AN APPRAISAL OF BANK LENDING AND CREDIT ADMINISTRATION IN NIGERIA CASE STUDY OF INLAND BANK OF NIGERIA PLC

BY

USMAN MUSA AHMED
(MBA /ADMIN/24871/2000-2001)

BEING A RESEARCH WORK SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION (MBA) ZARIA.

2000/ 2002

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DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF ADMINISTRATION, AHMADU BELLO UNIVERSITY ZARIA.

2000/ 2002

DECLARATION

I hereby declare that this research work was independently carried out by me. All materials and ideas used from various sources are dully acknowledged. It is also to the best of my knowledge that this work is original and has not been submitted to any College or University for the award of a degree or any certificate before.

Name: **USMAN MUSA AHMED**

SIGNATURE……

DATE:……

CERTIFICATION

This dissertation entitled. An Appraisal of Bank Lending and Credit Administration in Nigeria. Case study of Inland Bank (Nigeria) Plc by USMAN MUSA AHMED meets the requirement governing the award of the degree of Masters of Business Administration and is approved for its contribution to knowledge and literary presentation.

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Supervisor **Date:**

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External Examiner **Date**

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Head of Dept. Business Admin **Date**

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Dean Post-Graduate School **Date**

DEDICATION

This research work is dedicated to

a) The glory of Almighty Allah under whose wish and destiny, I undertake this course.

b) To the memory of my Late Father, Alhaji Musa Ahmed, Sarkin Dawakin Nasarawa, my mother, Hajiya Gambo for their inspirations.

c) My wife and children for their support and understanding.

d) And my sincere and bosom friend, Alhaji Isa Ari Mohammed whose inspiration and support assisted me in attaining this academic feat.

ACKNOWLEDGEMENT

The success of this academic work is attributed to the will of Allah in whose mercies I gained the wisdom and opportunity to successfully complete the course. Furthermore I wish to acknowledge the contribution of the under listed companions.

My esteemed thanks goes to Alh. Isa Ari, Shettiman Nasarawa for the inspiration and academic support through out my life.

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I am also thankful to my mates Ibrahim Adamu Bauchi, Zakka Lekwe, and Oshafu whose company has kept the academic work alive. The assistance and co-operation of colleagues in the Office is also not forgotten.

Finally, my thanks goes to the librarian of school of Business and other reference source.

ABSTRACT

The deregulation of Nigeria's economy witnessed both growth in entrepreneurship and banking activities especially landing and credit administration. This research work thus evaluate certain techniques employed by banks to cope with this important economic activities.

Thus, in ***Chapter One***, lending as an important function of banks was emphasized in the introduction. The issue of Bad and Doubtful loan portfolio now a cankerworm of the industry was also analysed.

Chapter two reviewed the writing and opinions of some authorities in thus area, thus mainly appraisal, disbursement and recovery techniques were evaluated.

In ***Chapter Three*** the data types and technically are discussed. Method of data collections are used for the purpose of this research are in this factor.

Chapter four centered on research approach, data analyses and presentation as undertaken by the researcher.

Finally ***Chapter Five*** contains research summary, recommendations on a way forward on credit administration in Nigeria and conclusion.

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CHAPTER ONE

1.0 INTRODUCTION

Commercial Banks operate to mobilize deposits from the populace and keep. Some in trust payable on demand. Through the performance of this role, Banks act as reservoir for surplus funds and thus lend safe portion of these funds to clients that have genuine needs for them. The banks have special responsibility to ensure effective management of these funds kept in trust with them by depositors. Chester A Rude puts it that the way and manner in which funds are handled "determines whether they are laying a sound foundation or creating future problems for either the borrower, themselves or the economy" If bankers unnecessary withhold credit, the business suffer and so do the economy.

Lending activities are prominent at all levels of our economy, which gave rise to loan management and credit administration. This credit analysis, documentation, disbursements and monitoring of loan to ensure repayment of both principal and interests on due dates becomes pertinent.

One of the goals credit extension is to achieve prompt repayment on due dates thus loan management typically involves credit appraisal and administration.

Lending carries a reasonable portion of resource exposure of commercial Banks in Nigeria. Therefore, the ability of a bank to generate much profit is largely a function of effective and efficient management of its lending portfolio. Due to its trustee status and in order to protect the depositors Nigerian banks are being

guided in their operations by so many regulatory bodies in order to avert bad lending and liquidity problems. Operations and prudential guideline by the Central Bank of Nigeria are always in place.

Inspite of measures, which is aimed at protecting depositors and other public interests, the incidence of bad and doubtful debts resulting from lending activities has been on the increase in commercial Banks in Nigeria. This is as a result of negation in the primary objectives of granting credit and profit objectives of banks, hence the need for an appraisal of the present lending and credit administration techniques.

1.1 STATEMENT OF THE PROBLEM

Most Commercial Banks in Nigeria are currently being threatened by huge bad debt burden. This incidence has eroded the confidence in the industry and eroded shareholder funds in most cases. Have BOFID (1993) and prudential guidelines helped in arresting these trends? The roles of regulatory framework is analysed to ascertain level of assistance to the financial system.

1.2 OBJECTIVES OF THE STUDY

In the light of credit polices of commercial Banks vis-à-vis regulatory guidelines, this research work has the objectives to evaluate or appraise various techniques in the Administration of Bank lending from the point of disbursement to the point of recovery at the same time identify causes of increased level of bad debt profanation. The research has also identified reasons

for bad debts provisioning and recommend appropriate strategies that may be appropriate in reducing debts write off.

The study also has objective of ascertaining credit appraisals and the effect bad debt provisions on income of Commercial Banks.

1.3 HYPOTHESIS:

1. There is high correlation between lending and Bad debt portfolio in Nigerian Commercial Banks.
2. The credit policies of Banks and regulatory guidelines if properly implemented can help reduce bad and doubtful portfolios in Nigeria Banks.

1.4 SIGNIFICANCE OF STUDY

The current spate of liquidity problem vis-à-vis distress syndrome being experienced in the Banking industry is a function of lending policies and poor credit management. This trend has given rise to colossal losses of shareholders fund and depositors had earned savings.

Therefore this research work is apparently going to be useful to top level managers who may find the recommendation and suggested strategies useful in managing credit portfolios. In similar manner, branch and credit managers will be guided on loan disbursement to ensure strict adherence to lending guidelines and economic analysis of environment.

Banks shareholders would be able to acquaint themselves on the adverse effect of bad debts hitherto covered by management of their respective Banks.

Again students of Finance will find this piece of academic work useful in their academic pursuits.

1.5 SCOPE OF STUDY

The research work limit itself to one case-study i.e INLAND BANK PLC. The investigation was conducted at Branch level and annual reports material made available to the researcher.

The research focused on lending process before and after disbursement up till final repayments with emphasis on effects, causes and remedies of Bad Debt.

The assumption of this research include the following

(i) That all Commercial Bank grant facilities to worthy clients with high expectation of 100% repayments of principal plus interests

(ii) That all Commercial Banks in Nigeria are governed by same operational guidelines offered and professional conduct as issued by Central Bank of Nigeria in addition to their internal policies

The study is limited to facility with repayment tenor of between 1 – 5 years duration.

1.6 DEFINITION OF TERMS

In order to have a common knowledge and understanding between Research work and the meaning transmitted to its targeted beneficiaries, it beholds that a clear and unambiguous definition of words often used in the study be given. Although the words may have numerous meanings, the one given

herein should be regarded as those referred to their usage in this research work. Some of the "words" are defined as follows.

i) **LENDING**: A process by which a Bank customer is founds for specified purpose and specified period of time with a promise to repay the amount borrowed and applicable interest.

ii) **CREDIT**: This involves giving (receiving) goods or purchasing power now in return for a promise to receive or re-pay the goods or purchasing power later. It is the sale of goods, services or money claims in the present in exchange for promise to pay (usually money) in the future. It includes a power to to repay both principal and interest instalmentally or in lump – sum in the future. BAD AND DOUBTFUL DEBT. This may be defined as a loan or debt, which has become irrecoverable at date of maturity. A loan may be termed bad or doubtful on event of borrowers failure to repay the loans in accordance with terms and conditions of the agreement.

iii) **ANTICIPATORY DEFAULT**: On the other hand recognizes the happening of certain events which are ipso factor conclusive evidence of default whether or not the loan or the interest has fallen due"

(Banking digest and Finance Vol. 5).

iv) **FINANCIAL INTERMEDIATION**: This is defined as financial transactions, which bring savings surplus units together with savings deficit units so that savings can be redistributed into their most productive uses.

v) SECURITIES: This may be defined as something that provides safety, freedom, from danger or anxiety, something valuable for example a life insurance policy given as pledge for the repayment of a loan or fulfillment of a promise or undertaking.

vi) **COLLATERAL SECURITY**: This is any security deposited by a third party to secure the indebtedness of the customer with the advantage that in the event of bankeupty or liquidation of the borrower, the value of such securities may be ignored in the proof of dividend against the fail estate.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION:

Bank decision making in Nigeria like in America and Britain is characterized by a number of rules of the thumb from a combination of environmental factors such as random deposits, loan flu action, legal constraint and enacted Acts and established decrees. Banks behavior can better be explained by developing a framework that combines the environmental and profit maximinsation approaches.

Hister and Pierce (1975) referred to in sightful analysis of Roland Robinson (1962) as a esculent example of the traditional banking approach. According to them Robinson Sought "to describe methods of achieving the most profitable employment of commercial bank funds consistently with safety. The method as reported by Hister and Prerce comprises essentially of setting and following a hieracly of priorities in the employment of bank funds. These priorities well arranged in a descending order as follows.

- Legal required reserve
- Secondary reserve
- Customer credit demand
- Open market investment income

After the bank have satisfied the first two above, then it can meet its customer's needs for funds and if after customers demands are met any residual

fund could be invested at the investment market. In criticising Robinson's work, Hister and Pierce pointed out that the framework among other things does not indicate how a bank optimises when deciding whether or not to shift funds from the asset to another. They also commenced on the work of Hoglgman who attempted to remedy the shortcomings observed in Robinson's work.

Hodgman agreed that customer relation gives banks a strong reason to lend to customer with large balances.

2.2 COMMERCIAL BANKING IN NIGERIA

"The structure of Commercial Banking in Nigeria is tailored towards that prevailing in the UK according to Femi Adescanye (1984). In other words commercial banking in Nigeria can be said to have taken the form of the branch banking system which is dominated by a few large banks with a wide network of branches spread through out the country. As at 1989 there were about twenty seven commercial banks in the country, but today the number is three times the later with over 2000 branches.

The first three commercial banks to be established in Nigeria were of British origin. They were First Bank of Nigeria (PLC) formally known as standard Bank. It came under the name. British Bank of West Africa in 1894. The second is the present Union Bank former Barlays Bank established in 1917. The third being UBA (PLC) which was a British and French Bank established in 1949.

2.3 CHARACTER AND TYPES OF LOANS

Credit is generally granted by commercial banks based on confidence in a customers ability to repay the amount granted plus the agreed fixed interest. Such confidences are built on the lender's satisfaction of the five "Cs" namely character, capability, capacity, capital or collateral.

The existence of credit involves a lender and a borrower. Commercial banks are therefore called upon to extend credit to borrowers who may wish to obtain cash to make purchases. The credit or lending policies of a bank are in effect its screeching and appraisal devices by which it tries to determine the type and character of the loan it should grant, from a strict policy view point the character of a loan should take precedence over its form Grosse (1963). In other words it is a better appraisal method that a loan be sound and healthy than that they just be in form of mortgage or business loans or customer credit. For instance a bank in a rapidly growing residential area such as the newly created state capital or local government capital like Nasarawa State should have a higher ratio of long term loan to total loan than a bank in a stable industrial area like Lagos, Kano or Onitsha. The later also ought to have a higher ratio of commercial loans and perhaps a consumer credit. Grosse (1963) opined that as a matter of policy it is desirable for a bank to establish ceilings on the various forms of lending but the should do so solely for the purpose of distributing bank credit in proportion to the community's need.

Commercial bank loans have been classified into various forms based on the purpose of the loan. These classes are.

i) Loans to Business (i.e Commercial and Industrial Enterprises)

ii) Loans to Agriculture for current purposes

iii) Loans on purchasing and carrying securities

iv) Loans on real estate mortgage

v) Customer loans

vi) Other loans not falling into the above categories.

2.5 BANKS LENDING POLICIES

Until in recent years, lending has been the essence of commercial banking and infact now colossal part of banks assets are in credit grant. As a result the formulation and execution of a sound lending policies constitute part of the most vital responsibilities of bank management. As earlier mentioned it is the screening device through which the appraisal techniques are weighed. Grosse (1963) opined that well conceived lending policies and careful credit practices are essential for a bank if is to perform it credit-creating functions effectively and efficiently and at the same time minimise or eliminate the risk inherent in any extension, of credit.

It is important to note that the type and number of loans a bank will make as well as to whom it will grant credit and what conditions and circumstances requires a sound policy decision. The lending decision like any other investment

decision involves enormous amount of risk. Therefore adequate case must be taken in the process of arriving at such decisions. Thus a meaningful periodic appraisal of lending and credit Administration can only be based on qualitative policies of the lending institution with respect to extension of credits. Bankers should not relax on the qualitative lending policies of their banks because even the best policies needs periodic review in the light of ever changing environmental condition.

The starting point of a sound lending and credit policy begins with knowledge of the legitimate credit need of the customer. It is important to recognize that loans should not be given simply because of personal interest or favoritism. Legitimate credit is one that will further the growth and stability of the community and the economic well being of its inhabitants including the customer. In addition, the Banker must have a clear concept of how much credit and what variety of loans the community needs, in order to effectively appraise his own willingness and ability to meet the credit demand of the customer. The limiting factor in this case ought to be the customer's genuine needs for credit and the banks ability to meet those needs rather than any arbitrary pre-conceived ideas or average statistical and personal relationship.

The need for a sound policy to regulate bank lending arises from the fact that uncontrolled monetary expansion can in addition to the unavoidable risks involved accelerated inflationary pressures in the economy. This indeed is a negation of the objectives of promoting monetary stability and the achievement

of a sound financial structure. Similarly, poor lending policies of a commercial bank can lead to a high loan to deposit ratio and this can result to liquidity crisis for the bank.

Another important aspect of lending policies and guidelines is in respect of payment. Credit is commonly believed to be the lifeblood of the economy. If this assertion is correct, any credit, which ceases to flow, becomes stagnant. It should therefore be a basic policy of commercial bank lending that any money loaned in whatever form and to whom ever should flow back to the bank in form of repayments. That is the terms of repayment should be related to the form and nature of the transactions being financed and a definite repayment program should be established with respect to every loan no matter how well secured or how sound. A sound bank loan should be collectable from the anticipated income or profit of the borrower rather from liquidation of any collateral that may be pledged. This should be the ideal situation and ideal relationship between the banker and the borrower. In Nigeria however, Bank experts believed that certain loan ideals particularly those that result to bad or doubtful debts is sequel to ownership structure and liberal credit administration. Loans and advances in Nigeria according to Pius Okigbo (1981) are treated almost like a grant by the customers since with the collection of the staff and through inefficient book keeping, the bank will not press its claim when the advances are due to be retrieved.

2.6 **BANK APPROVAL TECHNIQUES**.

Lending is a traditional function of commercial banks. They accept deposits many times their capital and lend them at a narrow margin above cost, which is turned into a satisfactory return on equity by the substantial gaining. Because of the highly geared nature of commercial banks, the loss of only 5% to 10% of its loan portfolio can wipe out its capital. Donaldson (1979) posited that the attitude of commercial banks is highly geared lenders. To remain highly geared and earn a sound return on capital despite a low return on each individual asset requires most importantly the customers "confidence". Thus confidence in the character of the customer becomes one of the most vital criteria in evaluating a loan applicant. However, before you begin to build your confidence on the customer, the Bank needs vital information about the loan – applicant. These information are often classified into the Five Cs already mentioned. Hister and Pierce (1975) gave a simple illustration on the information concerning loan applicant as follows.

Suppose a commercial bank desires to place N1, 000,000.00 in commercial loans. For simplicity let us assume that the bank's sole objective is to maximize its discounted stream of expected future net present value and that market loan interest rates exceeds the rate of return available from securities and other assert portfolio; the bank understands that risk can be reduced by extensive and costly reviews of potential borrowers; financial statements, integrity and previous repayment history, collateral etc; it also understand that different firms

have various expected future rate of sales growth and that the relationship with a growing firm is likely to yield the bank future. Profits from loans; if it is also understood bargain strength of different potential borrowers vary and that bank profits can be augmented by discriminating among potential borrowers; firms and other customers in need of funds can be induced to provide the bank with consistently information about themselves and rather importantly about other business forms which they trade.

Dr. Neil V. Sunderland (1974) posited that an investigation of the criteria used by Banks to grant loan. No full stop shows that expected future earnings are of primary importance. This is contrary to Donaldson's inclined position that confidence in character of the customer should be the primary importance in addition to other criteria. Despite the anticipated earning criteria a high proportion of loans are not repaid but are consistently renewed. This is because most times funds taken for short-term investment are used for long-term investments. Thus it becomes impossible for funds raised for specific transactions to be repaid from the proceeds of the resulting sales.

Granting a credit without supporting its utilization by administrative procedure is like having a baby and asking the baby to grow without the paternal attention. All the same a credit cannot be administered without it being granted. The effective and efficient management of any loan as earlier pointed out begins at the appraisal stage. The appraisal exercise reveals at the initial stage if the

proposal is viable. The source of repayment, the adequacy of such source and other key credit issues. A badly appraised loan cannot be successfully managed.

Bankers have often been criticized and some had to loose their jobs for lending money to customers when right from the start it is likely that they will ever be able to repay the loan. Below are some factors that are considered for loans, which must be appraised critically before granting loans.

i) Trust worthiness

ii) Collateral security

iii) Market survey

iv) Risk assessment.

2.7 THE CAUSES OF BAD LOANS IN NIGERIAN COMMERCIAL BANKS.

Relaxed lending standards and complacency, unguarantee credits, cultural influence, partisan politics, man know man and carelessness in enforcing compliance are some causes given for why loans granted for which repayment is expected plus interest go bad. Most of the banks that are now neck deep in bad debts found themselves in that situation through mismanagement of their loan management portfolio. Considering the ratio of defaulters in Banks with Government equity and those that are one hundred percent private one may tend to agree that partisan politics in its rotten form has some influence in granting and administering loans. Anthony Ononye believed there is what he called political lending (Banking and Finance Digest Vol. 5 pg. 13). Mr. Ayo a

chartered Accountant also opined that tribal and sentimental lending is eating deep into lending and credit administrations of commercial banks. He stated that Bankers relax, more than they should the lending standard because of Mr. A and B who helds from our village or State etc.

Other analyst believed that loans go bad due to human errors or unforeseen circumstances. Some others argue that the inconsistent economic policies are largely responsible for why certain loans turn out to be bad. These inconsistent economic policies of the government make feasibility study to become obsolete. This often creates a situation of the borrower making all the assumption initially considered in the proposal to become unrealistic.

A good percentage of bad loan is also believed to fall within loans granted to government and government contractors who had failed to pay or collect that money from Government due to political changes resulting from political and economic instability.

Another reason advanced by Mr. Bayo in the Banking and Finance Digest was the present economic down turn in the country. Most businesses and individuals could no longer cope with the repayment program.

However, in spite of these factors, some banks grant credit without requesting for guarantee of an owner. This inclination the felt was a way to compass for seemingly desirable credits. Problems for so may of these loans cropped up early in the repayment process and were exacerbated by the

recession. Credits began to go bad in increasing numbers, with no guarantees to back them up.

Borrowers perceptions forms one of the causes why loans goes bad. The events of the 1980s spawned dangerous perceptions in borrowers. One is that the deep pocketed, high – speeding banks can easily absorb the loss caused by a business loss have no particular financial effect on the economy. When they compare themselves with the high profile financiers of the 1980s, some owners look upon their moral retreats as in significant.

2.8 PROCEDURES FOR LOAN MONITORING

A part from individual loans, it is important that the overall quality of the portfolio and of the way in which they are carried out be monitored. How elaborate, effective and efficient with which this is done depends on the size of the bank and number of branches a bank has as well as the variation in marketing and delegation of authority. It may be necessary to sometimes monitor the concentration of the portfolio, geographically by industry or any other method to control maturity and mismatch which have some implications for the bank's treasury but are also vital credit factors; and assess the average quality of borrower of loan. Sometimes it is useful to operate a form of a rating system, which makes it possible to generate an interesting profile of range of quality in the portfolio.

All commercial banks make use of external Auditors and examiners or bank Inspectors as an independent check and other outside reviews. Internally

there are three possible methods advanced by Donaldson (91979) in which to monitor loan portfolio.

The first method is what he called continuing quality control. This involves constant quality control within each branch at head office. The continuous review may be made by the general management of the bank either in the form of a credit committee or by continuous review by branch managers. Either as a part of this or in lieu of it, there should exist specialist personnel who surveys and reports on the quality of the lending, the quality of the individual loans, the authorities in each case and effective co-operation within the department. However, whether as a specialist staff or as an internal auditor, he will be expected to do most of the detailed work, identify and follow problem loans, supervise and assist weaker lending officers to ensure adequate communication between various sections of the bank.

The second method is to establish a loan audit department with a reporting authority directly to the senior manager of the bank via the controller or Accountant. The audit may include full analysis of some borrowers but more often reviews the quality of the analysis done before loans were made.

The third method is inspection. This is similar to the loan audit but involves a longer history. A team usually of line bankers inspects all branches and head office divisions on a periodic basis. Each inspection is usually carried out as a surprise examination with no set interval or warning. More often they examine the documentation of loans, controlling the follow up of payments or

collateral as well as many areas not related to lending at all. They appear more interested in compliance with the conditions on which the loans were made than whether the conditions were right initially or whether subsequent changes have been made up to date.

2.8(i) MILITATING FACTORS AGAINST LOAN MANAGEMENT

Several factors are capable of hindering the effective management of loans; some of which are.

- Weak policies and procedures.

  Policies and procedures that are out – dated or weak do not provide prudent and acceptable standards for what constitutes high quality.

  risk assets. Without such guidance therefore, loan officers go their different ways.

- Lack of a credible credit culture.

  A credit environment that does not promote and reward high standards is a disincentive for effective loan management. Even where strong policies and procedures are in place, the actions and inaction's of management send strong signals as to the type of support it is giving to them. A credible credit culture will autonomously generate lender commitment to loan management.

- Accounts over load.

  Determine the optimum number of accounts for a loan officer, given his experience and training, is one area where many managers have failed,

especially due to organisational constraints. If loan officers are unable to track exposure risks on most accounts, either directly or indirectly, it can be said that accounts allocation is in efficient.

- Poor Training/in experience.

  A poorly trained or inexperienced loan officer may not be able to handle more than a few simple transactions. Knowing what to do, how to do it and hang the required skills are necessary for effective loan management. Few banks are known to thoroughly train their loan officers before releasing them into the market. Credit heroes and worthy mentors are scarce commodities in the market because of this spread of expertise over a large number of banks. The combination of inadequate training and lack of well-experienced monitors can spell portfolio disaster, especially where the credit culture is not very strong.

CHAPTER THREE

RESEARCH METHODOLOGY.

3.O INTRODUCTION:

As you look at the world around you, one will discover is Surrounded by a Lost of questions and problems seeking answers and solutions. Problem such as population explosion, hunger, swaths, wars, AIDS scourge, juvenile delinquently, investment decisions etc stone you in the face. One may also probably be faced with the problem of maximizing the utility of scarce resources with the little money at your disposal, one may be faced with the issue of prioritizing your needs if one want to go into products, he may be faced with the problem of what to produce, the quantity to produce in order to meet the market demand, what prices to charge in order to generate the required revenue. All those problems and questions call for solutions and answers.

Man by nature is an inquisitive being everywhere he looks, he sees phenomena which arouse his curiosity, makes him to wonder, speculate and ask questions; all human beings do ask questions about everyday occurrences for which answers are needed. Also in our day today interpersonal relationships, we form impressions, opinions and take positions about others. But have we at anything stopped to ponder the basis on which we have formed these opinions and taken positions. The answer to this question is important because decisions

that have affected the course of Houston lubbory, have been taken on such premises.

This chapter is centered on the methodology on getting to knowing things, but the main objective of the chapter is to expose the type of date collation method embarked for the purpose of this research work. The sources and types of data used for this research work is all explained in this chapter.

3.1 **RESEARCH METHOD**.

The research method used is a Combination of explanatory and descriptive approach. This is because this method sets out to explore a new area of at least one about which little has been achieved in academic cycles. The method makes it possible to examine a phenomenon from many points of view, looking for new ideas and insights which will explain what is happing.

3.2 **DATA COLLECTION TECHNIQUES**:

Electric approach was not adopted in the data collection exercise. This is particularly so because the researcher did not diversify his data collection techniques to include questionnaires, instead extensive oral interviews and research on the records manuals, and other related documents were embarked upon.

3.2.1 ORAL INTERVIEW.

The researcher envisaged that the sensitive nature of the topic under investigation particularly as it relate to debt whether good or bad may not permit

respondents to express the full truth in questionnaire. In the light of this shortcoming the questionnaires were augmented with the conduct of extensive oral interviews. While a questionnaire may be subject to misinterpretation depending on the perception of the respondent, this could be minimised if oral discussions are held between the researcher and the respondent. Beyond this generally accepted feature, a wide range of views on the subject matter would be discussed that could be helpful in exposing certain truths that may not be covered by the questionnaire.

Besides managers prefer a situation where they could spare about thirty to forty five minutes to chart with a researcher than commit just ten to fifteen minutes to fill a questionnaire. They prefer speaking than writing.

General speaking, interviews as a source of data has the following advantages.

i) It enables the investigator to obtain desired information more quickly.

ii) It enables the investigator to ensure that respondents interpret questions properly

iii) It allows flexibility in the process of questioning.

iv) More control can be exercised over the context within which the questions can be asked.

v) Information can be more readily checked for its validity.

Inspite of this advantages, verbal or oral interview is faulted by the following disadvantages.

i) The question of validity of verbal response. That is reliability on the respondent for his or her responses.

ii) It poses the problem of the system of recording.

The above limitations not withstanding oral interviews are extremely powerful methods of research when used appropriately. More than any other social science method, the interview capitalises on the most natural form of social communication – verbalization

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION:

Credit management or what we have been referring to as leading and credit Administration in the core of the total operations of the Banking industry. Since it represent the centre bolt or bane of the organisation, we may safely say that it is the organization's joy and sadness. The prudential guidelines issued by the central Bank in 1991 has created a general awareness on the need for effective and efficient credit management policy in the Banking industry.

In placing its funds, a commercial Bank in addition to conforming with the central Bank guidelines on credit disbursement must also confine itself to loans and securities of the highest quality. The credit managers must meticulously evaluate loan applicants to ensure that only those pass the screening test are granted credit facilities.

If a bank must cover its cost and make some profit, it must lend its funds at an interest. Thus seeking to earn this profit, it would naturally have grant loans yielding positive returns. However, in deciding which customer to grant credit and which one to refuse credit facilities, the banker must b e ware of its obligations to the depositors and shareholders. He must conduct the entire loan policy effectively and efficiently to give the desired result.

In this chapter we shall present the relevant information got through the extensive interview and available records, ear manuals and handbooks of Inland Bank PLC.

4.2 DATA PRESENTATION AND ANALYSIS

As was indicated earlier, investigation was conducted on appraisal of lending and credit administration in a commercial Bank "Inland Bank PLC.

It was during the course of investigation that, general lending procedure is not dissimilar to other commercial banks and where there is any difference at all it is an innovation in management policy which of course have no much effect on the overall procedure of their lending and administration. The commercial banks in Nigeria are governed by the same statutory and regulatory requirements, which are issued by CBN.

Therefore, because of the similarities as regards lending and credit management and for the purpose of this research work emphasis shall be layed on Inland Bank Nigeria PLC. The data presented have been critically analysed in other to give clear understanding of the bank and the appraisal techniques.

4.3 LENDING POLICY AND OBJECTIVES.

4.3.(1) **OBJECTIVE**: Within the bank's b road objectives and goals of providing efficient and effective customer oriented services, the imperative goal of any lending, will be to provide the regained financing. The financing should be tailored towards achieving the dual benefits of meeting customer's needs of effective and prompt financing and the bank's need for profitable investment of

the available funds, while ensuring repayment of both capital and earnings. The need for this credit policy comes to light so as to primarily provide a corporate directional focus and orientation, with a view to educating the operators of credit functions at all levels and management of credit investments. This brings to focus the need for a well defined credit policy which will provide the requisite systematic application of relevant and standardized procedures and practices in lending operations, the purpose of which is achieving an ultimately

4.3.(ii) **CREDIT POLICY THRUST**.

While designing the policies, their relevance to both the macro issues and internal considerations of the bank have been taken into account.

The loan able funds must be invested judiciously in strict compliance with the stipulated credit policy procedures and laid down operational practices. The unconditional need to satisfy the institutional constraints and the dynamic economic situation while adhering to the legal framework and statutory requirements must also be considered.

Therefore to ensure the achievement of qualitative, broad based and profitable loans portfolio, the need to streamline lending operations. Via specific authority levels and procedure guidance is recognized by the credit policy.

It is pertinent to mention that, amongst other considerations Inland Bank in its credit policy formulation is specifically guided by the under listed viz:-

- CBN monetary and Fiscal policies
- The Banks and other Financial Institutions Decree (BOFID)

- The companies and Allied Matters Act (CAMA)
- Micro and Macro Economic Factors
- Internal factors that affects the bank's overall lending activities.
- Prudential guidelines
- The NDIC Guidelines/Decree

4.3 (3) **CREDIT PHILOSOPHY**:

The credit philosophy of Inland bank is intended to provide investable funds way of credit that are tailored to meet and be responsive to the business or other relevant needs of the customer in the most cost effective manner.

To achiever this objective, therefore, the credit creation functions remains vital in the inter-mediation process of banks, Inland bank's focus is therefore, geared to wards implementing a dynamic credit policy and effective procedural guideline designed to provide timely and high quality lending services. The bank crave for excellence and clientele satisfaction in all its relationship, lips, while meeting the supervisory authority's (CBN/NDIC) requirements for thorough credit appraisal backed by effective business counseling and advisory services. This is with a view to eliminating the incidence of problem facilities arising from faulty credit appraisal and management system.

4.4. **TYPE OF CREDIT**:

Inland bank has two district types of credits, which are as follows.

4.4.(A) Cash facility

4.4.(b) Contingent facility,

Cash Facilities are those obligations involving care outlays and denominate in the local currently, which the customer owes the bank under specifically stipulated terms and conditions. Contingent facilities are those obligations the client must pay to the bank upon occurrence of some certain/uncertain events. It must be borne in mind the fact that when granting contingent liabilities, the banker must assume primary liability and the worst situation that can arise from the commitment i.e. Being called upon to honour its obligation under the agreement. Thus the need to effectively appraise a contingent liability is imperative and calls for the exercise of utmost care and application of all canons of lending. Moreover, the regulatory authorities consider contingent liabilities as part and parcel of the banks loan portfolio. Furthermore, these liabilities are taken into consideration in determining the lending vis-à-vis the statutory lending limit of the bank. Cash facilities are as follows: -

4.4.(a) (i) **OVERDRAFT**

This is a borrowing from bank on current account for working capital requirements for a short – term period subject to annual or

bi-annual reviews, up to a maximum agreed amount with the bank where interest will only be calculated on the daily utilized amount basis.

In this case, the fact remains that once the bank approves this type of accommodation, it has no effective control over the use of which it is put as the level of borrowing can fluctuate widely within the agreed limit.

The repayment of this facility is presumably done on demand or upon expiry it renewal has not been sought or granted. As stated above, these facilities are granted by the bank to finance working capital in adequacies, to tide over the production cycle and financing of seasonal peaks.

Request of-this nature must be accompanied by cash flow projections so as to ascertain level of actual need, for seasonal or revolving financing.

4.4 (a) ii) **LOANS**:

These are usually Longer termed facilities given by the bank to finance fixed Assist. Upon approval, a loan account is opened in the customer's name, while the approved sun will be made available by transfer from the loan account to the customer's current account, from where the customer can make drawings of same. Loan facilities are reducible by specifically agreed installments (embloc payments) taken from the current account for the credit of the loan account plus the interest due.

These facilities are extended for specific assets acquisition or projects and personal consumption purposes. These are covered by loan agreement stipulating all conditions agreed upon and duration for which the facility is

granted. Interest is payable on the whole outstanding balance on a reducing balance method.

4.4 (a) iii) **ADVANCES/TOD**

These are cash facilities of a short-term duration granted for a specific purpose with the assurance of repayment from the asset being financed or other definite sources, examples are advances against. Produce purchase, trust receipts, Architect's certificate, and for bridging finance.

This must be based upon specific repayment terms and conditions to ensure the borrowers capability to repay on schedule.

BILLS DISCOUNTING/PROMISSORY NOTES.

This class of facility by Inland bank is extended to first class companies by way of taking of commission for discounting bills/notes up front. The bills are acknowledgements of indebtedness with a promise by the debtor pay to upon maturity of the bill. Where the holder needs money urgently, he can negotiate for a credit of the face value less the discount amount. However these instruments are normally of short-term maturity and must be regular and technically in order.

4.4. (a) iv) **DIRECT CREDIT FACILITY**

This involves giving value to "collection instruments" (cheques, warrants etc) prior to receipt of proceeds by way of essentially crediting the

customer's account. Consequently, request for direct credit are processed and approved like any other credit facility request. In this case, the customers will apply interest to the amount utilized from such into their account.

Where a customer is not enjoying a permanent direct credit facility and they presents request, the branch should prepare a comprehensive memo seeking Headquarters' approval. On no account should branch give bank's customers, because of the attendant risk.

However, considerations could be given for genuine drafts and central Bank of Nigeria cheques. Branches are expected to appraise the customer's request in line with the bank's credit policies and obtain adequate security and approval before disbursement of funds.

4.4(a) v **COMMERCIAL PAPERS/BANKER'S ACCEPTANCE**.

A commercial paper is an unconditional promise by an organisation or person to pay to or to the order of another person a certain sum at a future date. To qualify as a commercial paper, the investor must be aware of the identity of the issuer of the instruments. They should only be guaranteed not accepted by the bank since as an intermediary, it is only a secondary obligor.

A banker's acceptance is a draft draws on and accepted by a bank unconditionally, ordering payment of certain sum of money at a specified time in the future to the order of a designated party. Since the instrument is negotiable, title to it is transferred by endorsement.

4.4.a(vi) **LEASE**:

A lease is a contract under which a party (lessor) conveys the exclusive right to use and possess property or equipment to another party (Lessee) for a specified period for payment of an installment fee usually called the lease rentals. Financing a lease by the bank shall be restricted to mainly the every sector in the short term but to other sectors when returns and business volume in them warrant so.

4.4a(vii) **EXPORT FINANCE**

The bank finances pre export and post export transactions of reputable organisations for commodities/goods approved for such by the government of Nigeria. Pre export financing- shall be at most 80% of letter of credit value while post export 70% allowing for margins of at least 20% and 30% respectively.

4.4a (viii) **WARE HOUSING FINANCE**:

Under this arrangement, the Bank finances the procurement of agricultural commodities or the importation of goods by customers which shall

be warehoused appointed agents under Tripartite warehousing Agreement or Dual control warehousing Arrangement/conditions. Such facilities are self-liquidating from proceeds of sales of the goods so procured.

4.4a (ix) **CASH BACKED EXPOSURE**.

Approval for facility requests will be granted customer with existing cash desposit balances with the bank subject to a maximum of 70% of the value of the deposit.

It is the responsibility of the Group Head, Risk Asset Management to liaise with the appropriate officers in the treasury Group to confirm the existence of the cash deposit and its adequacy as collateral for the facility requested Approval of such facility will be subject to the credit approval authority limits as defined in the credit approval policy.

4.4a (xi) **ASSET BACKED BY EXPOSURE**

The Bank provides revaluing credit lines to strong middle tier corporate characterized by one or more of the attributes listed below that do not meet the bank's criteria for unsaved lending.

- Companies with cyclical cash flows
- Companies with rapid growth

Liquid assets such as inventories by shrinkage analysis and accounts receivable balances will be considered as acceptable collateral for such revolving credit lines.

The maximum exposure on asset-based facilities shall be set at the eligible borrowing base of the customer determined by applying an advance rate to the value of the assets after adjusting for uncorrectable receivables or obsolete inventories.

The valuation of the asset shall also be adjusted to reflect perceived availability based on the following criteria:

- Location of asserts
- Degree of bank's control over assets.
- Probability of collection
- Existence of previous charge on assets.

Conformation of the collateral availability will be an integral part of the detail credit analysis process for asset base facility requests. Such analysis will be documented on the availability schedule.

It will be the responsibility of the Account officer to ensure effective collateral management to minimize the bank's risk of loss. This include:

- Tracking in-formation on sales, credit standing of debtors, ageing and dilution of recoverable and delinquent accounts.

- Frequent physical verification of existence and title, and valuation inventories.

4.4.6 **CONTINGENT LIABILITY FACILITIES**:

These become due upon the occurrence of an event and should therefore be necessarily subjected to normal credit consideration, applying all relevant lending canons when being granted. Amongst these are Bonds, indemnities, Guarantees and Bankers Acceptances. The bank's liability ceases only upon return of the original document/instrument issued by the bank or upon expiry if a time frame was stipulated therein.

GUARANTEE:

A guarantee is an under taking in writing to be liable for the debt of a customer to a third party on de fault. The following are types of guarantee

- Advance payment guarantee
- Retention fee guarantee
- Performance guarantee

4.4.6i **BONDS**.

They are usually issued by the bank and her customer's behalf, to a third party. As a safe guard against non- performance of an agreement, and in this case, the bank becomes liable only in the event of non- performance by the

customer. These types of bonds performance bonds, Bid/Tenders Bonds customs Bonds, Excise Bonds, Re- Exportation Bonds.

4.4 6 (ii) **INDEMNITIES**:

These are usually issued on behalf of importers of shipping Agents for missing late Bills of lading to facilitate release of goods. The bank becomes liable for the valve of the goods on wrong delivery.

CREDIT STATUTORY AND REGULATORY REQUIREMENTS

It is a cardinal principle of lending by banks that the borrower's character and project viability should any other collateral that may be obtained should be considered as additional insurance against possible risk of loss of invested funds, in case the business unexpectedly collapses.

The need to obtain securities become very dear when one realizes that an honest, and prudent customer, who could be relied upon not to default on his loan obligations to the bank, may suddenly suffer substantial loss in his business, a situation which may be prejudicial to the chances of recovery of the loan or credit faulty unless collateral's are obtained. Reliance will have to be placed on the collateral so obtained, as source of repayment, when realised.

Besides, the risk attendant to lending to new ventures, which even though appraised initially as viable later proved enviable is another good

reason for a lender to insist that valuable, reliable and readily realizable securities are obtained before lending to a new venture.

There are statutory and regulatory requirements for banks to obtain securities for their lending in appropriate cases, where the bank have provided for it in order to minimize the risk of loss of their investment. A good example of such statutory requirement is section 18 of BOFID.

The relevant portion provides thus:

1. No manager or any officer of a bank shall

   (a) In any manner what so ever, whether directly or in directly have personal interest in any advance, loan or credit facility, and if he has any such personal interest in any advance, loan or credit facility, he shall declare the nature of his interest to the bank.

   (b) Grant any advance, loan or credit facility to any person, unless it is authorized in accordance with the rules and regulations of the bank, and where adequate security is required by such rules and regulations, such security shall prior to the grant be obtained and deposited with the bank.

   (c) Benefit as a result of any advance, loan or credit facility granted by the bank.

2. Any manager or officer who contravenes or fails to comply with any of the provisions of subsection

(i) Above is guilty of an offence and liable on conviction to a fine of N100, 000=00 or imprisonment for a term of 3 years, and in addition, any gains or benefits accruing to any person convicted for reason of that contravention shall be forfeited to the Federal Government of Nigeria.

(ii) Prior to the promulgation of the failed Bank's Decree in 1994, it was only a criminal offence for a lender not to take security for his lending only where the rules and regulations of that particular bank provided that he should take security. However, the failed Bank's Decree changed the position to the extent that it made it a punishable offence for any Director manager or other Officers or the bank to knowingly, willfully, recklessly or negligently grant, approve the grant of or s in any way connected with the grant of a loan, either without adequate security or with a defective security or without following the laid down rules and regulations and/or procedure for security documentation of facility.

(iii) It is usually the responsibility of the branch manager to ensure that necessary title documents are obtained from the borrower to facilitate documentation and processes of perfection.

(iv) Experience has shown that once the borrower is allowed to draw down the loan before required documentation is done, the borrower usually becomes elusive and very in uncooperative. Whereas before the authorization of credit slip is duly signed and draw-down allowed, he is very supplicant and willing to cooperate to make necessary documents available to facilitate documentation and perfection.

4.5 (v) DISCRETIONARY LENDING POWER

ORGANISATION OF THE CREDIT FUNCTION

The organisation of the credit function of Inland Bank is based on logical grouping of target industries.

The ultimate authority for credit approvals is vested on the Board of Directors of the Bank. The Board of Directors shall, for the purpose of smooth administration of credit, delegate the authority so vested on it to the managing Director/Chief Executive Officer who in turn delegates to various officers of the Bank either acting alone or in committee as and when the need arises. Delegation to these officers shall be in writing and is based on each officer is proven credit and analytical abilities, marketing relationship and portfolio management experience.

4.6.2 BRANCH CREDIT

Branches are allowed to initiate and appraise applications for credit facilities. The Processing and approval of branch credits will be in line with Credit Administration Policies and Procedures and will depend on the target market and value of the credit facility request.

4.6.3 TARGET MARKET/RISK ACCEPTANCE CRITERIA

All facility requests for the bank's credit are evaluated against the Bank's target market (™) and risk Acceptance Criteria (RAC). The RAM Group/Branches will develop annual marketing plans for each target marker to be approved by the managing Director and Group Head, Commercial/Consumer Banking respectively.

4.6.4 LINE OF CREDIT APPROVAL

Lending Officers and Committees who are delegated with credit approval limits shall communicate their requests for approvals above their limit by means of separate correspondence addressed as and when necessary. The hierarchical structure, which is subject to periodic adjustments by the Executive Management, is as follows.

CREDIT RISK MANAGEMENT STRUCTURE

RELATIONSHIP OFFICERS

SENIOR BRANCH MANAGERS

HEADS OF BUSINESS GROUPS

MANAGEMENT CREDIT COMMITTEE (MCC)

GENERAL MANAGER BANKING SERVICES

DEPUTY MANAGING DIRECTOR ICOO

MANAGING DIRECTOR/CEO

BOARD OF DIRECTORS

4.6.5 USE OF DISCRETIONARY AUTHORITY

For the delegated authority on any amount that is considered reasonable and consistent with the functional responsibilities of officers, the management expects the officers to use such authority with the highest sense of responsibility, discretion and professionalism because of the great degree of confidence the management reposes on the officers.

4.6.6 VIOLATION OF DISCRETIONARY AUTHORITY

The following sanction shall be taken against an officer for adverse credit decision:

- First time violation – Query and requirement for immediate rectification

- Second time violation – letter of caution and withholding of discretionary authority.
- Third time violation – written warning & withdrawal of discretionary authority.

However, where deliberate and calculated fraudulent intentions are proven for the adverse action after full recovery of amount, legal steps may also be applied.

4.6 CREDIT APPROVAL PROCESS

Credit presentation and its procedures are important elements in credit presentation administration. The format for any credit presentation will be along the hierarchical line as discussed earlier as follows:

- Policy statement

All requests for credit facilities must be documented on standard facility application forms except for temporary overdraft request, which will be granted only to counterparts with established credit lines.

All credit facility requests should be submitted to the relevant Account Officers in the Branch/head Office with the necessary documentation as stated in the facility form for preliminary credit evaluation against the bank's target market definition and risk acceptance criteria.

The preliminary credit evaluation should be properly documented on standard preprinted forms and received by the Head of the Business Unit (i.e. Branch or relevant Business Group). “Only facility requests that satisfy the bank’s target market and risk acceptance criteria will be further processed through the bank’s detailed credit evaluation process.”

Credit facility requests that do not satisfy the bank’s target market and risk acceptance criteria will be rejected at the Preliminary credit evaluation stage and rejection shall be communicated to the customer.

Exceptions to this policy will be made where sufficient mitigating factors are deemed to exist. Such exceptions will require approval in writing by the Group head, Risk Assets Management before further consideration.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

So far we have established that lending constitutes an important function of commercial banks. Therefore its management or Administration should be given adequate attention. The Management of a loan begins with the appraisal stage and this reveals a initial if the proposal is worth considering, the source of repayment, the adequacy of such a source and the key credit issues.

A customer who is aware that his conduct with respect to the credit taken are not being monitored or if monitored at all, it is done by fraudulent officials that would accept bribes is likely to be dishonest in fulfilling his obligation with the bank. He would deceptively and surely divert the credit for personal use or to riskier ventures. Lending assessment and credit Administration are predicated on subjective and historical information and at times on future projection. These sources of information are not absolutely reliable, hence the need for frequent review of these sources, strict monitoring of loans and advances and strict adherence to general and internal lending policies. This would afford the Banker the opportunity of knowing which techniques or sources of information is faulting and identify any deteriorating trend or warning signals before abrupt collapse of the business. Thus lending and credit administration is a vital factor in achieving the profit objectives of the Banking

Industry. Any negligence or dereliction in the executive of the administrative machineries would be detrimental to the image of any commercial Bank.

5.2 RECOMMENDATIONS

Having established the fact that some banks share capital is being gradually eroded due to the incidence of Bad debts. Most industry observers will sooner or later being to loose confidence in the Banking sector. And if commercial Banks fail then the community at large will suffer. Therefore in this study some recommendations have been made which is believed can be helpful in reducing the increasing level of doubtful debts and also in recovering the Bad debts.

(i) a Charge to Credit Administrators and Bank Management

Credit Administrators and Bank Management must ensure that loan policies and credit guidelines are effectively implemented and strictly adhered to in all cases. It is evident from the investigation conducted that most of the loan that became Bad and doubtful debts today were granted in violation of the loan policies and credit guidelines. The personality of the customer and other selfish interest of the approving officer though not expressed has been brought into play in credit decisions. Any officer found to have given or approved loan in violation of the loan policies, credit guidelines and lay down procedure should be dismissed and prosecuted and such loan be recovered immediately. This calls

for more monitoring and the establishment of more controls. Proper checking and counter checking should be done by an independent officer before the final disbursement.

In line with the above, loan policies and credit guidelines should be in writing to enhance consistency and protection and should be fully communicated to all credit officers and approving officers. Any change in policy or guidelines must be duly communicated to all branches. This would enhance effective and efficient implementation.

(ii) Allocation of authority

The allocation of authority to line lending officers is a must in any credit Administration plan. The subject of delegation of authority leads into that of joint responsibilities for the recruitment, training and retention of capable lending officers. With the advent of more complex and specialized kinds of commercial lending and in consideration of the complex and unpredictable nature of the human character, there is the need to use experts who should be given adequate authority to carry out the Administration of lending. They should be given higher naira lending limit, because doing this would eliminate to some extent certain doubts and this may have a definite tendency to increase their self-confidence.

(iii) Establishment of an efficient credit department

The entire review and approval system presumes the existence of an efficient and effective credit department where credit files and credit analysis can be prepared effectively to support the loan officer. This is the heart of the entire Credit Administration process. An efficient credit department should be established to develop facts that are both timely and accurate, permitting more correct credit decisions. In addition, interest rates should be responsive to competition, risk, cost of handling the loan, maturity of loan, gross yield, and fees for commitments. A few customers interview expressed sincerely that they run away from paying bank loans because after two or three attempts of payment, all you have done is to reduce the level of accumulated interest. So they got discouraged from continuing.

(iv) Combination of Techniques

A combination of the appraisal techniques would be very useful in each case. Therefore rather than relying on either character or collateral or capability, all these factors should be considered vigorously in each case as it has been proved from the study that each of these has some limitations. Document of charge over assets pledged should be properly filed and legally perfected.

(v) Bank Account

In examining the conduct of a customer's bank account, care must be taken to ensure that certain details are ascertained. The investigation have shown that some customers deceive their bankers that adequate turn over was

being generated by them whereas what was been done could be referred to as "kite flying" or "cash recycling". That is, making a credit lodgment from sources that is unrelated to their operations with simultaneous withdrawals of such funds thereby giving a false impression of a swinging account. Therefore adequate care must be taken to check:

a. the source of payment into account

b. director of checks paid out on the account

c. frequency of excess request.

(vi) Customer – Bank Dialogue

This should be encouraged. Bankers must not and ought not to absolutely rely on the information and data supplied by customer, inviting the customer for a quarterly appraisal discussion to obtain information on performance and prospect of the business are equally necessary.

(vii) Realistic Program of Repayment

The purpose of any loan should be based upon repayment. It is therefore desirable that the borrower and the Bank have realistically defined program of repayment agreed upon in writing at the time the loan is made. Bankers have be found to have neglected this important aspect. Primary and secondary source of prepayment must be feasible and evident preferably from the proceeds of the business – being financed. Most importantly bankers must insist on secondary

source of repayment especially where factors exist that could threaten the primary source. This is better than solely and wholly relying on collateral if the primary source fails. Bankers all agreed that realisation of collateral should be only but a last resort.

(viii) Assuming Owners Perspective

Assuming ownership Perspective particularly in real estate loan

rather than a secured lender is another sure way of recovering Bad debts. This means that Bankers have to think like real estate investment firm to make such an adjustment of position necessitates conversion of "credit files" to "property files". Properties must be identified by metes and bounds. In other words by their exact location. Rather than looking to the property owner to deal with these items, it becomes necessary for lenders when dealing with distressed loans should mentally step into the role of the owner. In the course of the investigation, it was discovered that some careless bankers relying on Honesty have only known the address of the location of the assets used as collateral but had not really inspected such an assets used as collateral but had not really inspected such an asset to see for themselves. Eventually the honest customer after collecting his money becomes dishonest the following day. Bankers should thus be prepared for a foreclosure should it become necessary

(ix) Centralised Reporting system of Doubtful Debts

Doubtful Debts program reporting system should be centralised

starting with a consistent risk grading. This is to avoid inconsistent risk assessment and categorising loans. Management of problems assets for example, includes correctly identifying risk of loss and adequacy of reserves. This presupposes the existence of a competent asset review function and realistic subjections of the segmented loan portfolio to an objective economic for cast. Once the magnitude of the problem in the is determined along with the time period in which they might either become improved or result in loss, then a succint plan can and must be developed to deal with the situation. This plan should result in the development of a precise mission statement supplemented with objectives and goals. In addition a method of measuring result should be formulated. Finally adequate resource must be committed to the task, particularly personnel. Most banks recruit unqualified people on the Directors instruction without regard to any background training in Accounting and Finance. Most of these people become accountants and Managers without any deep knowledge of credit. It is important to recruit the right caliber of staff and establish a reward system for those considering a career dealing with problem loans, including advancement potentials. If management recognize that their level of Bad and doubtful debts is increasing and only give lip statement to its management, staffing and motivation, the problem will in my opinion persist in greater dimension. There is no way a wrong person can do the right things.

(x) Management Commitment

Management commitments to addressing the issue of Bad debts must be real. Bank Managers should ask themselves at the end of a given week, what percentage of my time was dedicated top reducing the level of Bad debts in my branch. Sadly, there is rarely sufficient commitment at the highest levels of operating unit management. Banks need the right caliber of management for the job. Not the kind of Directors who will approve loans for themselves and would not pay back. To determine both the need for an availability of the requisite staff, there must be in place:

a. An adequate loan/asset review function with an appropriate risk grading and trend analysis capability

b. A realistic application of an objective economic for cast to each segment of the portfolio to establish loss parameters over select time periods.

c. An inventory of resources available to be employed and allocated to the management process for dealing with bad and doubtful debts.

The attitude of dealing with non-performing loans generally starts with the maximization of collection. In other words, “You promised to pay, so pay”. Depending on the stated objectives for each Bank and the forecasted level of problems, that attitude might need adjustment to include cost avoidance. Recovery potentials may be preserved through equity participation or warrants. However, close attention should be paid to the cost of carrying a non-earning

asset, both a non-accruing loan as well as property to which the bank has taken title.

(xi) The Application of the Bankruptcy Act

In 1989, the Federal Government enacted the Bankruptcy act. The provisions were similar to the English Bankruptcy Act of 1914. It states that; "Every conveyance or transfer of property or charge there on made, every payment made, every obligation incurred and every judicial proceedings taken or suffered by any person unable to pay his debts as they become due from his own money in favour of any creditor or any person in trust for any creditor with a view of giving such a creditor or any surety or guarantor for the debts due to such creditors, a preference over the other creditors or any surety or guarantor for the debt due to such creditors a preference over the other creditors shall if the person making, taking, paying or suffering the same is adjudged bankrupt on a bankruptcy petition presented within six months after the date of making, taking or paying or suffering the same, be deemed fraudulent and void as against the trustee in the Bankruptcy."

The object of such enactment usually is to ensure fairness between the creditors where the debtor is on the verge of bankruptcy. Nevertheless, it is possible for an alert creditor to press a debtor to reduce or repay the amount owing to him. This in my opinion would put pressure on those bank debtors who have the means to repay Bank loan but often refuse to pay either because they

see the loan as a government grant or because they feel they have powerful connection within and outside the Bank such as Directors and other personalities in the society.

5.3 CONCLUSION

In conclusion it has been established that in giving out loans by a lending officer(s), an error or errors of judgement could occur. Whether the error is intentional or inadvertent, it means a loss of the principal asset, loss of interest receivables on such an asset and of course reduced profits. This subsequently reduces the Banks market rating and Public perception of the Bankers Management ability to make sound credit judgement.

Regardless of these implications, commercial banks in Nigeria are still swimming in enormous amount of Bad and doubtful debts. However, these trends notwithstanding, if the above recommendations can be carefully and patiently implemented effectively and efficiently, they will help to not only reduce the incidence of doubtful debts but also help in recovering those debts that have become unrecoverable over the years. And there will be no need for the Federal Government prudential guidelines on this issue.

Also from the presentations made so far the hypothesis has been proved that Bad and doubtful debts is threatening the commercial banks and that effective management has a relationship with the level of Bad debts.

5.4 LIMITATIONS TO THE RESEARCH

Like any other research, this study is not without certain limitations. There is the problem of in adequate data and the unwillingness of Bank officials to release vital information. Their cold response is an a result of the notion that Bankers are ethically oriented towards secrecy and are bound by this implied notion not to release any information to outsiders on sensitive issues like lending, particularly if it is to be published.

Therefore, whatever data or information set forth in this work was obtained only through a rather patient and frankly tenacious investigation of a great many likely and unlikely leads. The concealment of information was in some cases deliberate and in some cases inadvertent.

But in the final analysis, it is strongly believed that the research work will serve as an academic reference to the Banking discipline especially as it affects lending and credit management in Commercial Banks.

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