CREDIT MANAGEMENT IN THE BANKING INDUSTRY: A CASE STUDY OF UNITED BANK FOR AFRICA (U.B.A.)

BY

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DECLARATION

I hereby declare that this project is written by me and there was no similar work that has been written before this research was conducted. All materials used from other sources and information not original to this research have been duly acknowledged.

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CERTIFICATION

473456

This project titled, "**Credit management in the Banking Industry: A Case Study of United Bank for Africa (UBA)**" by KASSIM SALEH meets the regulations governing the award of the Master of Business Administration (M.B.A.) degree of Ahmadu Bello University, Zaria. It is approved for its contribution to academic knowledge and literary presentation.

DEDICATION

This work is dedicated to my father Alhaji Saleh Yahaya and my mother Hajiya Amina Saleh

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I thank Almighty Allah for guiding and directing me to success. This work has been completed only through the blessing of Almighty Allah.

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ABSTRACT

This project examined the structure of credit management in the banking industry with special reference to the United Bank for Africa (UBA) kaduna North Branch.

The objectives of the study are to investigate various credit facilities offered by the bank to customers, to assess the efficiency of its credit management policies and to determine the extent of the effects of the policies on the organisational productivity.

The summary of the findings indicate that the bank has the following kinds of credit facilities in her credit portfolio winch include loans, bonds, indemnity guarantees, direct credit, documents, bankers acceptances, stock replacements credit, documentary credit and overdraft. The Bank also operates under stipulated credit regulatory policies which relate seriously to credit worthiness, debt recovery, check system with an inducement facility collateral and litigation as a last resort.

The study revealed that the credit policies of the bank are effective, that it is not always the faults of the borrower to repay debt, and that the delays in repayment of debt affect the lending organisations (i.e. the bank adversely).

Based on the findings, the researcher made some useful recommendations for banking industry and other users of the data.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

There is an old maxim that says "a sale is not complete until the money is collected". This is the background of credit sales reflected in Accounts Receivable until they are collected.

The importance of credit management to a business organisation whether manufacturing or service oriented cannot be over emphasized. Peters (1980) observed that there is increase in the volume of business transactions nowadays and that it has brought about the idea of granting commercial credit. The commercial credit often described as 'trade debtors' being shown in the company's balance sheet relates to stock at selling prices with customers for which payment has not been received.

Credit policies according to Benton (1987) are management guidelines concerning the extension of trade credit and management of accounts receivable. It is seen as a policy which influences the level of sales, profits and the form of assets. Benton further asserted that the long run objective of credit policy is to increase shareholders' wealth while in the short run the credit policies focus on maximizing sales, increasing collections etc.

The question of risks leading to bad debts and other risks associated with the credit facilities are of concern to the credit management decision.

It should be further noted that the amount of outstanding debts represent the interest free facility of better described as the amount of short term loan granted to the customers at a point in time. Consequently, Ibitoye (1985) affirmed that, for the period

the debts remained unpaid the company is deprived of the use of the funds represented by the debts. He said, at the same time the company losses interest at the rate of interest it is paying on its own borrowings. Especially, during inflationary period, the funds tied down in debts falls at the inflationary growth rate.

Malcome (1990) supported by saying that whether one working for a large or small company, is in partnership or work for oneself, the business cannot operate successfully and profitably unless he is able to collect the money he is owed. He further said that overdue payments do not only cause cash flow problems but they can threaten one's financial stability and cause major difficulties especially if allowed to build up.

It is not uncommon to find companies with liquidity problems who are at the same time financing the operation of other companies excessive or uncontrolled credit facilities.

It has now become imperative for financial managers to give adequate attention to its credit policies by evolving efficient techniques towards granting of credit, determining risk involved and achieving maximum results in the area of profit element and costs recovery.

Credit extension to customers by banks is a primary function and must therefore be done under efficient credit management policies. It brings increase in production, expansion in capital investments as well as the realisation of higher standard of living. Edward (1989) identified natural factors which can lead to non-payment of obligations when they are due. These include storms, droughts, fires, earthquakes and floods. He also said changes in consumer demand, or in the technology of an industry, a prolonged strike, competitive prices cutting or loss of key management personnel which can seriously impair a borrower's ability to make loan repayments. Seeing these as risks, he advised that in determining whether or not to grant a loan, a banker must attempt to

measure the risk of non-payment through a process of credit analysis.

This study is therefore intended to investigate the prevailing credit policies of the banking industry in order to assess the efficiency of the management policies as well as determining the effects of the policy on the organisational productivity and the customers. The outcome of this finding is expected to bring about improvements in the granting and handling of credit facilities of the institutions, as well as stemming high rate of risks associated with the debt recovery.

1.2 Statement of the Problem

Credit granting has become a major feature of business activity which allows customers to possess goods without payment until future date. This same policy applies to the banking industry which gives loans to individuals, governments and business organisations for a repayment at a later date.

The idea of credit facility in a business cycle is to encourage capital formation for debtors and to increase sales volume for creditors. But it is unfortunate to note that this facility has been subjected to series of abuse by the debtors through non-payment of debts at maturity. The concept of bad debts emerged as a result of default in payment of debts. Money creditors have resorted to litigations in court to recover their money. assets of many borrowing organisations have been confiscated and auctioned to service creditors at litigation.

It is true that companies cannot operate successfully and profitably if it is not able to collect the money he is owed. The overdue payments create liquidity problem for the lending organisation, and consequently affects prospective borrowers as policies now are made stringent.

1.3 Hypothesis

The following hypotheses are formulated for the study:

1) The credit management policies are inefficient.

2) The default of the borrower to repay is not the fault of the borrower.

3) Delays in payment do not have negative effects on the lending organisation.

1.4 Purpose of the Study

The purpose of this study is to:

1) Investigate the various credit facilities offered to customers by the bank.

2) Assess the efficiency of its credit management policies.

3) Determine the extent of the effects of the policy on the organisational productivity and the customers.

1.5 Significance of the Study

This study shall be of great relevance to the organisation under study as well as other financial institutions. The non-financial business firms whether manufacturing or service oriented shall also benefit from the research findings. This is because the results of the study (findings) shall enable the users especially the bank to reappraise its credit policies and to review its operations critically for a more result-oriented approach in the dealing with its credit facilities. The ability of an organisation to effectively police its debtors and ensure timely collection of debts is the determinant of a successful business because venture in terms of dealing efficiently with debtors.

This study shall be useful to all business enterprises involved in granting commercial credit and other users of the study.

The future researchers on this topic shall also find bases for a take-off and it can be used to replicate further studies.

1.6 Scope of the Study (Delimitation)

Credit management may involve trade creditors and trade debtors - that is Accounts Payable and Accounts Receivable. But for the purpose of this study, the research shall be limited to the Accounts Receivable only.

All aspects of the accounts receivable of the organisation under study shall be dealt with. Since the study concerns the banking institution, all credit facilities of the bank relating to receivables shall be considered. It shall include loans, commissions, etc.

1.7 Research Methodology

Sample

This is a case study and only one bank is selected for use. The principal officers of the Bank shall be subjects of the study (at least).

Records shall be examined where necessary to give insights to required information.

Field of Study

The bank for the study is United Bank for Africa (U.B.A.) - Hospital road Branch, Kaduna.

Instrument

The proposed instruments for the study are:

1) Questionnaire (at least 10)

2) Personnel interviews

3) Observation of records

Data Analysis

The analysis shall both be qualitative and quantitative in form, where necessary.

1.8 Definition of Terms

1) CREDIT MANAGEMENT

Credit management is simply "The management of debtors" It involves all policies relating to credit granting, credit recording and credit collection.

2) CREDIT GRANTING

Credit granting entails the approval of loan (or credit facility) to the borrower or the debtor.

3) CREDIT RECORDING

This is concerned with the documentation of the credit transactions for proper accounting and easy referencing.

4) CREDIT COLLECTION

This relates to repayment of debt through effective collection policies.

5) CREDIT ANALYSIS

Credit analysis is concerned with the determination of the ability and willingness of a borrower to repay a requested loan in accordance with the terms of loan.

6) PROFITABILITY

This refers to a return on investment.

7) LIQUIDITY

This relates to the cash level of the organisation which describes the ability of the organisation to settle indebtedness and satisfying its working capital structure.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

An old maximum says "a sale is not complete the money is collected". this is supported by a story of how Alian Aluminium Corporation received an order of ₦4,000 from a regular customer shipped the goods, and expected to be paid in the usual manner. Payment, was however, not forthcoming. After trying unsuccessfully to collect the funds. Alian Aluminium Corporation turned the account over to a collection agency. The agency had a better result, the customer agreed to make payment, but complained that sales declined and he had borrowed so much, in that, he could not pay Alian Aluminium bill.

The above story forms the basis for credit management theory aimed at redeeming organisations from the problems associated with collection of accounts receivables. Maccom (1990) in his words said:

> "Even if delays in being paid never actually reach the points of bankruptcy, your business - they are still damaging it. They are at least restricting your freedom to develop your business by keeping out of your hands the money you need for your new machinery or other desirable charges. The money he owes you amount to an interest free loan, as long as you give it to him.

2.2 The Focus of Credit Management

Dobbins et al (1988) defined credit management as "The management of trade debtors". He said the debtors shown in company's balance sheet relates to stock at

selling prices for which payment has not yet been received. According to him, for any level of cash flow or sales, there is a preference for a minimum level of investments in debtors to maximise the market of the firm or maximise return on capital employed. In this light, a generous credit policy towards customers should increase sales, but it will also increase the level of investment in the working capital which must be financed. Credit policy may not be restricted to allowing one or two month's loans, organising leases, financing customers stocks, provision of goods on consignment and delivery of goods on sale or return.

Kirkman et al (1986) said debtors management is generally applied into three major sectors which include: credit granting, credit recording and credit collection. According to Kirkman et al, selling organisations do not have to provide credit facilities, although, there are many problems involved in arranging large sales transactions especially in manufacturing sector, if credit facility are not provided, however, if there is a reasonable prospect of payment as shown by an examination of trade and bank reference, financial statement, credit agency reports etc.

On credit recording, they said it is necessary for details of credit sales to be recorded on an invoice which should be sent to the customer or the buyer as soon as possible after sales, which they felt may have significant effect on the speed of payment. This process, in recent year has been heavily computerised, though not a guarantee that the information contained in the invoice will be correct; they said. Their views on credit collection system were based on the efficient credit recording system which must provide information on all outstanding debts. They said age analysis report is necessary as it splits all the amount outstanding into the months of sale. The date in this case provides an excellent starting point for the collection process.

Ibitoye (1985) indicated that credit facility is a generally accepted business norm which creates sales and sustains goodwill. In his opinion, only very few organisations can afford to refuse credit terms. The effect of this is as a result of the poorly handled credit facility. Poor handling affect the operations and in fact on the continued existence of the business. Since, the longer the credit terms, the more the risk of bad debt; and that a debt which is not collected means a loss of costs sunk in the stocks and the expected profit. It is essential that the credit facility should receive the attention of the top management, he advised.

2.3 Credit Analysis

The objective of credit analysis is to determine the ability and willingness of a borrower to repay a request loan in accordance with the terms of the loan contract.

Edward et al (1989), confirmed this by stating that a bank must determine the degree of risk it is willing to assume in each case and the amount of credit that can be prudently attended in view of the risks involved. According to him, conditions and terms would be determined by the past records of the borrower and the economic forecasting with attempts to project the borrower, in order to establish whether the loan will be repaid in the course of business. Edward further identified the following factors which must be considered in credit analysis:

1) Capacity to Borrow

This refer to the legal ability of a customer to borrow which is as important to the bank as it is in his ability to repay. If a loan is made to a minor, he can disaffirm except the proceeds of the loan are used for essential purposes. This is why banks

would always require parents, guardians or other persons of age to assign the note. Where the loan is to a partnership, it may require all members of the partnership for all to sign, the lending officers must ascertain properly that the signing person of character must possess attributes such as honesty, integrity and morality. Actually, character is a difficult thing to evaluate. a person may not have all these qualities but still has willingness to repay financial obligations.

2. Ability to Create Income

It is essential to evaluate the borrower's ability to earn a sufficient amount to repay the loan where repayment of the loan is tied to the earnings. There are some borrowers who expect to repay the loan from the sale of assets, other borrowings or from the issuance of common stock in the case of corporation. However, the primary source of repayment of most loans is the revenue generating capacity of the borrowers[1]. Furthermore, an individual ability to generate income depends on factors like education, health, energy, skill, age, stability of employment and resourcefulness.

For the business - it depends on all factors that affect sales volume, selling prices, costs, and expenses. These include the location of the firm, the quality and morale of its labour force, the availability and cost of raw materials and the quality of its management. The quality of management is often ranked as the chief factor in deciding whether to extend credit - often referred to a management factor, that is, the ability of the firms' managers to assembly personal, raw material and capital assets to produce satisfactory flow of goods, services and profits. It is a fact that some business rise while others fall and the difference is always attributed to the management. Effective management sees and takes advantage of new opportunities, makes timely

adjustment in production in response to changes in demand for the firm's products and services with strong customer appeal because of their quality and pricing.

However, *it is difficult* to evaluate the manners of a firm particularly when they have not been on the job very long, but it is important.

3) Ownership of Assets

Most business have modern machinery and equipment especially the manufactures while the retailers have stocks of merchandise and attractive buildings and furniture. These are used to attract credit facilities, so before credit can be granted to business enterprises, they are required to supply capital to back up the debt. so the bank will be willing to make available credit to the business firm having determined the network which measures the financial strength of the company. The firm is seen and rated as prudent and resourceful in its management. These serve as security for loans and an insurance that the loan will be repaid. Even though, security reduces the risks, the banks prefer that it be paid out of income.

Customer loans are frequently secured by assets such as motor cars, houses, household furniture and appliances. The value of the pledged assets play important role in the continuous payment of the payments provided it does not appreciate below the unpaid balance of the loans.

4. Economic Conditions

The economic conditions affect the ability of the borrower and the lender. The economic condition make up the environment within which business units and individual operate, borrowers may have good character; an ability to create income and sufficient assets, but economic condition may render the intension of credit unwise.

It is therefore essential for the loan officer to be an economic forecaster. The economic forecasting will be difficult if the loan maturity rate is long because of the possibility of economic down turn before the loan has been fully paid. Since economy is subject to short and long run fluctuations and they also vary in intensity and duration, so they affect different industries and areas of the country differently. Some borrowers fare well in periods of prosperity, but in periods of recession, capital may be dissipated, income may decline, and even character may diminish. These factors give rise to the non-payment of debts. so it is a high demand on the lending officer to be kept informed as to the economic pulse of the nation, the community and the industries in which he or she makes loans.

If the loan is to be extended to the business borrowers a bank is interested in economic function performed by the business and its importance in the industry; changes in competitive condition, technology, the demand for products and distribution methods. Where the borrower is not performing the function basic to the operation of the economy, the lender will be less likely to act favourably on the credit applicant than when the opposite situation prevails. Security is taken in most instances to strength a weakness found in one or more of the credit factors e.g., the ability to create income. One credit factor may be most important in one situation.

2.4 Establishing Credit Policy

A credit policy must be established for the company and for individual customers. Dobbins et al (1988), in contribution, provided the following points for consideration when establishing credit policy.

1) A credit period for the vast majority of customers with special provisions for some customers.

2) A total credit amount for the company with individual amount for each customer.

3) A discount policy for the company with special provisions for individual customer.

4) The establishment of a collection policy for insuring that invoices are paid.

5) Establishment of credit rating system.

6) Guidelines for monthly or weekly payment on long term constructs.

7) The establishment of an accurate and reliable accounting system together with monthly reports including and age analysis of debtors.

8) Consideration of a credit insurance policy against bad debts.

2.4.1 Factors that Affect a Company's Policy

There are factors which affect a company's policy in respect of the credit terms extended to customers. The following factors were therefore listed by Brayshaw (1992) as identified ones that affect the company's credit policy.

1) The terms on which goods are to be sold

A decision must be taken on how long customers are to be given to pay bills and also if cash discount is to be offered for prompt payment.

If the company operates in an established industry, there are likely to be trade norms established both in terms of credit given and discounts allowed. In these

circumstances, it will be difficult for the company to offer worse terms than their competing companies and there will be a tendency to bags terms on those currently in use in the industry.

2) The company must decide which companies it intends to deal with. Is a judgement, to be made on the basis of the customers suitability be determined on the basis of a bank reference or credit agency rating?

3) The amount of credit to be extended to each customer must be determined. Is it to be company policy to deal only with established organisation with a sound track record? Or is it acceptable to take the risk of some customers, even though they may include some companies of doubtful financial reputation.

4) After credit has been granted and sales made, a system of collection must be implemented. This system must enable collection to be made in line with the previously determined procedures for dealing with slow payers.

5) Each of the factors will have complication for the firms liquidity and profitability. For example, the longer the credit terms the great the amount of debtors and the greater the possible strain on the companies liquidity. In addition, longer credit will involve a large investment forgone.

Brayshaw further indicated that credit terms and conditions would often be determined by the usual terms of trade of the particular industry.

Most of the trade credit granted in the United Kingdom, he said was on monthly terms; payment being required on or before the last day of the month following the date of the invoice e.g., goods despatched in March would be due for payment by the end of April. To encourage payment before the end of period of credit, cash discounts have been traditionally offered by the seller to the buyer. He said each discount can be analysed in terms of both costs and benefits to seller and buyer.

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In this case the seller forgoes a small percentage of the sale price in order to obtain earlier access to the sales proceeds which will benefit him in terms of lower bank overdraft interest or higher interest received on the funds invested. On the other hand the buyer obtains the benefit of the discount, but suffers an opportunity cost in terms of interest foregone. Problems on whether or not to offer cash discount or indeed take cash discount, can be analysed on the basis.

2.4.2 Loan Policy Formulation

The composition and quality of a bank loan according to Humpel et al (1990), should be a reflection of its loan policy. It is the policy that sets out the bank's lending philosophy and specified procedures and means of monitoring activity. He said this serves to give guidance and focus to the bank lending activities. The direction must be ensured that it is clear and communicated to all concerned and that it should be in a written form. The goal of a loan policy should run thus:

1) To produce sound collectible loans
2) Provide profitable investment of bank funds
3) Encourage extensions of credit that meet the legitimate needs of the bank's market.

Humpel said, loan policies may change overtime, loan policies also vary over the credit cycle. In periods of light money banks often have to restrict their loans growth. But when funds are plentiful and local borrowers relax their demand for credit, banks may seek to lend outside their normal markets areas. He said loans should be adaptable to changes in cyclical and secular circumstances. It is crucial that loans policies be updated to reflect current circumstances and maintain their relevance as a control tool.

2.5 Effective Credit Control

For credit to be effectively controlled, there must be policy guidelines and credit control routine. According to Ibitoye (1985) the policies should be in clear terms covering the following:

1) Credit facility
2) Authority to grant credit facility
3) Collection of credits
4) Bad debt provision
5) Bad debt, write-off.

Credit Facility

The credit facility should be clearly defined whether the company will grant credit to its customers. The facility should indicate maximum credit period, criteria for approving credit terms and when such facilities will be withdrawn.

Authority to Grant Credit Facility

The officer with an authority to grant credit should be clearly stated or designated. The authority prescribed should be identified by function. Having designated an officer and function prescribed, the level of credit each authority can give should be indicated clearly. the Chief Executive could be authorised to approve any credit level while certain amount could be authorised by the sales function chief. also the chief executive alone could be given authority to approve credit in excess of the maximum credit period if he feels that it is in the long term interest of the business.

2.5.1 Credit Granting

Kirkman et al (1986) revealed that the responsibility for credit granting should both necessarily be in the hands of finance or accounting personnel; but also in the hands of sales and marketing personnel who are obviously having strong interest in credit facilities especially when facilities are a key factor in arranging sales transaction. The danger with leaving sales involvement is that sales may minimise rather than the receipt of cash from sales. It should not be forgotten, however, that in the past finance personnel have frequently been found to be extremely cautious - perhaps too cautious in the assessment of credit risks.

Kirkman et al opined that, if it is decided that credit should be offered to prospective purchases, a decision will have to be made as to what terms should be incorporated into conditions of sale. They argued that there is no reason, however, the credit terms should not be varied, although the success of such a move will depend on many different factors such as price, degree of competition, availability of goods, effectiveness of credit management etc. they made reference to United Kingdom where the credit period is usually extended to the end of the month following the transactions, i.e. an average of 45 days credit. The average credit period for the large manufacturing company of nearly 72 days in 1982 seems to indicate that credit management and collection policies are often very inefficient. The feeling they expressed was that cash discount incentives may be offered to persuade buyers to settle at an early date. There were some united Kingdom companies that offered a 3.75 percent cash discounts for settlement within 7 days, and sometimes levies of interest charge were imposed on the late payers. But the discounts and penalties have, however, proved to be very difficult to administer and control. This was however observed as a matter of necessity to be

included in the comprehensive set of credit terms for purpose of attracting early payments.

Credit granting is a very complex process which frequently leads to conflicts between finance and sales managers because of their very different objectives in the organisation as a result the responsibility for each aspect of credit granting should be carefully considered by senior management. Ideally, most of these processes should be the subject of joint consultation. Where there is a dispute, however, someone must have responsibility for the final decision and this is a matter that must ultimately be decided by the board of Directors.

Granting of Cash Discount

The cash discount is an inducement to customers to pay early. But it is important that the company has a laid down policy on this. Ibitoye (1985) submitted that the policy must state in outline what inducements including discount to be given and who should authorise cash discount.

The discount computations enable the debtor to make payments on the anticipated date. Brayshaw (1992) disclosed that with discount schemes, some debtors take the discount while paying a few days for even money late and that if the discount date is missed the debtor takes longer to pay. He said administrative costs would be incurred in introducing the scheme and administering the type of problems raised above.

2.5.2 Collection of Credit

Every company that grants credit to customers will one day face the awesome problem of chasing debts, Ibitoye feels that customers are unwilling in some cases to

pay in accordance to the terms of the credit. In a case like this, it is important for the company (Board) to set out the company's policies on what to do when a customer proves difficult. Ibitoye (1985) further opined that procedures for taking actions should be outlined so that when they have been exhausted, a legal battle can then become a last resort. This however, has to be done with caution so that the goodwill of the company is not tarnished. It is important to emphasize over the measures rather than resorting to usual legal battle.

Bird (1990) in his contribution suggested an approach for chasing the money. he feels that a positive attitude based on skill and preparation which must require some careful thought in the consideration of whether or not, at this time the debt should be chased. He listed the following steps:

a) Which debt to go for?

This means that the list of outstanding debtors within the "age of debt categories" should be examined.

Customer	90 Days	60 Days	30 Days	Current
1. James	100	50	250	120
2. Adams	-	3,900	1,600	623
3. Danjuma	990	500	900	293
4. Jumai	50	-	2,020	1,800
5. Selinah	-	267	405	388
6. Patrick	560	400	200	-

Aged Debots List

The listing is most valuable because it shows who owes what and for how long and thus provides information on money which will hopefully be received in the future. It further serves as part of the cash flow forecasting scheme. It helps to avoid long

outstanding debts being overlooked or even forgotten altogether.

Age or Amount

To get the best out of the age debtors list, identify those with debts outstanding for more than 90 days and it might be felt "that the right thing to do is to issue them with a stern warning of legal action. Bird (1990) however, stated that if the amount involved is small the legal action will be quite unrewarding. With reference to the list, the real target is Adams who is owing ₦32,900, i.e. the highest debtor. Therefore, Adams should not be allowed to go into the 90 days category. This is because, if the ₦3,900 can be achieved it will represent a significant reduction of all the money owed thereby creating an impact on the cash flow.

Parieto's Principle

The parieto's principle can be applied to debt collection as it is being used in a wide range of business activities. This principle is a golden rule of 80:20. Parieto states that "in any series of elements to be controlled, a selected small fraction in terms of number of elements almost always accounts for a large fraction in terms of effect. So, to apply this to cash flow, this means that a small number of customers will be for most of the debt problem. The principle which has been in use in many situations has now come to be 80:20, e.g. 20% (about) of employees are responsible for 80% of the absenteeism.

- 80% of late deliveries will be caused by 20% suppliers
- 80% of complaints will be received from 20% of customers.

Accounting to this principle, when the 80:20 rule is applied to debt collecting, it shows that the problems will be caused by only a small percentage of the customers and their valuable time and effort should be concentrated on the small percentage. It therefore means that analysis will show up that if chase ups are primarily aimed at the few (plus special attention to the large scale involves) the cost of doing so will be kept low with the much same result. It further means that an expensive across-the-board campaign may not be worthwhile. Whether or not this is the case in a particular business will depend on one's own circumstances. How the customers behave and how much effort is needed to chase the debts. It is, however, necessary to set up an established policy on which debts to tackle and when, in order to prevent causing an offence to valued customers.

Bad and Doubtful Debt Provision

Ibitoye (1985) declared that it is a sound accounting practice for a provision to be made for any debt considered doubtful to collect. He said a company policy guideline is essential for provision on doubtful debt. The guideline according to him must spell out at what stage of debt collection process should element of doubt be entertained, and who should be responsible for authorising such provision.

On bad debt being written off, he said the company's state is wiped clean off on record of debt when a debt is written off. But debt write-off is open to several abuses, so there must be "strict control over it". The policy of the company should state who has the authority to write-off what amount. However, it is advisable to separate authority to grant credit from that of write-off approval.

2.5.3 Collection Policy

When a customer fails to pay an invoice and the due date, it is often our natural reaction to think in terms of solicitors and legal action. It must be emphasized that this is a last resort, since we do not want to loose our customers. We often recommend that companies should establish a procedure for late collections along a given line.

Dobbins (1988) suggested a ten-point procedure for a collection policy:

1) Reminder
2) A personal letter (perhaps)
3) Several telephone calls
4) A personal visit
5) A telegram
6) A visit from the salesman responsible for that customer.
7) A reminder to the sales person for which commissioned is based on cash received not involved sales
8) Restriction of credit
9) Use of collection agencies
10) Legal action.

Dobbins further indicated that credit recording system would normally provide information at least once a month concerning outstanding debts. This according to him will normally be done by means of an age analysis report, which split up each amount outstanding into months of sale. These dates should provide an excellent starting point for the collection process. He said the collected method will vary from one company to another. The most popular methods are by means of reminder letters, telephone calls and personal visit. Although, it may ultimately be necessary to call in collection agents,

2.5.3 Collection Policy

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or take legal action. The ability of the seller to collect on time may be linked to the frequency of purchase orders; for example, a regular supplier may be able to collect funds by threatening to cut off suppliers, whereas a "one off" supplier will be in a much more difficult situation. It is important never to neglect the collection process as cash flow can be very badly damaged by poor collection management, it is also essential, therefore, that efficient staff be recruited for this process, as regular cash inflow is the life blood of most trading companies.

Credit Limit and Debt Collection

The amount of credit to be extended to each customer will be dependent to some extent on factors already discussed above. A particular problem to the credit manager will be regular customers who pay late and require additional credit above a previously agreed level. This effectively means extending that customer credit limit. Should the credit manager refuse further supplies until payment is made, their running the risk of loosing the customers? Or should the credit manager go on with the effectively increased credit limit? There are really no answers. Each case need to be treated on merits, and judgements exercised. The objective should be profit maximization and the manager must weigh the benefit of receiving additional revenue again or the potential bad debts which might be incurred by extending credit.

Brayshaw (1992) believed that a debt collection policy must be implemented when the sale has been made the company will try to ensure that the cash is received as it is due. Unfortunately, not all customers pay their bills on time. The credit manager will keep a record of payment relating to each customer and will periodically draw up a schedule showing the age of accounts receivable. This will highlight any customers in arrears.

There should be a stated procedure for dealing with customers in arrears, initially, it is common practice to send a statement of account, and if payment is still not made, follow this with increasingly pointed reminders and telephone calls. If these measures are not successful, then the company might threaten legal action or hand the debt over to a collection agency. The later measures incur significant cost and the debt company will always seek to collect the debt without recourse to either agency or solicitor.

Brayshaw also suggested the use of credit insurance which can be taken out where the company is concern about non-payment of accounts. Specialist companies provide this insurance but as may be expected, premiums provide this insurance but as may be expected, premiums are high. In addition, the credit insurance company may refuse to take on debots it sees as high risk. The whole turnover or specific account insurance is available for any consideration.

2.5.4 Credit Control Routines

The are accounting system processes and reports needed to carry out the laid down policy on credit control. Though each company has to study its situation to decide on what modifications that are needed to suit the company's need.

Ibitoye (1985) examined the following basic points for the credit control functions:

1) Opening of new accounts
2) Order handling and processing
3) Involving for supplies
4) Accounting for invoices.

1) Opening of New Accounts

There is a need for thorough screening exercise to be constituted on the new customer before a new customer is taken. Required information may be obtained to establish the company's

1) ability to pay
2) intention to pay
3) risk level of the business.

The ways of collecting information about a prospective customer

i) Direct approach
ii) Indirect approach (source).

The Direct Sources of Information

1) Analysis of past published accounts
2) Direct interview of the company's representative
3) Evaluation of past purchasing history of the company.

In order to evaluate a prospective customer, it is important to apply all the above methods of direct information collection where necessary. Take for example, a new company coming to do business with your company, asking for credit facility right away, it is important to analyse his past purchase history through obtaining a published account of the newly established company. If these direct assessment approach are not applied, the effects should be critically analysed or evaluated before conclusions are arrived at. There are inherent defects of each methods. The published accounts are historical statements - they report events of some months or years past. Things are positive if the account might have changed over the period and it may not reflect the

KASHIM IBRAHIM LIBR

current situation. A person may not tell or disclose everything about the bad side of his company. What you invariably find in a direct interview approach is that the company's ability to pay is exaggerated. An experienced investigation would know when to take a statement for the face value and when a discount a statement. Sometimes it is advisable to back up evidence to prove claims made at interviews.

Window dressing is very complete when a company knows that its turnover history will be taken into consideration in judging its credit worthiness. You don't give a new company outright credit facility. He can be given a period in which he has to buy purely in cash. This is a trial period - during this period a close watch is made of the company's turnover trend. After the period, a decision is made on what credit level the company can enjoy. It is also possible for a company to accommodate resources from other sources to tied up its accounts during trial period, so that once credit is given, cash resources are now directed to settle the "bridge" accommodation.

Indirect Sources

The indirect sources of information include:

1) The commercial banks

2) Trade associations

3) personal references.

The bank is the most popular indirect reference source. It readily gives reference about any of the customers provided it is on trade basis. The bank gives general opinion on the position of the customer's account without any commitment. Though this approach is always regarded as the best; but it is only the aspects of the company's operations pass through the knowledge of the bank i.e. only the banking activities.

There are several other ways of commitment which may not come to the knowledge of the bank until much later and which may be very vital to the evaluation exercise. A company might enter into a low heavy capital commitment not properly evaluated for cash flow purposes and this may have serious effects on the finance of the company when executed. It is also possible for a prospective customer to have more than one banker and except all the banks are requested to furnish information. Sometimes you cannot receive more than one bank of a customer - perhaps the one where customer has a good record - lease agreements which the bank may not be aware of. These possibilities must be properly assessed in asking the references.

Associations, (Trade) like Manufacturing Association of Nigeria, Nigeria Employees Consultative Association, Nigeria Chambers of Commerce, could be consulted for reference on any of their members. The problem is the ability of the Association to assess the financial standing of the member. Having obtained information about the prospective customer, a decision is made on whether to grant credit and what amount. The practice is that customer is to complete credit application form in which it will indicate that credit the company is seeking. It is advisable to start with a level of credit that is consistent with minimum risk approach and increase the level as the customers' transactions and the company's confidence level grows.

2) Order Handling and Processing

The moment the organisation is satisfied that the prospective customer is granting credit facility, the next age is handling orders from the customer. The orders may come in the form of purchase order of Local Purchase Order as the case may be. when orders are received either through the salesman or direct from the customer, the first thing is

to check whether the company issuing the order is a credit customer. And if so whether it is entitled to the credit facility of up to the value being sought, the credit control function confirms these details" on the order and return same to the sales office.

The sales office on receipt of this credit confirmation takes the order to the distribution function to confirm if the goods asked for are available from stock. If this is confirmed, the distribution function confirms and passes the order back to sales who will now raise an internal order on the distribution to supply the order. On receipt of the internal order, the store keeper, who is usually a staff of distribution function and stores issue voucher to cover the movement of the goods from the yards of the company. It serves as the gate pass. A copy each of the internal order, the delivery note, and stores issue voucher will move to accounts where invoice will be raised on the customer for the goods supplied.

3) Invoicing of Supplies

Credit control starts immediately the goods leaves the premises of the company. The goods are stock control problem when they are within the shelve. But once the goods are despatched to the customer the chase begins. Effective credit control requires prompt invoicing. It is true that the customer may acknowledge the receipt of the goods, by signing the delivery notes covering the goods but no demand for payment is made nor is proof of indebtedness complete without invoice. The invoice forms the basis for payment. It is a very vital document. To quicken invoice preparation it is advisable to produce the invoice and the delivery note simultaneously. The advantage of this is that the two are delivered to the customer the same time the goods are handed over. It is essential that the invoices should be raised immediately the goods are issued to the customer.

4) Accounting for Invoices

Now that the invoices have been raised and delivery made to the customer. It is very important that adequate accounting records of debtors is made to facilitate credit control.

Every customer must have a ledger account opened in his name, which must record the up-to-date address of the customer. the invoices must be posted into debtors accounts on daily basis. This is important because the large accounts serves as the control level for ensuring compliance with the approved credit limit. If the records are not up-to-date, it will be difficult for the credit control function to know when the customer is exceeding the approval limit, then he stops further supplies. Payment by customer must be carefully recorded in the ledger accounts ensuring that the customers are credited accordingly. And every payment made by the customer must also be properly documented.

2.5.5 Credit Risk

Every sale on credit invoices some risk that the customer will not be able to pay. With most large companies, the risk is likely to be considered insignificant. However, other companies might appear to be such bad risks that they will not be considered as potential customers. Between these two extremes the company will have to make decision on whether to sell on credit or not.

Brayshaw (1992) argued that the credit manager might split potential customers into groups with different credit risk rating to make decision making easier. Again, he said, it might be a cost benefit calculation involving setting off the expected value of bad debts against the incremental benefit to be derived from additional sales. The cost

structure of the company may well be an important factor in reaching this decision. A company with which high fixed costs will gain a larger contribution per pound of sale than one with a high proportion of variable costs and may well feel that it is able to take on customers with a higher potential risk level.

Assessing the Risk of a Potential Customer

To assess the risk level of a potential customer is not an easy task.

Brayshaw (1992) provided the following as sources of information that can lead to possible determination of the risk structure of a potential customer.

1) Trade Reference

In this case a new customer could be required to supply one or two referees from other companies with whom they have had business.

2) Bank References

This involves asking the customer's bank to make comment on the financial standing of its customer. A banker's comment on one of its own customers is only of limited use. The reference tend to be of a standard form and very carefully worded, sometimes so lodged that it adds very little.

3) Credit Bureaux Reports or Registers

These relates to the number of sources which are available and listed in the United Kingdom. These companies publish lists of companies showing relevant financial details including a credit rating, with the increasing rate of information

becoming available in connection with trading organizations and with the expected boom in the information technology generating data based sources of information, it will become easier that information will be available even on a subscription basis.

4) Published Accounts

The annual accounts can be analysed to determine the liquidity position of the customer. The Registrar of Companies keep records of changes on the assets of the company and other details. However, in the case of aiding companies there is a problem. This is in the area of preparing and filing information which may well be in arrears, making the publicity available information somewhere out of date.

Bird (1990) in his contribution on sources of credit information outlined the following factors that need to be considered when investigating the potential customer.

1) Interview of Loan Applicant

The interview of loan applicant will help the lending officer learn the reason for the loan and whether the loan request meets the various requirement established in the loan policies of the bank. Even if the loan request does not fall in harmony with bank policy or violates some regulation established by the law or bank regulatory agency so that the lending officer may offer advice to the applicants regarding other possible sources of funds - the interview may help the lender to know something about the applicant's honesty, and ability which may form an opinion as to whether security will be necessary. Information about the growth of the business, the background of key personnel, the nature of the product, and services, sources of raw materials, competitions, position and plans for the future can be obtained through the interview.

2) Bank's Own Records

Since a bank maintains a central file of all the depositors and borrowers from which credit information can be obtained. It will show the payment record on previous loans, the balances carried in checking and savings account, habit of overdrawing his or her account. Even if the applicant has never been a customer of the bank, the central file may contain some information.

Other external sources of credit information, he provided are:

1) Credit Reporting Agency:- Information can be collected on several million businesses and makes it available on a subscription basis. Sometimes, brief information and credit ratings on each firm are published in National and Regional references books.

2) Firms Suppliers:- Information can be obtained also from the firm's suppliers as to how promptly it has been paying its bills and the highest credit granted during the year. The recent balance sheets and information as to the firm's sales and profits can be used if available.

3) Credit Interchange Service of the National Association of Credit Management:- This organisation provides information about the credit experiences of the suppliers of a firm on a nation-wide basis. It provides members with analysis and interpretation or offer any recommendations.

4) Other Sources:- Other sources include trade journals, newspapers, directories, public records, and statistical reporting services, competitors of a business firm. Information of this kind must be used with great discretion but it can be very helpful. Other documents include financial statements apart from inspection of applicants' places of business.

Scope of Credit Investigation

Edward et al (1989) says that the scope of credit investigation varies from one loan to another following the size and majority of the loan, the operating record of the business, the security and previous relations with the borrower. Some applicants may have peculiar features that should be investigated more thoroughly than others. The purpose of the credit investigation is to accumulate information that can be used to evaluate, ability to create income and the probable economic environment. For a business loan, the banks like to know something about the history of the business in the firm's operating record, labour relations, experience in the development and marketing of new product, and sources of growth in sales and earnings. Information about the executive of the firm is a necessity because management is of great importance. In this case, information about their experience, background, outside affiliation, and interest is of value as are the opinions of others concerning their integrity and capabilities. It is also to know whether adequate provision has been made for management succession in the firm.

The banks should know something about the nature and operation of the business, what type of products are handled or produced. What types of services, stability of raw materials and labour as well as proximity to market are important. Buying and selling terms, distribution methods and the importance of the business in the economy are important facts that will place the business in proper perspective. The bank will still need information on the business. Financial condition which necessitates the reviewing of financial statement, contingent liabilities, and examining the insurance cover. Contact the other banks with which the firm has done business as well as suppliers and customers of the firm.

Payment Policy

Kirkman et al (1986) succinctly discussed the payment policy of a purchasing organisation. He believed in proper records being kept of orders sent out and goods received. He said that information will be essential when invoices are checked as the absence of proper records could lead to accounts being paid on more than one occasion, together with other financial problems.

According to them when an invoice has been approved, the date of payment will have to be considered. Some businesses or organizations pay consistently on time, as laid down in conditions of sale. An increasing number of organizations do however, attempt to delay payment because of shortage of cash and sometimes because of the interest that funds in hand can accumulate. He said late payment can of course cause damage to the payer in terms of reputation, credits rating and certainty of suppliers. The company that have funds available should therefore consider carefully the effects and implication of deliberate late payment. The company that is temporarily short of funds may have less choice although ideally speaking, one may hope that this information could be shared with major suppliers and short term expenditures arranged. For example, the bills of exchange might be arranged payable at future agreed dates. There is always the fear, however, that the sharing of information may lead to rumours about possible insolvency and as a result many companies are reluctant to adopt this course of action.

2) He observed that the payment of creditors is therefore an extremely important task, especially in the organisation facing liquidity problems. Since creditors are in effect a source of finance it is essential that this very popular method of finance should not be abused. It should be understood here that in many respect the settlement of

desirable that properly trained staff be provided for credit management purposes.

Why Banks Are Paid Late

Bird (1990) outlined the possible reasons why bills are paid late and thereby includes the following:

1) That the debtor is short of cash - quite possible because this debtors are slow in paying.

2) that the invoice contained an error or it was sent to wrong address, offered some other reason for the customer to delay payment.

3) The debtor has made a genuine mistake e.g. he has lost or misfiled your or simply invoice over looked.

4) That the debtor is deliberately delaying payment in order to obtain the benefits of free financing.

5) That debtors payment system is a rigid and bureaucratic one involving one or more or the following:

- elaborate approval procedures
- time consuming matching of invoices to other members and job records
- routine computer runs without which payments cannot be made
- a company rule that payments are made on statements, not on individual invoices
- the debtor is going out of business or has already ceased trading.

2.6 The Necessary Preparation for Collecting Debts

The preparation necessary for the purpose of facilitating the collection of debts was given by Bird (1990). He said collecting debts is the process which needs preparation before execution.

a) The Use of Telephone

It may be possible to just pick up the "phone complain that you have not been paid and receive a fat cheque in the post". It is also far more likely that without preparing for the call you will be wasting your time. If adequate preparation is not made even though you are armed with all the facts at your disposal, the responses of the following types may confront your call:

*Which order number are you referring to?

*Are you sure the invoice was sent to this branch?

*I am sure we paid you last week

*You sent us a credit note which cleared our account.

*Can you give me the invoice number?

The possibilities are many and are often genuine queries being made by a clerk who is dealing with hundreds of invoices and dozens of suppliers. He is likely to have your business and all the details at the forefront of his mind, if you had assembled all the facts and figures before picking the phone, you can easily identify the transactions you are talking about and consider the queries put to you.

Bird, in his opinion provided a checklist of things a creditor should know before writing or telephoning the debtor.

1) Customer's order number and date

2) Name of the person placing the order (if known)

3) Goods ordered - quantity and type

4) Delivery instructions

5) Date of delivery/place of delivery

6) Despatch note and goods received note numbers and date

7) Invoice number, amount and debt

8) To whom the invoice was addressed (these may not apply in all cases).

Sending A Letter

A letter is much more appropriate depending on the contents and should be less threatening. It affords the recipient sometime to think and do some checking. The letter should be courteous and friendly and it should not be worded pompously but with "Dear Sir" at the start and "yours faithfully" at the end. Other features of such a letter include the following:

i) It should be addressed to a named person and not just Nick & Co. Ltd. or even addressed to the accounts office/department. A recipient will be more ready to react favourably to a letter with his own name on it as this makes more personal to him.

ii) The letter should be typed or word processed.

iii) It should convey a friendly and personal tone, using the kind of language we use in every day conversion.

iv) All the necessary identifying details should be given in the letter e.g. *The invoice numbers and dates

*The amounts due and when they were due

*Sales order and contracts numbers

With the above approach it makes it easier for the person reading your letter to check his own records without the details the customer will have to do an extra work and looking at the records.

v) Give the customer opportunity to remove any obstacles to future settlement e.g. A customer may have a problem with one of your invoices which you are not aware of.

At least 3 letters can be sent to the customer, 1st, 2nd and 3rd letters. The second and third serve as the reminders.

How to Circumvent Delays

Preparation of losses and the cost of borrowing money as a result of overdue payments is better than cure, so what can be done by the small and hungry business is the question Bird (1990) possed in his attempt to examine ways to circumvent delays in payment. He therefore provided the following answers:

1) Look Before You Leap

This involves asking for and taking up reference which small businesses often neglect. Eagerness to accept an order or a fear that asking for references will offer the customer a common causes of this precaution being neglected. The question of reference is:

a) to put the customer on notice that you are a professional and will not be treated lightly.

b) It reduces the chance that you will suffer as a result of doing business with a company lacking the funds to pay its way. The requirements for reference may take the following order:

i) A letter should be addressed to the would-be customer asking for referees.

ii) On receipt of details, a suitable letter must be sent to the referees to obtain specific information such as:

- how long do you know or have business with him?
- whether or not he/she has met their obligations to you in satisfactory manner and on time
- the level of credit you are prepared to grant them
- whether or not you will recommend them as customers.

A self-addressed envelop may be sent to facilitate the reply to the letter sent. The option of business friends, and acquaintances can be used to obtain guidance. Telephone may be used to get contact with the referees. Any other process by which specific information can be digged out to give broad idea is necessary.

2) Ask for Monthly Up-Front

When payment in full is required before the goods will be despatched, the proforma invoice is used. This is a means of obtaining all the money up-front, and is sometimes used as an alternative for asking for referees in the case of a new and unknown customer. When two or three transactions have been satisfactorily completed on proforma terms, and confidence has been built up, credit terms may be granted. This is more or less a cash - without order system like in mails order business. In this case payment in advance is an accepted practice.

3) Specifically Negotiate the Terms of Payment

Where a new customer is involved, terms of payment should be discussed in advance rather than assuring that the customer will notice terms of payment at the bottom of the invoice. The turn or payment in 30 days typed at the bottom may be ignored by the customer. Advance negotiation is necessary and the arrangement can be made by letter. The terms that may be specifically negotiated are:

a) a percentage up-front

b) payments on completion of clearly definable stages

c) credit given for returned containers, faulty parts etc.

d) payments for after-sales service received or reduced.

e) fees for training e.g. given to the customer's employees in the use of machine or handling toix substance waived or reduced

f) cancellation of payments for spare parts (having argued that they may be returned if not used)

g) instruction manuals or drawings provided free of charge

h) insurance costs e.g. in the case of leased goods, borne by the supplier "variable" such as these can be offered to ensure a reduced period/amount of debt.

4) Unit Is Strength

Membership of trade association such as equipment leasing association. The Institute of Arbitration, the British Exhibition Contractors Association etc. will offer protection and support in cases of dispute by means of legal aid and advise and various forms of pressure. Membership of these bodies should be mentioned on company letter heads, contracts and invoices to show that if there is problem the company is not alone.

5) Retaining The Title

The Sale of Goods Act 1979 provide that title to goods passes from seller to buyer when the terms of contract specify. Where it is clearly indicated that the title needs not pass at the time of sale or delivery. It is also possible for a clause to be written into the contract stipulating that until the goods are paid for they remain the property of the supplier. This will facilitate payment and preventive of bad debts. However, if the goods supplied are perishable (e.g. fruits and vegetables) or such that deteriorate with the passage of time, such as the pharmaceutical or chemicals, and cement are supplied, they cannot be repossessed and the payment will be difficult and it becomes a problem. There are indeed complications and limitations in using a retention clause in your contracts. There is nevertheless value in such a clause. It is likely that the threat of repossession will carry weight with a customer even when he is on the verge of insolvency. Repossession could result in his inability to carry on business at all and you may well gain priority over other creditors who cannot apply the same amount of muscle. Before you award your contract any title retention, consult a lawyer (solicitor) who specialises in the field of trading terms and sales contract.

- make use of the bill of lading method to ensure payment before the goods are handed over.
- consider taking out credit insurance possible for only the more critical parts of your business. For exporters the ECGD Scheme should be examined (Export Credit Committee Department).

It is possible within limits to buy insurance cover against losses as a result of a customer's inability to pay you. ECCD is insurance against the risk of one's payment of overseas customers. The cover is not limited to non-payment as a result of

involvement, but may include the action of foreign government in preventing payments say by the imposition of an exchange controls which can cause trouble and can as well be covered.

Avoiding Self Inflicted Words

1) Remember that the problem of avoiding delays start in the office. Don't inflict unnecessary words on yourself.

2) Identify the delays which can be built into your internal procedures and to do something about them.

3) Get to know how your customers operate and adjust your methods accordingly.

4) Negotiable and confirm the cash and time limits.

5) Get your invoices right - first time. Take steps to avoid inaccuracies in prices calculation, product description, order number, etc. Avoid omission of identifying date.

6) Weigh up the pros and cons of offering a discount for prompt payment. Take care with charging interest for overdue accounts - legal advice is desirable.

7) Remember that small bills are often paid faster than larger ones. Avoid accumulating bills in the interest of saving paper work.

8) Do all you can to check the financial strength of your existing and potential customers. This is an ongoing process and should not be limited to the time when you received first order from a new customer.

9) Consider the organisational position, state and influence of the person responsible for your credit management and debt collecting. Is the importance of sensible credit-giving takes into account before orders are accepted? Are the sales people working with the credit management function?

10) Electronic Date Interchange is the system of the future. If you are not already involved in it take action to find out now what is happening in your industry? EDI can save your money and improve your cash flow, but if you are not ready for it you could loose customers who insist on using it.

2.7 Outlines for a Written Loan Policy

Humpel et al (1990) provides the following outlines for a written loan policy.

i) General policy statements: The general policy statements are supposed to embody the following points:

a) Objectives

b) Strategies - Loan mix

- Liquidity & Maturity structure

- Size of port-folio.

c) Trade area

d) Credit standards

1) - types of loans

2) - secured versus unsecured

3) - collateral

e) Loan authorities and approval.

ii) Principles and procedures: These cover the following points:

a) Insurance protection

b) Documentation standards and security interest

c) problem loan collections and check offs

d) Legal constraints and compliance

e) Loan pricing

f) Financial information required from borrowers

g) Ethics and conflicts of interest

h) Loans review.

iii) Parameters and procedures by type of loan

a) Real Estate mortgage loans:

1. Loan description

2. Purpose of loan proceeds

3. Preferred maturities

4. Pricing: rates, fees, balances

5. Minimum and maximum accounts

6. Insurance requirements

7. perfection of collaterals

8) Channels of approval for policy

b) 1. Interim Construction Financing

2. Accounts Receivable Loan

3. Inventory Loans

4. Term Loans

5. Securities

6. Agricultural loans

7. Small business loans

8. Customer loans

9. Purchased loans.

Used of Loan Committees

All banks needs effective committee for the review of major loans proposals of loan delinquencies. The committees may be ideal. These include the director's loan committee and officers loan committees. By this method, loans above certain amount, minimum sizes must be submitted to the officers committee consisting of the bank's experienced loan officers. The officers committee meet regularly and frequently too. In this case of a big banks, the daily and probably once in a small bank the officers committee serves as a check and not as a substitution of the individual officer's judgement..

The duties performed by the committee are:

1) Review major new loans

2) Review major loan renewals and certain reasons for renewal

3) Review delinquent loans to determine cause

4) Ensure consistency in treatment of loan applicants.

The major loans approved by the loans officers are reviewed by the Directors Committee. The membership of the Directors Committee comprises the Bank's Presidents, the most senior loan officers. The decision of this Committee is final. And it gives closer scrutiny to the largest credits which must be concerned with conformity to policy matters. The Directors Committee also review significant past due and problem credits.

Managing The Loan Portfolio

There are two phases of loan portfolio management as provided by Humpel (1990). They are:

1) The Organising of the Bank's Lending Effort:-

This explains that bank loans finance diverse groups in the economy: manufacturers, services firms, farmers, builders, home buyers, commercial real estate developers, consumers, and others which depend on bank credit.

The loans in which banks allocate their loanable dollars can strongly influence the economic development of the community and nation. It is a fact that every bank bears a degree of risk in its granting of credit, and without exception, every banks experience some loan loss when certain borrowers fail to repay their loans.

Humpel further described the control of banks credits quality as the most important task for bank managers. He said a poor loan quality was a big factor in the growing number of bank failures in U.S.A. during the 1980s. He said a large sample failed in the mid 1980s i.e. the inadequacies of these banks.

The Basic Faults in Leasing Procedures

Humpel (1990) identified the following as basic faults in lending procedures:

1) Inattention to loan policies
2) Overtly generous loan terms and lack of clear standards
3) Disregards of bank's own policies
4) Unsafe concentrations of credits
5) Poor control over loans personnel
6) Loan growth beyond the bank's capabilities
7) Poor systems for detecting problem loans
8) Lack of understanding of borrowers' cash flows
9) Out-of-market lending.

In order to overcome their deficiencies in system procedures, Humpel opined that banks must:

1) develop well-conceived loan policies

2) hire or train skilled lenders who understand and accept description of loan policies

3) senior managers must oversee and enforce complaints with loan policies.

He believed that if these steps are taken, it will provide constant feedback to senior managers about the effectiveness of the loan control process. So that credit problem can be anticipated and corrected. The real value of a well thought-out loan policy is its communication tool. It serves to signal the bank standards and organisational objectives to loan officers.

2) The loan divisions are usually organised along with geographic and industry lines. For the big banks, lending expertise is developed in the areas of specialised business as energy, mining, public utilities, specialised lines of manufactur-ing, or commercial real estate. The separate loans are necessary in order to service different special needs of these industries. Loans can also be organised along the geographically dispersed customers.

It is the primary function of the credits department to evaluate the credit worthiness and test payment capability of present loan customers and a new loan applicants. Humpel believed that it is an excellent place to train the loan officers because of tits technical credit evaluation function. In this department, the trainees are exposed to several or a variety of good and not so good loan case in which they assist the loan officers in making credit decisions. It can perform the functions of collecting past due loans.

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CHAPTER THREE

RESEARCH METHODOLOGY AND HISTORICAL BACKGROUND OF UNITED BANK FOR AFRICA PLC (U.B.A.)

This chapter explains the various steps taken in the course of the study and how the data obtained were analysed.

3.1 Research Field

This study was a case study. It was only United Bank for Africa (UBA) Hospital road, Kaduna was used. This Bank was selected because it is one of the leading banks in Nigeria and especially in Kaduna metropoly i.e. with enormous years of experience in credit granting and debt collection.

3.2 Population Sample Size

The question of population and sample size does not apply in the case of this study as the data was collected from one source only in the credit section of the bank. It was the Head of the Department (with the assistance of departmental staff) that provided all the data vide a questionnaire. 10 questionnaires were sent to the Bank, out of which 9 were returned and only one was treated. They gave a reason that only the credit department of the Bank would supply information and that they would do it jointly.

3.3 Data Collection

The study used both primary and secondary sources of data. The primary data was obtained through the instrument of questionnaire administered. While the secondary

data was obtained from relevant authors to serve chapter II (i.e. review of literature). The authors used were accordingly acknowledged and references properly documented.

3.4 The Instrument of Questionnaire

The questionnaire administered was structured to contain 36 questions divided into 5 sections. Section A obtained information on personal data of the respondents and from sections B to E, information on all aspects of credit management policies were obtained based on the categorised headings.

A non-conventional method was used to analyse the data collected. This method does not provide for tables and use of percentages but only presents the responses given under the respective questions. The data was treated like in the case of an interviewing method: and since the respondent was collective, there was no way the percentage method of analysis could be used. Therefore the interpretation of data was direct based on the responses given to each questionnaire.

In this approach the questions were listed and responses made to follow immediately for quite under study. It should also be noted here that it is only from question 5 to question 36 ranging from section B to Section) that this method applies. Section A of question 1 to 4 relates to the personal data of the respondent.

3.4 Limitation

This project suffered set back following the accident the researcher was personally involved in immediately after the completion of the course work; which affected his right arm and made it paralysed for some time.

The problem of finance also affected the speed of the study especially in the area of production. In the case of data collection, most literature used were foreign based and did not provide adequate information on the local experiences. The researcher did not find problem with the source of primary data, except that out of 10 questionnaire administered only one was completed. This reason was that other staff were not competent to respond to the questions except the Credit Department staff and therefore it was only the Head of the Department (Section) that supplied all the information required with the aid of his assistants; thereby making it difficult to analyse the data by the use of conventional method (i.e. the use of tables and frequency distributions).

3.5 The History of United Bank for Africa PLC (UBA)

The United Bank for Africa PLC evolved from its precursor - the British and French Bank Limited. The British and French Bank Limited itself, metamorphosed from BNCI parish, Banque Nationale Pour La commerce et L'Industrie (established in 1932).

The United Bank for Africa Limited was incorporated in February 23, 1961 to take over the assets and liabilities of the British and French Bank and it started business under the new name on October 3, 1961 at its registered office at 127-129 Broad Street, Lagos. The first General Manager of this Bank was Mr. F. De Lajugie (a Frenchman). The paid up capital of the Bank at registration was ₦1 million and it is worth noting that UBA was the first bank that was registered under the Nigeria law among the international banks operating in Nigeria.

The U.B.A. Limited was a joint venture of:

- The British and French Bank
- Banca Nationale del laboro of Italy

- Monte dei Paschi di Siena of Italy

- Bankers Trust of New York, U.S.A.

- Amsterdam rotterdam Bank of Holland.

The number of branches of the bank by 1961 stood at 10 and they were then located at Lagos, Kano, Kaduna and Port Harcourt. These branches pioneered the early development of the Bank. The kaduna (North) Branch was established in July 1951. By 1990, the Bank's branch network grew to 190 while the staff strength which recorded 650 nationwide at incorporation increased to over 8,000 persons by the year 1990.

The analysis of the Bank's strength ranging from incorporation in 1961 kto 1990 covering areas of deposit, loan and advances, shareholders fund, total assets, branches and staff strength can be observed at a glance from the following table.

	1961	1990
Total deposit	₦1.8m	₦9.7 billion
Loan and Advances	₦8.7m	₦2.9 billion
Shareholders Fund	₦4m	₦472 million
Total Assets	₦11.9m	₦11.3 billion
Branches nation-wide	₦10	₦190
Staff strength	₦650	₦8.614

The Bank has established its presence firmly in the major financial centres of the world and also operates over 200 major correspondent banks in over 70 countries of the world. It undertook a voluntary public issue in 1970 and became the first to be undertaken by a bank in Nigeria. The voluntary issue came years before the requirement by the Authorities for 60% Nigerian equity participation in the bank's establishment in Nigeria. The ownership of the bank is tabulated by share as per the following table.

IDENTIFY	% Held
Ordinary shares	45.76
Ministry of Finance incorporated	14.24
Nigerian citizens, including staff	60.00
Total Nigerian interest	5.23
Banque nationale de Parish	
"Intercontinentale" France	
Banque Nationale de Parish Plc, U.K.	95.47
Bankers Trust Company, U.S.A.	4.50
Banca Nationale de Lauoro Italy	2.40
Monte dei Paschi di Siena Italy	40.00
Total Foreign Interest	100%

GRAND TOTAL

Appointments

Since incorporation, the Bank has had seven chairmen at the head of its Board of Directors whose names are given below:

1961 - sir John Balfour, a Briton

1969 - Sir Patrick Reilly, a Briton

1974 - Chief A. E. Hawson Wright, Nigerian

1976 - Mr. Victor Ndalugi, Nigerian

1980 - Mr. Michael Audu Buba, Nigerian

1984 - Chief, Mrs. D.B.A. Kuforiji-Olubi, Nigerian

1990 - Alhaji Adamu Fika, Nigeria.

The Organizational Structure

The main organisational unit in U.B.A. is the sector within which are sub-sectors, divisions, departments, groups, sections, teams, and units, in that order. The sectors each headed by an Executive Director, comprise of Lagos Banking sector and General Resources Sector excluding the Office of the Managing Director and Chief Executive. The sub-sector is headed by an officer of the rank of Deputy General Manager (DGM) while the division is headed by an Assistant General Manager (AGM) who reports to the Deputy General Manager.

The sectors, sub-sectors and divisions of the Bank are made up as follows:

SECTION		SUB-SECTORS		DIVISION	
1.	Office Managing Director & Chief Executive	i) ii)	Controls Sub-sector Fin. & Planning sub-sector	i) ii) iii)	Lending policy & control Inspection Corporate Dev. Division
2.	Lagos Banking sector	i)	Lagos North	i) ii) iii)	Corp. Branch Fin. services Lagos Div. I
		ii)	Lagos South	i) ii)	Lagos Div. II Lagos Central Branch
3.	States Banking sector	i) ii)	Agric. & Housing Division States Banking (North)	i) ii)	Abuja Region Kano Region
		iii)	States Banking (South)	i) ii)	Port Harcourt Ibadan Region
4.	International	International sub-sector		i) ii) iii) iv) v)	Network & Correspondent Rel. Division Foreign Exchange Division Foreign Trade Division International Spec. Duties New York Branch
5.	General Resources Sector	i)	Personnel Sector	i) ii) iii)	Manpower Dev. Div. Personnel Admin. Div. Management Div. Serv.
		ii)	Resources Sub-Sector	i) ii)	Property Div. Admin. Div.
		iii)	Service Sub-Sector	i) ii) iii)	Computer System Div. Computer Oprs Legal & Sec. Serv. Div.

The executives of the Bank that make up its general management are:
Managing Director & Chief Executive - Chairman
Executive Director (Lagos Banking Sector)
Executive Director (International Banking Sector)
Executive Director (General Resources Sector)
Executive Director (States Banking Sector)

This body constitutes the executive committee which is the policy making organ of the Bank. It is next to the Board of Directors.

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CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the questions asked in the questionnaire and the responses given. It starts from question five to thirty-six.

4.2 Analysis of Responses to the Questionnaire

QUESTION 5: What are the constitutes of your credit facilities?

RESPONSE: The constitutes of credit facilities are:

1) Overdrafts
2) Loans, bonds, indemnity, guarantees
3) Direct credit banks acceptance
4) Stock replacement line
5) Documentary credit line

QUESTION 6: Has your Bank any stipulated credit policies?

RESPONSE: That the Bank has stipulated credit policies

QUESTION 7: If yes, please kindly outline the major regulatory policies for credit management policies for credit management in the Bank are:-

a) CBN monetary guidelines
b) The bank treasury position
c) Statutory lending limits
d) Micro-Macro economic factors
e) Environmental consideration.

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QUESTION 8: How do you assess your current credit policies?

RESPONSE: That the current credit policies are effect.

QUESTION 9: What determine credit worthiness of a customer before loan is approved?

RESPONSE: That the determinants of credit worthiness of a customer before loan is approved are:

a) Character (b) Capacity

c) Purpose (d) Amount

e) Repayment & Security

QUESTION 10: Are there restrictions imposed by statutory and administrative regulations regarding safe sound and profitable bank lending? If yes, please outline the examples.

RESPONSE: That the examples of the restriction imposed by statutory and administrative regulation regarding safe, sound and profitable bank lending are:

a) CBN monetary guidelines

b) Statutory lending limits

c) CBN prudential guidelines

QUESTION 11: Do you have the following policies in your credit management system?

RESPONSE: That the following policies exist in their credit management system. They are:

a) Credit Rating System (b) an Analysis of Debtors (c) Credit Insurance Policy against body debts.

QUESTION 12: Does your bank charge loan policy regularly or does it vary over the credit cycle?

RESPONSE: That the bank charge loan policy regularly and that varies over the credit cycle.

QUESTION 13: If your bank's loan policy varies over the credit cycle. Can you state why?

RESPONSE: There is no reaction in this case.

QUESTION 14: Which of your debt recovery methods are most effective?

RESPONSE: That the most effective methods of the Bank's debt recovery are:

1) auctioning of mortgage properties
2) legal action
3) credits restructuring

QUESTION 15: Do you use debt collectors or tracing agents in the pursuit of your debts?

RESPONSE: That they do use debt collectors to pursue their debts.

QUESTION 16: If yes, are they more effective than your Bank's efforts?

RESPONSE: That the use of tracing agents is not more effective than the Bank's efforts.

QUESTION 17: Do you have debt classified as "doubtful" and "bad debts"?

RESPONSE: That they have debts classified as bad debts and doubtful debts.

QUESTION 18: If your answer is yes, list at least five causes of debt failing.

RESPONSE: The five causes of debt failing listed are:

a) Good judgement not exercised at inception
b) Flaw in structuring

c) Inadequate follow through analysis

d) Defective documentation

e) Deterioration in borrower's management of competitive/economic environment.

QUESTION 19: Do you always blame the customer for debt failure?

RESPONSE: That they do not always blame the customers for debt failure.

QUESTION 20: Whether your answer is Yes or No do you have a check system?

RESPONSE: That they have a check system.

QUESTION 21: Do you have an inducement facility (i.e. such as discount policy to attract early payment of debt)

RESPONSE: That there is an inducement facilities such as discount policy in the Bank to attract early payment of debt by the customers.

QUESTION 22: If yes, please indicate.

RESPONSE: That the example of the inducement facility is interest waiver concession.

QUESTION 23: How does your Bank circumvent delays in the recovery of debt?

RESPONSE: That the Bank circumvent delays in the recovery of debt by staying closer to the customer and making active contact at all levels.

QUESTION 24: Does delay in debt recovery has any adverse effect on the Bank's productivity?

RESPONSE: That delays in debt recovery has an adverse effect on the Bank's productivity.

QUESTION 25: Does the non-debt recovery also affect your Bank's liquidity ratio?

RESPONSE:	That the non-debt recovery does affect the Bank's liquidity ratio.
QUESTION 26:	If answer to question 24 and 25 is yes, explain how debt failure affect your Bank adversely?
RESPONSE:	There is no reaction to this question.
QUESTION 27:	Has your Bank ever resorted to legal battle to recover debts?
RESPONSE:	That the Bank has been resorting to legal battle to recover debts.
QUESTION 28:	If Yes, at what stage of the debt do you take to litigation?
RESPONSE:	That the Bank takes to litigation only after classification.
QUESTION 29:	Do you always sue in recovering the debts through legal proceeding?
RESPONSE:	That they don't always sue in recovery debts through legal proceeding.
QUESTION 30:	If answer is No, why?
RESPONSE:	That the reason is that the litigation proceeding drags for so long that the Bank usually explores out-of-court settlement.
QUESTION 31:	Since your Bank goes to court in order to recover debts, what then is regarded as bad debts in your Bank?
RESPONSE:	That a debt is regarded as bad debt in the Bank when it is classified as irrecoverable and provision made for write-off such that its eventual recovery automatically becomes profits for the Bank.
QUESTION 32:	Do you have any association or organisation of credit management in Nigerian banking industry?
RESPONSE:	That there is no credit management organisation in Nigerian banking industry.

QUESTION 33: Can you identify the effect of interest rate policy on your credit volume?

RESPONSE: There is no reaction to this question.

QUESTION 34: Do you discriminate among customers in the extension of credit facilities?

RESPONSE: That the Bank discriminate among customers in the execution of credit facilities.

QUESTION 35: Describe the benefits of collateral securities on debt recovery?

RESPONSE: That the benefits derived from the use of collateral securities on debt recovery are:

1) It makes recovery easy where debts are secured

2) It brings the customer to the negotiation table.

QUESTION 36: What major items are acceptable by your Bank as collateral before loans are given to

a) Individual customer?

b) Corporate (i.e. companies)?

RESPONSE: That for the individual customer, the following items are required as collateral:

- Land & building
- Guarantees
- Stocks and shares
- Life policy

etc.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Consequent upon the data analysed in chapter 4 this section provides summary to the findings.

The Bank has five kinds of credit facilities in her portfolio which includes loans, bonds, indemnity, guarantees, direct credit, banker acceptance, stock replacement credit, documentary credit and overdraft. The bank also operates under stipulated regulatory policies that help her to ensure effective credit management. The major regulatory policies include CBN monetary guidelines, the bank treasury position, statutory treasury lending limit, micro-macro economic factor and environmental consideration.

On the point of credit worthiness, the determinants and character, capacity, the purpose, amount, and repayment and security provided by the customer. The assessment of the bank credit policies has been described as effective. In order to safeguard and to obtain profitable bank lending the bank imposes statutory and administrative restriction and the examples of such restrictions are CBN monetary guidelines, statutory lending limits and CBN prudential guidelines. The bank also confirms that it has credit rating system, age analysis of debtor and credit insurance policy against bad debt in its credit management system. The finding also revealed that the bank loan policy varies over the credit cycle but did not state reasons leading to the fluctuation of the loan policy.

Under the consideration of debt recovery the most effective methods the bank uses are auctioning of mortgaged properties, legal action, and credit restructuring. The bank uses debt collectors sometimes to pursue its debts but observed that it was not

more effective than the banks efforts. Some of the banks debts are classified as doubtful debt and bad debts and the reasons they attributed to debt failure include: Good judgement not properly exercised at inception, flaws in structuring of debt and the case of inadequate follow-through analysis, defective documentation, deterioration in borrowers; management of competitive economic environment.

The bank does not always blame the customers for debt failure because it has a check system apart from the inducement facility such as interest waiver concession to attract early payment of debt by the customers.

To circumvent delays in the recovery of debt what the bank does is staying close to the customer and making contact at all levels and the bank claims that the delays in debt recovery affect the banks productivity level adversely and also affect the bank's liquidity ratio; but does not provide information on how it affects the bank adversely.

Litigation to the bank is a last resort to recover debts and the bank takes to litigation only when debt has been classified. Unfortunately the bank does not always succeed in recovering the debts through legal proceedings and the reason given is that the litigation procedure drags for so long that the bank explores out of court settlement.

The banking industry in Nigeria does not have any Association or organisation that deals with credit management at least for now. The bank did not give information on the effects of interest policy on its credit volume but admitted that it discriminate among customers in the extension of credit facilities considering the benefits occurring from the use of collateral securities on debt recovery, it was pointed out that it makes the customer to negotiation table. In this bank, the major items acceptable as collaterals before loan is given to the individual customer are:

- land and building

- guarantees

- stocks and shares

- life policy

While debentures, land, building, domiciliation of payments and change over credit balances are accepted as collateral requirements in the case of corporation or limited companies.

5.2 Conclusion

Following the analysis displayed and the summary of findings the formulated hypotheses are herein tested for a proof.

1) "The credit management policies are inefficient". This hypothesis was proved wrong as the finding showed that the policies are effective so it was rejected.

2) "The fault of the borrower to repay is not the fault of the borrower". This hypothesis also was proved wrong. Since the bank admitted that it is not always the fault of the borrower to repay the debt. It was rejected.

3) "Delays in payment do not have negative effects on the lending organisation". This hypothesis was proved wrong for the bank claims that delay in payment do affect the lending organisation adversely. It was rejected.

5.3 Recommendation

Having drawn conclusion based on the formulated hypotheses the researcher is obliged to make the following recommendations:

1) The Bank should improve on its discount policy apart from the interest rate waiver especially in the case of doubtful debts.

2) The Bank should always maintain close contact with the customer, to reduce debt failing or possibly circumvent debt failure.

3) Apart from Central Bank of Nigeria regulatory policies for credit management. It is important that the Banks evolve self-defined policies that will match peculiar cases of customers.

4) The use of litigation as a last resort is ideal in debt recovery process but can be avoided if the bank management takes to instalmental repayment condition when the debt under analysis may be classified as bad debts.

5) The determinants of credit worthiness of a customer whether individual or corporate organisation must be given flaws in judgement for the purpose of eliminating flaws in judgement and structuring.

6) A rush into the approval of loan without sourcing adequate and relevant information on the prospective borrower must be avoided if the Bank wishes to circumvent delays in the recovery of debt.

7) To increase credit volume the interest rate policy must be considered within the frame or economic circumstances of the time for low interest rate does does facilitate quick repayment and drastically minimise debt failures.

8) The training and retraining of credit officers should be given serious and regular attention to upgrade their knowledge in the face of challenges.

9) For the companies, apart from the availability of required collaterals, the financial statements of the organisation must be obtained for the purpose

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of analysing the liquidity ratios in order to interpret. The future financial standing of the business in terms of solvency.

10) As a collection policy and in order not to loose customers through litigation, the Bank should establish a procedure for late collection along the tract of reminder, personal letter, personal visit, restriction of credit and the use of collection agencies.

11) For further researcher, it is recommended that creditors should be examined to establish how organizations manage their liabilities.

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RESEARCH QUESTIONNAIRE

This questionnaire is designed to obtain data for the purpose of an academic exercise only. The response of the respondents shall be treated confidentially.

SECTION A

1. BANK.....

2. How long have you worked in this bank
   0-5 [] 4-10 [] 10-15 [] 15-20 [] 20 & above []

3. Have you ever worked in Credit section?
   Yes [] No []

4. Are you presently involved in handling credit facilities?
   Yes [] No []

5. What are the constitutes of your credit facilities?

   a) _____
   b) _____
   c) _____
   d) _____
   e) _____

SECTION B

6. Has your Bank any stipulated credit policies?
   Yes [] No []

7. If Yes, please kindly outline the major regulatory policies for credit management in your Bank?

   a) _____
   b) _____
   c) _____
   d) _____
   e) _____

8. How do you assess your current credit policies?
   Effective [] Not effective [] Cannot assess []

9. What determines credit worthiness of a customer before loan is approved?
   a) _____
   b) _____
   c) _____
   d) _____
   e) _____

10. Are there restrictions imposed by statutory and administrative regulations regarding safe, sound and profitable bank lending? If yes, please outline the examples?
   a) _____
   b) _____
   c) _____
   d) _____
   e) _____

11. Do you have the following policies in your credit management system?
   a) Credit rating system: yes [] No []
   b) Age analysis of debtors: Yes [] No []
   c) Credit insurance policy against bad debts: Yes [] No []

12. Does your Bank change loan policy regularly or does it vary over the credit cycle?
   Yes [] No []

13. If your Bank's loan policy varies over the credit cycle, can you state why?
   a) _____
   b) _____
   c) _____
   d) _____
   e) _____

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SECTION C

14. Which of your debt recovery methods are most effective? (Please indicate in the order of importance)

15. Do you use debt collectors or tracing agents in the pursuit of your debts?
   Yes [] No []

16. If Yes, are they more effective than your Bank's efforts?
   Yes [] No []

17. Do you have debts classified as "doubtful debts" and "bad debts"?
   Yes [] No []

18. If your answer is Yes, list at least five causes of debt failing:
    a) _____
    b) _____
    c) _____
    d) _____
    e) _____

19. Do you always blame the customers for debt failure?
    Yes [] No []

20. Whether your answer is Yes or No: do you have a check system?
    Yes [] No []

21. Do you have an inducement facility (i.e. such as discount policy) to attract early payment of debt?
    Yes [] No []

22. If Yes, please indicate:
    a) _____
    b) _____
    c) _____
    d) _____
    e) _____

23. How does your Bank circumvent delays in the recovery of debt?
    a) _____
    b) _____
    c) _____
    d) _____
    e) _____

24. Does delay in debt recovery has any effect on your Bank's productivity?
    Yes [] No []

25. Does the non-debt recovery also affect your Bank's liquidity ratio?
    Yes [] No []

26. If answer to questions 24 and 25 is Yes, explain how debt failure affect your Bank adversely?
    a) _____
    b) _____
    c) _____
    d) _____
    e) _____

SECTION D

27. Has your Bank ever resorted to legal battle to recover debt?
Yes [] No []

28. If Yes, at what stage of the debt do you take to litigation?
a) _____
b) _____
c) _____
d) _____
e) _____

29. Do you always succeed in recovering the debts through legal proceedings?
Yes [] No []

30. If answer is No, why?
a) _____
b) _____
c) _____
d) _____
e) _____

31. Since your Bank goes to court in order to recover debts, what then is regarded as bad debt in your Bank?
a) _____
b) _____
c) _____
d) _____
e) _____

SECTION E

32. Do you have any association or organisation of credit management in Nigerian banking system?
Yes [] No []

33. Can you identify the effects of interest rate on your credit volumes?
a) _____
b) _____
c) _____
d) _____
e) _____

34. Do you discriminate among customers in the extension of credit facilities?
Yes [] No []

35. Describe the benefits of collateral securities on debt recovery?
    a) _____
    b) _____
    c) _____
    d) _____
    e) _____

36. What major items are acceptable by your Bank as collaterals before loans are given to:

    a) Individual customer?
    _____
    _____
    _____
    _____
    _____

    b) Corporate (i.e. companies)?
    _____
    _____
    _____
    _____
    _____

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