ISSN 2348-3156 (Print)
International Journal of Social Science and Humanities Research ISSN 2348-3164 (online)
Vol. 7, Issue 2, pp: (731-741), Month: April - June 2019, Available at: www.researchpublish.com

INFLUENCE OF CONSUMER LENDING ON PROFITABILITY OF COMMERCIAL BANKS IN NAKURU TOWN, KENYA

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Abstract: **The banking sector in Kenya has had a challenge in realizing the set profitability levels. This study sought to establish the influence consumer lending on profitability of commercial banks in Nakuru town Kenya. The theory that formed the basis for this study was traditional banking theory. A cross sectional survey research design was adopted for this study. The target population for the study comprised of the credit managers in the 26 commercial banks in Nakuru town. There are 92 credit managers across the banks in Nakuru town. Since the population of the study is not large, the study adopted a census approach. The study made use of a structured questionnaire constructed on a five point Likert scale to collect data. Data was collected through drop and pick later method. The collected data was analyzed with the help of statistical package for social sciences (SPSS). Data was analyzed in form of descriptive and inferential statistics. The analyzed data was presented in form of statistical tables accompanied by relevant discussions. The study established that consumer lending had statistically significant relationship with profitability of commercial banks in Kenya. Therefore the study concluded that consumer lending plays a significant role in determining profitability of commercial banks. The study recommended that the banks management teams review their loan lending policies to avoid concentration on corporate lending and emphasize on consumer lending which greatly impacts on banks profitability. Further, the study recommended that the banks set up better consumer evaluation mechanisms that will enable efficient cream skimming processes.**

Keywords: **Debt Financing, Equity Financing, Equity Financing Decisions, Financial Sustainability, Manufacturing Firms.**

1. INTRODUCTION

Commercial banks play an important role of savings, mobilization and financial resource allocation to various institutions. These roles make them an important contributor towards economic growth and development. By performing this role, commercial banks have the potential, scope and prospects to mobilize financial resources and allocating them to productive investments. No matter the sources of the generation of income or the economic policies of the country, commercial banks would be more willing to give out loans and advances to their various customers bearing in mind, the principles which guide their operations which include, profitability, liquidity and solvency (Rita, 2014).

Loans are the basic source of revenue and a major part of asset for banks. Loan portfolio problems have historically been a major cause of bank failure (Mahelet, 2009). Loans are associated with default risk in addition to the inherent risk of individual loans. Thus, according to the modern portfolio theory the objective of the bank manager is to choose a loan portfolio that minimizes risk given the expected return of the portfolio. Commercial banks may offer lending on short, medium and long-term basis as one of the many services rendered by commercial banks to their customers (Lotto, 2018). Commercial banks give loans and advances to various individuals, business organizations as well as government so as to enable them to embark on investment and various development activities as a means of aiding their growth in particular thus contributing toward the economic development of a country in general (Mahelet, 2009).

Loan portfolios are the major assets of banks, thrifts and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or likelihood that interest and principal will be repaid. One of the principal activities of commercial banks is to grant loans to borrowers. Loans are among the highest yielding assets a bank can add to its balance sheet, and they provide the largest portion of operating revenue. In this respect, the banks are faced with liquidity risk since loans are advanced from funds deposited by customers (Hamisu, 2011).

The effect of loans on the performance of banks differs for different types of banks, different macroeconomic condition and different institutional factors (Cornett et al, 2009). Regarding the relationship between loan portfolio and bank returns, Cornett et al, (2009) found that loan diversification reduces bank return while endogenously producing riskier loans for all banks in a sample of Italian banks in the 1990s. Lending is risky to most banks because repayment of loans can seldom be fully guaranteed. According to Ssebuwufu (2014), implicit contracts between lenders and borrowers, thus, banking relationships can motivate high effort and timely repayments. GoK (2013) stated that weaknesses in loan policies encourage delinquency or delay in repayment which can result in loan loss. This is to say that proper policy should be applied in lending for enhanced financial performance.

According to a survey carried out in 2006 on the banking sector in Ghana, Loans account for a total of 50% of bank's assets which had increased from 41.5% in 2005. In 2009 the figure had increased to 59% of the industries total assets. A financial report of ADB in 2009 indicated that 66.5% interest income earned by commercial banks was from loans and advances. Thus the reason banks should give much attention to their lending activities in order to ensure their profitability (info data associates, 2010).

Lending is the most important services that commercial banks do render their customers; in other word banks grant advances and loan to individuals, government and business organization (Cheboi, 2012). Commercial banks are the most important savings, mobilization and financial resource allocations institutions, consequently these roles make them an important phenomenon in economic growth and development. In performing this role, it must be realized that banks have the potential, scope and prospects for mobilizing financial resources and allocating them to productive investments. Therefore, no matter the sources of the generation of income or the economic policies of the country, commercial banks would be interested in giving out loans and advances to their numerous customers bearing in mind, the three principles guiding their operations which are, profitability, liquidity and solvency (Cheboi, 2012).

Global Perspectives

Bank size is one of the bank loan portfolio determinants, as it may affect the market segment focus of banks De-Haas et al. (2010). Loan portfolio structure and performance of government-owned banks in Indonesia play a prominent role as financial intermediaries in Indonesia. Data retrieved from the bank Indonesia annual reports sourced from the Indonesian Banking Directory indicate that although representing just 25% of the overall number of banks in Indonesia, the government-owned banks retained a dominant market share of almost 50% in the loan market over the period 2003 to 2011. Small and large government-owned banks differ with regard to loan portfolio composition, risk and return. The loan portfolios of small government-owned banks are more concentrated with focus on the consumer sector whereas large government-owned banks have more diversified loan portfolios with more exposure to the trade and manufacturing sectors (Atahau & Cronje, 2014)

In Russia on determinants of composition of banks' loan portfolios it was found that foreign banks tend to capture large clients and thus disable domestic banks to raise their competitiveness and financial stability. Thereby penetration of foreign banks to Russian financial market will provide greater availability of credit to small business that is of high importance in transition countries, as small companies play a significant role in the restructuring process. Small banks lend relatively more to small sized enterprises than large banks, while large banks have a comparative advantage in lending to large customers. Thus regulating authorities which have proclaimed banks consolidation as the central line of development of Russian banking system should take into account that macroeconomic effectiveness of Russian banking system is unattainable without small banks. Perhaps unsurprisingly, state-owned banks still lend more to governments (International Monetary Fund, 2016).

On the loan portfolio of Brazilian banks was found to be average and moderate concentrated. Tabak, Fazio and Cajueiro (2010) concluded that, loan portfolio concentration seems to improve the performance of Brazilian banks in both return and risk of default. The concentration indices were found to be positively related to returns and negatively related to risks.

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Afroz (2013) has found that, Bangladesh Krishi Bank, was concentrating its lending to primary agriculture to serve to poor people in rural area. Later on it has diversified its activities to secondary agriculture. After diversification, the financial position of the bank become more transparent and expected for better result soon.

Regional perspectives

The reason why banks give much attention to the lending activity, especially in periods of a stable economic environment, is that a substantial amount of banks income is earned on loans which contribute significantly to the financial performance of banks. According to the Ghana Banking Survey on the effect of loan portfolio quality on the performance of banks in Ghana, the return on equity and net interest margin were used to proxy financial performance while loan portfolio profitability and loan loss provision/gross loan advances were used as proxies for loan portfolio quality. The findings of the study established that loan portfolio quality has significant effect on the financial performance of the selected Ghanaian universal banks. The study recommended that universal banks in Ghana should develop effective and efficient strategies and policies to improve the quality of their loans in order to improve their profitability. It further recommended that, efficient cost management must be adopted by Ghanaian universal banks to improve performance (Nkuah, 2015).

A study on credit portfolio management in microfinance banks using the lending methodologies in Nigeria, Adamu, et al (2014) found out that the success of microfinance banks is dependent on the effective and efficient management of its credit portfolio. The risk portfolios proved to be the source of recurring problems and the cause of failure for many microfinance banks. Credit policies, procedures, systems and controls do not always assure asset quality and earnings. They asserted that practical approach is therefore necessary for effective loan portfolio management. They recommended that the practical approach is needed by microfinance banks and the need to have operations research experts among the bank's employees. Operation Research experts could use their wealth of experience in both objective and quantitative problem solving skills to continually carry out research on causes of loan defaults in Microfinance Banks and recommend optimum solutions.

In his study on loan performance and profitability of microfinance institutions in Uganda, Rodgers (2013) revealed that most of loan clients are affected by the loan period so as to meet their payment obligations. Most of the loan clients borrow for business purposes, the loan advanced was not adequate, the interest rates were very high and borrowers were not allowed participation in loan negotiation as terms and conditions are predetermined by the bank. The findings further revealed that expenses incurred by the borrowers from the time of application up to the time of repayment of the loans were too high, default rate was high, and not all the staff agreed that they monitor projects which are advanced and the bank does not motivate its clients to repay the loans.

A research study on loan portfolio management and the performance of microfinance institutions in Uganda, Wakiso District, Karekaho (2009) found out that the portfolio planning, client screening and portfolio control are related significantly with the portfolio performance of MFIs, but the strongest relationship was between portfolio control and the performance of MFIs. In addition, he asserted that, although all the independent variables predicted a significant proportion of this performance, the most significant individual predictor was again portfolio control dominated by loan monitoring. The results, therefore, indicated that if MFIs are to achieve the desired portfolio performance, they have to consider all these independent variables but putting more emphasis on their loan portfolio control generally and loan monitoring in particular.

Local Perspectives

Loan portfolios are the major assets of the lending institutions. The value of the loan portfolio depends not only on the interest rates earned on loans but also on the likelihood that interest and principal will be paid. Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominant source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan portfolio is fundamental to a microfinance institution safety and soundness (Monica et al., 2018).

On the analysis of the loan portfolio management on organization profitability: a case of commercial banks in Kenya, by George et al (2013). Their analysis was based on variables such as the profitability measures, interest expense, administrative cost, and asset value at the organizational level. They found out that, the loan portfolio has a direct influence on the profitability of the banks whereas non-performing loans and the new loans have different impact on the

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profitability of the bank. They further asserted that, the interest expense was rated highly as a factor that works to reduce the profits. They also pointed out that, the administration costs especially salary and overheads were utterly blamed on reducing profitability. Their findings further revealed that, the depreciation of assets and the provisions was seen as a dent to profitability of any bank. However, it was also noted that the size of bank by asset value does not per se translate to higher profitability but it is a key fact for profitability efficiency.

A research study was conducted on the effectiveness of credit management system on loan performance: empirical evidence from micro finance sector in Kenya. The study found out that credit terms formulated by the microfinance institutions do affect loan performance; the involvement of credit officers and customers in formulating credit terms affects loan performance. Interest rates charged had a negative effect on the performance of the loans, the higher the interest rates the lower the loan performance. Credit risk controls adopted by microfinance institutions have an effect on loan performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refrain from further borrowing had an effect on loan performance. Collection policies adopted by microfinance institution had an effect on loan performance, stringent policy had a great impact on loan performance, and the lenient policy had an effect but was not as great as that of stringent policy

2. STATEMENT OF THE PROBLEM

Commercial banks consider borrower's personal behavior as an important factor in approving loans sought from the banks (Sangmi, 2010). According to Karanja (2009), most of the larger local banks failures in Kenya involved extensive poor analyzed lending where it could not establish the net interest income to be realized from assets lent out therefore, affecting the return on assets and consequently its influence on financial performance. According to central bank of Kenya (2017) bank supervision annual report, sector's gross loans and advances decreased by 5.68 percent from KSh.2.29 trillion in December 2016 to KSh.2.16 trillion in December 2017. On the other hand, the ratio of gross non-performing loans to gross loans increased from 9.2 percent in December 2016 to 12.3 percent in December 2017. Additionally the outstanding value of non-performing mortgages increased from Ksh.22.0 billion in December 2016 to Ksh.27.3 billion in December 2017. The NPLs to gross mortgage loans was 12.2 percent which was slightly below the industry NPLs to gross loans ratio of 12.3 percent. Further the report indicated that the pre-tax profit for the banking sector decreased by 9.6 percent from Ksh.147.4 billion in December 2016 to Ksh.133.2 billion in December 2017. Based on CBK (2017) report the introduction of interest rates capping made Commercial banks introduce tighter credit standards so the actual loan disbursements have been lower than the increased demand. Most commercial banks have also shown preference to offer short term loans as compared to long tenure mortgage loans. The foregoing brings into light the prevalent problem in the banking industry as far loan issuance is concerned. Various studies have been done in regard to this area. Ndende and Kavoya (2017) did a study to examine the effect of market structure on the level of non-performing loans among commercial banks in Kenya. Obuya and Olweny (2017) examine the effect of bank's lending behavior on loan losses of listed commercial banks in Kenya. On the other hand, Thiongo (2017) examined the effect of loan portfolio growth on financial performance of commercial banks in Kenya. These studies failed to establish the linkage between loan lending categorization on profitability of commercial banks in Kenya. This study sought to fill this gap by examining the influence of loan lending categorization on profitability of commercial banks in Kenya.

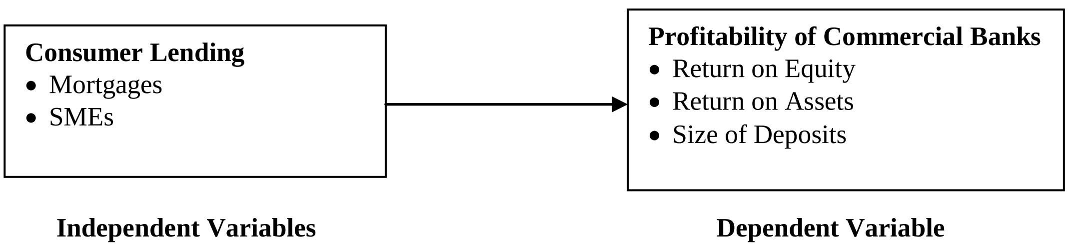
3. OBJECTIVES OF THE STUDY

The study sought to examine the effect of consumer lending on profitability of commercial banks in Nakuru town, Kenya.

4. RESEARCH HYPOTHESES

Customer lending has no statistically significant effect on profitability of commercial banks in Nakuru town, Kenya.

5. CONCEPTUAL FRAMEWORK



6. THEORETICAL REVIEW

Traditional Banking Theory

Traditional banking theory was proposed by Diamond in 1984. Traditional banking theory (Diamond, 1984) suggests that the diversification of banks' credit portfolio is positively associated with bank profitability. This positive link between credit portfolio diversification and bank performance is due to the fact that as the bank expands its lending activities to new economic industries, the quality of its credit portfolio will increase with the decline in the probability of default. Moreover, more diversified credit institutions would be less vulnerable to economic downturns in many sectors. Classical finance theory suggests that diversification should be a way to reduce the risk within a portfolio of assets given asymmetric information in banking markets, theory highlights that diversification reduces the cost of financial intermediation (Diamond, 1984) and increases the incentive to monitor.

Also, traditional banking theory suggests that banks should diversify their credit portfolio to decrease credit risk, which is also in accordance with portfolio theory, given that through the expansion of their credit lines to new sectors, the bank‘s probability of default will be reduced (Diamond, 1984). The idea is that due to asymmetric information, diversification reduces financial intermediation costs. Moreover, less diversified banks would be more vulnerable to economic downturns, since they expose themselves to few sectors.

7. EMPIRICAL REVIEW

Consumer Lending and Profitability of Commercial Banks

Lending practices are long dated and for many years up to 2007, interest rates were very low in Western countries and money was cheap (Berend, 2013). Banks need to lend as much as they can if they are going to make the level of profits that they were used to. Some banks for instance in the USA lent to poorer people who had less chance of paying back their loans than the traditional customers (Berend, 2013). To manage risks, banks invented new and complex ways to lending processes and invested in new ways way to package up the debts. This involved turning loans that could not be traded into type of security that could be traded in ultimately. This allowed these debts to spread out to other banks so they did not feel so exposed to risks, lending looked safe because it was in form of mortgages on people’s home. People were buying many goods, Western economies were growing, inflation was low and there were cheap goods to purchase from China and other emerging economies (Berend, 2013).

Despite the proliferation of banking services, business lending remains a very important component of the activities of banks and other depository institutions. In his study of European commercial banks in the 1990s, Victor & Paloni (2015) reports that, almost in every country, loans to both firms and households account for about 55 percent of total bank assets with the other earning assets (e.g. bonds, shares, securities and other investments) accounting for the rest. This suggests that business lending is an important source of bank profits. Profits from lending depend on individual banks’ capacity to maximize net interest earnings, reduce loan losses and minimize non-interest costs on loans.

Today, automated credit scoring has become a standard input into the pricing of mortgages, auto loans, and unsecured credit. Using data from the Survey of Consumer Finances, Einav et. al (2013) documents the extent of this transformation. She finds that as a result the correlation between loan pricing and estimated and realized default risk has sharply increased. Grodzicki (2012) documents a similar pattern in the credit card industry and ties it specifically to lenders’ investments in information technology.

The matching process between banks and their customers is a two-way process. While banks target certain customer groups, customers also choose the banks they want to work with. Many contributions stress that it is ultimately the bank that decides which customers it wants to focus on (for instance because of their profitability) or can focus on (the bank may only be able to serve relatively small customers because of large exposure limits) (De Haas & Naaborg, 2010).

Domestic banks and foreign banks may focus on different customer types if they have access to different sorts of client information and process this information differently. Domestic banks tend to have a deep understanding of local businesses and base their lending decisions on the ‘soft’ qualitative information that is available on local and smaller firms with whom they develop long-term relationships. Such relationships also enable banks to collect information about borrowers’ capacity to repay, thus reducing the cost of providing credit (Petersen & Rajan, 2012). Foreign banks may have difficulties in processing soft information. They often grant loans on a transaction-by-transaction basis using standardized decision methodologies. Such methods to assess creditworthiness tend to use 'hard' information like financial ratios calculated on the basis of financial statements. Foreign banks that lack local knowledge may therefore mainly grant credit to large and foreign-owned firms, which tend to be more transparent than local SMEs. The increased presence of foreign banks in transition countries may therefore have led to a relative decline in SME lending (Berger et al., 2011).

In their study Hughes et al., (2018) conducted a research study on consumer lending efficiency: Commercial banks versus a Fintech lender. Using 2013 and 2016 data, they compared the performance of unsecured consumer loans made by U.S. bank holding companies to that of the Fintech lender, lending club. Findings indicated that the largest bank lenders with assets exceeding $250 billion experience the highest median rate of nonperforming unsecured consumer loans and that this high median nonperforming rate seems to be associated with risker loans − in fact, the highest inherent credit risk among the five size groups. Moreover, findings indicated that these largest bank lenders have the smallest inefficiency − the smallest difference between the observed ratio adjusted for statistical noise and the best practice (minimum) ratio. Consequently, among the five size groups, these largest bank lenders are, on average, the most efficient at consumer lending even though they experience the highest observed rate of non-performance.

Profitability of Commercial Banks

With reference to the US, Nersisyan and Wray (2010) reported that non-interest income – mostly from off-balance sheet activities but also from trading and fees – accounts for a major share of commercial banks' income and that the share of commercial and industrial loans in total assets has plummeted. Nersisyan and Wray remark that the larger banks aren't really in the business of making loans to businesses. Lapavitsas and Powell (2013) report a similar finding following their comparative analysis of advanced economies. Noting that the clear fall in the banks' ratio of non-FIRE (finance, insurance and real estate) corporate lending to total financial assets is, in some ways, a mirror image of the fall in corporations' share of loans to liabilities, they conclude that the large increases in finance, real estate and household lending have replaced corporate lending as the driving factor in banks' loan portfolio. According to this literature, these shifts in bank behavior are far more accentuated in large banks than in smaller ones.

A study done in Russia by Chernykh and Theodossiou (2011) indicated that the lender should ensure that good decisions are made relative to granting of loans with the objective of maximizing return on assets, and this can be through interest income to be realized with the lending and try to reduce factors that could otherwise compromise the returns. Gobi (2003) from Italy further asserts that, the lender should gather information regarding the prospective borrower that will assist in reaching a sound and safe loan lending decision that will positively work towards influencing financial performance of the commercial banks involved. The study showed that there was a huge gap in implementation of loan appraisal whereby unavailability of business information before signing a contract on loan assets is a critical challenge in credit appraisal if it is not duly considered.

Dang (2011) argues that liquidity is positively related with the profitability of a bank. According to Dang, the liquidity position of a bank is majorly measured by two ratios; a ratio of customer deposit to total asset and a ratio of total loans to customer deposits. Other researchers measure liquidity by using different financial ratios. For example Ilhomovich (2009) applied cash to deposit ratio in measuring the level of liquidity for banks in Malaysia. On the other hand, the studies which were carried out in both China and Malaysia did not find relationship between liquidity level and the banks performances (Said and Tumin, 2011).

Andreas and Gabrielle (2009) stated that Bank profitability is usually measured by the return on average assets and is expressed as a function of internal and external determinants. The internal determinants include bank-specific variables. The external variables reflect environmental variables that are expect to affect the profitability of banks. Internal factors such as capital adequacy ratio, asset size, asset quality, net-worth, liquidity, earnings quality, loan performance, business risk, management quality, people, technology and operating environment are major determinant that are used to analyzed the determinants of bank profitability. An external macroeconomic and industry-specific factor includes Effective tax rate, Real GDP growth, inflation, regulation and Bank concentration.

A commercial bank is profitable if it has accrued more gains in financial perspective from invested capital. Thus, the bank's success is determined from the profits it has made in a given financial year (Adeusi, Kolapo & Aluko, 2014). Profitability also shows the association between the absolute amount of income that indicates the capability of the bank to advance loans to its customers and enhance its profit. In today's competitive environment, profitability is a key factor for smooth the running of the business and has a significant effect on performance of the bank and economic development as well (Tariq et al., 2014). Profitability is also crucial for a banking institution to maintain its ongoing activities and for shareholders to generate fair returns (Ponce, 2011).

8. RESEARCH METHODOLOGY

A research design is the blueprint of conducting a research study (Kothari, 2008). It is the most important part of research because the entire study is founded on the research design. As such, the choice of research design is bound to influence the outcome of the study findings. A cross sectional survey research design was adopted for this study. The target population for the study included all the credit officers from all the commercial banks in Nakuru town Kenya. Nakuru is served by 26 commercial banks having a total of 92 credit officers. Based on the small size of the population, the study adopted a census where all the credit managers were engaged in the data collection. The study used structured questionnaires to gather data. According to Kothari (2006), a questionnaire is the best tool for the researcher who wishes to acquire the original data for describing a population. Questionnaires enabled a researcher to reach a large sample within a short time. The questionnaire was composed of short structured closed ended statements constructed on 5 point Likert scale. The questionnaires were tested for validity and reliability. Data collected was processed and analyzed based on the objectives and research hypotheses using Statistical Package for Social Sciences (SPSS). This was done using both descriptive and inferential statistics. Descriptive statistics (percentages, frequencies, and means) presented in tables was used to organize and summarize data and to describe the characteristics of the sample while Pearson correlation coefficient was used to check the relationship between variables. ANOVA was used to test the influence of the independent variables on the dependent variable and the study hypothesis at $p<.05$ level of significance.

9. FINDINGS AND DISCUSSIONS

A total of 92 questionnaires were distributed to the respondents for data collection. Out of the 92 questionnaires distributed, 69 were correctly filled and returned. This represented a 75% response rate was categorized as very good. Babbie and Mouton (2002) noted that an adequate response rate should be above 50% for it to be subjected to data analysis. Therefore, 75% response rate was considered adequate for data analysis in this study.

9.1. Descriptive Statistics Results

9.1.1 Descriptive Statistics on Consumer lending

The study also established the views of the respondents regarding consumer lending by computing the percentages, mean and standard deviations of their responses. The findings from the analysis were as presented in table 1.

Table 1: Descriptive Statistics on Consumer lending

	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
Our bank require consumers to provide security as a guarantee to repay back the loan	70.8	20.8	2.1	2.1	4.2	4.52	.967
Our bank has very attractive mortgage facilities for our customers	43.8	41.7	10.4	2.1	2.1	4.23	.881
Interest rates for our Mortgage facilities are always maintained low to encourage consumer uptake	37.5	50.0	8.3	2.1	2.1	4.19	.842
The bank plays a role in growth of SMEs by advancing them credit facilities	58.3	37.5	4.2	0.0	0.0	4.54	.582
The pricing of loans to individually owned SMEs is based on the level of risk exposure	56.2	37.5	2.1	2.1	2.1	4.44	.823
Lending to SMEs requires the bank to have sufficient background checks to ensure credit worthiness of the consumer	60.4	35.4	4.2	0.0	0.0	4.56	.580
We offer business training to SME traders before lending to them to ensure management proficiency and minimize risk exposure	45.8	37.5	14.6	2.1	0.0	4.27	.792
Valid N (listwise)	69						

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Findings demonstrated that 70.8 % and 20.8 % of the respondents strongly agreed and agreed respectively that bank require consumers to provide security as a guarantee to repay back the loan. This assertion had a mean of 4.52 and a standard deviation of 0.967. Findings from the study established that with a mean of 4.23 and a standard deviation of 0.881, 85.5 % of the respondents agreed that their banks have very attractive mortgage facilities for their customers. The assertion that interest rates for mortgage facilities are always maintained low to encourage consumer uptake attracted a mean of 4.19 and a standard deviation of 0.842 where 50% and 37.5 % of the respondents agreed and strongly agreed. In addition, 95.8 % of the respondents were in agreement that banks play a role in growth of SMEs by advancing them credit facilities. This attracted a mean of 4.54 and a standard deviation of 0.582. Additionally, a mean of 4.44 and a standard deviation of 0.823 were recorded on the aspect that pricing of loans to individually owned SMEs is based on the level of risk exposure whereby 56.2 % of the respondents strongly agreed and 37.5% of them agreed. Respondents agreed lending to SMEs requires the bank to have sufficient background checks to ensure credit worthiness of the consumer. 60.4% of the respondents strongly agreed while 35.4% of them agreed registering a mean of 4.56 and a standard deviation of 0.580. In regard to offering business training to SME traders before lending to them to ensure management proficiency and minimize risk exposure, a mean of 4.27 and a standard deviation of 0.792 were registered. 83.3 % of the respondents strongly and/or agreed with the assertion.

9.1.2 Descriptive Statistics on Profitability of Commercial Banks

The views of the respondents in regard to profitability of commercial banks were established in aid of making inferences. Findings were as presented in table 2.

Table 2: Descriptive Statistics on Profitability of Commercial Banks

	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
Our bank has increased its profits due to its ability to leverage on interest rates	62.5	31.2	4.2	0.0	2.1	4.52	.772
By maximizing the net interest earnings, the bank has been able to increase its profitability	41.7	45.8	8.3	4.2	0.0	4.25	.786
Highly riskier loans are charged high interest rates to compensate for loan losses	39.6	14.6	8.3	18.8	18.8	3.37	1.606
The return on assets in the bank is always enhanced through proper categorization of loans.	43.8	43.8	12.5	0.0	0.0	4.31	.689
The bank has enhanced the return on assets by reducing the level on non-performing loans	33.3	45.8	12.5	4.2	4.2	4.00	1.011
Through reference to credit reference bureaus, the bank is able to avoid risky borrowers resulting to continuous increase in returns on assets	62.5	29.2	2.1	4.2	2.1	4.46	.898
Reduction in non-performing loans has resulted to increased profitability in our bank	43.8	35.4	10.4	8.3	2.1	4.10	1.036
Valid N (listwise)	69						

A majority of the respondents comprising of 62.5% strongly agreed and 31.2% agreed that their bank has increased its profits due to its ability to leverage on interest rates registering a mean of 4.52 and a standard deviation of 0.772. Further, 45.8% and 41.7% of the respondents agreed and strongly agreed respectively that through maximizing the net interest earnings, the bank has been able to increase its profitability. This had a mean of 4.25 and a standard deviation of 0.786. In addition, a mean of 3.37 and a standard deviation of 1.606 were registered where 54.2% of the respondents strongly and/or agreed that highly riskier loans are charged high interest rates to compensate for loan losses. Additionally, respondents agreed (M=4.31, SD=0.689) that the return on assets in the bank is always enhanced through proper categorization of loans. 87.6% of the respondents strongly and/or agreed with the statement. With a mean of 4.00 and a standard deviation of 1.011, 45.8% and 33.3% of the respondents agreed and strongly agreed respectively that the bank has enhanced the return on assets by reducing the level on non-performing loans. A majority of the respondents comprising of 91.7% strongly and/or agreed that through reference to credit reference bureaus, the bank is able to avoid risky borrowers resulting to continuous increase in returns on assets. This aspect had a mean of 4.46 and a standard deviation of 0.898. Finally, respondents were in agreement that reduction in non-performing loans has resulted to increased profitability in our bank. 43.8% of the respondents strongly agreed while 35.4% of them agreed recording a mean of 4.10 and a standard deviation of 1.036.

9.2 Correlation Analysis

The study utilized Pearson correlation coefficient to examine the relationship between the independent variable and the dependent variable. Pearson product moment correlation coefficient was used to indicate the relationships. Findings from the analysis were as presented hereafter.

9.2.1 Influence of Consumer lending on Profitability of Commercial Banks.

The researcher further sought to establish the relationship between consumer lending and the profitability of commercial banks. Pearson correlations coefficient established and the findings presented as shown in Table 3.

Table 3: Correlations between Consumer Lending and Profitability of Commercial Banks

		Consumer Lending
Profitability of Commercial Banks	Pearson Correlation	.579**
	Sig. (2-tailed)	.000
	N	69

**. Correlation is significant at the 0.01 level (2-tailed).

It was established that there was an existence of an average positive significant (r=.579, p=.000) relationship between consumer lending and profitability of commercial banks in Nakuru town, Kenya. Hence, there was a direct relationship between consumer lending and profitability of commercial banks. As such, in order to enhance profitability of commercial banks, consumer lending must also be enhanced. Similarly, other scholars like Berend (2013) found out that banks need to lend as much as they can if they are going to make the level of profits that they were used to. Some banks for instance in the USA lent to poorer people who had less chance of paying back their loans than the traditional customers (Berend, 2013). To manage risks, banks invented new and complex ways to lending processes and invested in new ways way to package up the debts. This involved turning loans that could not be traded into type of security that could be traded in ultimately. This allowed these debts to spread out to other banks so they did not feel so exposed to risks, lending looked safe because it was in form of mortgages on people's home. People were buying many goods, Western economies were growing, inflation was low and there were cheap goods to purchase from China and other emerging economies (Berend, 2013).

10. CONCLUSIONS AND RECOMMENDATIONS

10.1 Conclusions of the Study

The researcher observed that consumer lending had an average positive significant relationship with profitability of commercial banks. This means that consumer lending improves the profitability level of commercial banks in Nakuru town, Kenya. Therefore in order to enhance profitability of commercial banks, consumer lending must also be enhanced. Consumer lending was shown to significantly influence the profitability of commercial banks amid other market factors. The researcher therefore concluded that consumer lending has an important role in determining profitability of commercial banks.

10.2 Recommendations of the Study

The study recommended that the banks management team enhance their loan lending policies to avoid concentration on corporate lending and focus more on consumer lending. The findings demonstrated that though corporate lending has a role in profitability, in reality it does not significantly influence profitability. Therefore the banks should consider more other forms of lending such as consumer lending without which the banks my get into operational losses. Secondly, the study recommended that the banks should come with more consumer loan products. This should be done to encourage more consumer lending's by the banks hence enhancing the profitability of commercial banks. Finally, the banks should set up better customer evaluation mechanisms that will enable efficient cream skimming processes.

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