

STRUCTURAL FACTORS FOR STUDENTS' LOANS RECOVERY AT THE HIGHER EDUCATION LOANS BOARD (HELB) OF KENYA

Abstract

This paper focuses on structural factors for students' loans recovery at the higher education loans board (HELB) of Kenya. The structural factors examined included penalty waiver, abandonment of projected interest in loans, listing loan defaulters in Credit Referencing Bureaus (CRB), loan collection procedures and government integrity compliance requirements. The study sought to find out the extent to which these factors affects the loan recovery performance at HELB of Kenya. This study adopted explanatory research design. Primary data was collected using self-administered questionnaire. The population comprised 337 members of the HELB staff members at the board head offices and auxiliary offices under government huduma centers (GHC) country wide. A sample of 60 staff members drawn from loans repayment and recovery section of HELB was selected using purposive sampling method. Factor analysis and multiple regression models were used for data analysis. The study found statistical evidence that loan collection procedures (t - value 3.883773), penalty waiver (t -value = 3.580933) and government integrity compliance (t -value - 2.529348) significantly related to loans recovery performance. Conversely listing in credit reference bureaus revealed a weak significance (t -value 1.788982). The study however found no significant relationship between abandonment of projected interest (t value 0.125421) to loans recovery performance

Key word: *penalty amnesty, loans recovery, credit referencing bureaus, defaulters, HELB*

1.0 INTRODUCTION

Investment in human capital is a key to economic development of any nation as it leads to acquisition of important knowledge, Skills and experiences. To maintain a high standard of living, a substantial amount of resources should be devoted to higher education. Government sponsored student's loans schemes are in place in some 70 countries around the world. Student loan schemes, usually concerned with tertiary education, are of particular interest to governments because these schemes are able to contribute to the solution of a range of policy problems that governments face (Shen and Ziderman, 2008).

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39 The student loans schemes differ across countries but one element in common to all
40 government sponsored loans scheme is that they are highly subsidized by governments.
41 This means that a sizeable proportion of the total loans outlay will not be received back in
42 repayment (Kimani, 2010). The students' loan schemes are also widely used in the
43 United States of America, Australia, China, Japan, Chile, Singapore, and the United
44 Kingdom as a mechanism for financing higher education (Johnstone, 2015)

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46 In Kenya, The Higher Education Loans Board (HELB) is the corporate entity that lends
47 to students and recovers the loans when the students are through with their education as
48 established by an act of Kenyan Parliament, The Higher Education Loans Board Act,
49 1995. This is done through sourcing funds for lending, disbursement of loans, bursaries
50 and scholarships and recovery of mature loans to establish a revolving fund from which
51 funds would be drawn to lend to needy students.

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53 The performance of HELB in terms of loan recovery has been increasing at a low rate
54 with the performing loans standing at 65.2 % in 2015. Kimani (2010) stated that the rise
55 in recoveries was low compared to the rate of increase of the loan disbursements to
56 students implying that HELB will still continue to rely on the funding from the exchequer
57 unless they come up with better ways of dealing with defaulters. In its recovery efforts,
58 HELB has continuously used various strategies including Data sharing with strategic
59 partners such as Credit Reference Bureaus (CRB) and charging penalties on non-
60 complying defaulters. The move by the higher education Loans board to charge penalties
61 on nonperforming accounts started in the year 2010 and is thought to have highly
62 influenced the students' loans recoveries since then.

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64 In different years like 2013 and 2014, HELB gave penalty amnesty to its past students
65 loans defaulters to pay their loans less penalty in a lump sum payment. During the
66 amnesty period, a large proportion of penalties (over 80% penalties) were waived
67 together with their interest on a condition that the loanees fully paid the remaining
68 amount of the loan to clear it and be issued with a clearance certificate. The same
69 strategy has been continued in the year 2015. Loanees with unpaid loans including those
70 defaulters, whose loans date as back as 1974 stormed the HELB offices to pay their loans,

save on accrued interest that accrued on the loans and get a positive listing at the credit reference bureaus. Others contacted HELB to seek clearance in fulfillment of the Chapter 6(six) of the Kenyan constitution on integrity clearance for the Kenyans seeking jobs and contracts in government departments and elective positions.

This study based its premise from the foregoing by focusing on structural factors for students' loans recovery at the higher education loans board (HELB) of Kenya. The structural factors under study include penalty amnesty specifically penalty waiver, abandonment of projected interest, credit referencing bureaus (CRB) and government integrity compliance. In addition loan collection procedures factor was also examined. The study sought to find out the extent to which these factors affects the loan recovery performance at HELB of Kenya.

1.2 Penalty Amnesty

Amnesties have common characteristics. First, amnesties are voluntary and have been found to be short lived in nature, generally lasting for two to three months. Individuals may decide not to participate; however, consequences of not participating could be such that if they are caught later they could get a stiffer punishment than before (Alm and Beck, 1993). HELB has been levying penalties of at least Kshs 5,000 per month to all the nonperforming accounts whether they were partially serviced before or not (HELB Annual report, June 2014).

In order to encourage the students' loans defaulters to pay their debts, HELB has been giving penalty amnesty in form of incentives. These include Penalty waiver and Waiver of Projected interest on the loans upon lump sum payment of loans to clear the long standing debts. In addition, the Higher Education Loans Board offered to positive update information of the loanees who are negatively listed as defaulters at the Credit Reference Bureaus in the Kenya and negatively list those who do not respond to the call of loan repayment. Further, the board uses various loan collection procedures including advertisements, Email corresponds, Phone calls to loanees and inspection of employers. The board also takes advantage of the integrity call in the Kenyan constitution (Chapter 6) on the Government Integrity Compliance to ensure that those who benefit from the government appointments have either cleared their loans or their Loans are performing

during the period of charging penalties and the penalty amnesty. A proportion of penalties are waived together with their interest on a condition that the loanees fully paid the remaining amount of their principal loan plus its normal interest. The loanees benefit by taking the advantage of the amnesty to have the penalties removed, save on projected interest and have their status positively updated with the Credit Reference Bureaus. Loanees ended up paying a lesser amount than the outstanding loan balance with penalties. The amnesty is believed to have led to increased loan recovery since it allowed nonpayers to pay their loan dues.

1.3 Higher Education Loans Board

The Higher Education Loans Board (HELB) is a state owned corporation which was established in 1995 by act of parliament through Kenya Gazette Supplement (Cap 213A). In its mandate, HELB is the administrator of the student loans scheme. Its mandate involves the disbursement of loans, bursaries, scholarships and the recovery of all the mature loans including the recovery of the loans awarded to University students through the Ministry of Education prior to HELB establishment. The history of higher education financing in Kenya dates back to 1952 when the then colonial government awarded loans under the then Higher Education Loans Fund (HELF) to Kenyans pursuing Educations in universities outside East Africa notably Britain, the USA, The former USSR, India and South Africa (Kimani, 2010).

In 1974, the government of Kenya introduced University Students Loans Scheme (USLS) which was managed by the Ministry of Education. Through the scheme, the Ministry of Education issued loans to Kenyan students who were in Makerere University, University of Nairobi and Dar es Salaam University to cover their Tuition and personal needs and repay the loans after completion of studies. Due to the challenges that the University Students Loans Scheme (USLS) faced including the legal mandate to recover the loans. The government of Kenya in 1995 established the Higher Education Loans Board to recover all outstanding loans given to past students since 1974 and create a revolving fund from which funds will be drawn to lend to needy students pursuing higher education and benefit future generations.

From the year 1974 to 2015, Higher Education Loans Board has lent a total of Kshs 53.22 billion to a total of 476,801 students out of which Kshs 21.2 billion lend to 214,868 students is not mature. Only 90,672 past students have fully paid their loans, 171,604 are

currently servicing the loans while 98,097 past students are not paying thus their loan accounts are non-performing (HELB Recovery Report, June 2015). With a default rate of 34.8% The Higher Education Loans Board has been using penalty amnesty as a strategy to encourage loans defaulters to pay their debts and increase their loans recovery where loans collections have funded over 35% of the annual university students borrowing in Kenya.

There are remarkable improvements in loans recovery by the lending agency. At inception, the recovery rate was 3.3% as compared to the current 62 % (HELB Annual report, June 2014). This is shown by the recovery outcome achieved during the 2013/2014 financial year where board recovered Kshs 3.3 billion from past students. The boards lending capacity has also increased to the current standing of Kshs 9.5 billion in 2014 with private sponsored students also benefiting. Over 448,783 students have benefited from the fund since 1974.

HELB has been charging penalties to the non-performing accounts since 2010. It has also been offering waivers on the penalties for those defaulters who pay their loans in a lump sum payment and to those who start servicing their loans and consistently without breaking in installments. This is thought to have created suitable bait for nonpaying loanees to start making loan repayments. The students' loan defaulters are further attracted to make one-off payments by the fact that they save on the projected interest on the loans when such payments are done to clear the loan since they are not charged on the projected interest on the loans. The HELB loan collection procedures can be directly linked to the loans recovery through the advertisements done to create awareness on the loan repayments which is believed to have led to increased loan collections. The use of emails to communicate loans balances and remind loanees of their repayments, the phone calls and direct visit to employers are among the identifiable debt collection procedures that can be linked to the students' loan recovery.

The defaulters are expected to benefit by taking the advantage of the amnesty and pay amounts lesser than the outstanding loan balance with penalties. The amnesty led to increased loan recovery since it encouraged defaulters to pay their loan dues at a lesser cost than they would have incurred. During period of increased promotion of penalty amnesty, HELB Loan defaulters jam-packed the HELB offices to pay their debts.

Despite the various measures taken by the Higher Education Loans Board to increase its loans recovery, reclamation of the student's loans remain a big challenge to HELB. The level of non-performing loans (NPL) stood at 38 % as at June 2015 (HELB database portfolio). Penalizing of non-complying ex-university students took effect in 2010 and the penalties have continued to accumulate with at least Kshs 5,000 (about 52.63 US dollars) per month for every month in which a payment for the loan is not done. The penalty amnesty offer by the Higher Education loans Board is thought to have helped in boosting loans recovery in addition to giving an opportunity to the defaulters to clear their debts at a lesser cost and in an easier way than repaying without the amnesty. The outstanding loan amount at HELB however calls for re-thinking on applying more viable loan debt management strategies. This study therefore sought to find out the extent to which the amnesty and debt collection factors affects the loan recovery performance at HELB of Kenya. These unanswered questions were addressed by trying to achieve five study specific objectives which included; ascertaining the relationship between penalty waiver, abandonment of projected interest on loans, listing loan defaulters in credit referencing bureaus, loan collection procedures, and government integrity compliance on loans recovery performance at HELB of Kenya.

2.0 LITERATURE REVIEW

As explained under section 1 of this paper the main variables under study are illustrated in figure2.1 conceptual framework of the study

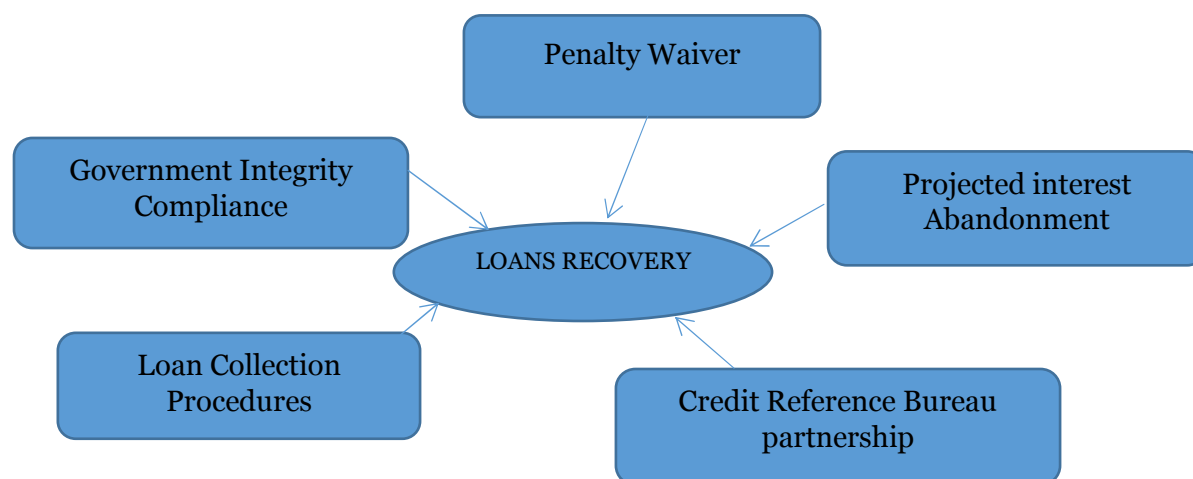


Figure2.1 Conceptual framework

2.1 Theoretical orientation

Literature on loans penalty amnesty and their effect on compliance to loan recovery has not been obtained as expected thus the agency theory, deterrence theory, and fiscal psychology theory reviewed in this section are considered most appropriate as all touch on the tax reprieve and compliance to the credit repayments.

Agency Theory: Incentives to take advantage of other parties are so strong that firms often vertically integrate even at the cost of efficiency to avoid the unfavorable outcomes of relying on contractual relationships (Klein, 1978). Generally, agency theory suggests that policy makers and tax administrators should be wary about any assumption that uncompelled agents or vendors will represent the state and collect the tax. This does not mean that firms will never comply with the request to contribute to the society. In fact, there is substantial evidence of corporate social responsibility (Tucker, 1992). Finding behavior of people who contribute to the good of an organization or association on purely voluntary basis is common. University students are among many examples in which groups participate in programs that benefit the community, even though they are only partially compensated for their activities (Kilonzo, 2012).

In agency models, government pre-commits to an audit strategy in order to encourage maximum compliance by tax payers. For instance, Reinnganum and Wild (1985) model the tax payer as a risk-neutral agent of the government who has private knowledge of his own income. The government, whose role is to maximize tax revenues net of audit costs, cannot observe actual income without costly investigation (Kilonzo, 2012). This concept directly link to government lending students loans at subsidized rates to promote education in Kenya

Deterrence Theory: Deterrence theory was used as a basis to examine many types of criminal behavior including tax evasion. The fundamental premise of criminal justice is that people fear punishment and will obey the law if it provides a sufficient sanction threat (Tittle, 1980).

Much early work examining tax reporting was in the criminal justice literature (Kilonzo, 2012). Accordingly, non-compliance was implicitly defined as illegal tax evasion. Deterrence theory is concerned with the effect of sanctions and sanction threats on criminal or undesirable behavior. The basic premise is that people choose to participate in activities that maximize their rewards and minimize their costs, tax amnesty being one of those activities (Kilonzo, 2012). If sanctions are probable enough to outweigh the rewards of the act will not be performed.

Alm, McKee and Beck (1990) pointed that there is lack of field data on the post amnesty impact regarding tax payer's expectations about the future amnesties. Field data pose the problem that it is difficult to separate different enforcement efforts and changes based on the tax amnesty experiment offer the possibility to get own data and to check specific circumstances which are difficult to control in field studies. According to Torgler (2002)

tax amnesty experiments help to control this problem since they allow analysis of effects of different tax amnesty structures in the long run. Alm, McKee and Beck (1990) found in an experiment that the level of compliance falls after an amnesty.

However, tax payers who revealed a high compliance before an amnesty, continued to be compliant afterwards. On the other hand, subjects with a moderate tax compliance rate reduced their compliance in the post amnesty phase. The authors found that a successful strategy to increase tax compliance after an amnesty is to intensify enforcement efforts (Laseeto, 2010). Enhancing the enforcement mechanism increases the cost of evasion and thus reduces the cost of participating in an amnesty.

It might be seen as a fair warning especially for those taxpayers who were honest before the amnesty aims at convincing tax delinquents that the probability of getting caught increases signaling that tax evasion is morally wrong. Alm, McKee and Beck (1990) also found that the anticipation of further amnesty increases if individuals get the opportunity to participate in the amnesty although the government had stressed that no further amnesty will take place. The government loses credibility and makes evasion seemingly forgivable. Taxpayers get the incentive to wait for further grace periods to be reconsidered freely. Amnesty is expected to be followed by increased enforcement measures as means to deter non-compliance. It is therefore expected that tax payers would take advantage of a tax amnesty to avoid being caught up with increased enforcement measures. Deterrence Theory therefore appropriately underpin the amnesty concept all applied in this study.

Fiscal Psychology Theory: Governments facing budget deficits take actions to close the deficit through spending cuts or tax increase (Agbeyegbe, 2004) with the pressure to raise additional revenue, many states have begun to offer and in many cases repeatedly offer periods of state amnesty (Luitel, 2005). Malik and Schwab (1991) argue that some evaders would like to rejoin the tax system but are discouraged by high fines and this embarrassment. Cases like these are clearly a ceteris paribus Pareto improvement as these individuals gain and revenue increases while no one else loses. The government raises more tax not only in the short run from collecting overdue taxes, but also by bringing former non-payers back into the system for the long run (Luitel, 2005). A great deal of attention has been given to the effects of the legality or morality of evasion, effects of interpersonal sanctions and perceptions of peer compliance and fairness of the tax laws have been examined explicitly as important factors in the compliance decision (Jackson, 1986).

According to Kilonzo (2012), while fiscal psychology offers a different perspective of compliance, several methodological concerns must be considered since attitudes and beliefs are not observable in archival data. A greater part of this research is reliant either self-reporting of repaying individuals or intentions to repay the loans. The reliability of these self-reports can be questioned.

First, respondents lack of self-insight, simple memory lapses and perhaps most importantly, the lack of consequences related to the decision of interest. Evaders may not confess while the people paying may boast about actions never taken. For instance, Elffers and Hessin (1987) were able to identify a group of actual evaders through the

taxing authorities in the Netherlands and they found that one group of attitudinal variables was correlated with verifiable evasions but with self-reports of evasion while another set was correlated with self-reports of evasion but not with a verifiable behavior. Self-reports and verifiable behavior were uncorrelated with and both evader and compliers giving inaccurate reports. For instance, like tax administrators tax payers are biased judges of their own compliance and may not report cases of abuse or exploitation if they do not interpret them as non-compliance (Hessing, 1987).

Predictions of most economic models, the audit rate had a positive impact on compliance (Becker, 1987). Further, the amount of actual government expenditures received and perceived tax burden were positively related to compliance. Studies have documented relationships between various demographics and attitudinal variables and compliance but have often failed to identify the mechanisms through which the relationships exist or operate. Until such mechanisms are identified, and constructs can be meaningfully measured this line of research may have reached a theoretical plateau. There may be other factors that may lead to high collections during the amnesty period but the effect of the other factors during amnesty has never been investigated since it is expected there will be high recovery collections due to compliance during the amnesty.

2.2 Empirical Literature Review

2.2.1 Loans Recovery

Loan recovery is the reclaiming back of loan from former beneficiaries (Kipkech, 2011). A default occurs when the borrower does not make the required payments or in some way the borrower does not comply with the terms of a loan (Warue, 2013). Further, Loan default arises when the borrower does not honor the agreement to meet the loan repayment terms of which details when money ought to be paid back to the lender (Warue 2012, Al-Tamim & Al-Mazrooei, 2007). Khan and Ahmed (2001) argued that some lending institutions factors that related risk management structures put in place by lending institutions are to blame for loan defaults. These institutions factors include lax procedures used in credit risk management. Negligence in monitoring loan defaults, insider loans, lack of trained personnel and unaggressive credit collection methods. According to Ndungu (2007), when loans are not performing the quality of assets of lending institutions declines and can affect the asset base of a bank and affect the banks' ability to lend further.

Some studies on the international experience have focused on developing countries, where the effectiveness of the student loans has often proved disappointing. The rate of default is as high as 80% in some countries (Wood-hall, 1992). In early 1990s a series of international forums on student Loans organized by the international institute for Educational planning (IIEP) analyzed experience in United States, Europe and in developing countries. An evaluation of students' loan experience in developing countries was summarized with the conclusion that students loans can make a contribution to relieving the financial pressures facing higher education, provided that the loans

programs are properly designed, effectively managed and a high rate of recovery is achieved (Wood-hall, 1992). A comparative study for the World Bank's Ziderman and Albrecht (1995) concluded that student loans have received much attention both in literature and practice. While they have not always worked well, suitably reformed they can constitute a productive, though limited mechanism for cost recovery.

2.2.2 Link between Penalty Amnesty and Loans Recovery

Amnesties on charges, penalties or even on unpaid taxes encourage a win-win situation. Affected individuals and organizations takes advantage of the amnesty to save on the charges they would have incurred if there was no amnesty offered and it reduces the cost of debts collection (Saidimu, 2010). Luitel and Sobel (1991) discussed two schools of thought on the effects of tax amnesty on tax compliance. First, the proponents of tax amnesty argue that it may increase tax revenues as taxpayers take advantage of the grace period offered by the tax authority. The other school of thought consisting of proponents of amnesty contends that the revenues from more productive amnesties are relatively small (Malik, 1991).

Although studies have shown mixed results on influence of amnesties on both short run and long run compliance, all agree that amnesty can be rewarding on debt management if it is accompanied by administrative changes, such as strengthened enforcement procedures and an increase in taxpayer education (Laborda, 2003, Luitel, 2005). This argument is further supported by Leseeto (2010) study of the effect of tax amnesty on value added tax compliance in Kenya. He found that the tax amnesty impacted positively on both short run and long run compliance.

The offer of 2004 tax amnesty by Kenya Revenue Authority (KRA) may have directly and indirectly influenced Value Added Tax (VAT) collections. This was observed from the spike in the upward trend over the study period following the amnesty (Leseeto, 2010). For instance, the amnesty helped to reduce KRA debt portfolio for VAT by allowing tax payers to pay debt without interest and penalties. The aggregate impact of an effective amnesty is that it encourages previous non-compliant payers to be brought into being compliant (Alm, 1990).

Loans recovery is an element of major concern towards the sustainability of Students loans schemes. In the study of students' attitude to educational loan repayments, Shafinar (2011), found that the success of students' loans in financing higher education is a result of the strong appeal embedded on students' loans itself, these appeals are based on the increased enrollment of higher education students, satisfactory guidelines and criteria for granting loans as well as the recovery of already issued students loans funds. An increase in the recovery rate will bring in funds that can be lent to additional students or used for strengthening educational infrastructure. These measures add useful value to the social and economic set-up of the country (Nyahende, 2013)

A study on how the students' loans scheme can be sustainable through repayment was conducted in South Africa by Jackson (2002), the results explains that national student

financial assistance scheme (NSFAS) is being and remaining sustainable due to recovery of the loan portion of the award from students and recycling of these funds back to the scheme in order to assist future generation students. In 1991 a small scheme to assist black disadvantaged students was established in South Africa named as NSFAS. It has grown into a national scheme which has helped to finance the cost of higher education for over 600,000 black needy students. NSFAS is funded by the government contributions, donors and is increasing its share from loan repayments by former students, (Jackson, 2002).

According to Njenga (2014), the students' loans need to be re-paid to create a revolving loan fund to support other needy students. Co-operate management factors affect the management of the financing institutions. The findings of Njenga (2014) also shows that Poor management of the loan recovery function, administrative cost, demand for loans, other incomes and amount disbursed are all related to strategic and co-operate management of the financing institution.

The success of loans schemes aimed at cost recovery may be gauged by the extent to which effective loans recovery is achieved i.e. that the value of expected repayments do in fact cover the loan amount received. From this viewpoint, past experience with loans programmes in developing countries has been disappointing; very few loans schemes achieve cost recovery ratios (measured as the ratio of total net repayments received to the loan size) that are in excess of 50 percent and in many cases considerably less. Low loans recovery may reflect the way in which an otherwise financially-sound loans scheme is administered; in particular, excessive repayment default and high administration costs of loan servicing and collection will lead to a shortfall of repayments in relation to the loans size (Nyahende, 2013).

According to (Ogolla 2012), debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loanees to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender. The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans. This too is applicable for HELB. Debt recovery is a very important component of HELB as it plays a key role in ensuring that the main objective of the HELB (to issue loans) results into the desired outcome of making a margin out of the loans advanced. Deriving the concept from banks, it is evident that the presence of debt recovery puts pressure to the loanees to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit. Debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank's 3 customers are repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery entails compiling a list of overdue loans and proactively managing the loans by calling up customers who are defaulting. This unit is equally charged with the role of liaising with lawyers to draft demand letters to the

loan defaulters and sending the same to the customers who are defaulting (Ogolla 2012).
HELB should borrow a leaf from banks aggressiveness on debt collection

2.2.3 Credit Reference Bureau Partnership

Credit Reference Bureau (CRB) is an agency that pools together the credit history of consumers so that the credit providers can make informed decisions about granting of loans (Osoro et al, 2015). CRBs generate a credit report which contains detailed information on a person's credit history. In Kenya, there are two licensed CRBs namely Metropol CRB and Transunion. A customer's credit report is likely to contain demographic information, customer's statements, payment profile information and account information that has to be captured into the systems. This is captured using credit information sharing which is a process that allows credit providers to exchange customers' information. This is done by the credit reference bureaus licensed by central bank of Kenya (Kibet, 2012). Prospective lenders access the information only when they have permissible reason as defined in law, to determine the borrower's creditworthiness (Sullivan and Sheffrin 2003).

The Kenya Banking Credit Reference Bureau Regulations 2008 were adopted to provide a framework for the governance of licensing, operation and supervision of CRBs by the central bank of Kenya. The credit information sharing initiative in Kenya is however, threatened by the risk of litigation arising from information shared by lending institutions, particularly in cases where adverse reports have led to decisions unfavorable to a customer seeking credit facilities, such as denial of the facilities sought (Tuwei et al (2015).

According to Wairimu (2013), financial institutions are facing an enormous risk of nonperforming loans (NPLs) noting that larger loans have greater risk exposure, so the variable costs per-dollar is higher. If lenders don't take extra care, there could be more loan defaults. To overcome the challenge of NPLs, an institution is required to monitor the behavior of borrowers. Thus, the idea of establishing Credit Reference Bureau (CRB) was conceived in order to enable banks to determine credit worthiness of their borrowers, individuals, groups and enterprises; and therefore reduce the loan default risk. This concurs with the finding of Gaitho (2013) that CRB's play major roles in loan default rates. Gaitho (2013) indicated that first; they enable lenders to lend to more and better risk clients (avoiding dead beats) and to determine better (and lower) the bad loan spread that they need to cover expected losses of credit to good payers. Second, credit bureaus reduce the borrowing cost by forcing creditors to be more competitive for good borrowers. Those lower costs for good credit risks motivate those borrowers to be more careful with repayment. Third, credit bureaus reduce moral hazard by developing a credit culture where they operate as borrowers become aware that credit market becomes aware of their credit history and rewards or punishes them accordingly (Gaitho 2013). In this respect CRB assists in sharing information on default among banks, eliminating corrupt borrowers those with the aim of borrowing from different financial institutions

with the aim of defaulting and to provide commercial professional credit reference to prospective foreign investors and also to identify honest/credible borrowers based on known history and character (Wairimu, 2013).

According to Sinare, (2008), credit references bureaus are information brokers, providing creditors with reliable, relevant and comprehensive data on the repayment habits and current debt of their credit applicants. Under reciprocity agreements, credit bureaus obtain data from creditors and other sources, consolidate and package information into individual reports, and distribute it to creditors for a fee. Lewis (2004) indicated that most banks and most creditors prefer hard collateral-based credit but would extend cash flow based credits if they can use a reliable and inexpensive system to exchange information on the character and ability to pay of borrowers. The need for establishment of CRB services in any financial system arises because of information asymmetry between lenders and borrowers (Payday cash, 2010). When financial institutions compete with each other for customers multiple borrowing and over indebtedness increases loan default unless the financial institutions have access to databases that capture relevant aspects of clients' borrowing behavior. The CRB contributes significantly to reduction in the costs of screening loan applications by enabling the lender to sort out prospective borrowers who have defaulted with other lenders. Credit reporting allows banks to better distinguish between good and bad borrowers (Osoro et al, 2015)

In their study on credit reference bureau as a factor influencing the profitability of commercial banks in Kenya, Osoro et al (2015), found that after the introduction of CRB in 2008, the banks were in a position to track the defaulters of loans with the highest number of default on loans being experienced in the year 2008 the time when the CRB came into effect. This showed that the CRB had adverse effects on tracking the loan defaulters.

An enquiry by Gaitho (2013) revealed that CRBs have reduced default rates as borrowers seek to protect their "reputation collateral" by meeting their obligations in a timely manner, financial institution uses information from CRB for risk identification through scenario analysis or risk mapping, credit bureaus serve creditors as an impartial and efficient means to quickly exchange references on the paying habits and current debt of credit applicants and that CRB provides credit reports that include both positive and negative information help build or destroy "reputation collateral". The study has also shown that information from CRB helps identify defaulters in terms of credit history and obligations and thus mark them risky clients and that CRB has helped instill culture of financial discipline since consumers know that they are monitored. The study findings correlate with Christen and Pearce (2005) indication that credit reports include both positive and negative information and helps build "reputation collateral" in much the same way as a pledge of physical collateral, which may improve credit access for the poorest borrowers. Further, the findings also conform to Anderson, (2007) indication

that with CRB a culture of financial discipline will be instilled since consumers know that they will be monitored.

According to Wairimu (2013) credit reference bureaus complement the central role played by banks and other financial institutions in extending financial services within an economy. CRBs help lenders make faster and more accurate credit decisions. They collect, manage and disseminate customer information to lenders within a provided regulatory framework in Kenya, the Banking (credit reference bureau) regulations, 2008 which was operationalized effective 2nd February 2009.

Credit histories not only provide necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and, in the end more affordable. Credit bureaus assist in making credit accessible to more people, and enabling lenders and businesses reduce risk and fraud. Sharing of information between financial institutions in respect of customer credit behavior, therefore, has a positive economic impact. Credit reference bureaus assist in making credit accessible to more people, and enabling lenders and businesses reduce risk and fraud. Sharing of information between financial institutions in respect of customer credit behavior, therefore, has a positive economic impact. The Central Bank of Kenya Act was amended through the Finance Act 2012, to provide for sharing of both negative and positive credit information among banks. This amendment paved the way for the adoption of full file reporting (sharing of both negative and positive information).

Various public organs in the country incorporated credit reports as a tool for vetting of suitability for officers wishing to hold public office. This development has highlighted the growing importance of the credit information sharing mechanism in Kenya. It is envisioned that credit information sharing will continue to be instrumental in the decision making process of credit providers in Kenya as they seek to mitigate risks associated with information asymmetry.

According to Gaitho (2013), since the commencement of the Credit Information Sharing (CIS) mechanism in July 2010, all the 43 licensed commercial banks in Kenya and institutions under the Deposit Protection Fund Board continue to submit negative credit information to the licensed CRBs within the required timeframes. It can be noted that further, the banks have incorporated the CIS mechanism in their credit appraisal systems by obtaining credit reports from the CRBs while appraising loan applications (Wairimu, 2013). This agrees with the findings of Ogolla (2012) that indicated that the advent of Credit Reference Bureau (CRB) brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks. Many banks in their credit policy now check with CRB before issuing loans to borrowers (Nyaoke, 2007). CRBs operations therefore are closely linked to loan recovery

strategies and HELB require a statistical evidence to assess the extent to which such a strategy affects its structural factors in enhancing loan recovery performance

2.2.4 Loan Collection Procedures

According to Ogolla (2012), debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their debt collection. These findings concur with that of Montana (2008) who recommends the following debt collection tips, which are likely to help increase debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues. By proactively reaching customers early, you can prevent larger problems later. Ogolla (2012) proposes states that this can be done by lending institutions organizing regular pipelines of customer with issues and working towards assisting them make repayments through discussions, and outsourcing bank debt recovery to collection agencies in extreme circumstances when the debt is not likely to be recoverable by the bank staff.

According to African economic outlook (2005), the use of reminders has proved to be a good measure to encourage debtors to pay up their debts has reduced debt recovery problems in African banks. The African economic outlook (2005), found that some customers are genuinely not able to remember when their debts are due. In this case, reminders such as short text messages (SMS), email or a simple telephone call does the magic and enable the client remember their obligation to the bank thereby making them be in a position to repay their debts. This finding concur with current study which found evidence that use of SMS to remind loanees on loan repayment was significantly related to loan recovery performance. This implies that there exist multiple means of keeping in touch with borrowers. This is further evidenced by the commercial banks continued use of products such as direct debits, mobile banking loan repayment platforms like Mpesa, Airtel money and agent banking among other methods to add onto the traditional loan repayment techniques such as direct deposits, standing orders, checking system as well as salary check off system by employers. These channels have made it easy for borrowers to access the bank and therefore make good of their repayments (Ogolla, 2012).

2.2.5 Projected Interest Rate

The interest rate is most important factor for any loan and the same goes for education loan as well. The interest rate determines the overall cost of the loan. Education loan rates are usually lower than the interest rate charged on a personal loan but slightly higher than the home loan rates. The rate charged differs from lender to lender and also depends on the loan amount (Lavanya & Ramachandran, 2014)

Education loan like all other loans comprises of both principal amount and interest but it has an option to postpone the repayment of loan (principal plus interest) until the

completion of the course. However if you want, you can also start repaying the interest immediately after the month of availing the loan. Typically an education loan has three repayment options. Normally banks allow the applicant to suspend their repayment. Most lenders insist on education loan repayment to start within one year of completing the course or six months of getting a job, whichever is earlier (Lavanya & Ramachandran, 2014).

The first and the foremost is the interest rates charged on the education loan by HELB. Comparing with banks interest rate is the primary factor that earns money for banks and so they want it to be higher. The competition in the loan market however makes the HELB keep interests to a level where the education loan seems affordable to the students. Students' loans are heavily subsidized by HELB. The interest rates also depend on the amount of education loan one wants, keeping in mind all the realistic requirements, a judicious comparison of various offers from leading banks will certainly help the student find an education loan that pinches the least.

Although the banks defer repayments, they start charging the interest immediately after the disbursal of the loan. How this interest is charged will determine the amount of interest you will pay. Enquire carefully whether it is charged on a daily reducing balance, or on a quarterly reducing balance. The interest rates charged on loans thus keep accumulating until you start the repayments. This can significantly increase the repayment burden. If the HELB providing education loan gives an option to pay the interest portion of your education loan immediately, use it by all means. As Lavanya & Ramachandran (2014) advises, students' loans borrowers are encouraged to watch out the waiver period. HELB providing education loans generally don't expect the student to pay until he gains employment after completion of the course.

According to Lasher (2008), high interest rates tend to stifle economic activities, while low interest rates tend to promote it. This, he alleges is because majority of people and business alike do most of their activities on credit. He explained interest rates as being determined by the forces of supply and demand in a perfect market, whereby in the financial institutional context, supply represents lenders of funds and demand borrowers of fund. This concept however indirectly concur with HELB loan management as interest rate is pegged on the amount of loan borrowed by a student. Lasher (2008) observes interest as having two components, base rate which is the rate at which people lend money when there is no risk involved in the loan and risk premium which is the extra interest demanded by lenders for making risky loans. (Kibet 2012)

2.2.7 Government Integrity Compliance

Palanski and Yammarino (2007) note the study of integrity "suffers from significant problems," among them being "too many definitions and too little theory". Perhaps it would be best to begin with the most succinct conceptions of integrity to be offered in the literature. Citing the writing of Harcourt (1998) that integrity means a person sticking by

what that person regards as ethically necessary or worthwhile. While it is not entirely certain what ‘sticking by’ might mean, it can reasonably be inferred that reference is here being made to coherence of one sort or another either between values over time or between values and behavior. Not a few writers extend the notion of integrity beyond the human community, in some instances even referencing the integrity of objects: Integrity refers to the wholeness, intactness or purity of a thing (Stanford Encyclopedia of Philosophy). The suggestion here offered is that the meanings of things are legitimately carried over when the concept of integrity is applied to people.

Furrow (2005) offers a unique perspective on integrity, seeing it as “the extent to which our various commitments form a harmonious, intact whole”. Coherence on this view is between the variety of obligations one has embraced, and the consistency each has with the other(s). This author extends his development of the concept of integrity by noting that to have integrity is to be capable of living an integrated narrative (Furrow 2005). The theme of one’s life narrative, and the coherence of the story one tells regarding one’s commitments, is one to which Furrow (2005) often returns. Musschenga (2001) delineates the concepts of integrity found in ordinary language along the two axes of formal material and local global. ‘Formal’ is here meant to refer to coherence between values and behavior; ‘global’ is meant to reference consistency across contexts, roles and time.

In the Constitution of Kenya (2010), Chapter six (6) touches on matters of Leadership and integrity for public officers. This requires the vetting of public officers on their suitability to hold office. The constitution requires holders of public offices to be cleared from anticorruption, criminal offences and other government requirements that may be brought as part of integrity compliance. Student’s loan repayment is one of the requirements for integrity clearance and has been used by some employers to vet the suitability of various candidates for employment. The findings of Gaitho (2013), shows that Lenders use the information to vet the riskiness of the borrower and make decisions on whether to lend and the amounts to lend.

Another significant innovation of the new Constitution is the introduction of principles establishes the principle that the authority assigned to a “state officer” is a “public trust” that must be exercised in a manner that is consistent with the purposes and objects of the Constitution and promotes public confidence in the integrity of the office. The new Constitution therefore sees public officers as holders of a public trust, who are accountable for the exercise of the powers delegated to them.

The new constitution also introduces strict rules on conflicts of interest that, if implemented, would prevent the abuse of power that so often leads to human rights violations and economic crimes. Article 75 imposes a duty on state officers to “behave, whether in public and official life, in private life, or in association with other persons in a manner that avoids any conflict between personal interests and public or official duties.” Further, Article 79 requires Parliament to enact a law to establish an Independent Ethics and Anti-Corruption Commission whose main function is to ensure compliance with and

enforce the provisions of the Constitution on leadership and integrity, including conflicts of interest. Among other things, these provisions may prevent state officers from abusing their power in the process of trying to acquire private property or pursuing other private interests. Government integrity compliance therefore is seen to influence positively the loan recovery performance in HELB of Kenya

3.0 RESEARCH METHODOLOGY

This study borrows to some extent from the basic study on penalty amnesty and students loans recovery in Kenya (Ngali, 2013). This current study adopted explanatory research design. The population comprised 337 members of the Higher Education Loans Board staff members at HELB head offices and auxiliary offices under government huduma centers (GHC) country wide. A sample of 60 staff members drawn from loans repayment and recovery section of HELB was selected using purposive sampling method. This sample selection method was preferred as the staff directly dealt with the services under this analysis and was assumed that they gave most relevant and accurate information for this research. The primary data was collected through the use of self-administered questionnaires given to the respondents in the representative sample drawn from the target population. The data was analyzed through trends, factor analysis and multiple regression analytical styles.

4.0 RESULTS AND DISCUSSION

4.1 Reliability test

Reliability test was carried out to test the internal consistency of the questionnaire and the Cronbach's alpha (0.880) results as shown in Table 4.1. The 88% level of reliability to the data is acceptable in research according to Creswell (2013) who recommends an 80% agreement on coding of passages.

Table 4.1 Reliability Statistics

Reliability Statistics - All variables results

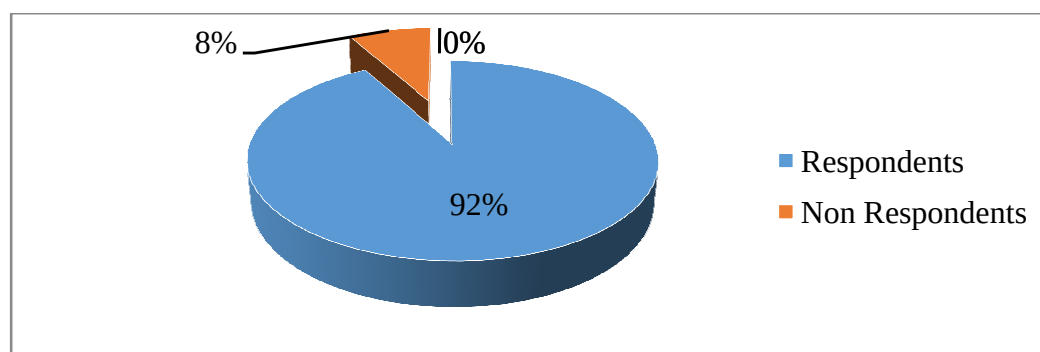
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.880	.877	30

690

691 4.2 Response Rate

692 The study targeted a sample of 60 respondents' from HELB staff members. Out of 60
 693 questionnaires distributed, 55 respondents completely filled in and returned the
 694 questionnaires. This represented a 92% response rate. This is a reliable response rate for
 695 data analysis as 70% and over is excellent (Mugenda & Mugenda (2003). Figure 4.1
 696 shows the response rate.

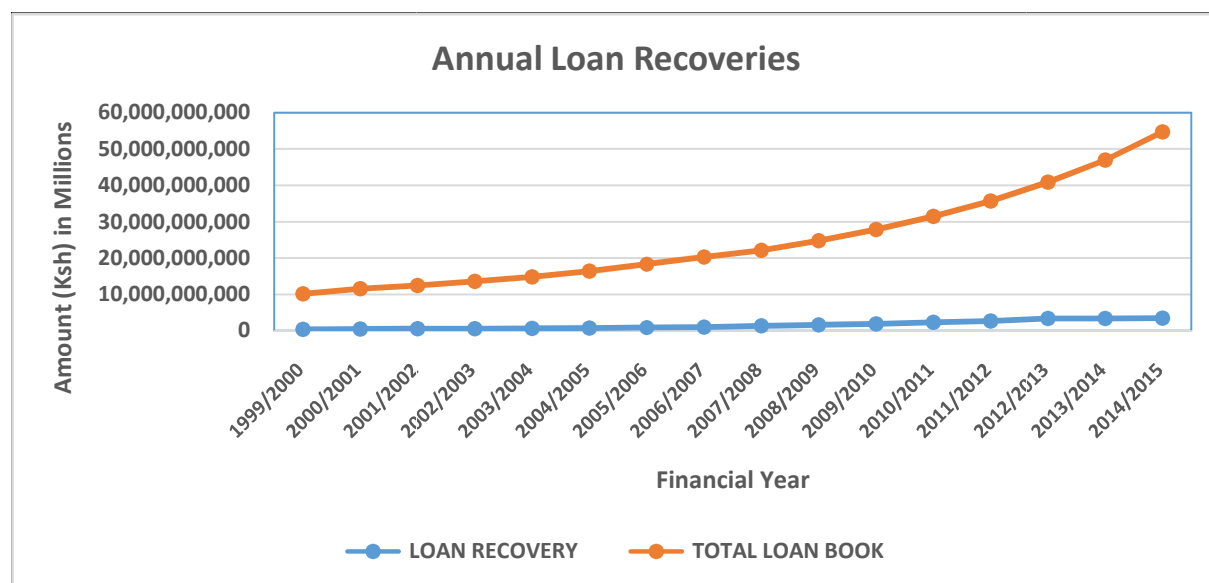
697



698

699 **Figure 4.1: Response Rate**

700 4.2 Annual Loans Recovery Trend from 1999 To 2015



701

702 **Figure 4.2 Annual Loans Recovery Trend**

703 Figure 4.2 shows the annual trend in loans recovery from 1999 to 2015 (16 years). Higher
 704 Education Loans Board recoveries have grown from kshs 0.3 Million in the financial year
 705 1999/2000 to over kshs 3.4 Billion in 2014/2015 financial year. The recoveries have had

a steady growth from 1999/2000 to 2009/2010. After the financial year 2009/2010 there is a steeper gradient in the slope of recoveries. This may be attributed to the introduction of various loan recovery techniques collection techniques that were done within that period. First, the introduction of penalty charges to nonperforming accounts started in the year 2010. This may have contributed to the rise in collections as some loanees pay to avoid penalty charges. Secondly, the process of listing defaulters in credit reference bureaus also started in the same year. This is believed to have contributed positively to recoveries as loanees repaid their loans to avoid negative listing hence steepening of the slope of the loan recovery graph.

In the year 2012/2013, Higher Education Loans board extensively publicized the offer to waive 100% of penalties for loanees who clear their loans in lump sum. This move attracted many loans to pay in lump sum hence the shift in amounts recovered from kshs 2.6 billion in 2011/2012 to kshs 3.3 billion in 2012/2013. This is also believed to have attracted many loanees to the paying bracket a momentum that HELB has maintained but currently offering the waiver at 80% of the penalties. Vetting of applicants for government positions through the government integrity compliance was started in 2013 and its enforcement is ongoing. This has positively contributed to loans recovery and its full implementation is of paramount importance as a boost to loan recoveries.

From the trend in figure 4.2, it can be noted that the gap between the total loan book and that of recoveries widens every financial year from 1999/2000 to the current year. This is a perturbing trend both to the government and the lending agency. Amounts of Loans recovered are given back as loans to other needy students and that was the idea of a revolving fund. However, to maintain sustainability of the revolving fund and reduce over reliance on the national treasury, the board must come up with strategies to increase efficiency and maximize on the recoveries.

4.3 Number of Loanees Performance from 1999 To 2015

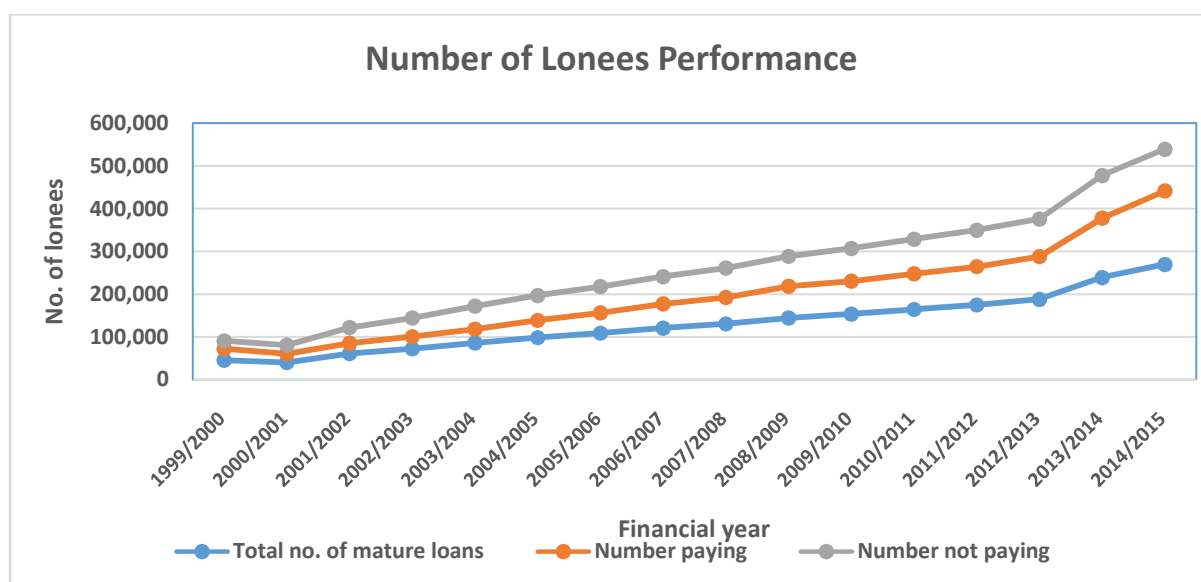


Figure 4.3 number of loanees performance

Figure 4.3 Shows trend in number of loanees' performance. From the figure, the total number of loanees repaying their loans has been increasing from the financial year 2001/2002 analogous to that of the total number of mature loans and that of the nonpaying loanees. There is a notable change in the slope of the graph between 2009/2010 and the year 2012/2013 then between 2012/2013 and 2014/2015. During this period, the number of loanees repaying their loans increased at a higher rate compared to the other years. Again, the gains in momentum in the total number of loanees repaying may be explained by the changes in the recovery techniques and collection procedures that happened during the period. Charging of penalties and listing of loanees in Credit reference bureaus was introduced in 2010 while amnesty and government integrity compliance was introduced in the year 2013. It is notable that there was improved use of SMS and social media from 2012/2013; a strategy that combined with amnesty may have led to a sudden increase in number of loanees paying from 99,962 in 2012/2013 to 171,604 in 2014/2015 hence steepening of the curve for the number of loanees paying.

4.4 ANOVA Analysis

Table 4.2 ANOVA results

Testing between groups

	Sum of Squares	df	Mean Square	F	Sig
Between People	301.204	54	5.578		
Within People				2.909	.000
Between Items	56.413	29	1.945		
Residual	1047.087	1566	.669		
Total	1103.500	1595	.692		
Total	1404.704	1649	.852		

Grand Mean = 4.0709

Table 4.2 shows the results of analysis of variance. Analysis of variance was done to test the equality of means through the use of sum of squares of total variation. From the results, the grand mean is 4.0709. The P-value 0.000 indicates that there is a significant relationship between the five factors under study and loans recovery. The overall regression model is significant and the regression equation with loans recovery as a function of amnesty factors has validity in fitting data.

4.5 Factor Analysis procedure

The Study had five factors namely Penalty Waiver, Abandonment of Projected Interest, Listing in Credit Reference Bureaus, Loan Collection Procedures and Government Integrity Compliance. Factor analysis was used. Factor analysis was done to investigate the possibility that large number of variables have a small number of factors in common that account for their inter-correlations (Miller & Salkind, 2002). This technique was used because it allows the researcher to group variables into factors and the factors so derived may be treated as new variables (often termed as latent variables) and their value derived by summing the values of the original variables which have been grouped into the factor (Kothari, 2004). The technique is applicable when there is a systematic interdependence among a set of observed or manifest variables and the researcher is interested in finding out something more fundamental or latent which creates this commonality. According to Miller & Salkind (2002) by means of factor analysis, we seek to isolate those common elements that are present in two or more variables and to which the inter-correlations among these variables may be attributed. Factor analysis is therefore a useful arithmetic procedure for determining whether the inter-correlations among many variables could be due to a few common factors.

776 The factor analysis results for the five factors under study are shown and discussed in
777 this section

778 4.6 Penalty Waiver Factor analysis

779
780 **Table 4.3 Penalty Waiver regression results**

Dependent Variable: Loan Recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Penalty Waiver	-0.398327	0.110735	-3.597136	0.0007
Charging Penalties	0.314174	0.104471	3.007288	0.0042
Lump sum Payments	0.120057	0.078584	1.527759	0.1330
Loan Debt	0.005193	0.069910	0.074282	0.9411
Save penalties	0.216851	0.087658	2.473836	0.0169
C	3.052770	0.423029	7.216450	0.0000

781 The study sought to find out whether the penalty waiver encourages loan repayment. The
782 results in Table 4.3 show Penalty waiver factor regression results which revealed that
783 penalty waiver parameter was negatively and significantly (t-value -3.597136) related to
784 loan recovery. This shows that loans recovery is dependent on the waiver of penalties.
785 Loanees whose accounts have accrued large amounts of penalties overtime find it hard to
786 service the loan in small instalments because the loan is seen to reduce at a low rate. This
787 is found more in the cases where the rate of instalment is less than the total monthly
788 charges on the loan. Some loanees withhold loan repayments awaiting the waiver of
789 penalties to reduce the loan debt thus affecting loans recovery. However, when the
790 penalty waiver is given the loanees pay in lump sum to clear the loans and take advantage
791 of the penalty forgiveness.

792 The other parameter within the penalty waiver factor examined whether the charging of
793 penalties to nonpaying loanees deters default. The results indicate that there is a positive
794 and significant relationship (t-value 3.007288) between the charging of penalties and the
795 loans recovery. This implies that charging of penalties to non-paying loanees deters
796 default because the borrowers fear the penalties and will therefore pay their loans to
797 avoid incurring penalty charges. The Charging of penalties to nonperforming accounts
798 comes out strongly as a deterrence measure because penalties increase the loan debt and
799 the total cost of the loan repayment is high with penalties. Penalties are also an

indication that one is a defaulter or defaulted at some point. This is what loanees do not want to associated with hence the fear of penalties which leads them to repay their loans.

Further, the study sought to find out whether most loanees take penalty waiver offers and pay in lump sum to clear their loans. The regression results indicate that there is a positive relationship though not a significant one (t - value 1.527759). The Higher Education Loans Board encourages lump sum payments so that they can collect huge amounts to finance their budget. However, Loan clearance through lump sum payments depends on the loanees' ability to raise the lump sum amount during the agreed amnesty period. Some loanees may afford the one-off payments while others may not be able to raise the lump sum amounts to clear within a certain period. Some loanees therefore usually miss on this opportunity for lump sum and end up servicing the loan in small installments which takes long to clear the loan. It is however notable that the lump sum payments boosts loans recovery because the amount paid back in lump sum would have taken long time to recover in small episodes with the uncertainty of continuous instalments not guaranteed. There is a positive relationship but not a significant one (t Value 0.074282) between loans recovery and reduction of the loan debt making it cheaper for loanees to repay. This is shown by the regression results shows in table 4.3. Waiver of penalties reduces outstanding loan debt. Some loanees get a reduction of the loan amounts even by a half of the outstanding loan debt. This makes it cheaper for loanees to repay the loan because of the reduced cost of penalties and the interest charged on penalties. Although some loanees may not have the financial ability to pay even after the penalty waiver, those loanees who take up the opportunity ends up paying less than the ones who did not.

Taking from the findings, defaulters take penalty waiver to repay their loans in order to save on penalty charges. This is shown by the positive and significant (t - value 2.473836) relation of defaulters taking penalty waiver in order to save on penalties to loans recovery. Loanees look forward to penalty waiver offers because it is seen as a form of forgiveness. When loanees are given this opportunity they solicit funds from various sources in order to repay their loans and take advantage of penalty waiver by saving on penalties. The penalty waiver given by the Higher Education Loan defaulters is taken as a form of pardon for having defaulted for long and therefore motivates loanees to start

repaying their loans save in order to save on the penalty charges while others pay in one-off instalment to clear their loan and save on the penalties.

4.7 Abandonment of Projected Interest Factor Analysis

Table 4.4 abandonment of projected interest regression results

Dependent Variable: Loans recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PL	-0.055557	0.102457	-0.542248	0.5901
APIME	-0.049260	0.069208	-0.711766	0.4800
MDO	-0.033519	0.097412	-0.344094	0.7322
APIMC	0.265170	0.153717	1.725053	0.0908
CPID	-0.041862	0.142252	-0.294282	0.7698
C	3.865711	0.493230	7.837543	0.0000

Table 4.4 shows the results of the Abandonment of Projected Interest variable. The study sought to find out whether projected interest increases loan debt. The findings in table 4.4 reveal that this is negatively and insignificantly (t value -0.542248) related to Loans recovery. Projected interest is the interest expected to accrue on the loan overtime. This interest is calculated and added to the loan amount outstanding at a particular time to estimate the total amount of loan payable if the loan is paid in a specified future date. However, some loanees do not give the incremental amounts much attention because the interest rate for most HELB Loans is 2% and 4% per annum hence the insignificant relationship between the increase in loan debt through projected interest and the loans Recovery.

A further examination of the results indicates a negative and insignificant (t value -0.711766) relation between the Abandonment of projected interest and loans recovery. The study had sought to find out whether abandonment of projected interest makes it easier for loanees to repay their Higher education Loans. The projected interest is seen to have insignificant increase in the loan debt and consequently it has insignificant reduction to the loan debt when it comes to repaying. This means that the loanees do not put into account the calculation of projected interest as an important factor to affect their loan repayments. This is attributable to the low interest rates charged on the students loans where by the loans granted between 1974 and 1994 attract an interest at 2% while the undergraduate loans after 1995 attract an interest of 4% per annum on the outstanding balances.

An analysis of whether most defaulters take the offer of abandonment of project interest and clear their loans at once showed us that it is negatively and insignificantly (t value - 0.344094) related to loans recovery. This may be explained by the fact that the interest rate for the Higher Education Loans are relatively low (at 2% and 4%) compared to that of the market. It may therefore not be exciting for loanees to take up funds at a higher cost in order to pay off a less costly debt if the borrower looks at the projected interest in isolation of other considerations. The abandonment of the projected interest may not excite most loanees because the cost of saving on the projected interest alone is low hence the insignificant relation to loans recovery.

Another parameter under Abandonment Projected interest factor was to find out whether the abandonment of projected interest makes it cheaper to repay HELB Loans. The results show a positive but insignificant (t value 1.725053) relation to loans recovery. A reduction of the projected interest from the total loan payable reduces loan amount and this encourages loan repayment by making it cheaper to repay the loan. However, the results indicate that this is insignificant (t value 1.725053). It can be attributed to the relatively low interest rates of the HELB loans which loanees do not give much weight in terms of its incremental cost to the total loan amount. The loanees take the projected interest as a lower cost compared to the other costs of Higher Education Loans. Further, an enquiry at whether charging of projected interest discourages loanees from taking long to repay their loans indicated that negative and insignificant (t value - 0.294282) relationship to loans recovery. This implies that charging of projected interest does not contribute much towards encouraging loans to repay their loans faster. Since the interest rates charged as projected interest are low, loanees are not in a hurry to pay off their loans if there are no other charges on their loan other than the projected interest. Loanees may be more concerned with other debts that are charged high interest rates but will take their time to pay off the Higher Education Loans.

4.8 Listing in Credit Reference Bureaus Factors Analysis

893

894 Table 4.5 Listing in Credit Reference Bureaus regression results
Dependent Variable: Loans recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NL	0.050864	0.100369	0.506773	0.6146
PL	0.155743	0.101193	1.539063	0.1302
CRB	-0.302145	0.113003	-2.673771	0.0102
SLR	0.084619	0.073211	1.155818	0.2534
DD	0.264053	0.066672	3.960501	0.0002
C	3.120763	0.640176	4.874850	0.0000

895

896

897 Table 4.5 shows the results of the factor of listing loanees in Credit Reference Bureaus.
898 According to Gaitho (2013), Credit Reference Bureaus are information brokers proving
899 creditors with reliable, relevant and comprehensive data on the repayment habits and
900 current debt of their applicants. Under reciprocity agreements, Credit Referencing
901 Bureaus obtain data from creditors and other sources, consolidate and package
902 information into individual reports and distribute it to creditors at a fee. The researcher
903 sought to find out whether negative listing of defaulters in Credit Reference Bureaus
904 discourages loan default. The regression results indicate that it is positively but
905 insignificantly (t value 0.506773) related to loans recovery. A section of loanees pay their
906 loans to avoid being negatively listed. Negative listing is whereby the details of a
907 nonperforming loan account are forwarded to the credit reference bureaus for
908 blacklisting of the loanees by the lending agency. This information of default is then
909 shared with others lenders. A loanee who is negatively listed has a low credit rating and is
910 likely to be denied credit elsewhere because of having a nonperforming loan with HELB
911 or any other lending institution. Loanees therefore pay their loans to avoid being
912 negatively listed with the credit reference Bureaus and suffer the consequences of the
913 negative listing which also affects the integrity of the loanee.

914

915 There is another section of the defaulters who pay their loans encouraged by the Positive
916 listing at Credit Reference Bureaus. This is as shown by the results of the positive listing
917 which point to its positive though not significant (t value 1.539063) relationship to loans
918 recovery. Negatively listed clients can be positively listed by the lending agency if they
919 fulfil some conditions. For example, some institutions demand full payment of the loan
920 before updating the status of a negative listed borrower to a positive one while others

demand consistent payments for a certain period of time. Loanees who are negatively listed have no option other than making payments for them to be positively listed at the bureaus. Positive listing improves their reputational collateral that lending institutions uses to gauge the borrowers' credit worthiness. This study finding correlate with Gaitho (2013) that both positive and negative information helps build the "reputation collateral" in much the same way as the pledge of physical collateral which may improve credit access for the poorest borrowers.

In finding out whether the Listing in Credit Reference Bureaus has enabled HELB to recover many defaulted loans the results in table 4.5 shows that the listing is negatively and significantly

(t value -2.673771) related to loans recovery. This can be explained by the behavior of the loanees who repay their loans to meet the preconditions of being positively listed and have their negative status updated to a positive one. Others pay to avoid being negatively listed with the Credit Reference Bureaus. Credit referencing has reduced default rates for Higher Education loans as borrowers seek to protect their "reputation collateral" by meeting their obligations in a timely manner. This is helpful when seeking credit from other financial institution as the borrower's credit risk is assessed and a positive listing gives a high credit rating.

Further, the study sought to find out whether defaulters who are denied credit due to negative listing by HELB usually come back to HELB and repay their loans. The results indicates a positive and significant (t value 3.960501) relation to loans recovery. Defaulters who are denied credit by financial institutions because they are negatively listed by the Higher Education Loans Board usually go back to HELB and repay their loans. Negatively listed clients have a low credit rating and their credit history projects them as risky borrowers before the eyes of the lenders. The findings conform to those of Gaitho (2013) that information from CRB helps identify defaulters in terms of credit history and obligations and thus mark them as risky clients. These risky clients are denied credit by lending institutions forcing them to go back to HELB and repay their loans in order to update their credit status. Higher Education Loans Board like any other financial institution has preconditions for positively updating the negative listed loanees. Depending on the age of the loan, some loanees are required to clear the loans in full while others are required to pay consistent monthly instalments for a certain number of

months in addition to a written commitment on how to service the remaining balance. After paying, their loan status is updated to improve their credit rating and thus can qualify for funding from financial institutions.

4.9 Loan Collection Procedures Factor Regression Results Analysis

Table 4.6 Loan collection procedures regression results

Dependent Variable: Loans recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADVT	0.077342	0.069934	1.105940	0.2744
MC	-0.002474	0.112111	-0.022064	0.9825
SMS	0.252660	0.076888	3.286068	0.0019
EI	0.124413	0.081997	1.517278	0.1359
SM	0.013459	0.068227	0.197265	0.8445
C	2.326968	0.454889	5.115462	0.0000

Table 4.6 summarizes the finding of the study on the extent to which loan collection procedure influence loan recovery. The researcher had requested the respondents to indicate the extend of agreement on whether advertisements have helped increase the number of people who approach HELB repay their loans.

The results show that advertisement is positively but insignificantly (t value 1.105940) related to Loan recovery. Most loanees have not responded to HELB Advertisements and this explains why the adverts have insignificantly (t value 1.105940) increased the number of people who approach HELB repay their loans. This can be explained the facts that people are busy and some do not even get time to watch the television advertisements or listen to radio announcements. Advertisements in the newspapers may also not catch the attention of the loanees as most defaulters may not concentrate on the adverts. HELB should concentrate on other loan collection procedures that bring contribute to high response and not on advertising whose response through loan repayment is low.

In testing the use of mail Correspondence with defaulters and whether this has made them repay their loans, the results indicates a negative and insignificant (t value -0.022064) relation to loans recovery. Email addresses are used in correspondence to loanees although this only happens to the loanees whose addresses are known by HELB which forms a small percentage of defaulters. Higher education loans Board does not have email addresses for most of their clients and of those who

have the addresses, some of the email addresses are invalid. In addition, the use of mail Correspondence with defaulters has not made them repay their loans. Most people no longer use the postal addresses that they used when they were in campus while other people changed their locations of residence. Some defaulters are as old as 1990s when the Post office was the only way of communication. Letters are sent using the post office box numbers that were used in 1980s and 1990s when the loanees were in High school while others use box numbers of the nearest primary schools back in the villages. These are less likely to reach the owner because most of them changed and those which reach may take long to get to the loanees.

The researchers requested the respondent to indicate their level of agreement on the statement relating to the use of short message service (SMS) reminders to loanees and if it promotes loan repayment. The results pointed to a positive and significant (t value 3.286068) relation to loans recovery. Periodic SMS reminders to loanees promote loan repayment because they individually remind the loanees of their loans obligation. SMS is sent to the loanees' mobile phone and serves as a reminder that one will see as a message in his/her in box of mobile phone messages and the loanee is likely to personalize the message unlike in mass communication where one is likely to forget or even take it as a group or general affair. The Short Text Messages directed to defaulters to inform them of them of loans repayment contributes meaningfully to loans recovery. The results show that this is an effective recovery procedure and leads the researcher to recommend more use of the SMS to loanees. The researcher recommends periodic sending of separate messages for both defaulters and non-defaulters. Defaulters to be told the status of their loans and to be reminded to pay while those who are paying should be congratulated for being compliant and be encouraged to advise others to repay. Further, HELB can use this Short Message Service to reach loanees for penalty waiver offers, encourage lump sum payments and recover more loans. The use of Short Text Messages in recoveries is a strong and HELB can also use it to inform loanees on the incentives available for borrowers who pay their loans including clearance certificates, penalty waivers and positive listing in Credit reference Bureaus.

The researcher also sought to find out if employer inspections deter employers from keeping defaulters in their employment. There is positive but insignificant (t value

1.517278) relation between employer inspections and loans recovery. The insignificant relation can be linked to the employers who are not aware of their obligations towards the higher education loans. Employers are required by the HELB Act (Cap 213) to notify HELB upon employment of any graduate for it to be confirmed if the graduate is loanee of HELB or not. However, a section of employers are not compliant to this by either default or by design. There is a problem of the Employer-employee protection whereby some employers do not report the employment of individuals who are loanees. Other employers do not implement the loan repayment and amortization schedules sent to them for implementation from Higher Education Loans Board. This necessitated the need for employer inspection to establish the loan status of the various employees in certain institution. However this has not been effective as it requires trained inspectors and a legal framework to reinforce the employer obligations.

In testing whether the use of social media is convenient to loanees to check their loan status and initiate loan repayment the results pointed to a positive but insignificant (t value 0.197265) relation between the Social media and loans recovery. This shows that social media is positively related to loans recovery. Most loanees have smart phones that enable them access the various social media platforms owing to technology development. HELB uses Facebook, Twitter, and YouTube and linked-in to connect to loanees in the social media. Most loanees have access to internet through the smart phones and can check their loan status online. Other loanees with various enquiries have been served online including the request for loan balances and enlightenment on the various payment options. This is convenient time saving and less costly to loanees because one does not have go to HELB offices to be served. A section of loanees have initiated loan repayment through the social media whose use should be enhanced in HELB since they are serving a younger generation that is acquainted to the use of the social media. However, the insignificance of the relationship can be defined by the fact that most loanees in social media are in the younger generation yet HELB has nonperforming loans dating back to 1974. This means that the social media may be only a communications platform to the recently graduated loanees who may be unemployed, in unstable employment or unemployed.

4.10 Government Integrity Compliance Factor Analysis

1047

1048 Table 4.7 Government Integrity Compliance regression results

Dependent Variable: Loan Recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DHL	-0.095978	0.078944	-1.215767	0.2299
EH	0.145950	0.084077	1.735921	0.0889
PHL	0.163505	0.092590	1.765899	0.0836
MD	0.252578	0.144159	1.752081	0.0860
GR	-0.096116	0.140111	-0.686000	0.4959
C	2.589312	0.476526	5.433728	0.0000

1049

1050 Table 4.7 shows the variable results for Government Integrity Compliance. The
 1051 researcher requested the respondent to indicate their level of agreement on the
 1052 statement relating to government integrity compliance and its influence to loans loan
 1053 recovery. From the findings, this parameter is negatively and insignificantly (t value -
 1054 1.215767) related to Loans recovery. The government integrity compliance has not been
 1055 enforced over the years but started in recently when its emphasis has been put on
 1056 individuals seeking government positions. Actually, it started in the year 2013 and its
 1057 enforcement is ongoing with the central government giving it a lot of weight. Defaulting
 1058 on HELB loans affects integrity rating of the loanees.

1059 Compliance to HELB Act is part of the integrity compliance. The enforcement of HELB
 1060 Act has made more Kenyans to seek HELB clearance. This is shown by the positive
 1061 though not significant (t value 1.735921) relation of the enforcement of HELB Act to
 1062 loans recovery. Since the enforcement of the Act started in the year 2013, loanees have
 1063 been approaching the HELB to seek clearance and in the process the ones who had not
 1064 started paying their loans start repaying while others payoff their loans to clear. Further,
 1065 the results indicates positive and insignificant (t value 1.765899) relation between Paying
 1066 HELB loans to fulfil part of government integrity compliance and the loans recovery.
 1067 This can be explained because loanees who are looking for opportunities in the public
 1068 sector including elective positions, Government contracts and public appointments
 1069 among others are required to have either cleared or paying their HELB loans if their
 1070 university studies were funded by HELB. This is why many defaulters have gone to HELB
 1071 to pay their loans in order to apply for government jobs and contracts. The results shows
 1072 that this is positively though insignificantly (t value 1.752081) related to loans recovery.
 1073 This has only been applicable to the senior positions but can be more significant if it is
 1074 applied even to junior positions and private institutions. On the variable of Government

requirement on integrity compliance and whether it deters default of HELB Loans, the analysis showed a negative and insignificant (t value -0.686000) relation to loans recovery. This can be explained because means that loanees pay their loans to be compliant to integrity requirements but not because of the deterrence concern.

4.11 Multiple Regression Model for the Five Study Factors

A multiple regression model was employed to test the significance of the 25 variables within the five factors. The results are as shown in table 4.8

Table 4.8 Multiple Regression results

Dependent Variable: Loans Recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADVT	0.122992	0.067551	1.820735*	0.0797
APIMC	-0.007658	0.100590	-0.076134	0.9399
APIME	-0.073111	0.054846	-1.333034	0.1937
CP	0.297093	0.073095	4.064465*	0.0004
CPID	0.069416	0.093963	0.738761	0.4664
CRB	-0.211707	0.076212	-2.777878*	0.0098
DD	-0.154752	0.071423	-2.166678*	0.0393
DHL	-0.116484	0.098342	-1.184478	0.2465
DTP	0.017940	0.071194	0.251984	0.8030
EH	-0.068198	0.059829	-1.139884	0.2643
EI	0.052628	0.079036	0.665872	0.5111
GR	0.085187	0.104068	0.818568	0.4202
MC	0.117003	0.112075	1.043968	0.3058
MD	-0.044136	0.108883	-0.405348	0.6884
MDO	-0.024276	0.066361	-0.365814	0.7174
ML	0.002179	0.059586	0.036571	0.9711
NL	0.046142	0.106992	0.431263	0.6697
PHL	-0.057481	0.095638	-0.601024	0.5528
PI	-0.159850	0.084897	-1.882861*	0.0705
PL	-0.060303	0.087177	-0.691734	0.4950
PW	-0.183138	0.080413	-2.277477*	0.0309
PWR	0.086235	0.073841	1.167850	0.2531
SLR	0.003337	0.065281	0.051119	0.9596
SM	0.162566	0.103611	1.569005	0.1283
SMS	0.165502	0.103226	1.603306	0.1205
C	3.999160	0.706898	5.657337	0.0000

*significant variables

From the multiple regressions model only 4 variables were significant despite the constant (0.0000) proving that all variables contribute significantly to loan recovery performance. To test the robust of the multiple regression model, variable selection model criterion was employed.

4.12 Variable Selection Modeling Criterion

1090 The study used basic variable selection criterion of forward stepwise and backward
1091 stepwise criteria similar to Warue (2013).The forward backward step wise modelling was
1092 used to come up with the significant variables affecting loans recovery.

1093

1094 **Table 4.9 multiple regression Model for best performing variables**

Dependent Variable: Loans Recovery

Variable	Coefficient	Std. Error	t-Statistic	Prob.
APIME	-0.107268	0.052365	-2.048474*	0.0466
CP	0.292953	0.077184	3.795489*	0.0005
CRB	-0.245173	0.075975	-3.226998*	0.0024
DD	-0.071027	0.061864	-1.148113	0.2573
DHL	-0.219366	0.073391	-2.988990*	0.0046
DTP	0.269086	0.056273	4.781782*	0.0000
GR	0.196321	0.047641	4.120791*	0.0002
PW	-0.180356	0.071712	-2.514994*	0.0157
PWR	0.079962	0.053708	1.488828	0.1438
SM	0.192663	0.068754	2.802226*	0.0076
SMS	0.256681	0.067235	3.817672*	0.0004
C	2.222844	0.477759	4.652649*	0.0000
R-squared	0.749650	Mean dependent var		4.160000
Adjusted R-squared	0.685607	S.D. dependent var		0.542149
S.E. of regression	0.303987	Akaike info criterion		0.646567
Sum squared resid	3.973549	Schwarz criterion		1.084531
Log likelihood	-5.780598	Hannan-Quinn criter.		0.815931
F-statistic	11.70544	Durbin-Watson stat		1.675015
Prob(F-statistic)	0.000000			

1095

1096 **significant variables*

1097 Table 4.9 shows the selected nine (9) best performing variables. The study sought to find
1098 out if abandonment of projected interest makes it easier for loanees to repay their Higher
1099 education loans. The results in table 4.9 show that this is negatively and significantly (t
1100 Value -2.048474) related to loans recovery. Projected interest is the future interest
1101 estimated to accrue on HELB loans and it is influenced by the time taken to service the
1102 loan. Projected interest increases the loan amounts payable but some loanees avoid it by
1103 paying their loans in a one-off instalment which is arguably cheaper than paying in many
1104 instalments for a prolonged period. The interest rate on all HELB undergraduate loans is
1105 2% and 4% per annum (Reviewed HELB Credit Policy, 2014) which is relatively too low
1106 compared to that charged by the financial institutions in Kenya. For this reason, most

1107 loanees are not encouraged to borrow funds at a higher rate in order to pay off the HELB
1108 loan which is cheaper if projected interest is looked in isolation. This finding is important to
1109 HELB when making their decision on Loans collections.

1110 The above results point to a positive and significant relationship (t value 3.795489)
1111 between the charging of penalties and the loans recovery. This implies that charging of
1112 penalties to non-paying loanees deters default. This can be explained because the
1113 borrowers fear the penalties and will therefore pay their loans to avoid incurring the
1114 penalty charges. At the Higher Education Loans Board, all the nonperforming loan
1115 accounts attract a fixed amount of KShs 5,000 (Five thousand shillings only) in penalties
1116 monthly. Some accounts have attracted over KShs 360,000 (Three hundred and sixty
1117 thousand shillings) in penalties to date. Charging of these penalties increases the loan debt
1118 and inflates the outstanding loan debt of a loanee. In addition, a penalty appearing on a
1119 loan statement of a loanee shows that a loanee had defaulted the loan at one point and
1120 the Higher Education loan accounts that have penalties are also listed in Credit
1121 referencing Bureaus where the information is shared with other lenders. Because of these
1122 reasons, loanees try to avoid the penalties by ensuring that they pay their students loan
1123 in time. Some loanees place standing orders with various banks while others pay their
1124 loans in a one-off instalment to avoid falling into the trap of penalties. This has made the
1125 charging of penalties to non-paying loanees an effective default deterrence.

1126
1127 The next parameter is that of listing loanees in CRBs and whether it has enabled HELB to
1128 recover many defaulted loans. It can be interpreted from the results in table 4.9 that this
1129 is negatively and significantly (t value = -3.226998) related to loans recovery. This can be
1130 explained because there are defaulters who repay their loans to update their negatively
1131 listed status to a positive one. This can be explained by the behavior of the loanees who
1132 repay their loans to meet the preconditions for positive listing and update their negative
1133 status. Credit referencing significantly relates to recovery of higher education loans as
1134 borrowers seek to protect their “reputation collateral” by meeting their obligations in a
1135 timely manner. This is helpful when seeking credit from other financial institutions as the
1136 borrower’s credit risk is assessed and a positive listing gives a high credit rating. Others
1137 pay their loans to avoid being negatively listed with the Credit reference bureaus and
1138 have a high credit rating that informs on the decision to lend and the rates of interest to

charge because high risk borrowers may be charged higher rates than the low risk borrowers. However, some loanees who have defaulted HELB loans and consequently listed in credit reference bureaus could be because of their inability to pay the loan. Some are unemployed while others may be underemployed. This means that listing them in Credit reference bureaus will still not make them to repay the loan hence the insignificant relationship.

Further, the researchers requested the respondents to indicate their level of agreement on the statement relating to government integrity compliance and loan recovery. On the parameter of whether defaulting on HELB loans affects integrity rating of the loanees the results in table 4.9 shows that this is negatively and significantly (t value -2.988990) related to Loans recovery. Compliance to HELB Act through paying the HELB loans is part of the integrity compliance that public servants are required to undertake by the Kenyan constitution. The enforcement of HELB Act has made more Kenyans to seek HELB clearance and this has had a significant effect on HELB loans recovery. Those loanees who have not paid their loans are required to pay before getting the clearance from HELB. This has made many defaulters to start repaying their loans because they cannot get government jobs and contracts without the passing the integrity test where compliance to HELB loan repayment is key. However, this is not happening for the private sector yet the private sector is a major employer. There are many loanees in the private sector who have not started paying their loans and got employed without undergoing the HELB compliance check process. Additionally, this is only being practiced for the people applying for senior positions in the government yet there is a bulk of loanees in the middle and low levels in the central government and the county government. If this is strengthened it can be a strong aspect of in HELB loan recoveries.

The study sought to find out whether defaulters take penalty waiver and repay their loans to save on penalty charges. The result in table 4.9 show that this is positively and significantly (t value 4.781782) related to loans recovery. Penalties are charged at a fixed amount of kshs 5,000 (Five Thousand Shillings) monthly to every non performing account as per the Higher Education loans Board Reviewed Credit Policy (2014). Loanees who have defaulted for long time have accumulated huge amounts of penalties overtime and penalty waiver offer is taken as a form of forgiveness. This therefore motivates them

to start repaying there loans and save on the penalty Charges. Others pay in lump sum to enjoy the penalty waiver and save on the penalties and get clearance certificates. Through penalty waiver, a loanee can save over kshs 360,000 of penalties. This study recommends to HELB to offer more penalty waivers and recover more loans as many defaulters are discouraged by big debt amounts. Penalty waiver offered by HELB reduces the outstanding loan amounts and encourages the defaulters to pay off the loan and enjoy what they consider as a cheaper repayment terms. HELB should therefore emphasize on penalty waiver to nonpayers in order to attract them to the paying bracket to improve loans recovery.

In finding out whether the government requirement on integrity compliance deters default on HELB Loans, the results of table 4.9 shows its positive and significant (t value 4.120791) relationship to loans recovery. People seeking appointment to various government positions are required to be cleared by HELB among other government agencies like the Criminal Investigation Department in Kenya, Ethics and Anti-corruption Commission and the Kenya Revenue Authority. This means that one may not pass the integrity test if he or she has not repaid his ex-university students loan. This is actually in line with the Chapter 6 of the Constitution of republic of Kenya (2010) on integrity. Individuals looking for opportunities in the public sector, elective positions, Government contracts and public appointments repay their HELB loans to fulfil the government requirement on integrity compliance. This started in the year 2013, with all the individuals who were vying for the various elective positions seeking clearance form HELB before being given the certificate of clearance by the elections administrative body. Since then HELB has continued to put measures to enforce the Act on integrity clearance. It is because of this that some loanees who were not paying their loans have started making payments while others have gone to HELB to clear their loans for fear of losing out on a government job or being denied a business due to nonperforming students loan. This is has acted as a deterrent measure to the HELB loan defaulters.

From the regression results in table 4.9 it shows that on the parameter of whether penalty waiver encourages loans repayment the relationship is negative and significant (t value -2.514994) to loan recovery. This shows that loans recovery is reliant on waiver of penalties. Penalties waived reduce the outstanding loans debt and encourages loanees to

repay loans because it makes it comparatively cheaper to repay the balance. Loanees whose accounts have accrued large amounts of penalties overtime find it hard to service the loan in small instalments as the loan is seen to reduce at a low rate and takes long to clear thus incurring other charges inform of projected interest and annual ledger fees. This is found more in the cases where the rate of instalment is less than the total monthly charges on the loan. Some loanees withhold loan repayments awaiting the waiver of penalties to reduce the loan debt thus affecting loans recovery. However, when the penalty waiver is given the loanees pay in lump sum to clear the loans and take advantage of the penalty forgiveness.

On the parameter of whether penalty waiver reduces loan debt making it cheaper for loanees to repay, the results in table 4.9 shows that there is positive though insignificant (t value 1.488828) relationship to loans recovery. It is notable that waiver of penalties reduces outstanding loan debt as some loanees can get a waiver of even a half of the outstanding loan debt. This makes it cheaper for loanees to repay the loan because of the reduced cost of penalties and the interest charged on penalties. The proportion of penalties to be waived on a loan from a loan account is determined from the aging analysis technique as stipulated in the HELB reviewed credit policy (2014). Through the aging analysis, non-performing loans older than 10 years can get waiver of up to 50% of the penalties while the recently defaulted accounts that are less than 3 years from the time of default can get up to 80% of the penalty waivers. Although some loanees may not have the financial ability to pay even after the penalty waiver, those loanees who take up the opportunity ends up paying a lesser amount after the penalty waiver. HELB encourages loanees to pay in lump sum after penalty waiver as this is a win-win result for it improves HELB's loan recovery and makes it cheaper for loanees to repay.

The study also sought to find out whether the use of social media as one of the loan collection procedures is convenient to loanees to check their loan status and initiate loan repayment. The regression results in table 4.9 indicate that the use of social media is positively and significantly (t value 2.802226) related to loan recovery. Use of social media is convenient for loanees to check their loan status and initiate loan repayment. Most loanees have access to internet and can check their loan status online. In addition, most loanees are enlightened and have 'smart phones' which are internet enabled.

1236 Advancement in technology has made many organizations to use social media as a means
1237 of communication to their client. HELB uses Facebook, Twitter, and YouTube and
1238 linked-in to connect to loanees in the social media. Through the social media loanees can
1239 check their loan status and initiate loan repayments. This shows that social media is
1240 positively and directly contributing to loans recovery. Most loanees have smart phones
1241 that enable them access the various social media platforms owing to technology
1242 development. Higher Education Loans Board has designated staff dedicated to handle
1243 the enquiries of loanees in the social media. Clients with various enquiries have been
1244 served online including the request for loan balances and enlightenment on the various
1245 payment options available for use in loan repayment. This is convenient, time saving and
1246 less costly to loanees because one does not have to go to HELB offices to be served. Use of
1247 social media has also helped in reduction of queues of loanees at HELB offices as clients
1248 queries are handled online. The use of the social media should be enhanced in HELB
1249 since they are serving a younger generation that is acquainted to its use.

1250 Following the findings of this study on whether SMS reminders to loanees promote loan
1251 repayment, the regression results in table 4.9 indicate that the use of SMS as a collection
1252 technique is positively and significantly (t value 3.817672) related to loans recovery. The
1253 use of periodic SMS reminders to loanees promotes loan repayment. Text messages sent
1254 to the individuals' mobile phone are taken with more weight as compared to general
1255 advertisements to the masses. HELB sends monthly text messages to nonpaying loanees
1256 to remind them to pay their loans. The Short Text Messages directed to defaulters inform
1257 of short messages to their mobile phones contributes meaningfully to loans recovery.
1258 Most loanees have mobile phones and they can be reached through the short message
1259 service. In addition, a message received on one's mobile phone is easily personalized and
1260 is likely to trigger response from the receiver. The response rate for these text messages
1261 at Higher Education Loans Board is high compared to that of other recovery procedures
1262 hence the significant contribution to the loans recovery. This shows that the use of Short
1263 Text Messages (SMS) is an effective recovery procedure and leads the researcher to
1264 recommend more use of it to loanees. The researcher recommends periodic sending of
1265 separate messages for both defaulters and non-defaulters. Defaulters to be told be told
1266 their loan status, be reminded to pay while those who are paying should be congratulated
1267 for being compliant and be encouraged to advise others to repay.

1268

1269 **4.13 Model development**

1270 From the regression results Table 4.9 the study developed the model as under;

$$1271 \text{ LR} = 2.222844 - 0.107268 \cdot \text{APIME} + 0.292953 \cdot \text{CP} - 0.245173 \cdot \text{CRB} - 0.219366 \cdot \text{DHL} + \\ 1272 0.269086 \cdot \text{DTP} + 0.196321 \cdot \text{GR} - 0.180356 \cdot \text{PW} + 0.192663 \cdot \text{SM} + 0.256681 \cdot \text{SMS}$$

1273 Where;

1274 LR is Loan Recovery

1275 APIME is Abandonment of projected interest

1276 CP is charging of penalties

1277 CRB is CRB listing

1278 DHL is Defaulting on HELB loans

1279 DTP is Penalty waiver saves on penalty charges

1280 GR is Government requirement on integrity compliance

1281 PW is Penalty waiver

1282 SM is use of social media

1283 SMS is short message reminders

1284 From the regression model, coefficient 2.222844 is the Y intercept, a constant that
1285 represents the part of loans recovery that does not vary with variation of the factors
1286 affecting loans recovery. The estimated regression coefficient ($\beta = -0.107268$) for the
1287 abandonment of projected interest implies that decreasing abandonment of projected
1288 interest parameters leads to a 0.107268 improvement in the loans recovery at the Higher
1289 Education Loans Board. The estimated regression coefficient ($\beta = 0.292953$) for charging
1290 of penalties implies that increasing in charging of penalties factors leads to a
1291 corresponding 0.292953 improvement in loans recovery at the higher education loans
1292 board. The coefficient ($\beta = -0.245173$) implies that a decrease in CRB listing factors leads
1293 a corresponding -0.245173 decrease in loans recovery. Further decrease ($\beta = -0.219366$)
1294 on defaulting of HELB loans leads to a corresponding -0.219366 decline in loans
1295 recovery. In addition it portrays that defaulters take penalty waiver and repay their loans
1296 to save on penalty charges. The estimated penalty waiver regression coefficient (β
1297 $= 0.269086$) implies that increasing on parameter of penalty waiver to save on penalties
1298 leads to a corresponding 0.269086 improvement on loans recovery at the Higher
1299 education loans board. As to whether the government requirement on integrity
1300 compliance deters default on HELB Loans, its estimated regression coefficient ($\beta =$
1301 0.196321) infers that increasing on the government integrity compliance factors leads to
1302 a corresponding 0.196321 improvement in the loans recovery. The increase of penalty

waiver ($\beta = -0.180356$) leads to a corresponding -0.180356 improvement in loans recovery. The results estimated regression coefficient ($\beta = 0.192663$) of social media implying increase in the use of social media leads to a corresponding 0.192663 positive development in loans recovery. Finally the estimated regression coefficient ($\beta = 0.25668$) on the use of SMS is a strong collection tool and a rise in its use leads to a corresponding 0.25668 increase in loans recovery.

The coefficient of determination (adjusted R-Squared 0.685607) as by the results in table 4.9 means that only 69 % of the loans recovery variable can be explained by the five variables in the study which are the penalty waiver, abandonment of projected interest, credit referencing bureau listing, loan collection procedures and government integrity compliance variables. This means 69% of relevant factors were captured in the study thus the independent variables have a major effect on loans recovery. Conversely 31% comprise other relevant factors that affect loans recovery but were not captured in this study and are represented by the error term.

4.14 Ranking study factors according to their performance

To rank factors according to the strength of significance in performance, the best performing variables from each factor were selected from the factor analysis results and subjected to further analysis. The results are shown in table 4.10

Table 4.10 Ranking factors

Dependent Variable: Loan recovery				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
⁵ APIME(abandonment of interest)	0.007021	0.055981	0.125421	0.9007*
⁴ CRB(CRB listing)	-0.164865	0.092156	-1.788982	0.0799*
³ DHL(Govt. integrity compliance)	-0.209977	0.083016	-2.529348	0.0148*
² DTP(penalty waiver)	0.246963	0.068966	3.580933	0.0008*
¹ SMS(loan collection procedure)	0.322838	0.083125	3.883773	0.0003*
SM(loan collection procedure)	0.222823	0.064953	3.430506	0.0012
C	2.371272	0.553025	4.287821	0.0001

Ranking 1-5,*

The **first** best performing factor is the loan collection procedures represented by SMS (t value 3.883773). From the results, Short Text Messages to defaulters' mobile phones contributes meaningfully to loans recovery. Most loanees have mobile phones and thus it is easier to communicate to them using the text messages. The results show that this is an

effective recovery procedure and leads the researcher to recommend more use of the Short Text Messages (SMS) to loanees. Unfortunately, Higher Education Loans Board does not have phone numbers for more than a half of its defaulters but with use of strategic partners and government agencies HELB can get the phone numbers of almost every loanee in the country and create its contacts database. Further, HELB can use this Short Message Service to reach loanees for penalty waiver offers, encourage lump sum payments and recover more loans. The use of SMS in recoveries is a strong collection tool that is best performing but yet its potential is not fully exploited. HELB can also use it to inform loanees on the incentives available for borrowers who pay their loans including clearance certificates, penalty waivers and positive listing in Credit reference Bureaus among others.

The **second** best performing factor is penalty waiver (t value = 3.580933). Defaulters take penalty waiver and repay their loans to save on penalty charges. Loanees who have defaulted for long times have accumulated huge amounts of penalties overtime. These loanees take penalty waiver as a form of forgiveness which motivates them to start repaying their loans and save on the penalty Charges while others take up the penalty waiver offers and pay in lump sum to clear their loans. Through penalty waiver, a loanee can save over kshs 300,000 (Three hundred thousand) in penalties. This study recommends to HELB to offer more penalty waivers and recover more loans. Penalty waiver offered by HELB reduces the outstanding loan amounts and encourages the defaulters to pay off the loan and enjoy penalty waiver. HELB should therefore emphasize on penalty waiver to nonpayers in order to attract them to the paying bracket as this will positively and strongly contribute to loans recovery.

The **third** best performing factor is that of government integrity compliance (t value - 2.529348). Compliance to HELB Act through paying the higher Education loans is part of the integrity compliance that public servants are required to undertake by the Kenyan constitution. The enforcement of HELB Act has made more Kenyans to seek HELB clearance and this has had a significant effect on HELB loans recovery. The government integrity compliance started in 2013 where the then new appointees to government and elective positions were required to clear or be paying their HELB loans as key requirement in integrity test. Since then, HELB has been vetting other job applicants who apply for jobs in public offices and its enforcement to cast a wider net will definitely

lead to more recoveries. However, currently this vetting is only being applied to public servants and its application in the private sector where the bulk of loanees are employed has not been enforced. Similarly, this integrity compliance needs to be enforced to the devolved government units, County governments, Nongovernmental and even religious organizations where some nonpaying loanees are also working. If this factor is strengthened, it can impact more significantly to loans recoveries at the Higher Education Loans Board.

The **fourth** factor is that of listing in credit reference bureaus which has a weak negative significance of 1.788982. Loanees repay their loans to update their negatively listed status to a positive one while others pay their loans to avoid being negatively listed with the Credit Reference Bureaus and have a high credit rating. However, some loanees who have defaulted on HELB loans and listed in CRBs suffer from the inability to pay the loan. Some are unemployed while others may be underemployed. This means that listing loanees who have no ability to service their loans in CRB yields insignificant fruits towards loan recovery. Loanees who are negatively listed have limited options but the likely ones lead them to making payments for the credit status to be positively updated at the credit reference bureaus. Positive listing improves the “reputational collateral” which is used by the lending institutions to gauge the borrowers’ credit worthiness and riskiness. According to Gaitho (2013), both positive and negative information helps build the “reputation collateral” in much the same way as the pledge of physical collateral which may improve credit access for the poorest borrowers. From the findings of this research defaulters who are denied credit due to negative listing by HELB usually go back to HELB and repay their loans. This is factor that also requires to be strengthened to facilitate more loan recoveries.

The **fifth** factor is the abandonment of projected interest. On whether the abandonment of projected interest makes it easier for loanees to repay their HELB loans, the results revealed insignificant (t value 0.125421) relationship to loans recovery. Projected interest increases the loan amounts payable but some loanees avoid it by paying their loans in a one off (lump sum) instalment which is arguably cheaper than paying in instalments for a prolonged period. The interest rate on all HELB undergraduate loans is 2% and 4% per annum which is relatively too low compared to that charged by the financial institutions

in Kenya. For this reason, most loanees are not encouraged to acquire funds from other sources higher rates in order to pay off the HELB loan which is cheaper based on projected interest only. All the same, its waiver reduces the outstanding loans amounts and is arguably cheaper and contributes positively to loans recovery though at insignificant levels as shown by results in table 4.10. This finding is important to HELB when making their decision on Loans collections and the interest rates. The offer for abandonment and waiver of projected interest leads to increased loans recovery but at insignificant levels and therefore HELB should focus on other stronger factors that significantly increase loans recovery.

5.0 Conclusion

From the data analysis the five factors which had various parameters in this study important conclusion can be made. Loan collection procedures come out strappingly as a key contributor to loans recovery as represented by use of short message services (SMS) and the social media. The use of SMS contributes highly ($\beta = 0.256681$) to loans recoveries and it meaningfully influences on the loans recovery as shown by its positive and significant (t value 3.883773) relation to loans recovery. Most loanees have mobile phones and thus it is easier to communicate to them using the text messages. The results show that this is an effective recovery procedure that the higher education loans board should strengthen to exploit its full potential. Another outstanding loan collection procedure involves the use social media. This was found to be positively and significantly (t value 2.802226) related to loan recovery with a meaningful ($\beta = 0.192663$) contribution to loans recovery.

Under the penalty waiver factor, charging of penalties to non-paying loanees deters default. This contributes in a higher magnitude ($\beta = 0.292953$) to loans recovery. From the findings of this study, charging of penalties is a deterrent measure for default and it contributes positively and significantly (t value 3.795489) to loans recovery. HELB can therefore continue charging penalties to nonperforming accounts to discourage defaulting because loanees fear penalties. On same factor of penalty waivers, this study is that defaulters take penalty waiver and repay their loans to save on penalty charges as shown by its contribution ($\beta = 0.269086$) to loans recovery. Actually, it is positively and significantly (t value 4.781782) related to loans recovery. Defaulters of higher education loans take penalty waiver offers as a form of understanding and forgiveness that is

supposed to be followed by an action on the side of the defaulter. This is an important motivator that encourages loanees to reciprocate through repaying their loans and save on the penalty charges while others take up the penalty waiver offers and pay in lump sum to clear their loans. More penalty waivers by the higher education loans board attract loanees to the paying bracket promotes loans recovery.

From the analysis of data, Government integrity compliance was found to be a contributor ($\beta = 0.196321$) to loans recovery. Compliance to HELB Act through paying the higher education loans is part of the integrity compliance that public servants are required to undertake by the Kenyan constitution. Vetting of Kenyans for public offices and integrity compliance by the higher education loans board has always provided an opportunity for netting of the defaulters since the year 2013. However, there is need to strengthen and enforce this activity so as to achieve its meaningful contribution to recovery. Having started in 2013, this factor has a potential for higher contribution to loans recovery if enforced to all sectors both private and public in addition to non-governmental organizations.

From the data analysis, listing of defaulters in credit reference bureaus gave a weak negative significance of 1.788982 contributing lesser ($\beta = -0.245173$) in comparison with the other factors. Loanees repay their loans to update their negatively listed status to a positive one. Other loanees are denied credit from lending institutions thus being prevented from multiple borrowing. However, some defaulters of HELB loan listed in CRBs are unemployed while others are unable to pay the loans. This calls for a reconsideration of this factor by the Higher Education Loans Board to deal with such cases and improve efficiency in loans recovery.

The factor of abandonment of projected interest was a weak one with the results of data analysis giving a weak but positive significance (t value 0.125421) to loans recovery. The interest rate on HELB undergraduate loans is 2% and 4% per annum. This projected interest increases loan debt but loanees do not attach much weight to it because of the low interest rates. Conversely, its abandonment is not an attractive offer to loanees as the percentage to save is considered to be small. The same strategy may is not a cost effective one to the lending board as HELB must also be able to meet the loan administration

1458 costs and accounts maintenance costs. To sustain the revolving fund, HELB should
1459 re-think of a more effective strategy.

1460

1461 **6.0 Recommendation**

1462 The lending agency has to be wary about the high default rate of its loans. With the
1463 portfolio at risk being more than a third of the loan book, the board needs to put
1464 appropriate loan management strategies to mitigate the risk.

1465 Based on the findings of the study, the Higher Education Loans Board should increase
1466 the use of Short Message Service to reach more loanees as this is an effective loan
1467 collection method. Actually, its potential is not fully exploited. HELB uses SMS to remind
1468 loanees of loan repayment instalments monthly but more ways of use of their use can be
1469 employed. For example, they can be used to inform defaulters of penalty waiver offer
1470 encourage lump sum payments and recover more loans. Short Text Messages can also be
1471 used in recoveries to inform loanees on the incentives available for borrowers who pay
1472 their loans including clearance certificates, penalty waivers and positive listing in Credit
1473 reference Bureaus.

1474 The researcher recommends the continued use of the social media in loans recovery.
1475 Owing to technological advancements, most communications are nowadays being done
1476 on-line including debt collection. The lending agency should re-think on use of media
1477 such as television, daily newspapers and use of letters as a means of communication to
1478 loanees. The board may choose to use a more reliable and contemporary social media as
1479 means of communication to loanees, inform them to check their loan status and initiate
1480 loan repayment. This captures a bigger segment of loanees as most loanees use social
1481 media.

1482 From the findings of this study most defaulters take penalty waiver offers and pay in
1483 lump sum to clear their loans. This approach is attractive because loanees save on
1484 penalty charges as the penalty waiver offer makes it cheaper to repay the loan debt. The
1485 researcher recommends that this strategy should be strengthened to increase loan
1486 recoveries. Additionally, the results suggest that charging of penalties to non-paying
1487 loanees slightly deters default. This study suggests that HELB may consider adopting
1488 more new proactive strategies that may contribute more to loan recovery performance.

Based on the findings of this study, HELB should enforce the integrity compliance act so that they can clear more loanees both in the public and private sector. Currently, the clearance is sought by the people seeking employment in public sector yet the private sector employs a substantial proportion of the graduates.

The vetting of non-loanees however should be separated from the ones who were loanees to make the process more efficient for the benefit of HELB and their non loanee clients.

Further the results of listing loanees reviewed that negative listing of defaulters in CRBs discourages loan default while positive listing of loanees at CRBs encourages loan repayment. Loan defaulters are denied loan facilities from other financial institutions because of the low credit worthiness rating as a result of negative listing. The board should strengthen this strategy for more effective loan recovery performance.

Finally, this study recommends a rethink of strategy by the lending agency for the sustainability of the fund. The offer for abandonment and waiver of projected interest leads to increased loans recovery but at insignificant levels. The same strategy may is not a cost effective one to the lending board as it must also be able to meet the loan administration and maintenance costs. HELB should therefore focus on other stronger factors that significantly increase loans recovery.

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