CREDIT APPRAISAL IN FINANCIAL HOUSES, A STUDY OF CONSULTANCY AND FINANCE COMPANY LIMITED, KADUNA.

BY

MANSIR UMAR SANDA

B.SC (BUS.ADM) A.B.U ZARIA, 1979

A THESIS SUBMITTED TO THE POST GRADUATE SCHOOL, A.B.U ZARIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (M.B.A).

DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF ADMINISTRATION, A.B.U. ZARIA.

1992/93 Session.

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DEDICATED

To my people of Faskari in Katsina State who initiated me into politics just before the commencement of the project. My election in Faskari ward during the constitutional Conference at district level, signalled my entry into politics at the grassroot. The participation in the election was originally to enable me to participate at the 1994 Abuja Constitutional conference.

D E C L A R A T I O N

I do hereby declare that, this research work is original and a product of my research findings. All materials used have been acknowledged accordingly in the foot notes and bibliography.

SIGN:----------

MANSIR UMAR SANDA

C E R T I F I C A T I O N

This project report titled 'Credit Appraisal in Financial Houses, A study of consultancy and Finance Company Ltd, Kaduna" by Mansir Umar Sanda meets the regulations governing the award of the degree of MASTER'S OF BUSINESS ADMINISTRATION (M.B.A) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

SIGNATURE OF SUPERVISOR DATE----------

SIGNATURE OF EXTERNAL EXAMINER DATE----------

HEAD OF DEPARTMENT

DEAN, POST GRADUATE SCHOOL,
A.B.U. ZARIA. DATE 24/2/99

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In the name of Allah the beneficient, the merciful. I owe my profound gratitude to the Management of the Arewa Hotels Limited, Kaduna for permission to attend the M.B.A Programme as well its sponsorship.

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I also thank all members of staff of the Department of Business Administration and my 1992/93 MBA colleagues who contributed in one way or the other towards successful completion of the course work and the project.

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M. U. SANDA

ABSTRACT

Credit appraising as a function for the purpose of determining whether or not to grant loans to credit applicants is a major function in any financial Institution. It is infact regarded as the life wire of the financial instituttion when it comes to decision making in granting loans. This is true of the financial houses especailly the Consultancy and Finance Company Ltd, Kaduna.

Granting of Credit is a major bedrock through which resources are built and organisations goals and objectives achieved. Credit can not be granted without appraising of applicants. The way this is done plays a great role in determining the efficiency and effectiveness of financial institutions. As with most organisations, the processess, procedures and patterns of credit appraising are not without problems. Such problems range from lack of suitable collateral security, over-valuing of properties by both the credit officers and estate valuers, external and internal influence with negative consequences, personal interest in some projects by staff of the Company, incomplete information concerning applicants. These are the issues examined in this study. Solution to the problems have been proferred based on various professional advise.

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1.0 CHAPTER ONE - INTRODUCTION

Chapter one is divided into ten parts. It started with the background information, identification of the problem, and the purpose of the study being the first, second, third parts respectively. The fourth and fifth parts of the chapter deals with the significance of the project and the scope of the study. The last four sections of the chapter cover research, methodology, limitations of the study, organisation of the study and definition of terms used in the study.

1.1 BACKGROUND

Nigerian Agricultural and Co-operative Bank - Consultancy and Finance Company Limited (henceforth known as NACB - CFC Ltd) is a wholly owned subsidiary of the Nigerian Agricultural and Co-operative Bank Limited (NACB Ltd). NACB Ltd itself is a federally owned institution with 60 per cent of its shares owned by the Federal Government, and 40 per cent owned by the Central Bank of Nigeria. NACB Ltd, the apex agricultural development financing institution in Nigeria, was set up in 1973 to deliver Credit to the agricultural sector of the economy. This is carried out through the provision of loans to individual farmers, Co-operative Organisations, Limited Liability Companies, States and Federal Government Agencies. The Bank also provides financing by direct investment in the equity capital of major agricultural and agro-allied industrial ventures.

NACB - cfc Ltd, was set up in 1981 as a consultancy

service division of NACB Ltd; to basically assist farmers prepare bankable project propositions. The rapid increase in the demand for the services that followed immediately was regarded as a sign of the success of the bank, in creating awareness among farmers of the advantages of preparing agricultural projects well before seeking finance for them.

However, this success soon highlighted two major problems and paved the way for organising for their solution, the problems of project requiring large capital outlay and management for optimum performance. The search for answer to these problems led to the inclusion of loan syndication and agricultural management consultancy services in the functions of the division.

As a result of the demand of its services to the ever increasing clients, NACB Consultancy Services Division was upgraded and incorporated as a subsidiary of NACB Ltd. It is now known as Nigerian Agricultural and Co-operative Bank - Consultancy and Finance Company Limited (NACB - CFC ltd).

NACB - CFC has now opened a branch office at No.3, Abdullahi House, Ali Akilu Road, Kaduna while the Head office remain at No.2 Dendo Road, Kaduna.

1.2 **STATEMENT OF THE PROBLEM**

Consultancy and Finance Company Limited derives its revenue from the following sources:-

- Nigerian Agricultural and Co-operative Bank Limited
- Central Bank of Nigeria
- Consultancy Services

- Investments of Depositors money

The funds available serve mainly as a working capital. Credits are given to deserving clients out of which interest is generated. Through this activity the management shall be in a position to meet one of its responsibilities to the depositors and shareholders alike.

Recently, Nigeria witnessed the rise of financial houses all over the country particularly in urban cities of Lagos, Ibadan, Enugu, Abuja, Kano and Kaduna operating within them.

They have been offering fantastic interest on depositors money and as a result attracted customers from all social groups within the Nigeria's society. Interest on fixed deposit range from 36 per cent to 70 per cent per annum.
The 1994 financial budget as announced by Federal Government of Nigeria reversed the situation by way of regulating the interest rate. Lending rate is now fixed at 21 per cent maximum.

As a result of this action, the number of depositors reduced drastically. Thus the inability of the financial houses to offer credit to applicants is affected negatively. Also as a result of other financial regulations more withdrawals of money deposited was also witnessed within a few weeks. Suddenly; among issues that attract attention now is the way and manner of credit appraisal during the financial boom era. It is now a question of survival and growth within the economic environment persisting. To do this one must ask, how do we improve the credit appraisal mechanism of CFC Ltd; with a view to ensuring that only

credit worthy individuals and companies are offered credit? This is necessary because it form the bedrock of any successful project. The question is all encompassing and to answer it the management of CFC Ltd need to effectively revise some of the current methods of credit appraisal in order to make them more efficient and effective to survive the hard times. To do this there must be financial surgical operation on the the management itself; on external pressures and its own staff to ensure a more virile and disciplined financial house.

The major function of the financial house is the granting of credit to deserving clients and these clients must be assessed before approval of the loan. In pursuance of this function two Committees namely, Management Committee and Credit Committee have been set up to screen applications for financing in accordance with the company's policy and procedure.

It implies therefore that these Committees must:-

- Formulate a coherent credit appraisal methods and credit policy, spelling out the conditions and procedure for the selection and approval of applications.
- Determine the types of projects that are eligible for consideration in accordance with the economic situation in the country.
- Liase with relevant government and financial institutions to obtain information that is relevant to the function of the credit department.

- To assess suitability or otherwise of proposals.

However, there have been allegations from some members of staff and customers alike that the Committees and indeed the Credit appraisal section have failed to live up to expectation. Functions of both Committees are not well defined and therefore lead to interference by the Board, the Committee and Top Management staff on the Credit section.

Generally the problems now facing the financial house are:-

i. That proper appraisal of applications is not done before approval of credit.

ii. That applications are received and submitted for screening not in accordance with the laid down procedure.

iii. The functions of Credit appraisal are being interfered with by power brokers.

iv. Projects given preference are not necessarily those that may be advantageous to the financial house.

v. That many projects lack the necessary collateral security.

With the foregoing problems in mind one can again ask the following questions:-

i. Is the company's credit appraisal policy inconsistent or

ii. How can the credit appraisal activities be improved to accommodate and live up to expectations of Government, Owners and Customers?

These questions have been formulated only to give direction to the type of investigation this research work should adopt. They will also determine the type of data to be used in deciding statements. If the data collected support any or all the questions, it is hoped that they will

provide a guide on how to uncover the problem, if any.

1.3 PURPOSE OF THE STUDY

The objectives of the study is to examine the company's credit appraisal activities with a view to identifying problems that militate against its successful implementation. This is in a way assessing the activities of the credit department. Specifically the study will:-

i. Examine the company's credit appraisal policy and determine whether problems exist in the implementation.

ii. Provide a model for credit appraisal that will be consistent, more efficient and in line with the objectives of the financial house.

iii. Examine the rationale of theoretical aspects of credit appraisal.

iv. Make recommendations based on the problems identified.

1.4 SIGNIFICANCE OF THE STUDY

It is my strong prayer that, the result of this research work will make the Management of Consultancy and Finance Company Limited, to appreciate the need for a proper implementation of credit appraisal policies and procedures whether for individual or corporate applicants in order to ensure that the objectives for which the house is established are realised.

The employees will be better of in terms of career prospects when they adhere to rules and regulations governing their jobs. This means that the quality of their jobs will improve and chances of promotion will be high and their job security enhanced.

As for the owners of the business, they will benefit

since growth and survival of the house shall be maintained.

1.5 SCOPE OF THE STUDY

The study is limited to the financial house credit appraisal guidelines on policies methods and procedures. It covers both individual and corporate clients. It is also limited to the available literature as at the time of writing.

1.6 RESEARCH METHODOLOGY

While conducting research work certain methods are usually adapted.

The following sources of information have been of great assistance:-

- Documents from the Library of Consultancy and Finance Company Limited. And those from libraries especially Ahmadu Bello University - Kashim Ibrahim Library at Kongo Campus, Kaduna Polytechnic and National Library of Nigeria, Kaduna.
- Some existing literature from NACB-CFC Ltd, quarterly journal.
- Opinions of interested members of the public particularly clients, as well as senior and junior staff of the financial house and finally that of the mother company in the name of Nigerian Agricultural and Co-operative Bank Limited.

The following methods were employed in the acquisition of the data.

i. Visit to the headquarters of Consultancy and Finance Company Limited, to the parent company and the branch office all situated in Kaduna.

ii. Interviews with some senior and junior staff of the company as well as with some regular clients and staff of Nigerian Agricultural and Co-operative Bank Limited.

iii. Also interviews were held with some professionals in the financial institutions with a view to gathering of more useful suggestions on how to improve upon the current credit appraisal policy and procedure.

The data collected from both primary and secondary data was carefully studied and analysed in order to make some useful recommendations that are aimed at assisting the management of the financial house to take appropriate decision for improving the general performance of the house and that of the credit department in particular.

1.7 LIMITATION OF THE STUDY

Every research work has its areas of strengths, weaknesses, opportunities and threats.

i. Here our concern are the weaknesses of the study. The first was the fact that nobody attempted to undertake a study of this financial house since its inception as it affects the operations of the credit department.

ii. There is also the law governing the relationship between banker and its clients concerning secrecy, it was held that the bankers obligation of secrecy regarding his customers affairs was a legal one arising out of contract implied in the relation of banker and customer but that the duty of secrecy is not absolute but qualified (Drover and Bosley 1976).

This law seriously inhibit the effort of the researcher to get some vital information, despite constant plea that the information shall be kept private and confidential. Example is getting information on fixed deposits accounts that could have been used as collateral security to secure loan.

iii. Time was also against the researcher who had to report for duty immediately after the Masters of

Business Administration final examinations of 1992/93 semester. I therefore left Zaria for Lagos. The frequent strikes in Lagos delayed my posting back to Kano. During this period there were no sufficient books to contact.

iv. For successful completion of the project it became necessary to be shuttling between Kano my base, Zaria to see my supervisor of the project and Kaduna to contact the financial house (the subject matter). This issue was very much disrupted due to high cost of fuel and its availability.

Some records are not kept by both the clients and the finance house. These are records that could have enhanced the status of the research but considered insignificant by them. It implies therefore that the only option towards acquiring information in such situation is through interview. This means that the efficiency of the data relied entirely on their memory.

v. There are limitations arising from deficiency in interviewing technique and biases from the part of the researcher and the respondents.

1.8 ORGANISATION OF THE STUDY

The project is divided into five chapters. Chapter one introduces the subject matter of the project. It highlighted the statement of the problem, purpose of the study, significance of the study, scope of the study, the research methodology used in obtaining data, limitations of the study and definition of some important terms used in the study.

The second chapter discussed the available literature on the subject matter. This covered 5C's of credit, financial ratios capital investment, profit and loss statement funds flow statement, feasibility report and non-financial factors.

Chapter three concentrated on the organisational structure and mode of operations.

Problems of credit appraisal from the perspective of the clients and that of the financial house are what chapter four

revealed.

Chapter five is a summary of the findings, From these conclusion were made and recommendations were drawn.

1.9 DEFINITION OF TERMS

Generally speaking, every discipline has evolved with time, certain words and terminologies that are peculiar to it. The financial houses belong to financial institutions such as banks. They also have words and terms that are used daily within their circle.

For the purpose of clarity, it has become necessary to define some words that could mean different things to different people. While some words were paraphrased, others were lifted from original sources and acknowledged accordingly.

Assets: A physical (tangible) object or a right (intangible) that conveys economic value to its owners. For balance sheet purposes assets are grouped as current, fixed or intangible and within these groupings are descriptive titles, such as receivables, inventories, investments, plant equipment, goodwill and patents.

Bad debt: An account receivable but is uncollectible or where collection (recovery) is highly doubtful. Bad debts are invariably considered as losses on accounts receivables and note receivables due to failure of customers to pay their obligation.

Bad appraisals: Arise when the policy and procedures concerning lending are not strictly followed.

Bank: An establishment which receives deposits from

customers, honouring their drawings against such deposits on demand and lending or investing surplus deposits until they fall due for repayment. Financial houses perform these functions in Nigeria.

Credit: The amount of cash granted to a bank customer as loan and any other arm of financial accommodation.

Collateral Security: A security deposited with a bank or financial house by its customer in order to secure a loan. The security will normally have a value not less than the amount of loan desired.

Creditor: This is referred to as one to whom a debt is due.

Credit risk: The associated risk with borrowing, particularly the inability of the lender to get back his money.

Customer/Client: A customer or client is a person who has established a relationship with the bank, financial house by maintaining an account.

Debtor: One who owes money to the financial house or bank.

Guarantee: This is a system where a guarantor gives an undertaking in writing to the banker or financial house accepting responsibility for the debt of the customer should he default.

Internal Rate of Return Method: A selection method using the difference between the present value of the cash inflows of a project and the investment outlay. This method evaluates differential cash flows between proposals

Interest: Is the amount of money charged by a bank or financial house for the use of its money in form of a loan.

Loan: A loan is an agreed amount made available to a customer and transferred from a loan account in the customers name to his current account. The loan is suppose to be reduced at agreed intervals and attracts interest which is charged monthly, quarterly or yearly on the loan outstanding.

Liquidity: Ability of a bank, financial institution or any other business concern to convert non-cash assets into a resource that enables the enterprise to meet its short term obligation.

Security: The valuable property pledged by a borrowing customer to a financial institution as an insurance against the possibility of default in repayment. These could be in form of bearer bonds, stock exchange securities life policies, guarantees, or debentures landed property or any other tangible assets.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION:

One hardly finds textbooks written specifically on credit appraisals of projects. However there are available textbooks that discussed relevant issues pertaining to credit appraisals methods and procedures. Such textbooks carry the title of Banking Lending Policies, Credit Management, *Problems and Prospect of Banking in developing countries etc.*

The recent growths of financial houses all over the urban centres of Nigeria is witnessing an equally high number of public seminars, lectures and write ups in journals, newspapers and financial magazines carrying articles on the subject matter from which a lot of material will be drawn for use in this research work.

The first part of the chapter highlights on the 5c's of credit, while the second part deals with financial ratios. The third part discussed capital investment Break - even analysis, Profit and Loss Statement, Inflow Statement, Feasibility report and other non-financial factors.

2.2 THE BASICS OF CREDIT APPRAISAL

Appraisal of credit request calls for a methodical approach and there is no magic formula to good lending. In order to ensure that a prospective credit applicant is qualified for further creditworthiness or not, lenders must practice the principles of good lending. These principles are the basics of the art or science of lending. The

principles of good lending discussed below are as enunciated by J. Milnes Holden. Writing under the topic "Principles of good lending' he said that in addition to ensuring that "the borrower has the necessary capacity to borrow", the credit appraisal should examine the following issues:-

1. **Legal Capacity:** The applicant can be an individual, government agent or a limited liability company. In each case the legal capacity should be weighed. In the case of an individual it must be established that there is no legal prohibition on him not to borrow, he must not be declared bankrupt, he must be of sound mind and health. The limited liability company's status can be established through the examination of its Memorandum of Association and Articles of Association and other information on its financial standing. The conditions that apply to an individual examined above are also applicable to limited liability company. As for government agencies there is need to examine the decree or law establishing them.

2. **Purpose of the Loan:** The purpose of the loan must be known and disclosed to the creditors in unequivocal terms. The credit analyst must be satisfied with the purpose or reasons given and its economic viability very sound and high. It is the duty of the creditor to ensure that there is no prohibition by government on the kind of loan

sought for. A lot of loans which are unsecured and arising from salaries must be guided and controlled to avoid bad debts. If fixed assets are being purchased for example, it is necessary to ensure that investment has been properly appraised and alternative formulations examined. Are there other machines which might be suitable? Have alternative methods of finance been considered? e.g leasing or hire purchase.

If trading is to be financed, we must identify specifically what the advance is needed for e.g to finance more debtors, more stock, changing stock mix, slow moving stock etc.

Clearly identifying the purpose of the loan enables the proposition to be fully investigated. For example if more money is needed to carry extra debtors, one can confidently conclude that debtor control is weak or a debt is doubtful.

The purpose of any loan must also be in accordance with the financial house current lending policy. It must therefore be an acceptable project. It's purpose must not be immoral or against public interest.

3. **Amount requested:** The amount of loan required to execute a project is related to the kind of project and its magnitude. The officer is to ensure that adequate amount is requested. Thus the amount must not be too big or too small. It

must not be reduced or increased for the sake of doing so. Each has its own implication and must be considered accordingly. The applicant in some cases may be required to make some monetary contribution in order to determine his seriousness and desire to embark on the project. The applicant must submit comprehensive proposal repayment of his earnings that can convince management to grant the credit. In this case balance sheet information on assets and liabilities is required in case of companies. Statements of assets and liabilities, monthly or yearly income are required in the case of individuals.

4. **Duration of the Loan:** The advancing of money in the banking and financial houses are based on time. The longer the maturity (duration) the higher the interest and principal to be paid. The shorter the maturity period the lower the interest paid. The period of repayment must be agreed upon. It must be born in mind that Loans are expected to be recoverable at the expiration of the maturity period. A good appraisal makes a good loan. And a good loan is that which can be collected at the maturity date. At the time of discussion clients must be made to understand that defaults will attract interest charges due to extension given.

5. **Sources of repayments:** A creditor is suppose to know the sources of repayment of the loan. There are a number of them. It could be that the loan is self liquidating, it could be against the sales of loanee properties, it could be out of profits from other business. Whatever proposal is made, it is good to verify such information. Such an approach do assist greatly in allowing the creditor to know his potential debtor.

6. **Profitability of the Loan:** This is the margin of the loan and usually involve the consideration of the interest, commission and fees.

The interest is set to reflect the guidelines of the Central Bank of Nigeria. It will also consider the risk, the purpose of the loan, the period and any security held.

The commission is concerned with the administrative costs associated with running the credit portfolio and the associated investment in people and assets is very great. These investment should be paid for and yield return. An equitable commission should therefore be charged on all approved loans.

The fees charged can be commitments fees which can be charged on any unused facility agreed for a customer.

It can be negotiation fees charged for the amount

of work involved in preparing and agreeing on a facility.

It can also be management fees charged to cover cost of the branch/unit and management dealing with an account on a day to day basis e.g interviews, phone calls, control etc.

Profitability of the loan will also have to consider business development opportunities. These can be diagonised by finding whether or not cross-selling has been tried, what cross-selling opportunities exist? Are fixed assets sufficient? What is their age, condition and life span? What are the company's strength and weaknesses? What are the major threats to the business?

Consideration for visiting the business premises can be critically informative and can be greatly appreciated by clients if handled on the right way. It also serves as a useful aid in assessing the business.

7. **Collateral Security:** The standard practise is for every loan facility to have its own collateral security. This is what the financial institution will fall back in a situation where the loanee fails to repay. Since it's a precondition for granting credit, a client must offer fixed or current assets as a security for loan.

It must be adequate and of a given percentage of the loan. The creditor will normally take possession of the security physically or by way of

documentation. Collateral security can be in varied forms whether as fixed or current assets. It can be in form of landed property which must have a certificate of occupancy. Machineries or vehicles with registration of ownership. Stock and shares with certificate of ownership. Life Policy or fixed deposit account.

The other factors that can now be considered are as contained in 'Elements of Banking by P. E. Perry. He agreed with J. M. Holden on fundamentals of good lending; such as the amount to be borrowed, purpose of the loan period of the advance, source of repayment. He (Perry) contended that the appraiser must in addition to these consider the risk involved, profitability of the transaction to the bank, the public interest, the best interest of the borrower should play a major role in deciding to approve application for credit.

On the role of security P. E. Perry (1979) said despite the fact that collateral securities are taken for advances "Unsecured borrowing in the form of balance sheet advances to big established companies are usually free of problems and end up being paid rather than the advances with securities"[2] The best security he continued is the character of the borrower.

2.3 STANDARD FOR EVALUATING CREDIT WORTHINESS OF PROSPECTIVE CLIENTS

The loan officer must first satisfy himself that the applicant is qualified for the loan and then go further to examine and evaluate the creditworthiness of the applicant. Further steps must be taken in order to ensure good performance by way of the repayment of the loan.

Daniel Kujawa recognised the need for examining the three C's of the borrower i.e character, capital and competence. There is also need to examine the other C's of the borrower namely economic condition, collateral in the case of secured loan and competion.

In an article - 'A banker's Approach to business loan' Kujawa stated that ... borrowers ability, experience, reputation, character and his personality sometimes influence the loan officer in taking lending decision"[3] He also maintained that deposit balances, collateral interest rates, past experiences, economic condition and any other relevant factors should be considered seriously.

1. **Character:** Despite the importance of all other factors raised, character is so significant that it can override other factors. Character refers to the 'probability that a client will try to honour his obligation when it is due'[4] It is the morality of the individual prospective client. Therefore the ability to judge correctly the clients character is of paramount importance. Applicants character can be judged good, fair or

bad. The importance of character can not be overemphasized. J. P. Morgan referred to it as the 'fundamental of banking."[5] The financial institution must ascertain whether or not the applicant can be trusted. He must have trusted refrees, good bank references and outstanding track record from past dealings.

2. **Capacity:** Capacity refers to the managerial ability of the customer through his past records and physical observation of the customer's plan or business methods and life style.

3. **Capital:** The capital measures the financial condition of the firm or individual seeking for credit. It measures how much the applicant can pay when his debts fall due; if he is willing to honour his obligation. Capital provides an insight into the firm's financial well-being as indicated by the relevant financial ratios with emphasis on the tangible networth of the enterprise.

4. **Condition:** The condition refers to the social political and economic situations that client or creditor has no control. It can influence the ability of the debtor to pay his debts. In Nigeria for example we are witnessing political upheaval, causing social unrest and economic instability with growing hyper-inflation. These condition must be examined properly in any worthy

credit appraisal activities.

5. **Competition:** The appraisal officer should be able to weigh the extent of competition that is being faced by the proposal and the chances of coming out of it clean; in deciding whether or not to grant the credit.

6. **Connection:** The connection of the applicant is also weighed among other factors. This issue has been playing a very important factor in decision making in financial institutions. It often override all other factors. Whatever the case the positive or negative consequences on the company should balanced. A good connection or introduced client by top shots within and outside the financial institution should not deter credit analyst from normal enquiries since in the final analysis the officer in charge will be held responsible in case of negative results.

The use of application forms and other documents supplied to the creditor by the potential debtor can also assist with some information that may enable the creditor to appraise the character, capacity, capital, collateral of the intended borrower. Financial institution often resort to external sources for additional information. These are credit report agencies, banks and credit associations. With such information the credit worthiness and the risk involved in granting

any credit can be fairly determined.

2.4 **FINANCIAL RATIOS**

Financial ratios are the yardsticks with which to evaluate the financial condition and performance of a firm. In appraising large and small corporate loans the best way is to use information contained in the financial statements. The limitations of financial statements must be noted at all times, because they are based on historical records. It is a fact that past record can not give a definate indication of likely future performance, interpreted within context. They only provide sufficient guidance or judgement. A mass ratios avail little, more important is the interpretation of the figures. Beside what the ratio or the figures say, other relevant details should be employed to help in decision making. Ratios trend is very important. One isolated ratio can be deceptive. Normally three years figures are considered adequate for appraisal purposes. When a structured approach is adopted, it ensures that all available information is used in carrying out proper business analysis. In appraising a business three broad areas are recommended. These are:-*

- Financial (Capital) structure
- Liquidity
- Profitability
- Other connected/related facts.

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* From unpublished Credit Appraisal and Procedure Manual by Paul Uduk (1993) Page 3

2.4.1 **Calculation of capital structure ratios**

(a) Gearing ratio is given by - $\frac{\text{Loans}}{\text{---}}$

Net Worth

- Gearing is often expressed as a percentage but the lower the gearing the less risky the loan.
- No "correct" gearing exists but 100 per cent is the highest level acceptable.
- It is to be noted that a company that relies unduly on borrowed funds must of necessity pay a high price in the form of interest payments.

(b) Interest cover given by

$$\frac{\text{Profit before tax and interest}}{\text{Interest payable}}$$

- Interest cover shows the company's ability to pay interest due on loans.
- Two times interest cover is considered satisfactory.

(c) Term/Debt operating cash flow given by

$$\frac{\text{Term debt}}{\text{Net profit and depreciation}}$$

- It shows how long it will take the company to generate cash to repay its term debt.
- It is recommended that the shorter the period the better.

2.4.2 Calculation of liquidity ratios

According to Van Horne, Liquidity ratios are used to judge a firm's ability to meet short term obligation'[6]. It is therefore possible to know the cash solvency of the firm and the chances of remaining solvent even in crisis. The idea here is to compare the short term obligation with the short term resources that are available to meet the

obligations.

(a) Current ratio given by - $\frac{\text{Current assets}}{\text{Current liabilities}}$

- It indicates the extent the claims of short term creditors are covered by assets that are expected to be converted to cash during the next year.
- A 2 : 1 ratio is considered adequate.
- A ratio in excess of two could indicate inefficient use of resources.

(b) Quick Assets (Acid Test) Ratio : Is computed by dividing the quick assets (cash trade debtors and marketable securities) by current liabilities. This ratio is a more refined measure of the liquidity of the assets since it eliminates stock which under normal trading condition may take sometimes before it is converted into cash. The common standard is to have 1:1 ratio

- This ratio indicates the relative amount of assets in cash (or those which can be converted to cash easily) available to meet short term liabilities.
- It therefore shows clearly whether or not the company has enough money to pay creditors. Liquidity appraisal will normally cover assets, liabilities and funding trend. Liquidity of the company can be related to its turnover through the working capital turnover ratio. This ratio indicate the likely level of working capital needed to finance a certain

increase in sales. A rising trend might indicate overtrading

2.4.3 **Liquidity of receivables**

There are times when receivables could be far from being current. For example they could be over due for collection and therefore can not be regarded as liquid in order to have a fair assessment. When receivables can be collected within a reasonable time it is regarded as liquid assets. To do this analysis there are two ratios

(1) Average collection period ratio given by

$$\frac{\text{Receivables x Days in a year}}{\text{Annual Credit Sales}}$$

This ratio informs the analyst the average number of days receivables are outstanding i.e the average time it takes to get paid.

(2) Receivables turnover ratio given by

$$\frac{\text{Annual Credit Sales}}{\text{Receivables}}$$

The two ratios indicate the slowness of receivables. Each ratio must be analysed in relation to the billing terms given on the sales. For example, if the average collection period is forty-five days and the terms are 2/10 net 30, the comparison would show that a large proportion of the receivables is past due beyond the final due date of thirty days. Suppose the terms are 2/10 net 60, the typical receivable is being collected before the final due date.

Average collection period is a pointer towards restrictive or non-restrictive credit policy. This affect sales that can be consumated. A tight policy does not encourage sales while a relaxed policy does increase sales significantly and also increases receivables with some that may never be collected. Thus profit volume is affected.

2.4.4 **Calculation of Activity Ratio**

Activity ratio is called operating efficiency ratio. It is usually expressed in days

(1) Rate of stock given by - $\frac{\text{Stock x 365}}{\text{Cost of Sales}}$

- The trend is an important factor. A rising trend could indicate "dead stock."

(2) Debtor turnover - $\frac{\text{Debtor x 365}}{\text{Sales}}$

- Rising trend indicate bad debts.

(3) Creditor turnover - $\frac{\text{Creditors x 365}}{\text{Sales}}$

- A rising trend might indicate inability to pay off creditors.

2.4.5 **Calculation of profitability ratio**

(1) Gross Profit margin given by - $\frac{\text{Gross Profit x 100}}{\text{Sales}}$

It is important to maintain a reasonable gross margin if the business is to prosper as most overheads are fixed or semi fixed in nature.

(2) Net Profit Margin - $\frac{\text{Net Profit} \times 100}{\text{Sales}}$

- It indicates the performance achieved after deduction of overheads.

(3) Net Profit Gross Profit ration - $\frac{\text{Net Profit} \times 100}{\text{Gross Profit}}$

- The pretax net profit is to be used.
- The ratio helps to establish the trend of overhead.
- A rising overhead indicate inefficiency on part of management.

2.4.4 **Calculation of Efficiency ratio**

(1) Overheads as percentage of sales -

$$\frac{\text{Overheads} \times 100}{\text{Sales}}$$

- This ratio gives an indication on how well overheads are under control.

(2) Return on capital employed -

$$\frac{\text{Net Profit} \times 100}{\text{Net worth}}$$

- This ratio is a measure of efficiency. Low returns could indicate that it would be better to invest elsewhere.

(3) Return on total assets - $\frac{\text{Net Profit} \times 100}{\text{Total assets}}$

The ratio measures how efficient the organisation is in untilising its assets to generate income.

(4) Total assets turnover ratio -

$$\frac{\text{Total Asset} \times 100}{\text{Sales}}$$

- This ratio measures how efficient the company's management has been in generating sales from its assets.
- A low ratio indicate mismanagement or inefficient use of resources.

(5) Profit retention ratio - $\frac{\text{Retained Profit} \times 100}{\text{Sales}}$

- This ratio gives the amount new capital that a naira of extra sales would produce.

(6) Net working assets to sales ratio -

$$= \frac{\text{Stock + Debtors - Creditors} \times 100}{\text{Sales}}$$

- This ratio gives the amount of capital that a naira of extra sales would require.
- If this ratio is consistently greater than the profit retention ratio, additional capital, usually in the form of extra borrowing will be needed to fund expansion.
- It is also important to note that the most important consideration is the 'quality of profit'. This refers to the ability of the company to generate sustained profit over a number of years.

As usual it's the trend that matters. To establish trend requires the use of time-series analysis. A

particular company's performance must be compared with the performance of similar companies in the industry. This cross-sectional analysis must be undertaken at the same time with a time series analysis.

2.5 PREDICTING CORPORATE INSOLVENCY

A corporate body is said to be bankrupt when it is insolvent. Beaver (1960) found that the best single predictor of failure was provided by the longer ratios? Bankruptcy can be determined by the study of the following ratios.

(i) Cash flow to total debt = $\frac{\text{Cash flow}}{\text{Total debt}}$

(ii) Net Profit to total assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$

(iii) Total liabilities to total assets

$$= \frac{\text{Total liabilities}}{\text{Total Assets}}$$

Altman (1968, 1971) used a multivariate approach known as Z-score to predict corporate bankruptcy. The Z-score is calculated by adding together a number of ratios, each ratio would normally be weighed according to its usefulness.

Altman's Z-score formula is as follows:

$$Z = 1.2 \times 1 + 1.4 x2 + 3.3 \times 3 + 0.6 \times 4 + 1.0 \times 5$$

Where $X1 = \frac{\text{Working Capital}}{\text{Total Assets}}$

$X1 = \frac{\text{Retained earnings}}{\text{Total Assets}}$

$$X1 = \frac{\text{Market Capitalisation}}{\text{Book Value of debts}}$$

$$X1 = \frac{\text{Sales}}{\text{Total Assets}}$$

The relevant bench of Altman's Z-score is 3.0, companies scoring above that level should be sage, while companies scoring below 1.8 will be classified as potential failures. Altman found this equation to have a predictive accuracy of 95 per cent within one year of failure. 72 per cent within two years but only 48 per cent within three years. Thus at each point in the appraisal process Z-score is employed to determine the health of the company applying for credit facility.

2.6 BREAK-EVEN ANALYSIS

Break-even analysis is the relationship between costs, volume and profit in order to determine the minimum level of sales which must be achieved for the business to cover its costs. It is calculated by dividing total fixed assets by the contribution per unit.

$$\text{Break-even output} = \frac{\text{Total fixed costs}}{\text{Contribution per unit}}$$

$$\text{Contribution per unit} = \frac{\text{Selling price per unit}}{\text{Variable cost per unit}}$$

Put more succintly, break-even is that print where there is neither gain nor loss. Therefore credit analyst are of the opinion that for any organisation to qualify for credit, it must be able to produce and sell certain quality that can

guarantee the recovery of all costs.

2.7 PROFIT AND LOSS STATEMENTS

In a seminar on Loan Supervision and Administration at United Bank of Africa (UBA PLC) Training Centre Apapa, Mr. P. O. Ibisi (1994) under the financial statements for appraisal and non-financial factors considered the following issues.

- Profit and Loss Statements
- Funds Flow Statement
- Feasibility Report
- Non-feasibility Factors.

The Profit and Loss Statements of Corporate bodies applying for a facility are also analysed by the loan officer. The Profit and Loss account represents the net profit or loss for the accounting period. For the purpose of analysis, the analyst should study the accompanying notes to the Profit and Loss Statements which in many instances are detailed and if need be, additional information may be requested.

There are two methods of examining the Profit and Loss (Income Statement) - Vertical and Horizontal methods.

(i) The vertical analysis is a single year evaluation of the balance sheet by comparing sets of figures in relation to other figures of same period. The vertical analysis is most informative when used in comparison with similar companies in the particular industry.

(ii) The Horizontal analysis refers to the comparison of the operation results of a number of years. The main advantage is ability to view the trend of a company's performance. Every industry has a peculiar trend of performance which the appraisal officers should try to familiarize himself with. The appraiser must determine the reason for any trend in particular item or section of the statement in order to reach a sound decision.

2.5 FUND FLOW STATEMENT

The Fund Flow statement is one of the most useful analytical tools available to appraising officers. It can be referred to as a method of examining the company's ability to generate profit in the future as a source of payback. The cash flow projection represents a planned programme for forecasting estimated cash receipts by various classes and budgeting cash disbursements according to the obligations and requirements of the business for a specific future period usually for the duration of the loan under review.

The major advantage of cash flow forecast is the development of an intelligent plan. It is suppose to take the guesswork out of cash programming by providing a birds eye view of the cash position in advance. The cash flow projection provides a definate schedule for the repayment of loans in the light of the cash expected to be available every month. Before getting into actual mechanics of cash flow statement, it is important for the appraising officer to understand the rules and concepts relating to sources and uses of cash.

Basically, there are four sources of cash and four uses of cash. The cash flow statement is designed to place these four types of sources and uses into categories and sub-categories for easier recognition and analysis.

(i) **Inflow (sources of cash):**

This originate from the sources below:-

- Profit from operations
- Increase in liability e.g bank debt

- Decrease in an asset e.g cash realised from sales of assets.

When either of these assets is sold or reduced, the company will receive cash. However, reduction of trading assets (debtors and stocks) is also source of cash. If the stock account decreases it could be assumed that a certain level of stock have been sold, and thus giving the company additional source of cash. The same holds true for trade debtors. Reduction of trade debts would indicate that the receivables had been collected and had been converted to cash.

Conversely, increase in share capital is the first method a company uses to generate cash. As a company grows and expands; it usually has to increase its net worth, in order to guard against the risk of becoming too highly dersed and as a means of support for its assets. An increase then, in any item on the liability side of the balance sheet is a source of cash.

(ii) **Outflow (uses of cash):**

In a similar vein the outflow just like the inflow needs to be examined for the purpose of credit appraisal which may lead to approval.

- Loss due to unprofitable operations as opposed to profits (a source of cash) is a use of cash. A loss for the year will be reflected as a reduction in retained earnings and a corresponding decrease in the cash account on the assets side.
- Decrease in liability make a firm to use cash to pay

back principal on bank debt as well as wages creditors etc.

- Increase in an asset can result from when a company uses cash to increase an asset (i.e plant, stock) it will show as a reduction of the cash account.

2.9 **CASH INCOME**

Cash Income section of the statement provide the appraising officer with information of all cash available to the firm for its operations. For example, capital and or loans introduced represent both the paid-up capital as well as other loans introduced into the organisation sales proceeds are cash from sales.

2.10 **CASH EXPENDITURE**

Cash disbursement are shown normally on monthly basis. Sections that attract cash expenditure are:-

- Loan repayment
- Fixed assets
- Operating expenses
- Income tax.

The difference between the cash income and cash expenditure provides the appraising officer with the monthly cash surplus or shortage for the firm.

2.11 **APPRAISING CASH FLOW**

There are many methods in projecting cash flow, and all these are based on the same principle. Every cash budget adopts the formula thus:-

Cash balance on hand and anticipated receipts
= Total cash.

Total cash less anticipated disbursement
= Cash available for debts settlement.

Information of cash on hand at a given time and a

determination of the source and amount of cash receipts to be added to that cash over a specified period will reveal future cash potential.

2.12 FEASIBILITY REPORT

Feasibility report is an indepth financial examination of the requirements of a new project or extension of an existing one. The purpose of the report is to give the appraisal officer an instant appraisal of the viability or otherwise of any project.

To do this the report must contain the followings.

(i) Management study comprising of

- History of the company
- Project scope and growth plan
- The management of the company.

(ii) Technical evaluation comprising of

- Plant location
- Manpower requirement
- Machinery and equipment
- Raw materials availability.

(iii) Market study comprising of

- Supply and Demand analysis
- Nature of competition and distribution
- Prices
- Projected sales revenue.

(iv) Financial analysis comprising of

- Projected financial statements
- Break-even analysis.

2.13 NON-FINANCIAL FACTORS

Consideration of a lending proposition does not end with the basis of credit appraisal and financial matters earlier on discussed. The issues below must also be given consideration:

(i) **Government regulation/fiscal policy**

From time to time, the government through the Central Bank regulates the economy as a whole via monetary policy circular which moderate the followings.

- **Credit ceiling:** This is the maximum permissible percentage growth the bank or other financial institutions are allowed within the stated year.
- **Sectoral distribution of credit:** This is the authorised spread of bank credit in relation to the various sectors of the economy.
- **Liquidity ratio:** Liquidity ratio will determine the loanable funds available. From time to time, management of the bank will give directives as to whether or not new lendings should be undertaken.

(ii) **Political consideration**

While some proposals may not be 'viable' they may still be given political consideration when necessary with the hope that it is going to be beneficial to the financial institution in the long run.

(iii) **Policy:**

This issue borders on management directives in safeguarding the interest of the bank or the financial house in fulfillment of certain social responsibilities to the community.

(iv) **Technological consideration**

Frequent changes in technology or obsoleteness of equipment may affect the consideration of a project proposition.

(v) **Infrastructural factors:**

Paucity of relevant infrastructures may lead to increase in cost of production which will affect profitability.

CHAPTER THREE

ORGANISATIONAL STRUCTURE AND MODES OF OPERATION OF CONSULTANCY AND FINANCE COMPANY LIMITED, KADUNA

The organisational structure and modes of operation of a financial house dictates its efficiency and effectiveness. This will consequently affect its growth and survival. This chapter shall discuss therefore, the organisational structure and mode of operation as obtained in the financial house being studied.

While the organisational structure highlights areas of authority and responsibility of individual officers and the Committees, the mode of operation shall discuss Initial contacts, Formal Application Procedure, Appraisal Procedure, Pricing Loan Procedure, Security Taking Procedure, Loan Approval Procedure, Perfection of Security.

3.1 ORGANISATIONAL STRUCTURE

The highest decision making body of the company is the Board of Directors. It is headed by the Chairman and six other nominated members. The main function of Board is to outline major policies as it affects financial and consultancy matters and decide in broad terms on the programmes of work of the company.

The company consists of 2 divisions namely Consultancy and Finance. And is headed by a General Manager who is the Chief Executive of the company. The latter is assisted by Deputy General Manager.

The two major divisions are headed by principal officers.

The Consultancy division is made up of these sections - Project Management, Administration and Marketing, and Computer.

The Project Management is concerned with:-

- Agricultural Project Preparation
- Management/Monitoring of large Scale Agricultural Projects
- Agricultural input Procurement/Marketing
- Staff selection and On-site Training
- Agricultural Loan Sourcing

The Computer Consultancy is concerned with:-

- Feasibility studies for office automation
- Acquisition, installation and maintenance of Computer Software and Hardware
- Computer Training Programme for Managers and Professionals.

The Administration and Marketing is concerned with:-

- Day to day running of the company
- Staff recruitment and placement
- Staff welfare
- Marketing and Public Relations of the company's activities.

The Finance Division is made up of Credit Department, Treasury and Accounts. Under the Credit Department are the corporate finance responsible for:-

- Loan Syndication
- Private Equity Placement
- Business Advisory Services
- Mergers and Acquisitions
- Bonds (Guarantees)

and Short Term Finance responsible for:-

- Local Purchasing Order Finance
- Project Finance
- Contract Finance
- Bridging Loans.

The Treasury Department is incharge of:-

- Fund Placement
- Portfolio Placement
- Investment Advisory Services
- Cash Management.

Under the Organisational structure the interest of the project is restricted to the Credit Department. The latter is basically consisting of Corporate Finance, Loan Recovery and Documentation and Credit Appraisals Section. The Credit Appraisal is the denominator of the project.

For the purpose of harmonising the activities of Credit Department, two Committee are formed for the purpose of approving loans. These Committees are Credit Committee and Management Committee. Members are drawn from all sections of the company.

3.2 MODE OF OPERATION

3.2.1 INITIAL CONTACT BY PROSPECTIVE CLIENTS

Initial contact by prospective clients could be through formal or informal enquiries. Usually the prospective client will be directed to the Head of Credit Department or in his absence to the most senior officer in Credit Department.

The major objective during the first contact is for the credit appraisal officer to assess, qualitatively as much as possible the prospective clients (individual or corporate organisation) character, attitude and disposition.

Normally, the initial contact should proceed in the form of dialogue/interview. Issues discussed may be jotted down

for cross referencing later. The officer will note also prospective client's business associates, past contracts or projects undertaken and past association with other finance houses and banks, 'Consultancy and Finance Company Limited connections" (relationship between the prospective client and CFC Ltd), his reaction to NACB-CFC's participation (if any) to the prospective business; etc.

Towards the end of the interview the prospective client would be informed that references would be required and claims cross checked. If the officer feels or judge that a prospective client is combative, tries to dictate terms, unable to appreciate NACB-CFC's position or where his character is suspect, the officer has a right to try to end the interview politely. The normal way according to the Head of Credit department is to say "We appreciate your intention to do business with us, it is however unfortunate that NACB-CFC is unable to finance the business at this point in time, thank you".

However, if the prospective client is judged trustworthy and the business is sound, formal application form will now be issued for completion.

3.2.2 **FORMAL APPLICATION PROCEDURE**

The prospective client will now complete the form under the guidance of an officer. This form must be the NACB - CFC approved application form duly stamped signed and dated by the Head of Department (credit) or any other senior officer who will mormally be a supervisor to the project.

Individuals including those operating under a business name (firms) complete Private Individual Credit Application form known as PICA I, companies with independent assets of their own (with a minimum of one year audited accounts) will complete the form known as corporate credit Application form i.e form CCA I. meant for corporate clients.

For all practical purposes all questions on the application form must be answered, use of dash or signs such as N/A, NIL Nome etc are prohibited.

The appraisal officer will then inform his supervisor on how he intends to implement the project, if approved.

At this stage all the required fees must be paid, however processing fees may be waived for established clients by Head of credit department upon application by the client.

3.2.3 **APPRAISAL PROCEDURE.**

As soon as the proposition is judged satisfactory appraisal commences within the shortest time possible, ideally three hours after submission of a formal application. The officer ensures that application form has been duly completed without some questions being glossed over. And all extra or additional information such as copy of Article of Memorandum, Article of Association, Board resolution to borrow from Consultancy and Finance Company Limited, Kaduna, breakdown of project cost, local purchase order etc required are supplied. The officer will ensure that all fees that should have been paid e.g processing fees before this point of appraisal have been paid.

It is not expected that a client will be unable to pay,

but where it happens clarification will be sought with Head of Department or supervisor. Note is often made in such files explaining why fees were not paid.

All claims and other information supplied in the application form are cross checked to ensure genuity and validity. This among others include, confirmation of Local Purchase Order, Confirmation of Agreement, Confirmation that guarantors understand the liabilities they are undertaking etc.

The officer will also find out the applicants business associates, the company the client is transacting business with and whether or not all (i.e the clients business partners and client himself) can be trusted. Just like the guarantors were made to understand their own commitment so also is the prospective client.

The officer will ensure that there are no hidden parties or hidden agenda on the proposition. He must also be reasonably convinced that he is on the right course and that the project is lucrative and repayment will be made Appraising officers should take special note of particularly government ministries (where there are serious payment problems) and other companies. In this case they try to know the officers and their schedule, make friends among them with a view to making the business a worth while venture. It is not out of place for appraising officers to call such key officials for lunch and when discussing the roles they are expected to play.

The appraising officer will then carry out quantitative analysis of the project (if necessary). This will include:-*

(i) Historical analysis of balance sheets and Profit and Loss account of the company.

(ii) Subjecting the company's balance sheet to the liquidation (bankruptcy) test; with special emphasis on the current project for which finance is required.

(iii) Analysing thoroughly client's current business activities, its performance prospects and management capacity.

(iv) Costing all inputs and outputs backed up by survey of market prices at the relevant buying centres and ensuring stock availability from the proposed vendor.

(v) Drawing up a cash inflow and outflow, studying of assumptions and finding out how realistic they are.

(vi) Credit score the client. If the score is below pass mark, the issue is then discussed with the Manager before continuing.

(vii) For the projects the success of which depends on the ability to generate cash flows over a period of time, carry out break-even analysis and interpret the figures.

(viii) Draw up a profile of the prospective client. If a corporate client draw up a profile of the key officials, their connection, means, level of education, reputation etc.

For the purpose of appraisal, credit officer will keep a field notebook where information about each project and the name of the client behind the project is kept in detail. The practice is to submit the detail information (since only

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* CFC Ltd's Credit Appraisal and Procedure Manual of June, 1993

sufficient information lead to good decision) along with formal credit paper for loan approval. The credit paper for loan approval. The credit paper is a summary of the appraisal undertaken. It actually represents a formal request by the appraising officer to management to approve a particular loan.

Where the management is misled, the appraising officer will be held liable.

3.2.4 **PRICING LOAN PROCEDURE**

At NACB-CFC Ltd; the pricing is referred to interest rate charged and it primarily depends on:-

- NACB-CFC cost of funds
- Availability of security
- Central Bank of Nigeria guideline on interest rate
- Riskness of the project
- Demand for credit
- Prevailing interest rate in the market
- Executive time (staff cost) expended on the project
- Any other cost associated with the project.

(i) ***NACB-CFC cost funds:***

Sources of funds of CFC Ltd are from various national and international financial institutions. At national level the sources are through the mother company - Nigeria Agricultural and Co-operative Bank Ltd, Central Bank of Nigeria and from syndication from a group of reowned Nigerian banks (when funds required exceed N500,000.00 (five hundred thousand naira only). This is also referred to as interbank sources. Deposit from individual and Corporate clients. At International level funds could be sourced from World Bank, European Economic Communitys (EEC) etc. Each source attracts different rates. These rates must therefore be taken into

consideration when they are to be given out as loan to deserving clients.

(ii) **Central Bank of Guidelines on Interest:**

The cost of funds as above referred to cost of funds in the open market when the price is dictated by demand and supply. In a situation such as now when the interest is being controlled, Central Bank of Nigeria issues guidelines on interest charges to financial institution from time to time. The current interest rate as regulated by Central Bank of Nigeria is 21 per cent maximum level.

(iii) **Riskness of the project:**

A project could be of high risk or low risk. The higher the risk, the higher the net returns and the higher the chances of failure. It follows therefore for such investment CFC charges are bound to be high.

On the other hand, the lower the risk the lower the net returns on investment. The lower the chances of failure, though bound to succeed, it does not attract management attention and charges on such projects are low.

(iv) **Availability of security:**

Consultancy and Finance Company Limited require fixed and current assets as an insurance towards getting back its money. These are Certificate of Occupancy, Life Policy, Shares and Stock Certificates, Personal Guarantors and Fixed Deposit Certificates.

The availability of these assets influence the rate of interest chargeable.

(v) **Prevailing interest rate:**

During the Babangida regime, under the Structural Adjustment Programme the interest rate was allowed to be dictated by supply and demand of funds within the economy. Consultancy and Finance Company Limited had a cause to use this factor during that time.

(vi) **Executive Time Spent:**

Like every other business organisation 'time spent is money spent'. Consultancy and Finance Company Limited; view this issue seriously. Difficulty or easiness of appraising projects differ. Some projects are very straight forward, some belong to established customers; some projects to be financed may originate from Nigeria Agricultural and Co-operative Bank Limited - Consultancy and Finance Company Limited associates. Many others may prove difficult particularly where the customer is new, the project is new to Consultancy and Finance Company Limited. Documentation such as Certificate of Occupancy, domiciliation, field survey of information supplied, verification and confirmation of genuinity will cost a lot of time and therefore money ranging form transportation, food and hotel accommodation.

(vii) Any other cost that is incidental to the proposition.

Determination of cost of funds is the function of Treasury Department. It calculates the 'pool rate of funds mobilized through deposits every Friday and advise the Credit Department every Monday morning.

The Credit Department will then use the 'pool rate' as

its base and subject other factors to appropriate adjustment to determine the interest chargeable on a particular loan. Once the interest rate range is approval by the General Manager it is displayed at the reception and banking hall.

3.2.5 SECURITY TAKING PROCEDURE

The standard procedure at Consultancy and Finance Company Limited is to first ensure open market value of tangible security for a loan, should that loan and interest during the primary period of the loan be 100 per cent cover.

(ii) Two guarantors are required to guarantee the loan where tangible security is not up to 100 per cent.

(iii) Ownership of assets pledged, mortgaged assigned or sold to NACB-CFC is confirmed before acceptance.

(iv) In cases where more than one party to the ownership of an asset exists all other interested parties are to co-sign the documents transferring the affected assets to NACB-CFC Ltd.

(v) For projects involving Local Purchase Order financing and other forms of supplies; requirement.

(vi) In a situation where the prospective client object domiciliation despite persuasion, he may be advised to seek finance somewhere else unless their is evidence of security to cover the whole loan.

(vii) Vehicles (when accepted as collateral security) are to be left in NACB-CFC approved premises till the full repayment of the loan. The following vehicle documents are to be submitted by the client:-

- Original receipt of purchase bearing client name.
- Original sale invoice
- Customs and Excise vehicle duty Certificate
- Change of ownership (where applicable)
- Court affidavit of sale
- 2 ignition keys

- Current insurance policy
- Current motor vehicle license.

(viii) The standard practise is to have three guarantors and where this condition is obtained, it is necessary to ensure that no guarantor withdraws before disbursement. In case the unexpected happens other guarantors consent to continue shouldering the responsibility will be obtained in writing. This is done because of the law provision that exonerates the other guarantors from shouldering the responsibility should any one of them withdraw.

(ix) In effecting domiciliation the name, official designation, and other details of the officer signing and the establishment he represents is clearly stated. The domiciliation is to be witnessed by the Accountant; (or whoever authorizes payment and or issues cheques or drafts) the client, NACB-CFC Ltd staff and should be stamped by the organisation endorsing the domiciliation papers in four copies.

1 copy to the Chief Executive Officer of the organisation endorsing domiciliation.

1 copy to Accountant of the same organisation.

1 copy to the client

1 copy to NACB-CFC Ltd.

The domiciliation document contains a clause making the signing organisation liable and the signing officers personally liable if payment is made contrary to the provision of domiciliation agreement. The domiciliation agreement also contain words indicating approximate month, day or period when payment is to be expected.

Guarantee forms are signed in the NACB-CFC Ltd; premises and the officer handling the project should witness the signature of the guarantor.

Copies are the distributed as follows:-

- 1 copy to guarantor
- 1 copy to the client
- 1 copy to NACB-CFC Ltd.

3.2.6 LOAN APPROVAL PROCEDURE

(i) On completion of loan appraisal; the appraisal officer numbers the contents of the client's file; and pass the file together with his field notebook to the Credit Manager.

(ii) All documents of title to assets given as security for the loan are placed along with the file. Both the file and envelope should contain schedule of assets and title documents pertaining to them duly signed by the appraising officer and the client.

(iii) The Credit Manager shall then receive the processed file and call an appropriate committee meeting to consider the loan request in accordance with the responsibility saddled on it i.e the Credit Committee is responsible for loans of N50,000 - N250,000, while Management Committee is responsible for loans above N250,000. There are times when the Committee is unable to meet, in such situations the Credit Manager, can seek approval from the General Manager Details of such loan will be circulated to other members of the appropriate Committee for their information and record.

(iv) In exceptional cases a loan proposal of less than N50,000 if appraised worthy of financing, the Credit Manager, the Appraising Officer, and Quality Team Leader may approve such loan and advise the General Manager. When the latter approves, the Credit Manager shall cause a loan offer latter stating the terms and conditions of the loan to be issued to the client by the appraising officer.

(v) At this point the loanee shall be given a loan number. This is the number that is to be used in all future correspondences between the creditor (CFC) and the debtor (client).

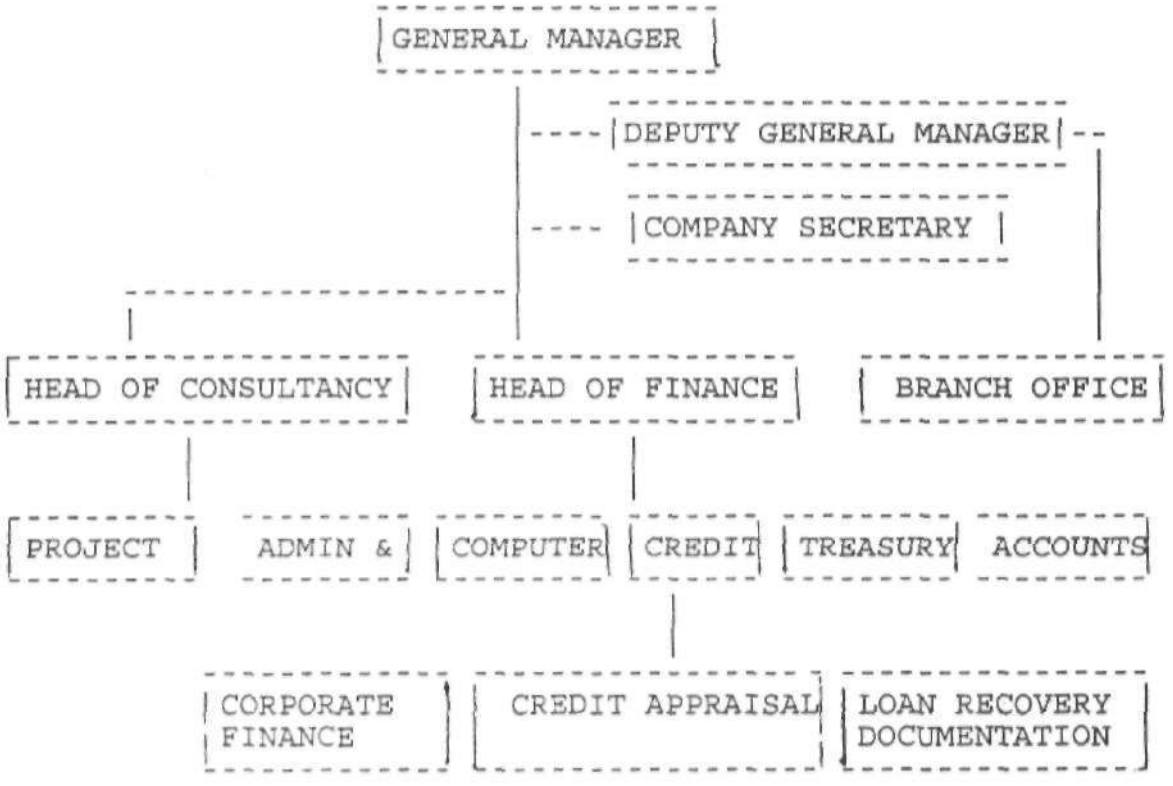
3.2.7 PERFECTION OF SECURITY

Perfection of security means that all documents of title to assets given security for a loan have been transferred

from the clients name into the name of NACB-CFC Ltd. These must be kept in the approved secure places by CFC Ltd unless there is a prior decision by the General Manager and the Credit Manager to the contrary.

Loan can be approved without perfection of security but disbursement can not start without perfection of security. It is the duty of appraising officer to advise that perfection of security process has been completed and disbursement can start henceforth. Cheques (crossed or open) are written, signed and handed over to Credit appraisal officer for onward transmission to the client.

ORGANISATIONAL STRUCTURE OF CONSULTANCY AND FINANCE COMPANY LIMITED, KADUNA



SOURCE: CONSULTANCY AND FINANCE COMPANY LIMITED KADUNA

CHAPTER FOUR

4.1 DATA PRESENTATION

Twenty-nine questionnaires were distributed at the Kaduna Head office. From this number 20 questionnaires were duly completed and returned.

At the branch office, out of the twenty-nine questionnaires distributed, 18 were duly completed and returned.

The percentage of the response was 69 per cent in the case of Head office and 62 per cent in the of the branch office.

From the above, it can be seen that the study covered responses from 38 staff and therefore the analysis was based on these responses accordingly.

4.2 DATA ANALYSIS

Table 1: A comparison of qualifications of the company's staff at the Head office and the branch office.

Unit	WASC/JAMB	OND/HND	Degree/Master	Total
Head office	2	11	7	20
Branch office	3	9	6	18
Total	5	20	13	38

Sources: Field Survey

Out of the 38 total respondents, the Head office response was higher with 20 respondents while the branch office had 18 respondents.

13 respondents have degree/Masters, 20 have Ordinary National Diploma/Higher National Diploma. 5 respondents have WASC/JAMB. When these are compared, it can be said that the staff with lower qualifications are more than the staff with higher qualifications. This is not surprising in view of the fact that the staff with higher qualifications and longer service in most financial institutions are management staff and are fewer than the staff with lower qualifications (even though with longer service).

Table 2: Comparison of years of service of the company's employees at the Head office and the branch office.

Unit	Less than 5 years	5 - 7 years	7 -9 years	10 years & above	Total
Head office	2	9	4	5	20
Branch office	1	7	7	3	18
Total	3	16	11	8	38

Sources: Field Survey

From the table, it can be seen that out of 38 respondents, 35 of them have worked and gained experience on the job of more than 5 years and above as against 3 respondents with less than 5 years experience. This means that 92 per cent of the respondents have more than 5 years experience.

It can therefore be said that the largest proportion of the staff have long years of experience and are suppose to be

conversant with not only credit appraisals but other operational knowledge in the industry in view of the years put in and the job rotational policy of the organisation in the field of training and development. What happens here is that staff are transferred from one job to the other. This staff in credit appraisal when moved to debt recovery section or any other to understand the job very well. This also act as a motivating factor to work harder.

Table 3: Relevance of academic qualifications of the staff to the banking/financial profession.

Unit	Business Admin	Econo-mic	Account-ing	Banking/ Finance	Others	Total
Head office	5	3	2	4	5	20
Branch office	4	4	3	4	4	18
Total	9	7	5	8	9	38

Source: Field Survey

Out of the 38 staff who responded, 9 or 24 per cent belong to other profession other that those of the financial industry. 29 i.e 70 per cent are qualified to perform in the financial industry where they are now working.

The importance of Business Administration, Economic, Accounting, Banking and Finance can not be overemphasized in the performance of duties of those working in the finance industry.

It is the view of the researcher that this financial organisation is fully equiped with qualified personnel to

perform not only in credit department but other departments as well. This is because the departmental performances are dependent on one another for the overall organisational performance.

Those belonging to other professions consisting of 24 per cent of the respondents; though were not allowed to state which profession, one can still conclude that, since it is an organisation providing consultancy services as well, one can safely say that the other professions could be other relevant fields such as statistics, mathematics, insurance etc. This proposition does not of course consider Nigerian factor i.e it is not impossible to find staff who might have irrelevant qualifications. It can all the same be said that the credit applications help the necessary staff to professionally evaluate them and take the right decision in accordance with the laid down regulations.

Table 4: Credit Appraisal training course attended in the past 3 years.

Unit	Credit Training Attended	Credit Training Not Attended	Total
Head Office	8	12	20
Branch Office	7	11	18
Total	15	23	38

In an effort to ascertain the organisation's activities towards training and development in relevant

field, where the worker will improve himself and enhances his performance on the job to the betterment of the organisation, the question on credit appraisal course was asked.

23 out of 38 respondents i.e 61% respondent as not having attended training course in credit appraisal in the past 3 years. 15 staff or 29% attended training course in credit appraisal.

What these figures reveal are that the company might have considered it unnecessary to engage its staff in training when they have a lot of job to do in the office.

Incidentally in the past 3 years, financial institutions and banks in particular have enjoyed the economy more than any other sector. This may therefore not be surprising since it is the responsibility of the organisation to identify the training needs of individual employees. In addition to performing a lot of jobs at hand, the organisation might be trying to curtail cost on training. It could also be due to lack of training school and lack of consultation with the mother company (NACB) to arrange courses on credit evaluation for the staff of the company.

The organisation stands to gain when its staff participate in such training. It is a fact that since employees of various organisation will attend such courses; worthwhile experiences will be shared among the employees coming from various background and this is bound to assist both individual staff and the organisation tremendously.

Table 5 : Amount of secured and unsecured lending in the two offices

Unit	Secured	Unsecured	Total
Head Office	8	12	20
Branch Office	13	5	18
Total	21	17	38

This question on the type of lending with or without security is one area that this company try to maintain sealed lip. According to them it 'may amount to revealing the customers secret'.

Out of the staff who responded, it showed that 21 or 56% of the loans are secured. 17 or 44% of the loans are unsecured.

In the case of unsecured loan (44%) The Head Office account for the 31 percent while the branch office account for 13%. This amount to the fact that the branch office are more cautious than the Head office in following the rules and regulations pertaining to obtaining security. It could also mean that, its because the Head office has the top management and customers known and unknown troop there and pressurise for one assistance or the other.

On the compliance with obtaining security it can be seen also that while the Head office can boast of 8 i.e 38%; the branch is having 13 or 62%. By inference the branch office is more disciplined in abiding by the rules and regulations of the company and that of the Central Bank of Nigeria.

It could also be attributed to the fact that the Head office is older and naturally have more established customers who would be given loans without much rigour as in the case of new clients. The Head office relied on the fact that the 'best security is the character of the client', it can therefore take the risk. It is also possible that the reason could be traced to the authority and responsibility attached to the Head office. Naturally higher authority and responsibility lie more with the Head office than the branch.

Table 6: Percentage of unsettled loans that are unsecured.

Unit	1 - 20%	21 - 40%	41 - 60%	61 - 80%	81 - 100	Total
Head Office	10	7	3	-	-	20
Branch Office	8	5	4	1	-	18
Total	18	12	7	1	-	38

Out of the 20 staff at the Head office who responded to the percentage of unsettled loans that are unsecured, 10 indicated that 1 - 20% are secured, 7 staff said 21 - 40% are unsecured while 3 think that 41 - 60% are unsecured. There was no response on the percentage 61 - 80% while only 1 person responded in the case of 61 80%.

At the branch office, out of the 18 who responded 8 indicated that 1 - 20% are unsecured. 5 said that 21 - 40% of the loans were unsecured. 4 confirmed that only between 41 - 60% are unsecured. Only 1 person said that of the loans unsettled 61 - 80% are unsecured.

No one responded on the case of 81 - 100%.

Table 7: Composition of percentage of appraised applications that were successful by each unit in the last 3 years.

Unit	1 - 20%	21 - 40%	41 - 60%	61 - 80%	Above 80%	Tota
Head Office	-	3	12	4	1	20
Branch Office	-	10	5	3	-	18
Total	-	13	1 7	7	1	38

From the table above, it can be seen that 12 staff or 60% out of those who responded from the Head office are of the opinion that 41 - 60% of the appraised applications ended up becoming successful. 4 staff or 20% held that 61 - 80% of the appraised applications were successful. 3 staff or 15% of the respondents at the Head office said 21 - 40% of the applications appraised were successful. Only 1 person said that over 80% of the applications appraised became successful. No response was received in the case of the least percentage of between 1 - 20%.

In the case of the branch office, 10 staff or 56% held that 21 - 40% of the applications were appraised and approved. 5 staff or 28$ indicated that between 41 - 60% of the applications were appraised and approved. Only 3 staff or 16% that 61 - 80% of the applications in the last 3 years were appraised and approved.

There was no response in the case of the least i.e 1 - 20% and the highest percentage of above 80%.

On the whole it can be said that 17 or 45% of the total number of respondents are of the opinion that between 41% - 60% of the applications appraised were successful while 13 or 34% held that between 21 - 40% of the applications appraised in the last 3 years were successful. 7 or 18% of the applications appraised were successful. Only 1 staff indicated that over 80% of the applications appraised were successful.

From the above analysis, it can be said that, the Head office staff seemed to give higher percentage of applications that were appraised as becoming successful, while the branch office gave out a lower percentage. This is not suppressing since the Head office is more authoritative in the case of credit granting than the branch office.

Table 8: Factors affecting success of applicants in order of importance.

Assuming that:

A = Collateral security
B = Character of the applicant
C = Credit turnover of the applicant
D = Repayment ability
E = Customers connection

UNIT	ABC	ABCD	BDCA	ECDAB	TOTAL
Head Office	3	2	5	10	20
Branch Office	4	3	3	8	18
Total	7	5	8	18	38

Out of the 20 respondents from the Head Office 10 or 50% held that when appraising applications, factors ranked in accordance with their importance before approval were- customers' connection, credit turnover, repayment ability, collateral security and character of the applicant. 5 or 25% of the staff who responded are of the opinion that character of the applicant, repayment ability, credit turnover and collateral security is the order in which consideration is given. 3 or 15% said the most important factors are collateral security, character and credit turnover. 2 or 10% favoured this arrangement - collateral security, character of the applicant, credit turnover and repayment ability.

From the table above, the response from the branch revealed that out of the 18 respondents 8 or 44% indicated that the order is as follows - customers connection, credit turnover, repayment ability, collateral security and character of the applicant. 4 or 22% of the respondents also pointed out that the most important are collateral security character of the applicant and his credit turnover. 3 or 16.5% of the staff said that the most important factors in order of priority are - collateral security, character of the applicant, his credit turnover and repayment ability.

Also 16.5% believed that is should be as follows - character of the applicant; repayment ability, credit turnover and collateral security.

On the whole the 2 units 18 staff or 47.40% indicated that the most important factors in a ranking order is customers connection credit turnover, repayment ability, collateral security and the character of the customer. 8 staff or 21.10% of them said that the order of importance should be character of the applicant, repayment ability, credit turnover and collateral security. 7 staff or 18.40% favoured - collateral security, character of the applicant and credit turnover as the most important factors.
5 staff or 13.10% listed them as collateral security, character, credit turnover and repayment ability.

An interesting issue from the analysis of the two units is the featuring of character of the applicant in all situations. However, whether the character (in practise) makes the final decision or influence the customer is a different thing entirely.

TABLE 9: Comparison on availability of funds for appraised project.

UNIT	Satisfactory	Not satisfactory	Total
Head Office	18	2	20
Branch Office	13	5	18
TOTAL	31	7	38

From the response received in the Head Office 18 staff or 90% express satisfaction on the availability of funds for projects appraised. This means that disbursement can start once a project is approved. 2 or 10% of the respondents

expressed dissatisfaction. For this group it means that projects even though approved will have to wait from the company to source funds. By implication it may mean that projects will have to be reviewed due to the inflationary condition in the country. It also means that customers may have to resort to other financial outlets. If they can not afford to wait thereby losing too competitors.

At the branch office 15 staff or 72% expressed satisfaction on the adequacy of funds for the appraised projects, while 28% or 5 staff out of the respondents expressed dissatisfaction.

In summary, 31 staff or 81.8% expressed satisfaction on the availability of funds while 18.42% were dissatisfied. It is not surprising that there is a higher satisfaction from the Head office than the branch. The former control the funds and know more about customers than the branch.

TABLE 10: Interference in credit appraisal function from internal and external sources.

UNIT	High	Medium	Low	Total
Head office	12	5	3	20
Branch office	5	11	2	18
TOTAL	17	16	5	38

Out of the 38 respondents, 17 or 44.74% from both Head office and Branch office indicated that the pressure is high on them. This means that as soon as credit applicants are introduced, appraising staff, and other staff who could

influence approval will start getting pressures through written notes, telephone calls, invitation to dinner with the ultimate aim of getting the loan approved.

16 or 42.11% of the total respondents regarded the pressure as medium. Out of these there are 5 staff from Head Office and 11 from the Branch Office.

Only 5 or 13.16% of the respondents considered the internal and external interference as low. These staff could be the inconsequential few who are not part of the decision making.

Interestingly high pressure lie more with the staff at the Head office. This group may be subjected to pressure from all kinds of loans at the Head Office and even the branch.

The important issue here is that pressure is existing and its impact on the processing officers and those i.e the committees in charge of approval when such requests are turned down.

Table 11: Comparison of extent to which the company abide by the procedure on credit guidelines.

UNit	Most of the time	Some of the time	All the time	None of the above	Total
Head office	10	4	6	-	20
Branch ofice	9	3	6	-	18
Total	19	7	12	-	38

Out of the 38 respondents 19 or 50% answered that most of the times, they adhere strictly to credit guidelines when processing applications for loan.

From the same table, 12 respondents or 31.58% of the staff from both Head office and the branch office said they adhere strictly to credit guidelines anytime they are processing credit applications.

Only 7 or 18.42% said; some of the times they follow the guidelines strictly.

On the whole, nobody responded in the case of 'none of the times.

These credit guidelines are often given in terms of ceiling'. The financial houses will therefore act within the guidelines, considering their interests. This is the reason for various responses from the Head office and the branch, since the researcher is not allowed access to the true information and therefore relies on their responses.

Table 12: Comparisons of levels at which loans are appraised and approved.

Unit	Credit dept.	Credit Committee	Management Committee	Total
Head office	3	8	9	20
Branch office	2	8	8	18
Total	5	16	17	38

From the above table one could see that there are 3 levels at which applications are appraised and approved

depending on the authority and responsibility of the level. These levels are Credit Manager at the Credit department, Credit Committee level. And the highest level is the Management Committee whose responsibility is to approve anything above N300,000.00. This is responsible for 17 respondents who said loans are approved by Management Committee. Among factors responsible for this are:-

- Some members of the Management Committee are also members of the Credit Committee.
- Most projects are of high value.
- More than 60% of the Management Committee are the decision makers of the company.

The membership of the Management Committee include the General Manager, Deputy General Manager, Head of Credit Department and the Financial Manager.

16 out of the total 38 respondents think that loans are approved by the Credit Committee. This is the response of staff at the Head office and the Branch office.

The difference between the Management Committee and Credit Committee is the amount being proposed for approval. The Management Committee is responsible for loans between N300,000 and above while the Credit Committee is responsible for loans between N50,000 -N300,000. Where the Management Committee could make recommendations to General Manager for approval.

At the Credit Department level loans for regular customers who do not require the rigours of credit analyst direct contact is made for General Manager to approve and later the Management Committee or Credit Committee to rectify as the case may be.

Table 13: Comparison of projects that are appraised for approval.

Unit	Agric.	Commerce	Construction	Housing	Others	Total
Head office	30%	45%	16%	-	9%	100%
Branch office	44%	50%	-	-	6%	100%
Total	74%	95%	16%	-	15%	200%

The table indicate the type to projects that client present for financing.

From the Head office 20 respondents; Commerce was said to be having 45% followed by Agriculture with 30%, Construction 16% and others carry 10%.

Commerce with 50% is the highest at the branch office, followed by Agriculture with 44% and 6% for others. Construction and Housing projects are yet to be brought to the company for financing.

On the whole commerce activities financed carry over 95% compared to other sectors. These are mainly projects of short term financing ranging from one month to one year. They are normally in form of supplies and installations projects given on Contract Agreements form or Local Purchase Order. Agriculture has 74% credited to it. This is not

surprising in view of the fact that NACB (the mother company of CFC Ltd) is an agricultural projects particularly of seasonal marketing are brought to the subsidiary for financing.

Construction carry 16% while others have 6%. It is therefore clear, from the analysis that ranking of projects financed are in the following order commerce, agriculture, construction and others.

Question 14: What do you think are the reasons for bad appraisals that lead to approval of credit applications?

The followings can be enumerated as factors responsible for bad appraisals in the company in accordance with the respondents responses.

(i) Abuse of lending powers and discretionary powers at Credit Committee and Management Committee level by those entrusted with the responsibility to reject or accept credit applications. This often occur and invariably some personal benefits are derived.

(ii) Estate valuation practitioners often connive with the company's clients to overvalue properties. These are properties that are suppose to be collateral security; to guide against payment default. Thus professional misconduct of the estate valuers deter the efficiency and effectiveness of the credit appraisal.

(iii) Use of 'connection' by clients: These clients are often well connected within the financial industry and the society. They may not necessarily posses all the requirements such as character, capability, capital, collateral security. The only thing they can boast of is 'connection'. The credit analyst is compelled to think of perfecting the proposal with a view to getting it okayed for disbursement. Such customers with connection are those with political, social and economic relations with board members and top government functionaries.

(iv) Economic crisis: Prices of goods and services are now changing without notice. This will result in the amount requested by the clients, or proposed by the credit analyst in becoming insufficient and will cause review of the project times without number. The same economic situation forces the credit analyst to feel that the more projects analysed and approved, the better for themselves to personally benefit and the better the organisation.

(v) Corrupt tendencies are often shown by both creditors representative (staff of the company) and the potential debtor tend to influence the availability of credit approved. Thus red tapson is allowed to play where the client is not ready to play ball. At times when credit officers are approached by senior officials concerning certain projects about to be appraised, many an officer think that it is better to take 'once own share' since the superior officer must have taken his own share which leads him to show interest in a given project.

Question 15: From your experience, what measures do you think should be introduce to curtail bad credit appraisal especially now that the company and the country in general are facing cash squeeze?

Answer by respondents: They suggested many measures to curtail the incidences of bad appraisal. The most important and often mentioned once, are as follows:-

(i) Lending to customers without sufficient collateral security should be stopped henceforth.

(ii) Where collateral security is not forthcoming especially in the financing Local Purchase Order, there is need to ascertain the originality of the Local Purchase Order as well as domiciliation of payment in the name of the financier.

Domiciliation procedure must be properly followed to ensure that no lapses exist to allow diversion.

(iii) Training and development of staff in the field of credit evaluation should be entrenched and followed vigorously as an organisational policy.

(iv) The staff (both senior and junior) must be reminded of financial discipline and the need to reject it in totality in view of its negative consequences on the company and the staff themselves.

(v) Staff should not always think that customers introduced to them by the well to do and well connected people in the society, must be granted the loans by all means. Where such customers fail to meet the standard for granting of credit, explanation by the officers should always be given to the powerful shots as regards to why the client introduced to them could not be granted the credit applied for. If officers think that there is need for them to tie such well connected people, they should be invited to guarantee such loans personally.

Question 16: What are the effects of bad credit appraisal?

Answer: The respondents have stated various effects of bad credit appraisal: Among these effects are:-

(i) A 'successful' bad credit appraisal promotes financial indiscipline.

(ii) It can lead to the company becoming bankrupt as a result of the financial indiscipline.

(iii) Huge bad and doubtful debts will be recorded in the account books of the company.

(iv) It can lead to court cases and litigations.

(v) It can lead to auctioning of the customers property.

(vi) More costs will be incurred in putting effort to recover debts, attending court cases, auctioneers etc.

(vii) It can negatively affect the image of the company which can lead to:-

- Customers withdrawing their deposits

- New prospects not opening new accounts
- Staff turnover will rise. The qualified ones will change job to other more disciplined company.

Question 17: What do you expect of a client wishing to obtain loan from your company?

Responses from the various respondents indicate that a client (individual or corporate body) is expected to:-

(i) Contact the company officials in charge to discuss his proposal verbally.

(ii) Write application for the loan.

(iii) State purpose of the loan and evidence of the project e,g Local Purchase Order issued in respect of the project.

(iv) Accompany his application with statements of accounts for at least a period of six months.

(v) Accompany the application with at least 3 years audited statements of accounts (This requirement is for limited liability company).

(vi) State the amount required and show proforma. Invoice for the project.

(vii) Show any other information that has not been stated in the application form but could assist management in speeding up processing of the application.

Question 18: What would you say on the recently introduced guidelines on credit appraisal in terms of getting projects to be appraised objectivity?

Answer: Respondents are of the opinion that in view of the seriousness with which the management introduced the new measures; applications are now being appraised better than before and a remarkable progress achieved since there are pointers to the fact that the rate at which bad projects scale through has drastically reduced.

Projects from certain Government Ministries and some private organisations have been stated as non-creditworthy and are no longer being financed.

Intensive supervision is given by all concerned to examine documents presented along with applications.

Documentation is now carried out to the full before disbursement starts.

FINDINGS:-

From the data analysis of the research at the Consultancy and Finance Company Limited, Kaduna there are various dimensions to the problems of credit appraisal. These problems can be summarised as follows:-

- Abuse of lending powers at Credit Committee and Management Committee level in the company.
- Loan officers often fear certain customers said to be well connected and are often prone to considering much connected customers as credit worthy.
- Credit analyst at times refuses to ratify information given by client and such information could be misleading. In circumstances like this staff are alleged to be having personal benefits.
- Sufficient and reliable collateral security are sometimes not provided by even customers with promising projects. Such collateral may be jointly owned or may lack supporting documents and this may invariably lead to rejection of application.

- Staff need more training as soon as they are posted to credit department. This is because it had been seen that training generally speaking is not given the attention it deserve particularly during the period of financial boom.
- Illiteracy of some customers complicate appraising of their proposals on good time.
- The guidelines are at times not followed strictly as per the provision of the financial company and that of the Central Bank of Nigeria.
- Competition among financial houses to attract more clients result in some projects being appraised as worthy of financing just to have more turnover to overshort the budget.
- Subterranean influence from both within and outside the organisation play a big role in getting some projects partronised.

The findings have also show that the causes of bad credit appraisals are many and among whom are:

- Insufficient information on application forms.
- Professional misconduct by way of overvaluing properties to be used fro collateral security.
- Lack of adequate security and the granting of unsecured loans.
- Desire to compete with other financial houses within Kaduna metropolis.

- Hard Structural Adjustment Programme the country is experiencing.
- Vested interest of some staff in certain projects which leads to consideration of such projects as worthwhile and creditworthy even though they know its the contrary.
- Intentional desire by prospective clients to misuse borrowed funds. These type of clients will do all they can to ensure they supply false information that can attract the appraisers to think of the projects as okay for investment.

The findings have shown that there are adequate guidelines to follow in appraising applicants and decide whether or not to grant credit. These guidelines are sometimes bent by particularly the top management staff at the head office. Control measures that have been introduced to guide against re-occurence are:-

- Preference is now given to established organisational clients rather than individuals.
- Individual applicants are now to face more serious investigation of information supplied in application form.
- Prospective clients must secure among other things confidential reports from other financial institution(s), where he operated an account for a period of more than six months.

- Before disbursement of funds, sufficient collateral security is now to be obtained.
- Customers must request for loan in writing even before the release of application form.
- Necessary domiciliation procedure is now to be carried out in its entire form.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This project was designed and tailored to deal with the performance, functions of the Credit Department with respect to credit appraising, its methods and procedures. The research therefore unearthed the problem associated with credit appraising in the process of considering credit applicants for approval, control of bad credit appraisal and possible control measures in the financial house understudy.

The literature review analysed so many issues that normally come under the search light of credit analysis. These was an analysis on the basis of lending and principle of good lending which prepared the road for further evaluation of credit applications. The standard for credit evaluation was similarly examined.

The mode of operation currently existing in the company was also reviewed. The purpose was for the researcher to understand how the company try to ensure a sound credit appraisal. While the causes of bad credit appraisal were analysed, their effects and control measures towards objective credit appraising were also examined.

Financial houses, despite their good performance in the past, have not been functioning under bed of roses. There are so many intricate problems associated with the performance of their functions and our subject of research is not an exception. Giving out credit to deserving

institutions from the available funds. It had been shown that the company is aware of the existing problems and had brought or tried to invigorate existing measures to curtail the occurence of bad credit appraising.

5.2 CONCLUSION

The study had identified problems associated with credit appraising methods and procedures. These problems arise in the process of appraising applicants' There are rules and regulations that govern the award of credits. If these are strictly adhered to bad credit appraisal will not surface. It can be said that it is not humanly possible to follow the rules and regulations under the environment within which the organisation operate. The existence of socio-political and economic situation is a stumbling block towards the implementation of the correct procedure. It can be said however that a measure of success can be recorded by measures introduced to scale down irregularities to the barest minimum, so that the goals and objectives of the organisation can be realised.

5.3 RECOMMENDATIONS

Financial houses that sprang up recently in Nigeria serve as a medium of sourcing short term funds by individuals and corporate bodies.

Their methods of operation slightly differ from the traditional banking system. In fact their services are readily available in those areas and manners in which the traditional banking system will not venture into under normal business condition. The financial houses charge and give out

higher interest rates than the banks.

Generally, the requirements with regard to collateral security, terms of payment, types of preferred business, are less stringent than those of the commercial banks.

In view of the findings of the study and in addition to whatever measures already introduced by Consultancy and Finance Company Limited, I wish to suggest on the basis of the foregoing findings and conclusion the following recommendations.

(i) The company should continue to remit qualified people in the field of Economics Finance, Accounting and Business Administration and continue to train and retrain them to enhance their efficiency and moral standard. Training facilities at Training School of NACB should be used before such a time when the company can set up its own school.

Staff should be encouraged to train on the job while working.

(ii) There should be adherence to the provision of Decree NO.24 of 1986. This decree was promulgated to check fraud and other corrupt practices.

(iii) The Directors and top management staff should ban themselves from influencing without just cause, the appraising of projects as credit worthy even when they could be failures.

(iv) Staff should be held personally responsible for any connivance with any third party to fake information that lead the management to approving wrong projects.

(v) All projects should not be regarded as well appraised until a sufficient and correct security has been secured and all documents pertaining to it examined and verified. Therefore no loan should be given without adequate security. There should be no unsecured loan at least during the dull period.

(vi) The company should lunch its own War Against Indiscipline and Corruption (WAIC) and implement

same to the letter in the whole of its operations so that financial discipline could be achieved at a level higher than what is currently obtained.

(vii) The financial company should embark on publicity campaign with special emphasis on its requirements from prospective clients. It will make credit appraising a lot easier.

(viii) Domiciliation of accounts in favour of CFC Ltd makes it easy for customers to secure funds for projects. This should continue vigorously particularly if the projects originate from reliable organisation.

(ix) In cases where motor vehicles are used as a collateral security, the company should desist from holding just particulars of the vehicles. The company should take the custody of the vehicle in question.

(x) Verification of all information supplied by clients must be done properly in order to ensure that credit appraising does not turn out as a bad one that may lead to grant of irrecoverable loan.

(xi) The rules and regulations guiding the granting of credit should be followed and adhered to by the Head of Credit Department, Credit Committee and the Management Committee in order to enhance the general performance of the Credit Department and the company in general.

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APPENDIX I

DEPARTMENT OF BUSINESS ADMINISTRATION

INSTITUTE OF ADMINISTRATION

AHMADU BELLO UNIVERSITY

ZARIA

CREDIT APPRAISAL IN FINANCIAL HOUSES. A STUDY OF CONSULTANCY AND FINANCE COMPANY LIMITED, KADUNA.

1. A student of the Post - Graduate Course in Business Administration at the above University in undertaking a research work titled 'Credit Appraisal in financial houses. A study of Consultancy and Finance Company Limited, Kaduna". In partial fullfillment for the award of the Degree of Masters of Business Administration.

2. You are kindly requested to complete the questionnaire by ticking the appropriate box and offering your advice/suggestion/solution where applicable.

Your responses will be treated as confidential and will not be attributed to any individual. The answer will be used solely for the purposes of making inferences about credit appraisal at Consultancy and Finance Company Limited.

1. Please indicate your place of work. (a) Head Office
(b) Branch Office

2. What is your highest qualification ?

(a) WASC/JAMB
(b) OND/HND
(c) Degree/Masters

3. Indicate below your years of service in the organisation

(a) Less than 5 years
(b) 5 - 7 years
(c) 7 - 9 years
(d) 10 years and above

4. What is your area of specialization ?

(a) Business Administration
(b) Economics
(c) Accounting
(d) Banking/finance
(e) Others

5. State whether you attended a course in credit appraisal in the past 3 years

(a) Attended
(b) Not attended

6. Your Company grant secured and unsecured loan. From your experience state which one is more prevalent

(a) Secured
(b) Unsecured

7. What percentage of unsettled loans are unsecured.

(a) 1 - 2%
(b) 21 - 40%
(c) 41 - 60.
(d) 61 - 80%
(e) 81 - 100%

8. What percentage of appraisal applications become successful in the test 3 years

(a) 1 - 2%
(b) 21 - 40%
(c) 41 - 60%
(d) 61 - 80%
(e) above 80%

9. Rank the following factors responsible for applicants success in order of priority :

A. Collateral security
B. Character of applicant
C. Credit turnover
D. Repayment ability
E. Customers connection.

10. How do you express the availability of funds for appraisal projects that are creditworthy ?

(a) Satisfactory
(b) Not satisfactory

11. How do you express the interference in credit appraisal job from internal and external sources?

(a) High
(b) Medium
(c) Low

12. To what extent does your company abide by the procedure on credit guidelines.

(a) Most of the time
(b) Some of the times
(c) All of the times
(d) None of the times

13. State the level at which loans are appraisal and approved.

(a) Credit Department
(b) Credit Committee
(c) Management Committee

14. What percentage of the projects appraised and approved, would you like to give to the following sectors of the economy ?

(a) Agriculture
(b) Commerce
(c) Construction
(d) Housing
(e) Others.