CREDIT ADMINISTRATION AND REALIZATION OF SECURITY IN NIGERIAN BANKS:

A CASE STUDY OF AFRIBANK NIGERIA PLC

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Being a project submitted in partial fulfillment of the requirements of Postgraduate School for the award of the Degree of Master in Business Administration (MBA) of the Ahmadu Bello University, Zaria.
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DECLARATION

I hereby declare that this project a partial requirement for the award of Master of Business Administration (MBA) of Ahmadu Bello University Zaria is a product of my findings

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Signature

25 - 10 - 2010

Date

CERTIFICATION

This project report entitled "CREDIT ADMINISTRATION AND REALIZATION OF SECURITIES IN NIGERIAN BANKS" A Case study of Afribank Nig. Plc by Mr. Ephraims Awolowo Goje meets the regulations governing the award of Master in Business Administration (MBA) of Ahmadu Bello University, Zaria and is hereby approved for the contribution of knowledge of literary presentation.

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DEDICATION

This project is dedicated to my late father and younger brother Goje Magaji and Sunday Goje and to my mother Jummai Goje, My wife and Children

ACKNOWLEDGEMENT

I wish to express my profound gratitude to my creator for keeping me alive and giving me the opportunity to successfully complete this academic task.

I acknowledge the immense contribution of the supervisor to this project, my wife Jemima and Children Jessica, Jesse and Jedidia for their encouragement and patience during the course of this work and others for same too numerous I can not mention all.

May the Almighty God reward you abundantly.

ABSTRACT

Over sixty percent of a bank earning is derived from the interplay of activities surrounding its loans and advances portfolio.

The quality of these on their balance sheets over time portrays the growth and health of the bank. An abuse on this very important source of earning has been responsible for the collapse of financial institution that hitherto have been considered to be very vibrant. It is very important that such financial institution put in place structures that will protect expositors funds and avoid the lost of confidence in the system. They should also be seen to play their secondary role as channel through which government execute its monetary policies.

These concern prompted this study which has been able to reveal that good credit administration in banks is a very essential requirement in lending business and that bad and doubtful debt on the balance sheets of a bank can greatly reduced through the use of will trailed credit officers who are versed in this aspect and loans go bad as a result of unforeseeable factors, it could be recovered if security was well constituted.

The bank we have narrowed our study on has continued to grow with time. The secret about their success story has been revealed by the study lies on the solid credit framework under which they have established and adhere religiously to.

The findings in this research work therefore are to serve as a safe highway on which other banks will drive to prosperity.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Introduction

In our Nigerian financial structures, the most developed segment is the banking system. It is also the most important from the point of view of the execution of monetary policy.

The banking system is made up of commercial, mortgage banking societies, finance houses, development banks etc. The activities of these banks are regulated by the Central Bank of Nigeria which is the apex bank through it's various agencies. The Nigerian Central bank was established in 1959 with the traditional role of issuing currency, acting as the lender of last resort and as the bankers' banker and as earlier mentioned, supervising and regulating the commercial banks as well as advising the government on monetary and debt policies. It also plays the important role of granting assistance to government in the fulfilment of its goals of economic development.

The Central Bank has been doing this through the provision of credit and other financial assistance to government for the financing of government program of economic development and by promoting and developing the structure of institutional facilities.

Commercial banks lending in Nigeria is presently carried out on the basis of Banks and other Financial Institutions Decree 25 (BOFID) of 1991 which provides that no Manager or other official of a licensed Bank shall grant any advance, loan or credit facility to any person unless it is authorised in accordance with the rules and regulation of

the bank. The regulations however disallow banks to grant unsecured advances to anyone. The importance these is principally to discourage default.

Commercial banks are service industries specialising in the safe—keeping of moneys and valuables, remitting foreign and domestic exchange, collecting cheques, drafts, notes and other obligations on behalf of their customers.

The Nigerian banking system is supplemented by a host of financial and credit institutions which by making credit available like the commercial banks also influence spending decisions in the economy.

Bank lending today is evolved from a practice in which the gold—smith discovered that only a small proportion of the money kept with him for state custody was in fact required by the depositors at any one time and that he could safely lend the rest to borrowers and charge interest thereon. The banking system which later inherited this practice soon found out that only about 8 to 10% of bank deposits of a given time were in fact demanded by the depositors. To compensate the depositors for the profitable use of their money, the bank now pays interest on fixed and saving deposits.

Bank loans are important to the bank because they account for a large proportion of its income. They are also important to use all because they affect the level of economic activity in many ways, for example, expansion and contractions of banks loans alter the nations money supply and or the type of economic activity which is supported by *the* extension of bank loans influences, what is produced and how much of each product is produced.

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An important fact is that the survival of any financial system is traceable directly to the existence of some economic units in the society that have on excess of funds (money and credit) over their saving and save the excess funds. At the same time, there are economic units that have need for more funds than they posses and therefore have the need to borrow the shortage. Thus, financial institutions prevail by pooling the savings of millions of economic units whose rarely coincidental with the demand for funds in amounts of risk. Institutions channels these funds to those requiring more funds than they have, such as business firms or home builders, whose needs are likewise varied but also rarely coincidental in amount with the supply of funds. Financial institutions given can be viewed as a conduit through which scattered savings of the masses of society are first aggregated and then disaggregated among many business firms, individuals, and government units.

There are several types of banks lending facilities today. In commercial banks they include the following

a. Overdraft

b. Bank Loan

c. Bank Guarantees

d. Support finance

e. Leasing.

f. Bankers acceptances

h. Direct Credit

f. Short term working capital (STWC) etc.

Another form of classification of bank loans is as follows;—

1. Personal loan
2. Bridge Over Advances
3. Building loan
4 Agricultural Loan
5. Loan syndication, etc.

Another classification of bank loans would be:

a. Short term advance
b. The medium term loan or long term Loan.

When a bank gives out money in the form of a loan, he expects his borrower to repay through any of the following ways:—

a. Out of the proceeds of a business operation which the loan finances.
b. Out of future income from a known source, e.g. a customer's earning from employment.
c. From the sale of some of the borrowers property, for example, when a bank provides temporary or bridging finance when a person has bought one house with a loan from a building society but has not yet sold previous one.
d. From another loan to be made by a third party for example, a company's expansion of production facilities may be financed initially by a bank loan in the expectation that when the facilities are in operation the company can make a public issue of share or debentures to *pay* off the loan.

All these are gambles on future events. A lender can reduce his risk by taking security for his loan — that is by laying claim to some other source of money which

should be used for repaying the loan. One way is to get the debtor to agree that some of his property is to be charged with the liability for paying of the debt. If the debt is not on time then the creditor can utilise the charged property (usually by selling it) to get the money he requires. When the debtors' own property is given as security, this is called direct security, the alternative is to find a third party to give collateral security (or third party security): either by allowing some of this property to be charged, or simply by making promise to pay the debtor debt if he defaults. A promise by a third party to stand in for a debtor if he fails is called a guarantee.

The above clearly shows the need by the bank to safe—guard the customers deposits and enable it remain in business.

The officers saddled with the burden of making credit decision are not only under obligation to follow laid down procedure but ensure that where loans go bad they are recovered. This is achieved through a concerted effort by putting together structures that will guide them at making good lending decisions and enabling them be in a position of realising securities pledged for on loans that are classified as bad and doubtful.

Afri—Bank Nigeria Plc has been chosen for the study because of its position in the commercial banking unit in the Nigerian Financial Sector in our economy. It is believed that the outcome of these study will go along way in providing solutions to the numerous problems associated with lending in banks in Nigeria which have resulted in the tremendous collapse of our banks in recent times.

1.2 STATEMENT OF THE PROBLEM:

Loans constitute a major source of a bank's earning anywhere in the world. The act of lending therefore must properly be put in place to ensure optimisation of this goal and

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minimization of any adverse situation that could lead to losses in the cause of the exercise.

Credit administration posses a lot of problems to lending officers probably because of its attendant difficulties. This not withstanding, it must be realized, that poor administration of any examples abound in the country about this phenomenon. Personal judgement in authorising loans and disbursing such loans by officers responsible for lending often ends up with negative consequences.

It should be realised therefore that a customer needs very close monitoring otherwise he might divert the loan given to him to riskier activities that could come to nothing at the detriment of the bank, i.e bad debts.

Well embedded in control mechanism in lending in the banking system is the need to have leverage on which to fall back should the loan go bad, i.e security. It is mandatory to demand for security to back any request for *a* loan even where customer's position can and sometimes does change very quickly. The appropriate time to obtain security is at the onset, when the loan is being negotiated. The nature, quality and details; on realisation of securities will be treated later in the study.

It is the concern of the bank that risks associated with the act of lending be minimised. These risks of failure might be associated with the customer himself and could set from

1. A sudden change in demand for the customers products.
2. Sudden change in government policies.
3. Unexpected trading losses resulting from new invention, new and sudden competition and introduction of new and better products.

4. Change in management for corporate organisations which results in weakening the management structures.

5. Change in technology of production and distribution of finished goods.

6. unfavourable effects of ecological changes like soil erosion, fire, drought, arson and other insurable risks.

7. Fluctuation in foreign exchange rate which may adversely affect the necessary imported raw materials and machinery.

8. The negative effect of government's income and price control policies and inflation.

9. Loss of major shareholder and management staff.

1.3 HYPOTHESIS:

This research is founded on the following hypotheses.

.1. HYPOTHESIS ONE:

The creation of bad debts in our commercial banks is caused by poor administration of loan portfolio.

The hypothesis is based on the concept that proper documentation and monitoring for credit facility will minimise the chances of that facility going bad.

A customer who has been given an overdraft to augment his working capital requirements in his cosmetic producing business out-fit can divert the funds into the acquisition of machinery of investment in some form of securities which is grossly outside his line of business.

In both cases, capital is tied down and very soon he runs into trouble when repayment of the facility become due. His investment in the security instrument is a big risk as the investment may go bad for several reasons with the resultant effect of default in repayment. This hypothesis therefore will seek to establish this thinking using the bank in question as a case study.

2. HYPOTHESIS TWO

Realisation of securities pledged as a collateral for credit facilities granted by banks could become difficult or impossible if they are not properly constituted or were defective.

Realisation of security is based on one legal fundamental principle that the creditor can not make any move to utilise a security for the repayment of what he is owed (known as realising the security) until the secured debt is actually due for repayment and has not been paid. In Banking, debts from customers (whether loans or overdraft) are almost invaluably payable on demand, This means that a bank can never realise a security unless it has made a demand for repayment and no money has been received.

The value of property charged as security is usually greater than the debt involved. Often The property is important to the person who charged it. The law therefore places restriction on the realisation of securities in order to ensure that a surety has every opportunity of recovering his property at paying the secured debt in money. The restriction vary according to type of security contract, but a general principle is that a creditor must not be unjustly enriched by realising security as any profit must be paid to the surety. It is the treat of realiasation that is the real security

for most debts. It is the threat of realisation that is the real security fort most debts. People are inevitably more thoughtful in their use of borrowed money if their own property is at stake. When security is held for a debt and the debt is not paid on time, the creditor is under no obligation to utilise the security. He may simply sue for the money owed. For this purpose, the principal money loaned and the interest can he regarded an separate debts. Some contracts of security covenants to pay the secured debt but the right of action exist, whether or not there is an explicit clause in the contract. If realisation of a security does not yield enough money to pay the secured debt then the creditor can then sue the debtor for the balance.

A contract for security is automatica1y terminated when the secured debt is paid, and then the creditor has no further claim on charged creditor property which is said to be redeemed. Realisation of securities is mentioned in the hypothesis could seriously be hampered if it was defective. For example, legal mortgage can not be constituted on a property covered by a local government's certificate of Occupancy issued after 1980 in Kaduna State.

There shouldn't be a draw-down of a facility until security is perfected: tittle documents submitted by a third party for a facility is not acceptable until the consent of the title holder is obtained in writing.

Only share Certificate from quoted companies could be deposited as security for credit facilities.

3. HYPOTHESIS THREE

Clean lending has contributed most to the volume of bad debts in banks thereby making recovery of such debts difficult. This hypothesis is predicated on the principles of BOFID (1991) Banks and other financial institutions Decree (1991) which stipulates that all Bank Credit facility must be backed with adequate security the absence of security makes recovery of the debt difficult in case of default as the bank lack what to fall back on to. The blunt refusal of some major borrowers to repay their indebtedness even when the ability to pay is apparent. These are major parameters to be considered in effectively managing a loan.

In perspective, the problems associated with effective administration of bank loans and the inability to realise the security pledged for such loans lies largely on the factors enunciated above, but thus, it is the bankers inability to effective monitor loans granted its customers through strict adherence to well laid down credit guidelines that has resulted to the creation of huge bad debts in our banks and the high rate of their collapse. What makes realisation of securities pledged for the various credit facilities granted in banks in the country difficulty?

1.4 AIMS OF THE STUDY

The aim of this study is to translate the questions raised as they exist in Afribank Nigeria Plc. Specific objectives of the study are:-

a. Examine structure put in place by Afribank Nigeria Plc in the administration of their loan portfolio.

b. To appraise the quality of the officers responsible for decision making on credit matters.

c. To examine the types of security acceptable by the bank for loans and their suitability or otherwise in crystallisation procedures.

d. To examine their bad loan portfolio and determine possible cause(s).

1.5 SIGNIFICANCE OF THE STUDY

A research conducted in the area of bank lending has many vital benefits. As a commercial bank this study might give an insight into what is likely causing the collapse of sister banks in the country. This is necessary, as customer's funds deposited for safe keeping or investment purposes must be protected against losses occurring from bank losses through bad lending.

Also, commercial banks play a major role in the economy of this country and constitute over 75% in the financial sector. Since loans and advances contribute the largest assets of a commercial bank, the study will assist in putting in place structures that will make these activities rewarding.

Finally, the problems associated with the required securities for bank lending will be critically examined with more emphasis on what makes it difficult realising them during default.

1.5 SCOPE AND LIMITATION

This study is specifically directed at Afribank Nigeria Plc., Zaria. This however, does not limit our gathering of information from sister and head offices respectively.

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In fact, references were made to other commercial banks within Zaria. The major limitation of the study is my inability to conduct oral interview with a majority part of Head Office Management Staff Shouldered with the responsibility of taking crucial credit decisions, because of time distance and financial and constraints.

The study also suffers the limitation of inability to publish some information considered as classified.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION:

Credit administration involves advising and monitoring of all aspect of credit on a day to day basis to ensure that it is fully repaid. It also consists of adequate documentation, advising facilities, follow—up of facilities and preparation of necessary credit returns for control purposes. Credit control on the other hand involves a posterior monitoring of facilities to ensure that each credit is and remain satisfactory.

The concepts of credit administration and control to the banker will not be complete without relating them to security requirements for any lending viz the ease with which it could be realised being the last hope. The legal requirements and or processes of constituting relationships between borrower and lender in the Nigerian financial system is gradually becoming complex as customers are becoming smart each day. Consequently, a lender must put in place legal structures that will protect depositors funds and keep on in business.

There isn't much work published in the management of credit portfolio in the Nigerian

Banking Industry. But each bank has its laid down procedure in form of credit management and control mechanisms. But there seems to be some generally tested legal cases on issues relating to realisation of securities pledged for facilities enjoyed by bank customers. These views are shared by Ekwo S.A. (1990. p.18)

An understanding of the value of credit analysis entails more than just understanding the rules and regulation of accounting. While a detailed knowledge of accounting is vital, it is not its own sufficient to enable a banker to exercise a credit judgement. writing a credit analysis is really about understanding risk, highlighting risk and considering the potential effect of those risks on the company and also the company's bankers. Also, understanding the aspect of business opportunities is very important just as factors like the economy, the industry, the area or region, external trade and controls, domestic market etc.

A good credit relationship between a bank and its customer is crucial to the successful mutual benefits accruable from the relationship. To achieve this, the banker must observe some basic rules governing lending summarised as canons of lending below:

2.2 CANONS OF LENDING

There is no conclusive list for canoes of leading but the following are the common ones usually considered in practice:

i. PURPOSE OF LOAN

Is the purpose not illegal,, immoral, speculative or contrary to government directives/objectives and bank policy. It is for working capital, fixed assets financing, short, medium or long-term in nature.

ii. AMOUNT

How much is being requested? Is it in proportion to borrower s own resources and contribution/stake in the project? Any Government restrictions to amount being requested (legal lending limit)?. Has proper calculation

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been made to ensure that the amount would be sufficient for the project? Is it within powers of borrower (check Article and Memorandum of Association)?.

iii. PERIOD

Short, Medium or long—term in nature. Is it in accordance with Government Policy (Agric..., lending)?. Revolving or for specific transaction e.g. LPO or Exporting Financing?

iv. SOURCE OF REPAYMENT

Must be clearly identified from the onset. From profit or cash—flow or from sale of asset etc.

v. CHARACTER OF BORROWER:

Is borrower trustworthy, reliable, of unquestionable character? Any track records? Is borrower prudent and conservative with saving and spending?

vi. ABILITY OF BORROWER

Any prior experience in the line of business being financed, management, accounting and technical skills?

vii. SECURITY

If security is required, is it available, easily valued, readily realisable or increasing value? Can security be perfected before disbursement of the loan?

viii. CONNECTION

Any connections with the bank or is borrower highly influential that he can influence the decision in the bank.

ix. PRICING

Must be agreed from onset and documented, interest rate must reflect degree of risk and in accordance with Government and bank policies. Other lending charges commitment, lending fees etc. the above key requirements for good lending are elaborated by some financial experts below:

Kujawa (1971. p.4) states that deposit balance, interest rates, past experience, economic conditions should not be underplayed in considering customer's application for credit facilities.

F.E. Perry(1983 p.12) De—emphasises questions on the amount the customer wants to borrow, purpose, duration of the advance and repayment sources. He goes further to state that answers to the above questions are only a means to an end so opines that the element of 'risk' and profitability of the transaction to the bank (earnings accruable), the best interest of the borrower, and the community generally, but specifically and importantly, the character of the borrower must be allowed to influence the decision of lending officer. It is his opinion that although collateral securities are taken for advances, unsecured borrowing in the shape of balance sheet advances to big established companies are usually far less troublesome, than the secured advances, the best security according to him is the character of the borrower U. Musa (1989 p.24).

Lack of proper estimation of financial needs by borrowers, often leads to request f or increase and renewal of loan facilities and may build up resentment on the part of loan officers which may have adverse effect upon a subsequent loan application by a borrower (Bio B. Marward and Miller Upton (1953 p.31). The implications of their study is that refusal to increase or renew the facility for customers may lead to contraction or

difficulty in the availability of more working capital or finance for a commitment customer, and difficulty in servicing existing debts.

The above views are sub stratified into three below by the authors :—

1. PERSONAL FACTORS:

The credit officer is expected to determine the moral character of the individual (customer/management of the company), his honesty, integrity, truth worthiness and managerial ability which embraces his experience, training, resourcefulness and adaptability.

2. FINANCIAL FACTOR

From the financial statements and budgets of the prospective borrowers (companies or individuals). These factors can be established. Relative profitability of the company will reflect the capacity of those who run the business to operate it successfully. Balance sheets should be able to reflect that adequacy of capital to support the credit uses and sources and also the willingness of the owners (shareholders) to sacrifice their personal spending to reinvest earnings. Also the budget and statement of uses of funds and repayment schedules will portray the willingness of the borrower to service the debt.

3. ECONOMIC FACTORS

These are factors that are exogenous to immediate business and its management such as prospect. for business conditions over the period of the loan and how they are likely to impinge on the business. Labour conditions such as strikes: remuneration's, agreements within the company are also considered so as to allow

the loan officer have a better estimation of its effect on the facilities to be extended to the borrower.

Table 2 1 Credit rating on the five canons (5Cs) of lending

Factors	Value in Percentage
Character	30
Attitude	15
Ability to pay	15
Prospect for the future (from proforma advance sheet)	12
Business History (from Balance Sheet)	10
Ration of value of property to income	7
Ratio of monthly/periodical Mortgage payment	6
Associate	5
Total	100%

A passing grade is then determined depending upon the discretion of the credit Managers, the above ratings are not part of the five CS. of credit by a credit analyst. This exercise is thus considered with a lot of pessimism because it is misleading since it attempts to provide numerical precision in an imprecise matter.

Talib (1991 p.11) is of the opinion therefore that the best credit right is a solid stable responsible customer who is conscientious about keeping his commitments and promises, who has a life style not characterised by sense of duty, integrity and steadfastness i.e a person who promises no more than he can deliver and delivers what he promised. A person who is known, who has been around for sometime and will be around for a good while longer.

Reuben (1991 p.30) in his contribution is of the view that stability and continuity of business and indeed personal habits are desirable. Thus an applicant that constantly revised his business should not be taken seriously. Stability, responsibility and

predictability have been posted by Ezema U.U (1999 p.16,42) as the characteristic of a good credit risk, while flamboyance, uninhibited behaviour, excitements impulsive behaviour, unpredictability and rash behaviour constitute the mark of poor credit risk.

2 .3 TYPES OF CREDIT PROPOSALS AND SOURCES OF INFORMATION REQUEMENTS:

i. Real Estate Loan

- Title to the land
- Approved building plan
- Bill of quantities specifying materials to be used, stage of completion and coats.
- Contract financing or by direct labour. If contract financing check the terms and conditions of the contract.
- Feasibility report if property is to be let out.
- Cash flow projection to include rent and other sources of revenue.
- Letter(s) of intent from prospective tenant.
- Going rent and any payment, in advance.
- Disbursement of loan on stages of completion, supported by architects certificate.
- Is a legal mortgage to be created? Obtain title document (C of 0)9 Governors consent to mortgage, tax clearance certificate.
- Would the value on completion be equal to or greater than the loan amount plus interest charges.
- Duration of completion.

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ii. Fixed Asset Financing:

- What type of asset, plant and machinery, equipment, vehicles, New or second—hand, refurbished. etc.
- Coat of asset. Any borrowers contribution /stake. Source of asset—locally available or to be imported.
- Will asset be delivered on cash and carry basis or manufactured on order?
- Purpose of the asset—f or a new project or as an additional item or for replacement.
- Impact of the asset on the business will it increase productivity.
- Any additional working capital and how would it be obtained.
- Financial of borrower audited and management account and cash flow projection.
- Source of repayment cash flow exclusively from the asset or from overall business.
- Management and technical ability in handling the asset. Effect of the asset on the overall asset of the company.
- Will a charge (debenture) be created on the as security *or* separate security taken?
- Borrower power to borrow.
- Repayment period.

ii. Government Borrowing:

- Purpose of borrowing
- Check the Government budget.

- Who borrows on behalf of Government – Ministry of Finance incorporated.
- Feasibility reports on the viability and feasibility of the project.
- Is the project a commercial or social one?
- Will project generate its own cash flow for repayment of the loan or repayment will come from other sources.
- Site of the project.
- Track record of the Government in repaying *debts.*
- Stability of the Government
- Any tangible security or only Government Guarantee.
- If state or Local Government has it any standing payment order for Central Bank to effect repayment through allocations.

iv. Agricultural Lending

- Feasibility reports to ascertain how feasible and viable the projects is.
- Title to the Land
- Any prior knowledge of the type of farming.
- Type of farming – livestock or arable size.
- Financial, including cash flow projection.
- Infrastructures.
- Total cost and borrowers contribution.
- Repayment period.
- Insurance with Nigerian Agricultural Insurance Scheme of NICON.
- Agricultural Credit Guarantee of Central Bank of Nigeria Maximum of Nl.0m.
- Management and technical ability.

- Type of lending .capital asset financing or working capital.
- Duration of loan.
- Track record of borrowers.
- Sales outlet.
- Security mortgage/debenture of the form or outside security.

v. Personal Loan:

- Purpose
- Source and repayment period.
- Business income of borrower.
- Length of account relationship.
- Track record/background information of borrower.
- Character
- Ability of borrower—an adult or a minor.
- Any security.
- Personal Financial Information – Assets and Liability and net-worth.

vi. Lending to Limited Liability Companies

- Check Articles and Memorandum of Association whether purpose is consistent with abject clause, loan required whether within powers of company and directors, Board resolutions.
- Analyse financial – Audited, Management, Cash Plow projections.
- Any legal prohibitions e.g. a company borrowing to lend the money to another person to buy the company's share.
- Securities – legal mortgage, debentures, directors guarantee, searches at

companies registry.

List of assets – date of purchase and value to be charged under debentures.

- Execute, stamp and register security at companies registry.

vii. Lending to Unincorporated Bodies e.g Clubs, Societies, Churches, etc:

- Note, separate entities have no contractual powers and cannot be sued for their debts.
- trustees are personally liable for the debts of the organisation.
- Lending is more or less to the individual trustee members. (Committee members) who should give their joint and several guarantees containing indemnity clause.
- The association's properties are held by the trustees on behalf of the association.
- Check the association's rules, regulations, and constitution.
- Does the association trust empower the trustees to borrow and charge security.
- Trustees to complete the loan forms, and execute all documents relating to the lending.

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viii. Loan Syndication

- Lead bank to circulate the placement/information Memorandum to prospective lender.
- Lead bank evaluates the feasibility and report and abridges it into a placement Memorandum.

- In prospective, lender undertaken to conduct an independent evaluation of the project.
- Evaluate financial', history of the company, Viability and feasibility of the project, project cost, promoters contribution/stake/ equity.
- Apply all the canons of lending in the evaluation.
- Lead bank arranges syndicate meetings sites visit of the project and provide prospective lenders with vital information for proper evaluation of the proposal.
- Lenders submit their commitments to the lead bank that could allocate in full or prorate.
- Legal officers of the syndicate bank prepare necessary documents viz-inter—lenders Agreements, Loan Agreements trust Deed etc.
- Offer letter can be executed by the lead bank on behalf of the lenders or jointly by all lenders.
- Documents executed by all members and the borrower.
- Disbursement of term loan made through the lead bank while overdraft obtains periodic repayment of principal and interest and distributeto lenders.
- Lead bank earns appropriate fee for its leadership role.

ix. Equipment Leasing:

- Bank favour finance lease as against operating lease.
- In finance lease, the lease identities the equipment to be purchased while the lessor pays for it.

- Basically, cash flow lending – either exclusively gram the equipment or from overall cash flow of the company.
- Lessee buys equipment at the end of the lease through arms length transaction.
- Could be arranged as a syndicate lease with other cc—lessors partly owning the equipment.
- Could be arranged as a leveraged lease where the lessor own the equipment and has lenders who financed it.
- In operating lease, the lessor identities and buys the equipment, is responsible for insurance's, maintenance etc: cold lease the same equipment to different lessees at different lessees at different times.

x. Other Types of Loan Proposal.:

- Bringing advance for purchase of house.
- Contract/LPO financing.
- Buying an existing business.
- Expansion of factory.
- Lending of salaried parsons.
- Produce advance.
- Export financing.
- Import Financing.
- Contingent liabilities e.g. performance bond, bid bond, guarantee, etc.

2.4:1 EVALUATION OF CREDIT PROPOSALS:

In analysing or evaluating credit, the analyst should apply the canons of lending. It is important that the borrower is interviewed to have a more detailed information of the project. Assuming the lender is satisfied with information pertaining to other canons of lending, one important area which needs to be critically appraised is the future. it is difficult to predict the future particularly as relates to economic condition, Government policy, natural hazards, political conditions, etc. as these can adversely or favourable affect the project being financed.

Each bank has its own internal system of evaluating credit proposals. For commercial banks, most credit proposals are submitted at the branches. While some banks have credit officers at branches that obtained necessary information and prepare credit report for consideration by approving authority, in some others such a responsibility is rested only on the Branch Manager who merely completes a credit form and forwards it together with other information to credit officers at the Head Office for appraisal and submission of report to approving authority. This is what is obtainable in Afribank Nigeria Plc generally.

Whichever method is adopted, it is important that credit proposals are critically and scientifically analysed before arriving at an appropriate recommendation. The era of lending by rule of thumb or flipping of a coin is gone in view of the kind of credit proposals which are presented to banks these days. The economy of the country and that of the whole world has continued to undergo rapid changes and at the same time

the level of awareness. Credit is a product and has to be properly packaged for the borrower/analyst to be able to sell it to the approving authority.

2.4.2 FINANCIAL ANALYSIS:

A thorough evaluation of the prospective borrower be it Government, Company, or an individual in of paramount importance in considering credit proposal. For an effective comparative analysis, at least three year. Audited account including current management account of the company should be obtained, spread and analysed for a clearer understanding of the historical trend. Similar financial information of Government should be obtained when lending to Government. A personal financial statement of an individual should be obtained and analysed in the case of an individual borrower or guarantor. Some banks have spread sheets and personal financial statement forms, which make it easier for understanding of the financial position at the borrower.

Interpretation of a set of financial statements is done to identify the strength. And weakness of a company, which could highlight any underlying, trend. in its operations. For examples shareholders and investment analyst require this information to make investment decisions and bank managers need to decide whether to make loans to a company through the use of ratios. What is ratio? A *ratio* is the arithmetic relationship between two figures in a set of financial statements. It can be presented in a number of forms. Firstly, as a percentage, where one figure is divided by another and multiplied by 100. Secondly, as a fraction where one figure is divided by another. Thirdly, as a period of time where one figure is divided by another and multiplied by a time (usually a month). Finally, as a proportion by setting *one* figure to 1 showing the other form of presentation chosen from any relationship examined is the one which the analyst can

best interpret for instance, some people prefer to look at time periods while other prefer percentages.

Some of the common ratios which a lender should consider are listed below: —

1. Liquidity Ratio:
   a. Current Ratio — Current Assets / Current Liabilities : 1
   b. Acid test — Current Assets—Stock / Current Liabilities :1
   c. Debtors Payment period — trade Debtors / Sales x 365 (Normal 30 days
   d. Stock Turnover Period — Stock x 365 / Cost of sales (No of days stock is held)
2. Gearing Ratio — Loans

a. Net Asset Turnover Ratio

b. Gross profit Margin %
C. Net profit Margin %

This study does not intend making an in-depth analysis of the relevance of these ratios.

A credit analyst has some basic question, which he often must *ask* in the consideration of whether a particular proposal is profitable for lending. There are often technical terms and requires specific analytical tools in arriving at a good decision. The credit analyst will need to know the following:—

a. Nature of Business:

   i. Does the proposed activity sound basically viable in the context of the Nigerian economy generally?

   ii. Are there known or plannet.3 competitors?

   iii. Is the business generally attractive to us or only marginally so?

iv. Will there be substantial ancillary revenue for the Lank i • e other than interest?

v. Would it enhance the provision of additional service of the bank to the community?

b. Balance Sheet:

Is the balance sheet healthy? What has the track record indicated?

c. Cash Flow:

What are the peak periods in the Company's cash cycles? The bad times? Are projection realistic? Dóes it really show the needs of the company? Is the projection achievable?

2.5 CREDIT ADMINISTRATION AND RISK ANALYSIS IN LENDING

2.5.1 Documentation:

Documentation of an agreement is not an isolated exercise but an integral part of the negotiation of the substance of a loan, an essential record of what has been agreed. No agreement can turn a bad loan, into a good one, or create assets which do no exist. And while an agreement must start up in court a main objective is to avoid ever having to go to court since the obligation to pay will be clear.

The vital ingredients in each borrowing and lending relationship begin with the customer application. The credit department must maintain a register of application which will show:—

1. Date application was received
2. Customers name
3. Type of facility required
4. Amount of facility applied for

5. Deciding Authority.

To forestall incidences of fraud and to protect the banks interest in case of default, it is advisable to *verify* all signature(s) on letters of application for facility. Care must be also be taken to reply all credit application whether approved or rejected and in time too.

2.5.2 Advising Facilities:

When a customers application for a banking facility is approved it must be advised in writing (a letter or advice is a letter of offer). The offer letter should be in duplicate. The customers acceptance of the banks offer is signified by signing on the duplicate letter of offers so that there will be no doubt as to what he (the customer) had accepted.

Advice of facilities, which must not mention the deciding authority, should be clear, correct and precise. The advice letter must include:

i. Type and amount of facility in words and figures.

ii. Purpose for which facility/ties is approved

iii. Special conditions e.g. rate of Loan repayment and reversion of overdraft to credit.

iv. Interest rate i.e prime plus...this is better than saying rate of interest is 15% since the banks prime is bound to charge with the changed in CBN approved rate.

v. Contusion of turnover (COT) rate

vi. Expiration of facility month and year

vii. Security' The type of security acceptable must be clearly stated without mincing words.

viii. Exchange control requirement to be fulfilled where applicable e.g. letters of credit and indemnities to customers etc. Letter of acceptance of offer so that there will be no doubt to what he (the customer) has accepted.

ix. Special conditions: There may be conditions precedent or subsequent to release of facilities. These must be clearly spelt out as to when they would apply.

x. Lack of lending policy i.e. management philosophy meant to guide lenders.

xi. Lack of written procedure (in form of credit manuals) which supposed to include approval and review processes. follow—tips a credit ratings, documentation and reporting systems.

xii. Poor quality staff in charge of loans and advances and failure of the bank to provide basic tools by training or staff development.

xiii. Improper credit appraisal/analysis (which is supposed to cover industry, market, management, economic *environment,* technology customers experience, integrity, capital etc).

xiv. Improper security documentation or non—registration non—Stamping of securities factors which this study will pay considerable interest on.

xv. Hasty disbursements of Funds

xvi. Lack *of* daily reviews by Manager/Credit office.

xvii. Delay in reacting to contemporary events, price index on stock exchange, qualified report by auditor's etc.

xix. Weak management or incompetent management of borrowing company.

(20) Recession in the company creates poor sales.

When credit advice has been accepted by the applicant customer, computer input form for monitoring the credit are then completed.

These forms in Afribank include:—

a. Customer credit form

b Authoriasation form— this is completed for each type of credit facility enjoyed by the customer.

c. Master file-updating form for customer index

d. Interest rate and COT

e. Expiry and linkage to other accounts in the branch.

5.3 Credit File.

These are very important for all credit relationships. Credit files are opened serially with customers account numbers. The files should be properly arranged, maintained with copies of correspondences including standard credit appraisal form called 1096, excess or credit *memos,* the inner side of the back page of the file should contain all memoranda on the relationship. Attached to the left-hand side of the first hand page, should be the spreadsheets, e.g. CR1. The audited accounts, valuation reports, continuos statistics and yield calculation should also be carefully arranged in the other vacant pages of the credit file.

2.5.4 Follow—up of Facilities and Repayments

The purpose of follow—up is to ensure that the conditions required are satisfied by the customer on approval of credit facility and are complied with and that repayment is being honoured as scheduled. Follow—up is also aimed at identifying problems before they get out of hand. the follow—up exercise begins from the time the customer accepts the offer of facility. In case of loans, a repayment schedule, which the customer is made to sign, is usually prepared. Regular examination of customers ledger cards in non—computerised branches, or computer print outs such as posting journal, client journal and litigious entries in computerised branches to cheek for such irregularities as evidence of over-trading, kite flying, ostentatious living etc. Through clearing cheques, many abuses and diversion of funds to other uses can be identified and even be halted.

2.6 DANGER SIGNS OF AN ACCOUNT GOING BAD

Some of the danger signs, which a banker can identify by following—up accounts of customers include:

1. Frequent and regular for excesses — it could that his stock cannot be sold or that he planned to speculate in some activities not his usual trade.
2. Pressing for payment against uncleared effects which is an indication of poor liquidity position.
3. Window—dressing — a situation where a customer pays, and withdraws similar amount just to create good turn—over impression when there is in fact no transaction going on. This is usually a prelude to asking for more facilities or where the customer does not want his account to be tagged dormant.

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4. Cross—firing — This is common at months ends when a customer issues a cheque in favour of another account (may be a sister — company or a friend) in order to balance over drawn accounts — irregularity.

5. Development of hard core — when account ceases to swing from debit to credit perhaps as a result of diversion of funds into purchases of fixed assets or unsaleable stock.

6. Over trading — where a customer takes all available credit from suppliers and is unable to pay on due date — cheques are issued but returned unpaid.

7. Increase in number of unpaid loan installments.

8. Operations no more enough to accommodate interest and COT charges

9. Increase in number of status inquiries from other banks.

10. Non-challant attitude of customer towards renewal of credit line (a).

The banker should write or visit the customer to discuss these problems or proffer possible solutions when noticed before it is too late. There are however exceptional cases as in the case of contract accounts.

2.7 RENDITION OF CREDIT RETURNS

Credit administration would not be complete if the necessary returns are not rendered as and when due to the appropriate and users e.g. Regional/Area office, Head office, department, CBN etc.

These credit returns keep the various crud-users abreast of the development at the audit exposure of the branch and the bank in general.

Some of the credit returns area

1. Engagement Returns:

   This shows the bank commitment to each customer by various types of facilities in each month.

2. Doubtful Debtors Returns:

   This return is prepared on a quarterly basis and shows the position of the banks debtors and effort being made to recover the debt.

3. Over draft listing (monthly)
4. Expired facilities (monthly)
5. Classified accounts (quarterly)
6. Provisioned loans follow-up (quarterly)
7. Follow-up on Securities (quarterly)
8. Bonds and Guarantee (quarterly)
9. Recommended provisions (quarterly)
10. Non performing accounts (quarterly)
11. Agricultural loan returns (monthly & quarterly)
12. CBN return. (Monthly quarterly)

2.8 SECURITIES

Any good lending proposition should be such that the question of security becomes secondary. Security is often requested to serve as a support in case the business plans suffer set—beck and the loan goes bed or becomes doubtful of repayment.

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The ability to produce security is not the scat important criterion for granting credit facilities as the offer of collateral security does not weaken the need for as thorough examination of the proposal. This does not mean that security is unimportant.

After a thorough evaluation of the proposal;, the Bank Manager and or credit officer i. able to assess tat risks the bank rims in lending to the customer. Security should never be looked upon as a source of repayment but only as something to fall back on if the expected source of repayment tails. It should serve as insurance against unforeseen adverse development. An advance must be granted than the strength of the feasibility of purpose for which it is required. It is therefore generally agreed that advance are not to be nude until they are fully secured. The resale of security for any advance is the character of the borrower. The backbone of bank lending is trust an faith in the customer and his business.

G.O. Dowole (1993 p.28) lists the following types of securities that are acceptable in a bank:—

1. Legal/Equitable Mortgages — (cm landed property, ship, aircrafts).
   — obtain title document, valuation report, tax clearance certificate, Governors consent to mortgage (for landed property).
2. Debenture (fixed and Floating Assets)
   — Obtain list of assèts, Article and Memorandum of Association, Board Resolution, Tax Clearance Certificate.

3. **List Insurance Policy:**

— Obtain the original insurance policy, ascertain the surrender value, lose payable clause with interest of the lender to be endorsed on the policy, ensure premium is paid regularly.

4. Guarantees:

Personal guarantee

Bank Guarantee

Insurance Credit Bond/Guarantee

Government/Corporate Guarantee

Foreign Guarantee

5. Pledged Cash Security

On deposit account — block the account and hold the passbook/certificate.

Borrower to complete pledged deposit form (hold signed blank withdrawal form).

6. Share Certificate:-

Legal or Equitable

Obtain the Certificates

Obtain signed blank transfer form (equitable)

Register the shares in nominate company's name (legal)

Obtain power of attorney to sell shares (equitable).

7. Warehousing Facility:

   Joint custody warehousing

   Trust Receipt warehousing

8. Stand—by Letter of Credit:

   Matures on non-—performance of action.

2.8.1 **METHODS OF OBTAINING SECURITY AND REALISATION OF SECURITIES PLEDGED:**

There are various ways by which a banker may obtain security as cover for an advance: they are:— By lien, by pledge, by guarantee, by hypothecation, By set—off, by mortgage etc.

In each case, the banker does not become absolute owner of the property, but has rights over the property until debt due him is repaid.

a. A pledge is the delivery of chattel, or choices in action by a debtor to his creditor as security for his debt or any other obligation.

b. A lien is the right of a person in possession of securities or goods of another to retain them until owner discharge his debt or obligation to the possessor.

C. Guarantee is a personal security of secondary liability whereby one person known as guarantor promises to be liable for the debts of another *referred to* as a principal debtor.

d. Hypothecation — In Banking matters, the term is used to denote an agreement to give a charge over goods or documents of title thereto without conferring

possession but undertaking to give a pledge when the goods or documents are at hand.

A letter of hypothecation is sometimes used to describe a trust letter.

e. Set—Off:— In law, set—off consists of total or *partial* managing of a claim of one person against another in a counter claim by the latter against the former.

f. Mortgage is a charge, which a borrower gives to a lender upon part or whole of his property.

2.8.2 PLEDGE OR CHATTEL AS SECURITY:

Pledge is a delivery of chattel or choice in action by a debtor to his creditor as security for his debt or any other obligation. A pledge occurs when goods (or the documents of title thereto) or bearer securities are delivered by one man to another to be held as security for the payment of debt or performance of some other obligation and upon the expressed or implied understanding that the subject matter of the pledge is to be restored to the owner when the debt is discharged or the engagement has been fulfilled.

The possession of the chattel passes to the pledge. While the property in the thing (legal ownership) remain with the pledger. It is formal contract of security whereby the goods are deposited *with* the creditor or lender on condition that they will be redelivered to the depositor if the debt is repaid or can be sold if borrower defaults. A pledge. Has what the court termed a "special property' in the thing pledged which enables him to sell it if the debt or other obligation is not discharged.

The distinction between a pledge and mortgage is that property pledged must be actually or constructively delivered to the pledge. Whereas in mortgage transaction, procession of property mortgaged does not necessarily pass to the mortgagee.

2.8.3 **GUARANTEE AS SECURITY FOR BANKERS ADVANCES:**

a. Guarantees by Infants:

A guarantee to secure the in—debtness of an infant will be invalid if it is expressed to cover a debt which is not legally enforceable. Under section 1 of the infants Relief Act 1974, loans to an infant are void and it is the essence of a guarantee that there should be a valid obligation of a principal debtor, see coutts & Co. V. Brown Lecky & Ore (1974) K.B. 1 W.L.R. 828). Alternatively, a bank may decide to lend to an infant in joint account with an adult, the adult being fixed with liability for borrowing permitted on a joint account.

It is also of interest to note that there is an exception to the general rule that immediately an infant comes of full age he or she has full contractual capacity.

b. **The Wife as Guarantor:**

Before executing a guarantee form, the bank should explain to the woman guarantor the liability, which she is undertaking. In order to prevent any allegation of undue influence, it is essential that a woman guarantor should seek independent legal advice prior to executing a guarantee for the account or her husband or a company in which he is interested. The independent advice should not be given by a banker official or husband solicitor. The wife should

be requested to submit an affidavit that she had an independent advice that she understands the purpose of the guarantee and that she is not forced to give the guarantee.

2.8.4 **SHARE/BOND AS SECURITY ADVANCE:**

It is appreciated that quoted shares/bonds are usually a near perfect type of security. The current price can always be ascertained quickly and the shares/bonds held can be sold in *ready* market.

A valid title can be obtained simply and cheaply and there is no cause for investigation of complicated title as An case of land. The first essential thing is to decide the value of the security as prices of popular share/bonds are quoted in financial columns of daily papers or stock exchange daily on official lists.

ii. **Valuation of Unquoted Shares:**

In valuing unquoted shares, due allowance has always to be made for the problems which will arise in finding buyers.

Quite apart from trading history and earning capacity and inherent financial Strength of the company a discount has

Inevitably to be made for narrowness of the market. If the shares can be sold only to a limited class of people, the price which they are prepared to pay will be lower than that which could be obtained from general public, unless of

course there is a suitable buyer to whom the. Possibility of control of the company has special attraction.

iii. SHARE MORTGAGE - OBTAINING LEGAL MORTGAGE OF SHARES

To obtain a legal mortgage, the shares have to be transferred. out of the name of the mortgagor into the bank or its nominees. The first step is to obtain the certificate for the shares as evidence of the title of the depositor. A memorandum of deposit will then be taken and signed by the shareholder and as the same from is usually for equitable mortgages as well as legal mortgage. The memorandum will recite that, in consideration of the bank granting accommodation to, or continuing the account of the state customer the shares described in the schedule have bee change

iv. STEPS TO TAKE WITH SHARES DEPOSITED WITH BANKS AS SECURITY

a. It is easier to dispose of shares of companies, which are quoted on the Nigerian Stock Exchange than the print. Ones this is because the market for quoted shares is at the Stock Exchange, whereas for private companies, one needs to start by searching for buyers privately. It is understandable therefore, that one would take pains for

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share of private companies only if the amber of shares is reasonably large.

b. In addition to the share certificate, your customer should be made to execute and deposit with you, the following in the process of obtaining bank facilities.

(i) Memoranda of Deposit

(ii) Letter of consent for transfer of the shares in case of default in servicing the said. Facilities.

(iii) Adequate number of transfer forms (one for each certificate), signed at the appropriate spaces by the customer.

x. Upon the completion of the above, the customer should be mad.. to verify the regularity of the signature signed on the transfer tons with the respective Registrars. This is particularly necessary because if the facility i. granted and on default, the need arises to dispose of the security, the Registrars cannot be compelled to believe that the signatures are found different. It should be noted that some customers inadvertently vary the signature, which they signed for the purchase of the shares.

xi. The purpose of the Memorandum of Deposit is to prevent the customer from denying ever giving his consent to the transfer of the security upon notice of transfer by the Registrars. By virtue, the Registrars are compelled to seek the consent of any shareholder before effecting transfer of his/her shares in any company. Obviously, this process is aimed at preventing fraudulent practices

about it often t5ines have negative results especially as far as Bank realisation of securities are concerned. The letter of consent mentioned in (2) above would take care of the provision.

v. After the verification of the signature., your bank should endeavour to inform the Registrars concerned so as to note the interest of the bank. This is to prevent the shareholder from reporting loss of such certificate(s) to the Registrar with a view to obtaining a replacement or duplicate copy.

vi. As regards the shares which are already *In* your possession and for which clients have defaulted and vet they signed irregularly, it is advisable that you approach a relevant court to seek order to dispose of the shares. Such order would automatically transfer the shares to you and you can then arrange to sell at your convenience.

2.8.5 **MEMORANDUM OF DEPOSIT**

The memoranda of deposit evidences an intention of the parties and can therefore be used *In* all cases, whereby the bank is obtaining a legal mortgage or is content to rely merely upon an equitable mortgage. The legal mortgage is completed by registration of the shares in the name of the bask or its nominees. A mortgagor can execute a transfer in which the transferees name is left in blank, so that if the mortgagors has an occasion to sell he merely insert the name of the purchaser. To complete the legal mortgage, the stamped transfer dully signed by the mortgagor is forwarded to the Registrar of the company together wit share certificate.

A memorandum of deposit coffering an express power of sale should, however, always to be taken when accepting such security. The bank does not incur liability until the shares are registered In the name of the bank or nominees.

A memorandum of deposit executed by a customer to secure as follows, It should begin with a statement that the customer has deposited the securities with intention to create a charge on his estate and interest in the property. It should secure repayment on tin banks demand of all monies advanced from time to time. It should also contain a binding promise by customer to execute a valid legal mortgage if and when called upon to do so. The memorandum must be dated and stamped.

If security is deposited by a third party there should be additional clauses whereby depositor has the right to claim against the principal debtors estate in the event of principal debtor becoming bankrupt, and giving the bank power to retain the dividends until the whole debt i. repaid.

2.8.6 LIFE POLICY AS SECURITY FOR ADVANCE

A life policy provided it has an adequate surrender value is a much more tangible, reliable and acceptable banking security than an average guarantee. Under the Insurance Act 1976, the law permits any registered Insurance Company to issue insurance policies or accident policies. It should be noted, however, that generally only life policy is acceptable security for bank loan. A life assurance may be defined as a contract whereby the insurer (in consideration of a certain premium, which may be payable in monthly or by annual payments) undertakes to pay to the beneficiary of the policy a sum annuity upon the death of the life assured.

i. **ACCEPTABILITY OF LIFE POLICY AS S1CURITY FOR ADVANCES**

When life policy is offered as security, the first step is to examine the policy in details, The standing of the Insurance Company issuing the policy is very Important. Where it is issued by a well-known Insurance Company who has been settling claim promptly no question arises, because the exceptional strength of their financial position is a common knowledge.

It is also important to inquire whether the policy has acquired a surrender value. The surrender value of the policy usually increases more rapidly as the policy nears maturity. The surrender value can be ascertained by enquiry from the company. The next step is to ensure that assured age is admitted by the Company. The importance of this requirement is often missed and trouble arises when the policy monies are claimed.

ii. **THE OPERATION OF THE SECURITY**

After fulfilling the above - mentioned conditions the next step is to obtain a satisfactory charge over it and to protect the beaks position against.the risk that other parties may have or seek to obtained an interest in the policy.

iii. **EQUITABLE MORTGAGE OVER A LIFE POL1CY**

A mortgage is a conveyance of land or assignment of chattels as security for the payment of a debt or discharge of some other obligation for which is given subject to the mortgagees riot to have estate such create existing on repayment of the loan with interest. The borrower who gives the security is called the mortgagor while the lender is the mortgagee.

A life policy can be taken as a security in quite an informal manner by a mere deposit of the policy with or without a memorandum evidencing the intension of the parties. The policy cannot be surrendered without the co—operation of the assured or of his personal representative in the events of his death. In other words, the power of the bank to dealt with the security depends throughout Upon The co—operation of the assured who will usually be unwilling to sacrifice his life cover just to repay the bank debt.

Wherever a banker holds an equitable mortgage on Share i.e. ha. not become registered holder he should gent notice of his lien to the company.

iv. **LEGAL MOTATGAGE OVER A LIFE POLICY**

The mast complete and normal method of obtaining a charge over a life policy is by way of legal Mortgage whereby assured assigns all his rights in the policy to the bank subject to equity of redemption. The assignee must give written notice to the assurance company. The receipt of which has to be acknowledge in writing. The benefits of the policy are mortgaged to the bank and retained until repayment of the advance, when the policy can be reassigned to be assured.

v. RELEASE OF LIFE POLICIES

Upon repayment of the mortgage or other satisfactory arrangement for the mortgagor. Usually by completion *and* scalling of the reassignment clause, printed in standard form.

No formality in necessary to release a policy held merely by equitable mortgage because a legal interest ban been granted to the bank. Any memorandum of deposit can be cancelled.

vi. **FORM OF LEGAL MORTGAGE**

The mortgage open with what is known as the assignment clause whereby in consideration of the granting of banking facilities to or continuing the account of the named borrowed, the borrower assigns the entire policy to the bank together with all bonuses as security for all indebtedness or other liability of the customer or account either solely or jointly with any other persons. The security is expressed. to be a continuing security to avoid the operation of the case and the bank is expressly authorised to give a valid discharge for the entire policy at maturity. It is provided that if the customer repays all his debts and liabilities to the bank, it will at his request and his expense reassign the policy to the mortgagor.

The assignor engages to pay punctually the premiums and any other moneys payable under the policy and lodge the premium receipts with the bank. The tank is empowered at any time to sell or surrender the policy without consent or concurrence or demand since the indebtedness secured by mortgage is repayable upon demand and it may exercise the powers conferred upon the mortgage by law.

(a) **NOTICE OF ASSIGNMENT TO THE COMPANY**

Immediately upon completion of the mortgage, notice of the change has to be given to the assurance Company, Such notice enables the banks to sue on the policy at its own name and makes the company liable to the bank should. it pay the proceeds of the policy to another claimant.

(b) **LAND AND PREMISES AS SECURITIES FOR ADVANCE**

By virtues of its permanency, land has been a leading security for money lent, utilised as such by mortgage, legal or equitable. As a rule, a person who has legal capacity to hold land or any other property should be able to take or make a mortgage of it. An infant cannot be made liable on mortgage transaction because the transaction is in fact void.

2.8.7 PERFECTION OF BANKS SECURITIES VALUATION AND INSURANCE OF THE PROPERTY.

The first practical step when taking land as security is to decide how much it is worth from the standpoint of the bank. The services of a professional valuer may not be required in practice because the bank is taking the security as a font of insurance in the background relying primarily on the borrower to repay the advance from trade or other known source. The current value of any property is the price, which a willing buyer would be prepared to pay. The current value of any property is the price, which a willing buyer would be prepared to pay and a willing buyer would be prepared to accept.

The basic test is whether the security will realise sufficient value for bank's purpose if and when it has to be sold to recover the debt.

i. FIRE INSURANCE

After valuing the security the better obtain from the mortgagor the first insurance policy covering the building, which should be for an amount in excess of the forced sale value estimate by the bank. However, exact valuation may be and however complete the charge, the Security will be worthless if the building are not fully insured against loss or damaged by fire.

ii. **EXAMINTAION AND REPORT OF TITLE**

After satisfying oneself that the land taken as security is of sufficient value and that it is insured against all risks the next step is to have physical possession of the deed and. make a search at the appropriate land registry. Its object is to ensure that the customer is in fact the owner of the property he is charging to the bank security and that he has not previously charge it to any other person or finance house and no encroachment or encumbrance exist with respect to the property.

iii. **OBTAINING THE NECESSARY CONSENT**

The land Use requires consent of the state Governors of any transaction in land be it an assignment lease mortgage act. Failure to get the consent of the Governor renders the disposition void.

In Harry v. Martins 19149, 19 ER 142 WAGA hold that an assignment without consent, though it might be a ground for a failure was null and void. It is now mandatory that consent is a pro—-requisite to valid alienation of mortgage.

vi. **STAMPING**

A document which according to law which ought to have been stamped will not be admitted in evidence if it is not stamped. The stamp duty is calculated at 75k for every 3200 *in* case of legal mortgage debenture, trust deed and 35k for every 3200 in came of equitable to commissioner of stamp duty both original and counter part copies must be stamped.

v. **REGISTRATION OF LEGAL MORTGAGE**

To obtain full protection the bank must proceed to full registration of its title. when legal mortgage has been sealed by the mortgage it has to be registered within 30 days after stamping. The company AM 1968 provided that every charge created by a company shall so far as any security be void against a liquidation or creditor unless all the necessary essentials about the charge are deposited or delivered to the registrar of the companies for registration within 30 days after the date of its creation. In bank of the North v. Registrar of Companies Federal High Court Law Report Vol. 1973 - 19714 page 56. The applicant moved the court to grant extension of thirty days with which to register two debentures with registrar of company under £100 of the companies act 1968. It was contended that merely stating failure to register was due to inadvertence is a sufficient

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ground to support the motion to inadvertence without particularizing for the breach of the statutory requirements and the surrounding circumstances.

vi. **CONTENTS OF BANKERS MORTGAGE FORM-LEGAL MORTGAGE**

A bankers mortgage is usually for repayment on demand, and is usually drawn as continuing security for all money due or to become due. There is a convenant that the mortgagor shall maintain the fire insurance on the property, land over the policy to the bank and deposit all receipts for the payment of premium. The deed should give the express power t_0 sell the property immediately upon default of the borrower otherwise the banker must wait three months before the power is exercisable, the banker should however give reasonable notice to the borrower and any subsequent mortgage.

vii. **LEGAL AND EQUITABLE MORTAGAGE**

A banker has to decide from fact. of the proposal whether to be content with mere equitable charge in which case customer has to execute At Afribank form ADV 4 or to insist upon legal mortgage on form ADV 8.

viii. **ADVANTAGE OF LEGAL MORTGAGE**

A legal mortgage gives the lender right against the property itself without the need for reference to the borrower. All remedies available to legal mortgage can be exercised in given circumstance without reference to court.

ix.. **DISADVANTAGE OP EQUITABLE MORTGAGE**

The banker has not right against the property and cannot deal with or intervene in anything concerning the property without the cooperation of the mortgagor or the approval of the court. Also, The banks right is limited to personal *right,* against the owner mortgagor who may have to be forced by involving The aid of the courts with unavoidable delays and unnecessary expense.

ix. **POWER AND REMEDIES OF LEGAL MORTGAGES**

1. Right to sue for mortgage debt: The mortgagee can sue on convenient by mortgagor to repay if he breaches the convenant.

2. Possession and Power of Sale: these are the most important and helpful remedies for the bank. Although, ownership is vested on the mortgagee and is not by virtue of that alone entitled to sell the property, It is usually for the mortgages to contain a provision empowering the mortgages to sell., if the mortgagor defaults. Even though The mortgages deed contains no power of sale, the mortgages still has power of sale conferred by the mortgage deed conveyance Act 1681. Contrast where mortgage must obtain order of the court.

With respect of this, the mortgage can sell under his statutory power and no order of court is necessary except in the case of Equitable Mortgage.

S. 20 set out conditions, one of which must be fulfilled before power of sale is exercised.

i. Notice requiring payment of the mortgage money must have been served on the mortgagor and he must have defaulted for three months after such service.

ii. Some interest must be in arrears and unpaid for two months after due.

iii. There must have been a breach of sane provision in the mortgage other than non-payment.

xi. **FORECLOSURE**

As soon as mortgagor has defaulted under the provision for redemption, the mortgagee whether legal or equitable is entitled to bring an action to have the Equity of redemption destroyed. The Court normally gives order to have accounts taken then a foreclosure nips is granted. If six months after this order the mortgagor stills fails, tie court may make the order absolute . Foreclosure action is very unpopular and rarely taken as the order can be easily revoked if the mortgagor can make a good cane for revoking it. If it is found that mortgagee has been guilty of fraud the court in its absolute discretion can reopen foreclosure.

3. Right to appoint a receiver, This is taken to intercept the rent and profits from the mortgage property to reduce the interest and some capital. The power arises in the same circumstances as power of sale.

2.8.8 **COMPANIES DEBENTURES AS SEURITY**

If a company proposes to deposit its title as security for advance, the banker should ascertain whether the company has issued debenture and whether the debenture contained a specific charge or floating charge on the company' a property. They however have the right to deal with assets comprising floating deventure as it likes as long as it is still a going concern unless there is a clause prohibiting the company from creating any charge of mortgage on the company property ranking either in priority or pari—pasu with the existing debentures. If a bank having the title deed has notice of a floating charge, he can obtain probity.

Every trading company unless prohibited by its memorandum has a power to borrow money for the purposes of its business, and to give security for the loan by creating a mortgage or charge on its property. A debenture denotes an instrument issued by a company normally but not necessarily called on the face of it a debenture and providing for payment of or acknowledging the indebtedness in a specified sin.., at a fixed date with interest thereof. It is usually but not necessarily given a charge by way of security and is often though not invariably expressed to be one of a series of like debenture.

The common practice is for a bank's debenture to create a fixed charge over the fixed assets and floating charge over stock in—trade he. the floating assets had to cover both present and future acquisition. It is the lenders advantages that as many of the assets are capable of being conveniently charged should be subjected to a fixed charge as it preclude any dealing with them by the company.

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In regard to assets caning under the floating charge, the Company can deal with then in the ordinary course of business until floating charge is crystallized.

(a) CREATION OF DEBENTURES

Before accepting the debenture as security the bank should ascertain that it is drawn up in accordance with provision of the New and Articles of Association, that he has certified copies of the appropriate resolutions and that is duly registered within 21 days of execution with the Registrar of Companies. If a land certificate is concerned, registration with the Land Registry is necessary.

If debenture create a specific charge over any of the Company'. property, the title deeds of such property should be deposited with the debenture. The charge can be given by a separate mortgage or debenture can include a charge by way or legal mortgage.

S.90 C.A. is a most important one for bankers whereby a Company who redeemed the debenture to bank has power to reissue the debenture with some priority as if they have never been redeemed.

S.322 A floating charge created 12 months before the commencement of winding up proceeding shall be invalid unless it is proved that the company was solvent at that time.

(a) **WHAT IS DEBENTURE**

A debenture can simply be defined as a written acknowledgment of a debt usually drawn up to ensure the payment of interest and eventual repayment of capital and *terms* to regulate the relationship between the issuer and holder thereof.

By 8.395 *(i)* of the Act the term debenture also covers debenture stock which is borrowed money consolidated into one mass for the sake of convince. Registered debenture required registration with the Registrar of Companies – as they are charges created on Company property. Dearer Debentures— They are payable to bearer. No entry in Company register, negotiable like share warrants.

i. Redeemable Debentures

Are the types redeemed at a particular date and in accordance with a specific procedure. It is issued on the terms that the company shall redeem them in accordance with agreed promise.

ii, Perpetual Debenture,

They may be redeemable or irredeemable only on the happening of a contingency e.g. on winding up.

iii. Convertible Debenture,

Can be converted to share. When a business man or lawyer speaks of a debenture, he is usually referring to the type of instrument which does create a *charge* on the company's assets or some of them.

A debenture may be defined as an instrument executed by a Company in favour of a bank or other lender which normally gives specific or fixed charge on the company's fixed assets (e.g. its freehold and leasehold properties) and what is known as floating charge on tin rest of it. undertaking. There are two type. All money debenture and fixed aim. The fixed en type has certain disadvantages as a banking security, and it is Sheldon sued for that purpose. The amount has to be disclosed when debenture is registered at companies registry. But an all money debenture no amount is disclosed upon registration. Again, if the company intends to borrow more money additional sum debenture has to be issued. Stamped and registered at companies registry, if all money debenture is issued and company wants additional money, it is merely necessary to increase the step duty on the original document within thirty days of granting the additional accommodation. Thus a fixed charge is usually created on the company's goodwill and on its fixed plant and machinery with result that the company is prevented from disposing of these assets without permission of the debenture holder. Thus a floating charge is a charge on the assets which are continually changing in the ordinary course of the business of the company and until legal steps is taken against the debenture holder to determine the position, the company is entirely free to sell with these assets, for example by selling them and using the proceeds to purchase part assets which themselves are subject to the floating charge.

(c) **CRYSTALLISATION OF FLOATING CHARGE**

(i) When a company goes into liquidation, a floating charge crystallizes automatically at the commencement of the winding up of the company.

(ii) Then Company makes defaults in payment of Interest. The Company ceases to carry on business without going into liquidation priority of other creditors: If a bank is relying on a floating charge and the company being band pressed by its creditors, there is a risk that certain with creditors may obtain priority over the bank with floating charge e.g. Landlord levies a distress tenant for rent before the bank appoint a receiver under its floating charge This will be valid against the bank.

(a) **WHAT MATTERS WOULD YOU ECXPECT TO FIND IN DEBENTURE TRUST DEED**?

A convenant by the company to pay the principal and interest. A clause stating type of charge created fixed charge on its good will and uncalled capital, fixed charge by way of legal mortgage on freehold leasehold property and on its plant and machinery and a floating charge over all its assets.

Convenant not to create mortgage or charge to rank in priority or pari—passu with floating charge.

Description of the contingency even upon which the security will crystallise i.e. the events that should happen before debenture become enforceable e.g where the interest of the mortgagee is in jeopardy as a result of company becoming insolvent. At any time after the bank has demanded payment of any money secured by the debenture tie bank is authorised to appoint by writing a receiver with power to take possession of the property.

The company undertakes to supply the bank half-yearly if required by the bank balance sheet and profit and loss account of the company. A convenant to insure the property and assets covered by the debenture. Power to trustees to take possession of the property charged when the security becomes enforceable or to carry on the business of the company and sell the property charged for the purpose of paying the money due while balance is repaid to the company. Power to trustees to agree with the company to keep a register of debenture holders in accordance with 6. 103 of the Act.

(e) PROVISION FOR HOLDING MEETINGS 0F DEBENTURE HOLDER

Power of trustees to appoint receiver when the security becomes enforceable provisions as to serving notice on debenture holders.

(f) PARI-PASU DEBENTURE

In sane cases agreement might have been reached between lending that the assets of the company are adequate ant could be shared pari—passu by the lenders without any taking priority. Each lender is entitled under this agreement to create its own debenture but running pari—passu with other created by co—lender.

The main feature of this type of charge is that the various debenture have a common terms and conditions, and are enforceable pari—passu that is at the same time.

2..9 CONSORTIUM LENDING

In some cases lender form a consortium to lead money to a company on security of th, fixed and floating assets including land.

A guarantee in probably the simplest form of banking security more ee.ui2y obtained than may ether, yet frequently acre difficult to realise. A guarantee say be defined as an undertaking or pro— Rise whereby .me person (called guarantor or surety) agree to be answerable. for the payment of a debt or performance of some act by another person who must be legally bound to pay the debt or to perform the act concerned. It is collateral security of secondary liability involving three parties the guarantor, the principal debtor whose debt is guaranteed and the loser or creditor.

A contract of guarantee should be distinguished from contract of indemnity comes to existence where one man praise to save another from the result of transaction into which he enters at the instance of the promisor.

Thus, when a guarantor signs a guarantee in favour of a banker, is saying in effect, advance money to your customer Mr. X if he does not pay, I will be responsible provided that the amount. of my liability shall not exceed say N1,000.00

ESSENTIALS OF A GURANTEE

The best baiting approach to the subject guarantee is to recognise at the onset that there are three clear essentials.

i. The value of the guarantee which must be maintained through the period of the advance. To customer.

ii The validity of the guarantee which moans in general that the guarantee which means in general that the guarantor mind must run with his pen at the time he signs the guarantee that nothing shall happen later t. avoid liability on the grounds of mistake, duress and undue influence.

iii. The fern of guarantee which must confer all possibilities limiting the common law right of the guarantor at permitting wide freedom to the banker in dealing with the borrower.

2.10 RISK ANALYSIS IN LENDING

The risk which we shall be analysing in lending is the risk of default of the customer in repaying the principal ~t of the loam or overdraft and in servicing the interest element which is the return which the banker expect. for parting with his money.

Risk as regards the amount lend to customer, refers, to the uncertainty with respect to the receipt of income and to the return of the principal amount lend to the customer. It in also in this way the lending decision is similar to investment decision. The tools Car analysing the risks involved in lending decisions are similar in certain respects but differ in some degree from theme for analiysing investment decision. J3oth the quantitative and qualitative bole which will be enumerated later are used for nnalyaing risks in lending decisions. It is perhaps necessary to consider f fret the clement of rink in lending.

2.11 COMMON RISK ASSIGNABLE TO CORPORATE LENDING

Although both personal and corporate lendings are fraught with rink, It is the lending to corporate customers that require detailed analysis. AS for the personal account customer, the personal. Knowledge of the customer and the working of ledger cards, computer printout or statement reports on on-line computer terminals will be sufficient for the decision making process.

The same information cannot be sufficient to analyse the riskness in lending to a corporate body. Indeed, no too separate Companies are entirely the same in their structure, financial management capabilities, strength and profitably not minding that

tome of their accounting rations may be similar. This is the mistake which many credit officers make in assuming that all the accounting ratios will fit in a straight Jacket to every company customer being considered for a lending proposition. However, the following ten-risk rank highest among others in dealing with lending proposals of limited liability companies;

1. Sudden Change in demand for the customers products
2. Sudden change in government policies
3. Unexpected trading louses resulting from new invention, new end sudden competition and introduction of new and better products.
4. Change in management, which results in weakening the Change structure.
5. Change in technology of producing and distribution of finished goods.
6. Unfavourable effects of ecological changes like soil erosion fires bought, arson, and other insurable risks.
7. fluctuation in foreign exchange *rates* which may adversely at feet the procurement of the necessary imported raw materials and machinery.
8. The negative effects of government's income and prices control policies and inflation.
9. Loss of major shareholders and management staff.
10. The blunt refusal of sane m5jor borrowers to repay their indebtedness even when t. ability to is apparent.

2.12 SOURCES OF CREDIT INFORMATION AVAILABLE FOR ANALYSING RISKS INVOLVED IN LENDING PROPOSITIONS

As mentioned earlier, me of the important qualitative and quantitative, tools evolved by lending bankers over the years analysing risks *in* lending proposals are as follows

1. Sister Banks
2. Trade sources
3. Major customers of the Borrowers
4. Competitors of the borrower
5. Comparative financial statements, especially
   (a) Manufacturing Account
   (b) Trading Account
   (c) Revenue or profit and Loss Account
   (d) *Profit* and loss appropriation account
   (e) Balance sheet
   (f) Sources and application of Funds
   (g) Notes attached to the published accounts
6. TM gash flow forecast - cash budgets
7. Inter-Company comparison within the industry
8. Banker's personal knowledge of the Customer's business.

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1. BANKS

Although, banks owe their customers the duty of secrecy, none— the less, they owe a duty of reciprocity to *one* another. In this respect, they gene as a repository for valuable information which are usually provided in for, of a status repeat.

They are in a position to give a highly confidential and reliable piece of information about the customers from whom they have taken references while opening account for them as well as those built up in the course of the daily operations of the accounts.

The information obtainable include the credit – worthiness, the integrity and reliability that could be place on the customer to honour his financial obligations. Such information is normally given without resorting to the giver-bank and with a disclaimer that reliance on the facts contained are at the strict responsibility of the user win is the inquiring bank. Here, notwithstanding that an element of the risk remains, it is drastically minimized.

2. TRADE SOURCES

These sources include private, individual lenders who have accumulated considerable wealth used for lending purpose in sail towns and cities of the Federation, aide got by companies in form of advances against order, 1 or future production and delivery or by special arrangements wider which partial payment are received prior to completion of an order ·such financial aid from customer's is

most important to producers of large, specialised equipment, where time and expense involved in production are great.

These trading perkier. serve as a reservoir of information on the integrity and financial prudence of the management of a company customers whose riskness of it. Credit request is being analysed. In the advanced countries information bank data is fore readily available then in a developing economy like ours also, it is possible to know from this source how the borrower has been paying his trade eralitoru and the amount of discount the company has enjoyed for making prompt payments of it. bills.

3. MAJOR CUSTOMERS OF THE BORROWER

The major distributors, retailers and the customer association of Nigeria are reliable sources of knowing about the quality prices of a company's products as well as its prompt responsiveness to adverse public criticism, change in style and mod, of promotion, quality control, public relations and the like.

4. COMPETITORS OF THE CUSTOMERS

To a limited degree, the information received from this courage is reliable. Inspite of their limitation of being bias in volunteering information market share as controlled in the industry of the company being assessed for lending purposes.

5. COMPARATIVE FINANCIAL STATEMENTS:

Bankers are interested financial in statement from the basic data provided by them, the banks are able to assess the company's earning power.

The liquidity and capital structure should be possible to take decisions on the company's capacity for absorbing the debt and the ability to repay the loan as well as paying the bank's interest and commissions as and when due.

We shall now take the important elements in turns for this hypothetical company.

Table 2.2 Balance sheet of a hypothetical company Goje Nig. Plc.

GOJE NIGERIA PLC

The Manufacturing Account for the Year Ended 31st December. 1995

		N	N	N
Stock of Raw Materials as at 1st Jan.. 1995		10,000	Cost of Goods Produced Transferred to trading Acct	50,000.00
Purchases (Learn Returns)		30,000.00		
Carriages Inward		2,000.00		
		42,000.00		
Less Stock of Raw Materials at 31st December, 1995		2,000.00	40,000.00	
Work in Progress 31—12—95		3,000.00		
Lees work *in* Progress on 1/1995		1,000.00	2,000.00	
Prime cost of goods produced			38,000.00	
Production Overheads and				
Indirect Expenses				
Factory:-				
Power				
Rates		3,000		
Heating and Lighting		3,000		
General expenses		2,000		
Insurance		2,000		
Depreciation:		1,000		
Less Tools	400			
Plant and Machinery	600	1,000	12,000	
			50,000	50,000

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Table 2.3 Trading Account for the company

Trading Account for the Year Ended 31st December. 1995

Cost of Manufacturing b/d	50,000	Sales of Finished goods (less returns)	105,000
Add Stock of finished goods as at 1/1/95	5,000		
	55,000		
Less cost of Finished goods at 31—12—95	10,000		
Cost of sales	45,000		
Gross Profit c,/d to P &. L A/C	60,000		
	105,000.00		105,000

Table 2.4 P&L Account for the company

Profit and Loss Account for the year Ended
31st December, 1995

Office Establishment		Gross Profit b/d	60,000
Rates	100	Transfer fees	100
Repairs to premises	50		
Insurance	50	Discount Received	400
Depreciation of Office Furniture	300	500	
Administration:			
Directors' Emolument	3,000		
salaries	4,500		
Commissions	250		
Audit fee	250		
Postage & Telephone	500		
Printing & stationery	1,000		
Legal & Professional charges	500		
Sundry Trade expenses	1,000	11,000	
Finance			
Bank Charges	400		
Interest on Debentures	600		
Provision for Doubtful Debts	1,500	2,500	
		14,000	
Net Profit for the year c/d		46,500	
		60,500	60,500

Table 2.5 Appropriation Account for the company

GOJE NIGERIA PLC

Appropriate Account for the Year Ended 31st December, 1995

Taxation on Profits for the Year	25,00		Net Profit for year	46,500
Income Tax	1,500	26,500	Interest on Tax Reserve Certificate	500
Net profit after Taxation	23,500		Dividend from Subsidiary company	2,500
			Income in Trade Investment	200
			Income n Quoted Investment	300
	50,000			50,000
Transfers to			Profit after	
Statutory Reserve		5,000	Taxation b/d	23,500
General Reserve		4,000		
Preference shares redemption Reserve		6,000		
Dividends		8,000	23,000	
Unappropriated profit c/d to Balance Sheet			1,000	
			24,000	24,000

(a) **THE MANUFACTURING ACCOUNT**

This account. prepared in order to derive the direct cost of production using factors such as raw materials, direct labour and other direct overhead expenses. (see Table 2.2)

The Interest of the credit officer in analysing this account is to ensure that the bank is not indirectly being required to bail the company out of its substantial capital which has been down on unfinished products styled as work in progress.

(b) THE TRADING ACCOUNT

This is most important to the Financial Analysis when the ratio of gross profit to sales derived over a number of years is compared with what obtains with other relative companies within the particular industry of its operation (see table 2.3). Highly rewarding conclusions could be adduced from this exercise which may assist the Banker in its chosen Industry.

(c) THE PROFIT AND LOSS ACCOUNT

Just as well mentioned above, the relationship of the Net Profit to Sales over a specific period should also interest the Credit Officer in taking decision on how the company fairs in its chosen Industry. (Table 2.4)

(d) THE PROFIT AND LOSS APPROPRIATION ACCOUNT

What should interest us here as credit analyst should be the level or provisions made, the reserves ployed back in to the business or whether as a matter of policy the company prefers paying)handsome dividends to it shareholders in preference to its creditors including the Bank whose repayments are being delayed or even uncared for outrightly. This is a risky danger signal. (Table 2.5)

(e) THE BALANCE SHEET

As the Balance Sheet suns up the financial position of a company on a particular day, generally, in order to determine the strength and quality of the company at any point in time credit officer should essentially probe The following key areas: –

1. The shareholder's funds
2. The details, nature and terms of it, long—terms obligations.
3. The fixed assets structure and assets replacement programme
4. Depreciation policy, and
5. The nature and details of the current assets.

In order to ascertain that the company will b• able to generate sufficient cash to meet its day to day operations, a detailed analysis of the salient components of the balance sheet would be ideal. Analysis of the risky aspects are highlighted as follows.

THE LIABILITIES SIDE

i. The Networth is the sun total of some balance sheet item such as the share capital, the capital reserves, revenue reserves including *the* profit and logs balance transferred to the balance sheet from the profit and loss account and the share premium.

As it represents the owners stake in the business of the borrowing company. It is a measure of the confidence which the shareholders repose in the venture.

The credit officer will be interested in watching over a period of time whether the margin of the Networth is increasing or decreasing as it serves as a cushion for tiding the

company over loan period when it suffers temporary losses. Therefore, a constantly dwindling Networth is a danger signal that it is very risky to lend money to the sinking business enterprises.

ii. LONG TERM LIABILITIES

These are mortgage debenture, and loans from the Directors and outsiders. They are either secured or unsecured but the important thing to note is that they are mostly available for capitalisation in case of need.

When they constitute a large proportion of the company's source of funds, this is a distasteful sign post that outsiders are playing more than necessary role in funding the Company. If they are secured, they may rank before the Bank's unsecured overdraft in settlement in case of the winding up of the Company. So, when the credit Officer is aware that a company is enjoying an unathorised credit which is often unsecured, this is the type of danger the Dank may be facing in the event of a liquidation of the company borrower.

CURRENT LIABILITIES

These are generally composed of The categories of the Company' a obligation due for settlement within one calender year – they are:-

i. Trade Creditors

When trade credit are given of received they form part of the cash flow of the organisation.

ii. Advance Payments of Deposits:

As these represent values of services not yet rendered and goods mold but not yet delivered, they qualify a. current liability and tom part of the company's sources of funds or cash flow.

iii. Corporation Tax

Pending the process of the tax assessment returns of the preceding year rendered to the tax authorities, the tax Liability can be validly recorded as a current liability. Meanwhile, the money reserved for this purpose forms part of the cash flew of the company until it is eventually paid out.

IV. Dividend Payable

Provision of dividend payment in the balance sheet qualifies as a current liability a~ it in returned to the shareholders on profits made in the preceding year.

The credit officer is interested in the company's dividend policy and would frown at a policy — with preference to payment of dividends to shareholders rather then nettle out-standing short—tern financial obligation to creditors including the bank.

v. Accrued Interest

These are interests due for payment in the current year to low—tam debenture holders and the bank for it. long—term loan,

vi. Bank Balance

When the balance is in debit on the balance sheet, it is evidence that the account overdrawn. Even though the overdraft would have been renewed for another year, tin fact that overdrafts are always repayable on demand qualities the debit balance to be regarded as a current liability.

vii. Director's Current Account

This is additional financial support given to the company by Director' apart from their shareholders. They are allowed to draw on their respective balances when the position of the company improves except if they have previously agreed that the short—term loans could be capitalised in future. The total balance of these account appears on the liability side of the balance sheet as a current liability on the balance sheet date.

THE ASSETS SIDE

The Credit of floor should be interested in the sufficiency and efficiency of those Fixed Assets which are used by the Company in producing goods lit adequate quantity and quality moss to generate profits and cash with which to liquidate their *short—term* indebtedness.

1. Depreciation

Through Depreciation of Assets, the Financial analyst is enable to know the current market value of the assets. The banker will be guided by the company's depreciation policy often stated as a footnote to the accounts of the company. His interest will be centred on the adequacy of the depreciated values of the assets if he is not to run the risk of window—dressing which may be misleading in the taking lending decisions.

ii. Fictitious Assets:

Preliminary Expenses, goodwill, trademarks, patent right, are expected to be written off the balance sheet over a length of time. When they are too long in the books of

the company, the risk of window-dressing is also likely to rear its ugly head,

(b) CURRENT ASSETS

Current assets are assets, which the company could turn to cash during operational cycle. Thus, it will be able to generate large profits to expand it's business and secure cash with which to repay its indebtedness and service the interest payment. The main components of current assets are:

i. Stocks:

These may be stock of finished goods, raw materials and semi—finished goods called work in progress.

The credit analyst should be interested in *the* composition and volume of these variety of stocks as they could effect the profitability and cash generation ability of the company.

ii. Trade Debtors,

These results from credit given by the company to selected buyers of its products.

Some of these credit also result in some bad and doubtful debts, In this regards, the credit officers, should analyse the trends in debtors, the age of major debts, the spread of debtors and the records of bad debts of the company so as to determine the efficiency of its management in administering trade credits.

iii. Cash:

The prudence of the company's Management in the investment of funds would *be* easily analysed. It would be wise to place funds on short—turn or fixed term deposits in banks if the returns would be much higher than interest paid to the bait of facilities enjoyed. The same principle applies in investment in quoted securities or subsidiaries.

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V. **Investment in other Companies**

As said earlier, investment in other companies and marketable security are embarked upon as not to keep idle cash. More importantly, the investment is under taken for the purpose of expanding the income base of the company.

What will interest the Credit officer here is that the securities are easily convertible to cash at short notice and without fluctuation in price.

(t) **Source And Application Of Funds**:

The statement which is derived from the financial statements shows whether or not the resources which come into the hands of the Company's Management in the year had been put to uptimal use. Its extraction is as follows

Sources

1. Profit for the *year* before taxation

   - Taxation

   - Dividends

   - Non—cash expenses e.g. depreciation

4. Proceeds of issue of shares or debentures

5. Proceeds of bank or other loans

4. Reduction in current assets

5. Proceeds of sale of fixed assets

6. Increase in current liabilities

Application

1. Loss for the year before

   Taxation

   Depreciation
2. Payments for the redemption of shares or debentures
3. Repayment of bank *or* other loans
4. Coat of fixed assets acquired
5. Dividends paid during the year
6. Taxation paid during year
7. Increase in current assets
8. Reduction in current liabilities

Notes to Published Accounts

The notes which are usually in abridged form help in the proper understanding of the company' s account.

vi. **The Cash flow forecast – Cash Budget Analysis for Lending Decision – Making**

Cash flows are statements of the increases and decreases which describe the transaction between the beginning and ending balance of cash. They show an analysis of the causes of the change in the balance of cash from one date to the other. In the simplest form, a cash flow statement is a statement *of* cash receipts (or inflows) and cash disbursements (or out flows).

Cash Inflows Includes

1. Receipts from customers as a result of sales
2. Receipts from the sale of machinery at the end of a project's life.
3. Receipts from the run down of stocks at the end of a project's life.

Cask Outflows Includes

1 Payments for machinery at the beginning of a projects life.

2. Payment, to suppliers and workers for materials, service' and labour which are used either immediately or to build up such items as stocks.

3. Payment of Tax

Relevance, of cash Flows to the Credit Officer

A cash flow statement is *a* useful device in the hand of the financial analyst in evaluating the financial positions of a company or business from one period to *another.*

Cash forecast, reveal periods of cash shortages (or cash inadequacy) and cash surplus (or too much cash). In this process it is possible to determine the periods of the year when the company will need an overdraft and the highest amount required. A detailed analysis of cash flow projection is beyond the confines of this paper.

Inter-firm Comparison

All along in this research work. I have continually stressed that as no company exist alone l in its own industry, comparative analysis is of utmost importance. Such analysis guides the credit officer as to whether the company being evaluated has captured enough market share in its industry so as to ensure increased turnover. continued profitability that will make it possible to repay its bank loan and service it interest due to the bank.

Banker's Knowledge of the Customer

The banker's personal knowledge of the business of his corporate customer cannot be over—emphasised. This knowledge stems from when an account is opened, references taken and a banker/customer relationship established. The Credit Officer as well as the branch Manager are expected by the Banks internal procedure to know and visits the premises of the customer, regularly to see things for themselves and assess the progress and problems of the customer. personally.

This helps evade risk of diversion of credit facilities to unapproved and less profitable ventures.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research methodology

This Chapter is concerned with how the research work has been conducted. It is expected that the various methods explored are analysed including sources of data and technique of data collection and analysis.

3.2 SOURCES OF DATA

The sources of data collected are two, secondary and primary sources.

3.2.1 Primary source

This source of data was based on information obtained through the administration of questionnaire and oral interviews with key officers in the set up responsible for decision making in the granting of credit facilities. These people include the following bank personnel.

i. Afribank Regional Credit Officer Kaduna
ii. Regional Recovery credit officer-Kaduna
iii. Afribank Regional Legal Officer
iv. Afribank Branch Manager Zaria
v. Afribank Zaria branch credit officer
vi. CBN officials Kaduna
vii. First Bank Zaria Branch Manager
viii. Union Bank Zaria Branch Manager
ix. UBA Zaria Branch Manager

3.2.3 Secondary source:

The collection of secondary data was dependent on the following records collected from the bank and CBN with references from other Banks listed above which was mainly for comparison purposes only.

i. Credit Returns forms at Afribank Plc. Zaria.

ii. CBN Credit and monetary guidelines and other financial reports.

iii. Afribank financial Reports

iv. Financial reports of Union Bank Plc, First Bank Plc and UBA.

v. Business journal and periodicals

vi. Afribank in house credit training materials (unpublished materials)

vii. Various Textbooks of the subject matter

3.3 Techniques of Data Analysis:

This research does not involve the use of complex statistical data and therefore will not require the use of computer for the analyses of data collected. Descriptive statistical methods will be adopted in answering the questions raised in this project.

CHAPTER FOUR

4.0 ANALYSIS OF DATA

4.1 A BRIEF HISTORY AND ORGANISATION OF AFRIBANK NIGERIA PLC

Afribank received banking licensee on October 20, 1959, and opened the first branch in the city of Kano on January 4, 1960. It was then known as Banque Interrnationale Pour L"Afrique occidnetale (BIAO) Mr. Rene Loiseau served as its first Manager.

The origin of BIAO dates back to around 1853 when the Bank was first established in Senegal, it was then known as Banque du Senegal, Later, this was changed to Banque Pour L"Afrique occidentale (BIAO).

The word "Internationale" was added later when the Bank's ownership included the first National City Bank.

BIAO was one of the first banks to set up shop in West Africa. At a point, the Banks activities in the area were so pervading that she was given the authority to issue currency Notes (Acentral Banking Function) in the French speaking West African countries. Afribank was establsihed as a subsidiary of BIAO,.

BIAO's entry into Nigeria was as a consequence of its desire to tap the commercial opportunities which existed in the trans trade (basically in groundnuts) from Niger Republic to Nigeria. The business of trading groundnuts was a very lucrative undertaking at the time and had become an important component of BIAO's activity in the colonies.

The attraction to Nigeria arose as a result of the fast that business men in Zinder, Niger Republic, sent groundnuts to Kano by road, and then by train to Apapa, for shipment to the port of Marseilles in France. BAIO's Manager in Zinder at the time realised that he was losing money from the transit trade because the documentary aspect of the business was being handled by a Bank in Nigeria, and a non-French 'Bank for that matter The Manager then recommended to Headquarters in Paris, that a branch be opened in Kano.

In compliance with Federal Government's orders, the Bank's Headquarters was in 1960 set 'up at 94, Broad Street Lagos. The establishment of Afribank coincided with the emergence of the country's oil industry. The Bank soon developed links with some oil companies and in order to serve their needs more promptly, the 'Bank set 'up two more branches in Port-Harcourt and Aba 'just before the outbreak of the civil war in 1976 with the promulgation of other Nigeria companies Decree in 1968, it become imperative for all firms operating in Nigeria to be incorporated as Nigeria Company, on May 30, 1969. BIAO was incorporated in the country as limited liability company under 'the name International Bank for West Africa (IBWA) the English equivalent of BIAO.

On account of indegenization, the Federal Military Government in 1976 acquired 60 percent of a the equity structure, and those o f all banks for that matter. This left BIAO with '40 percent of the Afribank equity capital.

By December, 1976, the Bank got her share increased from N3.6 million to N6 million. In 12971 the Bank got her 'first Nigerian Chairman in the person of Alhaji T. Galadima. That same year, BIAO herself experienced changes in her own equity structure. The Union Bank of Switzerland bought over 20 percent of the 49 percent of BIAO equity capital, held at the time by citibank N.A. further 2 percent of this portion was taken up by Baenco da Brazil, while 'the

remaining nine percent was bought by the "Caompanigines International African de Banque Holding S.A. Luxermbourg". The year 1979 saw the paidup capital of Afribank increasing to N 15 million. Also, that year saw 'for the first time, the appointment of a Nigerian as the Bank's Managing Director in the person of Mr. O.O. Olashore, In 1980, the Federal Government gave 'up 10 percent of her equity holding in the Bank to staff. Two years later, the Bank adopted Afribank as her sub-name. The name 'AFRIBANK" is common to all banks in the BIAO group, the Bank changed its 'name finally to Afribank Nigeria Limited with effect from January 1, 1990.

Over these years, Afribank has grown into a group currently made up of:-

Afribank Nigeria Limited

Afribank International Limited (Merchant Bankers)

Afribank Estates Company Limited, and

Afribank Finance Company Limited, Dublin.

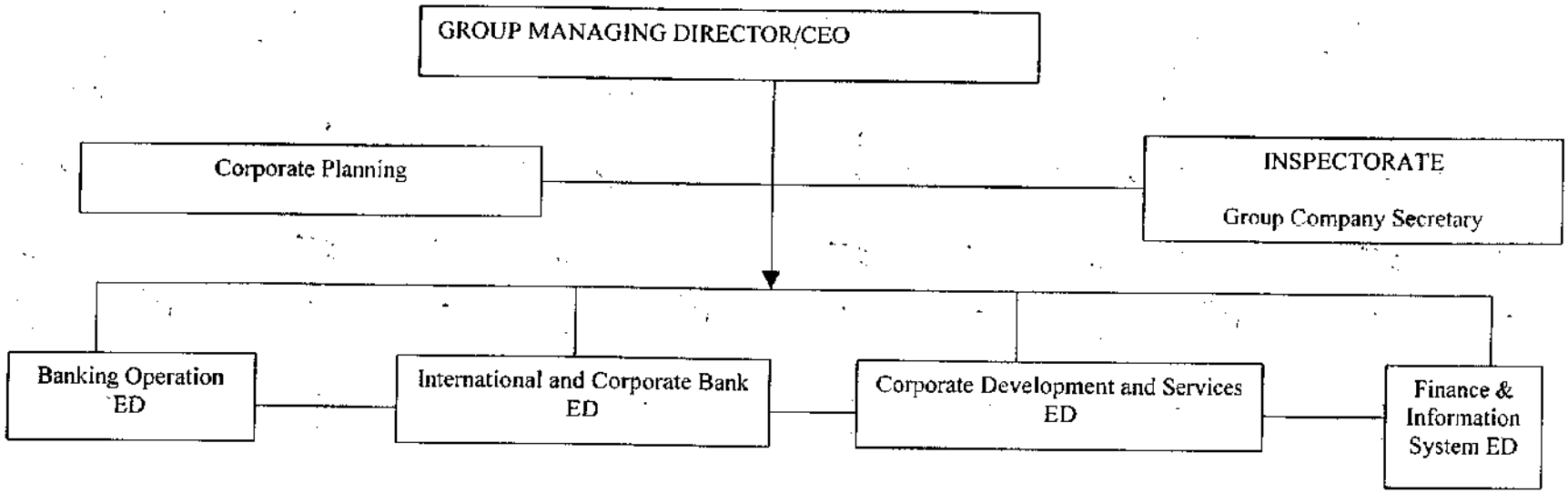
4.2 THE QUESTIONNAIRE

A questionnaire made up of Thirty Five(35) questions was designed and two hundred (200) copies administered to some key officers in Afribank and some commercial banks within and outside Zaria responsible for decision making on credit matters. (see appendix Ie) Out of these number, one hundred and fifty (150) were responded to by the officers in Afribank while non responded from other banks. The reason for the non-response by officers from other Banks is attributed to this oath of secrecy of bank information binding on employees of bankers. Infact I was able to get good response from Afribank staffers because of the advantage of being an insider.

The questionnaire were administered to test the validity of the three (3) hypothesis propounded and our findings are enumerated below. (see fig 4.1)

4.2.2 STRUCTURE OF AFRIBANK

AFRIBANK GROUP
GROUP OGRANATION STRUCTURE



*Regional Office
*Dev. & Agric. Finance
*Afribank Mortgage Co.

* Corporate Bank
* International
* IBWA Finance Co.
* IBWA Holding Co.. BV

* Admin. & Services
* Human Resource Mgt.
* Group Legal Adviser
* Afribank Estate Co.
* Afribank Insurance

* Finance & Accounting
* Information Tech. & Systems (IT&S)
* Domestic Treasury
* Risk Portfolio Mgt.
* Afribank Int'l Ltd. (Merchant Bank)

**As at December, 1994

Source: Afribank Nig. Plc. 1994 Annual report

4.3.1 HYPOTHESIS ONE

That the creation of bad debts in our commercial banks is caused by poor administration of our credit port folio.

This statements was proven to be true from the responses we received. For example, we discovered that the length of stay of credit officers in the bank and the specialist training on credit administration had a direct relationship on their ability to make reationale decision on lending matter hence minize the creation of bad debt.

Take for example, the use of status inquiry on all customers but particularly those seeking credit facilities. The importance of this is to check cases of fraudulent debtor s who have defaulted other banks or even branches of the same bank. This however must be done within strict confidentiality and indemnity.

The Credit officer should equally have a broad knowledge of the working of other departments in the bank as he requires information from all or most of 'them while appraising the customer.

It is very important for each branch to run a full fledged credit department with enough staff to run the department. Managing credit unit with another may lead to inefficiently which may cause the bank huge losses through the creation of bad-debts. In this regards we found out 'that Ninety (90) percent of the branches in Afribnank have well established credit departments.

For all registered business, confirmation with the corporate Affairs Commission on the genuiness of company and credibility of Directors must 'be made. This is to avoid granting loans to fake companies thereby minimizing the creation of bad-debts.

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A meticulous and in-depth analysis of customers application facilitates good credit decision making. The questionnaire revealed the following as very vital in the successes of customers applications for loans.

a. High account turn over

b. Quality of collateral pledged

c. Age of account

d. Relationship with the bank employees

e. Connection with external influences

We found out also t hat most credit officers and other bank officials saddled with the responsibility of making credit decisions offered the following ranking on these key elements required when analysing customers request for loans.

1. Character

2. Purposes of loan

3. Capability

4. Amount of loan

5. Security

These view may differ with officers at other banks but we hold the feeling that 'the variation may not be too wide. The research also revealed that of the total exposure of the branches examined only 'between 30-40% of it is bad.

We hold the view that this is excellent given the rate at which banks collapsed in the past 10 years. It was established that the bank in actual sense had commenced providing for bad debts in their books even before 'the promulgation of the prudential guidelines an evidence d in their general memorandum 180 of August, 1990.

Table 4.1

A matrix rating depicting classification of bad accounts in Afribank in 1990 is given below.

RATING	CRITERIA			PROVISIONING	
	ACTIVITIES	SECURITY	FINANCIALS	INTEREST RESERVE	CAPITAL PROVISIONS
A	OK	OK	OK	NO	NO
B	OK OK NOT	OK NOT OK OK	NOT OK OK OK	NO	NO
C	OK NOT OK NOT OK	NOT OK OK NOT OK	NOT OK/NOT AVAILABLE NOT OK/NOT AVAILABLE OK	NO	NO
D	NOT OK QUALIFIED DORMANCY OR ARREARS	NOT OK OR OK	NOT OK OF NOT AVAILABLE	YES	NO
E	A facility upon which no progress has been made for more than 3 months of it's being classified "D"			YES	(12% Capital provision every quarter for amount above N10,000.00 and below
F	Fully provisioned Facility			YES	NO

Source: field work

4.3.2 HYPOTHESIS TWO

The realisation of securities pledged as a collateral for credit facilties granted by banks could become difficult or impossible if they are not properly constituted or were defective.

A security is something which makes the enjoyment or enforcement of a right more certain or more secured. A security on property can be said to be where a right over property exists, by virtue of which the enforcement of a liability or promise is facilitated or made more certain. Professor sykes defines security as an interest vested in a person called the creditor in certain property owned by another called the "debtor: whereby certain rights are made available to the creditor over such property in order to satisfy an obligation personally owned or recognised as being owed to the creditor by the debtor or some other persons.

Put simply, a security signifies a right in addition to the mere promise to pay or discharge an obligation. This right entitles the creditor to exercise some control over the property of the debtor in or to enforce the discharge of the obligation.

A secured credit transaction is one in which the money seeking party goes to the money owning party and obtains a loan, using whatever property he owns as security. Secured credit transactions. Therefore, refer to securities which can be made available for purposes of obtaining a loan or for purposes of securing debt. Securities are generally classified into three:

(a). Those securities by which the creditor obtains proprietary rights over the security but which do not depend on the creditor obtaining of such property. In this class are Mortgage.

(b). Secondly, those in which the creditor does not obtain proprietary rights over the property but he takes possession of the property. Under this class are pledged and possessory liens.

(c). The third class of securities are those that do not depend on the creditor obtaining propiertary rights over or the possession of the property. In this class are charges and non possesory liens and hypothecation

In proprietary securities, the debtor parts with his ownership rights while in the possessory security he does not part with his entire ownership rights but does part with one right of several rights, that is, the right of possession.

Even though the possessory security does not transfer the full ownership it still posses an interest of the proprietary nature. The ownership is distributed between the parties. Possessory security transfers both in law and fact, actual possession and the right to possession.

For the hypothecation, there is neither a full transfer or a division of ownership rights. Hence, the holder of a change who obtains an order for a judicial scale is not, in so selling his own property. A charge does not give the creditor either a general or special property or possession of the subject matter of the security.

Comprised in these three classifications are various securities which may be caused for loans or credit. The most commonly used include land, stocks and bonds, life policies, bills of exchange are attractive to creditors, others are not because they are not efficacious. An example is the insurance policy.

A creditor has to be sure that the premiums are paid by the debtor to keep the policy a live or he has to pay them himself in order to be sure of the security. This is an additional task to the creditor. Another example may be made of the hire purchase. By virtue of the fact that the hirer does not become owner of the property subject of the hire purchase agreement, he cannot dispose it until the last installment is paid and he had exercised his option to purchase. But there is nothing preventing him from assigning his rights under the agreement save that by the nemo dat non habet rule such a security in the hands of a creditor is not efficacious. A

breach by the hirer will entitle the owner to recover his property and the creditor automatically becomes an unsecured creditor.

A security on property can be either specific or shifting. Hence, in the ordinary mortgage on land the security is normally specific. The mortgage can deal only with the land subject to the mortgage and the mortgagee does not by his mortgage acquire any right to other property belonging to the mortgagor on the other hand. A shifting or floating security is a security on all property of the debtor which comes under a certain description at the time when the rights of the parties have to be ascertained. In this regards a debenture may form a charge on the property of the debtor for the time being, including stock in trade or book debts; so that the debtor (in case of companies) may sell its stock in trade and buy new stock in trade, or receive book debts and create new ones in such a way that when the time comes for enforcing the security, the property then subject was given. As soon as proceedings are taken which necessitate an enforcement of the security, the security becomes fixed and no further change is possible.

A security may also be personal, as when it is the mere promise of the debtor to pay, followed by a similar promise of a third party to pay the debt if the debtor fails. This is known as a guarantee. A mere personal security is not good enough from the point of view of the creditor in the sense that it is only the contract to pay that can be enforced.

The creditor continues to be an unsecured creditor, remaining in the common pool of creditors of the debtor and his guarantor in the case of an insolvency or bankruptcy .

Whatever, class of security a creditor agrees to accept, it is rare that he would advance the full market price. He would normally allow a margin, depending upon the class of the security, in order to cover himself against over valuation and market fluctuations and the loss which might

arise due to a forced sale (e.g the mortgagee who utilizes his power of sale upon default of the mortgagor).

4.3.3 PURPOSES FOR WHICH SECURED CREDIT TRANSACTIONS ARE MADE

One of the well known purpose for which a secured credit transaction may be entered into is when an individual goes to borrow in order to buy or build a house. The borrowing here is usual from the mortgage banks. Borrowing may also be necessary for improving a house. This improvement may enhance its value when sale or lease is intended of it.

In the wider world of commerce, business premises may be acquired by borrowing. So also is the working capital for a business. In this case, borrowing may be from merchant banks or from the general public by the issue of shares through prospectuses. Premises, plant and goods will be usually mortgaged to secure such loans.

Although stock should not be mortgaged, the stock of a limited liability company may however be used as security through or by way of a floating charge.

In the course of a limited company borrowing money it is usual for it to issue debenture stock to the lenders or to the trustees for the lenders. A person may also borrow money for his own general living expenses, or to pay for holidays. This borrowing can be backed by a mortgage of shares he might have in a company. Or his insurance policy. He may also borrow to pay off existing debts. For example, a mortgagor may redeem one mortgage by borrowing on security of another mortgage of the same property when the first mortgage become repayable or when he can secure a mortgage on more favourable terms than terms contained in the first mortgage or even for a larger sum.

Another purpose for which a secured credit transaction may be enter into is the credit sale. Buying on credit is like borrowing but this time from vendor. In loan cases cash or something (in most cases cheque) changes hands. In the case of a sale on credit the buyer enters into a contract to pay not to repay as in case of a loan.

Security is not usually given for retail credit sales, while the acquisition of goods for domestic purposes otherwise than for immediate cash settlement is security. However, for commercial goods security is usually given. In such cases, the manufacturer who for instance acquires machinery on credit may well mortgage it to vendor. The company may give the vendor a floating charge on its stock.

Other contractual money obligations may be secured on property, or be the subject of a guarantee, for example, agents or servants who handle money on behalf or their principals or employers may be required to give security for their duty or obligation to account for the money or to provide sureties or guarantors.

Security is not confirmed only to the support of primary obligation to pay money. It is however suggested that since the main remedy in respect of a security is non-money obligation should be viewed as security for compensation for the non performance of that other obligation.

It is the view of some writers, a view which appears correct, that in practice, one does not come across security for non money obligations outside the realms of the judicial process. Courts may for example, require sureties for the release of bail of a person charged with a crime, but failure for good behaviour of a person bound over by the court, failure of that person to keep out of trouble results in financial sanctions, on the sureties.

4.3.4 PROPERTY APPLIED IN SECURED CREDIT TRANSACTION

Generally speaking, any property may be applied in security credit. However, one must exclude rights of property which cannot be dispose of by the owner. For example, one cannot use his child as security for a loan. So also in money itself excluded because it is used to repay the debt, not to secure it. Again, certain property which otherwise would legally be used as security might be unsuitable, infact, either because there is no ready market for it due to its negligible value or because the debtor's title is not acceptable to the credit for reasons of the encumbrance on such property.

The following types of property, however, are usually given as security.

a. Rights of Occupancy

b. Lease hold estates in land

c. Equitable interests in land under trusts and contract

d. Rights over some other person's property, such as rent charges (e.g the mortgage of a mortgage)

e. Moveable or personal property such as jewelry, machinery, stock in trade, ships or aircraft.

f. Stocks and shares

g. Life insurance policies

h. Chooses in action, i.e incorporeal movable property, which take account of debts and rights to receive sums of money under a contract or an equitable obligation such as a trust.

i. Commercial in corporeal property such as copyrights patents, and goodwill.

Secured credit transactions with any of the above types of property would fall into mortgages or pledges and assignments.

These securities have been discussed in detail in chapter two of the study.

We wish to emphasis that the nature of security plëdges and the constitution of the security put in place would determine the ease with which it could be cryestalised.

By the land use decree local government certificates of occupancy issued after 1990 have to be recertified to statutory title documents before they can be accepted as collateral in bank loans.

The consent of the Governor most be sought and approval given before draw down of any credit facilitities.

The officers saddled with the responsibility of credit decision making in the bank most ensure that documentation necessary for security any credit facility are complete and the bank put in a comfortable position to realise such security with ease in case of default.

Our study confirms the above submission as over 40% of the bad debt portfolio of the bank can not be recovered enough time realisation of the securities pledged are they were improperly constituted or defective.

HYPOTHESIS THREE

That clean lending has contributed most to the volume of bad debts in bank thereby making recovery very difficult.

From the responses received on the questionnaires administered, this statement holds true for the banks under consideration and to all others for that matter. Thus is what informed the

government I if the country to enact Decree 25 of 1991 otherwise called Banks and other financial institutions Decree BOFID of 1991.

Clean lending in banks is giving out loans and advances without any form of security to fall back onto in cases of default. By the decrease it is an offence on any bank officials to embark on such a risky exercise. This is to protect depositors funds in such financial institutions.

A secured creditor stand a better chance of recouping what is owed him than an unsecured creditor, (Salowun V Salmon & Co. Ltd (1897) AC22

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY

With the bitter experiences in the early nineties of the collapse of several financial institutions in this country, a search for the most pervasive cause(s) is imperative in order to prevent likely future reoccurring hence this study.

The aspect of credit administration and the ease with which securities are to be crystalised in case of defaults should occupy the mind of any serious lender especially in our banks.

The first chapter introduced the concept of the study and put forward three hypotheses which have been tested through interviews, questionnaires, and to the literature materials available to the researcher.

Chapter two contains authoritative information on similar works carried out by other scholars in form of textbooks, journals, thesis, newspapers etc.

Chapters three and four outlines how the research was conducted ie analysis of data including sources of data and techniques of data collection and analysis.

While chapter five gives the summary conclusion and recommendation on the study.

5.2 CONCLUSION AND RECOMMENDATIONS

The guiding principles for any sound credit lending are all meant to put the depositor in a bank in a very safe position as nobody will like to save 'his hard earned money where it is unsecured.

Since lending is central in banking business, lenders should ensure that money given out is safely returned as and when due. This he can achieve when he puts in place all necessary measures to counter default. The lender stands between the depositor and borrower in all credit relationships.

His knowledge about 'the art of lending techniques should be sound particularly as it relates to the administration of loan portfolio, proper credit documentation can save the bank a lot of embarrassment especially during litigations.

The aspect of securities proposed for any loan should not be taken for granted. Wost still, under no circumstance should he lend clean.

Afribank's secret for survival as revealed in the study is centered on the great emphasis it plays on the training of its staff shouldered with credit decision making. While several banks have gone underground as a result of high volume of bad debts, the banks has continued to stronger year by year.

The promulgation of the failed banks (recovery of debts and financial malpractice in banks decree 1994 by the military government would not have been necessary had the affected banks stick to the regulatory guidelines relating to lending in this country.

Banks should not compromise standards when it comes tolending.

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The apex banks (CBN) should live up to its responsibilities by ensuring that it monitors and punish bank that vialet the laid down rules governing lending in banks

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APPENDIX I

C/O Ahmadu Bello University,
Institute of Administration
Department of Business Administration,
Kongo Campus,
Zaria.

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Dear Sir,

QUESTIONNAIRE ON CREDIT ADMINISTRATION AND REALISATION OF SECURITIES IN BANKS

Please, find attached a set of questions on the above subject for your kind responses.

The information you are providing is purely for academic purpose only and shall be treated as highly confidential.

You are to please answer as processed as possible and return to the undersigned earlier.

Thank you and kind regards.

E.A Goje.

1. For how long have you been in the Bank?
   Below 2 years_____
   Below 5 years_____
   Below 10 years_____
   Above 10 years_____
2. What department are you in charge of?
   _____
3. In which other departments have you worked:
   i._____ ii._____ i._____ ii._____
4. Have you attended any training on Credit? (Y/N) Specify if (Y)

	Course Title	Period	Where
i.			
ii.			
iii.			
iv.			
v.			

5. How many staff work with you in credit department?
   _____
6. Do you run a full fledged credit department or you combine it with other functions in the branch e.g with Accounts, Transfers etc.
7. Do you make status inquiry on your customers before opening accounts for them?
   Yes_____ No_____
8. What type of account qualifies for credit facilities in your bank?
   Saving_____
   Current_____
   Term Deposit____
   Others_____
9. How many of these have specialised training on credit matters?
   _____
10. For how long must an account be operated before it starts enjoying credit facilities
    _____
11. Do you carryout investigation with the Corporate Affairs Commissions on limited liability customers?
    Yes_____ No_____
12. How many loan applications do you received and process in a Year?
    _____
13. Do you grant loans to non-customers?
    Yes_____ No_____
14. What is the relative importance of Bank leading over other services rendered by your Bank?
    Important__ Less Important___ Most Important____
15. What is your lending limit (power)?
    i. 00 - 50,000 i._____
    ii. 60,000 - 100,000 ii_____

KASHIM IBRAHIM L

iii. 100,000 - 500,000 iii_____
iv. 500,000 - 1,000,000 iv._____
v. 1,000,000 - and over v_____
vi. No limit - vi_____
vii. None vii._____

16. What is the total portfolio of your branch?
    i. 1M - 10M
    ii. 10M- 50M
    iii. 50M- 100M
    iv. Over- 100M
17. What percentage of this is bad? 10-20%, 20-30%, 20-40%, 40-50% Over 50% (Circle which is applicable please)
18. Which of these factors determine the success of a customer's application?
    i. High account turn over
    ii. Quality of collateral pledged
    iii. Age of account
    iv. Relationship with the bank employees
    v. Connection with external influences
    vi. All of the above
19. Please, rank following by order of importance when analysing a customer request for a credit facility
    i. Purpose of loan
    ii. Security
    iii. Character
    iv. Capability
    v. Amount of loan
20. a. Which of this form of lending does your bank gives more priority?
    i. Short term lending
    ii. Medium term lending
    iii. Long term lending
    b. Give reasons for the choice

    _____

    _____

    c. What percentage does this amount to in terms of branch total credit portfolio?
    i._____ ii_____ iii_____
21. What percentage of your total credit portfolio is secured:

    _____
22. From Q21 above what percentage of it is
    a. Active
    b. None Active
23. What percentage of the none active credit is secured by the following securities:

TYPE OF SECURITY	PERCENTAGE
Legal	.....
Cash back security	.....
Personal Guarantee	.....
ACGSF (Agricultural Credit Guarantee Scheme	.....

No Security at all .....
Other forms of securities .....

24. (a) What do you with defaulters of your loans & advances
.....
(b) Do you have pending cases in court?

25. How many of these Cases in (b) above are backed by these securities and what is the average length of time they have been in court?

TYPE OF SECURITY	PERCENTAGE
Legal mortgage	.....
Cash back security	.....
Personal Guarantee	.....
ACGSF (Agricultural Credit Guarantee Scheme Fund)	.....
No Security at all	.....
Other forms of securities	.....

26. By your experience, which of the above securities is most difficult to realise and why?

.....
.....

27. Which of these legal personnel do you employ in Legitation concerning credit?
1. External Solicitors
2. Bank employer lawyers
3. Alkali/Traditional Judges
4. All of the above

28. Please express your opinion on the efficiency of their services in recovery of debts in your bank.
.....
.....
.....

29. Do you have a recovery department in your branch?
.....

30. What is the contribution of Profession Auctioners in the recovery drive on your bad debts?

31. About how much do you spent in year on legal fees?
.....

32. Which of these is most common cause of failure of your customers in praying loans granted them?
a) A sudden change in demand of the customers products

b) A sudden change in Government policies
c) Change in Management for corporate organisations.
d) Fluctuation inforeing exchange rates, which may adversely affect the necessary imported raw material and machinery.
e) Blunt refusal to repay their indebtedness even when the ability to pay is apparent.

34. Please Complete the table below as per your branch total credit exposure

Security Pledged	No. of Facilities	Active	None Active
Shares			
Legal Assurance			
Life Assurance			
Guarantees			
Clean Lending			
TOTAL			

35. Score following factors out of 100% in accordance with importance you attach to them when considering request for renewal of increase of loan facilities in your branch.

FACTORS	VALUE IN PERCENTAGE
Character	.....
Attitude	.....
Ability to pay	.....
Prospect for the future (from profoma sheets)	.....
Business History (from the balance sheet)	.....
Ratio value of property to income	.....
Associates	.....
TOTAL	100%