

Abstract

Debt financing is the acquisition of funds through borrowing. Most Sacco's results into borrowing to finance their increased customer's demands thus increasing the leverage if not controlled. This study determined the effects of debt finance on financial performance measured ROE. The study investigated the effect of interest rate, loan tenure, debt/equity ratio, and interest coverage ratio on financial performance of savings and credit cooperative societies in Maara Sub-County, Tharaka Nithi County, Kenya. Causal research design and a target population of 10 Sacco's and census survey were used. Secondary data from the Saccos financial statements for the last eight years used. Descriptive and inferential statistics were used with help of Statistical Package for Social Sciences (SPSS) and results presented in tables. A strong positive relationship of 0.984 between debt and ROE was revealed. A negative relationship existed between interest rate, loan tenure and ROE while a positive relationship was revealed between debt equity ratio and interest coverage ratio on ROE respectively. Interest rate, loan tenure and debt equity ratio had significant effect on ROE at t-statistics of 3.474, -2.938, 9.217 and 8.728 respectively with their P-values 0.018, 0.032, 0.000 and 0.000 less than 0.05 respectively.