5.1
	To a large extent	28	28.0	28.3	33.3
	To a very large extent	66	66.0	66.7	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

Source: Research Data (2014)

4.2.4 Effect of client credit limit on loan application

The researcher wanted to establish whether client credit limit affects loan application. 6% of respondents disagreed, 36% agreed while 58% strongly agreed that client credit limit affect loan application in SACCOs.

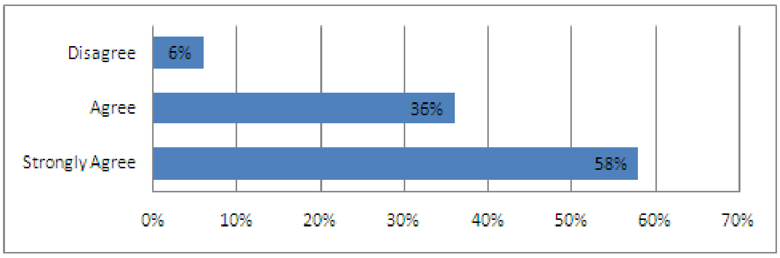

Figure 4.7: Effect of client credit limit on loan application

Source: Research Data (2014).

4.3 Test of hypothesis of Loan Terms and Conditions

There is a positive relationship between loan terms and conditions and loan volume granted by deposit taking SACCOs as indicated by correlation of 0.220. The p-value of 0.030 is less than the acceptable significance level (α) of 0.05; hence the null hypothesis that loan terms and conditions have no significant effect on the loan volume granted by deposit taking SACCOs is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

A study by Chege (2006) have the same view that loan volume granted was subjected to interest rates, loan products, repayment schedules, client ability to repay a loan and client credit limit.

V. Chapter Five

Summary, Conclusions And Recommendations

5.0 Introduction

This chapter presents a summary of major findings, conclusion and recommendations of the study based on the results and findings in chapter four. The findings and conclusions were based on the specific objectives of the study and the results of analyzed data from the data collection instruments. The recommendations were drawn from both the study findings and the conclusions of the research. In this section the interpretation of the results is also provided.

5.1 Summary of the major findings

The purpose of the study was to investigate the effects of credit policy on loan volume granted by selected deposit taking SACCOs in Nyeri County.

SACCO employment sector was evenly distributed since out of the sampled respondents 54% were men while 46% were women. Most of the workers in SACCOs were youthful and full of energy and were evenly represented while only a few workers were approaching their retirement age. Most of the respondents had worked for long time within their SACCO thus they were conversant with the SACCO credit policy hence they were in a position to provide relevant data. The respondent were sampled from the SACCO executive board members, management team and credit officers. From the sample size of 100 respondents, 31% were executive board members, 49% were management team and 20% were credit officers. SACCOs were attracting educated persons at their work since from the information gathered, 62% were undergraduates. This showed that the level of education in SACCOs was high.

The researcher sought to establish the effect of SACCOs by-laws on the SACCO credit policy. It was found that SACCOs by-laws had a high effect on the SACCO credit policy. This directly affects the loan volume granted to the members.

The researcher sought to establish whether Credit policy has an effect on loan volume granted by selected deposit taking SACCOs in Nyeri County. Hence the information given out by respondents was used to establish the level of the effect.

The four independent variables considered in the study included: loan terms and conditions, client credit information, loan acquisition procedures and credit management and they are discussed at length below.

5.1.1 Loan Terms and Conditions

The first objective was on loan term and conditions and its effect on SACCOs credit policy. The researcher found out that the repayment schedules were pegged to the type of the loan product from the SACCO. Thus every loan products had its own repayment schedules. It was found that SACCO charged interest on loans at a subsidized rate. The researcher established that the customers' ability to repay a loan is considered to a very large extent when granting or declining the loan application.

The researcher found out that the customer credit limit strongly affects the number of loan applications.

The researcher findings were similar to a study by Chege (2006) who found that loan granted was subjected to interest rates, loan products, repayment schedules, client ability to repay a loan and client credit limit.

5.2 Conclusions

5.2.1 Loan Terms and Conditions

The study found that majority of the respondents was of the opinion that that loan terms and conditions affects the loans sought from a SACCO. This implies that the nature of loan terms and conditions have a large effect on the loan volume granted by SACCO's.

5.4 Suggestion for Further Research

The following areas are open for further research and investigations.

i) Effects of SACCO by laws on SACCO credit policy
ii) Effects of SACCO by laws on the loan volume granted by SACCO
iii) Effects of Political Factors on Loan volume granted by SACCOs
iv) Effects of economics factors on loan volume granted by SACCOs.
v) Investigate if types of loan products offered by SACCOs affect the loan volume granted by SACCOs.

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