

**EFFECTS OF CREDIT REFERENCE ADVISORY ON  
THE LEVEL OF NON PERFORMING LOANS**

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## ABSTRACT

The study aimed at assessing the effect of credit referencing bureau on loan performance, a survey of commercial banks in Meru Municipality. The specific objectives were to determine the effect of information sharing, credit score, credit reports and skip tracing on the performance of non-performing loans. Non-performing loans has been a major headache for financial institutions in Kenya for a long time. Many banks have closed shop in the past due to non-performing loans and as a mechanism to counter this problem; these banks have had to take expensive insurance covers to manage this risk. This cost is transferred to the customer through high interest rates for money borrowed. These Credit referencing advisory were set up to provide a platform for information symmetry and hence, credit history for borrower is well documented for the lending institutions to make informed decision on issuance of credit facilities to this individuals or organizations. The study adopted a descriptive research design and targeted all the 43 credit officers in the 19 commercial banks in Meru Municipality. Purposive sampling was used to select the respondents while census method was used to obtain the respondents hence 43 respondents. The researcher collected primary data through questionnaires and secondary data from journals and financial reports from CMA. Descriptive statistics was used to analyse the data. The data was then presented in tables. Multiple linear regression was also applied to establish the relationship between the independent and dependent variables and to test the hypothesis of the study at 95% significance level. The study concluded that credit referencing advisory and level of nonperforming loans are indeed related. credit referencing advisory, increases transparency among financial institutions, helps the banks lend prudently, lowers the risk level to the banks, acts as a borrowers discipline against defaulting and it also reduces the borrowing cost i.e. interest charge on loans. CRB has come of age and has helped the bank to lend with care. The effect of it therefore has led to reduced non-performing loans. The researcher recommended that credit referencing advisories should expand their field and ensure that they gather more financial history data from other sources such as SACCOS, county offices, the Kenya Revenue Authorities, utility providers and other service providers so that one's credit worthiness is viewed holistically. Financial institutions are also advised to utilize the information gathered for the intended use as it was noted that the use of credit scores hasn't greatly reduced the occurrence of relationship lending. The public should also be sensitized on the importance of getting to know what is contained in one's credit report early enough. Each individual is entitled to one free credit report per year and currently, Credit referencing bureaus are publicizing this on local media. All are advised to carry out this task as it can save problems in the future.