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EFFECT OF INTEREST RATE CAPPING ON MARKET PERFORMANCE IN LISTED COMMERCIAL BANKS IN MOMBASA COUNTY, KENYA

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ABSTRACT

The study sought to establish how interest rate capping influences market performance of listed Banks in Kenya focusing on Commercial Banks located in Mombasa County. The specific variables of the study were: mortgage interest rate capping, interest rate capping on savings products, term loan interest rate capping and overdraft interest rate capping on market performance of Listed Commercial Banks. The study target included 80 senior mamagement of all the listed commercial banks who were selected through stratified and simple random sampling techniques. The study collected both primary and secondary data. This study used descriptive and inferential statistics in data analysis. Collected data was analyzed using Statistical Package for Social Sciences (SSPS 21). Pearson correlation and linear regression analysis test were also computed. The study concluded that there exists a weak positive significant relationship between mortgage interest rate capping and market performance. The study concluded that there exists a weak negative insignificant relationship between term loan interest rate capping and market performance Interest rate capping on savings products had significant effect on market perfomance. Banks would encourage opening of savings account to take advantage of the liabilities which are cheaper than overnight borrowing. In addition, banks were in better positions to carry out financial intermediation role and banks would put stringent rules for operating savings account to discourage its demand as it is costly to the banks. Overdraft interest rate capping had significant effect on market perfomance. The study recommended that Capping of interest rate should be scrapped off because it had reduced banks' market capitalization, market turnover as well as overall growth of listed banks among others.

Key terms: *Financial Performance, Interest Rate Cap, Mortgage Interest, Overdraft, Term Loan, Term-loan*

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INTRODUCTION

Interest rate can be defined as return for lending out money (Rycroft, 2015). Over the years, interest rates have remained a subject for critical assessment. Lending rates represent the price of loans extended to borrowers by commercial banks. Globally, intrest rates have been reduced with countries embracing liberalised economy approach. Different countries employ different interest capping rates based on different capping modalities. For example, in Spain interest rate capping was based on consumer protection, Portugal wanted to safeguard weak borrowers while in Belgium, France, Kyrgyz republic, Poland, Slovakia republic and the UK there was neeed to cut down on greedy lending by financial institution (Rycroft, 2015). Other drivers included stopping abuse of freedom in the financial sector by the financial institutions due to liberalisation as was the case in Greece.

In Estonia, capping was meant to curb over indebtness on borrowers whereas in Netherlands, the Government intention was check excessive risk taking behaviour by Banks (Acton, 2014). With capping of rates, Banks were keen on who to lend as they could not pass the risk premium to the risky customer. Interest rate capping was used in Thailand to make credit more affordable to consumers. Some countries such as El Salvador and Kyrgyz Republic introduced caps in 2012 and 2013 respectively.In Phillipines, a gentelemans agreement has maintained the rate at 5% above the country's 91 day treasury bills. The 2008 financial crisis rekindled the debate around interest rate capping as a mechanism to protect the consumers who may be vulnerable to exploitation.

In both US and UK high cost of low value lending has been subject of intense scrutiny and public concern (Thakor & Boot, 2015). After exhaustive scrutiny, the UK Government and later, the competion authority , rejected introduction of ceilings as likely to damage vulnerable borrowers and promote unregulated borrowings.This was supported by consumer protection and poverty groups, debt advise services and credit unions.This approach was focussed on welfare maximisation as opposed to profit maximisation motive. These interventions led to among other effects, lenders withdrawal in such controlled markets, setting of minimum lending levels which was mostly higher than appropriate levels for households and risky borrowers. Other countries with rate controls include Germany, France, Japan , australia.

In Africa, Zambia introduced caping in 2013 as a mechanism to protect vulnerable financial consumers who were getting overindebted (Sinha, 2016). In South Africa small loans were initially exempted from interest rate capping rule though this was reversed in 2007 to include all lending. In Ethiopia, national banks do not have interest rate ceilings but microfinance institutions have lower interest rates due to political presssure and therefore considered to be under some form of interest rate ceiling (CBK., 2016).

Excessive high interest rates by commercial banks in Kenya sector had strongly discouraged long-term investment and constrained Kenya's ability to grow (Acton, 2014). In Kenya rate ceiling was as a result of intense pressure from human rights groups, consumer protection federation , the political class and the entire population following a consistent high interest regimes. Banks charge a fee called interest rate for funds that they lend to their borrowing customers. These funds are organized by banks as deposits for which banks pay interest rates which is less that the rate the charge to their customers who borrow. This is called interest spread.

The intermediation costs include information costs, transaction costs administration, default costs and operational costs). Interest rate ceiling is a form of control of the financial sector by the Government. Commercial banks play a vital role as intermediary in the economic resource allocation of countries. They channel funds from depositors to investors

continuously (Thakor & Boot, 2015). Several members of the EU have relative interest rate ceilings. In Slovenia, for example, ceilings only apply to non – Banks as it was judged that the Banks face sufficient competition not to warrant such regulation. There is general reduction over the years in countries using this control measure mainly because a number of countries are desirous of fully liberalizing their financial sector. Financial liberation in the developing countries took place in the 1980s and 1990s and this was a general step in ensuring that financial markets were accorded a greater role in financial intermediation (Sinha, 2016).

Interest rate caps in form of usury laws represent the longest, and most repeated, government intervention in financial markets. Usury laws are rules governing interest rates that can be charged on a loan by a financial institution and target the practice of charging excessively high rates on credit facilities by introducing caps on maximum interest rate amounts which is designed to protect consumers (Benmelech & Maskowitz, 2016). Miller (2013) concluded that although there were glaring market failures in credit markets, Governments through their Central banks do not have a role in managing these market failures. Interest rates capping is not the best solution in meeting the lower interest rates. Governments regulations tend to sort out symptoms and not the cause of of financial market failures.Governments need to act more systematically by adressing issues around market information and market structures.

The key implications of the bill are capping interest that banks can charge on all their lending products at 400 basis points, above CBR then at 10% at the inception of the law on 29.05.2017. This rate has since been amended on 30.07.2018 when the Monetary Policy Committee reduced the CBR rate to 9.0%. All investment products e.g. savings account, call and fixed deposits etc. shall receive interest at 70% of the CBR rate i.e. 7% at inception and now 6.30 after the change of CBR rate on 30.08. 2018. The highest spread that Banks can earn is therefore 6.70%. Banks however can benefit from cheap deposit inform of transacting accounts which attract up to zero interest rates. Section 36 (4) of the CBK Act stipulates that the Central Bank shall publish the lowest interest rate it charges on loans to banks and that rate shall be known as the Central Bank Rate (CBR).

Interest rate capping tends to distort the market and causes adverse preferences. Financial discrimination leads to a situation where those in dire need of financial assistance being locked out of the available finances because they are considered high risk. Financial institutions can however still remain profitable by venturing into other sources of income such as non-funded income as well as cutting their costs (Shin, 2014). Low interest regime was supposed to ensure more lending by Banks due to the anticipated augmented demand due to lower interest rates charged. Before the bill came into force, potential customers were apprehensive as loans were susceptible to interest rate fluctuations (CBK, 2016). A small change in interest rate can lead to a corresponding high monthly repayment which has scared away such clients who rely on fixed income mostly salary.

Statement of the Problem

Interest rates ceiling has been on a downward curve in developed countries while developing countries are liberalizing their financial markets. Through liberalization, financial markets access becomes easier and this has a positive influence on finance inclusivity hence prosperity among the countries population. Banks are able to effectively price their loans by vetting their clients risk profiles while also taking into account other variables that add up to their cost of funds. By so doing, Banks take into account risk return tradeoff consideration (Hodrick and Hedegaard, 2014).

The Government of Kenya and human right groups have averred that, Kenya needs lower interest to spur economic activity through affordable loans. This would ensure affordability and therefore higher credit facilities uptake. The spiral effect of this would be job creation and spurring innovation as entrepreneurs could find it easier to receive funding for their ideas. In most of the countries where caps have been implemented, there has been a general negative effects where financial institutions withdrawn their presence from the lower end segment of the economy and concentrating on the higher end which is perceived to have less risks (Gallegos, 2014).

In the Kenyan case, capping of rates has received critism from Cental Bank for starving the private sector of Credit to an extent that there has been a dramatic reduction in exports as start ups cannot produce enough to export competitively. ICPAK, the umbrella body of accountants has advocated for all stakeholders to be engaged and arrive at an amicable framework to adress the immediate outcome of interest capping where Banks have shied away from lending to specific groups. ICPAK has further avered that credit to private sector, according to CBK statistics had started declining in 2015 even before the introduction of interest rate cap due to increase in domestic borrowing (CBK., 2016). Interest rate ceiling limits banks' maximum interest charge on issued loans thus limiting the interest rate spread. Banks price their loans based on several factors among them the clients risk profile. Clients whose risk profile cannot match the capped limits will not be able to access credit limits. These other factors arising from interest rate caping law have never been looked into.

There are a number of local studies that have been conducted in this area. For example, Muriuki (2014) concluded that market returns increased with increase in interest rate on NSE listed firms. Oloo (2017) concluded that higher interest rate spread led to improved market returns even though not to a significant extent. These studies did not focus on financial institution only but general NSE companies. In addition, these studies left out the new phenomenon introduced by interest capping which came into effect on 14th September 2016 where the spread is preset by the CBK through the CBR. Furthemore, has unique specific variables which are the major banking products in which can only be related to financial instutions unlie to the whole NSE. Thus, these were the gaps that the study intended to fill by expalining the effects that interest rate capping have on market performance of listed commercial Banks in Kenya.

Research Objectives

- To determine the effect of mortgage interest rate capping on market performance of Listed Commercial Banks in Kenya.
- To determine the effect of term loan interest rate capping on market performance of Listed Commercial Banks in Kenya.
- To determine the effect of overdraft interest rate capping on market performance of Listed Commercial Banks in Kenya.
- To determine the effect of saving interest rate capping on market performance of Listed Commercial Banks in Kenya.

Research Hypothesis

H_{01}: Mortgage interest rate capping has no significant effect on market perfomance of listed Commercial banks in Kenya

H_{02}: Term loan interest rate capping has no significant effect on market perfomance of Listed Commercial Banks in Kenya

H_{03}: Overdraft interest rate capping has no significant effect on market perfomance of Listed Commercial banks in Kenya

H_{04}: Savings Interest rate capping on has no significant effect on market performance of Listed Commercial Banks in Kenya.

RELATED LITERATURE

Theoretical Framework

Classical theory of interest

Classical economists maintained that interest is a price paid. Interest rate offered by Commercial Banks is the return that balances the demand and the supply in the financial market. Demand for capital comes from those who have business ideas but lack the capital. Any factor of production is demanded for its levels of productivity. The demand is high when its anticipated returns are high. Since, all the factors of production have differing levels of return, capital demanded will be high for more productive uses first and then gradually will shift to less productive uses Different Banks have differing liquidity levels depending on several factors such as its products (Choudry, 2017). Supply of capital comes from those who have the excess of income over consumption.

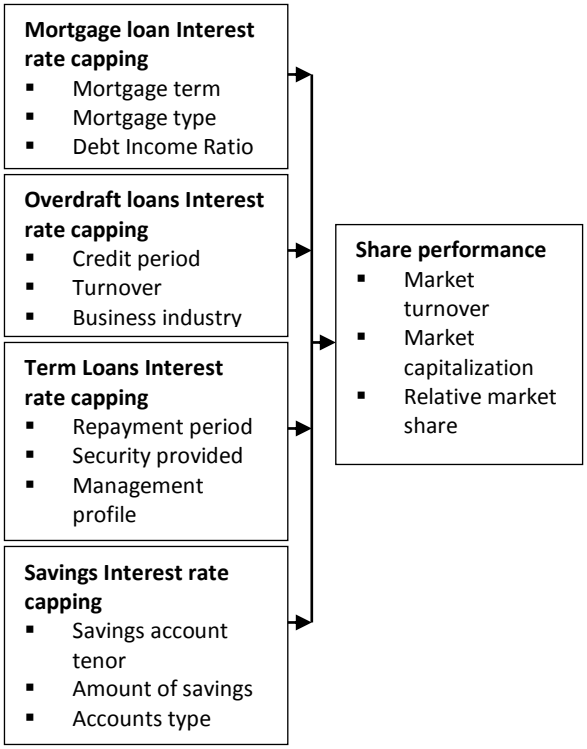
Loanable Funds Theory

This theory is an improved version of the classical theory and it states that interest rate is established by supply and demand of funds (Madura, 2013). This theory agrees that investments and savings decisions are largely influenced by availability or lack of money. Therefore, this theory is more focused on availability of money and other non-monetary issues that affects savings and investment decisions of people unlike classical theory (Madura, 2013).

Abstinence or Waiting Theory

This theory positions that interest is earned from ones savings which the banks lends out. Nassau William Senior, the originator of the theory, stated that when a client of a bank sacrifices part of their salary to savings, the bank needs to reward him/her (Herbener, 2013). Savings reduces the clients' money for use. However, rich people may not feel the sacrificing part of saving because they are able to meet their needs. Savings can be described in terms of waiting. Savings are done by transferring the present requirement to the future and the person needs to wait for meeting those requirements. However, people do not want to wait rather they are motivated to save money by providing a certain amount of interest.

Conceptual Framework



Independent Variables Dependent variable

Figure 1: Conceptual framework

Source: Author (2019)

Interest capping on Mortgage Loans

A mortgage is a debt instrument, secured by a collateral inform of a real property, that the borrower pays back with a predetermined set of payments for a specified time. The tenor of mortgages is normally

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between five to 30 years. Mortgages are used by individuals and businesses to own and start enjoying the benefits of that property upfront without paying the entire value up front (Becky, Hannah and Ruby, 2015). The borrower repays the principal plus interest in installments until the mortgage is fully paid. Mortgages are also known as "liens against property" or "claims on property." If the borrower defaults in making the installments, the bank can foreclose i.e. the action of taking possession of a mortgaged property when the mortgagor fails to keep up their mortgage payments.

With an adjustable –rate mortgage (ARM) the interest rate fluctuates with market interest rates. If interest rates increase later, the borrower may not be able to afford the higher monthly payments. Interest rates could also decrease, making an ARM less expensive. In either case, the monthly payments are unpredictable after the initial term (Becky, Hannah and Ruby, 2015). With interest capping, the interest rate becomes partially fixed and partially flexible as homebuyers are guaranteed that the rates will not go higher than the set limits though it can fluctuate with the bench mark CBK rate. Mortgages have provided Banks with a long-term income streams and further, a stronger asset class as mortgages are fully secured. (Nyakundi, 2015)

Interest Capping on Overdraft

Overdrafts allow an account holder to take money from their account even when they have inadequate funds. Consumers pay for overdrafts through maintenance fee, interest, paid, unauthorized overdraft fees and unpaid item charges. Authorized overdrafts can provide a convenient way to help consumers manage daily finances (Ziwicki, 2013). Unauthorized overdrafts usually cater for 'emergency' use and are ideally charged a premium rate. Overdraft providers can earn revenue from consumers' lack of understanding, confusion and limited attention. They also have incentives to raise revenue by increasing overdraft limits and have historically had very high, complex and opaque charges for unauthorized overdrafts. With the capping law, premium charges may not be applicable as this will be contravening the law. Banks may go round and come with other charges to cater for the lost revenue stream. CBK has however been very strict on imposition on new charges and these must be approved upfront (Ziwicki, 2013).

Interest Capping on Term Loans

Term loans are the basic vanilla commercial loan. They typically carry fixed or floating interest rates with a monthly or quarterly repayment schedules. Bankers tend to classify term loans into short and long term (Damanka et al., 2014). Short term loans are loans that usually running less than three years and are generally repaid in monthly installments. Repayment is often tied directly to the useful life of the asset being financed.

Long-term loans are loans that have a tenor of between three and ten years but occasionally can rub for as long as 20 years. Long-term loans are secured by a business's assets and payments are derived from profits or cash flow. These loans usually are issued together with some covenants which act to safeguard the lenders interests. Term loans are appropriate for established businesses that can leverage their sound financial statements. Repayment is typically linked to the item financed (Damanka et al., 2014).

Given that the risk profiles for established firms is low coupled with collaterals that these firms can offer as security for advanced funds, Banks would find this niche appropriate for lending and banks are expected to compete for this market after the interest capping law was enacted. This market further provides an opportunity for non-funded income stream from transactional fees (Damanka et al., 2014).

Interest Capping on Savings

Savings accounts is an interest bearing Bank account held in a financial institution. It's a low risk account given the nature of its operations. Ideally , savings account is not an operational account and therefore transactions on this account should be done by owners of the account in person. Cheques are not issued as a transacting tool for this account. Savings accounts are therefore technically time deposits requiring customers to give notice of withdrawal (Damanka et al., 2014). Due to dynamics of customer service and cut throat competition among Banks for deposits, Banks have generally allowed customers to access funds from their savings accounts without notice but most Banks have limited the number of transactions per period that customers can transact on their savings accounts. Savings products also include time deposits which refer to interest bearing bank accounts that have specified date of maturity and must be held for a fixed term.

Intererest rate capping law in Kenya has provided the lowest interest rate that can be paid to a savings account at 70% of the CBR rate currently at 9.5 effectively translating to 6.65% p.a which creates an interest rate spread of 6.85 which forms the financial institution's profit margin.Reduced ROE and ROA reached the lowest levels of 19.8% and 2.3% in January 2017 down from 28.3% and 3.3% respectively in june 2015 (CBK, 2018). This reduced returns directly reduce demand for Financial Institution's shares and subsequently , the Banks market perfomance

Market Performance

Market performance of a given company is determined and affected by its profitability. Thus a company that is doing well financially will be a gem to many investors who will be willing to put purchase its stock over the stock exchange. A company with good returns will keep some cash aside for promotions which further goes to creating awareness in the market place, hence posting a strong market performance compared to peers (Khrawish, 2014).

The ultimate objective of any corporate organixation is profit and making good returns for the shareholders. Therefore every strategy designed coupled with the various day to day tasks conducted thus are meant to achieve this grand goal. Nevertheless, this does not imply that corporations have no other objectives. Organizations, in addition have economic and social objectives (Salant and Shaffer, 2016). Thus, ROE is a financial ratio which determines how much money an organiztion made in comparison to the total amount of shareholder's equity invested or portrayed in the balance sheet. Thus, shareholders are interested in the ROE whenever they are making investment decisions. A corporation which has a high ROE is most likely making good returns from its activities. Therefore a higher ROE signals a company which is making good returns in terms of generating profit.

METHODOLOGY

This study adopted a descriptive research design. This research design uses facts or information that is already available and analyses it to come up with conclusions. The researcher collects information and attempts to analyse it to discover the relationship between the variables that the researcher wishes to study (Castellan, 2014). Quantitative data from the questionnaires was coded and keyed into the computer for calculation of descriptive statistics and measurements. The Statistical Package for Social Sciences (SPSS) was used for data analysis. The following regression model was utilized to explain the connection:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y represents market performance

α is the constant term which represents market performance without inclusion of independent variables.

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β_1, β_2, β_3 and β_4 are the estimated regression coefficients i.e. the extent to which a variation in Y is explained by a variation in X.

ε is the error term

X_1 represents mortgage loans

X_2 represents overdraft loans

X_3 represents term loans and

X_4 represents savings

FINDINGS

Mortgage Interest Rate Capping

Table 1: Mortgage Interest Rate Capping

Statement		SA	A	N	D	SD	T	M	Std. D
More customers are keen to take mortgages loans due to reduced rates	F	3	28	13	10	2	56	3.36	0.96
	%	5.4	50.0	23.2	17.9	3.6	100	67.2	
The Bank is very eager to lend more as more customers can afford mortgage loans	F	3	16	15	17	5	56	2.91	1.08
	%	5.4	28.6	26.8	30.4	8.9	100	58.2	
The bank's profitability is expected to go up due to high volumes in mortgage loans.	F	0	19	14	13	10	56	2.75	1.12
	%	0	33.9	25.0	23.2	17.9	100	55.0	
Non-performing loans will increase due to price risk mismatch of customers taking up mortgages	F	2	15	21	14	4	56	2.95	0.98
	%	3.6	22.8	37.5	25.0	7.1	100	59.0	
There will be no change in mortgage uptake as loan pricing does not affect long term investment decisions of Bank customers	F	4	14	13	23	2	56	2.91	1.04
	%	7.1	25.0	23.2	41.1	3.6	100	58.2	

More bank clients were interested in taking up mortgage loans (with a mean of 3.36 and a standard deviation of 0.96) through their financers were reluctant due to reduced interest rates (with a mean of 2.91 and a standard deviation of 1.08). The was similar to Nganga and Wanyoike (2017) that stated that due to interest rate capping banks were unwillingness to lend to what they considered risky cutomers who were not worth the reduction. However, banks profits were anticipated to increase due to increases clients who would be taking up mortgage loans (with a mean of 2.75 and a standard deviation of 1.12). The findings agreed with Nyakundi (2015) that stated that mortgages have provided banks with a long-term income streams and further, a stronger asset class as mortgages are fully secured.

Non-performing loans were likely to increase due to price risk mismatch of customers taking up mortgages (with a mean of 2.95 and a standard deviation of 0.98) and there would be changes in the uptake of mortgage because loan pricing did not affect long term investment decisions of banks customers (with a mean of 2.91 and a standard deviation of 1.04). These findings are supported by the findings of Aloo (2017) that stated that long term investment decisions of customers do not change with change in interest rates.

Term Loan Interest Rate Capping

Table 2: Term Loan Interest Rate Capping

Statement		SA	A	N	D	SD	T	M	Std. D
More customers are keen to take term loans due to reduced interest rates	F	6	28	7	12	3	56	3.39	1.11

	%	10.7	50.0	12.5	21.4	5.4	100	67.8	
The Bank is very eager to lend more as more	F	1	16	12	24	3	56	2.79	0.99
customers can afford term loans	%	1.8	28.6	21.4	42.9	5.4	100	55.8	
The bank's profitability is expected increase as a	F	2	9	16	26	3	56	2.66	0.94
result of high volumes in term loans									
	%	3.6	16.1	28.6	46.4	5.4	100	53.2	
Non-performing loans will increase due to price	F	0	17	21	14	4	56	2.91	0.92
risk mismatch of customers taking up term	%	0	30.4	37.5	25.0	7.1	100	58.2	
loans									
There will be no change in term loans uptake as	F	4	19	7	22	4	56	2.95	1.15
loan pricing does not affect long term									
investment decisions of Bank customers									
	%	7.1	33.9	12.5	39.3	7.1	100	59.0	

The findings indicated that more bank clients desired to had term loans due to lower interest rate (with a mean of 3.39 and a standard deviation of 1.11) but banks were unwilling to lend out more term loans (with a mean of 2.79 and a standard deviation of 0.99). Banks profits were anticipated to increase due to increased term loans (with a mean of 2.66 and a standard deviation of 0.94). However, there could have been high risk of customer mismatch that would lead to increase in non-performing loans (with a mean of 2.91 and a standard deviation of 0.92) and there would be no change in the uptake of term loans because loan pricing did not affect long term investment decisions (with a mean of 2.95 and a standard deviation of 1.15).

These findings were seconded by Nganga and Wanyoike (2017) who stated that due to interest rate capping banks were unwillingness to lend to what the considered risky cutomers who were not worth the reduced interest rates. Damanka et al., (2014) that stated that banks relied on term loans since they provided an opportunity for non-funded income stream from transactional fees.

Finally, the study found out that slightly more than half of the respondents agreed that there would be no change in the uptake of term loans because loan pricing did not affect long term investment decisions of banks' customers. These findings are supported by the findings of Aloo (2017) that stated that long term investment decisions of customers did not change with change in interest rates.

Savings Interest Rate Capping

Table 3: Savings Interest Rate Capping

Statement		SA	A	N	D	SD	T	M	Std. D
More customers are keen to increase their savings to benefit from increased returns.	F	5	20	5	16	10	56	2.89	1.32
	%	8.9	35.7	8.9	28.6	17.9	100	57.8	
The Bank will put stringent rules for	F	5	23	14	10	4	56	3.27	1.09
operating savings account to discourage its demand as it is costly to the Bank.	%	8.9	41.1	25.0	17.9	7.1	100	65.4	
The Bank will encourage opening of	F	7	21	15	13	0	56	3.39	0.98

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savings account to take advantage of the liabilities which are cheaper than overnight borrowing.									
	%	12.5	37.5	26.8	23.2	0	100	67.8	
The Bank is in a better position to carry out financial intermediation role as more customers save money while creating credit for the borrowers hence improved economy	F	4	11	20	18	3	56	2.91	1.01
	%	7.1	19.6	35.7	32.1	5.4	100	58.2	
Interest rate capping law should be reversed as retail customers access to credit has been greatly hampered	F	16	17	13	4	6	56	3.59	1.28
	%	28.6	30.4	23.2	7.1	10.7	100	71.8	

The results of the study revealed that slightly more customers were keen to increase their savings to benefit from increased returns (with a mean of 2.89 and a standard deviation of 1.32) and banks were in better positions to carry out financial intermediation role as more customers save money (with a mean of 3.27 and a standard deviation of 1.09). Banks would put stringent rules for operating savings account to discourage its demand (with a mean of 3.39 and a standard deviation of 0.98) and encouraged opening of savings accounts (with a mean of 2.91 and a standard deviation of 1.01). In addition, majority of the respondents agreed that interest rate capping law should be reversed as retail customers' access to credit had been greatly hampered (with a mean of 3.59 and a standard deviation of 1.28).

The findings were seconded by Nganga and Wanyoike (2017) who stated that as a result of interest rate capping banks were unwillingness to lend to what the considered risky cutomers who were not worth the reduced interest rates by putting stringet rules for savings and lending. Aloo (2017) found that market returns at the NSE had a positive correlation with interest rate capping. Muriuki (2014) also established that market returns are determined by interest rates.

Overdraft Interest Rate Capping

Table 4: Overdraft Interest Rate Capping

Statement		SA	A	N	D	SD	T	M	Std. D
More customers are keen to take overdraft due to reduced interest rates	F	7	22	10	15	2	56	3.30	1.11
	%	12.5	39.3	17.9	26.8	3.6	100	66.0	
The Bank is very eager to lend more as more customers can afford overdraft	F	1	17	15	23	0	56	2.93	0.89
	%	1.8	30.4	26.8	41.1	0	100	58.6	
The bank's profitability is expected to increase due to high volumes in overdraft	F	2	8	18	24	4	56	2.64	0.94
	%	3.6	14.3	32.1	42.9	7.1	100	52.8	
Non-performing loans will increase due to price risk mismatch of customers taking up overdraft	F	0	18	22	15	1	56	3.02	0.82
	%	0	26.8	39.3	26.8	1.8	100	60.4	
There will be no change in overdraft uptake as loan pricing does not affect long term investment decisions of Bank customers	F	3	16	18	16	3	56	3.00	1.00
	%	5.4	28.6	32.1	28.6	5.4	100	60.0	

The study revealed that more clients were interested in taking overdraft due to reduced interest rates (with a mean of 3.30 and a standard deviation of 1.11) but banks were not very eager to lend (with a mean of 2.93 and a standard deviation of 0.89) since banks' profit was not expected to increase (with a mean of 2.64 and a standard deviation of 1.94). Non-performing loans would increase due to mismatch of customers (with a mean of 3.01 and a standard deviation of 0.82) and there would be no change in the uptake of overdraft (with a mean of 3.00 and a standard deviation of 1.00). These findings are supported by the findings of Aloo (2017) that stated that long term investment decisions of customers do not change with change in interest rates.

Market Performance

Table 5: Market Performance

Statement		SA	A	N	D	SD	T	M	Std. D
Interest rate capping has decreased banks share price	F	1	26	16	11	2	56	3.23	0.91
	%	1.8	46.4	28.6	19.6	3.6	100	64.6	
Interest rate capping generates value added due to increased affordability of credit	F	1	12	23	19	1	56	2.88	0.83
	%	1.8	21.4	41.1	33.9	1.8	100	57.6	
Interest rate capping will lead to increased market capitalization	F	0	13	17	22	4	56	2.70	0.91
	%	0	23.2	30.4	23.2	7.1	100	54.0	
Interest rate capping affect bank's sales growth positively	F	2	16	14	22	2	56	2.89	0.98
	%	3.6	28.6	25.0	39.3	3.6	100	57.8	
Interest rate capping has led to increased market turnover	F	1	16	10	25	4	56	2.73	1.02
	%	1.8	28.6	17.9	44.6	7.1	100	54.6	

These findings showed that interest rate capping had decreased banks share price (with a mean of 3.23 and a standard deviation of 0.91). In addition, interest rate capping did not generate value addition due to increased affordability of credit (with a mean of 2.88 and a standard deviation of 0.83), interest rate capping lead to decreased market capitalization (with a mean of 2.70 and a standard deviation of 0.91), negative sales growth (with a mean of 2.89 and a standard deviation of 0.98) and decreased market turnover (with a mean of 2.73 and a standard deviation of 1.02).

These results are seconded by Nganga and Wanyoike (2017) that stated that performance of stock market perfomance was negatively affected by interest rate capping because there was decreased market capitalisation which lead to inaffordability of credit to more risk clients, low sales growth as well as lower market turnover.

Inferential Statistics

Table 5: Correlations

		Mortgage	Term Loan	Savings	Overdraft	Market performance
Mortgage	Pearson Correlation	1	.521**	.138	.244	.255
	Sig. (2-tailed)		.000	.310	.070	.058
	N		56	56	56	56
Term Loan	Pearson Correlation		1	.157	.485**	.205
	Sig. (2-tailed)			.246	.000	.130

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	N	56	56	56
Savings	Pearson Correlation	1	.285*	.193
	Sig. (2-tailed)		.033	.155
	N		56	56
	Pearson Correlation		1	.443**
Overdraft	Sig. (2-tailed)			.001
	N			56
Market performance	Pearson Correlation			1
	Sig. (2-tailed)			
	N			56

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

*. Correlation is significant at the 0.05 level (2-tailed).

Mortgage interest rate capping had a weak but positive Pearson Correlation coefficient to market performance (r=0.225). However, the p-value was more than the significant level of 0.05, (p=0.058) implying that mortgage interest rate capping had no significant effect on market perfomance. These findings were supported by the findings of Aloo (2017) that stated that long term investment decisions of customers do not change with change in interest rates.

Term loan interest rate capping had a weak but positive Pearson Correlation coefficient to market performance (r=0.205). However, the p-value was more than the significant level of 0.05, (p=0.130) implying that term loan interest rate capping had no significant effect on market perfomance. These findings were supported by the findings of Aloo (2017) that stated that long term investment decisions of customers do not change with change in interest rates.

Interest rate capping on savings products had a weak but positive Pearson Correlation coefficient to market performance (r=0.193). However, the p-value was more than the significant level of 0.05, (p=0.155) implying that interest rate capping on savings products had no significant effect on market perfomance. These findings are supported by the findings of Aloo (2017) that stated that long term investment decisions of customers do not change with change in interest rates.

Overdraft interest rate capping had an average positive Pearson Correlation coefficient to market performance (r=0.443) and the p-value was less than the significant level of 0.05, (p=0.001) implying that overdraft interest rate capping had significant effect on market perfomance. These results are seconded by Ziwicki, (2013) that stated that overdraft is a short term bank product that is significantly affected by immediate and short term interest rate capping since overdraft is mostly taken as an emergency and lower interest rate are preferred by most clients.

Regression Analysis

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.481[a]	.232	.172	2.64283

a. Predictors: (Constant), Mortgage, Term loan, Overdraft, Savings

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Table 6 showed that the coefficient of correlation (R) is positive 0.481. This means that there is a positive correlation interest rate capping and market performance of listed commercial banks in Kenya. The coefficient of determination (R Square) indicates that 23.2% of market performance of listed commercial banks in Kenya is influenced by interest rate capping.

Table 7: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	107.503	4	26.876	3.848	.008[b]
	Residual	356.211	51	6.985		
	Total	463.714	55			

a. Dependent Variable: Market performance

b. Predictors: (Constant), Mortgage, Term loan, Overdraft, Saving

Table 7 showed the Analysis of Variance (ANOVA). The f-value of the ANOVA was found to be 3.848 while p-value was 0.008 which is < 0.05. These results indicated that the model was statistically significant in predicting how interest rate capping affects market performance. The results also indicated that the independent variables are predictors of the dependent variable.

Coefficients

Table 8: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.824	3.075		3.184	.019
	Mortgage	.224	.158	.205	.419	.012
	Term loan	-.139	.180	-.123	-.771	.444
	Savings	.058	.126	.059	.461	.037
	Overdraft	.562	.186	.436	.014	.004

a. Dependent Variable: Market Performance

From the Coefficients table (Table 8) the regression model can be derived from the unstandardized coefficients as follows:

$$Y = 3.824 + 0.224X_1 - 0.139X_2 + 0.058X_3 + 0.562X_4$$

According to this model, when all the independent variables values are zero, market performance listed commercial banks in Kenya of will have a score of 3.824. The results indicated that three of the independent variables (interest rate capping on mortgage, overdraft and savings products) had a significant positive effect on market performance because their significant values were less than 0.05 (p-value=0.012, 0.037 and 0.004) while interest rate capping on term loan which had a negative insignificant effect on market performance because its significant value was greater than 0.05 (p-value=0.444).

The most influential variable was overdraft interest rate capping with a regression coefficient of 0.562. This meant that a unit increase in overdraft would result to 0.562 increases in market performance. The second most influential variable was mortgage interest rates capping with a regression coefficient of 0.224. This meant that a unit increase in mortgage interest rate capping would result to 0.224 increases in market performance.

Interest rate capping on savings products had a regression coefficient of 0.058. This meant that

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interest rate on capping savings products a unit increase in would result to 0.058 increases in market performance. The least influential variable was term loan interest rate capping with a regression coefficient of -0.139. This meant that a unit increase in term loan interest rate capping would result to -0.139 decreases in market performance.

These results were attributed to the fact that overdraft is a short term product while the rest are long term product hence interest capping has not had any significant effect on them because long term investment decisions of customers do not change with change in interest rates but short term investment decisions may be influenced with changes in interest rate. In addition, interest rate capping has only been in effect for two years now which is not adequate time to significant establish the effect on interest rate capping on long term investment products (Nyakundi, 2015).

Hypothesis Testing

Hypothesis One

H_{01}: Mortgage interest rate capping has no significant effect on market perfomance of listed Commercial banks in Kenya.

As shown above, mortgage interest rate capping had a regression coeficient of 0.224 and a t-value of 0.419. The p-value for mortgage interest rate capping was found to be 0.012 which is less than the significant level of 0.05, ($p<0.05$). Thus, the null hypothesis was rejected while the alternative hypothesis was accepted. The study concluded that mortgage interest rate capping had a significant effect on market perfomance of listed Commercial banks in Kenya.

Hypothesis Two

H_{02}: Term loan interest rate capping has no significant effect on market perfomance of Listed Commercial Banks in Kenya.

As shown above, term loan interest rate capping had a regression coeficient of -0.139 and a t-value of -0.771. The p-value for term loan interest rate capping was found to be 0.444 which is more than the significant level of 0.05, ($p>0.05$). Thus, the null hypothesis was accepted while the alternative hypothesis was rejected. The study concluded that term loan rate capping had no significant effect on market perfomance of listed Commercial banks in Kenya.

Hypothesis Three

H_{03}: Interest rate capping on savings products has no significant effect on market performance of Listed Commercial Banks in Kenya.

As shown above, interest rate capping on savings products had a regression coeficient of 0.058 and a t-value of 0.461. The p-value for Interest rate capping on savings products was found to be 0.037 which is less than the significant level of 0.05, ($p<0.05$). Thus, the null hypothesis was rejected while the alternative hypothesis was accepted. The study concluded that interest rate capping on savings products had a significant effect on market perfomance of listed Commercial banks in Kenya.

Hypothesis Four

H_{04}: Overdraft interest rate capping has no significant effect on market perfomance of Listed Commercial banks in Kenya.

As shown above, overdraft interest rate capping had a regression coeficient of 0.562 and a t-value of 0.014. The p-value for overdraft interest rate capping was found to be 0.004 which is less than the significant level of 0.05, ($p<0.05$). Thus, the null hypothesis was rejected while the alternative hypothesis was accepted. The study concluded that overdraft interest rate capping had a significant effect on market perfomance of listed Commercial banks in Kenya.

CONCLUSION

The study concluded that there exists a weak, positive and significant relationship between mortgage interest rate capping and market performance. More customers were keen to take mortgage loan but banks were less willing to lend and non-performing loans were likely to increase due to price risk mismatch of customers taking up mortgages.

The study concluded that there exists a weak negative insignificant relationship between term loan interest rate capping and market performance. More customers were keen to take term loans but banks were very not eager to lend more to customers. However, banks' profitability was not expected to go up and non-performing loans would increase due to price risk mismatch of customers taking up term loans. Finally, there would be no change in the uptake of term loans because loan pricing did not affect long term investment decisions of banks' customers.

There exists a weak significant positive relationship between savings products interest rate capping and market performance. More customers were keen to increase their savings to benefit from increased returns and banks would encourage opening of savings account to take advantage of the liabilities which are cheaper than overnight borrowing. In addition, banks were in better positions to carry out financial intermediation role and banks would put stringent rules for operating savings account to discourage its demand as it is costly to the banks. Moreover, majority of the respondents agreed that interest rate capping law should be reversed as retail customers' access to credit had been greatly hampered.

There exists an average positive significant relationship between overdraft interest rate capping and market performance. More customers were keen to take overdraft but banks were not very eager to lend more to customers. Banks' profitability was not expected to increase due to high volumes in overdraft. However, non-performing loans would increase due to price risk mismatch of customers taking up overdraft. There would be no change in the uptake of overdraft because loan pricing does not affect long term investment decisions of banks' customers.

RECOMMENDATIONS

Capping of interest rate should be scrapped off because it has reduced banks' market capitalization, market turnover as well as overall growth of listed banks. Second, banks should encourage uptake of overdraft, mortgage and savings products but discourage uptake of term loans because it has a negative effect on market performance of listed commercial banks.

Suggestions for Further Studies

A comparative analysis of stock performance of listed commercial banks in Kenya before and after interest rate capping

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