



Central Bank of Kenya

## EXPLANATORY NOTES ON DISCLOSURE OF CREDIT PRICING BY BANKS IN KENYA

### Introduction

- Lack of transparency in pricing of credit by the lenders can expose borrowers to high lending interest rates.
- In order to promote transparency in pricing of credit by the commercial banks, the Central Bank of Kenya has decided to publish the average lending rates for various loan products by banks as well as the overall average weighted lending rates by the commercial banks.
- Publication of average lending rates for commercial banks is expected to increase transparency and enable the borrowing public to making informed borrowing decisions.

### Loan categories and maturities

- Corporate lending refers to loans advanced by commercial banks to generally larger companies (corporate entities).
- Business lending refers to loans advanced by commercial banks to customers (generally small and medium entities and individuals) specifically for supporting their business endeavours.
- Personal lending refers to consumer loans granted by commercial banks to individuals for personal or household use.
- Loans advanced by commercial banks in each business segment are grouped into 3 maturity profiles:-
  - o Overdrafts – Loans whose maturity is less than one year or overdrawn balances in customers' current accounts.
  - o Loans whose maturity is between 1-5 years.
  - o Loans whose maturity is over 5 years.

### Determination of level of average lending rates

- The published lending rates for each commercial bank are the weighted average lending rate per loan category (corporate, business and personal) and maturity (overdraft, 1-5 years and over 5 years).
- The weighting is based on the loan volume for each borrower under each loan category and maturity. The overall rate (for each loan category and maturity) is the sum of the weighted rates across all borrowers.
- The overall average weighted lending rate for each commercial bank is the weighted average rate across all loan categories (corporate, business and personal) and maturities (overdraft, 1-5 years and over 5 years). The weighting is based on the loan volume for each loan category or maturity.

### Publication of average lending rates

- The published interest rates by the Central Bank of Kenya are the average weighted lending rates for each type of loan product and the overall average weighted lending rates for each bank as at the end of a specified time period. As a result, the actual rates charged by the banks may be higher or lower than the published average rates. The actual rates are based on negotiations between the bank and the borrowing customers.
- It should be noted that the published interest rates only constitute banks' lending rates. Over and above these rates, banks may levy other fees and charges, including administration fees, processing fees, valuation fees, legal fees and commitment fees, among others. Therefore the effective rates charged by individual banks may be higher than these published interest rates depending on the other fees and charges levied on loan products by the specific bank.