ABSTRACT

The part played by non-prime household loans in improving the lives of many people who cannot afford collateral glob-ally cannot be ignored. Many Microfinance Banks in many economies worldwide have tried to maintain the Grameen Bank Model of granting microloans, mainly non-prime household loans. However, the credit risks associated with this initiative hamper the pace at which the granting of this credit facility is expected to grow. This study intends to explore the relationship between the post loan disbursement allocation and the performance of non-prime household loans in the Microfinance Banks in Kenya. The theory associated to this study is the Credit Risk Theory. This theory, which is regarded as credit structural theory, was developed by Merton in 1972. The descriptive survey research design method was applied, and the sample size was 150 respondents. The data-collection tool used was a questionnaire. A logistic regression analysis was conducted for the purpose of predicting non-prime household performance in the Microfinance Banks using training budget, recoveries budget, percentage of training budget, and percentage of recoveries budget as predictors. The Wald test shows that training budget, recoveries budget, and percentage of training budget were good predictors, making a significant contribution to prediction. The percentage of budget on recoveries was not a significant predictor. The Microfinance Banks should enhance the performance of non-prime household loans through capacity building to the borrowers and educate the borrowers on dangers of enforced loan recoveries. The government, through the Central Bank of Kenya, should have a training policy for the Microfinance Banks so that they can enlighten the borrowers on proper financial management to avoid conflicts with borrowers during loan recoveries.