CREDIT RISK MANAGEMENT IN THE NIGERIAN BANKING INDUSTRY: A CASE STUDY OF NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED MINNA BRANCH.

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A PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) BY AHMADU BELLO UNIVERSITY KONGO CAMPUS ZARIA.

DECEMBER, 1999

DECLARATION

I hereby declare that this thesis is a product of my research findings and that I am responsible for any errors committed and/or omitted. All works consulted have been duly acknowledged in the references.

JIBRIN ABUBAKAR M. ---------- 26/10/2000

Student Signature Date

CERTIFICATION

This thesis titled "credit risk management in the banking industry: a case study of Nigerian agricultural and co-operative Bank Limited, Minna branch" by Jibrin Abubakar wushishi met the regulations governing the award of the degree of master of Business administration (MBA) of the Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

I am dedicating this work to my maternal grandparents.

ACKNOWLEDGEMENT

I feel it is necessary to use this medium to express my sincere gratitude to the authors whose works I have consulted. Eminent scholars like Dr. Osayameh, Orji, Valentine S. et. al. and many others. Thank you for providing some of the materials I consulted without which this research work may not have been possible. My gratitude also goes to my research supervisor Mallam sharubu.

ABSTRACT

This is a study of credit risk management in the Nigerian banking industry. The study seeks to examine how credit risk arises in the banking sector and the possible impacts on the economy. In a simple explanation credit risk is a term which denote that possibility on the part of a debtor not to honour the loan advanced to him as at when due, or credit risk can be defined as all risks that may lead to economic loss to the corporation as a result of the failure or inability of clients (it may be a company, government or individuals) to met their obligations as they come.

To accomplish this work successfully, questionnaires, interviews and review of existing literatures were employed, facts were gathered from respondents and analysed. It was found that due to lack of proper or adequate collateral securities required by banks, people are refused loans. It was also discovered that it is not true that untimely processing and disbursement of loan result to credit risk to banks. It is also not true that loans disbursed to farmers are not sufficient for the execution of the projects and often off seasonal. It was also fund that bank faced with high credit risk is likely to experience loss of public confidence going by the result of the hypothesis.

By and large the recommendations given in the study will help in no small measure to banks in terms of advancing loans, which is one of the fundamental reasons of their existence.

TABLE OF CONTENT

	Page
Title Page	i
Declaration	ii
Certification	iii
Dedication	iv
Acknowledgement	v
Abstract	vi
Table of content	vii
CHAPTER ONE: GENERAL INTODUCTION	
1.1 Introduction	1
1.2 Statement of the research problem	3
1.3 Objectives of the study	4
1.4 Hypotheses	4
1.5 Methodology	5
1.6 Scopes	5
1.7 Limitations	5
1.8 Significance of the study	6
1.9 Chapter scheme	6
CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction	9
2.2 Definition of Credit risk	10
2.3 Credit risk	10
2.3:1 Types/Classification of Credit risk	11
2.3:2 Loan classification	14
2.3:3 Classification of non-performing Credit facilities	15
2.4 Early detection of Credit risk	16
2.5 Causes of Credit risk	18
2.6 Basic considerations in lending	20
2.7 Credit control and administration	27
CHAPTER THREE: HISTORICAL BACKGROUND OF NACB LTD.	
3.1 Establishment of NACB Limited	33
3.2 Structure of NACB Limited	33
3.3 Objectives of the Bank	34

3.4 Organisational structure and functions, head office,
Zonal and branch offices 34
3.5 NACB Limited Minna branch office 38
3.6 Loans granted by the branch 48

CHAPTER FOUR:
DATA ANALYSIS
4.1 Introduction 49
4.2 Test of hypotheses 50
4.3 Data Interpretation 61

CHAPTER FIVE:
SUMMARY, CONCLUSION AND RECOMMENDATION
5.1 Summary 63
5.2 Conclusion 64
5.3 Recommendation 65
Bibliography 68
Appendix I
Appendix II

CHAPTER ONE

1.1 GENERAL INTRODUCTION.

The economic development of any nation to a large extent depends on the quantum of investible funds available to the economy. In a Market Oriented economy like Nigeria, there are two main actors that move the engine of economic growth. These are the suppliers of the investible funds and the users of the funds for productive purposes. Since these two actors are spread widely in the economy and may never have direct relationship with each other, the need for an intermediary to link them up therefore arises. The banking and finance sector plays this role of intermediation. The sector mobilizes Surplus funds from small and big savers who have no immediate need for such funds. These surplus fund owners may deposit their funds in the banking sector inform of investments.

On the other hand, the users are the business entrepreneurs and investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital with which to execute their plans and concretize their ideas. From the foregoing, it would be seen that one of the basic objectives of any bank is the generation of profits and this is realized through the ability to attract new deposits while retaining old ones and to put into profitable use those deposited funds which in the opinion of the Management are not immediately required for everyday working need of the depositors.

Banks therefore manage depositors' funds in such a way as to achieve the triple objectives of liquidity, safety and income generation. Achieving these objectives while still creating credits entails a lot of risks on the part of the banking and financial institutions.

It has been stated that a major function of the financial sector is the provision of credit to the various economic players in the economy and that the bulk of the funds where the credits are granted comes from deposits of various banks. The lending of these deposited funds to those who require them Implies risk taking by the lending institutions may not be in a position to honour with drawls demands that may be made by the funds depositors. If this happens, the lending institutions would not be able to attain the objectives expected of them and these are liquidity, safety and income

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generation. The Cumulative effect would be a loss of confidence in the banking system. If however repayment is met as scheduled and borrowers are of high moral standard, the risks might be drastically reduced.

As expectations go far into the future and future events are uncertain, it follows that the repayment schedules that are drawn into the future are mere predictions and full of uncertainties. Business environment that is never static continues to affect the result of investments. The uncertainty in the stream of returns from investments makes credit granting by banks and finance houses a risky business.
At this point, it may be necessary to have a working definition of risk and uncertainty. Risk is defined as the Measurable uncertainty involved in any decision – making.

The implication is that certain precautionary measures can be taken to the reduce the occurrence of the measurable uncertainty identified in the decision-making process in order to reduce the degree of risk associated with the decision. In this case, granting of credit. Uncertainty on the other hand is different from risk because its occurrence or impact cannot be adequately assessed. The degree of Measurability therefore distinguishes risk from uncertainty[1].

Banks are in the business of risk-taking. They are successful as long as the risk they assume are reasonable – controlled within defined parameters, and within their financial resources and credit competence. Assets, principally loans, must be managed to provide the liquidity to meet deposit withdrawals, covering all expenses including losses, and still earn a profit large enough to make the return to the stock holders competitive with all other investments.

The essence of banking is the Management of liquidity. Commercial banks lend to different borrowers for variety of reasons. Loans therefore will vary in liquidity and risk, and as such concentrations must be limited so that no single occurrence can have a significant adverse impact. Credit quality must always take precedence over exploitation of business opportunities. But simply, safety of the principal and assurance of repayment within the agreed time frame take precedence over the profit on the transaction. One cannot charge high enough interest to compensate for a loan that cannot be recovered.

The decision to say yes (or no) reflects the lending officer's appraisal of the borrower's honesty, integrity and ability to complete the loan transaction in the manner agreed upon – and a further appraisal that the transaction is feasible, necessary and free of unusual risks foreseeable at the time. Credit decisions cannot be based entirely on any set of credit guidelines or analytic technique. Each lending officer must exercise common sense and good judgment and be scrupulously prudent. A lending officer must act responsibly in evaluating risks, in negotiating terms, conditions, competitive position and in follow – up and credit house keeping. The lending officer is expected to thoroughly grasp the qualitative details of each transaction, analyze its future variables and make adequate allowances for the impact. It is Important that lending officers be appropriately trained because in banking lending what you don't know can hurt you[2].

1.2 STATEMENT OF THE RESEARCH PROBLEM

In Nigerian banking industry, the inability of the lending officers to fully comply with the required procedures before advancing loans has always resulted in series of financial and technical problems. But most of the time one of the problems of not following the required steps in advancing loans has been the ability of the debtors to default in paying back the loans. This is known as Credit risk – which is the ability of the debtors to defaults in paying back specific amount of money called loan at an agreed time.
Therefore what will constitute the statement of the research problem will include; structure of the banking industry in Nigeria with particular reference to NACB. Minna branch. By so doing we will arrive at Situation that will permit making generalization possible and easier.

Other constituent research problem includes; loan analysis. Securities collaterals that are considered before advancing loans to applicants because in a situation whereby a debtor defaults in paying back loans, the bank can easily realize their money by selling off these securities and collaterals in order to offset the loans; and finally credit risk analysis, control and administration/management.

1.3 OBJECTIVES OF THE STUDY

In order to accord this research work the proper direction it deserves, it is necessary to know its objectives. Credit risk in banking industry cannot be completely wiped out from the system but at least attempts are always being made in order to reduce its occurrence. According to Bradlow[3] (1986) "No bank can totally avoid problem loans. In fact were that to occur, it would be a reflection of an unduly conservative lending policy that would undoubtedly have a deleterious effect on the bank's profitability" Therefore attempt will be made to investigates on what is actually credit risk; the causes of this credit risk in the banking industries.

It is also the objective of this research work to investigate on types of societies and collaterals advanced by loan applicants before loans are advance to them; durations of credits; why debtors defaults in paying back their debts; warning signals of loans becoming problematic; checklist or guidelines for lending officers when faced with such situation; canon of good lending, otherwise known as principles of lending.

1.4 HYPOTHESES

Hypothesis is a tentative statement that can either be accepted or rejected. The Importance of hypothesis to research cannot be over emphasized. This is because it forms the bedrock of any research work.
In this research study, the following hypotheses will be developed and tested;

H1: Due to lack of proper or adequate collateral securities required by banks, people are refused loans.

H2: untimely processing and disbursement of loans result in to credit risk.

H3: loans disbursed to farmers are not sufficient for the execution of the projects and often off-seasonal.

H4: Bank faced with high credit risk is likely to experience loss of public confidence.

1.5 METHODOLOGY:

In this research study three ways will be employed in order to source for relevant data from the public and also from the bank.

(i) The first method of collecting data will be through personal interview with the head of credit department, Nigerian agricultural and cooperative bank, Minna branch.

(ii) The second method will be through the application of questionnaires to the loan applicants. Confidentiality of the information will be guaranteed to facilitate personal, honest and swift response to the questions.

(iii) Review of existing literatures and also secondary data through the survey of available documents from Nigerian Agricultural and Co-operative Bank Minna branch will form the third method.

1.6 SCOPES

This research study will be restricted to Nigerian agricultural and co-operative bank ltd. Minna branch, its operations in general should be appreciated in view of the facts that almost all banks adopt the same policies in lending. In this connection necessary information relevant to the lending principles in any bank will no doubt be revealed in this research work.

Therefore, for the sake of convenience, it is necessary to restrict this research study to this bank, so that the conclusion that will be arrived at in the end of this study will 'ipso facto' be a replication of what credit risk is all about in other banks.

1.7 LIMITATIONS

The researcher was lucky to have encountered just some few limitations. This Include Initial non-compliance on the part of the staff of NACB branch but yielded at the end of the day but still withholding some relevant Information. There was also the issue of finance that almost put the study on a hold, but Allah in his Infinite mercy provided avenue to source the needed finance.

1.8 SIGNIFICANCE OF THE STUDY

Before embarking on any research study, the researcher must put into consideration its importance to the generality of human endeavours, because the intention of the researcher must be to increase or make clearer the existing body of knowledge in any field of studies, which may appear to us unclear.

Therefore this research work will be of Immense Importance in the field of banking and finance on how to advance loans after making careful analysis of the loans and the applicants. It will also contribute to how to detect credit risk at the early stage and also possible ways to combat it. It will also offer suggestions to financial Institutions in general in Nigeria on ways to prevent credit risk before its occurrence and the securities to be required before advancing such loans.

More also one of Nigeria's post independence pre-occupations was the re-ordering of the banking system to reflect the national objectives and aspirations. Consequently, the banking system has undergone many changes, particularly in the areas of banking policies, norms and practices. In the same view when the Nigerian institute of banking gained its autonomy from the institute of Bankers, London in 1976, it started the conduct of the banking diploma examinations. Regrettably there has been a dearth of books which students studying for the institute examinations and those preparing for OND; HND or university degree in banking and finance could refer to in the area of credit risk analysis and the attitudes of banks with regards to lending. Consequently these students will find this research project of immense significance to their studies in banking.

1.9 CHAPTER SCHEME

Chapter one of this study focuses on introduction, statement of the research problem, objectives, hypotheses, methodology, scopes, Limitations, significance of the study and the chapter scheme.

Chapter two focuses on writings of recognized authors with regard to credit risk and associated issues. This is otherwise known as Literature review.

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Chapter three focuses on historical background of NACB Minna branch. Chapter four focuses on data analysis and interpretation and finally chapter five on Summary, conclusion and recommendation of the research study.

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CHAPTER TWO

LITERATURE REVIEW:

2.1 INTRODUCTION

"No bank can totally avoid problem loans. In fact, was that to occur, it would be a reflection of an unduly conservative lending policy that would undoubtedly have a deleterious effect on the bank's profitability." [1]

Banks play very prominent roles in the development of the economy of any nation. It has been generally accepted that they provide the cheapest, most convenient and efficient source of Credits Including short –term credits for all sectors of the economy. Therefore, if bank loans were not available to the productive enterprises of the nation, they would have to be curtailed because of the lack of working capital.

Usually, banks are faced with an array of loan requests, and they cannot really satisfy all the loan requests of all would- be borrowers. It therefore, behooves on the bank to have an efficient/optional credit allocation process to satisfy these numerous competing projects/customers.

Lending always involves some element of risk. These risks stems from those circumstances, which result from the non-payment of obligations when they fall due. A part from "Acts of God" like earth quakes, fires, floods and storms, there are some risks that arise from personal factors that are in many Instances difficult to explain. Therefore, in the process of lending, banks must investigate those factors, which give rise to non-payment of debts. This Investigation is referred to as credit analysis.

Therefore what follow next is an attempt to thoroughly Investigate what actually is credit risk; Causes of credit risk; Early detection of problem loans; Securities/collaterals analysis, Basic principles of lending; Types/classification of credit risk in banking industries and credit risk control and administration.

2.2 DEFINATION OF CREDIT RISK

Before defining Credit risk it will not be out of point to define what actually is credit and what is risk.

2.2:1 CREDIT

According to the Encyclopedia of Banking and finance (1973)[2] "Credit is a term derived from Latin word, credo, meaning I believe, and usually defined as the ability to buy with promise to pay, or the ability to obtain title to and receive goods for enjoyment in the present although payment is deferred to a future date. It therefore consists of an actual transfer and delivery of goods in exchange for a promise to pay in the future.

2.2:2 RISK

According to Orji (1991)[3] he defined Risk as "the measurable uncertainty involved in any decision – marking, be it credit granting or not."

He also went ahead to state that certain precautionary measures could be taken to reduce the Occurrence of the measurable uncertainly identified in the decision – making process in order to reduce the degree of risks associated with the decision, in this case granting of credit. Uncertainty on the other hand is different from risk because its Occurrence cannot be measured and therefore cannot be adequately taken care of in a decision – making process. The degree of measurability therefore distinguishes risks from uncertainties.

2.3 CREDIT RISK:

According to Osayameh (1986)[4] "Credit risk is defined as all risks that may lead to economic loss to the corporation as a result of the failure or inability of a client to meet his obligations as they come". With this definition fall all direct extensions of credit and all products that have a credit Component.

According to the encyclopedia of Banking and Finance (1973)[5] "Credit risk is applied by bankers and Credit analyst to an individual, firm, or Corporation to whom money is loaned or to whom Merchandise or service is

delivered on a credit basis. Wherever Credit is extended it is attended with the risk of non payment varying from practically zero to a lager percentage."

The economic environment at local and international levels is ever changing and so are Investment opportunities, and an activity, which remains static, is more likely to be overtaken by this dynamic process. A review of the best-run Companies in the world as well as those, which can be termed as Industrial 'casualties' and failures, will underscore the point. One distinct difference lies in the fact that while the successful ones have planned well ahead, determining their very objectives and strategies and Investing heavily in research and development, those that failed have remained essentially short sighted. Though in the final analysis, a banker is interested in having his loans repaid, a general awareness of local and International economics and its effect on corporate Institutions will assist in a better risk assessment and credit appraisal. Failure to get this understanding right at the onset before the commitment is entered into could lead to future disaster.

2.3:1 TYPES/CLASSIFICATION OF CREDIT RISK

According to Valentine and Mason (1977)[6] they classified credit risks under the following broad categories;

A. **MINIMAL RISK**

Brief Description.

Excellent business credit; Super asset quality, excellent liquidity and debt capacity and coverage and excellent Management with depth.

Guidance:

Extremely low that the facility will not be retired as agreed (less than I in 1000 probability). No reasonable foreseeable vulnerability will impede repayment per agreed upon terms.

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B **MODEST RISK**

Brief description.

Good business credits, very good asset quality and liquidity. Strong debt capacity and coverage, very good Management in most positions.

Guidance:

Low risk that the facility will not be retired according to its term (less than 1 in 500 probability). No reasonably foreseeable vulnerability will impede repayment per agreed upon terms, but vulnerability could conceivably arise in the future.

C **AVERAGE RISK.**

Good business Credit, good asset quality and liquidity, strong debt capacity and good Management in most positions.

Guidance.

Modest risk that the facility will not be retired as agreed (less than 1 in 250 probability), Or Significant risk that the facility will not be retired as agreed from the primary source of repayment. (Greater than 1 in 250 probability), but clearly Identified alternative source repayment exists. Very low risk of loss or non – performing status under realistic economic scenario.

D **MARGINAL MANAGEMENT ATTENTION REQUIRED WATCH LIST**

Below average business credit. Marginally acceptable assets quality. Somewhat strained liquidity limited debt capacity and coverage. Some management weakness. To be put on watch list.

Guidance.

Marginal Credit with significant risk that will not be retired as agreed (greater than 1 in 250 but less than 1 in 10 probability). No clearly identified alternative source of repayment but low risk of loss of principal or

Interest under most probable scenario. Identified vulnerabilities should they Occur, could result in a downgrade. Tight management for "D" rated facilities is one of the most critical conditions precedent to attaining its portfolio quality objectives.

E **SUB-STANDARD RISK (WATCH LIST)**

Description

Below average business credit. Generally undesirable business constituting an undue and unwarranted credit risk. Normal repayment in jeopardy; no ultimate loss. While loss of principal and Interest are not certain, current shortfalls in paying capacity of obligor and/or collateral cover may result in a partial loss of interest and/or principal. Consider rescheduling/restructure and additional collateral support.

Guidance.

Weak credit with substantial risk that facility will not be retired according to its terms (greater than 1 in 10 probability). No clearly identified alternative source of repayment, but loss of risk of principal and modest risk of non-performing status under most probable scenario a consensual restructure is however, probable. Identified vulnerabilities, should they occur could result in a downgrade.

F **SUB STANDARD RISK (LDV) S.**

Description.

Loss of interest has occurred or is likely and there is potential for a partial loss of principal. Collection in full is highly improbable non-accrual status. Valuation of the loan will result in a provision.

Guidance.

Weak credit with substantial risk, that facility will not be retired according to its term. No clearly identified alternative source of repayment. High risk of loss of principal and high risk of non-performing status, which could result in substantial, writes – offs.

G **SUBSTANDARD RISK**

Description.

Collection of outstanding is so doubtful that the loan does not warrant classification as an active account of the bank. Full write – off, even though partial.

2.3:2 LOAN CLASSIFICATION:

The central bank of Nigeria issued the prudential guidelines for banks in 1990. These guidelines address the issue of loan classification. In order to facilitate comparability of banks classification of their credit portfolios, the assessment of risk of default should be based on criteria, which should include, but are not Limited to, repayment performance, borrowers repayment capacity on the basis of current financial condition and net realizable value of collateral.

Orji (1991)[7] classified these credit facilities as either "performing" or "non-performing."

Performing:

A credit facility is deemed to be performing if payments of both principal and interest are up to date in accordance with the agreed repayment terms.

Non – Performing.

A credit is deemed as non – performing when any of the following conditions exist:

1. Interest or principal is due and unpaid unpaid for 90 days or more.

2. Interest payment equal to 90 days Interest or more have been capitalized, rescheduled or rolled over into a new loan. Before a credit facility already classified as "non-performing" can be classified, as performing the borrower must effect cash payment such that the outstanding unpaid interest does not exceed 90 days.

2.3:3 **Classification of non – performing credit facilities**

a. Sub-standard: A credit facility is substandard if:

1 Unpaid principal and/or Interest remain outstanding for more than 90 days but less than 180 days.

2 Credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as inadequate cash flow to service debt, under capitalization or Insufficient working capital, absence of adequate financial information or collateral documentation, Irregular payment of principal and/or Interest, and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover Interest charges.

b. Doubtful: A credit facility is doubtful if:

1 Unpaid principal and/or Interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realization.

2 In addition to the weakness associated with sub-standard credit facilities reflect that full repayment of the debt is not certain or that realizable collateral values will be Insufficient to cover banks exposure.

c. Lost: A credit is lost if:

1 Unpaid principal and/or Interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realization.

2 In addition to the weaknesses associated with doubtful credit facilities, are considered un-collectable and are of such little value that continuation as a bankable asset is unrealistic such as facilities secured with unmarketable and unrealizable securities and facilities extended to judgment debtors with no means or foreclosable collateral to settle debts.

2.4 EARLY DETECTION OF CREDIT RISK.

According to Ihemedu (1994)[8] there are some signals which when noticed, the bank becomes apprehensive of the possibility of a loan becoming problematic. The list is Inexhaustible but the most common Ones where examined:

2.4:1 Slow Or Reluctant production of Financial Information.

When the borrower defaults in submitting audited/management accounts, or Cash Flow projections when required and gives various lame excuses, the bank should perceive a danger signal.

2.4:2 Communication Breakdown.

The borrower may become vague and evasive in response to enquiries from the bank, avoid visiting the bank and may change address without Informing the bank.

2.4:3 Management Structure.

A bank could notice danger signals when the borrower suddenly or frequently makes changes in senior management, dominates the executive, lacks management succession or has an unbalanced top management

2.4:4 Unusual Usage of Credit.

Temporary excesses are quickly used up and operated as regular line of credit and also frequent requests for excesses made.

2.4:5 Condition of Plants and Staff Morale.

Low staff morale; frequent Industrial unrest, outdated and inefficient machines, lack of modern technology, constant breakdown of machines and lack of spares.

2.4:6 **Irregular Lodgment in the Bank**

If the borrower begins to make lodgments (deposits) In to his account at irregular Intervals or the amount diminishes, this may be an indication that the borrower has obtained credit from another Bank and splits the deposits, uses cash for regular purchases or creditors are pressing hard.

2.4:7 **Cross Firing/Kiting**

This relates to the borrower paying into his account cheque of substantial amounts drawn on another Bank and immediately withdrawing the amount without waiting for such cheques to be cleared, while at the same time depositing cheques of similar amounts. The earlier cheques are returned unpaid while the circle continues. This is a dangerous signal.

2.4:8 **Unpaid Cheques.**

Frequent dishonour of cheques issued by the borrower due to insufficient funds or cheques deposited in to the account are returned unpaid or using dud cheques at month ends to cover overdrawn account.

2.4:9 **Danger Signals from outside.**

This can be noticed when there are frequent inquiries from other Banks, customers and suppliers indicating that the customer is either borrowing outside or is not meeting his other financial obligations. Adverse information from other Banks, or the media, many court actions against the customer or giving false information to outsiders constitute danger signals.

2.4:10**Danger Signals From Financial Information**

Such indications as carrying excessive inventory which may mean slump in sales or over production, slow turnover and/or delinquent receivables, rapid, Increase in total debt, decline in profit, incidence of sustained losses and negative cash flow may portray danger signals.

2.4:11 **Hardcore Borrowing**

When overdraft facility, which is supposed to revolve become static and balance, increases with month interest charges, the Bank should know that there is danger.

From the above danger signals given above, the lending officer should always be at alert in order to detect any of the factors listed above so as to guide against the total deterioration of such loans.

The lending officer should be constantly be evaluating the external environment; the management of the borrowers firm; financials like make certain that the loan has a productive purpose and verify sources of repayment and repayment terms before the loan is committed and; security like in any asset – based lending, be certain that the market value, currency of the asset, and its value at liquidation are realistically appraised by knowledgeable persons (Estate valuers).

2.5 CAUSES OF CREDIT RISK.

Akerejola (1990)[9] says that the tremendous reduction in credit and money supply in the eighties coupled with government policies of stimulating investment in certain very sectors of the economy through central bank credit policy guidelines have led to an upsurge in this volume of problem loans or non-performing assets. He therefore outlined the causes of credit risk as;

2.5:1 **Economic.**

In the early seventies, the extremely favourable oil prices led to buoyant Nigerian economy. Money supply was high as a result of increased savings. Companies' borrowed and new ventures were initiated. As we entered into the eighties, the economy of most developing countries started deepening. In Nigeria the structural adjustment program has the last straw. Companies were operating at low level, money supply decreased and effective demand for consumer products dropped abysmally. The average cost of funds has been on the upward swing resulting in high interest rate of lending. The concomitant deregulation of currency control led to a galloping inflation.

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Companies could borrow no more. The net effect is the creation of a bad loan.

2.5:2 **Poor Credit Analysis.**

Some lenders are not adequately equipped to carry out sound credit analysis. The tendency therefore is lending outside one's market territory and the deleterious effect of over concentration with a given loan portfolio. This concept suggests that each bank depending on its size, location and management talent have territories that would be logical and too prudent to serve. To do otherwise will mean that the information necessary to make an informed credit judgment is often times difficult if not impossible to interpret. The effect is the creation of bad loan. It is important to know your customer and understand the industry in which it operates. This way the credit analyst will be able to structure a loan disbursement and repayment scheme that will fit into the production cycle of the company.

2.5:3 **Management.**

In many instances, a company's inability to repay her debt is attributable to poor financial management. Management may be incapable of developing appropriate strategy to run the business. The dearth of management is the bane of most companies with problem.

2.5:4 **Inability to recognize a problem loan.**

A lot of problem loans will be averted if nipped at the bud. Red flag has to be seen early enough to trigger off a turnaround strategy. The tendency has always been to wait until the loan has become really doubtful.

2.5:5 **Inadequate Monitoring.**

Most lenders fail to monitor the use of disbursed funds. This allows companies to divert funds to other uses Incapable of generating inflows for repayment. The credit habits of most Indigenous companies is to forget that their operations are being funded with borrowed funds. Proper monitoring is therefore quite essential to avert problem loans.

2.5:6 **Government Policies.**

Inconsistent government policies have made some erstwhile good loans bad. For Instance the ban of wheat and bakery industries, ban of exportation of Cocoa beans, fueling of fish trawlers e.t.c. In fact the causes of Credit risk are many therefore cannot be exhaustive.

2:6 BASIC CONSIDERATIONS IN LENDING.

Lending has become a vital function in banking operations because of its direct effect on economic growth and business development.
This is being pursued in most countries particularly the developing ones, where banks and their lending activities have been usefully integrated into government policy formulation in the national economic development process.

As far as banks are concerned, their role as lenders is as important as that of deposit taking, considering the Inter-relationship between one and the other. A careful study and proper analysis of lending has become Imperative to banking students, finance managers and those concerned with the function of lending.

2.6:1 **Lending Objectives.**

The Commercial objective of banks according to Osayameh (1986)[10] is to maximize profit, although other social and economic functions tend to deflect banks from profit maximization as their primary objective. Since banks are acknowledged agents of social, economic and political development, they have a social responsibility. The extent of these expanded responsibilities varies from country to country and the local situation is a major determining factor; hence the role of banks as agents of development appears greater in developing countries. Nevertheless, the principal lending objective of a bank is to provide growth, profitability and liquidity.

2.6:2 **Lending Policy.**

In the ardent pursuit of the objectives of lending activity, banks evolve policy guidelines, which provide the framework for dealing with loans.

Some of these policies are designed to have relevance to the internal constraints of each bank, e.g. sectoral performance, deposit base, existing exposure, risk exposure, whilst others are derived largely from the guidelines issued periodically by the central bank for control purposes. Lending policy according to Osayameh, if properly articulated, can provide a guide for safe, sound and profitable activity to a bank. If on the other hand, lending policy is haphazardly formulated, it can result in frustration and disaster.

2.6:3 **Basic Principles of Lending.**

As I have rightly stated, lending always involve some elements of risk. These risks stem from those circumstances, which result from the non-payment of obligations when they fall due. Apart from "Acts of God", like earthquakes, fires, floods and storms, there are some risks that arise from personal factors that are in many instances difficult to explain. Therefore in the process of lending, banks must investigate those factors, which give rise to non-payment of debts. This Investigation is refereed to as credit analysis.

Credit analysis involves the determination of the capacity of an applicant to borrow and his ability and willingness to repay a requested loan in accordance with the terms of the loan contract. Since it is the lender that is taking the risk, it would not be professional for a credit judgment usually follows from the development of complete information and through the analysis of the information.

How then does the credit analyst determine the likelihood of a borrower honoring his loan obligations? Is it crystal gazing? Or in the African sense, witchcraft? How credible is this method of credit appraisal? There are many factors that are considered by credit analysts in analyzing a loan request in a more scientific way.

Oduaran (1994)[11] mentioned that they are the factors that enable creditors to have faith in the debtor's ability and willingness to pay the obligation in accordance with the terms of the loan request.

These factors which had evolved over the years, and universally applicable, have variously been referred to as the four Cs of lending otherwise known as principles of LENDING- character, capability, capital and collateral.

Oduaran explained these factors respectively the way they are arranged. But some writers added condition to the four Cs of lending.

CHARACTER

The willingness to repay the loan granted to a customer is an imperative that must be established by every credit appraisal. If the willingness to repay on the part of the borrower is not there, then no matter how detailed or accurate the projections, the lending will run into difficulties.

Character, as it is applies to credit relationships, seems to have a more narrow meaning than the term has when it is applied to society as a whole. To the society, it has to do with all those moral qualities which identify an individual but to a credit analyst credit character includes those qualities of an individual that cause him to want and to intend to pay an obligation. It is entirely possible for a person not to possess all of the qualities that are usually associated with character in the broad sense but to possess the will to repay his obligations.

As a credit analyst, how then do we appraise character as it relates to credit? Appraisal of character is an extremely difficult exercise, as it does not possess any unit of measurement. It cannot be measured exactly or absolutely since it is a relative quality.

The honesty and integrity of the borrower must not be in doubt. A basically dishonest customer has no credit even where he is known to be full of business acumen or to possess plenty of assets. After all, a "419" person could qualify for credit if other parameters such as capital, collateral and capability are used to appraise the loan request.

According to a school of thought, the fact that people do not always live up to their promises has made it necessary that credit risks be investigated. The creditor has a special responsibility to search for and avoid dishonest debtors. He must also try to protect the prospective debtor as well as himself from the debtor's imprudence.

The traditional means used in assessing character in different banks within the country includes credit checking with other banks, history of the outcome of previous borrowing, age of account relationship, e.t.c.

There is a whole lot of difference between a customer who comes to the bank before a payment is due to explain why he could not meet up with his obligation and the one who waits until the Installment payment becomes past due to be called, visited by the adjuster, or sent a letter from the legal department. In general, those who have an excellent record of prompt payment seldom deviate from it, and those who have a long history of non-payment seldom change. However, prosperous conditions can amend bad traits. Therefore, the credit analyst is usually faced with the problem of identifying customers with acceptable character.

The reliability of the Customer may be assessed from any previous facility enjoyed by him from the bank, or through the way his account was operated in the past regarding such facility. Status reports may also be obtained from other banks where the Customer maintains an account. It may also be necessary to often "espionage" Information about the customer's reputation from those within his locality or business associates.

Evidence of credit character may be found in how an individual or business has carried out positions of trust, which may have been held in society. The credit character of an Individual may be reflected in his stability of employment, in his residence and in his business associates.

By the biblical injunction "by their fruits we shall know them" as credit analysts, we rely on history to a great extent to measure credit character. We should not stop with an Interpretation of history but try to project it into the future. Through this, we would be eliminating Incidence of non-performance by our credit customers.

CAPABILITY

Capability as rightly explained by Oduaran (1994)[12] is the credit analyst's judgment of the viability of the business to be executed with the borrowed funds and the ability of the borrower to perform. Just like in character, capability is an Intangible quality that does not lend itself to quantitative measurement. You can find capability at the disposal of a business in one

man as in the case of sole proprietorship or it may be necessary to appraise the managerial ability of more than one man as in the case of a company.

The term capability stands next only to character in credit appraisal because the man of character, having the will to repay his debts and the capability will find the means to repay. The traditional tools used by most credit analyst for assessing capability include but not limited to the following:

- Audited financial statements
- Statistics of Account turnover
- Cash flow forecasts and/or detailed feasibility report of the project e.t.c.

From the customer's Balance sheet and cash flow statements, its past or projected earnings and the size of the requested amount in relation to the firm's financial structure can be analysed. A good and detailed feasibility study should be able to highlight these.

The analysis of these information should be able to reveal the purpose for which the funds are needed, how long it will be before the advance is repaid, the source from which the repayment is to flow, whether will require security from the borrower, and if so, whether there is anything acceptable available.

The capability of the project to meet its loan portfolio obligations could be assessed from the caliber of Management in place, from the profile of the main promoters and/or directors of the borrowing firm. You can get an insight into how the project would be managed when it finally takes off. The promoters/borrower's knowledge of the Industry they are going into would give and Indication whether they could tackle any problem that might arise from the project. Therefore, it would be necessary, for the credit analyst to find out if the kind of personnel for the proposed project are people with the required expertise, ability, drive, and enthusiasm to employ the project's funds profitability and generate the promised repayments.

CAPITAL

Here, we are talking of the stake of the prospective borrower in the venture being financed. Although, capital is not a major consideration in extending credit facilities to customers the requirement of capital adequacy or contribution is precisely to ensure that the prospective borrower has a stake in the venture and shares the risk with the lender.

Experience has shown that the more the stake of the borrower the more likely will it be that he will make every effort to see to the success of the business.

Leverage ratios are traditionally used in assessing the adequacy or otherwise of the commitment of the promoters to a particular proposal. On the part of the bank, high gearing or leverage imply high risk and vice versa for low gearing. Different banks use different gearing ratios to assess the riskiness of the project; the most commonly use one being 3:1 as debt equity ratio (leverage ratio).

COLLATERAL

The viability of a project should ideally be an adequate security in granting loan to finance such projects but the emphasis among our banks is the collateral security that could be pledged by the customer. This is to hedge against failure of the projects to provide the desired returns.

This collateral security is actually the "Icing on the cake" and not the main security, the primary security being the undertaking by the borrower to repay the loan and the lender's belief that the loan will be repaid in the normal course of the project's business. Therefore, any tangible or collateral security being offered is only meant to comfort the lender who has parted with his money and affords him something to fall back upon in the event that the **unexpected** happens.
The usually accepted collateral securities amongst banks include: -

- Mortgage over land and buildings;
- Debenture stocks;
- Guarantee;
- Lien over account;

- Insurance policies;
- Stock and shares;
- Goods hypothecation;
- Other tangible assets etc.

In practice, if credit analysis is to be carried our effectively, pertinent information about the applicant is essential. It is necessary that the credit officer must be aware of trade journals, periodicals, newspapers, directories, public records and statistical reports of trade or business organizations whose reports have a bearing on the project needing the loan. These agencies need not be government owned, as private organizations are capable of giving useful reports.

Information regarding employment, income, dependency, indebtedness, paying habits, and any unusual circumstances that would influence credit worthiness is usually secured from employers, businesses where goods and services are purchased, banks, public records, and the subject himself. Banks might also contact the employer of the applicant, the references he probably gave the bank on the loan application form, or the bank or banks where family carried an account and borrowed funds occasionally.

It would be necessary that the credit officer check with other banks that have had relationships with the loan applicant especially the split banker. Most banks are willing to give status reports of their customers if the proper channel is followed.

Various suppliers and customers of the applicant should also be checked for credit rating. For instance, Suppliers can give information on how the firm's bills have been paid, whether discounts have been taken, the high and low credit outstanding, and whether unjust claims are made and discounts deducted to which the firm is not entitled. The applicant's customers would provide useful information about the quality of its products, the reliability of its service, and the amount of merchandise that has been returned.

Such checking's from banks or trade, should be able to reveal something about the character and ability of the borrower to meet his loan portfolio obligations.

In conclusion, if banks could obtain all the necessary information about a customer and interpreted accurately, the possibility of making errors in lending is reduced. A good officer should therefore be able to conduct credit investigations, Compute significant financial ratios and compile comparative financial statements from the credit information obtained from different sources.

This information enables the credit officer to make an informed assessment about a customer's willingness and ability to meet his loan obligations.

2.7 CREDIT CONTROL AND ADMINISTRATION

In a volatile economic environment like ours where things change fairly rapidly, creditors should not be caught off guard because of their poor administrative control of their loan portfolios. Observation of past trends indicates that once debtor notices that his operations are not being closely monitored, the temptation is for him to divert the approved loan to other business from which he hopes to make fatter returns. Such businesses are normally more riskier than the initially approved one and may in most cases fail. In order not to put a lending bank in a bad position, there is the need to continuously monitor the debtor's use of the approved facility.

When a credit has been approved for a customer, there is the general tendency to assume that every thing will happen as planned and in most cases such credits are annually renewed as a matter of principle. However, a sharp eagle eyed banker would easily notice that a variety of unexpected events could develop in the course of the fund utilization and that only timely interventions could save the situation. Accordingly Orji stated that loan/credit control like administrative process requires a process of action, analysis and follow-up. For an effective credit control and administration, Orji advised that the following points should be noted and followed:

2.7:1 COMPLAINCE WITH LOAN AGREEMENT:

Every credit granted to a customer should be dully documented together with the accompanying conditions that must be fulfilled before and after the loan has been drawn down. This should be in form of contract agreement duly offered to the customer and accepted by him. The contract should be

dated. The agreement should specifically state the mode and method of drawdowns, minimum accounts turnover for a particular period, liquidity ratios the borrowing project should maintain throughout the life of the facility e.t.c. If these are not continually monitored, a breach of the loan agreement may occur and go undetected and if this happens, the bank's positions could at the end, angered.

2.7:2 **CONTACTS**

Contacts with the borrower should not end with the approval of his facility. There should be continuous contacts between the bank and the borrower throughout the life of the facility. Customer – banker dialogue brings out the true positions of the usage of the borrowed fund and how effective it has been utilized. As Osayameh pointed out in his book "never wait until the customers to tell you what he wants you to hear or know; rather go in search of what you desire to know" contact with borrowers in the normal course of their businesses have proved to be very useful to bankers. These customers regard their bankers as their personal friends who are interested in the welfare of the businesses and not just bankers out to milk their businesses dry in the name of recovering their loaned out funds.

2.7:3 **ACCOUNTS OPERATION AT THE BRANCH**

Close observation should be maintained at the borrowers account operations at their various branches. Particular attention should be paid out on the direction of cheques paid out on the account of a borrower; nature of payments into the account; the turnover situation and customers account operations, viz.: frequency of excess requests, poor debts servicing e.t.c.

2.7:4 **CONTROL**

Best control is achieved and the credit granted achieved its optimal result if the disbursement schedule is adhered to and other draw down conditions followed. As there are inherent dangers in providing a borrower with too much or too little funds at any moment, loan disbursement should be linked to the cash FLOW CYCLE of the borrower. It is better to make payments direct to the suppliers of the goods and services needed by the borrower to avoid fund diversion. Disbursements of mortgage loans for example should be based on architect's certificates of performance.

CONCLUSION

Banks are in business to make profits out of depositors funds and the loaning out of the depositors funds entails taking some business risks, hence the subject matter of this research work – credit risk. Risks in credit creation cannot be totally wiped out because of the futuristic nature of the loan repayment schedule. However, credit risks can be minimized if credit analysts do their job thoroughly with out sentiment or bias and the approval authorities do the approvals based on verifiable facts as presented by the analysts in combination with the superior knowledge they have of the projects and their promoters.

The first step therefore of Managing credit risk is proper and articulate loan appraisal and analysis.
Once this is done, the next step is to properly document all steps taken in the loan analysis and appraisal indicating various factors considered and their likely impacts on the credit. To discover the most variable(s) that would Increase Credit risks, it be important to carry out some sensitivity analysis of the suspected variables.

After these have been duly analysed, worked out and documented and credit approved, it becomes important to draw up the loan agreement and the operating modalities for the approved Credit for the knowledge of the customer and use of the account holding branch. This is important because the approving authority may be separated from the disbursement and monitoring authority. After the credit approval, the account holding branch and the relevant legal department of the bank should take steps to perfect the offered securities before draw down is allowed. Only those disbursements that may aid the security perfection may be allowed before the full perfection of the securities on offer. After the security perfection and disbursement authority has been obtained, it becomes the operating branch to monitor the account operations. Disbursements should be as per the agreed disbursement schedule and cash inflow into the customers' account(s) should be carefully monitored. Any deviation should be brought to the knowledge of all the parties' concerned and remedial actions taken immediately. If the above steps were carefully taken, the dynamic risks inherent in credits would be reduced to a manageable level. Granting of

credits should not be based on sentiments or purely on political considerations as these carry very high risk of default.

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CHAPTER THREE

HISTORICAL BACKGROUND OF NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK.

3.1 ESTABLISHMENT AND STRUCTURER OF NACB

The Nigerian agricultural bank (NAB) was incorporated in 1972 and was formally lunched in March 1973 by the then Head of State. It commenced operations in August 1973 under a management that was provided through IBRD/UNDP technical assistance. In 1977 the management of the Bank was fully Nigerianised and in 1978 its name was changed to Nigerian agricultural and co-operative bank (NACB) to highlight the role of the bank in financing viable co-operative projects. The bank as at Dec. 1994 has 62 branches offices spread in all the states of the federation. Located in the rural farming areas of the country is a network of representative offices numbering 300, under the control of the branch offices. There are seven (7) zonal offices, which take care of the branches.

3.2 STRUCTURE

The over all policy formulation and directives of the bank is the responsibility of the board of Directors usually appointed by the Head of State.

The day to day running of the affairs of the bank is the responsibility of two committees – Executive committee and management committee. The managing Director/chief executive heads both committees.

The operations of the bank are carried out at the Head Office, Zonal offices and branch offices. In carrying out its activities, the bank is organised into four directorates. An Executive director who oversees the operations of department under him heads each directorate. General Manager heads the departments. Each department is also further divided into divisions and sections. The organizational chart of the bank is shown. Similar charts for zonal and branch offices are all shown. The principal functions of the bank are loan approval, loan disbursement and loan recovery.

3.3 OBJECTIVES OF THE BANK

The NACB ltd has short term and long-term objectives. In the short term, the bank is to create a viable agricultural banking institution that will assist in implementing its long term objective which is to enhance the level and quality of agricultural production including, Horticulture, poultry farming, pig breeding, fisheries, forestry, Agro-Allied and time production, Animal husbandry and any other type of farming as well as storage and marketing of such production in Nigeria within the frame work of the approved plan of the federal and state governments. Within the over all policy frame, the NACB ltd. Is established to;

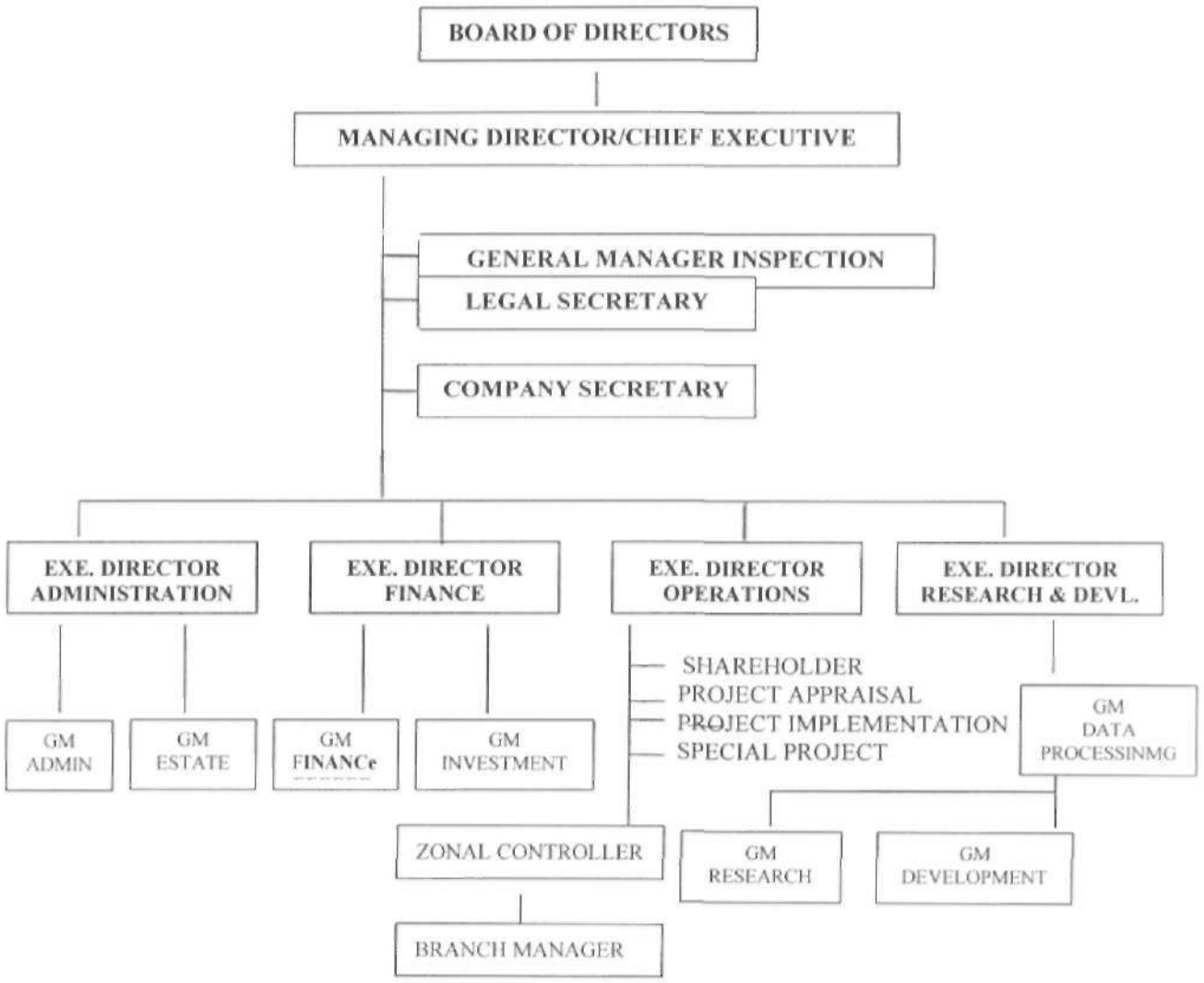
1. Grants loans for agricultural production including horticulture, poultry farming, pig breeding and for purposes of storage, distribution and marketing connected with such production to any state, group of states or any institutions for on-lending to any farmer, group of farmers or corporate body subject to the state or group of states or state institutions guaranteeing repayment of the loan,

2. Grant direct loans to individual farmers, co-operative societies or other bodies (corporate and unincorporated in appropriate cases) provided that the bank is satisfied that the scheme for which the loans are requested are viable and there is adequate security to cover such loans.

3.4 ORGANISTIONAL STRUCTURE AND FUNCTIONS, HEAD OFFICE, ZONAL AND BRANCH OFFICE.

3.4:1 **HEAD OFFICE AND ORGANISATIONAL STRUCTURE.**

FIGURE 1



SOURCE: NACB LTD.

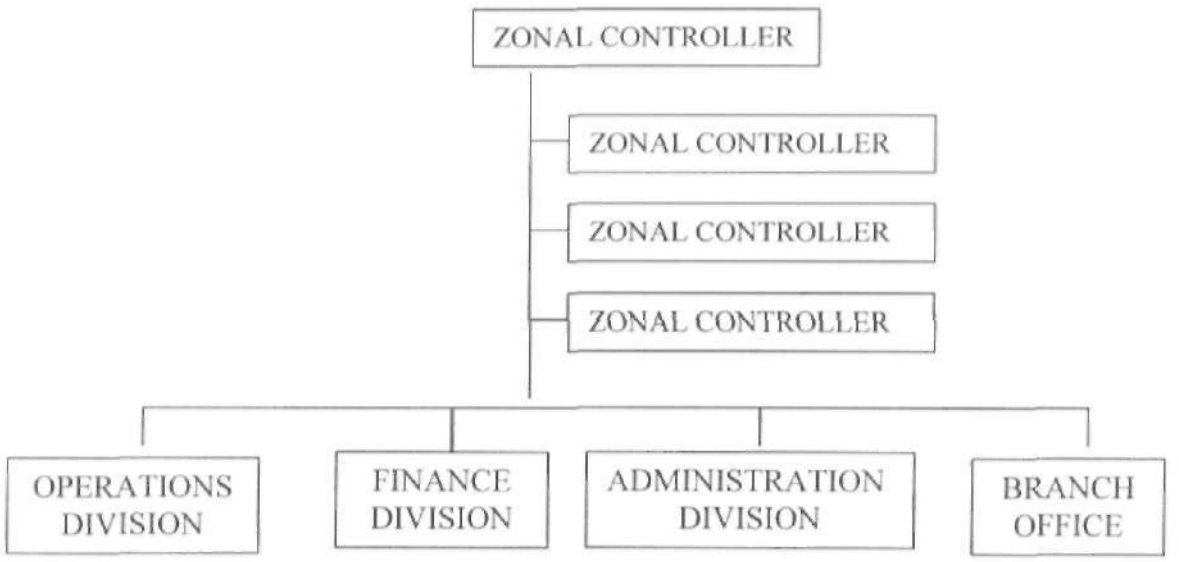
RASHOMON ABUJA

3.4:2 **HEAD OFFICE/FUNCTIONS**

(a) The head office determines policies relating to the operations of the bank and exercises supreme control over all activities of the bank and its agents.
(b) The head office deals with all routine activities of the bank through the appropriate zonal office.
(c) The head office approved, disbursed only large scale loans i.e. N501, 000 upward.

3.4:3 **ZONAL OFFICE/FUNCTION**

ORGANISATIONAL STRUCTURE.



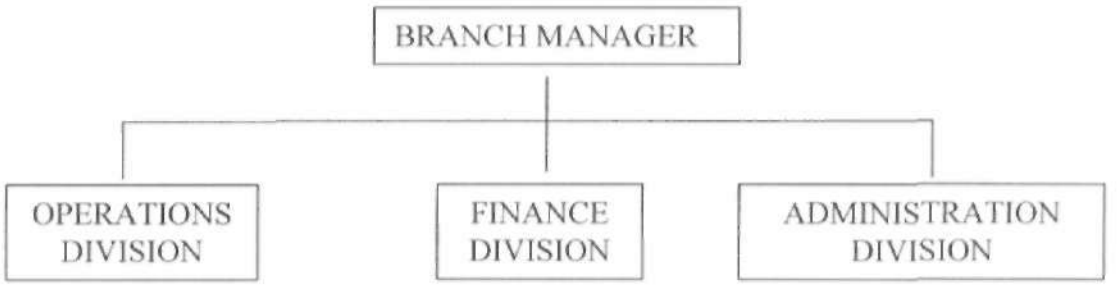
SOURCE: NACB LTD:

FUNCTIONS

(a) The zonal office is the principal agent of the bank in its area of jurisdiction. It therefore exercises the supervisory roles of the head office as appropriate within this limit the zonal office supervises are branch offices located in its area of coverage with regards to: -

(i) Technical matters.
(ii) Financial matters.
(iii) Administrative matters and matters relating to support service.
(iv) Corporate and public relations matters.
(b) The zonal office sit and approve loans (guaranteed by security) forwarded by branch office on loan amount ranging from N25, 001 to N500, 000 which is Known as zonal agricultural project management committee (ZAPMC)

3.4:4 BRANCH OFFICE/FUNCTIONS



SOURCE: NACB LTD.

FUNCTIONS

The overall function of the branch office is to promote and articulate identified products and present such projects for financing. Its specified duties include;

(a) Appraising the viability, feasibility and bank ability of agricultural project and formulating such projects for individuals, groups, co-operatives and other identified and legally constituted bodies.

(b) Drawing up appropriate schedules of activities.
(c) Appraising APMC papers for the purposes of presenting such papers to appropriate approving authorities.
(d) Evaluating managerial capabilities of applicants or proposed farm managers.
(e) Promotion of the formation of agricultural co-operatives.
(f) Rendering consultancy services to applicants and beneficiaries.

(g) Ensuring that loan beneficiaries fulfill all stipulated conditions before release of funds.
(h) Carrying out post Implementation appraisal and evaluation of the performance of bank financed projects.
(i) Recovering due debts.
(j) Assisting auctioning of properties of defaulters in consultations with the legal department through the Zonal office.
(k) Maintaining adequate books of accounts and records of financial transactions.
(l) Maintaining reliable records of loan applications, approvals, disbursement and recoveries.
(m) Ensuring orderly administration of the office and staff as these relate to personnel, technical, financial, properties, public relations and other matters.

3.5 NACB LTD MINNA BRANCH OFFICE.

3.5:1 RESPONSIBILITIES AND DUTIES.

The day-to-day management of the branch office is as follows;

A. <u>The Branch Manager.</u>

The branch manager is responsible for the following;

(a) Overall administrative and budgetary control of the branch as well as the control, motivation, supervision, revaluation and development of the staff of the branch office.
(b) Co-ordination and supervision of loan processing activities.
(c) Pre and post approval negotiation.
(d) Application of the bank's policy guidelines on project promotion, Identification, formulation, eligibility, criteria disbursement and loan recovery.
(e) Arranging the preparation and presentation of completed APMC papers to the appropriate authorities for consideration.

(f) Participation in appropriate management deliberation as determined from time to time.
(g) Providing Information on the operations of the branch office to management as required from time to time.
(h) Any other function may be determined and assigned by the chief executive or any supervisor officer of the bank so authorized by the chief executive from time to time.

B. Heads of Units.

(a) Each unit is headed by an officer of an appropriate rank within the branch office Specifically assigned with the responsibility of Supervising and controlling the activities of the unit.
(b) The head unit is answerable to the branch manager and is charged with the following responsibilities;
(i) Assisting the branch manager in managing the unit and in Supervising, motivating and guiding the officers in the unit for effective performance.
(iii) Assigning responsibilities to officers of the unit as appropriate. Ensuring the prompt discharge of all responsibilities assigned to that unit by the branch manager.
(iv) Carrying out any other duties assigned by the branch manager or his properly delegated representative.
(v) Each unit is made up of a number of sections, each of which handles a clearly defined aspect of the function of the unit and is headed by a Supervising officer designated as officer in charge of the Section.

C Heads of Finance Unit.

He is in charge of the finance unit and is responsible to the branch manager for the day-to-day administration of the unit. He has over all responsibility for all accounting duties, which include;

a. Checking and passing invoices, bills and disbursements advice for authorization before payment vouchers are raised, and ensuring that all reimbursement conditions are met before disbursement advice are passed for payments.

b. Supervising banking operations, including the preparation of daily cash and monthly bank reconciliation.

c. Preparing daily finance position of the disbursement accounts.

d. Maintaining clients loans cards.

e. Maintaining interest register, calculating accrued interest and raising monthly interest receivable journal.

f. Providing records of weekly disbursements and preparing periodic returns as appropriate.

g. Assisting the branch manager in the preparation of annual budgets and in budgetary control.

h. Carrying out any other duties assigned by the branch manager.

D **Heads of Operating Units.**

a. He is in charge of the operation unit and is responsible to the branch manager for the day-to-day administration of the unit. He has overall responsibility for all duties relating to processing of loan applications and the implementation. Supervising and monitoring of all approved projects up to the point of full debt recovery.

b. He oversees the activities of the officer in charge of the direct small holder loan scheme and Supervising officer(s) in all matters pertaining to the project identification, appraisal, formulation, implementation supervision, monitoring evaluation and debt recovery.

E **Officer in charge of the Direct Small holder Loan Scheme.**

a. The direct smallholder loan section is a section under the operations unit. An officer so appointed by the branch manager heads it.

b. The officer in charge of the direct smallholders loan scheme is responsible for all activities of the branch office as they relate to the scheme.

He reports to the branch manager through the head of operation unit. He also supervises and coordinates the activities of the entire assistant Supervisor Credit attached to the office. He also liases between the head of finance unit and the assistant Supervisor credit.

F **Officer in charge of Second Livestock Development**.

a. The Second livestock development project loan section is a section under operation. An officer so appointed by the branch manager heads it.

b. The officer in charge of the second livestock development project loan scheme is responsible for all activities of the branch office as they relate to the scheme. He performs the same role as E (b)

G **Officer in charge of investment loans (large Scale Loan)**

a. The investment section is a section under operation. An officer so appointed by the branch manager heads it.
b. The officer in charge of the investment loan is responsible for all activities of the branch office as they relate to the scheme. He performs the same role as E (b).

H **Head of Administration**

a. He is in charge of the administration unit and is responsible to the branch manager for the day-to-day administration of the unit. He has overall responsibility for all duties relating to general administration, properties and maintenance.

b. He is also the Secretary of agricultural project management committee responsible for making arrangement to provide the requested secretarial services for all meetings of the committee and keeping records and minutes of all such meetings. He is responsible for preparing and issuing credit officers and arranging for legal documentation.

Loan Committee (APMC)

A committee known as branch office agricultural projects and management committee heads the day-to-day approval of loan.

Composition

1. Branch Manager - Chairman
2. Head of operation unit - Member.
3. Head of administration - Member.
4. Head of finance unit - Member.
5. Office in charge of General Administration - Secretary.

Functions.

a. To consider and approve any agricultural loan proposal whose total loan request does not exceed the limit approved by the management for the committee and to consider and recommend to the zonal APMC any loan proposal above that limit for further consideration.

b. To consider plan and review operations and performance for the branch.

c. To consider and take decisions on general issues relating to the administration of the branch office and make appropriate recommendations to the zonal office where as required.

d. To consider and take decisions on issues within its competence relating to staff recruitment, evaluation, promotion and discipline, and recommend to the zonal office on issues beyond its competence relating to the recruitment, evaluation, promotion and discipline of all staff of the branch office.

e. To consider and approve procurements and general contracts of amount exceeding the personal limit of the branch office.

Quorum:

The quorum shall be three (3) of any sitting made up of the chairman and two (2) other members. In the absence of the chairman, an acting chairman and any two other members including the head of finance unit shall constitute a quorum provided that any decision taken at any such meeting will be subject to the consent and endorsement of the substantive chairman.

3.5:2 LENDING POLICIES

It is the policy of NACB Ltd to reach its clients through both direct and indirect lending provided that the bank will not lend to proxy.

1. **Direct Lending Policies**.

Under this scheme the bank deals directly with individual farmers and farmers organization without going through an on-lending Intermediary. The following provisions apply; -

a. Loans are granted against acceptable and adequate security some of which may be located outside the project site.
b. Only viable and profitable project will qualify for assistance.
c. Promoters must have adequate financial stake in their projects and they must be of good character and standing in the society.
d. Short, medium and long-term loans are granted subject to a maximum of 15 years.
e. Loan beneficiaries shall be both non-corporate and corporate bodies with necessary and sufficient legal status.
f. All land used for NACB ltd investments as well as all properties pledged must be covered by clean title to the beneficiary and or guarantors.

2. **On Lending Policies.**

a. It is a policy of NACB ltd to use indirect route to reach the small-scale farmers. Under this scheme, the bank lends to establish institutions, which in turn lends to small-scale farmers. These institutions include state governments and other agencies, co-operative organisations and agricultural development project.

b. The on-lending institutions are required to have an organizational structure capable of carrying out its functions efficiently. On lending loans are granted against adequate and acceptable security

1. **Conditions to be satisfied by Individual Applicants before Loan is granted**

Provision of:

a. Statutory certificate of occupancy of the project site. In certain cases local government certificate of occupancy with attested survey plan may be accepted. In cases of doubt, it is essential to check with zonal legal office.

b. Certificate of occupancy covering the property, which is to be used as security together with a valuation report and an approved building plan. The valuation report must be produced by any of the bank's estate officers and the mortgage value for such security must meet at least the bank's minimum requirement as established from time to time. The documents relating to any other security acceptable to the bank may also be provided.

c. Tax clearance certificate for the last three years.

d. Two recent clear, full face, black and white passport size photographs of the applicant.

e. Proof of the capacity of the applicant to enter into legally binding agreement. This is largely a matter of determining whether, case officer, the applicant is an adult, who can therefore enter into regally binding agreement; and whether the applicant is of sound health

f. Satisfactory status report from the applicant's banker, and from any other banks as the branch manager may deem necessary.
g. Proof of the ability of the applicant to finance at least the minimum financial stake required from applicants.

Where the Individual is providing a guarantor, the following additional conditions must be classified:

Provision of:

a. Letter of Intent of guarantee.
b. Particulars of properties to back the guarantee.
c. Two (2) recent clear, full-face, black and white passport size photograph of the guarantor.
d. A satisfactory status report from the guarantor's manager may deem necessary.
e. Tax clearance certificate in respect of the guarantor of the last three years.

At the conditions in items B.15.1 (a), (d), (e) and B.15.2 (a), (b) and (c) must be met before a completed application form is accepted.

2. **Conditions to be met by Limited Liability Company**

Provision of: -

a. Statutory certificate of occupancy of the project site. In certain cases Local government certificate of occupancy with attested survey plan may be accepted. In cases of doubt, it is essential to check with zonal legal officer.

b. Certificate of occupancy covering the property, which is to be used as security together with a valuation report and an approved building plan. The valuation report must be produced by any of the bank's estate officers, and the mortgage value for such security must meet at least the minimum requirement established from time to time. The documents relating to any other security acceptable to the bank may also be provided.

c. Tax clearance certificate for the last three years.
d. Two (2) recent, clear, full-face, black and white passport size Photograph of the chief promoter, the chairman, the managing Director and the Company secretary.
e. Satisfactory status report from the applicant's bankers, and from any Other bank as the branch manager may deem necessary.
f. Proof of the ability of the applicant to finance at least the minimum financial state required from applicants.
g. Certificate of Incorporation.
h. Memorandum and articles of association (memarts) which should include:

- Agricultural and Agro-Allied business as one of the objects.
- Powers to borrow
  Authorised share capital of atleast 50% of the amount of the loan applied for.

i. Five years audited statements of accounts; or audited statement for the past years for companies less than 5 years old; or statement of affairs for newly incorporated companies, the paid up share capital, and satisfactory evidence of any Increase in paid up or authorizes share capital must be submitted.
j. Satisfactory research report from the Registrar of companies.
k. Resolution of the Board of Directors of the Company to exercise its borrowing powers and to borrow a specific amount from NACB Ltd.
l. Lists of names of persons authorized by the company to deal with NACB ltd in respect of the loan applied for.
m. Names, addresses and occupation of directors and shareholders; and the list of their shareholdings.
n. Details of foreign technical partners for the project, and the partnership agreement where applicable.
o. Two (2) copies of a detailed feasibility report acceptable to NACB ltd. (This is required only for projects with proposed loan volumes in excess of certain levels as determined by Executive Director (operations) from time to time).

For loans request in excess of N1 million, the bank may insist on;
i. Co-financing or syndication.
ii. Being represented in the m management and board of the client company.

Directors of applicant Companies shall be required to: -
i. Provide letters of intent to guarantee such loans
ii. Personally guarantee such loans
iii. Provide tax clearance certificate for the last 3 years.
iv. Provide the names and addresses of their bankers, the type of accounts kept, and their relevant numbers.

The branch manager may then obtain status report from the Director's bankers (as state by them); and from any other banks, as he may deem

necessary. Where the company is providing a guarantor, the following additional conditions must be satisfied;

i. Letter of intent to guarantee,
ii. Particulars of properties to back the guarantee
iii Two (2) recent, clear faces, full-face, black and white passport size photograph of the guarantor.
iv. A satisfactory status report from the guarantor's bankers, and from any other bank as the branch manager may deem necessary.
v. Tax clearance certificate in respect of the guarantor for the last three years.
Atlas the conditions listed in a, d, g, h, j, l, m, n, o must be met before a completed application form is accepted.

3.5:3 LOAN DISBURSEMENT POLICIES

The policies of disbursement of loan to NACB ltd. are as follows;

a. Disbursement on loan is made on receipt of legal clearance from legal officer that the client has submitted all his documents to the bank.
b. The bank reserves the right to with holds further disbursements if they are not safe, or if previous disbursements have not been judiciously used.
c. Generally loans are not disbursed after the loan periods have expired
d. Loans may be called on proven diversion of funds.

3.5:4 LOAN RECOVERY POLICIES

a. All loans due are demanded where demand notes are raised and sent to clients together with constant visit.
b. Subsequent reminders and visits are made until client has fully repaid the loan.
c. In case of default client is served with three months statutory notice within which he pays off the debt or his property be advertised for auction.

e. All legal and reasonable means are employed to recover amount in default including the use of auctioneer, debt collector and litigation.

3.6. LOANS GRANTED BY THE BRANCH

From inception of the bank to September 1998, the Minna branch office has disbursed individual large-scale loans to the tune of N3, 047,224.39 but only about N1, 095,280.95 was repaid (principal and interest).

The balance unpaid principal and interest stood at N3, 884,032.46 which constitute debt to the bank.

CHAPTER FOUR

DATA ANALYSIS

4.1 INTRODUCTION

In this chapter, attempt will be made to analyse the data collected. Also hypotheses stated in chapter one would be tested in order to either accept or reject the hypotheses.

About a total of 48 questionnaires were personally distributed and collected to Nigerian agricultural and co-operative bank ltd Minna branch (NACB) large scale loan beneficiaries, while interview was conducted with the head of credit (lending) section of the bank. Therefore giving a response rate of 100%. However in distribution of questionnaires, only the direct lending beneficiaries (individual clients) were administered with the questionnaires. In the case of on-lending loan (state government) such loans are deducted by the central bank of Nigeria (state subvention account) as soon as the bank makes the loan available.

DISTRIBUTION OF RESPONDENTS BY PROJECT TYPE.
Table 1

Project Type	Number of respondents	Percentage %
Direct Lending (individual companies)	48	100
On lending (state government agencies)	0	0
Total	48	100

Source: Questionnaire administered.

From the data collected the average age of loan beneficiaries was 45 years and were all male, married and with children. And most of them have an average of primary level of education.

4.2 TEST OF HYPOTHESES

Four major hypotheses will be the guides of this research study, and these are;

H1: Due to lack of proper or adequate collateral securities required by banks, people are refused loans.

H2: Untimely processing and disbursement of loans result to credit risk to the bank.

H3: Loans disbursed to farmers are not sufficient for the execution of the projects and often off-seasonal.

H4: Bank faced with high credit risk is likely to experience loss of public confidence.

4.2:1 HYPOTHESIS 1.

The first hypothesis to be tested says, "Due to lack of proper or adequate collateral securities required by banks, people are refused loans".

Questions 6 and 7 of the questionnaire will be used to test this hypothesis. Question 6 of the questionnaire asked, "Did you present collateral securities while seeking the loan?" The table below gives the response.

BENEFICIARIES RESPONSE ON WHETHER THEY ADVANCED COLLATERAL SECURITIES TO THE BANK.

TABLE 2.

VARIABLES	NUMBER OF RESPONDENTS	PERCENTAGE %
YES	48	100
NO	0	0
TOTAL	48	100

SOURCE: QUESTIONAIRE ADMITTED.

From table 2, all the respondents responded by saying that they actually presented collateral securities before they were given the loans. Question 7 of the questionnaires asked the beneficiaries to name the types of collateral securities they each presented before receiving such loans.

Most of the beneficiaries Indicated that they presented the Mortgage over land and building, infact all 95% of the respondents Indicated this while the remaining 5% Indicated different types of securities considered by banks.

When the head of lending section of the NACB ltd Minna branch was asked if they normally consider collateral securities before advancing loans, he stated clearly "Yes". He was then asked to specify some of them, and he enumerated the following;

Mortgage over land and Building
Insurance policies.
Lien over account.
Stocks and Shares.
Guarantees.
Domiciliation of payment
Debentures e.t.c

The officer stated that at no time has the bank actually advance loans to people without collateral securities to back it up. He indicated that in business like lending, there is always risks attach to it, so that to be on the safe side, collateral securities are always considered, in the event of the client refusing to pay back the loans deliberately or otherwise the bank can easily realize back the amount by selling off such collateral securities and then settle the account.

Therefore, going by this, the hypothesis that says, "due to lack of proper and adequate collateral securities proper are refused loans" is accepted.

4.2:2 **HYPOTHESIS 2**

The second hypothesis to be tested is "untimely processing and disbursement of loans leads to credit risk to the bank".

To determine the answer to this hypothesis we have to refer back to question 8, 9, 14 and 15 of the questionnaire. To determine the tenure of the loan, the beneficiaries were asked the question "for how long was the period for the loan given". The question is important to the issue currently at land.

BENEFICIARIES RESPONSE ON LOAN PERIOD IN THE BANK.

TABLE 3.

Variable	Number of respondents	Percentage %
9 to 12 months	26	54.17
1 to 3 years	22	45.83
4 years and above	Nil	0
TOTAL	48	100%

SOURCE: QUESTIONAIRE ADMINISTERED.

Table 3. Indicates that the highest percentage of respondents about 54.17% have their period between 9 to 12 Months. For this analysis, question 9 in

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the questionnaire asked the respondents "was the loan processed and disbursed to them on time?"

From the questionnaire, 100% of the respondents answered Yes. This is shown in table 4;

BENEFICIARIES RESPONSE ON LOAN PROCESSING/DISBURSEMENT

TABLE 4

Variable	No. Of Respondent	%
Quite timely processing/ Disbursement	48	100
Untimely processing/ Disbursement	0	0
Total	48	100

Source: Questionnaire administered

Table 4 above showed all the respondents responding 100% that the loan was processed and disbursed to them on time
Another question was then asked, " Have you ever defaulted by exceeding the loan period?" Table 5 showed the responses.

Table 5.

Variable	Number of respondents	Percentage 100%
Yes	11	22.92%
No	37	77.08%
Total	48	100%.

SOURCE: QUESTIONAIRE ADMINISTERED.

From table 5, only 22,92% of the respondents indicated that they repaid the loans at the right time without defaulting, while 77.08% of the respondents indicated that they sincerely defaulted in paying back their loans. When asked why they defaulted they answered that their inability to repay back the loan on time was as a result of low price offered on their produce. However based on the response of the head of credit (lending) section of NACB Limited Minna branch, loan beneficiaries defaulted in paying back the loans on time as a result of diversion of the loans for other business ventures hoping to get more returns but with great risk attach to it, and most of them failed to succeed in such ventures.

MANAGEMENT RESPONSE ON LOAN DEFAULT

TABLE 6.

Variables.	Response rate
Loan diversion	100
No adequate supervision/monitoring	0
Non challant attitude	0
Total	100%

Source: Interview with the NACB Management.

From table 6, the management specified that clients defaulted in repaying back loans as a result of loan diversion, other factors he said were baseless, like no adequate supervision or non-challant attitude of the bank to the loans given to them.

A record in respect of cumulative loans disbursed and recovered by the bank was made available to the researcher by the management of NACB Limited Minna.

CUMULATIVE LOANS DISBURSED/RECOVERED (LARGE SCALE INDIVIDUAL LOANS) 1985 to 1995.

Table 7.

No.	Project Type	Amount Disbursed	RECOVERY (N)			Outstanding balance not yet paid (N)		
			Principal	Interest	Total	Principal	Interest	Total
1	Product Marketing	1,450,121.80	179,861.07	249,738.93	429,600.00	1,270,260.73	201,057.43	1,471,318.16
2	Arable	1,338,830.40	104,276.98	290,403.87	394,480.85	1,234,553.48	798,245.42	2,032,798.90
3.	Cattle	93,500.00	-	24,000.00	24,000.00	93.500	96,965.53	190,465.53
4.	Poultry	164,772.13	-	24,700.00	24,700.00	164,772,13	24,677.14	189,449.87
Total		3,047,224.38	284,138.05	811,142.80	1,095,280.85	2,763,086.34	1,120,946.12	3,884.032.46

Source: NACB Ltd Minna Branch.

From table 7 above, project one, produce marketing was allocated the sum of N1, 450,121.80 but only N429, 600 was recovered while outstanding balance not settled stood at N1, 471,318.16 including both the principal and interest. Therefore the recovery rate was 12%

Project two, Arable farming was allocated the sum of N1, 338,830.46, total recovered was N394, 480.85, recovery rate was 8%.

Project three, cattle rearing were allocated the sum of N93, 500.00, total recovery were the interest on the capital N24, 000, outstanding balance N190, 465.53 and recovery rate was 0%.

Project four was poultry that was allocated the sum of N164, 772.13, total recovered was N24, 700 which is the interest on part of the initial capital outstanding was N189, 449.87, recovery rate was 0.

In all, N3, 047,224.38 was disbursed, N1, 095,280.85 interests inclusive was recovered while outstanding plus interest was N3, 884,032.46 while total recovery was 9.32%

RECEIVED

$$\text{Total recovery rate} = \frac{\text{Total amount recovered (Principal)}}{\text{Total amount disbursed.}}$$

$$= \frac{289{,}138.05}{3{,}047{,}224.39}$$

$$= 0.0932$$

$$= 9.32\%$$

From the calculation above, 9.32% recovery rate is actually very low. This means that rate of outstanding stood at 90.67%.

Actually, this shows that the loan recipients have defaulted seriously which ultimately can be referred to as high credit risk.

In conclusion, table 3,4,5,6and 7 can actually answer our hypothesis. First, all the loan recipients had indicated that their loan processing and disbursement was quite timely, while 77.08% had indicated that they actually defaulted in paying back the loan, on request why, they responded that low price was offered on their products, but on the part of the management they responded that it was because of loan diversion to other businesses. The management of NACB was also able to present the cumulative loans disbursed, recovered and still outstanding, we were able to find out that only 9.32% of the loans was recovered while 90.67% was still outstanding.

Therefore going by these facts, the hypothesis that untimely processing and disbursement of loans result to credit risk is rejected. Since all the recipients indicated that their loans were processed and disbursed quite timely but still they defaulted in paying back their loans.

4.2:3 HYPOTHESIS 3

The hypothesis to be tested is "loans disbursed to farmers are not sufficient for the execution of projects and often off seasonal".

Table 8 below show loan beneficiaries' response in respect of the loans disbursed to them.

BENEFICIARIES RESPONSE ON LOAN AMOUNT GRANTED TO THEM.

Table 8.

Variable	Number of Respondents	100%
Loan amount granted sufficient	40	83.33%
Not sufficient	8	16.67%
Total	48	100%

Source: Questionnaire administered.

From table 8, 83.33% responded that they were satisfied with the loan amount given to them awhile about 16.67%. Indicated that the loan was not sufficient.
The management of NACB ltd. Minna says that most of the loans granted were based on what the clients applied for and also based on the value of collateral securities offered them. If the value of collateral security offered by the client to the bank is lower than the amount applied for, the bank normally request additional collateral securities, if the client failed to do so, then the bank will offer him the amount equivalent to his collateral security. No wonder 16.67% of the loan beneficiaries who responded that the loan was not sufficient to them failed to present adequate collateral securities while seeking the loans.

From records made available to the researcher by NACB ltd, normally before loan is granted a feasibility study is normally undertaken to determine the viability of the project.

Table 9 below shows the viability of projects undertaken by clients.

CASH FLOW PROJECTIONS ON PROJECT BASIS

Table 9

Project Type	Loan amount granted	Loan period	Net cash balance (end of project)
Marketing	200,000	9 months	46,000.00
Cattle	110,000	5 years	30,000.00
Production Farming	87,000	3 years	146,540 (each year)

Source: NACB Ltd. Minna.

From the records made available by the bank (feasibility studies) it shows that a loan of N87, 000 for Arable framing cultivation of cowpea, Millet and cotton on a total hectare of 34 hectares shows revenue and subsequent years of the project. It also shows from record (client file) that a loan of N200, 000 for the purchase of surplus grains from local farmers during earlier harvest will have a net cash balance of N46, 000 for the client after paying back the loan i.e. principal and interest. Infact the loan has already been repaid and the client has started enjoying another fresh loan from the bank. From the responses of the questionnaires distributed to the loan beneficiaries, shows that 100% of them received the loans at the right time. Therefore the issue that they normally receive their loans off-seasonal is untrue. This is true going by the report presented on table 10 by the management of NACB Limited Minna.

PLAN PERIOD APRROVAL/DISBURSEMENT OF PROJECT

Table 10

Project Type	Period
Marketing (produce marketing)	November - February
Production (farming	April - September
Livestock.	No period

Source: N ACB Ltd Minna.

Those seeking loans for marketing of produce are normally taken care of from November to February so that at this time when harvest might have been taking place or has already taken place. The loans will be provided at this time for their purchases. While those seeking loans for production i.e. the actual cultivation of crops are normally appraised and disbursed loans from April to September because these are the raining months of the year. Therefore the farmers will need the loans at this time.

Finally, those seeking loans for livestock's production are normally appraised and disbursed throughout the year i.e. there is no specific period.

Therefore going by the above facts and figures presented, loans given to farmers are sufficient and moreover at the right period. Therefore the hypothesis "loans disbursed to farmers are not sufficient for the execution of projects and often off seasonal is rejected.

4.2:4 **HYPOTHESIS 4**

The fourth hypothesis to be tested says, "Bank faced with high credit risk is likely to experience loss of public confidence". To determine the validity of the hypothesis, we have to make use of the questionnaires distributed to the loan beneficiaries of NACB ltd Minna. Question 16 of the questionnaire asked the beneficiaries "how can you assess the activities of NACB ltd with regards to lending"? Table 11 below presents their responses.

BENEFICIARIES RESPONSE ON NACB LENDING ACTIVITIES

Table 11

Variable	Number of respondents	%
Very Successful	0	0
Successful	16	33.33%
Fairly good	32	66.67%
Bad	0	0
Total	48	100%

Source: Questionnaire administered.

From table 11, none of the respondents believe that NACB is very successful in their activities in terms of lending most especially 33.33% believe that they are successful, 66.67% indicate that they are fairly good, while none indicated that they were neither bad nor very bad.

When the respondents were asked to specify their reasons, those who indicated that the bank was either successful or fairly good attributed such belief to the activities of credit department who are engaged in the screening of applications and applicants for loans and their efforts at recovery of debts. They stated that with the help of credit department most loans that were classified as bad debts were recovered almost 80%. With this the bank can now be able to meet its obligations as a financial Institution.

The respondents also when asked if they have confidence in the activities of NACB, 100% indicated, "Yes". Table 12 below illustrates.

BENEFICIARIES RESPONSE ON IF THEY HAVE CONFIDENCE ON THE OVERALL ACTIVITIES OF NACB LTD MINNA BRANCH

Table 12

Variables	Number of respondents	Percentage%
Yes	48	100
No.	0	0
Total	48	100

Source: Questioner administered.

From table 12, 100% of the respondents indicated that they have confidence in the activities of the bank. When asked if they will still do business with the bank incase of reported high default of loans payment on the part of the clients, all of them answered no. That means there is a positive correlation between the performance of the bank and the attitude of its clients.
Since majority of the respondents indicated that NACB is performing fairly good and because of that they still have confidence in them. This shows that if banks are actually making progress, then people especially their clients will definitely have confidence and transact business with them, but if other wise they will not.

Therefore, the fourth hypothesis, " Bank faced with high credit risk is likely to experience loss of public confidence" is accepted to be valid.

4.3 DATA INTERPRETATION

For the test of hypothesis, two hypotheses were accepted as valid while the rest two were found to be untrue. The accepted hypotheses are; that due to lack of proper and adequate collateral securities required by banks, people are refused loans. This hypothesis is accepted going by the data collected in favour of such hypothesis. For instance in the questionnaire distributed, the loan beneficiaries, 100% of the respondents indicated that they actually presented adequate collateral securities before they were given the loans. More so the management of the bank indicated that due to the tendency of people to default in paying back their loans, they normally require adequate collateral securities to back the loans

The second hypothesis which says that "untimely processing and disbursement of loans result to credit risk to banks is rejected, this is as a result of the responses we received from the management of NACB ltd Minna branch, were they indicated that people normally default as a result of loan diversion by the beneficiaries to other businesses. It was also discovered that 100% of the loan beneficiaries indicated that the loan was quite timely processed and disbursed to them.

The third hypothesis, "loans disbursed to farmers are not sufficient for the execution of the projects and often off-seasonal" is rejected. This is because 83% of the loan beneficiaries indicated that loan amount granted to them was actually sufficient, and that there is a timetable for the disbursement of loans. For instance, those seeking loans for farming activities are normally disbursed the loans from April to September that is normally the period for rainfall, while those for marketing of agricultural products from November to February of each year. During this period, harvest is expected to have been completed.

The fourth hypothesis, which says "Bank faced with high credit risk is likely to experience loss in public confidence", is accepted. This is based on the responses of the loan beneficiaries where 33.33% indicated that the lending activities has been successful, while 66.67% indicated that it has been fairly

good. When asked if they have confidence on the overall activities of Nigerian agricultural and co-operative bank ltd Minna, the loan beneficiaries indicated 100% that they had. This is based on the first question related to the hypothesis above, where 66.67% of the respondents indicated that the bank is performing fairly well. Had the result been otherwise, definitely they would have indicated different responses.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS.

5.1 SUMMARY

This is a study of credit risk management in the banking industry. It seeks to critically examine the causes of credit risk and how to Minimise loan repayment default. This study is divided into five chapters with each chapter dealing with a particular related issue to the topic under consideration. Below is the Summary of each chapter.

The first chapter is introductory. The issue of credit risk in banks with particular reference to Nigerian agricultural and co-operative bank ltd. Minna is highlighted, and it is argued that in spite of the fact that the general principles and practices of lending policies, rules and procedures, one wonders at times how it is still possible for credit risk to occurs.

Four Major hypotheses were also developed for the study.

H1: Duc to lack of proper or adequate collateral securities required by banks, people are refused loans.

H2: Untimely processing and disbursement of loans result to credit risk to banks.

H3: Loans disbursed to farmers are not sufficient for the execution of the projects and often off-seasonal.

H4: Bank faced with high credit risk is likely to experience loss of public confidence.

Hopes were also expressed that the findings of this study shall contribute in no small measure to the existing knowledge and enhance the achievement of the overall goal of organisational effectiveness.

In the second chapter, related previous works or writings were reviewed. Issues written in respect of the topic by scholars were reviewed such as definition of credit risk, types of credit risk, causes of credit risk, danger

Signals of credit risk, canon of good lending, securities and collaterals considered by most banks and finally credit risk control and administration.

The third chapter reviews the historical background/establishment of Nigerian agricultural and co-operative bank. The bank was established in 1972 and was formally launched in March 1973. The bank as at December 1994 has 62 branch offices spread in all the states of the Federation with 7 zonal offices, which takes care of the branches. The organizational structure of the bank was examined i.e. head office, zonal office and branch office.

The fourth chapter, a quantitative analysis of the study was presented. Individual responses to the instrument of study were related to each other to enable us test our hypotheses. There was also the interview conducted with the head of credit department. Evidence before us suggest that two of the hypotheses were accepted, while two were rejected. In this analysis, it should however be noted that about 100% of the data collected and analyzed were through the questionnaire administered to customers of the bank (beneficiaries) and management of the bank.

The fifth and final chapter presented a chapter-by-chapter summary of the entire project. In addition, a section was also dedicated to the summary of the findings and conclusion of the study and hope that if adopted could reduce credit risk for banks.

5.2 CONCLUSION

It is a fact that credit risk arises as a result of untimeliness, loan diversion, poor Supervision, incomplete knowledge of customers' activities, poor analysis of financial data, financing of unviable projects. The bank should as much as possible try to avoid this listed problems. It is also our discovery that most of the clients default in repaying the loan as a result of diversion of the loan for other purposes which is as a result of no adequate supervision by the bank which result to credit risk to the bank. It is also our discovery that due to lack of collateral securities required by banks people are refused loans in order to prevent against possible default. Also bank faced with high credit risk is likely to experience loss of public confidence.

Finally, we discovered that loan beneficiaries have an attitude that is deliberate attempt to default i.e. most borrowers have a general belief that banks loans are part of the national cake that need not be repaid.

5.3 RECOMMENDATION

Based on the findings and conclusion of this study, the following recommendations are proposed in order to Minimise loan repayment default.

5.3:1 The viability of a project should ideally be an adequate security in granting loans to finance such projects, but the emphasis among our banks is the collateral securities that could be pledged by the customer. This is to pledge against failure of the projects to provide the derived returns if banks could do a critical analysis of the project proposal at the beginning there would have been a high degree of probability that such should be able to meet its loan portfolio obligations from returns with out the bank resorting to redeeming these loans from the collateral security pledge.

At the onset the bank should analyse the loan request to establish all the possible hazards that may surround the proposal in an effort to determine whether or not the loan could be repaid in the ordinary course of the business without any recourse to the disposal of the collateral pledged. An infinite variety of detailed information should be obtained at the initial stage of the loan request before an informed assessment of the loan proposition could be made and the more proper decision reached

This information could be obtained from the borrowers feasibility study. This analysis of these array of information should be able to reveal the purposes for which the funds are needed, how long it will be before the advance is repaid, the source from which the repayment is to flow, where he will require security from the borrowers and if so, whether there is anything acceptable available.

5.3:2 Also, the honesty and integrity of the borrower must not be in doubt. The reliability of the customer may be assessed from any previous facility enjoyed by him from the bank.

5.3:3 Status reports should be obtained from other banks within the locality where the borrower is residing; Information could also be obtained within his locality or business associates.

5.3:4 Also, the bank should look at the profile of the main promoters and or directors of the borrowing firm. This will give an insight into how the project would be managed when it finally takes off. The promoters' knowledge of the project they are going into would give an indication whether they could tackle any problem that might arise from the project from time to time and also is able to employ the right staff for its operations. Therefore the bank should place emphasis and possibly monitor the kind of staff recruited for the project.

5.3:5 The bank should compensate staff that successfully appraises projects that eventually lead to full loan repayment at maturity. This could be in the form of improved emoluments, upliftment in position or other packaged reward system.

5.3:6 Therefore, there is need for the bank to monitor disbursement of the funds at every stage of the projects development. This would eliminate the incidence of diversion of funds to unviable and unnecessary projects. The bank should continue its monitoring role and give the desired financial/technical advise to the client at least uptill the time the project is able to liquidate its loan obligations.

5.3:7 The bank should establish and maintain a computerized system of their loans to promote good record keeping as regards adequate information on the borrowers, default cases, rescheduling, changes in interest rate among others. Computerisation of credit delivery and debt service records will ensure sound database, which is fundamental to efficient management of agricultural debt problem.

5.3:8 There is the need for the bank to have a continues training for its staff so that one operate within the guidelines of the bank's philosophy as good credit analysis. Credit officers should on a regular basis be informed of changes in regulations and status as they affect the loan policy of the bank.

5.3:9 There is also the need to educate loan borrowers, that loans are not gifts. Officers of the bank are first to take this issue serious and discourage loan borrowers who bring gratification.

5.3:10 Where matters are beyond the control of a client such as fire, burglary and holocaust which may affect his operation and cripple the projects, hence it is important to emphasize prompt renewal of these policies, the bank must plan ahead and if adequate research and development has been done, the bad consequences associated with the above changes could be prevented.

In the case of accumulated debt which is unrepaid, the following measures could be adopted: -

(a) A special loan recovery team should be set up by the branch, which will visit all defaulting clients on regular basis.

(b) Solicitors should be engaged in this task of recovering the loan from the clients.

(c) The use of auctioneers is also being recommended.

Finally, it is hoped that lending officers should try and implement majority of the recommendations given above in order to reduce the incidence of credit risk, which is the main reason why big organizations especially finance houses, are crumbling now and then.

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APPENDIX I

Department of Business Administration,
Ahmadu Bello University,
Kongo Campus,
Zaria.

Sir,

QUESTIONAIRE FOR THE LOAN BENEFICIARIES OF NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED. MINNA.

I am an MBA Student of the above named Department, undertaking a research on credit risk in the Banking Industry, a case study of Nigerian Agricultural and Cooperative Bank Limited Minna.

The research is purely an academic exercise, so all information provided by you will be strictly kept Confidential .

1. Sex
(a) Male (b) Female

2. Marital Status
(a) Single (b) Married

3.Age:_____

4. Level of Education
(a) Illiterate (b) Primary Certificate (c) Secondary Certificate (d) Tertiary

Certificate
5. Are you one of the loan beneficiaries?
(a) Yes (b) No

6. Did you present collateral securities while seeking the loan?
(a) Yes (b) No

7. If yes what type(s)_____

8.For how long is the period of the loan?
(a) 1 to 12 months (b) 6 to 12 months (c) 1 to 3 years (d) 4 years and above

9. Was the loan processed and disbursed to you on time?
(a) Yes (b) No

10. Were you given the amount you requested for?
(a) Yes (b) No

11. Are you satisfied with the loan given to you?
(a) Yes (b) No

12. Did you employ the amount given to you to execute your intended project?
(a) Yes (b) No

13. If no, specify the reasons _____

14. Have you ever defaulted by exceeding the loan period?
(a) Yes (b) No

15. If yes, what are the likely reasons for defaulting?
(a) Untimely processing/disbursement (b) loan inadequacy (c) inadequate supervision (d) specify others

16. How can you assess the activities of NACB LIMITED Minna branch with regard to?
Lending?
(a) Very successful (b) Successful (c) Fairly good (d) Bad

17. Do you still have confident in the overall performance of NACB Ltd. Minna branch?
(a) Yes (b) No

18. If no, specify the reasons:_____

APPENDIX II

Department of Business Administration
Ahmadu Bello University,
Kongo Campus,
Zaria, Nigeria.

INTERVIEW CONDUCTED WITH THE HEAD OF LENDING OR CREDIT DEPARTMENT, NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED MINNA BRANCH.

Sir,

1. What is the actual total amount approved by the branch office from Inception to date?

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2. How much has been disbursed from Inception to date?

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3. What is the loan period for your various project?

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4. Do you consider collateral securities before advancing a loan?

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5. What are the types if yes?

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6. How would you assess the performance of your clients towards loan repayment?

486111

7. What are the reasons for the clients' defaults in paying back the loan?

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8. It has been said that the loan amounts granted to clients are not sufficient and often off seasonal, which leads to their defaults, do you agree?
