CREDIT MANAGEMENT IN THE BANKING SECTOR:
A CASE STUDY OF FIRST BANK OF NIGERIA

BY

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A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL AHMADU BELLO UNIVERSITY ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION (MBA)

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N O V E M B E R , 1 9 9 7

DECLARATION

I hereby declare that this project is a product of my research findings and that I am responsible for any error committed and /or omissions. All articles used here have been acknowledged accordingly in references.

Saadatu I. Yususf Signature .....

Date 23/11/99

CERTIFICATION

This project is titled credit management in the Banking Sector. A case study of first Bank of Nigeria PLC" meets the regulations governing the awards of the degree of masters in Business Administration (MBA) of Amadu Bello University Zaria and is approved for its contribution to knowledge and literary presentations.

.....	26/7/2000
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HEAD OF DEPARTMENT	DATE
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DEAN OF GRADUATE SCHOOL	DATE

DEDICATION

This research findings is hereby dedicated to my husband, my son and to the entire family of Alhaji Yusufu Biu for their love, care and support.

I remain forever grateful.

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ABSTRACT

One of the basic functions of banks is taking of deposits and lending but when customers fail to meet their obligations, major problems such as bad debts arises, thus it is important for a bank to establish a well defined credit policy and a well proven method of recovering debts.

This project work entails the ways in which credits are being managed in the commercial banks with special reference to first bank of Nigeria P.L.C and concentrates on the administration of lending before and after the credit up to the final stage with much emphasis on the causes, effects and possible remedies of bad debts with efforts taken to alleviate the recurrent trend. The general assumptions adopted in this work are that banks grant credit to deserving customers with a high expectation that such credits will be repaid plus the required interest and that banks are governed by the same credit guidelines issued by the central bank in addition to their respective interest generated. The study is limited to facilities granted between 1 to 5 years.

On the whole, the prevailing economic difficulties in the country calls for skillful credit management and prudence on the part of the bank, thus the conclusions therefore reached from the research findings are directed towards finding workable strategies or methods that will assist in reducing the level of bad debts and adverse effects on the banks profit.

CHAPTER ONE

1.0 INTRODUCTION

Credit management has come to assume a major role in the Banking industry in particular and the Nigerian economy in general. It is simply defined as ways by which most financial institutes manage, control and keep records of loans and other credit facilities it offers to its customers to enable them create more economic activities and development of the country. However it is important to note that there is still a wall between the Banking industry, lending institutions and other sectors of the economy.

Banking is a risky business and will always be since the basic nature of banking operations has not changed. The core operations of banking include the taking of deposits and lending i.e. to buy an sell money. One major way of selling money is through loans and advances and as far as all customers service their loans and advance, the banks are happy but when customers fail to meet their obligations, major problems and risk enters every facet of these activities because events may not always turn out favourable e.g possibility of sudden and unanticipated withdrawals from depositors and defaults from debtor which lead to bad debts. These bad debts originates when facilities extended by banks to their customers are not repaid either because customers are unable or unwilling, or poor evaluations and review of facilities by credit managers or unsatisfactory, follow up after approval and draw down of facilities and carelessness in taking up securities. Therefore an efficient and effective credit management entails good understanding of risks associated with facilities and well-proven method of recovering debts without loosing its good will.

Finally, the economic difficulties in the country coupled with bank failures calls for skillful credit management and prudence on the part of the bank.

1.1 HISTORICAL BACKGROUNG OF THE BANK

First Bank of Nigeria P.L.C was founded in 1894 by Sir Alfred Jones. It was incorporated as a limited liability company on 31st March 1894 under the corporate name of Bank of British West Africa with a paid up capital of twelve thousand pounds sterling. It started business after it had absorbed the African banking corporation which was established in 1892. The bank in its early years worked in close cooperation with the colonial government in performing the traditional roles of commercial bank.

Its name changed to standard bank of Nigeria limited in 1969 after being locally incorporated in response to the companies and allies matters decree 1968. In 1979 the name was changed again to first bank of Nigeria limited and then to first bank of Nigeria P.L.C. in 1991.

The Bank presently operates with an authorised capital of over six hundred million ordinary shares, a share capital of over ₦215.2 million, total assets valued at over N33.95 billion and a deposit base of over ₦23.3 billion.

The enhanced level of operations and need to respond to competition has necessitated a decentralised decision making process, aggressive banking and responsive directorate system, additionally a computerised and information management system has been put in place. To date the Bank has a diversified loan portfolio and credit facilities to various sectors of the economy and major products on offer in addition to other traditional products such as the first cash which offers cash withdrawals 24 hours daily

while the latest is tlie western union money transfer which is an innovation for collecting money instantly by customers sent to them from other countries.

The Bank subsidiary companies include, FBN merchant Bankers, first Nominees limited, first trustees L T D and first dependent L.T.D the banks ownership structure consist of 9.9% for its foreign partners which are standard chartered Bank P L C London and the remaining 90.1% for Nigerian investors.

1.2 STATEMENT OF THE PROBLEM.

Most commercial banks in Nigeria are currently being threatened by huge bad debts burden. In a developing economy like Nigeria, management decision making becomes more complex in with an uncertain future especially big organisations which are facing great difficulties in designing better ways to cope with economic trends in management of their credits. The costs of financing bad and doubtful debts continue to assume significant proportion and this is detrimental to the liquidity position and long term benefits and growth of the business. This have rendered most banks technically insolvent and is a problem which banks have to cope and find variable solutions.

First bank with its liquidity position is a full fledged commercial bank that offers a wide range of banking services including its latest product i.e the western union money transfer. However just like most banks it has its own shortcomings in the following identified areas,

i. Reckless credit policies whereby facilities are nor properly secured and securities not properly documented nor executed to ensure effective recovery when default occurs.

ii. Lack of ethical standards, commitments and information necessary to support a sound credit base management.

iii. A poor management team which does not monitor adequately loan portfolios and as such when the loan becomes bad it makes recovery almost impossible.

iv. Customer attitude of not repaying loans because facilities given by banks are part of the national cake and banks can absorb the financial losses inflicted.

v. The securities taken up does not cover the lending adequately and as such it takes realisation difficult.

vi. Direction of facilities to purposes other than those for which they are given.

1.3 AIMS AND OBJECTIVES

All the commercial banks in the country have credit policies which guide them in their disbursements to those who have constructive needs for funds. The aims of this research to undertake intensive investigation and highlight on the bank lending and management of receivable, to evaluate different types of lending facilities extended by banks, to establish whether there is a relationship between lending and profitability making necessary suggestions and recommendations on the credit policy.

Part of the objectives of this research is to find out if banks evaluate credit applicants before granting credit, it is also to appraise the various techniques in the administration of bank lending from the point of disbsursement to the point of recovery and at the same time identify the causes of increasing levels of bad debts partially in commercial banks.

1.4 HYPOTHESIS

In realising the aims and objectives of this work the following hypothesis will serve as a useful guide.

i. The default in credit settlement is due to lack of monitoring loans so as to achieve the desired economic goals.

ii. Inadequate recovery policy and targets to stimulate prompt payment of the facilities.

iii. Lack of sound credit policies to stimulate increase in lending coupled with the high level of correlation between and credit administration, bad and doubtful debts in the commercial banks.

iv. The loan policy and credit guidelines if properly implemented can help to reduce the level of bad and doubtful debts in commercial banks.

1.5 SIGNIFICANCE OF STUDY.

Theoretically, the acquisition of loans and advances from commercial bank sound a simple process, however the conditionalities put in place make most customers to have different perspectives. This is due to past experiences where customers after final draw down blatantly refuse to loan and since the bank is safe guarding customers deposits it must put so many things in place to safe guard it. The federal government of Nigeria has tried to meet what the people yearn for with the creation of the peoples bank, community banks and finally the policy on agricultural lending with central bank of Nigeria granting 75% the loan. This focus the research in finding out the "why" in the surrounding situation and why the situation it is the way it is.

1.6 LIMITATIONS OF STUDY

Based on the fact that it is the joy of every student to write a research work, this may not however be attained if the project work is not cohesively written. The constraints thereby encountered ranges from the degree on reliance on data collected with its inherent or implicit bias, access to the companies records, the pressure of office work, time related constraints and an unstable economic environment.

1.7 ASSUMPTION

In the course of carrying out the investigations, the following assumptions were made.

i. The Bank records and information obtained are accurate and reliable.

ii. The data collected is free from bias.

iii. The reviewed literature is well researched.

1.8 DEFINITION OF BASIC TERMS & CONCEPT

CREDIT: This involves giving (receiving) goods or purchasing power now in return for a promise to receive or repay the goods or purchasing power later. It is the sale of goods, services or money claims in the present in exchange for a promise to pay (usually money) in the future. It includes the power to use a bank loan by giving a promise to pay both the principal and the interest instalmentally or in lump sum in the future. "It is a present right to future payment and in the Banking sector lending & credit are often used interchanrgeably.

LENDING: Is the process by which a customer is afforded the use of Bank funds for specified business or personal purpose for a fixed period of time with a promise to repay the amount borrowed at an agreed future date with an interest.

LOANS: Is the lending of money or funds by way of opening a loan account for an agreed sum of money and crediting that sum to the customers current account whereby interest is charged on the loan account and debited to the current account.

OVERDRAFTS: Involves letting the customers "go into Red (debt) on the current account by drawing cheques in excess of the balance while interest is charged on the balance of the accounts

BAD AND DOUBTFUL DEBTS: Is a loan or debt which has become irrecoverable at the date of maturely. A facility may be termed bad or doubtful when the borrowers fails to pay the loan in accordance with the terms and conditions of the loan agreement.

DEFAULT: Is the failure of the borrower to repay the principal and the outstanding interest in accordance with terms and conditions of the loan agreement.

SECURITIES: Are things that produces safety, freedom from danger or anxiety, something valuable. For example a life insurance polices, cash, properties, shares & stocks e t.c given as a pledge for the repayment of the of a facility or fulfillment of a promise or an undertaking.

COLLATERAL SECURITY: Are any securities deposited by a second or thirds party to secure the indebtness of the customer with the advantage that in the event of bankruptcy or liquidation of the borrower, the value of such security may be ignored in the proof for dividend against the failed estate.

CREDIT LIMIT: Is the maximum amount the bank is prepared to invest in the customer by way of granting facility.

CREDIT PERIOD: Is the length or period of the facility which credit is granted with an expiry date usually stipulated.

All the above terms defined is in order to have a common knowledge and understanding between the research work and the meaning transmitted to its targeted current and potential beneficiaries, it behoves that a clear and unambigous definition of the words which may have numerous and multidimensional meanings and definitions.

CHAPTER TWO

2.1 CREDIT AND CREDIT MANAGEMENT DEFINED.

Commercial banks as financial institution services of fund and its users for produced or personal purposes,. Specially they provide avenues for savings to those with surplus while the bulk of such funds are then lent out in loans and overdraft (LC. Mather "the lending banker"), however banking business is considered to be based on trust, viz money is entrusted for safe keeping & for immediate demand as the need arises. It has become the responsibility of the government to watch closely the operations of these banks for the interest of depositors (Hutchison H.D 1972 money Banking and unibed states Economy").

There is no magic formula to good lending, experience, hunch and flair are important. In that certain facts and other things being equal a prescribed course should follow and they are neither independent nor unbreakable. The three basic principles behind all lending or credit analysis are safety, suitability and profitability.

2.2 TYPES OF CREDIT FACILITIES

There are several forms of bank lending in present day banking services in Nigeria. These include loans, overdrafts, discounted trade bills, negotiating bills on letters of credit, investing in equity stock and quilt edged securities and Bankers acceptance e.t.c

However we would concentrate on loan & overdraft because it is common in all banks. It should be realised that whatever form of lending is adopted, it all depends on the purpose of the borrower and the circumstances of the transaction. The important

thing to understand is that regardless of the form a bank lending takes a debt is inevitably created between the bank and the customer, thus the bank becomes the creditor and the customer the debtor.

LOANS: According to Foluso Olalusi "Introduction to Banking" states that "A loan was first initiated in the late 1950's and was intended to help customers procure their needs on live purchase, such a customer then pays the principal and interest in monthly installments. The monthly installment payment is a combination of capital loaned plus interest added at the beginning. As such a loan differ slightly from the general live purchase contractual relation since the bank has no rights on the object financed"

In present day banking services a loan is processed as a separate account of its own, hereby the whole sum granted to the customer is released in a lump and after the initial drawing which creates the loan, no further drawing or charges is allowed on the account. The subsequent entries that passes through the account is the repayment installmentally which will reduce the debt steadily until the whole debt is liquidated. The interest charges however due from the loans are debited to the borrowers current account.

OVERDRAFTS: Foluso Olalusi "introduction to Banking" states overdrafts are short term loans with the interest calculated on a daily basis. If is a sum of money approved to a customer over his credit balance in his current account and the customer is allowed). Each lodgement reduces the overdraft figure while each withdrawal increases the amount subject to the limit approved. An overdraft is a running account and is mostly approved to augment customers working capital.

2.3 GOALS OF CREDIT MANAGEMENT IN BANKS

Professor J.M. Pandey in his book on financial management was of the view that the "objective of credit is not to maximise sales nor to minimise the risk of bad debts" He argued that if the aim was to maximise sales then the firm would have to sell on credit to all customers and on the other hand; if the management decide to minimise bad debts risk, the firm may not sell at all to anybody on credit.

The base goal of credit management is to maximise the value of the firm by achieving a trade-off between liquidity and profitability, thus the firm should manage credit in such a way that sales are expanded to an extent to which risk remains within acceptable limits.

However if this is related to financial institutions if would be then be saved that the objective of credit management in a bank should not be to maximise the credit (loans and advances) nor to minimise the risk of bad debts because if the aim is to maximise credit (loans and advances) then the bank would have to keep on lending to all customers and on the other hand if the management decide to minimise bad debts risks the bank may not lend to anybody at all and in that case the bank will have to pay a huge penalty to CBN or be forced out of business.

In the same light the main goal of credit management should be to maximise the value of the bank by achieving a trade off between liquidity and profitability. Thus the bank should manage its credit. In such a way that credit are expanded to an extent to which risk remains within acceptable limits. This to achieve the objective of maximising the value of the bank the bank should manage its advances so as to

1. obtain optimum credit.

2. Control the cost of credit & keep it at a minimum.

3. Maintain investment on receivables (debtors at optimum level).

On the whole an efficient and effective credit management can help to expand total revenue and can prove to be an effective tool for marketing. Efficient credit management helps to retain old customers and attract new customers to the bank.

2.3 C.B.N CREDIT POLICY GUIDELINES.

In Nigeria apart from the banking and the CBN Act which legalised lending by banks and other financial institutions in Nigeria i.e

i. Empower banks and other financial institutions to carry out the business of lending.

ii. Empower the CBN to control and regulate banking activities in Nigeria.

iii. Creates relevant boards and organs for the management of the banking institutions.

The federal government issued annually details briefing on its monetary policy & credit guidelines for the year. These guidelines set clearly the monetary polices to be pursued in the wake of a new fiscal year & regulate banks accordingly in order to achieve the objective set for the period. The monetary policy circular each year specifies the actual amount and ratio at the beginning of the fiscal year. The circular is usually comprehensive and covers all aspects of the lending activities of the bank included in the monetary policy is the credit policy guideline.

Thus the credit policy is used by the CBN to control the lending operations of the banks from one period to another through credit ceilings and interest rates. The major

areas normally covered by the CBN guidelines which regulates banking operations in the country are.

i. Aggregrate credit ceiling for the year.

ii. Loans to preferred sectors and the less preferred sectors.

iii. Loans to rural areas.

iv. Reserves requirements which is now 8%.

v. Liquidity ratio which is now 30%.

vi. Stabilisation securities : this has been suspended by CBN is yet to make refunds.

vii. Interest rate: Presently deregulated .

viii. Prudential guideline

2.5 LOAN LOSS PROVISIONS AND PAPER PROFIT.

Banks as we said buy and sell money and one way of selling money is through loans and overdrafts. It is necessary for banks to ensure funds that are mostly short term liabilities are not used for long term investment overdrafts are said to be payable on demand, consequently banks are heavily exposed in this area using funds on call. It is bad to mark an overdraft for project take off and worse to mark such short term facility for importation of plant and machinery. The best is to structure them by way of loan in line with the gestation period of the project and the project should be able to repay the facility and the charges without recourse where it fall to meet the bank obligations major problem arise. If a loan is bad the prudent thing to do is to recognise the loss on the loans immediately.

2.6 PRUDENTIAL GUIDELINES: Are financial stipulations to assist the banks in improving the assessment of their credit performance. It categorise bank credit into "performing" and "non-performing", a performing credit is when both payment of principal and interest are up to date in accordance with the agreed terms while a non-performing credit is when interest and principal is due and unpaid for 90 days or more.

i. sub-standard if interest/principal are not paid for 90 days.

ii. Doubtful if interest / principal are not paid for 180.

iii. Loss if interest/ principal are not paid for 365.

It is therefore in the interest of the banks to adhere because this measure may pose great limitations to the expansion of credit and profit. The above directives given the true profit position of banks cause interest not charged on non performing credit and any interest that accrued on such accounts no longer qualify as income.

In compliance with requirement of the new guideline, first bank of Nigeria known for its prudence a conservative financial management became one of the first victim of this regulation, in 1990 a sum of N395.188 million was provided for bad and doubtful accounts out of a gross operating profit of N189.76 million of course this resulted in a huge loss of N205 million and the rest of the provision was amortised for a period of four years.

This made the elephant (1st Bank) to wake up and start a more aggressive credit policy and intensive recovery and to stop declaring "paper profits" and all facilities were provided for.

2.7 INVESTIGATION & ANALYSING AND APPLICANT.

In analysing an applicant, when a prospective borrowing customer presents his request which is usually in a written form an oral interview is conducted where the customer request is discussed to ascertain that he clearly understands what he wants to do with the facility for how long and how the repayment will be made. The customers occupation, income resources experience and proven ability are also accertained, where the customer has no experience the proposal will still be analysed for its merits & viability after the analysis the application for limits form will be completed to give till details of the request sought and the form comprises of 7 pages.

1. The customer brief status report
2. The facility sought, around, interest rate customers liability to bank, previous amount granded, credit balance, purpose, period, mode of repayment.
3. Customers account performance with turnover and revenue earned in the preceding 12 months.
4. Where the customer pledges a security property details are documented here.
5. Other securities, cash, share certificates deposits life policies e.t.c
6. Guarantees and further information concerning the securities.
7. Summary of the preceding pages and recommendations.

LENDING CRITERIA: The basic principles of good lending involves 3 elements namely, safety consideration, suitability of the lending proposition and profitability. However these can be broken down to a mnenomic called "paper champps"

1. **Purpose:** of advance must be clearly stated and must be in consonance with government monetary policy .

2. **Amount:** Should be clearly seen to be sufficient for the purpose stated and obviate the possibility of a further approach for funds. The borrowers/ share holders own contributions if any should be examined to ensure he is committed to the success of the business, his contribution should be substantial and in most cases higher than the banks stake.

3. **Period:** should be clearly seen to be sufficient for repayment to be accomplished.

4. **Exchange control and other regulations:** which covers both indigenous and non-indegenous borrowers, CBN guidelines, credit control policy as well as exchange control consideration may affect or even prohibit the facility.

5. **Repayment:** source of repayment should be clearly stated so that the facility may be seen to be self liquidating and within the capacity of the borrower to afford or sustain.

6. **Character:** reputation and integrity of customer as reflected in his business and account performance.

7. **Mandate:** the paperwork required before borrowing is allowed to take place. For limited liability companies (memorandum and Articles of Association, certificate of incorporation, audited latest balance sheet, feasibility studies, market survey report, cash flow, projected P.& L statement balance sheet i.e as and when appropriate) partnerships – (partnership deed, certificates of business name, latest audited balance sheet or statement of affairs business name statement of Affairs).

8. **Performance:** of account(s), modes of operation (returned cheques, credit period) must be clearly seen to be in order, also financial performance as per balance sheet should be satisfactions.

9. . Profitability: a clear advantage to the customer arising from the borrowing the facilities should increase profitability sufficiently for payment to be within **a** reasonable time & leaving a margin to accrue to the customer.

1.0 **Security:** should be adequate easy to realised with little formalities and possibility of taking possession is there security can be a property, share certificates cash, Guarantees, e.l.c.

In investigation the credit applicant, there are a number of sources information which may be useful eg

1. Trade references: a customer can be as bad to supply 1 or 2 references & the standard of the companies who supplies will give a guide to the credit worthiness of the customer

2. Bank references or bankers opinion: where a bank may be asked to comment on the financial standing of its customer and they have a number of standard letters that they send in response to enquiries on their customers financial standing but the letter are very carefully worded.

3. Credit bureau report or register, are publish lists showing relevant financial details of many companies including a credit rating. If an enquiring company requires additional information they can ask for a special credit report on any company.

4. Published information: annual accounts are analysed to determine the financial position of the customer the register of company keeps records of charges on the assets of a company and these records can be examined.

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5. Company's ledger: an examination of how well the customer has met his financial commitments in the past will give some guide to how well he pay in future. A computer is sometimes used within the organisation to control debt, this is because a computer can share up-to-date information on the position of the customers and report when a customer's liquidity position becomes dangerous and it also tells of the customers credit worthiness.

All the above sources of information could save a company a loss on possible bad debt.

2.6 MAJOR FINANCIAL RISKS

Banking is a risky business and will always be, because risks enters every facet of these activities because events may not always turn out favourably as might be expected.

Risks as defined by I. Aja Nwachuku "Risks & its implication for the Nigerian banking industry said is the variance between one's expectations & realizations, this implies the existence of established probabilities for possible returns from future operation.

The 3 major financial risks are.

1. credit risks or default risk is concerned with the assets held by as bank as a creditor. A bank faces the danger that its debtors may not, make payment due on interest and principal as and when required. It therefore demands risk premium from its debtors and other things being equal the greater the possibility that a debtor will default the greater the default risk of the risk premium. However default may arise because of severe economic problems, national hazards, political risk e.t.c.

This type of risk occurred in 1990 when the prudential guidelines clearly bought out the need for effective risk management and energised the bank to the more conscious of the risk structure of its loan portfolio. The event also created the need to be more rigorous in evaluating applications for loans and advances credit risk can be controlled by.

a. Diversifying credit so as to award excessive concentration of credit risk among few individual debtors or within any geographical area.

b. Maintaining standards & control procedures for the approval of credit.

c. Maintaining adequate resources for possible loan losses.

d. Accepting only readily marketable securities as collaterals for those credits support by securities.

e. Avoiding term credits with maturity of 5 years or more without substantial amortisation.

f. Declining non-productive credits e.g gambling

2. Liquidity risk: a bank may face withdraw or liquidity risk in connection with its liabilities as a debtor to its depositors it faces the risk that these creditors may be unwilling to renew or extend their credits to the bank. Reserve requirements may also be changed from time to time transforming voluntary reserves into legally required reserves thereby reducing the reserves heeded to financial deposits and as well limit the ability of banks to extend credits. The type could endanger the solvency of a bank and exacerbate the instability of the banking industry.

Liquidity risk is managed with the following:

a. Assuring credit customers that funds are available to meet their borrowing requirement

b. Assuring deposit customers that fund are available to provide for withdrawal of funds upon demand or at maturity.

c. Maintaining the statutory liquidity ratio of 30%

d. Maintaining access to liquid resources sufficient to enable the bank to respond to potentially profitable credit or investments.

e. Diversifying sources of funds in terms of types of instruments and maturity.

Market risk: reflects the influence of market forces upon the availability of funds which creates liquidity risk or upon movement in foreign exchange rates which relate to economic. Financial and political development and market risks are inherent in virtually all sources and uses of funds.

Market risk can be controlled by

a. Operating activity on the money market

b. Diversifying sources of funds, types of instrument and maturities.

2.7 MONITORING LOAN PAYMENTS AND COLLECTION

Most Banks have systematic procedures for collecting loan payment. One process is to have a credit tellers and payment are recorded and also regularly review to identify past due Loans and payments some bank have further automated their collection procedures where cheques are written against a line or periodic payment cards are established. Hence the borrower authorised their bank to debt their account directly for

an agreed minimum monthly repayment on the outstanding balance of the loan. In addition the borrower usually have the flexibility to pay more than this minimum pre-authorised repayment. In banks where the loan records are on computer, the dates when loan expire or payments are due from each borrower will be shown. This identifies borrowers who have not made their payment on time or on agreed date.

The collection policy of banks is determined by the combination of collection procedures, such things as letters, telephone calls, personal call visits, use of guarantors and legal actions (both internal and external) one of the principal policy variables is the amount expended on collection procedures by the debt recovery department. Within a range the greater the relater amount expended the lower the proportion of bad debts losses & the shorter the average collection period all things being equal, initial reduction in bad debt loses additional expenditures begins to have a significant effect in reducing the amount of bad debts losses beyond a point. However, additional expenditure tends to have little effect in further reducing these losses.

CHAPTER THREE

3.0 INTRODUCTION

Research methodology used is a combination of exploratory and descriptive approach.

The method makes it possible to examine a phenomenon from many view, looking for new ideas and insight which explain what is happening and hindering acceptance of new appraisal techniques and what is responsible for increase level of bad debts. The sample for the research is limited to first bank of Nigeria PLC and efforts have been made to minimize any errors.

3.1 METHODS OF DATA COLLECTION

In designing the methods used for this research, consideration was given to different ways of enhancing credit policies. The research work is a result of data collected from primary and secondary sources of information.

3.a The primary sources of information: used refer to the original information or data obtained through personal experience and direct or oral interview. The researcher being acquainted and an insider of F.B.N PLC had information with regards the background of the research topic through personal experience and observations. Informal interviews was also conduced with key offers and managers.

Informal interviews especially in this type of sensitive topic in relation to bad debt is important this is because questionnaire may be subjected to misinterpretations but with information interview this could be minimised and most offers and managers prefer speaking rather than writing informal interview has the following advantages.

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1. Obtaining information quickly

2. Ensuring that respondents interpret questions properly.

3. Allows flexibility in the process of interviewing.

4. Information can be more readily.

3.b Checked for its validity

The secondary sources refer to information obtained from records and documents of first bank of Nig PLC going though existing, files, write-up, magazine e.t.c for the purpose of establishing r sorting out facts to enable a reliable conclusion.

Previous write up: was gathered from first bank monthly publications, newspaper, magazine e.t.c

Content analysis: of literature provided a major source of secondary data for the theoretical framework for this study. As contained in chapter two the source was used mainly to delineate contributions of various writers and publication on issues relevant to the topic.

3.2 REFERING PERIOD:

Credit management is as old as the establishment of bank since one of the major duty of a bank is lending as such the period covered is both the past and the present with challenges and competitions.

3.3 ANALYTICAL TECHNIQUE

Analytical tools and techniques used in analysing the data collected for the purpose of this research work are mainly descriptive in nature.

3.4 METHODLOGICAL PROBLEM

The problems encountered were mainly leads of available materials, enough cooperation from customers and staff.

CHAPTER FOUR

4.0 INTRODUCTION

Credit management of what we refer to as credit lending and administration is the core of total operation in banking industry. Since it is the central bolt or bane of the organisation we may say it is the organisation joy and sadness. Most banks that had crisis were as a result of poor management of their loan portfolio especially in the era of competition, as such its importance cannot be over emphasised because in organisation can survive the odds of liquidity imbalance except with a proper & effective management of asses and liabilities.

The time value of money or funds is given much consideration since current spate of mounting bad and doubtful debt in the banking industry is weighing down may bank. The prudential guidelines issued by central Bank of Nigeria yearly creates a general awareness on the need for effective and efficient credit management policy in banking industry. In placing its fund a commercial bank in addition to abiding with C.B.N guidelines must also confine itself to loans and securities of the highest quality. The managers must meticulously evaluate loan applicants to ensure that only hose who pass the screening test are granted credit facility. For a bank to make profit and cover cost it must lend its fund at an interest and as such deciding who to extend credit facility and who not to is important to a banker, because it is not always possible for the bank to select prompt payments from defaulting customers without necessary loosing its good will.

4.1 DATA PRESENTATION AND ANALYSIS

The investigation was conducted in first bank of Nig. PLC and it covers areas of lending policies, evaluation of credit applicants credit control and collection policy, analysis of credit appraisal, methods of debt recovering and securities acceptable which will be dealt in this chapter.

4.2 GENERAL LOAN PROCEDURES:

All credit applicants must submit a written application to the lending bank along with acceptable proposal in case of capital projects. For cover the following ground.

1. Facility applied for what purpose and it must be consonance with government monetary policy, what is the amount it is sufficient for the purpose stated and what is the customer contribution which must be 20% of amount sought what period will be cover and it is sufficient for repayment to be accomplished and finally rate of interest.

   Must bank has target markets which comprises of firms and high network individuals that meet the banks set credit criteria.

2. Market survey: there must be information on present demand and supply, about locally produced and imported goods and their acceptability in the market.

3. Financial information: It is the responsibility of the credit offers to obtain 3 years credited financial statements from the borrower and such financial statements should contain balance sheet, source and use of fund for each year and operating statements. A budget summary covering the life of the project may be helpful.

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4. Feasibility study this should give a full description of the proposed operation including details of the structure of the company showing the technical and non technical details; partners and their shareholdings, human resources indicating management structure of the organisation; availability and suitability of a project site, raw materials and source of supply.

5. Information Analysis: project sponsor requiring loan have to satisfy themselves of the soundness of their reasons to invest in the project and ability to withstand key events. Detail of security to be offered are required and statistic of the account for 12 months. Through this strict procedures and general guidelines of the CBN to ensure that the purpose of the loan is being granted.

4.3 GENERAL LENDING POLICY.

First bank of Nig. PLC like all banks has its own lending policy and a policy is a general statement or undertakings that guide or channel thinking in decision making and this can be expressed or implied.

Express policies are those specially written down and implied are those implied from the actions of managers.

Those polices delimit an area within which a decision is to be made and they attempt a unified structure to other types of plans, authority while maintain control at the centre for instance all Branch managers are allowed some level of authority in loan disbursement up to a specified limit and any request in excess is referred to a higher authority either at the regional office or straight to the head office. The superior management approves or decline based upon the recommendation of the branch manager

and his assessment of the applicant and the documents attached. The general credit guidelines and policies for all banks emanate from CBN but the administrative style employed in effecting these guidelines and policies are left to the discretion of the respective bank management. As earlier pointed out first bank allow some discretion to their branch managers, therefore depending on the size of branch and status of the officer could approve a loan or overdraft request on its merit p to a specified limit. As a result of these latitude given to enhance delegation, some mangers misused such level of discretion. It has been discovered that managers given loan and overdraft without complying with the credit guidelines of the bank either because of personal interest or fraudulent reasons.

4.4 EVALUATION OF CREDIT APPLICANTS.

The evaluation of credit applicants must be based on a written analysis of the applicants character, collateral, capital capacity, management strength and those external conditions which are likely to affect a borrowers ability to meet financial obligations as they fall die. Of these character is of the utmost importance and no lending offer can reasonably expect to adequately protect the banks position against a borrower of uncertain character. Trust is imperative and if lacking, offers no basis for a borrower / lender relationship regardless of potential profitability. Character of a customer can be sought through personal knowledge of applicant statement of account, audited financial statements e.t.c.

4.5 ANALYSIS OF CREDIT APPRAISAL TOOLS

It is the responsibility of lending officers to obtain all information necessary to support a sound credit decision. There should be full understanding of the

a. Purpose of the loan which must be in accordance with government directives. In words it must not be illegal, immoral speculative or contrary to community interests.

b. Amount of the loan should be in proportion to the borrowers own resources and contributed to project. The amount must be within the powers of the borrower and must be sufficient for the purpose.

c. Period: The period of repayment must be short term usually 3-1 year except in exceptional circumstances and it must be sufficient to cover the project.

d. Source of repayment must be clear and fully understood. The source must be reasonable, certain and adequate and should be comfortably effected from the proceeds of the business.

e. Character of a customer is reflected in business and account performance and it is utmost importance of all.

f. Audited financial statements has the advantage of being certified correct by an independent being called the auditor. The banker is assisted by the auditors opinion in making his own decision regarding the state of affairs of the customer. Thus audited figures certainly rank as the most used lending fool of all the appraisal tools and the balance sheet spread and ratio analysis is an effective criteria in knowing a company credit worthiness. As minimum borrowers and

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guarantors should normally submit 3 years financial statements. Lending managers should insist on guarantees of owners if in their own opinion there exists a huge disparity between figures in the audited accounts and real life situations. Where audited statements are not available such a requirement may be waived as an exception. All unaudited statements should be signed and certified by a responsible officer of the borrowing entity concerned thus confirming the correctness of the information contained therein.

g. States of account performance: usually a customers account must be at least 6 months before such a customer can apply for a credit facility because Bankers view as valuable the run of the account as a source of information in areas of performance, turnover, revenue earned and days in credit.

4.6 SECURITIES ACCEPTABLE TO FIRST BANK OF NIGERIA

A security is useless unless documentation is completely and properly done as faulty documentation could mean the non-existence of security. The types of security accepted in F.B.N PLC are.

1. Cash
2. Legal mortgage over a property
3. Stocks and shares
4. Guarantee by individual or corporate body
5. Letter of hypothecation
6. Bonds and guarantee.
7. Debenture.

Banks agreed that realisation of securities should come as a last resort because realising securities in itself does not go without cost therefore bankers in taking securities studies the relative advantage of each security and as such a good security should have the following features:

1. Absolute tittle should be obtainable with tittle difficulty.
2. It should be realisable with minimum delay and expenses.
3. It value at all times should be ascertained and should be capable of being estimated with good degree of accuracy.
4. It should be free from liability

4.7 FINANCIAL STATEMENT AS A SOURCE OF CREDIT

Information: The source of credit information is well developed and widely used in financial institution as gives a scientific and more accurate information about the credit applicant. The objective of credit information analysis is to determine whether the applicant falls above or below the minimum quality standard. Some of the analytical techniques commonly used are.

1. Financial ratio analysis: Empirical studies may be undertaken to determine which financial ratios have the greatest productive power. The credit analyst will be particularly interested in the applicants liquidity and ability to pay accounts on time in addition the credit analyst will consider financial strength of the firm, character of the company and its management especially in relation to the canon of lending.

2. Computers: Computer are these days is employed to make quicker decisions. Here the computer analyse the information (data) collected and process it.

3. Statistical tool: It is possible to employ regression and discrimant analysis on the basis of a weighted overall score provided by this techniques; an applicant is judged.

4. Numeral scoring system: A number of companies are finding it worth while to screen out a customer through this method. However most of these method above are sophisticated in nature and as such it require the services of qualified credit personnel which is lending in most banks.

4.8 CREDIT DECISION MAKING.

In making credit decisions there are decision a credit manager should make:

1. Credit limit is basically an investment decision like the amount the bank is prepared to invest. The credit limit is usually approved and fed into the computer. The customer balance at a particular time must not exceed the limit enforce. If an applicants want excess then necessary approval must be sanction before draw down.

2. Reassessment of existing accounts: Most often accounts with authorised limits are re-examined to see if the amount granted was judiciously utilized and what problems the company is encountering to forestall bad debts.

3. Customer counseling: Provision of counseling services to customers have are considered to have considerable prospects for growth in future is important.

However cost and benefit analysis has be made before embarking on such a venture.

4.9 MONITORING AND CONTROL AND ADMINISTRATION

The monitoring and control of loans disbursed is done by the risk assets management department whose responsibility is to ensure that stipulations embodied in the sanction ticket are implemented and such stipulations centre mostly on such aspects of security perfection that may not be implemented before draw down is allowed, example, stamping and perfection of mortgages, charge off letters, insurance e.t.c.

1. Credit administration control function commence as soon as approval is issued and credit department shall be responsible for ensuring that all terms and conditions relating to credit facilities are complied with by the borrowers before sanctioning disbursement. Credit department must liase the expiry dates of all loan and security documents and ensure that renewal of facilities is not omitted. Quarterly loan returns are made to regional or head office and this expose the extent of loan repayment while weekly returns on overdraft are made to reflect how manager are approving overdraft and if it is within their limit.
2. Credit reference: Credit checks shall be obtained from current bankers for borrowers already in operation. For new borrowing companies, banking checks through enquries should be done on the principals involved the memorandum and articles of association shall be reviewed by credit department to ensure that the proposed extension of credit is within the borrowing capabilities of the company and its directors.

3. Annual Reviews / Audit.

The risks assets management department shall at least once a year review/audit all credit facilities and credit files. Such reviews of the Banks credit portfolio and files exist to ensure proper and adequate documentation and adherence to policies and procedures as set forth in the banks policy guide.

4. Credit files: Bank policy requires that credit files contain all necessary information for user to get a complete understanding / history of the relationship credit files are confidential and must be kept under safe custody of the credit department which should maintain proper record of their movement. Also all legal and other documents required for a loan facility as detailed in the conditions and conditions precedent and the collateral package are executed and perfected where necessary and copies filed in credit file while originals lodged in the vault.

5. Collateral inspection and evaluation: Management of secured facilities requires regular periodic evaluation of collateral held and verification of the adequacy of margins This should be supplemented by physical inspection of the collateral on a regular basis to ensure both its existence and adequacy Release of collateral/ security.

4.10 BAD & DOUBTFUL DEBTS.

First bank of Nig. PLC like any other business organisation as established to carry on business transactions with a view to making profit and in attempt to make this profit it must render certain services to its customer. This it accept deposit and lend out and in between it makes its profit. Since a reasonable percentage of banks profit is for lending

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transactions one would normally have thought that the incidence of bad debts would naturally arise because of banks quest for profit. However studies revealed that while certain reckless lending was to make good deal of profit for the banks some were made out of carelessness and personal interest. The following reasons are given as major causes of bad and doubtful debts.

1. Careless attitude of lending officers.
2. Dishonesty of borrowers.
3. Fraudulent act of credit managers.
4. Business failure.
5. Diversion of fund.
6. Over trading
7. The economy
8. High interest rate
9. Political lending.

The issue of bad debt is so serious that it has become a major concern in the banking industry. The federal government through the CBN issued a prudential guide lines which request loans and overdraft should be classified as performing and non-performing with non-performing comprising of substandard, doubtful and less.

When the bank has given out money as credit that is the time the make starts loosing sleep, knocking hard he pays back the loan. Thus the bank must ensure that the payment will be received as quickly as possible or as at when due. The more the delay the greater the losses to the bank and as such it requires an efficient and effective collection policies and procedures. At the same time the methods of collection must not

be offensive but persuasive enough to secure the banks goodwill and chasing bad debts can be an expensive process. The bank must ensure that the expenses incurred in collecting debts is not more than the actual debt as the aim will be rendered useless.

4.11 THE COLLECTION POLICY:

Policy of first Bank of Nig. PLC is a standard procedures with a department set up to perform this task known as credit recovery to head office. Statements of account monthly for firms and quarterly for individuals are sent out to remind customer to pay their debts.

COLLECTION TOOLS.

Once loan and overdraft has been granted, naturally the bank will be expected payment recording to the agreed terms if by the due date payment is not received the bank should be able to take some proper steps to avoid delay and bad debts. Below are the list of collection tool employed by first bank of Nig. PLC.

1. Telephone calls.
2. Personal visits
3. Letters
4. Security realisations
5. Instituting legal actions
6. Employment of debt collectors.

The above tools are employed one after the other or 2 will be combined at the same time. As such recovery process is a follow up process not procedures.

Therefore first bank of Nig. P.l.c minimise its exposure to difficult loans and charge offs. The credit department must notify the bank of any significant information relating to the credit. Anytime there is a significant adverse change in the financial or business condition of the client or if a client is not meeting its business plan, all credit facilities for that client must be reviewed promptly to determine the required action. Potential problems should be identified appropriately risk-rated and placed on the watch list in sufficient time to avoid any bad and doubtful debts and preserve its goodwill and name.

4.12 CAUSES OF BAD DEBTS IN NIGERIAN COMMERCIAL BANKS.

Partisan politics, man known-man carelessness government policies and acts of God are source causes given for why loans granted for which repayment is expected plus interest go bank. (Banking and Digest Vol. 51991) most of the banks that are now neck deep in bad debts found themselves in that situation through mismanagement of their loan portfolio. Considering the ratio of default in banks with government equity and those that are 100% private one may tend to agree that partisan politics in its rotten form has some influence in granting and administering loans. Some people believe that tribal and sentimental lending is eating deep into granting facilities and credit administration of commercial banks. Other analyst believed that loans go bad due to human error or unforeseen circumstances while others argue that inconsistent economic policies of the government makes feasibility study to become obsolute. This often creates a situation where the expected returns do not tally with the intention of the borrower making all assumption unrealistic.

A good percentage of bad debt is also believed to fall within loans granted to government contractors who had failed to collect that fund from government due to political charges resulting from political and economic instability. Another reason given was the present economic down turn in the country, most businesses and both corporate & individuals could no longer cope with the repayment program because of the adverse effect of the structural adjustment programme. "The rising level of inflation coupled with the increased rate of interest have contributed to debts defaults. However inspite of the above factors some banks have reckless lending policies which does ensure that loans are properly secured. Lack of proper documentation and execution of securities by some banks to ensure recovery have made them loose substandard loan grants. Some credit managers deliberately work against the credit guideline of the Bank, while other blame it all on customers who are not honest enough to make good their obligations or inform the bank about their problems. Whatever be the case, bankers still have to do much effective credit administration if their current level of bad debts is to be reduced.

4.13 STATUS OF FIRST BANK OF NIGERIA PLC.

Banks usually under provide in order to show their share holders that they are doing fine but a closer examination reveals that the banking industry is not performing so well as every one tends to believe.

It was in 1989 things changed when the effects of the reform of the financial system by the regulatory authorities were beginning to manifest their impact on the economy. Interest rates were volatile & high and credit risk was getting higher and in many cases the returns on credit were not commensurate with the embodied risks. To

address the issue of risk first bank of Nig. PLC instituted additional measures by forgetting blue chip customers, introducing new products to improve its earnings and loans recovery drive was intensified. Inspite of these internal measures taken by FBN the operating result were adversely affected in 1990 & 1991 I and FBN became one of the first victims of the credit guidelines despite the banks gross earnings for 31/12/90 was N1433m & total deposit increased to N6634 but instead of the usual profit, a loss amounting to N205m was recorded in 1990. For many, the bank was carrying a portfolio of non-performing loans and advances dating back to 1970's 80's and when cost became generally high borrowers consequently confronted high interests rates and high cost of servicing loans and advances. Ironically what happened in 1990 jolted the bank into action and the elephant woke up from its slumber following the shock of 1990 and effective risk management were implemented. The event also created the need for more vigorous approach in evaluating applications for loans and advances, it diversified its loan portfolio by carrying the blue chips more than before. First Bank of Nigeria PLC has survived and is now the leading bank in the Nigerian economy and its been recharged to become the first.

CHAPTER FIVE.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.1 SUMMARY

We have established that lending constitutes an important function of commercial banks and therefore its management or administration should be given adequate attention. The management of a loan begins with approval stage which reveals if the proposal is worth considering the source of repayment, the adequacy of such as source and the key credit issues.

. Customers who are aware that their conduct and character with respect to credit taken are not being monitored and if monitored at all it is done by fraudulent official would deceptively and surely divert the credit for personal. Use or to riskier ventures. Credit administration is predicated on subjective and historical information and some times on future projection. These sources of information are not absolutely reliable, hence the need for frequent review of these sources, strict monitoring of loans and advances and strict adherence to general external and internal lending policies. These would afford the banker the opportunity of knowing which technique or sources of information are faulting and identify any deteriorating trend or warning signals before abrupt collapse of the business. Thus effective credit administrations is a vital factor in reducing cost of extending credits and achieving the profit objectives of the banking industry. It is important to note that any negligence or dereliction in execution of the administrative machineries would be detrimental to the image of any commercial bank especially a giant bank like first bank of Nig. PLC.

5.2 CONCLUSION

In conclusion it has been established that in giving out facilities by credit officer(s) an error or errors of judgement could occur, whether the error is intentional or inadvertent if means a loss of the principal asset, loss of interest receivables on such an asset and of course reduced or non profits like what happened to first of Bank of Nigeria in 1990. This subsequently reduces the bank market rating and public perception of the bank management ability to make sound credit judgement.

Regardless of these implications, commercial banks in Nigeria especially the Big three are still swimming in enormous amount of bad and doubtful debts. However these trends not withstanding if the above recommendation are carefully and patiently implemented effectively and efficiently they will help to not only reduce the incidence of doubtful debts but also help in recovering those debts that have become unrecoverable over the years. Also from the presentations made so far the hypothesis has been proved that bad and doubtful debts is threatening the existing of Banks which has effect their profit level greatly. However with proper monitoring, sound recovery polices and targets and sound credit policies and guideline and finally training of staff and remaining of skill and qualified staff will all go long way in attacking, reducing or killing this menace called bad debts.

As being said by the managing director of first bank of Nigeria PLC" there is a pool of resources outside" go out and get it.

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5.2 RECOMMENDATION

Having established the fact that some banks share capital especially first bank of Nig. PLC is being gradually eroded due to the incidence of Bad debts, most industry 00observers will sooner or later begin to loose confidence in the banking sector and if commercial banks fail then the community at large will suffer. The following measures are recommended to help reduce the increasing level of doubtful debts and in recovering them.

1. **ADHERENCE TO CREDIT ADMINISTRATION POLICIES**: Credit administrators must ensure that loan policies and credit guidelines are effectively implemented and strictly adhered in all cases. It is evident from the investigation conducted that most of the loan that became bad and doubtful debts were granted in violation of the loan policies and credit guidelines. The personality of the customer and other selfish interest of credit officers through not expressed has been brought into play in credit decisions waning officers who are in violation of the above should be dismissed and prosecuted. Therefore proper monitoring and controls should be done by independent. Officer before final disbursement, for example n the new first bank PLC they have risk asset management department, control, review and credit recoveries department.

Credit policies and guidelines should always be in writing to enhance consistency and protection and fully committed to the departments mentioned above and any change in the guideline must be duly communicated to all their branches.

2. **ALLOCATION OF AUTHORITY:** Allocation of authority is a must for any credit administration plan so also recruitment, training and retention of capable officers. However with advent of competition and more complex and specialised kinds of credit advance coupled with unpredictable nature of human character, there is the need to use experts and higher lending limits should be given.

3. **CREATION OF AN EFFICIENT CREDIT DEPARTMENT:** The entire review and approval system presumes existence of an efficient and effective credit department where files and credit analysis can be prepared effectively to support the loan however in existence now is not so with so many missing. An efficient credit department should be established to develop facts that are both timely and accurate, permitting more credit decisions. In addition interest rate should be responsive, maturity of the facility, gross yield and fees for commitments. A few customers interview expressed sincerely that they run away from interest rate combination of techniques.

A combination of all the approval techniques would be very useful in each case. Therefore rather than relying on either character or collateral or capability all these factors should be considered vigorously since each of these have some limitations and that's why the first bank of Nig. PLC form 3800 applicants for limits should be pursued.

4. **STATISTICS OF BANK ACCOUNT:** In examining the conduct of a customer's bank account care must be taken to ensure that certain details are ascertained because some customers deceive their banks that adequate turnover are being generated by them whereas what was done could be referred to a "cash recycling" that is making a credit lodgement from sources that is unrelated to their operations with simultaneous withdrawals of such fund thereby giving a false impressions of a swinging account which will quality them for an increase of the facilities. Adequate care must be taken to check, source of payment into account direction of checks paid out on, the account and frequency of excess request.

5. **BANK-CUSTOMERS DISCUSSION:** Bankers and credit officers must not and ought not to absolutely rely on the information and data supplied by customers, inviting the customer for an approval discussion to obtain information on performance and prospect of the business and it should not only be done when an account wants to become bad.

6. **A REALISTIC REPAYMENT PROGRAM:** The purpose of any loan should be based on prompt repayment and is therefore desirable that the borrower and bank have a realistic repayment schedule agreed upon in writing at the time of the loan is made, primary and secondary source of repayment must be feasible and evident preferably from the proceeds of the business being financial. Banks must insist on secondary source of repayment especially where factors exist that could threaten the primary source. This is better than the attitude of relying solely and

wholly on collateral which is done by the credit officers of the bank. Credit officers all agreed that realisation of collateral should be only but a last resort that should always be bone in the mind.

7. **INSPECTION OF PROPERTIES**: Assuming ownership perspective particularly in lending secured with real estate. Properties must be inspected and the exact location known rather than leaving to the property owner to deal with items it is necessary for credit officers to mentally step into the role of the owner. In the course of investigating it was discovered that some careless officers relying on honesty have only known the address of the location of the property and eventually the honest customer after collecting his money becomes dishonest, credit officers must always inspect properly, give an estimated for sale value and documents should be perfected to make it legal and binding.

8. **MANAGEMENT COMMITMENT:** Management involvement and commitments to addressing the issue of Bad debts must be real and Bank managers should ask themselves at the end of a month what percentage of my time and effort was dedicated to reducing and addressing the level of Bad debts in my branch. However the opposite is the case as there is rarely sufficient commitment at the highest levels of operating unit management instead the task is left to the lower cadre officials of the bank in the recovery debt what any bank wants are directors who will not approve loans for themselves and will be committed to the table. Like the managing director of first bank of Nig. PLC said

why spend so much to get deposit when a pool of our resources are outside unrecovered. Therefore the attitude of dealing with non-performing loans generally starts with the maxisation of collection, that is you promise to pay, so pay" depending on the stated objectives for each bank and the forecasted level of problems that attitude might need adjustment to include reduction of cost recovery potentials may be preserved through equity participation or warrants. However close attention. Should be said to the cost of carrying a non earning asset, both a non-accruing

9. **APPLICATION OF THE BANKRUPTCY ACT:** In 1989 the federal government enable the bankruptcy act and the provisions were similar to the English Bankruptcy Act of 1914. It states that "every conveyance or transfer of property of charge thereon made, every payment made, every obligation incurred and every judicial proceedings taken or suffered by any person unable to pay his dents as they become due from his own money in favour of any creditor or any person in trust for any creditor with a view of giving such a creditor or any surely or gaurantor for the debts due to such creditors, a preference over the other creditors or any surely or guarantor for the debt due to such creditors a preference over the other creditors shall if the person making, taking, paying or suffering the same is adjudged bankrupt on a bankruptcy petition presented within 6 months after the date of making, faking or paying or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy".

The object of such enactment usually is to ensure fairness between the creditors

where the debtor is on the verge of bankruptcy. Nevertheless it is possible for an alert creditor to press a debtor to reduce or repay the amount owing to him. This in my opinion would put pressure on those bank debtors who have the means to repay bank loan but often refuse to pay either because they see the loan as a government grant (national cake) of because they feel they have powerful connection within and outside the bank such as directors and other personalities in the society.

10. **RECRUITMENT OF QUALIFIED PERSONNEL**: Most banks recruit unqualified people on the directors instruction without regard to any background training in accounting and finance. Most of these people become accountants and managers without any deep knowledge of credit. It is important to recruit the right calibre of staff and establish a reward system for those considering a career dealing with problem loans including advancement potentials. If management recognises that their level of bad and doubtful debt is increasing and only give lip statement to its management, staffing and motivation the problem will in my opinion persist in greater dimension and there is no way a wrong person can do the right things.

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