CREDIT MANAGEMENT IN COMMERCIAL BANKS
A CASE STUDY OF HABIB (NIG) BANK LTD

BY

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DECLARATION

I hereby declared that this project entitled: CREDIT MANAGEMENT IN COMMERCIAL BANKS A CASE STUDY OF HABIB (NIG) BANK LTD is the product of my research effort and to the best of my knowledge it has never been presented or accepted for the award of any degree. All materials used in the work have been duly acknowledged by way of reference and bibliography.

DIGITIZED

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Sept 2008 — Date

CERTIFICATION

This research project entitlted: CREDIT MANAGEMENT IN COMMERCIAL BANKS: A CASE STUDY OF OF HABIB (NIG) BANK LTD meets the requirements for the award of the Degree of Master of Business Administration (MBA) and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

TO MY MOTHER AISHATU JIMMA WHO GAVE ME EDUCATION.

ACKNOWLEDGEMENT

Except the Lord builds the house-builders labour in vain. With God all things are possible and has indeed made it possible for me.

I will forever remain indebted to the Almighty and Everlasting God the creator of heavens and earth for sparing my life throughout this course and for providing the wisdom to live beyond it.

This project required careful research and diligent supervision. I wish to express my gratitude to Supervisor Mal Saki Abdullahi for his understanding, knowledge and thoroughness which he devoted in reading through this project despite his tight schedule.

My sincere gratitude to those nearest to my heart, my wife Hadiza Balarabe Tahir, all my brothers and sisters with whom I share the same blood.

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Finally, to all men and women who seek for knowledge and to the wisdom of what they seek to impact on others.

ABSTRACT

"Cash, a key asset is not the only medium for transacting business. Credit is also used as a means of encouraging customers patronage increase sales.

Management is tasks, discipline and also people. Every achievement of management is the achievement of a manager. Every failure is the failure of a manager. People manage rather than focus on facts. The vision dedication and integrity of managers determines whether there is management or mismanagement".

Peter Drucker

The financial industry has been a major energizers of economic growth and development in Nigeria. Monetary policy which the Government has been alternating and sometimes combined with fiscal policy to extricate the country from economic mess has been implemented through essentially financial institutions. To be able to pursue this towards ensuring systematic economic, industrial and socio-political development, the financial institution need enough funds to support lending to various individuals and corporate customers. So when most of these loans facilities granted become hard core, financial institutions are not able to fulfil perfectly this responsibility and their continuous existence is threatened. This has been the effect of mounting debts in the books of banks especially with the recent withdrawal of deposit by government and parastatals. Low deposits are costly and financial institutions need the money to back up their lending.

This research study is therefore focused on the management of credits in financial institutions. (A case study of Habib Bank Nigeria Limited).

This study was carried through the administration of interviews to the employees of credit department of habib Bank head office in Kaduna. The aim of the research has been to find out how the Bank Manages its credits. The major cause of such credit and the control measures taken by the bank to minimize the level of such debts. Recommendations are also made.

The study showed that efforts towards managing of credits becomes imperative and compelling on the bank. It also reveals the manner in which credit facilities are granted and treated by bank employees. Additional control measures that could aid the recovery of such credits and minimize the emergence of new debts have been identified and recommended for adoption by banks.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Credit management at least from the financial point of view is concerned with the effective and effective efficient administration of credits to achieve any optimum level of credit (recievables) in a firm's working capital investment.

In optimum level of credit represent a balance between increase in sales and profit associated with extending credit; and cost of credit (administrative cost of granting credit and cost of bad debts)/

In effective management of credits by banks and other financial institutions must consider the following:-

i. Establishment of a credit policy in relation to normal credit periods and overall credit control.

ii. Establishment of a limit on individual/corporal credit limits.

iii. Debt collection management.

Financial institutions are aimed at providing financial assistance to individual and corporate bodies without playing down the importance of optimal profitability to the shareholders and depositors alike. A bank is also expected to ensure sufficient liquidity of fund to meet cash demands by its

customers at short notices. This is in addition to maintaining a sufficient profitability level through proper and efficient management.

"Credit and money are closely related". However, money is a special kind of credit instrument which represents a promise to pay the bearer on demand. Credit is an economic device that enables individuals units in the society as well as society itself to allocate resources optimally.

Credit serves many purposes; it serves the lender, borrower and the need of trade. Even more importantly, the use of credit permits capital formation on large scale and thus encourages economic growth. Most firms would be unable to finance the operation of modern production and business with their own funds. But by obtaining credits from thousands of savers, a business can acquire the supplies it needs. Furthermore, the use of credit enhances the stability of goods, thereby expanding markets and making possible production on a large scale.

1.2 STATEMENT OF PROBLEM

The major concern of every business organization is to make profit. To do that business has to put in some capital from where it can generate such profit. Most firms cannot provide the whole lot of such capital and as such seek loans from financial institutions. This resulted in rapid increase in

the credit facilities extended by banks to meet the demand of their customers. Due to the unsecured nature of these loans and poor collateral, that are being extended to such customers, the banks are not able to recover such loans thus increasing their bad and doubtful debt account.

In this regard, most of the financial institutions in the country are faced with the adverse situation of uncalled liabilities (loans, advances, bad and doubtful account) over total deposits available to them. As a result, banks are left with no alternative but to limit their credit facilities and recall some of the debts in order to recover the huge figure in their accounts.

The major problem is that of devising ways and means by which such debts will be recovered and the management of loan extending units in such a way that no further debts are let to mistakes and errors that might result in the various procedures involved in the allocation of loans to respective customers.

1.3 OBJECTIVE OF THE STUDY

The backbone of banking system or financial institution is credit. It is therefore important that its management is taken seriously to ensure adequate return on investment and profitability.

The objective of this study is:

a. To find out how credit management is done in Habib Bank Nigeria Limited.

b. To find out the actual causes of debt default.

c. To find out how effective and efficient credit management procedures adopted by the bank are towards ensuring the proper control of debts,.

d. To recommend other measures that the bank should undertake in order to reduce the casualties and costs of credit.

1.4 SIGNIFICANCE OF THE STUDY

The recent increase in the money supply of the Nigerian Economy which was held as one of the major causes of depreciation of Naira and the rising scale of inflation is traceable to increase in credit facilities extended by financial institutions.

It could be seen that profitability of any financial institution is determined by the earnings accruable from expanded good credit granted to customers. In this case, its of vital importance to such financial institution to extend such loans in a manner in which they are easily recovered and managed in such a way that even if errors do occur, they are at the minimal and does not affect the profitability of the institutions.

Thus, the study is very much of relevance to such institutions as its findings will form a sort of footpath to follow.

1.5 SCOPE AND LIMITATIONS

This research is particularly aimed at finding out how credits are managed in financial institutions with particular reference to Habib Nigeria Bank Limited.

This study covers credit department of Habib Bank Nigeria Limited at the head office in Kaduna. The research method used involved hypothesis testing. Financial statement of the bank for some period were used to assess the development trend. As a whole the project is centered on credit management in Habib Nigeria Bank Limited.

The study is faced with several limitation which hindered the easy and duly completion of the study. Some of these limitation are the ready availability of essential information. This is as a result of the secrecy that covers information in the bank which requires permission of the banks higher authority which would make divulgence by employees difficult.

Finally, it was not possible to obtain actual figures in the bank. This was because such information was regarded as classified information.

1.6 HYPOTHESIS

The purposes of this study as stated earlier is that of evaluating credit management in financial institutions with Habib Bank as a case study.

The basic hypothesis of this can thus be stated as:

The Habib bank is efficient in its credit management and thus contributes to the bank's profitability.

The negative of this preposition as usual with most hypothesis has no special significance other than for the purpose of testing.

1.7 DEFINITION OF TERMS

It will however be pointed out that for the purpose of clarity we attempt to define a few relevant words or expression that we consider useful operationally in the course of compiling this piece of research work.

ASSET:- A physical (tangible) object that conveys economic value to its owners. For (Banks) balance sheet purposes, assets are broadly grouped as current, fixed or tangible and within these groupings are descriptive titles, such as receivables, investment, goodwill and patents.

ACCOUNT RECEIVABLES: Money earned, but not yet received, and considered receivable within the nest twelve month period.

ACCOUNT PAYABLE: Money owned to others but not yet paid and considered payable within the next twelve month period.

BALANCE SHEET: A condensed statement showing the nature and amount of a firm's assets, liabilities and given capital on a given data.

BANK: A business establishment of financial house authorized to perform financial transactions such as receiving (saving and depositing) on lending (loans and advances of money).

BANKING: Is the business of the bank or the bank's official (Banker).

BANK FAILURE: A situation whereby a bank become insolvent or whose totality or property assets and intangible rights (securities) are insufficient to pay all its debt.

COLLATERAL:	Personal or real property pledged as security for an obligation.
CREDIT:	The status of being trusted to pay money back to who lends it to one. It can also be the state of having money.
CUSTOMER:	A client, person or cooperation who holds regular transaction with a bank through specified accounts or pass books.
LIQUIDITY:	Ability of a bank or any business enterprise to convert non-cash assets into a resource that enables the enterprise to meet its short term obligation.
LOAN	A business transaction between two legal entities whereby one part known as the "lender" agrees to "rent" funds to the second party, known as the "borrower". Loans may be short or long term in duration.

MANAGEMENT:	The process of directing, organizing and controlling or organizational activities towards the achievement of the organizational goals and objectives.
PRIME LENDING RATE:	The rate of interest charged by commercial banks on short term loans to preferred customers.
POLICY:	A selected to planned line of conduct in the light of which individuals decision are made and co-ordination achieved.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Business activities in Nigeria today, have become so competitive and dynamic that every business strives harder to maintain and push ahead of others to achieve excellence in its performance.

The role of financial institutions in any nation is obviously a prime prerequisite to the economic survival and growth of such a nation. Actually financial institutions perform a number of interrelated functions, many of which are necessary parts of our private, governmental and free enterprise system.

Banks bring into being the most important ingredient of the money supply-demand deposits - through the creation of credit in the form of loans and investments. They are the custodians of the community's money as well as the suppliers of its liquidity.

Banks also provide flexibility and mobility to the money supply by maintaining the inter-changeability of currency bank deposits along with the mechanism through which money payments can speedily and efficiently be made. They also participate with other institutions in the process of accumulating and investing funds as well as performing other financial services.

In summary, the task of competent bank management is to perform the economic functions inherent in the banking business in such a way to maximize the return on invested funds over time without excessive risk of making huge losses.

It is certain that no matter how efficient and effective a bank is, it must still face the question of how to avoid risks that normally results from normal banking operations.

The topic under consideration stems from credit operations which form part of the day to day activities of bankers.

2.1 HISTORY OF FINANCIAL INSTITUTIONS

The historical development of the financial system in Nigeria dates back to 1892, when modern banking business commenced, and a formal and institutional channel of savings mobilization was introduced into the economy with the establishment of the African Banking Cooperation (ABC). The operation of ABC were taken over in 1894 by the British Bank for West Africa (which later became standard Bank and subsequently, First Bank of Nigeria). Thus, the early stage of the Nigerian financial system development was synonymous with development in the money market. Another dimension in the Nigerian case was that, owing to the colonial heritage, not only were

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the pioneer commercial banks of foreign origin, but also the system itself was designed to facilitate colonial business interest which consisted largely of commerce, as against direct investment in productive activities. Thereafter, several foreign and a host of indigenous banks were established. The establishment of indigenous banks was initially propelled largely by nationalistic consciousness rather than the existence of relevant resources, including basic skilled manpower, for running such institutions. Consequently, most of the early indigenous banks collapsed in rapid succession, the way they were established. Banks that failed during the early stage of the evolution of the Nigerian financial system were largely these with problems of inadequate capital, poor management, and fraudulent practices, among other factors.

An important feature of the Nigerian financial system, especially before the establishment of the central Bank of Nigeria (CBN), was the complete absence of any from of institutional regulatory framework which would provide the necessary guide for both the operations and orderly development of the system. Another important characteristic of the system during the pre-CBN era was the small scope of operations of the system. It was the period when many investors interesting in short-term funds had to subscribe treasury bills in London, what existed in the country then was more or less a financial system linked to the London money market.

The small scope of operations of participating foreign institutions in the Nigerian financial system and the absence of a regulatory framework were some of the reasons behind the slow development of the financial system during the pre-CBN era. Things however changed perceptibly from 1958 when the CBN was established.

Ever since, series of efforts have been made by relevant authorities to promote the growth and development of the Nigerian financial system. For example, the need to develop the system and created an avenue for investment short-term funds informed the issue by the CBN 1960 of Treasury Bills as a supplement to commercial papers that were already in the market. In 1962, the call money scheme which was aimed at assisting banks liquidity management and Bill Finance Scheme for the marketing boards were introduced. Other money market instruments after the establishment of the CBN but prior to the introduction of the structural Adjustment Programme (SAP) in 1986 included Treasury Certificates in 1968, Certificate of Deposit in 1975 and Bankers Unit Funds as well as stabilization Securities in 1976.

The establishment of the CBN also aided the development of the capital market. This was achieved by ensuring the emergence of the securities markets and instruments and by promoting the establishment of development banks.

In order to foster the development of particular sectors, some development finance institutions were established. These include commercial bank, development banks, finance houses, Insurance Companies etc. They were all established between the regulated banking era. That's from 1952 to date. Today we have over 1000 different branches of financial institutions as can be seen from the table below.

NUMBER OF FINANCIAL INSTITUTIONS

Financial Institutions	1990	1991	1992	1993	1994	1995	1996	1997	1998
Commercial Banks	58	65	66	66	65	64	64	64	59
Merchant Banks	49	54	54	54	51	51	51	51	40
Community Banks	1	94	402	879	1056	1355	1355	1355	1355
People's Bank	169	200	228	271	275	275	275	275	275
Mortgage Institutions	-	23	145	252	275	280	280	281	281
Bureau De Change	88	102	132	144	191	223	223	225	225
Stock Brokers Firms	80	110	140	140	162	162	162	162	195
Issuing Houses	-	-	141	147	162	162	162	148	142
Registrars	14	-	32	33	40	40	41	46	47
Finance Companies	63	558	666	568	292	279	279	279	282
Discount Houses	-	-	3	3	3	4	5	5	5

Sources: CBN and NDIC.

2.2 TYPES OF FINANCIAL INSTITUTIONS

Over the years, the financial institution has undergone a series of structural and institutional changes. The system has moved from an under-developed financial market with few banks in the 1960's to a more diversified and competitive industry with an avalanche of commercial, merchant banks, finance houses, mortgage institutions, insurance companies and stock brokerage firms.

Financial institutions are places that deal with money and substitute and provide other financial services. Their economic function is that chanelling savings from private individuals into the hands of those who will use them in form of loans or for the purchase of capital asset.

The institutions that make up the financial system can be broken down into three broad categories namely regulatory/supervisory institutions, banking institutions and non-bank financial institutions under the regulatory institution consist of the Central Bank of Nigeria (Apex Bank) and Federal Ministry of finance which have regulatory roles over the entire financial system. The banking sector consist of the Commercial, Merchant and Development Banks, peoples bank and Community Banks. The non-bank financial institutions include finance companies, insurance companies bureau de change, pension funds, mortgage institutions, the Nigerian Stock Exchange.

2.2.1 THE CENTRAL BANK OF NIGERIA (CBN)

The promulgation of the 1952 Banking Ordinance and the need to implement its provisions made it imperative and inevitable for the establishment of the Central Bank in the country. The Central Bank was established in 1958 by an act of parliament. It commenced operation in July 1958 and was charged, among other things with the responsibility of promoting monetary stability and a sound financial structure in the country.

Since he commencement of operation of the CBN in 1959, the Nigeria Financial System has recorded a remarkable development. The CBN has ensured that all institutions within the industry operate in accordance with the provisions of relevant laws and are in line with generally accepted practices.

The CBN directly regulates the activities of the banks, finance firms, bureau de change and delegates the supervision of community banks. It has the power to demand for any financial information from any financial institutions.

2.2.2 FEDERAL MORTGAGE BANK OF NIGERIA (FMBN)

The Federal Mortgage Bank of Nigeria was created by Decree No 7 of 1977 to take over assets and liabilities of the Nigerian Building society which had hitherto been performing mortgage administration business since its incorporation in 1956. The FMBN became a regulatory body over

primary mortgage institutions. This was from promulgation of Decree No 53 of 1989. The FMEN is empowered to license and supervise mortgage institutions in the country.

Banking institutions include:

2.2.3 COMMERCIAL AND MERCHANT BANKS

Commercial bank are retail banking institutions that accept deposits and make short-term credits available to government, private business enterprise and individuals.

The merchant banks on the other hand are wholesale banks which are expected to provide medium to long-term finance. They do not participate in clearing house activities and they do not provide chequing facilities.

The first commercial bank in Nigeria was established as far back as 1892 while merchant banking dates back to 1960.

2.2.4 Development Banks

These were established to meet the long-term credit needs of particular sectors of the economy. They undertake detailed technical and credit appraisals and finance projects through equity participation or long-term loans in the agricultural, industrial, commercial and other sector of the economy. The activities of these development banks also include the provisions of financial and advisory services to indigenous entrepreneurs. They equally act as agents of the government in disbursing funds to the

various applicable sectors of the economy.

Currently, such banks include the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Co-operative Bank (NACB), the Federal Mortgage Bank of Nigeria (FMBN), the Urban Development Bank (UDB) and the Nigerian Export-Important Bank (NEXIM).

2.2.5 SPECIALIZED BANKS

These are people's bank and community banks. The people's bank of Nigeria came into being in the country in 1989. The bank aim at improving the lot of the low income group by providing them facilities outside the regular norms and procedures operating in the conventional banking system.

Community banks concept evolved in 1990. It is also a specialized bank where operations and laws differ from the conventional banks. These banks are similar to the unit banks in U.S.A. as they have no branch network.

2.2.6 THE NON-BANK FINANCIAL INSTITUTION

These institutions perform the role of financial intermediate by mobilizing and providing short to long term funds to the various sectors of the economy. They include insurance companies, finance and investment firms, brokerage firms, etc.

2.2.6.1 INSURANCE COMPANIES

They are a kind of non-bank financial institution that give so out insurance to individuals to cover life and property.

2.2.6.2 FINANCE AND INVESTMENT COMPANIES:

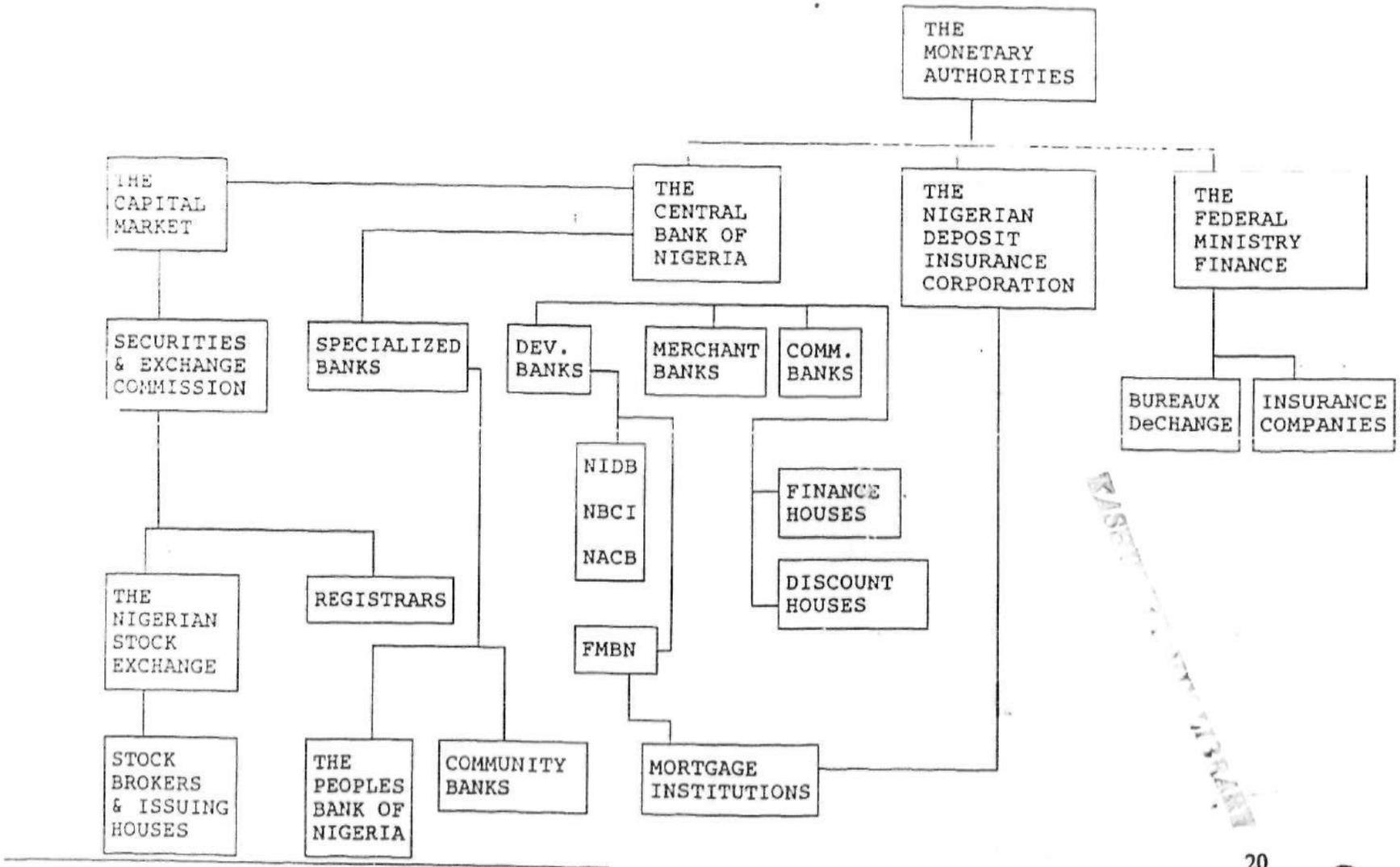
This was first established in 1959. It gives out loans to firms not single individuals.

They are privately owned investment companies which give assistance to companies which are unable to finance the purchase of assets through borrowing, hire purchase or leasing arrangement.

They provide two major financial services leasing and hire purchase. They also help firms to establish efficient management structures and control. They also provide corporate finance advice such as capital restructuring and project financing services.

Below is the structure of the Nigerian Financial System.

STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM



2.3 TYPES OF CREDIT FACILITIES

The primary function of financial institutions is the extension of credit to worthy borrowers. In making credit available, banks are rendering a great social service through their actions, production is increased, capital investment are expanded and a higher standard of living realized.

There are different types of credit facilities. They include:-

a. **Loan Accounts:**

The loan facility is mainly, but not exclusively used by sole traders and individuals such as salary earners to help them over a difficult period. The amount granted is generally small and it is repayable in the shortest possible time.

b. **Overdraft:**

This include the provision of short-term facilities in form of overdraft. The overdraft facilities are usually granted for a maximum period of one year, which may be renewed annually to enable customers meet pressing cash calls or finance their working capital need.

They are usually granted to business customers, large corporate bodies ad some medium/small scale enterprises. It is intended to fluctuate within the agreed limit, but need to always be utilized.

c. **Term Loans:**

This could be medium or long term loans. These are secured, they enable their customers finance specific projects which usually require large capital outlay.

Commercial banks are expected to provide only short term facilities on loans or overdraft to customers which in theory are repayable within one year. This means that commercial banks provide mainly short-term facilities for working capital purposes.

Merchant banks provide medium term finance for expansion and development plans lasting over several years.

Facilities are granted for period between three and seven years. But nowadays most banks provide both medium and long-term finance to their corporate customers.

d. **Performance Bond:**

This service is provided to customers in the building and contracting industry where they are required to supply performance bond before they can tender for contracts. The bond guarantees that they company has adequate financial resources to execute the contract successfully.

When a banker gives such a guarantee, it usually takes a counter indemnity so that he can claim against the customer in case of default.

e. **Guarantees and Indemnities:**

This is when for example a shareholder has lost his Share Certificate and has applied for a duplicate certificate to be issued to him. Before a firms' consent to such a request, it will want a banker to add his guarantee to the request to reassure the company of its genuineness. As in the case of performance bond, the banker covers himself against loss by taking a counter indemnity from his customer.

f. **Bankers Drafts:**

This is a cheque drawn by a branch of a bank on another branch. It is issued on request to a customer who is compelled to make payment to a payee who wants to make sure that the cheque will not bounce.

Bank drafts are requested for when large payments are involved and when the payee has to part with valuable articles due to the high incidence of bouncing cheques in the economy.

g. **Inland Bids Purchased:**

The allows customers to obtain immediate payment on all their bills lodged with the bank by discounting.

ZAHRA IBRAHIM DIBA

h. **Warehousing Loan:**

Customers enjoy warehousing or stock financing facility. Customers good are pledged as security and are then deposited in a warehouse in the

name of the bank against which the customer is allowed credit accommodation.

This facility to a number of customers is to enable them either stock pile needed raw materials for future use of take advantage of prices. This service si mostly beneficial for seasonal goods.

ii. **Leasing:**

For any economy to achieve meaningful growth, it must generate sufficient savings for investment. Crucial to the issue of investment is the need for capital accumulation.

Banks provide direct lease financing to allow customers the use of assets without bearing the capital outlay required. Leasing also, allows customers to guard against obsolescence. Services also covers refinancing options for asset (sale and lease back) already procured by clients to enable them raise sufficient working capital that would have otherwise been locked in assets. Export Financing-Banks have been in the fore-front in providing short, medium and long term funds for export operations for its numerous clients.

These banks participate in the Nigerian Export Import (NEXIM) credit agency which was established by the government with a specific mandate to assist banks to provide pre and post shipment finance in support of non-oil

exports under the rediscounting and re-financing facility (RRF).

Other services provided by NEXIM include foreign input facility (FIF) which provides manufacturers of export product, the needed foreign exchange for the importation of capital equipment, packaging and raw materials for the production of finished or semi finished export products.

k. **Loan Syndication:**

Banking are participating in quite a number of syndications. Syndications allow teeming customers raise large sums of money that would have been very difficult or impossible to get from other arrangements.

Syndicated facilities offer customer the opportunity to expand working capital/assets preparatory to business diversification or acquire/replace capital assets.

2.4 CREDIT MANAGEMENT

Credit management entails the formulation of credit policies within the framework of companies over all objectives, approval or otherwise of credit requests, granting of credits, recording the transaction, collection of the debts and accounting for those that have become bad and uncollectible.

Once of the two traditional roles of banks is the granting of loans and advances to its customers. The banks, especially commercial banks have

thrived over the years on income earned from this source. The objective of bank credit management is two; to earn interest income and hence, make profit like any other profit oriented organization, and to reduce the risk of defaults thereby remaining liquid. These two objective are usually at cross-purposes and a balance must be maintained between them for a bank to operate optionally. This assertion is in agreement with the opinion of Samuel and Wikes (1980) who opined that "Credit administration is primarily concerned with the trade off between profit from a liberal credit policy".

Pandey (1981) also sees the basic goal of credit management as that of maximizing the value of the company by achieving a trade off between liquidity and profitability. This view seems to be a generally accepted approach to the understanding of the objectives of bank credit management for one could argue that if the administration of bad debts is the sole objective of credit management, in the bank will not grant credit facilities. All banks mobilized deposits will be invested in low return risk free assets. Pendey further states that a firm will engage in credit in such a way that revenues are expanded and default risk involved is kept within acceptable limit.

Richard Brualy et al (1984) asserted that credit management involves 5 man steps namely: terms, evidence, customers, trade credit and credit granted.

In the first instance, it is necessary to determine the terms on which the seller propose to sell his goods and services. That is the period allowed for the customers to pay their bills and the discount given if any as well as the discount period.

Secondly, evidence of indebtedness required is decided.

Thirdly, there is need to consider which customers are likely to pay their bills, Fourthly the seller must decide how much trade credit he is willing to extend to each customer. Finally there is the need to consider credit granted. Thus, once credit is extended or granted to a customer, there is the problem of collecting the bills when if becomes due. The question arises as to how to keep track or payments and what to do about reluctant or slow payers.

Pecirson Hunt et al (1961) states that "most firms sales are made on credit". Credit sales do not result in immediate cash inflows but rather in creation of accounts or notes receivables from the customers.

The need for credit is now generally accepted. It involves granting the use of values in the present against the promise to repay in the future. Selling

goods/services on credit, means permitting the buyer to have immediate use of them on the understanding that payment will be made according to the terms laid down for example, within a month. This process of dealing with goods on credit basis is known as Trade Credit. This trade credit is intended when a firm sells to a customer and permits the customer to postpone payment for a short period of time.

One of the reasons for use of trade credit is that it is simple more convenient than selling on a cash basis. Trade credit enhances specialization of functions within the firms since different sets of people are required for movement of goods and funds. Gradually, the use of trade credit has become part and parcel of normal ways of doing business. Perhaps it is recognition of this which prompted some authors lice James Van Horn (1980), Pecuison Hunt (1961), Joseph I. Bradley (1978), J. Fred and Thomas E. Cope Land (1986) assert that buyers expect trade credits to be extended to them and would in most cases prefer to transact business with the firms that grant trade credit to them rather then the one that demands cash on delivery.

The extension of credit may have a for reaching effect on the profitability of the firm as well as stockholders wealth. Failure to extend credit may reduce sales volume with a resultant effect on the firm's profit.

Unless the firms own finances are limited, the basic objective of credit management like those of inventory management should be to maximize return on investment. Again, the extension of credit is costly, firstly, the cost of raising capital finance account receivable and secondly, there is the possibility of losses due to non-payment by customers. A lot of uncertainties surround maintaining account receivables as well as granting of credit.

For one thins, it may be profitable (or may not) for a firm to maintain accounts receivable even thought such receivables require financing. Secondly, it may be profitable receivables even though some had debt losses might be incurred. Thus an effective management of credit and account receivable financing is to evaluate them in terms of profit rather than maintenance of debt losses.

Basically credit management involves establishment of credit standard and credit terms that maximize profit and hence stock holders wealth.

The collection procedure is of high concern to the top management. Customers differ in their attitudes and capability in meeting obligation that becomes due. Some customers pay their bills on schedule while some don't. For customers that pay promptly, on collection effort is required but for the slow and reluctant payers, some degree of efforts are required to speed up collection process. At this, it necessary to point out the fact that no matter

what step is taken to collect debts that becomes due. Certain percentage of the debt will be non-collectible. The objective of collection department therefore is to speed up slow payers and reduce percentage of non-collectible accounts-bad debts.

Debts should be collected as quickly as possible. Slow debt can be gathered as a function of customs that exist in a particular trade and the liquidity position of the firm.

When accounts are overdue, prompt action should be taken, but the exercise of tact will be very essential. The credit manager/controller should know from experience which debtors are slow payers. They should also be conscious of what attitude to adopt when attempting to collect the overdue account. If the debtor is a good customer than are should be taken to lose his trade.

On the other hand, some circumstances, failure to take prompt action may result in a bad debt. Thus collecting overdue account is pregnated with a lot of intricacy. The objective is to get payment without offending the customer and endangering future patronage. If the collection department is too aggressive in pressing for payment, the customer may turn to other suppliers who are willing to carry this slow-paying account that promises to become a big customer in future.

The method used to remind customers that payment is overdue are many and varied. Printed tag in a distinctive cover may be affixed to the statement or a rubber stamp may be employed to show that payment is expected immediately. A more direct and personal approach is obtained by issuing overdue account statement to salesman who are then expected to call on customer concerned and collect the amount due. A further alternative is to send a politely worded letter asking for the account which has been apparently over looked to be settled as soon as possible. Other moral suasion method which is gaining ground vastly is the use of ladies to follow up debts. When these normal method fails, the account may be turned to expert debt collectors or a trade protection assemble for collection.

In the last resort, the matter can be put into the hands of a solicitor. However, this is a serious step to take for it is often a sure sign that a customer has been lost. Rather than do this some firms have been known to permit the defaulting customers to have a further order to cash only at the same time he is expected to pay off this outstanding account by instalment.

In this, the customer is retained and provided the instalments are paid a debt is avoided. This practice may be appropriate when there is a genuine case for hardship such as may be experienced by the small retailer due to illness or similar reasons. However, this action is not to be recommended as a regular feature of credit management.

2.5 FACTORS AFFECTING THE GENERAL LEVEL OF RECEIVABLES

The optimum amount of accounts receivables is determined by the General Manager of a Company. Several factors influence the size of a firms investment in receivables and the amount of credit that the firm extends.

This include:

a. The terms of credit granted customers deemed credit worthy.

b. The policies and practices of the firm is determining which customers are to be granted credit.

c. The paying practices of credit customers

d. The rigor of the seller's collection policies and practices

e. The volume of credit sales.

f. The type of product

g. The stage of business cycle

h. The amount of assets than an enterprise has at its disposal

a. TERMS OF CREDIT GRANTED- In theory each firm is expected to specify whatever terms of sales best suits its objective and circumstances. It may sell only for cash on delivery in order to avoid tying up its funds in receivable and risking bad debt losses perhaps conceding the added sales that might be achieved through selling on

credit. Or it may use the extension of generous credit as an aggressive selling good. In actual practice, competitive pressures tend to push the individual firm to offer terms at least as generous as those of most competitors.

b. POLICY AND PRACTICE OF THE FIRM - The policies and practice of the firm in deciding which of its customers should be granted its customary terms of credit also affect the size of its investment in receivables.

Customarily, credit terms typically are extended only to those customers which are adjudged acceptable credit risks. Terms of cash on order or on delivery or Shorter than usual credit terms may be used for sales to poor risk or to customers for which available information is inadequate to establish their credit standing.

c. PAYING PRACTICE OF CUSTOMERS- The actual paying practices of customers have a significant impact on total credit outstanding. For example may firms offer discount to customers for early payment. Firms offering terms of "2/10 ne 30" give their customers the option of taking discount of 2% and paying within 10 days or foregoing the discount and settle the debt on the thirtieth day. The choice exercised by the customers clearly affects the amount of credit out tending.

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In some cases important customers deliberately and habitually take extra time to settle their trade obligation. In such instances, rather than risk losing the valuable sales outlets, the seller may allow their stated terms to be violated. Still other customers who are financially hard pressed may let their debts run as far as overdue as their creditors will tolerate.

d. RIGOR OF COLLECTION POLICIES - While many customers are careful to meet their trade obligations when due others appear all too willing to take advantage of tolerant suppliers. The closeness with which the supplier follows up an overdue debt and he degree of pressure he brings for prompt payment have a significant effect on the paying practices of many customers and hence on the level of receivable outstanding.

e. THE VOLUME OF CREDIT SALES- The most important variable affecting the level receivables investment is the volume of credit sales. If the other variable remain constant the level of receivables may be expected to vary directly with changes in sales volume. As sales fall off, the related receivable decline, releasing funds.

f. TYPES OF PRODUCT - The type of product of services sold has an effect on the amount of credit extended. If the items being sold has a high unit price like Jewelry, probably the seller will have to extend

generous credit terms and consequently a high investment in receivables.

On the other hand if the unit price is low, such as newspaper, there is little needs for credit. Consequently investment in receivables will be low.

g. STAGE OF BUSINESS CIRCLE -This also has some bearing on the amount of credit extended. In prosperous times, sellers are like, to find the amount of account receivable increasing because of new customer who are making purchases and old customers who are increasing purchases.

On the other hand, in a period of depression account receivables are likely to decrease because of the smaller amount of purchases by the firm's customers.

h. AMOUNT OF ASSET - The amount of assets that an enter rise has will affect the amount of credit that is can extend and so its investment in receivables. Thus, a large firm is usually in a better position to extend credit than small ones. This arises from the probable situation that large firms find ie easier to obtain funds in the capital markets than the small ones.

Within the framework given above, there is some flexibility for some business in extending credit. Each firm must evaluate its policy and

determine whether it should extend extend more liberal credit terms, make its credit terms more stringent or keep its credit policy the same.

2.6 IMPORTANCE OF CREDIT MISMANAGEMENT

Credit management can be of importance in so may ways. Some of these can be:

- To minimize losses which might arise from bad and doubtful debt.

This is to say that some advances which are granted are not paid and this given room for bad/doubtful debts which ultimately reduces the profits from operations.

Thus, effective and efficient management eliminates the problem.

- To protect the shareholders' interest by not depleting the capital.

Capital is the money used in operation of a business. When banks advance loans to customers who for obvious reasons fail to pay back their obligations the amount are usually drawn from their capital of the banks to meet depositors claims/demand.

This has the ability of depleting shareholders wealth. Therefore, effective credit management serves as a check in this regard.

- To have a good liquidity.

Illiquidity was the major factor that led to financial distress in banks caused largely by lack of effective and efficient credit management in Banks.

Therefore, sound credit management will help to improve the banks liquidity position.

- It makes for availability of working capital.

If banks manage their credit well, they will have more money as working capital to invest in treasury bills etc for more yield or higher returns.

- Banks have to manage credits in order to meet the Central Bank of Nigeria guidelines on monetary policy.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This research expository in nature tells how how credits are effectively managed in financial institutions. This aim of this is to reduce the learest minimum losses incurred when such credits are now well managed. To achieve this, necessary data must be collected.

This chapter therefore gives an insight as to the sources of data collect on and the research method employed to accomplish this study it also looks at the instrument used in gathering data.

3.2 DATA COLLECTION METHODS

To determine the method to be used for collecting the data required for this research, study, it is necessary to decide on the topology of data required. Looking at the research topic and the nature of the particular research study, both primary and secondary data are required.

PRIMARY DATA

The is the data collected from the "field" i.e. the organization which the research is carried out on. It is primary because the researcher is the first

to generate such. It was not stored. The specific instrument used include among others telephone, personal interviews for this research basically the unstructured personal interview and discussion were used to generate the required information. The view of both top management and middle level of managers were looked at.

SECONDARY DATA

This is information already generated and stored in texts, files and published materials. There the field of the research is different. Some of the places visited for the materials include libraries, government and private offices.

Secondary data is historical in nature and helps in the evaluation of primary data.

In trying to obtain data through the secondary sources, the researcher made extensive use of data got from the library. Bulletins, the banks credit policy and also relevant written articles were used.

It is important to note that both primary and secondary sources of data and methods of collection of such are very sensitive either because they deal with people or with information that may not be easily available.

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3.3 DESCRIPTION OF RESEARCH INSTRUMENT

The collection of data was carried out through the instrumentality of personal interview to employers of credit department of the bank.

The use of the interview method was basically to check the face validity of respondents answers about credit management. The interview was structured in such a way to enable the respondents select the most appropriate answer for each question. Some of the questions were close ended and others open ended.

This was deliberately done to allow respondents to give their own ideas and views about the emergence of credit management and how to arrest the situation.

Sample size of the bank employees interviewed, was also based on the aggregate number of those who deal directly or indirectly with the credit department of the bank.

3.4 METHOD OF DATA ANALYSIS

According to Enoy (1976) "Data analysis is the breaking down and ordering of data into meaningful groups plus the searching for patterns or relationship among these data groups." Criteria analysis and presentation of data form the foundation on which a solution to a research problem could be

established.

Thus in order to ensure objectively of the researchers' work, data collected were analyzed using a number of tools among which are:

(a) Descriptive analysis

(b) Percentage analysis

(c) Tables

For the purpose of analyzing the data collected for this study through the various method mentioned and discussed, the simple scientific method of descriptive statistics was used. This involved the collections, tabular presentation and characteristics of the data as well as application of simple percentage charts and graph were also used.

CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION

4.1 HISTORY OF HABIB BANK

Habib Bank Limited was established in 1941 in Pakistan. It was incorporated as Private Liability Company in Nigeria November, 1982. It was granted banking license on 7th March, 1983 and commenced operation on 16th May, 1983.

It started with an initial capital of N6 million out of which N5 million was subscribed and fully gotten. The number of staff was 72 and their first Managing Director was Late Mr. Hmimyat Ali Kyan.

It has a large network of 1,773 domestics branches with international set-up of 65 Overseas branches spread over 26 countries located in the major financial centers of the world.

The shareholders ratio is 40 percent to Habib Bank Limited, Pakistan and 60 percent to Nigerians. The objectives of the venture have been to:

(a) Introduce and maintain a banking style with a difference in Nigeria and development a sound bank with branch network in all the states of the federation and capital territory, Abuja.

(b) Provide financial and technical assistance to the public and private sector organizations within the framework of the Government of Nigeria's plan and policies.

(c) Mobilize deposits by encouraging savings through the introduction of effective banking services and effective advertising programme.

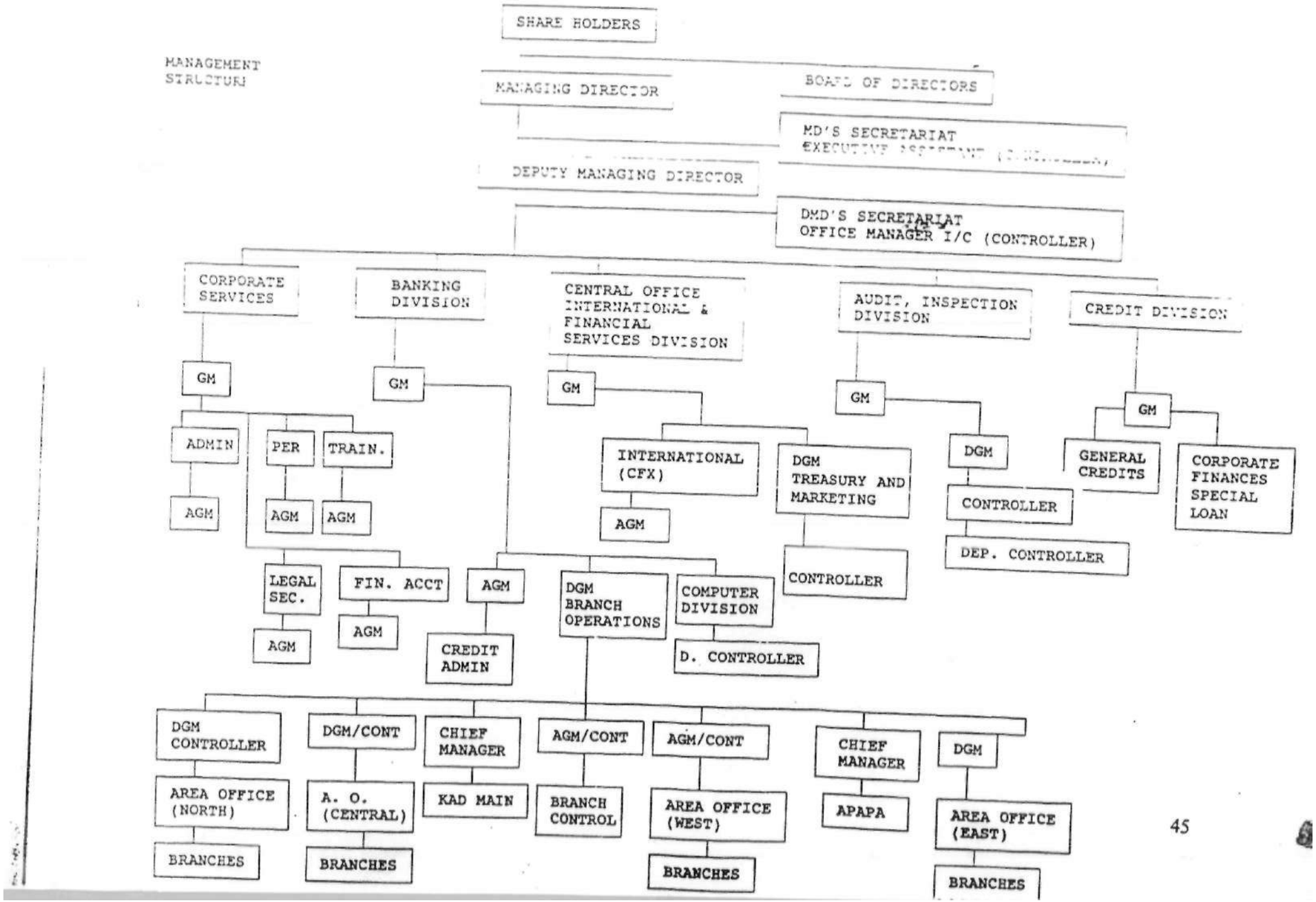
With these, Habib bank Limited went into full range of retail banking services tailored to the needs of all categories of customers, emphasis services and professionalism with a difference.

The main thrust of our philosophy is the provision os quality service with emphasis not only on the enhancement of social moral standard, but also or the need to be responsive to the requirement and aspirations of the communities in which we serve.

The Board is presently composed of 6 Nigerians with Mal. Musa Bello as the Chairman, while Mr. Akin Kekere - Ekugie is the Managing Director.

The bank presently has 46 branches in 26 states including F.C.T. All the 46 branches are fully automated. It also has 979 staff ranging from top, middle and lower management staff.

MANAGEMENT STRUCTURE



4.2 THE ORGANIZATIONAL STRUCTURE AND OPERATIONS OF THE BANK

The Habib Bank Organizational design. The management team is with the Board of Directors at the apex headed by the Managing Director. The daily affairs of the company with the help of the staff complements as given, under the managing Director on the management structure. By the structure, the managing Director is assisted by the Deputy Managing Director to whom five (5) division heads reports to. These are (a) co-operate services, (b) banking division, © international and financial service division, (d) audit and inspection division, (e) credit division. These are all headed by executives of the rank of General Manager.

FUNCTIONS OF EACH DIVISION

A. CO-OPERATE SERVICES

This division comprises of 5 functional departments namely:- administrative, personnel, training, legal and secretaries, finance and accounts.

(i) Administrative Department: This department is charged with the responsibility of all the administrative functions of the bank in relating to transportation, insurance, purchasing and supplying, estate and acquisition maintenance of both residential and premises of the bank

as well as fixed and movable asset to facilitate the smooth running of the operations of the bank.

(ii) Personnel Department: This department is charged with responsibilities of employment and discipline of human resources of the company by collating and deploying to branches and offices of the bank.

They also oversee the staff welfare requirement such as payment of salary, allowances and medical facilities of each member of staff.

(iii) Training Department: This department is charged with the responsibilities of organizing in house courses for the bank's staff handled solely by the bank's training centre or in collaboration with external facilitators or institutions. Additionally the department receives dominations from other department for external courses both locally and abroad and processing for approval of the management or relevant organ of the bank.

(iv) Legal and Secretarial Department: This department is the solicitors chamber of the banks' charged with the responsibilities of advising the management and Board of all issues, relating to law as well as the relationship of the bank with outsiders. It also prepares all legal documents for facilities granted or agreements entered into between

the bank and its clients or between the bank and other banks in department serves as a branch between externally retained lawyers who are instructed to carry out assignment given by the bank such as perfection of securities granted by clients or recovery of stuck up facilities.

The secretarial section of the legal department discharges the secretarial function as required by law for the company such as organizing meetings for the management, Board Committee, and the annual general meetings. It also pays all the entitlement of directors as well as yearly dividend to all the shareholders of the bank to when and where it is declared and prepares and distributes share certificates for all shares called and issued. Lastly the department ensures that all statutory returns of the bank under the company and Allied matter decree of 1990.

(v) Finance and Accounts: This division is in charge of the central part of collecting the financial position of the bank through the use of the main office position of the bank through the use of the main office account system to serve as a cheque and inter-branches debits and credits advices.

They are also in charge of payment of services rendered to the bank. They also pay salaries and wages of all head office staff.

B. BANKING DIVISION

This division comprises of three (3) departments, they are the branch supervision division, credit administration division computer division.

(i) **Branch Supervision:** This as the name suggests is responsible for monitoring and supervision of all the branches of the bank in relation to operational matters, such as rendetation of returns to head offices for the purpose of monitoring their performance of profit and loss. The department also takes charge of display of managers preparatory to handing over sales to personnel department when the need to do so arises. They also follow up cases of fraud and forgery cases at branches with the view to put up their reports and accommodations to their Board audit committee through the management audit committee; for information and approval. They are in charge through the area managers who are always in the field.

(ii) **Credit Administration Division:** This division is responsible for monitoring the performance of administrating credits in the bank. They are also responsible ensure that all terms and conditions relating to sanction advice are met. And also responsible for enforcing credit policy stipulation.

(iii) **Computer Division:** The bank is being fully computerized. This division is in charge of all the computerization of the bank.

(c) INTERNATIONAL AND FINANCIAL SERVICES

This unit comprises of two (2) departments, the International known as the Central Foreign Exchange (CFX) and the Treasury and Marketing.

(i) Central Foreign Exchange: This unit charges all the foreign exchange transactions of the bank including the branches by bidding for foreign exchange allocation in the central bank and buying and selling from and the individuals.

(ii) Treasury and Marketing: This unit handles the treasury business of the bank by placing money with banks and discount houses as well as purchase of treasury bills from central bank as a way of investing ideal funds of the bank to minimize returns.

D. AUDIT AND INSPECTION

This is solely of its own. It is not divided into other units. This division is charged with the responsibilities of all the auditing, the internal working of each of the branches of the bank as well as offices to view to detecting abnormalities and pointing out sales for correction and rectification.

E. CREDIT DIVISION

This division comprises of two (2) departments, the general credits and corporate finance and special loans.

i. General Credits: These are in charge of all the credit facilities of the bank. They are responsible for giving out loans to customers and making sure they pay back.

ii. Corporate Finance and Special Loans: This division deals solely with the company's account. They are in charge of giving out large (big) amount of loans.

4.3 CREDIT EVALUATION PROCEDURE

The primary objective of evaluating projects, or conducting financial analysis on projects is to provide a financial framework for the determination of the cash flow arising from a project. The financial analysis should also address the following issues:

(i) Whether the project is viable within the context of prevailing rates of return in the economy.

(ii) Whether the project is capable of meeting financial obligations to the providers of long and short-term funds.

(iii) If alternative project exist, is there any way to choose between such projects?

In Habib Bank Limited, the project evaluation and investment analysis are focus on the following:

a. Assessment of macro-risks: These include:-

(i) Government policies as they affect purchasing power and corporate location, investment incentives impact on labour relation and international co-operations.

(ii) Inflation and its effects on total economy and international competitiveness.

(iii) Foreign exchange volatility and its effect on imports and exports.

(iv) Environmental issues and their effect on product marketability and non-productive manufacturing costs.

b. Assessment of Industry Risk: This will focus on

i. Rate of growth

ii. Balance of power between supplier/buyer

iii. Barriers to entry

iv. Substitute product.

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c. Assessment of Company Risk:

i. Asset conversion cycle

ii. Labour resources

iii. Premises -tenure, age, condition, suitability

iv. Plant and machinery - condition, age, utilization owned on leased

v. Costing and price - strategies, price, sensitivities, nature of fixed costs, etc.

d. Assessment of Management

i. Composition of board

ii. Track record

iii. Management of information systems

iv. Corporate objectives

v. Motivation of staff.

The procedure of evaluating credits in the bank is as follows:-

- The client goes to a branch
- Writes an application to credit facility either hand written or typed.
- Then he fills a form for credit facility
- The branch gets turnover for the last 3 years
- The branch will institute statues enquiries on the client from other banks. This status the insight of the client.

- Then the branch uses all these information to fill the credit proposal memorandum and forward it to the head office credit department.
- When the proposal so received are accompanied by all the relevant documents pertaining to sought facility as advised from time to time by the head office, the credit analyst prepares a management paper which normally contains:-

(i) background information relating to clients business

(ii) proposed project

(iii) Interest rate and other charges on the sought facility

(iv) security offered

(v) Mode of repayment

(vi) Expiry date

(vii) Analysts of financial statement

(ix) Observation

(x) Recommendation

- With the information above place the management paper is put before the bank's management credit committee as follows:-

(i) Head of department (Credit)

(ii) Head of department (Operation)

(iii) General manager (Banking services)

(iv) General manager (Corporate services)

(v) Mode of repayment

(vi) Expiry date

(vii) Analysts comments on the proposal

(viii) Analysts of financial statement

(ix) Observation

(x) Recommendation

- With the information above in place, the management paper is put before the bank's management credit committee as follows:-

(i) Head of department (Credit)

(ii) Head of department (Operation)

(iii) General manager (Banking services)

(iv) General manager (Corporate services)

(v) Deputy Managing Director

(vi) Managing Director

- With the inputs of the afore mentioned executives the management credit committee with the managing Director presiding decides on the fate of the proposal and the management paper is returned to credit department for further action. Proposals exceeding N2 million are passed to the Deputy Managing Directory (Banking Services). All

request beyond the powers of the Managing Director are circulated through the head of department (legal) and General Manager (international financial services) in addition to the above executives.

Where the request is within the limit of the management credit committee an outright approval is given for issue of a sanction advise.

For amounts above the limits of the committee, instruction for further presentation to the Executive committee or Board are given. Otherwise, the decision of management is conveyed to branches vide as ordinary letter.

- The sanction advice.

The advice contains the following information:-

(i) Industry to which the lending belongs and CNB code number

(ii) Nature of the facility

(iii) Amount of the facility

(iv) Purpose of the facility

(v) Interest and other charges

(vi) security offered

(vii) Mode of adjustment

(viii) Expiry

(ix) Special instruction (if any).

(x) Documents required for perfecting the security.

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- The Executive Committee

All advances exceeding ₦5.0 million must be forwarded to the executive committee of the bank. Which comprises the following:-

(i) Chairman of the bank

(ii) Managing Director

(iii) Deputy Managing Director

(iv) Two (2) other Director

In attendance - company secretary and general manager.

- The Board.

Only the board has the power to approve all lending in excess of ₦10.0 million . The composition of the Board is as follows:-

(i) Chairman of the bank

(ii) Vice-Chairman

(iii) 8 other Directors

In attendance company secretary and General Manager. The banks lending powers and limits are governed by the provision of the banks and other financial institution Decree. The bank's lending powers which is the reserve right of the Board of Directors is divided into fund based and non-fund based lending.

- Branch Managers

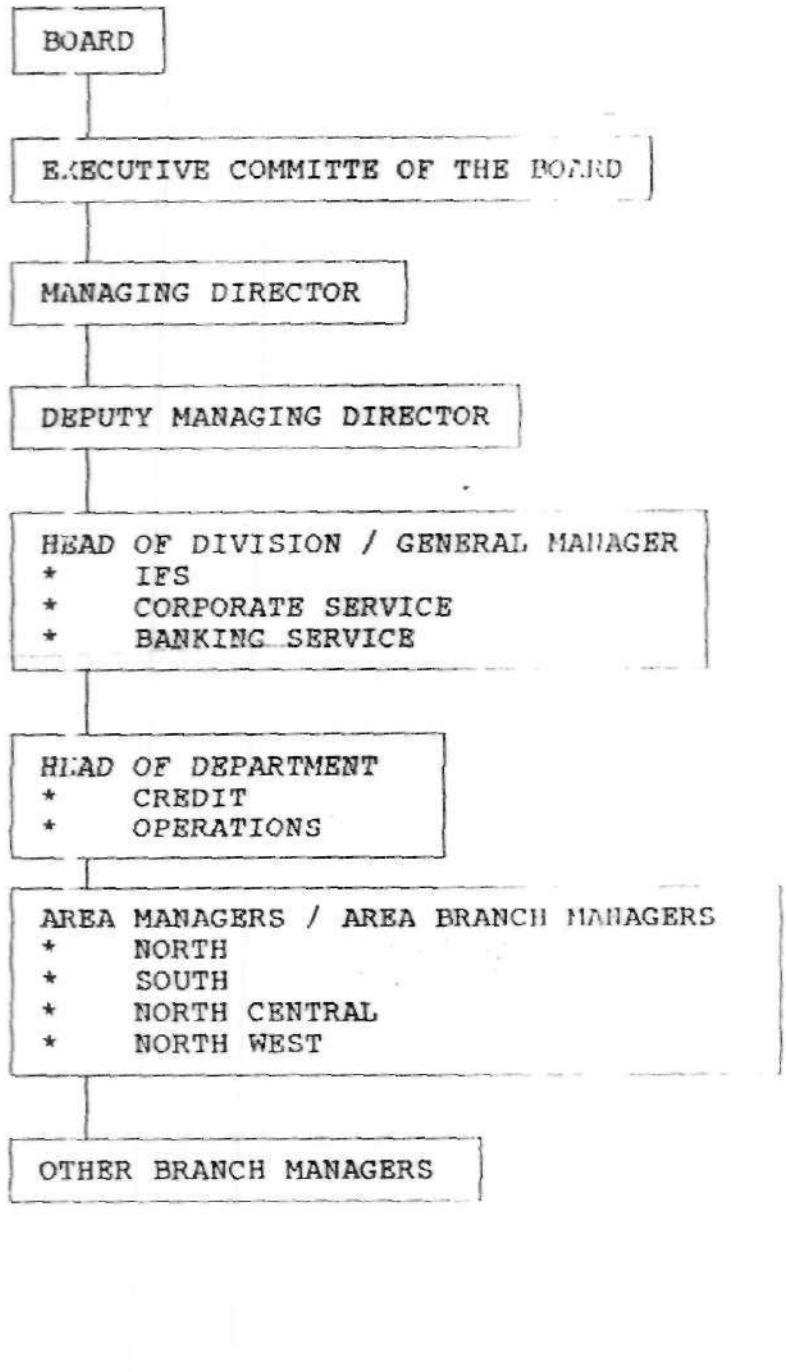
Powers for various grades of managers

Types of Business Limit	AGM	Controller	Dep Cont.	Manager
a. Temporary overdraft against out bills collected adjustable within 12-15 days subject to confirmation of paying bank	₦ 150,000	₦ 100,000	₦ 50,0000	₦ 40,000
b. Temporary overdraft effects adjustable in 4 days	200,000	150,000	100,000	50,000
c. Loans against salary cheques up to 3 months salary to employees against salary adjustable in one year	15,000	12,000	10,000	9,000
d. Temporary overdraft against deposits up to 80% subject to the following limits.	1,500,000	1,000,000	75,000	500,000

Assistant General Managers and 'A' Branch Managers to be additionally given limit of ₦150,000.

After all these considerations, the credit is now approved for the client.

HIERARCHY OF LENDING POWERS



4.4 MANAGEMENT OF CREDITS IN HABIB BANK

The machinery for routine management include the following:-

- Guidance to branches and area offices
- Supervision and review of credit disbursement
- Observation of covenants
- Managing of problem loans

The operations department is responsible for the general credit supervision. Specifically, the department in conjunction with the branch is responsible for enforcing credit policy ensuring that all terms and conditions relating to the sanction advice are met. The department is also responsible for enforcing credit policy stipulation.

Legal department in conjunction with credit department are responsible for enforcing uniform documentation.

At the branch level, 2 files are created and maintained for each party to record such particulars as:

Credit File	**Legal File**
- borrowers's application	- Sanction letter
- financial statement	- Customers acceptance letter
- Credit report	- documents specified by the sanction letter
- correspondence and any Contacts with borrowers	- borrowing resolution.
	- memo and articles of association
	- copy of registration of Certificate.
	- all other legal departments.

The operation department in conjunction with credit jointly ensures control of operational procedures, monitors compliance at all times with the prevailing policy framework as may be enunciated in the CBN monetary guidelines. The department is responsible for reviewing the banks portfolio globally and credit procedures whenever there is need for doing so.

Routing management ensures that draw downs are not affected before full execution and submission of documents as contained in sanction letter, so as to protect banks's legal claims to the collaterals from being impaired.

Credit management also ensures diligence in Branch Manager/Advances officer to detect and arrange to regularize problem credit facilities. Some signs of problem facilities may include disturbing trends in financial statements, turnover, cancellation of insurance, information filed by other creditors against the borrower notice of law suits against borrower or any other legal action; death or illness of the principals, natural disaster and rapid growth. Branch manager must specially alert to detect these signs of trouble including fraud, action such as classification of documents, security and collateral titles. Once detected, remedial action should be taken to protect the banks' interest.

The need for effective and continuous monitoring cannot be over emphasized as it goes along way to ensure the integrity of the bank not only

before the shareholders and the community it serves, but also and more importantly, before the bank examiner. In addition, loan management also minimizes losses in relation to risks undertaken and avoids loans being classified by the bank examiners.

The bank therefore stipulates that all branches review their loan portfolio at least once every month, and categories them into performing and non-performing the review is conveyed to operations department on monthly basis.

On quarterly basis, Branches are also to review their total credit portfolio in accordance with the requirements of the prudential Guidelines and report such on the prescribed format to operation department.

Operation department to review all such reports and consolidate the bank' position so as to arrive at the overall provision is to be tabled before the board.

The banks' credit review committee is to meet frequently to review problem loans with a view to:-

(i) Avoiding classification

(ii) Recovery of last facilities

(iii) Recommending of last facilities

(iv) Ensuring a healthy loan portfolio for the bank.

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The review shall systematically classify bank' credit default which include, but are not limited to repayment performance, borrowers repayment capacity on the basis of prevailing financial condition as well as net realizable value of collateral.

Therefore, the management of credits in the bank is a very important issue in which the staff have to be very efficient about it. Due to these poor mismanagement, it caused the failed banks tribunals. And also credits constitute the most important risk asset in the bank.

Types of credit Facilities Use in Habib Bank

(a) Overdraft: Is a revolving short term facility, usually for the purpose of working capital. It usually allowed for periods not exceeding one year but renewable at client's request. There are classified under four:-

Clear overdraft, temporary overdraft, secured overdraft, Excess over limit.

(b) **Term Loan:** Is a facility extended for the purpose of financing long term projects, acquisition of assets or such other requirements as may be approved.

(c) **Inland Bills Purchased:** Is allowed against confirmed banker's cheques CBN cheques and cheques of blue-chip companies and adjustable from the proceeds of such instruments.

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(d) **Direct Credit:** This is similar as above except that the customers' account is credited with full value of the instrument which must also be confirmed bankers cheques or drafts only, subject to head office approval.

(e) **Syndication:** A syndicated facility is one of granted to a client through the joint participation of two or more financial institutions, utilizing a common loan documentation.

(f) **Special Lending:** This is two types:-

(i) Nigeria Export Import Bank (NEXIM): This facilities assists the bank to continue to provide pre and post shipment finance for exporters as an incentive scheme to stimulate non-oil export. However, all facilities for refinancing must meet our credit standards.

(ii) National Economic Reconstruction Fund (NERFUND): This provides medium to long term loans to the bank at commissionary interest rates for on-lending to small and medium scale enterprise for the promotion and acceleration of productive activities in such enterprises.

(g) **Trade Finance:** This product is available for financing customers import transactions and is subject to our standard credit appraisal with condition.

(h) **Export Finance Facility:** This is revolving credit line which is automatically renewed and available for re-use upon the successful

completion of a transaction cycle within the agreed term of the facility. The security for the facility could be structured to include a warehousing arrangement.

(i) **Bonds/Guarantees/Indemnities:** As these contingent instruments carry a risk for liability on the event of certain happenings, a thorough analysis of the clients credit rating as well as the likelihood of such event happening need be conducted. Furthermore, margins of various amounts need be held for such facilities in addition to any other form of security offered.

(j) **Trust Receipt Financing:** It may be necessary to release from warehouse goods that have been assigned to the bank as collateral for a loan before proceeds form the sale of the goods have been obtained and applied to the obligation covered by the warehouse warrants. In this case, if the bank has complete trust in the integrity of the customer/importer it authorize the borrower to take possession of the goods covered by the warehouse warrants to this effects, a trust receipt must be signed by which the bank as owner of the goods entrust same to the customer/importer.

(k) **Warehouse Financing:** Fast moving durable goods which are seasonal in nature are pledged as security and are deposited in a warehouse in

the name of the bank against which the customers is allowed credit accommodation.

(i) **Agricultural Financing:** This cover:-

(i) Appraising proposals for banking facilities bearing in mind the actual needs of the clients.

(ii) Providing extension services to the farmer clients at production stage to enhance their output and at the post-harvest stage to improve their profitability.

(iii) Encouraging farmers to form groups for the purpose of such lending.

Amongst all these available facilities by the bank the most favoured one by customers is the overdraft.

The bank can give out 60% of its deposits annually as loans, credits, etc. out of which at least 100% customers pay their credit on time. While 20% pay but not on time, they pay later on then the remaining 40% are defaulters. These defaulters are given more time after which the bank starts persuading them. If they don't abide, further actions are taken e.g. to the court. This amount of credit granted to customers depends on the amount of deposits they have for the year in which they can give up to 60%.

An analysis of the credit policies of the Bank would require an in-depth study into various classification of the loans and advances vis-a-vis

profit accruing to the bank as a result. Amount ('000).

Description	1994	1995	1996	1997
1. Loans and Advances Secured against real Estate.	116,971	66,971	696,028	983,334
Otherwise secured	1,009,723	1,575,127	1,958.526	2,385,650
Unsecured	121,236	33,601	39,876	39,109
Total:	1,247,236	2,275,699	2,694,430	3,408,093
2. Provision for Doubtful account and in suspense.				
On principle	78,206 31,010 31,216	111.731 44,978 156,709	151,624 64,437 216,061	134,145 79,159 213,304
3. Classification of loan and advances on performance.				
Performing	1,137,019	2,099,559	2,464,631	3,146,932
Non-performing	110,777	176,140	229,799	261,161
Total:	1,247,796	2,275,699	2,694,430	3,408,093

Classify Under Percentage

	1994	1995	1996	1997
Performing	91.21%	92.26%	91.47%	92.34%
Non-performing	8.88%	7.74%	8.53%	7.66%

The table above shows the various classification of loans and advances into performing and non-performing. Non-performing loans are those loans which are not serviceable promptly. The performing loans are mostly preferred by banks. This is because they yield more income/turnover and subsequently profit, with negligible bad debt expenses. Thus the higher the

percentage of the performing loans and advances, the better will be the operating result of the bank holding all other variables constant.

A look at item 3 on the table reveals a continued increase on the performing loan and advances of the bank with an average percentage of 91.80% for a 4 year period over the non-performing loans. Obviously this has been partly responsible for the banks brilliant performance over the years.

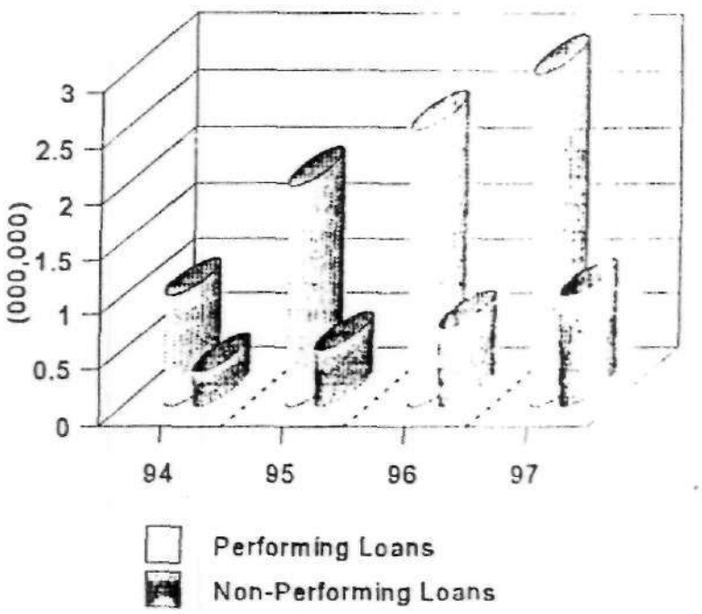
Description	1994	1995	1996	1997
classification of loans and advances on maturity profile:				
1-3 months	515,338	888,918	1,126,609	1,169,876
3-6 months	196,469	390,332	548,993	554,106
6-12 months	185,420	406,880	456,865	760,131
Over 12 months	147,348	223,177	236,634	293,797
Total	1,247,796	2,275,699	2,694,340	3,408,093
Profit				
Profit before Taxation	103,075	237,573	226,588	377,464
Profit after taxation	64,271	148,898	188,583	281,751

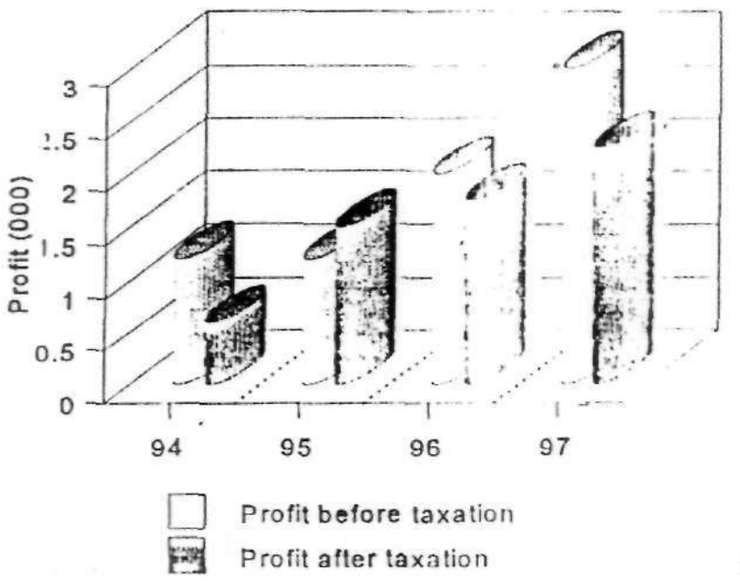
KASHIM IBRAHIM LIBRARY

Table II on the other hand reveals a classification of the loans and advances on the bases of maturity period.

A cursory look at the table shows that loans and advances with maturity periods of one month or less are mostly preferred by banks. This in relation to HNB is accountable for a higher proportion of the performing loans. Bulk of these are granted to mostly salary earners and small scale business organization. Therefore they are promptly serviced.

The interference drawn from the above analysis on both tables is, the ability of any bank to generate more profits (on after tax based) is primarily dependent on it to identify and exploit the areas of performing loans more than all other areas; of even investments into medium or long term projects. This will go a long way in keeping the banks in performing their traditional functions of accepting deposits and lending such to satisfy customers' need, make profits so as to survive and grow.


3
2.5
2
1.5
1
0.5
0
(000,000)
94
95
96
97
Performing Loans
Non-Performing Loans


3
2.5
2
1.5
1
0.5
0
Profit (000)
94
95
96
97
Profit before taxation
Profit after taxation

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The study was tailored towards management of credits in financial in financial institutions being monitored in commercial banks. The management of credit of the bank under study was given a good analysis.

In the literature review an in-depth analysis of the concept credit management, was viewed. The effective and efficient ways of managing these credits were also seen. An analysis of the principal of good lending was considered to establish whether a given application for loans/credits is qualified for further evaluation/A critical look at standards for evaluating the credit worthiness of customers was also discussed.

A lending policy is the operating document which spells out the underlying strategy of a lending institution which is clear to all employees and which is supported and practice by management. The most important element of an institutions strategy must be the risk profile. In this, it has address all the various elements of lending and all the credit exposure criteria.

It was also vividly depicted how, through deliberate action of customers, convenience of the bank employees or the unnecessary

interference of governments on behalf of well connected customers debts are created in banks. The study has shown that commercial banks are at best a glorified Nigerian civil service only aimed at making paper profits without required adequate financial prudence in the management of loan portfolio.

One may wonder why the recovery of credits strictly guiding against emergence of such debts were handled with nonchalance before withdrawal of deposits by governments and parastatals as well as cooperation.

5.2 CONCLUSION

ABIA STATE LIBRARY SERVICE

"The engine of a productive process is credit". The study has succeeded in identifying the major steps for management of credits in commercial banks. The banks are also able to re-appraise the competence of their lending official and take advantage of a perfect credits recovery mechanism.

The principal of good lending established the control measure for growth of debts in banks. The reputation, profitability and growth of all lending institutions depends on the quality of their credit portfolios. For success organization must make conscious effort to ensure that all credit proposals have sound basis. Effort expended on establishing the reputation of each client should be regarded as effort well spent.

Credit facilities are granted by credit officials, and the recovery is by them. Therefore the greatest obstacle to complete the elimination of these credit debts in banks record is lack management.

The banks are the pinnacle of our national economy. And where we willingly cause its collapse of mismanagement, the whole economy will record show if not negative growth. They will not only face to support government economic goals/efforts squarely but will also be unable to stimulate economic activities in the productive industrial sector.

Our banks must be helped in management of these credits and whoever has taken a loan must see it as his obligation to pay back or redeem such debts. That's the basic test of fair economic practice.

5.3 RECOMMENDATIONS

Commercial banks constitute the primary source of industrial and commercial loans in most national economics, and because they operate the payment of checks collection system, they have little competition for deposits that represent purely working balances. This is the bread and butter of commercial banks every where. Production, distribution, consumption, investment and the needs of the government are also frequently financed through commercial bank loans.

Thus, in addition to the various ways and measures taken for the management of credits the under listed measures should be adopted as compliments. On the basis of the foregoing corpus of findings and conclusion the researcher humbly advances herewith the following recommendation:-

a. The Central Bank being the Apex bank should ensure consistent and lawful adherence in the letter Decree 24 of 1986 which seeks to check fraud, abuse and corruptive tendencies being perpetrated increasingly, with impurity by bankers alike.

b. The banks should continue recruiting the most qualified and efficient employees and continue to maintain the highest standards in efficiency and integrity among the staff.

c. The banks should ensure effective and efficient management of their credits by regular check-ups. This will enable them minimize losses which arises from bad and doubtful debt.

d. Efforts should be made prohibit director, officers, stockholders and related interest of effected banks from direct borrowing of money from their particularistic banks, especially for the purpose of commercial undertakings.

e. Banks should be encouraged to raise their loans and depositing portfolio without necessarily violating the relevant statues which initially demarcated the minimum range of credit disbursement.

f. Creation of a department solely responsible for credits from customers, should be at all branch levels.

g. Publication of names of customers who refuse to repay their lending with the amount owing should be in the daily newspapers.

h. There is need for stable and long enduring monetary and fiscal policies by the government systematic and structured economics development ot minimize failure of projects financed with bank lending.

i. All banks should set up a credit procedure which maintains the credibility and integrity of the policy.

j. government should allow the use of bankrupt set to recover most of the loans from the defaulters. Declaring any corporate or individual customer bankrupt entails denying them a lot of privileges and opportunities hence they are likely to pay bank their lending to the bank.

k. Finally, lending solely against collaterals should be spiced with thorough scrutiny of the loan application in strict conformity with dictates of cannons of lending principles.

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