

This study explored the relationship between debt recovery practices and loan performance for deposit-taking microfinance banks in Kenya. The study is guided by agency theory and risk shifting theory. The objectives of this study include determine the effect of third-party credit and analyze the effect of collection agencies on loan performance. This research adopted a descriptive approach, the research meticulously captured numerical data for rigorous statistical analysis, aligning with the study's objective. This study used census survey, all 14 microfinance banks licensed and operational by the Central Bank of Kenya were included. This study used self-administered questionnaires. In this study diagnostic tests were performed to validated the robustness of statistical analysis using SPSS. Validity and reliability were ensured through content validity guidelines and expert assessments where reliability has shown an average Cronbach alpha of 0.7 for all the variables. The study conducted a detailed analysis of the relationships between various elements related to loan performance surveyed microfinance banks. In this study the correlation matrix revealed strong positive correlations between third-party credit guarantees, and collection agencies. Regression analysis showed a significant impact of these factors on loan performance, with an R Square of 0.416. The study's hypotheses regarding the influence of third-party credit guarantees, and collection agencies on loan performance were tested and supported. This study concluded that effective debt recovery practices significantly enhance loan performance in MFBs. Recommendations included reassessing debt policies, focusing on equity policies, and streamlining policy implementation concerning loan defaulters. The study also identified areas for further research to deepen understanding of loan performance dynamics in the microfinance sector. The study highlighted the importance of proactive debt recovery strategies and risk mitigation measures in enhancing the financial sustainability of MFBs in Kenya.