TITLE PAGE

CREDIT MANAGEMENT POLICY OF COMMERCIAL BANKS IN NIGERIA:

A CASE STUDY OF HABIB NIGERIA BANK LTD

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DECLARATION

I hereby declare that, this research project is a result of my initiative and it has been written by my self. It is indeed, purely my research work.

It has never been presented in any previous application for a higher degree to the best of my knowledge.

All other materials used has been duly acknowledged.

NAME OF STUDENT	SIGNATURE	DATE
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APPROVAL PAGE

This Project Titled CREDIT MANAGEMENT POLICY OF COMMERCIAL BANKS IN NIGERIA (A CASE STUDY OF HABIB NIGERIA BANK (PLC) By MR. GABRIEL GOYI KURAH MADAKI has been read and approved as meeting the requirements of the Department of Business Administration, Ahmadu Bello University Kongo – Campus, Zaria for the award of Master Degree in Business Administration.

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DEDICATION

This research work is dedicated to my Late Father Mr. Kurah Madaki and Mother Mrs. Goyi Kurah Madaki who both contributed to my learning and gave me all the support required.

May God everlasting Blessings remain their portion. Amen.

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...S..IM IBRAHIM ...

ABSTRACT

This research is on credit management policy of Nigeria commercial banks. Credit which forms the greatest portion of commercial Banks' assets need to be properly managed to ensure the continous survival of the industry.

As a positive step towards sustaining the industry, there has to be in place well articulate policies regarding credits that should guarantee their viability.

It would be recalled that in the late 80's and early 90's the banking industry experience a boom in business, but shortly after experienced a period of recession and outright failure that led to the closure of some Banks in the country. The general cause of the early 90s massive banks failure was attributable to poor lending policies.

It was for this reason that this study was conducted to verify the how genue this claim is and see possibility of suggesting improved lending policies to enable achieving viability for the industry as a whole and the economy.

However, after conducting the study, it was discovered that,

Most banks have good credit policies on ground, but the actual problem lies with the issue of management.

Frequent changes in government economic policies tends to have cyclical effect on the management of Bank credits.

It was on the basis of this that the following recommendations were made:-

a. Credit managers need to be adequately trained.
b. There is need for a comprehensive insurance policy to cover the total credits and minimise risk.
c. Interest rate policy should be such that, they are attainable to willing and able borrowers to minimise risk of default
d. Granting of interest discount/waiver should be encouraged.

e. Changes in economic policies should be in line with the need of the financial institutions.

f. Credit planning should become an integral part of banking and national planning. The economic plan must have a counterpart of the credit plan worked out by the CBN in co-operation with the bankers' committee.

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CHAPTER ONE

1.0. INTRODUCTION

The Banking Industry plays a vital role in the economic development of a nation and hence the need to analyse the importance of credit Management Policy of the Nigeria Commercial Banks as it is their major function and as most earnings comes from interest generated from loans and advances to customers. The neglect of this crucial aspect has led to the failure of many commercial banks in the country in recent times, among which are; Allied Bank of Nigeria (A.B.N) Co-operative and Commerce Bank (CCB), Commercial Trust Bank (CTB) and many others, to mention but few.

It is an open fact that many Banks have been ruined for lack of good credit management policy. Effective credit management offers opportunity and ability to study and monitor not only the draw down of such facilities, but to the point of recalling such facilities. At this stage it is ideal to mention that for any meaningful studies to be conducted on credit management policy of commercial bank three areas should be considered which shall include the various lending policies, recovery policies and management of hard core credits or bad debt upon which better approaches are suggested for adoption by the commercial banks to ensure that, management of credits are made sound and efficient to avert future failures in the Banking Industry responsible by this aspect. Hence the Nigerian commercial banks are usually limited company operating for profit under the companies and allied matters Act, Banks and other financial institutions decree (BOFID),though a few of them are unlimited companies and still carry on

banking business. The commercial banks in general may be broadly divided into three categories viz:-

(a) Banks of deposit or retail banks

(b) Merchant banks

(c) Industrial banks.

All these banks are involved in the business of extending credits/advances and becomes purely the main focus of their operations and are faced with the task of managing it well.

.1. PURPOSE OF STUDY

The research work is aimed at studying the strategies employed in managing credits in commercial banks and to also suggest appropriate strategies that will improve and enhance the efficiency of banking operations through effective credit management.

In trying to achieve the above foregoing, the work will be tailored such that, the analysis will covered those relevant variables that are needed to establish effective and sound credit management policies and the best ways of operating them to optimum benefits.

The research work is also designed to find out problems and challenges that comes-up while managing credits and the best possible ways to go about avoiding or solving the problems. By this, it can be infer that, the research work is aimed at recommending solutions for problems that has always arose while managing credits.

1.2. SIGNIFCANCE OF THE STUDY.

This project work is significant because of:-

(a). The gradual increase in the use of credits as a major means of business in the banking industry.

(b) The growing distressness in the banking sector as a result of poor lending.

(c) The need to ensure bank -customers commitment and obedience to the credit principle of trust.

1.3. STATEMENT OF PROBLEM

Bank credits generally are based on the principle of trust, that is, a customer who receives a bank loan have to commit future income for its repayment. Observance of this principles enable the banks to strike a balance on the flow of funds.

In an ideal situation the flow of funds should be such that it will not only exceed the outflow of funds, but be sufficient to cover cost of operations. Where this is not the case, the Banks will suffer funds shortage or finance being tied up in receivables.

Habib Nigeria Bank Ltd is fortunate not to have suffer the above situation, but her loan defaulters seems to be on the increase and this situation has been the major course of so many banks failing in the recent past years. The issue to be considered therefore is what can be done to minimize the degree of default and possibility of improving on current policies. Moreso, there are other profitable activities that the bank can use the funds tied up in customers hands to the satisfaction of the organisation.

1.4. SCOPE AND LIMITATION

SCOPE:-

The research work is based on Habib Nigeria Bank Limited with its national Head Office in Kaduna. Information used will strictly be those obtained at the Bank's Head Office and where necessary, branches within Kaduna.

LIMITATION:-

No matter how carefully designed, a research work of this nature is not without limitation. In this study, the major limitations include:-

i). **COST OR AVAILABILITY OF RESOURCES**

Habib Nigeria Bank Ltd, has five (5). Area offices located in various towns of the federation and they all process application for loans of specific limits. Contact to these locations was hindered because of cost of doing so.

ii). **TIME**

For the fact that survival has been the major quest of life couple with the need to enhance the career, it has not been easy to cope with the limited time after office hours.

iii). The secrecy surrounding the bank operations has also hindered the full co-operation of the bank staff.

Other limitations include:-

a) Biases in answering questions by respondents.

b) Possible existence of sample error as used.

1.5. HYPOTHESIS

This research is designed to analyse the credit management policies of Nigeria commercial Banks with particular reference to Habib Nigeria Bank (HNB) Ltd and the hypothesis would be that:-

HYPOTHESIS I: The lending/credit management policy of Habib Nigeria Bank Ltd as practiced can be improved upon.

HYPOTHESIS II:- The credit recoveries policy of the bank as practiced is not quite effective and may not be up to established principles, standards and strategies.

HYPOTHESIS III:- That relevant modern credit management policies can be adopted for un-recovered debts/hard-core debts or bad debts.

1.6. DEFINATION OF TERMS:-

CREDIT:-

According to Gubellini and et –al (1978) described the word credit as being a derivative of Latin word which means "to believe" or "to trust". He further said that "it is the time allowed for payment for goods and services already delivered"

As for Stella Williams (this day, Tuesday, Dec. 14, 1999 pg 26) defined credit as "encompasses all loan and advances granted to borrowers to finance and supervise production activities of an enterprise and also for processing, marketing storage, distribution of products resulting from these activities"

MANAGEMENT:-

According to the Welter's new collegiate dictionary "It is the act or art of managing, the conduct or supervising of something (i.e business). Stella Williams (1999) concluded that, "it is the judicious use of means to accomplish an end"

CREDIT MANAGEMENT

Credit Management in relation to Habib Nigeria Bank Ltd involves:-

i. Planning for credits.

ii. Determining individual customers risk.

iii. Handling collection and

iv. Maintaining personal account of customers

It is therefore concern with the granting and collection of credit.

COMMERCIAL BANK

It is a financial institution that transacts principally in short term funds and has a basic function of accepting deposits and lending money for business.

BANK CUSTOMER:-

A Bank customer is any person who opens an account and maintains that relationship with the bank.

BANK LENDING:-

This has been define as the act of letting customers to have or use for a time or to give the use of money for a fixed or specified amount of policy.

CREDIT ANALYSIS.

It involves the process of determining willingness, need, ability of a borrower to repay facility in accordance with agreed terms.

CREDIT COLLECTION:-

Are those modalities set by a bank for getting back all monies loaned/advanced to customers.

CHAPTER TWO LITERATURE REVIEW

2.0 INTRODUCTION.

In order to effectively discuss the topic credit management policy of Nigerian Commercial Banks, it is worthwhile to establish some important theoretical frame -work that will form the basis of the research work.

In chapter one, we attempted giving some definitions to some terms, but in this chapter, we are going to make some in-depth analysis.

2.1. BANK

Over the years, it has been a difficult task of find an acceptable definition of a bank or banker. According to J. N. Gilbert (1978), he defined a Banker "as a dealer in capital, or more properly, a dealer in money, He is an intermediate party between the borrower and the lender. He borrows from one party and lend to another". It will be observed that, this definition emphaze the two traditional functions of banks and that is mobilization of deposits and the granting of loans and advances.

DR. Herbert Hart (1931) in his law of banking described a banker or bank as "a person carrying on the business of receiving moneys, and collecting drafts for customers subject to the obligation of honouring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts".

In Nigeria prior to 1952, several bank failures and losses were reported and that necessitated the setting of the Paton commission in 1948. The Paton

commission defined Banking as "the business of receiving from the public on current account money which is to be repayable on demand by cheques and making advances to customers".

2.1.1. COMMERCIAL BANK SERVICES

G. O. Nwanko (1980) in an attempt to analysed the services offered by the Nigeria Commercial Banks identified the following as the services offered:-

i. Mobilization of savings and other deposits
ii. Extension of Credit facilities to customers.
iii. Providing facilities for the transfer of funds.
iv. Management of customers', investments and advising on insurance matters.
v. Creating Money.
vi. Providing facilities for the financing of international trade.
vii. Safe keeping of valuables.
viii. Providing foreign exchange facilities for travelers.
ix. Providing right safe facilities.
x. Providing business statues reports and references.
xi. Business advisory service

2.2. CREDIT POLICY DEFINED

Credit facilities are generally accepted business term which creates sales and sustain goodwill. For the goodwill to be sustain there most be defined polices. According Koontz et-al (1982) policies are identified as guide to thinking in decision making. Professor Osazie (1991) sees policy as "an internal administrative law governing executive actions within the organisation. Policies do not requires action but are intended to guide managers in their

decision making. From this view point, Bank credit policies or lending policies are seen as a set of procedures, manners, ideas that guides a Banker's credit decision.

2.3. CREDIT MANAGEMENT:

At various times over the years, the banking industry in Nigeria have had to cope with different types and forms of difficulties, all in a bid to record and sustain what one may call impressive performance. We have seen at times the removal and later re-introduction of ceilings on interest rates.

According to Acheje (1994), he maintained that, "although Banking institutions have many sources of revenue, the greatest revenue source is the granting of credit facilities to its customers.

The instability in government policies and guidelines in respect of Bankers' tariff has made Banks to fall back to credit more than any other source" As a result of this, he further stated late 1985 that "..... The liability to manage loans and advances to customers has marked the problems for many Banks.

The principal issue here is, what then is credit management all about? According to Dobbin et-al (1988) credit management is "The management of trade debtors" According to him, the debtors shown in company's balance sheet relates to stock at selling prices for which payment has not yet been received. He maintained that, for any level of cash flow, there is a preference for a minimum level of investments in debtors to maximise the market of the firm.

Isu (1991) in his write up when discussing the closure of National Bank of Nigeria maintain that, " ..... Perhaps, if the Bank had created a credit

management department, made it adhere to loan portfolio policies the bank may never have been distressed and finally shut down"

Although, all these points to the fact that credit management plays a much stronger role in bank performance than the results as the Adekanya's survey further accorded. In as much as management efficiency, Asset quality, capital adequacy and liquidity are important factors in the survival of banks, credit policies should not be relegated to the background as this could prove to be suicidal. Credit management policies should be taken seriously.

According to Ade T. Ojo and Wole Adewumi (1982) in their finance book "Banking and finance in Nigeria" loan and advances are very important to any bank for three reasons.:-

- From the point of view of the Bank it is the largest source of income.
- For both the bank's environment and the country at large, loans and advances can make a significant impact on the level of economic activity.
- The money being lent is depositors money.

It was based on conclusions of this nature that Stella Williams (THIS DAY NEWS PAPER TUESDAY, DEC. 14 1999 PAGE 26) defined credit management as "the act or art of managing, conducting, or supervising loans and advances granted to borrowers to finance and supervise production activities so as to ensure their judicious use".

Recent information obtained on various aspect of bank's performance in Nigeria, especially the perceived role and important of such factors as

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liquidity, credit management, management efficiency and capital adequacy, A frequently analysis of the survey reveals that, over 80% of the Bank's assets quality and managerial efficiency are major determinants of Banks performance. 60% 67% of the respondant Banks identified capital adequacy as critical for Banks performance. An equal percentage 67% of Banks noted significance of Bank liquidity. For credit management only 25% were of the view that it is critical as a determinant of Bank performance and for all other factors, less than 40% of the respondant banks identified significance for sound Banking performance. One can therefore rank the factors in order of importance. Consequently credit management will be the fifth position. In view of this; many other writers on this topic disagree with this ranking and argued that, credit management in banks should be taken more seriously.

2.3.1 CREDIT MANAGEMENT POLICY.

For efficient and sound decision on lending, there most be prescribed procedures that would guide the art of managing, conducting or supervising loans and advances granted to customers or potential borrowers. The establishment of such policy marks the begin of success in any lending practices. Adewumi (1982) enumerate the following as point for establishing credit policy.

1. Identifying relationship of customer with the bank, however, he maintained that, in the case of Nigeria it is not possible to consider a loan without being a customer.
2. The overall credit amount for the company and sectoral considerations.
3. Well defined collection procedures and the various sources where possible.

4. Having a discount policy for specific levels of performance.
5. The maximum duration of credit against the liquidity position of the Bank.
6. Scoring the credits based on established principles.
7. Having a system generating accurate and reliable accounting data to enable periodic reports on the general performance of the facilities.

The composition and quality of a bank loan should be a reflection of its loan policy. It is the policy that sets out the bank's lending philosophy, and specify procedures and means of monitoring activities. As professor Osazie maintained, he said a policy serves to give guidance and focus to the lending action, hence the direction must be ensured and clear to the executives. A sound credit management policy permits:-

- Profitable investment of available bank funds
- Enhance the extension of legitimate credits that generally meets statutory requirements and other needs of the market.
- Makes collection of the facility easier.

2.4. CREDIT CONTROL PROCEDURES:-

This is the checking of practices against prescribed principles and the principles are reflected in policies.

Ibitoye (1985) maintained that, the policies should be in clear terms and should include:-

a. **Authority to grant credit facility:** The officer with an authority to grant credit should be clearly stated or designated. The authority prescribed should be by function. Having designated officer and functions prescribed, the level of credit each authority can give should

be indicated clearly. The chief executive could be authorised to approve any credit level while certain amount could be authorised by the sales heads.

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

c. **Credit collection:** All credits granted most be collected or recovered and in most cases it will be at the time customers or borrowers will be unwilling to pay as earlier. In a case like this, it is important for the management to set out policies on what to be done should a borrower proves difficult. Ibitoye (1985) further opined that procedures for taken actions should be outlined so that when exhausted, other means can be resorted to.

This however, has to be done with caution so that the good will of the company is not tarnished. It is important to emphasize over the measures rather than resorting to unusual legal battle. Adewumi (1982) recommend some positive attitude just as BIRD based on skill and preparation which must require some careful thought in the consideration of whether or not, at this time the debt should be chased. They share opinions that, all credit facilities should have:-

i) **Age list:-** This shows a comprehensive list of those owing, the time length of the outstanding and supposed maturity periods. It

further serves as part of the cash flow forecasting scheme. It helps to avoid long outstanding debts being over looked or even forgotten altogether.

ii) **Age list with higher amount:-** This is the process of identifying those with debts outstanding for more than 90 days and drastic actions are taken. Such actions include legal and otherwise, however, the amount most be high enough to warrant legal action else it will be unrewarding.

d. **Bad and Doubtful Debt Provision:-** There should be sound accounting practice for provision to be made for any debt considered doubtful to collect. The company policy is essential for the provision of doubt debt. The guideline according to Ibitoye must spelt out at what stage of debt collection process should element of doubt be entertained, and who should be responsible for authorizing such provisions.

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

2.5. COLLECTION POLICY:-

When customers fails to pay an invoice on the due date, it is often our natural reaction to think in terms of legal action. Collection policy is the second

aspect of credit management system. From the credit analysis, one can see that management begins even before the credit granting. It stills continues even after the facility has been granted. It must be emphasized that, the use of legal means in credit management should always be the last resort since we do not want to loose our customers. The collection policy should include established procedures and all that can be done should a debtor is unable to pay a facility as it falls due.

Kochn, Santomero, Dobbins (1988) suggested some specific procedures to be adopted on credit collection, as follows:-

i). Polite reminder.

ii). Strong worded reminder through letter.

iii). Personal visit

iv). Telephone calls and threatening letter(s).

v). Use of collecting agencies and professionals.

vi) Legal action.

vii) Credit restriction.

viii) Use of telegram.

ix) Cash reward for collecting agents.

According to Gubellini (1978) the system used to collect credit obligations depends on a number of factors but chiefly on the customer, the competition, and the profit.

a. **The Customer:-** According Gubellini (1978) the same collection system can not be applied to good and poor credit risks, to regular and infrequent customer or to private and institutional buyers.

b. **Competition:-** If competition is severe, credit collection, is likely to be lenient, just as credit terms are likely to be more lenient. Credit and collection terms are competitive devices that may have important effects on the volume of business.

c. **Profit Margin:-** the collection system adds to the cost of business operation, and this cost most be balance against risk of losses from non-collection. It is uneconomical to press strongly for collection in cases where the added cost of doing so is greater than the loss in non payment.

2.5.1 CREDIT TERMS

Professor James C. Van Horn (1986) and Gubillini and et-al (1987) accorded that, credit terms refers to the methods of payment, in particular the time at which payment must be made and the amount of the payment. They specify the following as credit terms but all depends on – company's relationship with customers and the kind of products sold or services. but generally the following are identified:-

(a) **Credit Period:-** Van Horne identified this as achievable with the use of incentives like discount depending on the length of the credit period. Specific discounts is given, if the bill is paid earlier than the maturity date of the bill. For instance " 2/10 , net 30 interpreted as you receive 2% discount if payment is made ten (10) days earlier before the (30) thirty days maturity period.

(b) **Discount Given:-** Van Horne further maintained that, varying the discount involves an attempt to speed up the payment of receivables. He said the discount may have an effect upon demand and upon bad-debt losses. He assumed that, the discount should not be regarded as a means of cutting price and thereby affecting demand, and that the discount offered does not affect the amounting of bad debt losses.

(c) **Seasonal Dating:-** According Van Horne (1986), during periods of slack sales, firms will sometimes sell to customers without requiring payment for some time to come. The seasonal dating can be tailored to the cash flow of the customer and may stimulate demand from customers who can not pay until later in the season.

2.5.2 CREDIT INSTRUMENT/GRANTING

Gubellini (1978) sees credit instruments as evidence that credit has been granted. The evidence classifies or describes the terms of the transaction. He identified three main credit instruments as follows:

a. The open account or book account
b. The promissory note
c. Trade acceptance and letters of credit.

All above are the most commonly used.

The Open Account or book account:- According Gubellini (1978) it is the oldest and the simplest instrument. It shows evidence that credit is being extended by means of an entry or entries in the seller book. Once agreement is reached, goods or services are exchanged and the buyer is indebted to the

seller. He further maintained that the open account is extremely flexible and that is, its main advantage. It is relatively simply and inexpensive to maintain. But the very flexibility of open accounts can also be a disadvantage, open to abuse.

The Promissory note:- Gubellini says it is an unconditional promise to pay a specified sum of money to a specified person at a definite future date. The promissory note is always written and signed by the maker.

According to him, poor credit risks may sometimes obtain credit by persuading a good credit risk to guarantee payment by cosigning the promissory note. Should the buyer default, the cosigner is of course liable for the amount due on the note. A promissory note may be used when a customer requests and is granted an extension of the payment date for goods or services already delivered. The promissory note, signed by the debtor, establishes the new date of payment.

The trade acceptance:- Gubellini maintained that, it is "a draft drawn by the seller against the buyer for the amount of credit extended to him" according to him, it directs the buyer to pay a specified amount to the order of the seller at a specified date. The buyer accepts the terms by signing the face of the draft and indicating the bank or other location at which payment will be made on the due date. The obligation to pay is then absolute.

Letter of credit:- Under this arrangement, an indigenous Bank acting as agent for a foreign Bank uses a letter of credit to indigenous exporters. Under the terms of the letter of credit, the exported presents his draft, which is an order to pay, to the indigenous bank and receives payment for the goods which he is exporting to the foreign customer.

2.5.3 SOUND SOURCES OF CREDIT INFORMATION:-

According Gubellini (1978), sound credit decision must be based on adequate information. When the financial status or previous credit experience of the buyer is known, the credit manager is likely, to make a wise decision about extending or withholding credit. In fact it is hard to see how any decision can be made without this information. The safe extension of credit has been limited, until these days, by the ability to get accurate credit data. However, the availability of the computer is finally being felt in the credit bureau industry and computer systems designed to provide immediately available credit data on individuals are increasingly becoming available. Many sources of credit information are open to the credit manager, and some of the important ones are as follows:-

a). **Banks-** Banks can supply information about a customer's financial status, such as his account balance, his performance with regard to credit the bank may have extended to him in the past and other pertinent data.

b). **Other Financial Institutions:-** Often, a direct or other form of exchange of information between Banks and other non Bank financial institutions will provides essential information about prospective customer.

c). **Mercantile Agencies:-** Some professional private firms can supply information about any business that makes use of credit.

d). **Credit Bureaus:-** Local branches of the credit association will provide information regarding the manner in which an individual has met his obligations in the past.

e) **Sales reports:-** Sales people often come into close contact with customers and may acquire information of use to the credit department. Such information be verified, of course, before they are acted upon, as should any informal credit report.

f) **The Customer:-** The application forms, and interview can supply the basic information about a customer's credit, such as, his financial position and references.

g) **Miscellaneous:-** There are other loss formal sources of credit information. Newspapers, annual financial statements, records of legal proceedings etc may provide the astute credit manager with information he can use in his work.

2.6 NATURE OF DEBT MANAGEMENT SYSTEM

Policies relating to debt management differs from one firm to the other. Some companies have much preference for cash transaction, while others deals almost entirely on credit terms.

Credit management has become an important feature of the business scene because of the great increase in credit sales in recent years. Business encouragement of credit buying has promoted a vast flow of goods and services through the economy and in many ways the present total volume of business activity depends on the smooth flow of credit operations.

Credit Management is aimed at allowing practicable Naira value of credit sales while expending a minimum for collecting accounts that is, minimizing both the losses from bad debts and the cost of credit operation.

Credit Management, like all other aspects of business, must strive for efficiency. Hence, generally, debt management system is made up of two parts, namely:- (a) Credit analysis (b) Collection system

In practice, a department might be assigned the responsibility as the credit management department or as the case with some banks, risk assets management (R.A.M.) department.

2.6.1 CREDIT ANALYSIS.

The credit analysis forms the main bulk of the debt management system and is concerned with the decision on whether or not to grant a loan or advance and on what terms to grant the facilities.

According to Gubellini and et-al (1978) he maintained that, "Credit analysis begins with the collection of relevant data to the credit standing... The information may consist of Balance sheet, income statements, bank statements, other financial reports, as well as letters of reference, reports from credit agencies and bureau etc. these data give the credit manager a picture f the applicant's credit history and current credit status. Using the information, the credit manager evaluates the risk involves makes the decision to grant or withhold credit.

Ochejele (1994) also hold views similar to above as he maintained that credit analysis presents an interpretation on a company's financial standing and how to arrive at sound and valued assessment of the risks inherent in the lending agreement with a given company. It is therefore an invaluable tool for any financial organisation committed to developing a vigorous approach to corporate lending.

2.6.2 PARAMETERS FOR SOUND CREDIT ANALYSIS

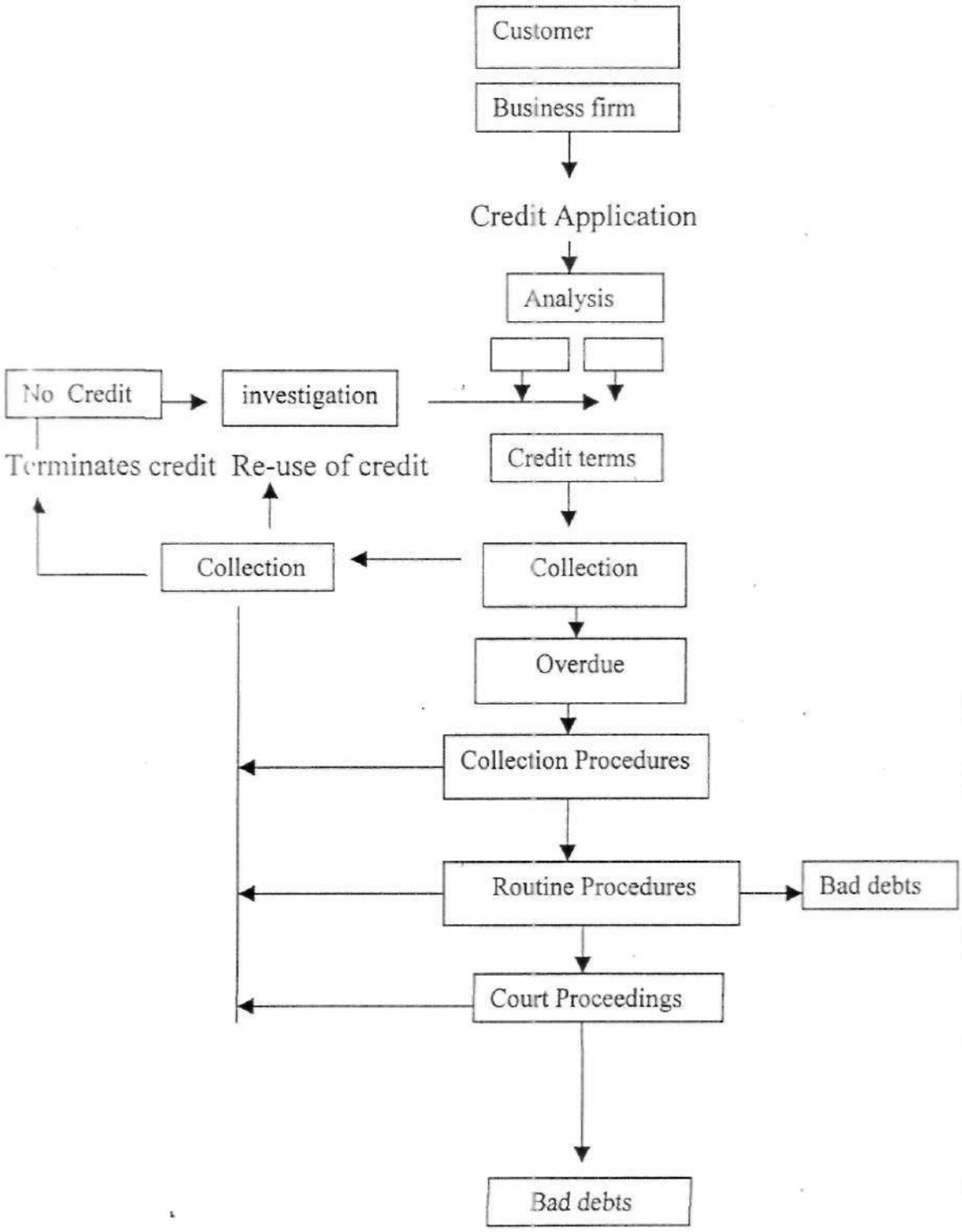
In order to attain the stage of full credit analysis, certain parameters are necessary. They will serve as the necessary ingredient, for the analysis to be carried out. To obtain such information, the credit officer would have to make contact with customers or ask him or her to fill a form containing the questions for the data needed. In many cases, customers application are found to be deficient of certain vital information which would influence management decision. Thus, the need for corroborative data calls for the above techniques for the purpose of data generation to be used for the analysis of the proposal.

The general lending consideration in must banks has now been so standardised that, there's need to take new ones.

Area of focus for which information is required include:-

- Nature of business.
- Character of customer
- If a corporate body, the mandate of the company in relation to the memorandum and article of association.
- Amount being requested
- Tenor or the period for which the facility will last.
- Government credit guidelines and other regulatory policies governing lending in the economy at that time.
- Repayment programme in relation to the viability of the business.
- The general performance and operations of the customer's account.
- Profitability or prospects of the business.

All the above information sources will enable effective debt management below is a presentation of the entire debt management system/cycle



DEBT MANAGENT CYCLE

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2.6.3 CREDIT ANALYSIS FORMAT.

The actual format for credit analysis varies from bank to bank, there are common strands that runs through them. According to Achejele (1994), some of the common features are:-

(i). **Corporate profile of the customer;**

This is an aspect that deals with the nature of the business which has to be properly identified taking cognizance of the ownership structure of the business, year of incorporation, share of capital, its products/services and location.

(ii). **The character of the promoter, and Management team in the case of companies.**

Issues to be addressed here include the individuals that constitute the promoters and management team of the company. In the case of public liability company, the list may not be so extensive and that only outstanding individuals may be identified. The company's article and memorandum of association can assist in identifying the promoters while highlighting the respective management personnel, such as the managing director, chairman. the accountant etc. It is pertinent to give their brief biographies indicating their qualifications and experience to show the level of their competence/managerial abilities on the job.

(iii). **Amount and purpose**

The analysis of this section is very important to show the relevance of the request to the amount requested. In some cases, some customers' requests are far in excess of the purpose and vice-versa in addition,

purpose for the facility should be strictly in conformity with the central Bank of Nigeria's sectural credit allocation guidelines.

(iv). **Sources of repayment /Tenor**

The analysis of repayment should explicitly specify the possible primary and secondary sources through which cash flow can be generated to ensure that the facility is paid off duly. The tenor refers to the pre-determination of life span of the facility within which the amount is expected to be fully repaid. In the case of overdraft, the account is expected to record positive balance at the end of the tenor. A deposit account, increases at regular installments is also held to foster repayment at the end or at the expiration of the tenor of the facility.

(v). **Security.**

Although Bank facilities are not extended to borrowers on the basis of availability of security perse. Security is desirable as insurance against unexpected development that may jeopardize the safety of the lending.

A security should therefore posses the characteristics of relative stability or appreciating value, readily realisable easily transferable and the Bank should not incur unnecessary liability.

The following are the acceptable securities.

(a). Legal or equitable mortgage over landed property or share certificates.

(b). Debentures over fixed and floating assets.

(c). Life insurance policy

(d). Guarantees – which could be personal, Bank insurance etc.

(e). Lien over accounts

(f). Stand-by letter of credits.

(vi. **Market/Industry completion.**

There is need for analysis of the market structure in which the firm operates, taking cognizance of the chances of its survival as well as strategic options opened to it. Is the firm a market leader or market follower – is the firm a pace setter? Is it a small or giant firm.

(vii) **Financial Analysis:**

A thorough evaluation of the client's financial position is of paramount importance. For an effective comparative analysis, a minimum of three (3) years audited accounts including current management accounts of the company should be obtained, analysed and spread for a clearer understanding of the company applying for a credit facility. Analysis of balance sheet will also show the company's current assets, current liabilities working capital and the gearing or the leverage position of the company. Various ratios are employed to determine these positions.

(viii) **Financial Spread**

The function of this analysis is to give a guide. Visual impression of the finances of a given company.

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(ix). **Profitability analysis.**

This section deals with analysis of income to be earned from the transaction. Such income is derivable from interest charges, cost of

turn over (C. O. T.)and other tariff charges such as management fees, processing fees etc. these should be evaluated against the Bank'' exposure and cost of funds. thus, the returns on investment can be computed to determine how viable the transaction is.

(x). **Risk Analysis**

These risks could be market risk or credit risks. Market risks may take the form of:-

a. Decline in demand for the goods or services to be produced.
b. Intensive competition from rival firm
c. Government fiscal policies that may be at variance with optimal productivity etc.

While credit risks include such factors as:-

a. Non – availability of repayment sources.
b. Insufficient cash flow.
c. Inadequate collateral and other factors emanating directly from the system.

If it can be shown that the degree of risks is so high that risks can not be mitigated, then an obvious case of declination becomes inevitable.

Some of the findings resulting from the analysis should be implemented prior to the disbursement of the facility. Such condition are:-

- Execution of the legal documents such as the agreement forms, guarantee forms, letters of the set off.
- Perfection of collateral.

Banks policies regarding the standard credit analysis format varies. However, the above issues are those considered indispensable to most Commercial Banks. The highlights are however by no means exhaustive, rather they serve as useful guide for credit officers to ensure proper initiation, processing and packaging of credit facilities credit analysis is particularly important in influencing management decision. It therefore call for objectivity and precision, as wrong analysis would result in a wrong decision.

2.7. GOALS OF CREDIT MANAGEMENT

The basic goal of credit management is to maximise the value of the firm by achieving a trade –off between liquidity and profitability. It is therefore aimed at achieving the highest result. This calls for efficient and effective credit management.

The credit management of an organisation is efficient and effective when the credit manager is able to reduce cost of investment in receivable and at the same time an optimal level of sales debtors.

There are lots of external and internal factors that comes to play in reaching an efficient and effective credit management policy. External credit management policies includes what obtains within the industry, that is the position of the organisation in the business circle and the general competition in the industry.

2.7.1 CREDIT RISK

Credit risk is normal but it depends on the magnitude of the risk associated with each credit facility. Every lending institution need to reduce the risk of their lending portfolios to a level consistent with their returns. There is need therefore to have a proper appreciation of the level of risk involved in each credit exposure. This would facilitate credit pricing and optimum portfolio management practices. These days, the times are hard and as such, there are greater actual and potential volatility of external factors which increase the degree of credit risks.

2.7.2 COLLECTION SYSTEM:-

As we already know, the credit cycles begins with the granting of credit and in any case, the delivery of goods. It is not completed until payment has been received as shown in our figure on debt management circle. The ideal goal of collection is to ensure prompt payment of obligations in an atmosphere of friendliness between the two parties.

IMPORTANCE OF COLLECTION SYSTEM

Collection policy may be very linient, or it may be quite severe. One firm will prefer to move slowly, giving the customer every opportunity to make payment, another will resort to severe measures when the first payment is late. In any case, collection policy has significant effect on the success of the business. Ways it may affects success are as follows:-

(1). Collection policy affects profits:- Credit terms determines the actual rate of capital turn-over in the firm. If too much of a firm investment is tied up in uncollected debts, the firm may be oblige to borrow, adding payment of extra interest to operating costs.

(2). It is obvious that collection policy is a determinant of losses through bad debts. A lenient credit policy, are that which allows buyers to accumulate excessive and old debts to the firm, increases the risk of loss and actual amount of loss should the buyer fail to pay.

(3). Indirectly, collection policy influences business volume, for a buyer overly indebted to the firm is less likely to make further purchases than a buyer whose account is current.

(4). Collection policy affects collection costs, since bills that are long overdue are invariably accompanied by expensive efforts to collect the account.

(5). Finally, collection policy tends to determine the attitude of the buyer. Most people respect a realistic credit policy firmly applied. Ill will is not necessary generated in the process.

2.8. COMMERCIAL BANKS CREDIT POLICIES

Lending is the essence of commercial banking, consequently, the formulation and implementation of sound lending policies are among the most important responsibilities of bank management.

Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimise risk in any credit extension.

Policy are require with respect to the Kind and number of loans a bank will make, as will as to who it will lend and under what circumstances. Credit policies should in every case be reduced to writing and moreover, the act of

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formulating a policy and expressing it in words that all agree to, will sharpen the issues and make the end product more effective.

Once established, even the best policies needs periodic review in the light of ever changing conditions in the community.

2.8.1 CONDITIONS NECESSARY FOR SOUND CREDIT POLICIES:

For a Commercial bank to be sound in their credit policies, the following are fundamental in its formulation:-

(1). **Community Need:-**

The starting point of a loan policy should be to acknowledge the legitimate credit needs of the community or market in which it serves. This issue is basic. It has long been fundamental obligation of a bank to serve the credit needs of its community. However, it is a fact that, a bank can not appropriately serve all of the credit needs of their community as it depends on the nature of the community.

(2). **Determination of the loan portfolio:-**

A commercial bank has to as a matter of fact appraise its own willingness and ability to meet that demand. In some community, the demand for credits is virtually insatiable.

Given adequate liquidity situation, and capital protection, a bank's ability to increase its loans is limited only by the volume of its relatively stable deposit.

(3). **Determing the loan character:-**

Bank's lending policies are in effect "Screening devices" by which the directors seek to establish the kind character of loans they think the

bank should make. This is always the case particularly when loan demand is pressing hard against available funds.

From policy view point, the character of a loan should take precedence over its form, that is, it is more important that loans be sound than that they be in form of Mortgage loans, business loan etc. the form of loan only reflects community's demand.

2.8.2. LEGITIMACY OF COMMERCIAL BANKS CREDIT POLICIES:-

To ascertain how legitimate a bank credit policy is, depends on the character of its loan portfolio. For any legitimate loan policy, the following should be the criteria.

(a). Repayment arrangement:-

It should be a basic policy of commercial bank lending, that money loaned in whatever form should flow back to the bank as the transaction being financed is consummated or liquidated .

The term of repayment should be related to the nature of the business beneficiary. That is, a sound bank loan should be collectible from anticipated incomes or profits of the borrower rather than from the liquidation of any collateral that may be pledge.

(b). Protection:-

If a loan is made for a sound purpose and if the repayment are realistically scheduled to flow from the transactions being financed, little more effort is required to make a good loan.

(c). **Credit worthiness:-**

A borrower is considered credit worthy if he can produce unimpeachable evidence of his ability and willingness to repay his loan(s) as agreed.

Credit standing is based to a large extend on character and reputation and, with respect to sizeable loans on financial conditions of borrower as shown by his financial statement and his earning records. Financial analysis for credit worthiness is fundamental.

(d). **Assets pledged to secure the credit:-**

Some Nigerian commercial banks tries to obtain a lien on some assets of the borrower to support a loan whenever possible. This arrangement is device by management to make economically desirable loans to work out weak credit situations when such action would not be entirely safe without security.

(e). **Interest Rate Policy:-**

Generally, policies toward this direction are guided by forces beyond the management control, but for every commercial bank in Nigeria currently, policy on interest rates depends on the various kind of loan and internal treatment.

2.9. CREDIT PROBLEMS IN DEVELOPING COUNTRIES.

Economic development is conditional on societies using adequate proportion of output for the construction or purchase from abroad of more effective

instruments of production, or the development of public services and for the creation of infrastructures . There are three requirements for this:-

(a). Adequate flow of savings for sound credit policy.

(b). Efficient credit mechanism

(c). Balanced range of viable investment projects in both the private sector and public sector.

However, the basic problem of under developed nations are that, there is neither adequate savings nor an adequate range of viable investment projects nor an adequately developed credit mechanism.

2.9.1 INADEQUACY OF SAVINGS FOR SOUND CREDIT POLICY.

Savings are generated from private individuals, business organisations, government and foreign countries. Generally incomes are low and with the poor nature of incomes, savings incentives are weak and very-low leading to distortion in sound credit policy.

2.9.2 INEFFECTIVE DEMAND FOR CREDITS:- Rapid economic growth creates a better demand for better credit provisions and as savings rise with real income there will be need to accumulate the savings and hence the need to establish financial institutions and markets.

CHAPTER THREE (3):- RESEARCH METHODOLOGY.

3.0 INTRODUCTION

This Chapter is aimed at providing an insight as to the various methods used in Conducting the research project. Clarity is given as to the research procedures, instruments used and others which serves as means of making the analysis.

3.1 HISTORICAL BACKGROUND OF HABIB NIGERIA BANK LTD

Habib Nigeria Bank Ltd was incorporated as a private limited liability company in November 1982. It was granted Banking license on 7th March, 1983, and commenced operation on 6th May, of the same year.

OWNERSHIP STRUCTURE:

The share holding ratio is 40% to Habib Bank Ltd Pakistan and 60% to Nigerian investors. In 1985, however, in compliance with the Nigerian enterprises promotion Act of 1977, the Nigeria partners of the venture relinquished 10% of the shares to the Nigeria employees for acquisition under the staff equity participation scheme.

OBJECTIVES OF THE BANK

The objectives of the Bank has been to:-

a. Introduce and maintain a banking style with a difference in Nigeria and develop a sound bank with branch network in all the states of the federation and the federal capital territory, Abuja.

b. Provide financial and technical assistance to the public and private sector organisations within the frame work of the government of Nigeria's plan and policies.

c. Mobilize deposits by encouraging savings through the introduction of effective banking services and effective advertising programme.

With these background, Habib Nigeria Bank Ltd went into full range of retail banking services tailored to the needs of all categories of customers, emphasizing services and professionalism with a difference.

The main thrust of the bank's philosophy is the provision of quality services with emphases not only on the enhancement of social morals, but also on the need to be responsive to the requirements and aspirations of the Communities in which the bank serves.

The Board currently is composed of six (6) Nigerians and four (4) Pakistan, with Mallam Musa Bello (OFR) presently as chairman and Mr. Abdufatai Akintola Kekere-Ekun as the managing director/chief executive.

3.2 RESEARCH METHODOLOGY

The methodology adopted in this study are mainly descriptive and analytical. However, simple descriptive statistical techniques like percentages and ratios are used where appropriate.

The data for this study are both from primary and secondary sources. From primary sources, data were collected on the basis of questionnaire drawn and through interviews with some of the bank officials.

In addition, information were also collected from secondary sources such as annual reports and accounts of the bank and other published materials on the Nigerian commercial Banking.

3.3 RESEARCH POPULATION SAMPLE SIZE

This study was conducted based on information supplied by Staff of the Credit Department CORPORATE HEAD OFFFICE, HABIB NIGERIA BANK LTD, KADUNA. The Department has a reasonable staff strength that can be put at thirty (30), however, the questionnaire administered, were to only (15) fifteen of them, who were deem to be relevant for the purpose of the study. Two out of the Fifteen questionnaire administered were not returned for unknown reasons. I however concluded that, it may be because of the work load in that department it could be why the respondents were unable to complete the questionnaires.

3.4. DATA COLLECTION

For every decision, proper, adequate and accurate information are required. Hence, in real life situation, information could be derived from two main sources. The first being through direct observations experiments, field work etc. and these are regarded as Primary Sources of information.

The second situation is the use of already prepared data or previous research work such as books, meseums achieves, encyclopedia etc. and also regarded as Secondary Sources of information.

This research work combines both the two information finding situations.

3.4.1. PRIMARY DATA COLLECTION

Primary data as earlier stated are data originally gathered specifically for the project at hand. There are four widely used methods of generating Primary Data. The are as follows:-

a. Use of Questionnaires

b. Interviews

c. Experiments

For the purpose of this research work, only the first two situations were used, that is the Questionnaire and Interviews.

3.4.2. SECONDARY DATA COLLECTION:

As earlier stated too, it is information collected from already prepared data such as books journals and other research works.

For background study of this research work, books were consulted to study some other Scholars' views and recommendations in the area of Bank Loans Management and policies as to how they feel it should be and attempt is made to relate such theories to present practices as obtains and applicable to Habib Nigeria bank Ltd. The advantages of the secondary Method of data collection are:-

- It serves as basis for making precise judgement.
- The Cost of assembling the data is less
- They show clear finding of other researchers
- It becomes the most important source of information where primary information are not available.

The disadvantage(s) of the Secondary Method of data collection are:-

- They are often not in the most suitable form.

- It may be time consuming to get information that are relevant.

3.4.3. THE QUESTIONNAIRE METHOD:

This is the popular method of data collection. According to J. Black in his Methods and Issues in social relations, he maintained that, generally, all types of questionnaires performs at least two functions namely:-

(a) Descriptive and

(b) Measurement

The above analysis by black is true as attempt is made to get clear picture of how the Loan Management Policies of Habib Nigeria Bank Ltd is like. Responses generated from the questionnaire gives a level of judgement made and recommendations there on.

3.5. METHOD OF DATA ANALYSIS

In analysing the data collected, percentages are used. This method does provide for tables and use of percentages to responses that were almost uniform for each set of hypothesis. Particular sets of responses were expected from each hypothesis since the respondents were from a department and the need here is to examine the percentage of respondents that seems to have contrary views or views other than what is obtainable in the organisation.

Under this method, the first approach is tailored towards testing the effectiveness of the Bank Current lending policies, and the others are attempts to examine their loan recovery policies and handling of un-recovered debts. The general idea here is that, of trying to see whether prescribed procedures are followed from loan consideration to recovery stage.

It is worth noting that the questionnaire consist of three sections. The first section ie. Section A relates to the respondants Personal data, Section B is on LENDING policy, Section C on recoveries policy and Section D is on treatment of un-recovered debts. All above Sections will serve as the basis of our analysis.

3.6. THE ORGANISATIONAL STRUCTURE OF HABIB NIG. BANK LTD (EMPHASIS ON CREDIT DEPARTMENT).

The common feature in the organisational structure of the Bank is the fact that the Head Office of the Bank is located in Kaduna, Bank Road, with Area regional Offices in Major Cities up-country. The Area Offices have a number of Branches under their control

The bank is owned by Nigerians and Foreign Owners. The Chairman and other Directors are appointed by the shareholders. The Managing Director and executive Directors are the top Management of the Bank. The conduct the day-to-day affairs of the Bank. The Executive Director Banking Services take charge of the Credit and Marketing Department. The Executive Director is assisted by the assistant General Manager Credit and Marketing. The Credit and Marketing Department is Organised in such a way that, they have representatives in Branches and Area regional offices who does receive, analysis and recommend relevant Credit application for approval appropriately.

CHAPTER (4) FOUR DATA PRESENTATION AND ANALYSIS

4.0. INTRODUCTION:

The data collected were based on the questionnaire served to the staff of credit department of the Bank. As earlier mentioned, the department has an average staff strength of thirty but only fifteen (15) of them who were considered relevant were served with the questionnaire. Two out of the fifteen questionnaire served could not be returned for unknown reasons.

4.1. Factors on lending policy

Table I:- Specific credit policies.

Option	Responses	Percentage
Yes	12	92%
Can not say	1	8%

From the above table twelve (12) or 92% of the respondents agreed having specific credit policies, with only one or 8% who could not be able to say whether the bank has specific loan policies or not.

Table 2: Relevance of the bank credit policies to generally accepted standard policies such as:-

i- consideration of treasury position ii- Lending based on statutory limits iii- Current outstanding credit position of the Bank iv- Prevailing economic situations v- CBN monetary guide lines		
Yes all of the above	Yes some of the above	Can not say
9	4	-
69%	31%	-

On whether the current Bank credit policies are based on the relevant generally accepted standard policies, 69% of the respondents agreed having similar credit policies, while 31% of them agreed but considered theirs as not being adequate.

Table 3: conditions that are qualitative enough to qualify a customers for credit approval such as

	i) – character and capacity ii) – Amount and purpose iii) – Repayment plan and security			
Option	Adequate	Not adequate	Can not say	
Respondents	5	6	2	13
Percentage	44%	50%	16%	100%

The respondents here were not quite decisive, but 44% of them felt the above conditions are qualitative enough to qualify a credit applicant for approval, 50% of them felt, the conditions are not adequate, which means it can be improved upon with other conditions. However, 16% of them could neither say whether the conditions are qualitative enough or not.

Table 4:- As to the type of credit facilities available.

Respondents	Percentage	Type of facilities
9	69%	- Loan, OD, bonds & guarantees direct credits etc.
4	31%	Loans, Direct credits & OD
13	100%	-

The views of the respondents were a bit uniform with only a slight variation portraying their knowledge or experience on the type of facilities available in the Bank. It will be right to conclude that the Bank has credit facilities spanning from loans, overdraft, direct credits, bonds and guarantees to some few others that are made available to customers.

Table 5:- Factor as to the type of credit management system used in the Bank.

Responses	(1) Credit review and rating II) Classification and write-off of bad debts as appropriate
Respondent	13
Percentage	100%

The respondents view here as to the type of credit management system seems to be common as indicated in table 5 above.

They all demonstrated common knowledge of the credit management system of the Bank and that uniformity in the responses show that the staff of the credit department of the Bank are not only familiar with the type of facilities granted to their Bank customers, but are equally aware of ways of managing them going by the 100% uniform responses.

Table 6:- As to whether the Bank current credit management system can be considered as being adequate.

Option	Respondents	Percentage
Yes	5	42%
No	6	50%
Can not say	2	16%

In considering the current credit management system of the Bank 50% of the respondents could not agree that, the system is adequate enough. Though, this seems to be conflicting as equally a good percentage, that is 42% of the respondents agreed that the current credit management system of the Bank is not adequate. 16% were unable to say whether the system is adequate or not.

Table 7:- Sectoral consideration when granting credits.

Option	Respondents	Percentage
Yes	13	100%
No	-	-
Can not say	-	-

The respondents here all agreed that, when processing credit approvals, the various sectors of the economy are normally taken unto consideration, since it is a statutory requirement, however, viability of the sector would be another key issue to consider. Hence, the 100% responses from the respondents show the wealth of the staff experience in credit management.

Table 8:- As to the sector considered most favourable when considering credit approval.

Respondents	Percentage	Responses
13	100%	Varies, but ranges from commerce, transportation, agriculture, construction, mining etc

The entire respondent here had varied views as indicated in table eight (8) above and shown that, no specific sector is most favoured as almost all sector of the economy are considered. Hence, it could be inferred here that, the viability of the customer determines more than the sector as per this principle.

Table 9:- As to knowledge of existing statutory provision for sectoral consideration of credit facilities.

Option	Respondents	Percentage
Yes	13	100%
No	-	-

The respondents all accepted having knowledge of statutory provision on sectoral consideration of credits

Table 10:- As how they will consider the bank current credit management policies.

Respondents	Percentage	Option
7	54%	Very effective
6	46%	effective
-	-	Can not say

Here 54% of the respondents considered the Bank current credit management policies as being very effective. While 46% of the respondents considered the credit management policies of the Bank as just being effective. In the overall, it shows that, generally, the staff of the bank credit department are satisfied with the credit management policies of the Bank.

Table 11:- As to how they would consider the bank lending principles in general.

Respondents	Percentage	Option
11	84%	adequate
2	16%	In-adequate
-	-	Can not say

On a general note, 84% of the respondents considered the Bank lending principles as being adequate and further confirm their above responses in table 10

Table 12:- As to whether they would consider the skill, experience and training of the credit department staff as being adequate.

Respondents	Percentage	Option
8	76%	Yes
6	24%	No
-	-	Can not say

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The staff here seems to have a supreme feelings that their training relating to credit management is adequate as 76% of them accepted that fact while 24% of the respondents could not accept their current level of training as being adequate.

Table 13:- As to the loan portfolio of the Bank.

Respondents	Percentage	Option
13	100%	Very adequate
-	-	Not adequate
-	-	Can not say

The respondents here maintained that, the entire loan portfolio of the Bank can be considered as being very adequate which confirm certain facts about the Bank credit management policy. It is worth noting that, if the loan portfolio is not such that is adequate, likely problems can be generated that may plunge the Bank into liquidity crisis.

4.2. Recoveries Policy:-

Table 14:- As to when recoveries of credit facilities are initiated.

Respondents	Percentage	Option
8	62%	On maturity
5	385	On default being noticed
-	-	Can not say

The recovery policy of the bank can be said to be based on maturity of credit facilities granted as 62% of the respondents indicated that fact. Hence it may

be safe to say, the Bank does not always wait to notice default as only 38% of the respondents are of this view.

Table 15:- As to the method the Bank adopts in commencing recovery exercise.

Respondents	Percentage	responses
13	100%	Ranges from:- - Verbal reminder - Written reminder - Official visits - Legal actions

The views of the respondents here varies; but ranges as indicated above from written and verbal reminders to official visits and legal actions.

All the respondents generally agreed or accepted that, the most effective method to consider in commencing a recovery is the use of verbal and written reminders, then official visits. They seems to opine that, legal action may not necessarily be the best in commencing loan recovery.

As to the other methods that are adopted in recovering credit facilities by the Bank, the respondents generally maintained that, they use the following:-

- Debt swapping/conversion
- Other banks services
- Other professional debt managers.
- etc.

4.3. Managing Hard-core credits or bad-debts:-

Table 16:- As to whether the Bank has classifications for un-recovered debts.

Respondents	Percentage	Option
13	100	Yes
-	-	no
-	-	Can not say

The entire respondent accepted having classifications for the Bank un-recovered credits.

They maintained that, the Bank has two (2) major classifications for her outstanding credits and the classifications are.

- Performing credits and
- Non performing credits.

The respondents rated the above credit classifications of the Bank current outstanding credits as:-

- 75% for performing credits
- 25% for non-performing credits.

Table 17:- As how doubtful accounts are provided for.

Respondents	Percentage	responses
13	100	Not all that responded to this, but some generally maintained that on:- - Principal sum and - Interest accrued

The respondents here could not all respond to this aspect, but for those that responded, they maintained that, the provision for Bad debts are made for from principal sums outstanding and the interest accrued.

As to the basis of the doubtful accounts provision, the respondents maintained that, it is based on the CBN prudential guidelines which is one (1) percent of the amount classified as non-performing.

4.4. FINDINGS:

For the three hypothesis tested, my overall findings are as follows:

Hypothesis (I)

The lending policies of Habib Nigeria Bank are good enough and has been improved upon and are quite in line with the general lending practices.

The general loan Management policies of the bank are very effective but can still be improved upon, and if possible automated to make it better in terms of information Management.

Hypothesis (II)

It was discovered that, the recoveries methods adopted by the Bank are effective which contradicts my second hypothesis and this was further evidence in the low level of non-performing credits, which is only 25% of the total loan portfolio.

The recovery policies conforms with the Cost Saving approach on recoveries, and goes far in retaining existing good Customer as only in hard core situations are strict methods adopted.

Hypothesis (III)

The bad debt position of the Bank is low and are in conformity with generally accepted practices of the modern day Banking.

CHAPTER FIVE (5) SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.0. SUMMARY:

This Chapter is intended to discuss the summary of the data analysed, conclusion and relevant recommendations.

In the data analysis, it was discover that the Bank has specific loan policies which mean that there are prescribe procedure that a normal loan granting consideration should take and that those policies are in line with the generally agreed policies. The generally agreed policies are consideration of the financial strength of the Bank as to whether it can be able to accommodate the credit request and whether the request will not affect the bank's liquidity position. The next general policy is consideration of statutory limits as provided. All banks has statutory lending limits and once the limit is reached, it is expected that the bank should rationally stop granting further credits as such action will amount to violating the statutory provisions. Aside from above, in the interest of the bank's continue healthy operation, stock holders, depositors etc, it will be proper to watch the overall credit level of the bank against other economic factors whether overall loan portfolio is up to the statutory limit or not. Others are prevailing economic situations, CBN monetary guidelines etc.

We also discover that, when considering loan approval, it is not enough to just consider character, capacity, amount required, purpose, repayment plan and security as being qualitative enough to qualify a customer for credit granting. However, a good percentage of the respondants seem to hold the opinion that, the above conditions are acceptable. The bank have available credit facilities spanning from overdrafts, loans and bonds and guarantees, direct credit and others as may be negotiated, and the Management approach in Managing

these credits is by way of periodic review and ratings based on some acceptable conventions of the Bank.

The Credits as considered by the Bank are based on certain sectors of the economy, most common are those on the general commerce, transportation, Agriculture, Construction, mining etc and these are in line with statutory provisions.

The overall credit policies of the bank was indicated as being adequate as 84% of the respondents hole this view and described the general lending principles as being effective.

Recoveries policy of the bank generally is based on maturity of the facility and once it has been discovered that a credit facility is due for recovery, the Customer will be reminded, either verbal or written of the need to settle the facility and where need be, he will be visited. But in situation where the Customer prove hardcore, then swift recovery measures are adopted such as, auctioning of Mortgage properties, court action and other legal means. However it was discovered that, the bank has a policy that allow for debt swapping in view of some accounts balances.

The Bank has specific classifications for all debts and they are broadly two:- performing and non-performing debts. Out of the entire loan portfolio, only 25% of it were non performing and of the 25% non-performing, part relates to the principal and the rest to the interest accruing. The bad debt when fully declared are written off against profits.

5.1. CONCLUSION:

Habib Nigeria Bank Ltd has good lending policies that can ensure healthy performance and growth of the Bank and if the practice is similar in all other Banks, then credit consideration in the Nigeria Commercial Banks can be

considered good. Please refer to the attached Credit Rating Summary of Nigerian Commercial Banks as compiled by Augusto & Co-Credit Railing and Business Information.

5.2. RECOMMENDATIONS

The study is on Credit Management Policy in the Nigerian Commercial Banks based on which data were analysed and finding made. It is hope that, these recommendations will only be used as better ways of improving the Credit Management approach.

(i) For a good lending it begins with the lender. Hence the lender needs adequate training, which has to be thorough to enable him understand well the lending implications in all situations. Lending is almost the basic business of all Commercial Banks and if not carefully done can plunge a bank in to serious liquidity mess and consequent failure.

(ii) There is the need to take Comprehensive Insurance Policy to cover all aspect of credit facilities as his will minimise the total risk associated with credit facilities.

(iii) To avoid increasing volume of bad debts, interest should be attainable to willing and able borrowers so that risk of default can be minimised.

(iv) The use of interest waiver or discount on accumulated interest should be encouraged especially in the case of bad debts to facilitate some recoveries.

(v) National monetary policy should be such that are consistent and clear enough to the Nigerian Commercial Banks.

(vi) Changes in National economic policies particularly monetary policies shall be in line with the need of the Banking industry and that would warrant their healthy operation.

(vii) There should be a sound network in the industry on how to ob information on customer(s) willing to borrow funds.

(viii) Publications such as that of Augusto & co on credit rating commercial bank credit ratings is good and should be maintain to se as a challenge for the entire industry, while enabling adjustment better.

THISDAY NEWSPAPER, MONDAY, July 10, 2000.

Agusto & Co.

CREDIT RATINGS AND BUSINESS INFORMATION

CURRENT CREDIT RATING SUMMARY

FINANCIAL INSTITUTIONS

RATING OBJECTIVE

An Agusto & Co. credit rating is a current assessment of the financial condition of a financial institution and its capacity to meet its local currency obligations as and when due.

DEFINITION OF RATINGS

Aaa A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to a deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required. Typically, a financial institution in this category will score more than 80% on our scoring grid.

Aa A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required. Typically, a financial institution in this category will score 80% to 89% on our scoring grid.

A A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required. Typically, a financial institution in this category will score 70% to 79% on our scoring grid.

Bbb A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. Although capacity to meet obligations is adequate, in our opinion, shareholder support is not assured, if required. Typically, a financial institution in this category will score 60% to 69% on our scoring grid.

Bb Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. In our opinion, shareholder support is not assured, if required. Typically, a financial institution in this category will score 50% to 59% on our scoring grid.

B Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. Typically, a financial institution in this category will score 40% to 49% on our scoring grid.

C Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default. A financial institution in this category will score less than 40% on our scoring grid.

D In default.

+ (plus) or - (minus) may be added to a rating. A plus added to a rating indicates that the rating may be raised. A minus means that the rating may be lowered. When no plus/minus is added to the rating, this means that the rating is unlikely to change. A positive or negative added to a rating is then now a reflection of the rating outlook.

	BANK	RATING	EXPIRY	ANALYST
1	Citibank Nigeria	Aaa	31-Jul-2000	Vivien Shobo
2	Zenith International Bank Ltd	Aaa	31-Aug-2000	Yinka Adelekan
3	First Bank of Nigeria Plc	Aa	30-Sep-2000	Vivien Shobo
4	FBN (Merchant bankers) Ltd	Aa	30-Sep-2000	Vivien Shobo
5	Investment Banking & Trust Company Ltd	Aa	30-Sep-2000	Lolade Ogunjimi
6	Diamond Bank Ltd	Aa	30-Sep-2000	Yinka Adelekan
7	Guaranty Trust Bank Plc	Aa	31-Jul-2000	Lolade Ogunjimi
8	Merchant Banking Corporation Nigeria Ltd	A+	30-Sep-2000	Yinka Adelekan
9	Union Bank of Nigeria Plc	A	31-Jul-2000	Yinka Adelekan
10	First City Merchant Bank Ltd	A	31-Jul-2000	Taiwo Kasali
11	Stanbic Merchant Bank Ltd	A	31-Jul-2000	Isaac Babatunde
12	Indo-Nigerian Merchant Bank Ltd	A	31-Jul-2000	Yinka Adelekan
13	Lead Merchant Bank Ltd	A	30-Sep-2000	Taiwo Kasali
14	Chartered Bank Ltd	A	30-Sep-2000	Lolade Ogunjimi
15	Marina International Bank Ltd	A	31-Dec-2000	Isaac Babatunde
16	United Bank for Africa Plc	A	30-Sep-2000	Taiwo Kasali
17	Habib Nigeria Bank Ltd	A	31-Jul-2000	Taiwo Kasali
18	Wema Bank Plc	A	30-Sep-2000	Taiwo Kasali
19	Equity Bank of Nigeria Ltd	Bbb	31-May-2001	Isaac Babatunde
20	Commercial Bank (Credit Lyonnais) Ltd	Bbb	31-Jul-2000	Lolade Ogunjimi
21	Nigeria Intercontinental Bank Ltd	Bbb	31-Jul-2000	Taiwo Kasali
22	Magnum Trust Bank Plc	Bbb	30-Sep-2000	Isaac Babatunde
23	NAL Merchant Bank Ltd	Bbb	30-Sep-2000	Yinka Adelekan
24	Devcom Merchant Bank Ltd	Bbb	30-Sep-2000	Lolade Ogunjimi
25	Trust Bank of Africa Limited (Merchant Bankers)	Bbb	31-May-2001	Isaac Babatunde
26	Gulf bank of Nigeria Plc	Bbb	30-Sep-2000	Taiwo Kasali
27	Co-operative Development Bank Plc	Bbb	31-Jul-2000	Lolade Ogunjimi
28	Manny Bank Nigeria Plc	Bbb	30-Sep-2000	Yinka Adelekan
29	Fountain Trust Merchant Bank Ltd	*WIP		Isaac Babatunde

* *WIP: WORK IN PROGRESS*

	DISCOUNT HOUSES	RATING	EXPIRY	ANALYST
1	First Securities Discount House ltd	Aa	31-Dec-2000	Taiwo Kasali
2	Consolidated Discount Limited	Aa	30-Sep-2000	Isaac Babatunde
3	Kakawa Discount House Ltd	A	31-Oct-2000	Yinka Adelekan
4	Associated Discount House Ltd	A	31-Aug-2000	Vivien Shobo
5	Express Discount Ltd	Bbb	30-Sep-2000	Lolade Ogunjimi

ENQUIRIES

Please contact Bisola Longe on 01-2643577 for subscription requests. Also contact the individual analysts for information or further clarifications on the financial institutions rated by them on telephone numbers 01-2613571-4

...opinion. Although the information contained in this report has been obtained from sources we believe to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute our judgement as of this date and are subject to change without notice. Agusto & Co. does not accept liability for any direct or consequential loss arising from reliance on the information contained in this report.

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MARKETING PROMOTION

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QUESTIONNAIRE

This questionnaire is purely an academic research work and all information supplied will be treated in strict confidence. You are please required only to give fair view of each situation as the study is intended to analyse loan management policy of commercial banks.

SECTION: A

(1) Name of your department: .....

(2) Have you ever worked in a credit department:

(a) Yes [ ] (b) No [ ]

(3) If yes, for how long?

(a) Less than 2 years [ ] (b) Less than 3 years [ ] (c) Above 4 years [ ]

SECTION: B LENDING POLICIES

(4) Does your bank has specific loan policies?

(a) Yes [ ] (b) No [ ] (c) Can not say [ ]

(5) If yes, would you consider the underlisted policies as being relevant to your bank's current credit policies?

i. Consideration of treasury position

ii. Lending based on statutory limits

iii. CBN monetary guidelines

iv. Prevailing economic situation

v. Current outstanding credit level of the bank.

(a) Yes all of the above [ ] (b) Yes some of the above [ ] (c) Can not say [ ]

(6) Would consider the following conditions as qualitative enough to qualify a customer for credit approval?

i. Character and capacity [ ]

ii. Amount and purpose [ ]

iii. Repayment plan and security. [ ]

(7) What would you consider as the various Credit Facilities available in your Bank.

(a) .....

(b) .....

(c) .....

(d) .....

(8) Of the above Credit Facilities, what Credit Management System does your Bank use.

(a) .....

(b) .....

(c) .....

(d) .....

(9). Would you consider them as being adequate?

(a) Yes [ ] (b) No [ ] (c) Can not say [ ]

(10) When considering a Credit Facility, is there any sectoral consideration of the economy?

(a) Yes [ ] (b) No [ ] (c) Not applicable [ ]

(11) If Yes which sector would consider most favourable and why?

(a) .....

(b) .....

(c) .....

(d) .....

(12) Are there statutory provision for sectoral consideration of credit facilities?

(a) Yes [ ] (b) No [ ] (c) Can not say [ ]

(13) How would you assess your Bank Credit Management Policy.

(a) As being very effective [ ] (b) Just effective [ ] (c) Can not say [ ]

(14) Would you describe your general lending principles as being adequate?

(a) Yes [ ] (b) Not adequate [ ] (c) Can not say [ ]

(15) Would you consider the skill, experience and training of your Credit Department Staff as being adequate?

(a) Yes [ ] (b) Not adequate [ ] (c) Can not say [ ]

(16) How would you assess your Current Loan Porfolio?

(a) Very adequate [ ] (b) Not adequate [ ] (c) Can not say [ ]

SECTION C:- RECOVERY POLICY

(17) When are recoveries of Credit Facilities are initiated?

(a) On maturity [ ] (b) On default being noticed [ ] (c) Can not say [ ]

(18) In Commencing a recovery exercise, which method does your Bank adopts?

(a) ..... (b) ..... (c) .....

(19) Of the above Methods, which would you consider as most effective?

(a) ..... (b) ..... (c) .....

(20) What other methods does your Bank adopts in recovering her debts?

(a) ..... (b) ..... (c) .....

SECTION D:- HANDLING OF UNRECOVERED CREDITS.

(21) Does your Bank has Classification for unrecovered debts?

(a) Yes [ ] (b) No [ ] (c) can not say [ ]

(22) If yes, what are the brief classification of your Bank Current Outstanding Credits

(a) ..... (b) ..... (c) .....

(23) How would you rate the above classification?

(a)..... (b) ..... (c) .....

(24) How are doubtful Accounts provided for

(a) ..... (b) ..... (c) .....

(25) What are the basis of doubtful Accounts provisions?

(a) ..... (b) ..... (c) .....