

Predatory lending orchestrated by the proliferation of Fintech companies in Kenya and its corollary to financial stability in the Kenyan banking sector

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This paper investigates unethical practices carried out by some fintech companies during a loan origination process that are unfair, fraudulent and deceptive to entice borrowers to take loans that carry high-interest rates, placing the borrowers in a lower credit rated loan to the benefit of the lender, and the effects on financial stability of Banks in Kenya. In the recent years, Kenya has experienced a drastic increase in mobile money lending platforms, that is, from 0% in 2016 to 79% in 2019, which has led to unbridled lending. The lending rates of the fintech companies tend to differ from one company to the other depending with the loan repayment period which mostly range from one week to one month. This paper examines lending rates and repayment terms of 21 fintech companies in Kenya. Some of these fintech companies include Tala and Branch International which have a lending rate of 15% per month (180% per annum) and Mshwari which has a lending rate of 7.5% per month (90% per annum) which when compared to the current Kenya Bank lending rate of 12.5% gives a huge discrepancy. Predatory lending has led to petty borrowing among Kenyans which has also led to increase in Non-Performing Loans (NPLs). As a result many people have been listed with the Credit Reference Bureau (ORB) over small amounts, hence cannot access loans from banks and other financial institutions. This paper looks at the link between a credit default in one or several fintech companies and the risk that the default may cause to banks and other financial institutions in Kenya. The findings for this paper highlights the need for policies that regulate operation of fintech companies and also to lessen informational asymmetry existing between fintech companies & borrowers and between borrowers & banks in Kenya.

Keywords: predatory lending; fintech companies; unbridled lending; corollary.