

Abstract

Supporting the operation and administration of microfinance banks over a lengthy of time is becoming a rather difficult and challenging concern for microfinance banks in developing countries. Among other issues, their customers' non-performing loans greatly affect the microfinance banks profitability, leading to failure to sustain themselves over a reasonable length of time. This calls for proper credit management by the microfinance banks, thus need to manage and formulate policies related to credit risk management. One method is to put in place suitable credit approval methods aimed at reducing loan default rates. This study assessed the influence of non-accounting information that is utilized by microfinance banks in making lending decisions. The research was underpinned by four theories namely; equilibrium theory of credit rating, agency theory, theory of planned behaviour and decision-making theory respectively. The study adopted a quantitative methodology in which case data was gathered using structured questionnaires. In this study the main data collection instrument used was questionnaires which were carefully designed, tested and evaluated to assure validity of the research instrument. The correlation analysis showed that credit history, credit utilization and financial literacy significantly and positively influence credit decision in microfinance banks in Kenya. These findings were confirmed by the regression analysis where credit history, credit utilization and financial literacy each registered a positive and significant beta coefficient. The study made the conclusion that financial literacy, credit utilization and credit history were very instrumental in credit decision making among the microfinance banks in Kenya. It is therefore recommended that microfinance banks keep information about both current and potential borrowers which may be useful on decisions concerning credit to customers. On further studies, this study recommends that similar research be done using other variables to establish which other factors have impact on the credit decisions among microfinance banks in Kenya.