CREDIT MANAGEMENT AND DEBT COLLECTION IN COMMERCIAL BANKS IN NIGERIA

(A CASE STUDY OF SOME SELECTED BANKS)

BY

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APPROVAL PAGE

This project has been read and approved as meeting one of the requirements for the award of Masters in Business Administration in the Faculty of Administration, Ahmadu Bello University, Zaria.

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CERTIFICATION

I certify that this research work has been undertaken by me and that it has not been submitted either in whole or part to any University or College for the award of any degree or any other certificate apart from the references made to other works, which have been duly accredited.

Farinuola Ebenezer Olabode.

DEDICATION

Nothing would have pleased me more than to have this research work dedicated to the Lord Almighty without whom nothing can be possible, my wife, Mrs. Gbemisola Farinuola, my mother, Mrs. Felicia O. Farinuola and all my brothers and sisters for their highly commendable roles in my life.

May God prolong their lives so that they will reap the fruits of their labour.

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ABSTRACT

Banks are financial intermediaries between two groups: the savers – depositors and borrowers – spenders. Their activities make it possible for idle funds to be transferred to individuals, firms and government who will use this productively.

The surplus units, which the banks borrow from demand the best possible terms-in, the rates of interest and maturity structures and maximum liquidity to enable them to have funds back, when they want them or as agreed. Also, the deficit units which borrow from the banks would want to borrow when they need funds and as cheaply as possible. Like the lenders, the borrowers also impose the obligation of maximum liquidity on the banks to enable them to obtain the funds when they need them.

The main source of income and profitability of banking remains the spread or difference between the rate at which funds are borrowed at and the rate at which they are invested or loaned out. In these circumstances, credit and debt collection management has become common with risk management in managing the risks of mismatches between assets and liabilities and between borrowing and lending rates.

Credit and debt collection management is therefore an area, which cannot be neglected in risk management in banks considering the percentage of commercial bank income derived from loans and advances.

We shall in this study/research consider the concept and classes of credit information. Debt collection policies and practices, legal aspect of credit management and machinery for the recovery of bank credits and advances using some selected commercial banks and proffer solutions to the grey areas in credit management in commercial banks in Nigeria.

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CHAPTER ONE – INTRODUCTION

1.1 BACKGROUND

Commercial banks constitute the core of a nation's financial system. Traditionally, the function of a bank was to take deposits and honour demands made on those deposits of their numerous customers – involving individuals, business units and the government itself. But with the giant strides made by mankind in science and technology in an attempt to solve human problems, new sets of problems and human needs have been created. Thus, banks as forefront institutions in satisfying human needs have undergone dramatic changes in their functions. Today, banks render services in area of lending, transfer, remittance, salaries, sale of foreign currencies, overdrafts, sale of travelers' cheques, safe custody, advisory services, to mention a few[1].

Although the number of services a modern bank offers has increased immensely, risk taking, which is a fundamental nature of banking, remains unchanged. It is inherent in maturity transformation, which is another fundamental feature of banking. Though other sources exist, the main source of investable funds remains bank deposits and loans and investments. The main source of income and profitability of banking remains the spread or difference between the rate at which funds are borrowed and the rate at which they are invested or loaned out. In these circumstances, customer service excellence and management includes the management of risks – of mismatches between assets and liabilities and between borrowing and lending rates.

In managing risks, banks have to satisfy five main constituencies; one is the surplus units from which it borrows. These units demand the best possible terms - in the rates of interest and maturity structures and maximum liquidity to enable them have the funds back when they want then or as agreed. The second is the deficit units, which borrow from the banks. They want to borrow when they need funds and as cheaply as

possible. Like the lenders, the borrowers also impose the obligation of maximum liquidity on the banks to enable them obtain the funds when they need them.

In addition to satisfying the surplus and deficit sectors, the shareholders must also be satisfied. They require maximum or adequate return on their investments in order to remain in the bank and to be willing to continue to provide additional resources as and when needed. To these is added the fourth constituency, the regulatory authorities, whose interest is to ensure that the bank does not undertake excessive risks and that it operates prudently and within stipulated regulatory requirements. There is, finally, the community at large. As the provider of the environment within which it operates, the bank owes an obligation to the community to be a good corporate citizen, capable of maximizing the exploitation of the opportunities available and minimizing the threats of the environment.

Banks are faced with the arduous or difficult task of balancing and reconciling the above five conflicting obligations in such a way that the five constituencies are kept satisfied by the rapid change in environment in which the bank operates.

These can only be achieved through excellent customer service delivery system and efficient management to ensure that the existing customers are retained, asset base expanded, deposits are generated and new customers are sourced through product differentiation, giving unsolicited extras to customers and exceeding customers' expectation – customer delight. This is the crux of this study.

1.2 STATEMENT OF PROBLEM / PROBLEM DEFINITION

According to Osuala[2], statement of a problem serves to elaborate upon the information implied in the title of the study. It is the most important part of the research.

It is the intention of this research to find answers to the following problems.

(i) What do customers require from their banker(s)?

(ii) To what extent are they satisfied?

(iii) What can we do to delight our customers with regards to credit management?

1.3 OBJECTIVES OF THE STUDY

The main objectives of this research are:

(i) To highlight areas of neglect in customers credit management.

(ii) To review the credit issues involved in the management of commercial banks in Nigeria.

(iii) Highlight the various ways of determination of credit worthiness in assisting customers achieve their business goals /objectives.

(iv) To highlight ways of achieving banks' credit objectives

(v) Make recommendations on the finding of the research.

1.4 HYPOTHESIS FORMULATION

A hypothesis is a tentative conclusion that is to be tested and either affirmed or rejected through further investigation.

According to Selltiz[3], a research hypothesis is "a proposition, condition or principle which is assumed, perhaps without belief in order to draw out its logical consequences and by this method to test its accord with facts which are known or may be determined". Kerlinger[4] pointed out that "problem is of a broad nature and it is not directly testable". It is only after data on the problem has been collected, collated, analysed and tested that one can get a direction as to whether the hypothesis will be accepted or rejected.

In this research, the researcher will test the validity of the following statements:

Ho: The category and business of customers have an insignificant effect on credit/loan approval.

Ho: Servicing of loans/credit has an insignificant effect on loan/credit approval

1.5 SCOPE OF STUDY

The Nigerian banking system is a large field in that it included different types of banks such as Central Bank of Nigeria (CBN), Merchant Banks, Commercial Banks, Development Banks, Community Banks and others. Each of the banks has features different from the other thereby warranting a different way of dealing with its operations. The Researcher would like to therefore restrict this study to the commercial banking industry in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

Banks are financial intermediaries standing between two groups the savers-depositor and borrowers spenders.

A study of credit management and debt collection in commercial banks in Nigeria is therefore necessary and of great importance to the society because it gives an insight as to what goes on behind the cashier's cubicle. The importance/significance can not be over-emphasized as more than 60% of commercial bank profit come from lending.

This research analyses why it is sometimes necessary to give credit while not jeopardizing customers' funds/deposits. A careful analysis of credit will reveal when and when not to give credit, the terms of such credits, including duration of payment, terms of payment, ways and means of securing and demanding payment for credits.

Mismatches between borrowing and lending rates, faulty credit analysis before disbursement of funds and perfection of collateral securities, dubious customers with intentions to borrow from banks and not repay same, inflation, natural disaster etc have been responsible for irrecoverable debts in the past. Granting of loans and credits therefore require special attention to avoid loss of funds to depositors, shareholders, banks and the economy and financial sector as a whole.

The need for this is not only imperative, but has become increasingly and extremely urgent. This is therefore the motivation for the research on this topic "credit management and debt collection in commercial banks in Nigeria".

1.7 LIMITATIONS OF THE STUDY

With everything in life, there are limitations. And with every research work, there are forces, covert and overt, that exists to impair the perfect realization of an otherwise perfect objective. This research is not an exception. It was faced with a number of limitations, some of which include:

(i) The basic limitation is that the study is not all encompassing in respect of the entire banks in the nation's banking sector. While a comprehensive analysis should involve generally a broad consideration of banks in the financial sector.

(ii) The greatest limitation was in the area of data collection. Highly guarded competitive secret and bureaucratic bottlenecks/red tape processes in banks made it difficult for the researcher to collect all the necessary up-to-date information.

(iii) Another limitation is the sample size, which is not too large, and the fact that all elements in the sample size may not be equal due to different strategies, polices, operational procedures adopted by various banks.

Despite the limitations stated above, the findings of this research are valid, as appropriate scientific procedures in research design and analysis have been used.

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CHAPTER TWO – LITERATURE REVIEW

2.1 DEFINITION OF A BANK

A bank or banker can be defined as "A person or company carrying on the business of receiving money and collecting drafts, for customers, subject to the obligation of honouring cheques to the extent of the amounts available in their current account"[1]

Halsbury Law of England defines a banker as "an individual, partnership or corporation, whose sole or predominating business, that is, the receipt of money on current account and the payment of cheques drawn by and the collection of cheques paid in by a customer" [2].

In other words, a bank is "an institution whose primary/principal operations are concerned with the accumulation of the temporary idle money or fund of the general public for the purpose of advancing it to others for expenditure or investment, and banking therefore, is the business of the institution so described"[3].

2.2 HISTORY AND GROWTH OF COMMERCIAL BANKING IN NIGERIA.

Modern day banking began in 1892, with the establishment of the African Banking Corporation. The Bank of British West Africa, BBWA, presently First Bank of Nigeria which took over the assets of African Banking Corporation, was established soon after in 1894. Apart from BBWA, two other expatriate banks were established at this period. These were the Barclays Bank (1916), now Union Bank of Nigeria and the British and French Bank (1948), currently United Bank for Africa (UBA Plc). The period 1892 to 1952 has generally been described as the early or free banking era.

The period was characterized by lack of banking legislation. The most remarkable consequence of this was the establishment of twenty-five (25) indigenous banks during this period.

Of the many indigenous banks established during this period only four, National Bank of Nigeria, established in 1933, Agbonmagbe Bank (Wema) established in 1945, African Continental Bank, established in 1945, and Merchant Bank (now defunct) established in 1952 survived beyond the period.

The free banking era came to an end when the Banking ordinance of 1952 was promulgated. This ushered in the era of banking legislation in Nigeria. The ordinance for the first time restricted the establishment of banks and the practice of banking to companies holding valid and duly issued licenses.

The promulgation of the 1958 Central Bank ordinance ushered in the era of Central Banking and the stage was, therefore set for an orderly and rapid development of the Nigerian financial system. Major development during this period were the promulgation of the Central Bank Act, 1958, the 1958 and 1962 amendments of the 1958 Banking ordinance and various others that culminated in the promulgation of the Banking Acts of 1969. Other far reaching development were the establishment of the money and capital markets and two development banks.

Between 1959 and 1962, Eight (8) new commercial banks were established. Between 1962 and 1970, no new banks were established due largely to the successive increases in the minimum paid up capital required to establish a bank. The civil war of 1967 – 1970 also contributed to this.

The period, 1970 – 1976 was characterized by growth in the banking system, especially the merchant banking sub-sector and the licensing of state government banks and most importantly the indigenisation of the banking sector. The rise of economic nationalism, which was fuelled by the windfall in oil revenue of the early 1970s led to this. Banks fell under the category of business in which Nigerians were to have a minimum of 60% of the equity participation.

The period 1976 – 1986 can aptly be described as one of institutional re-assessment and moderate growth in the banking system, with the number of banks increasing from twenty-one (15 commercial /co-operative banks and 6 merchant banks) in 1976 to forty-one (41) banks in 1986 (comprising of 29 commercial banks and 12 merchant banks). An interesting development beginning from 1977, was the establishment of a new generation of private banks owned by Nigerian and foreign private interests. The first of such banks was Societe Generale Bank of Nigeria established in 1977, ABC Merchant Bank became, in 1984, the first merchant bank to be 100% owned by Nigerian investors.

The period, 1986 – 1992 can be rightly described as that of economic deregulation and financial system liberation, as a result of the introduction on Structural Adjustment Programme (SAP) on July 1, 1986. The new responsibilities of the banking system now included the foreign exchange market, increased emphasis on export financing and enlarged volumes of capital issues resulting from the privatization and commercialization programme. SAP therefore, tremendously expanded banking business and made the liberalization of bank licensing imperative [4].

2.3 THE OBJECTIVES/FUNCTIONS OF COMMERCIAL BANKING IN NIGERIA.

In attempting to formulate certain broad general objectives for the financial system to promote rapid economic and social development of the economy, the committee on the Nigerian Financial System (1976) was of the view that the banking/financial system should;

Facilitate effective system management of the economy.

(i) Provide non-inflationary support for the economy.

(ii) Achieve greater mobilization of savings and its efficient and effective channeling;

(iii) Ensure that no viable project is frustrated for lack of funds;

(iv) Insulate the economy as much as possible and as much as desirable from vicissitudes of the international economic scenes;

(v) Effectively sustain the indigenisation (ownership, control and management) of the economy;

(vi) Assist in achieving significant transformation of the rural sector; and

(vii) Assist in achieving greater integration and linkages in agriculture, commerce and industry. [5]

2.4.0 THE CONCEPT AND CLASSES OF CREDIT

(1) WHAT IS CREDIT

- John Steward Mill [6] in his treatise on political economy defined credit as "the permission to use another's capital"; Also,

- Joseph French Johnson [7] in Money and Currency defined it as "the power to obtain goods and services by giving a promise to pay at a specified date in the future".

- According to Beckman and Foster [8], credit is defined as "the power or ability to obtain goods or services in exchange for a promise to pay for them later". While according to

- Keith and Gubuim, [9] credit is "the trust given or taken in exchange for money, goods, or services. From the foregoing definitions, the key attributes of credit are

(i) Futurity (ii) Risk and (iii) Trust.

The futurity element of credit implies that the borrower is only obliged to repay at a specified future date, while the risk aspect is associated with the probability that the obligation to pay back may not be met. For this reason, effective credit management requires that a company should, of necessity, be able to determine rationally, how much should be invested in financial credit sales (receivables) to customers, and also, the credit worthiness of potential customers.

(ii) TYPES AND CLASSES OF CREDIT

Credit may be classified in many ways, but for our purpose we shall classify it according to the types of credit transaction from which it is established. On this basis, credit may be divided into the following categories.

(a) **RETAIL CREDIT:** Retail Credit falls into two main categories namely:

(i) **CHARGE ACCOUNTS: -** This is often considered credit for convenience sake since payment is made monthly for purchases made during the previous months or during a specific billing period. Service charges (or interest charges) are seldom made on the charge accounts.

(ii) **INSTALLMENT CREDIT: -**Partial payment is made as scheduled intervals over a period of weeks or months. This is usually based on necessity, and a service charge or inter is usually added to the basic cost of installment purchases.

(b) **PERSONAL INSTALLMENT LOAN CREDIT: -**Since the expansion of retail credit sales has not been sufficient enough to keep pace with the ever-increasing needs of the consumer, it is observed in Nigeria today that we have at one time or at the other needed immediate cash beyond our resources and are not in a position to borrow from the bank; so personal loan credit has been developed to meet the needs of the general public. This is very common with the low income group.

(c) **MERCANTILE (TRADE) CREDIT: -** This is credit used to secure goods for resale in exchange for a promise to pay at some specified future time. The prime element of mercantile credit is that it is used in exchange of goods intended for resale with or without further processing by the buyer. Mercantile credit is the principal medium of exchange in the production/distribution of goods up to the point of their delivery to the retail merchants.

(d) **COMMERCIAL BANKING CREDITS: -** This has two primary functions, which are to receive deposits and to advance funds on the basis of loans, or discounting credit instruments. By granting short medium and long term credit to their customers, commercial banks play a vital role in any given economy.

(e) **FACTORING: -** The term "factoring" once used exclusively to designate the selling of goods by one person to another on a commission basis, is now applied to the purchase of account receivable as a business:

(a) The outright purchase (usually at a substantial discount) or account receivable for cash on a continuing contract basis.

(b) The assumption of all book-keeping and collection responsibilities for the purchases accounts.

(c) The assumption of any losses that may accrue from the accounts.

(f) **INVESTMENT CREDIT: -** Means by which many businesses acquire fixed assets; land, buildings, machinery, etc. Examples of investment credit are long-term loans, bonds or debentures.

(g) **OTHER TYPES OF CREDIT: -** Agricultural credit, export credit, government credit, equipment leasing, etc.

2.4.1 CREDIT POLICY ISSUE

Credit Policy Objectives (C. P. O.) are essentially stated as the general broad goals of a company within which credit is managed. This is to say that such policy specifies in clear terms the credit practices and procedures to be adopted by the company.

Credit Policy Objectives are basically derived from the corporate objectives of the organization. This explains the need for consistency and rationalization of such policies so as to ensure that they enhance and complement other organizational sub-level policies for the purpose of achieving and maintaining set corporate objectives.

Developments in Nigeria today show that many companies do not have coherent and explicit credit policy objectives. Consequently, this has either led to non-granting of credit and when granted, results to difficult debt collection like in the banks with large quantum of bad debt or distress state.

From the standpoint of credit management, the two most important issues when setting the objective are profitability and liquidity. The company's liquidity objectives require that the credit manager adopt rational policies in connection with the granting of credit, setting credit limits and regulation of debt collection process. While helping the company meet its profitability objective requires that rational and effective decision be made in respect of optimization of sales volume. This can be achieved through the judicious granting of credit, investments in account receivables while at the same time ensuring that all credit and debt collection costs are effectively controlled.

In the light of the foregoing, three broad credit policy objectives can be identified.

(i) To optimize sales volume
(ii) To control investment in account receivables
(iii) To effectively control credit and debt collection costs.

In order to ensure the achievement of these objectives, various credit policy variables, that is those factors, which can be controlled, are employed. These include credit standards, credit limits and terms as well as debt collection policy. For the sake of better understanding, we would analyse the following credit policy definitions of a major Nigerian company as follows;

1. The Credit Department will have as its dual function, the production of the company's investment in receivables and the promotion of profitable sales. Our aim is to spell out clearly the two edged nature of the credit sword viz: protection and promotion.

2. The Credit Department would have complete credit responsibility subject to review by Division Managers (i.e. The credit function could be best performed by trained credit personnel, subject of course, to review by competent authority).

3. All accounts shall be classified as to risk and credit approvals will be

based on product profitability as related to that risk (i.e. Risk classifications could be prime, good, limited and marginal). The reference to profitability simply means that the higher the profit, the higher the risk we can afford to take.

4. Customer's financial condition would be the primary basis for approval (i.e. if the customer's financial condition is so bad as to preclude open account dealings, credit shall not be extended, despite security or guarantee received).

5. Collateral may be accepted in some cases, to back up credit. This should be accordingly mortgaged.

6. Marginal credit risks would be sold as long as such sales are profitable (i.e. Profits earned on sales to marginal accounts should exceed bad debt losses suffered from sales to such accounts).

7. Within the foregoing context, credit approvals should be liberal. (i.e. Minimal bad debt losses should not be our goal. Maximum profit is our aim).

8. Temporary terms extension would be granted to customers in financial strain if such extensions are in the best interest of both companies. Some terms extension benefit the seller and not the buyer. It is in our long-term interest to make sure that whatever terms extension we grant are of benefit to both parties.

9. Extend selling terms may be established for temporary periods if justified by extraordinary circumstances and approved by both the sales and credit Department.

   While extended selling terms do not increase sales significantly, it may be necessary to grant such terms to meet competition. The credit Department, through its contact with other credit men, both directly and through credit groups can determine accurately what terms are being offered by competitors.

10. Permanent financing of customers through the medium of extended terms should not be undertaken. This is to say that we are not in the banking business, nor should we take an equity position without the possibility of commensurate reward.

11. The credit Department has all the collection responsibility but in unusual circumstances, Sales Department assistance may be sought. Impersonal and consistently applied collection routines are most effective in the preponderance of collections.

12. Collection follow-up will be both strict and uniform for all accounts in accordance with agreed terms.

13. Sound business practice is widely respected and the Credit Department should through its many contacts with customers, do much to foster such respect.[11]

DETERMINING THE APPROPRIATE CREDIT POLICY

Choosing the appropriate credit policy requires taking due notice of the general business conditions, and other relevant factors. Amongst other things, it requires the evaluation of the benefits expected from alternative terms and comparison of such benefits before making a choice. Quite often, the need to increase the volume of sales may require the adoption of a new "account receivable" policy (i.e., a new credit policy). For instance a company, which has been adopting a cash policy, may want to change to a net 30 days policy. Effective credit management requires that the net result of all these credit changes be evaluated in terms of the effects on sales and on costs. This should be determined before making a choice of policy.

It is worthwhile to note that the experiences of developed economies indicate that the credit customers tend to buy as much as 100% - 200% more, from any given store than cash customers. If the sellers pay sufficient attention to the six C's of credit i.e., the CAPITAL at his disposal; his CAPACITY to manage what he is borrowing; the COLLATERAL he can offer; the CIRCUMSTANCES surrounding the borrowing; and the Insurance COVERAGE which the sellers and buyers can

provide, sellers can do a lot of good to themselves and an increasingly large number of consumers. Conversely, a "cash only" policy tends to decrease business prosperity, increase national unemployment and significantly reduce national well-being.

CREDIT PERIOD AND DETERMINATION OF CREDIT PERIOD

Credit period is the time allowed before the company seeks to collect debt. The typical credit periods are 7 days, 30 days, 45 days, 60 days, 90 days, 180 days, etc, but the most widely adopted are 30 days and 45 days.

On the other hand, a common practice is to give discounts as a means of encouraging quick payment, this will mean shortening the average collection period to less than 30 days. The application of discount techniques could be in any of the following forms:

i. Cash Discount
ii. Occasional Special Credits, and
iii. Cash Policy.

i. **CASH DISCOUNT:-** This is distinguished from trade, functional or quality discount by the fact that it is granted with the objective of inducing a buyer to pay within a shorter time than is stipulated by the normal credit period.

ii. **OCCASSIONAL SPECIAL CREDIT: -** Sometimes, inspite of the existing credit terms, occasional special credit arrangements could be made as part of a total sales package for one reason or the other. Many companies have had need at one time or the other to resort to special credit arrangements in order to;

- Encourage and retain good customers; increase overall sales and strengthen customers' goodwill and cordial relations.
- To help build up customers business
- To allow customers pay for investments made in capital, and other equipment over a period of time on special terms embodied in the relevant contract.

- To enable customers have full loads in excess of their limits in order to enable push sales up so long as they can settle
- Purely an inducement to increase turnover
- Used in contract accounts where payments are made in stages according to schedule of project.

iii. **CASH POLICY: -** No trade credit is offered. Customers pay cash strictly on receipt of goods. It is often used when the state of competition is said to be only "moderate" while demand is "high". This is a strict "cash and credit" policy.

When a credit period is being considered, there are many things to be taken into account or consideration. These will include:

a. Current trade practices: - In some sectors of commerce and industry, there are standardized credit terms for a large number of transactions.

b. **Degree of Competition: -** In an extremely competitive situation, credit terms may be a key factor in obtaining an important reduce space order.

c. **Level of profitability: -** Some traders are prepared to grant generous credit facilities if there is a high level of profit on the goods sold.

d. **Current demand situation: -** The credit period offered will frequently be more generous if there is a low level of demand at the time of sale.

e. **Volume of trade with customer: -** Credit facilities may not be granted on small orders while generous credit facilities offered on larger orders, although, the level of profit must also be considered especially if quantity discounts are being provided.

f. **Location of the customer: -** In some contracts, goods may be in transit for a considerable period. This should be taken into account in fixing the credit period.

g. **Seleability of the product: -** In most cases, credit facilities will be more generous on goods with slow turnover period e.g., machinery

and furniture, in contrast to quick selling items like food and drinkables.

h. **Seller's financial position:-** If the seller is short of business, leading to a financial constraint, he should be prepared to grant generous credit facilities in order to obtain the much needed order.

i. **Buyer's credit rating:-** If the buyer is in financial difficulties, the credit period granted, if any, will naturally be extremely short.

CREDIT TERMS:-

Credit or accounts receivable policies relate to the specific terms and conditions under which sales or payments should be effected, if credit is given. The terms may vary with companies, depending on the prevailing economic conditions or the peculiarities of a particular line of business at any point in time. Such conditions include, among others, the state of demand and competition, and the nature of company's business activity. The factors affecting or determining credit terms include:

i. **TYPE OF CUSTOMERS: -** That is, whether the customer is a retailer, wholesaler or the government. Usually small companies with likely high risks attract short credit periods. This is typified by the credit terms of some companies, where credit period of only 7 days is granted to small-scale distributors while nation-wide big companies enjoy period of 28 days or more.

ii. **RATE OF STOK TURNOVER: -** Another factor that easily influences credit terms is the rate of stock turnover, on the part of the buyer. If it takes the buyer a short time tot sell the goods purchased on credit, the period of payment will depend on his person.

The average collection period ratio tells us the number of days it takes for the average account to be collected. The accounts receivable turnover ratio, on the other hand, tells us the number of times the accounts receivable turnover increases in a year. These ratios are used to evaluate and compare terms of sales, particularly the length of the credit period as indicated in the credit terms.

In general cases, few companies are found to be consistently and fairly well in respect of collection periods. For most companies, a lot of capital in account receivable is tied down. In other words, low average periods of collection recorded by such companies will necessarily indicate bad credit management because they are unlikely to enable the companies optimise sales volume.

ACCOUNT RECEIVABLE POLICY AND METHODS OF FINANCING

From all indications, the most widely used sources of financing accounts receivable in many companies are internally generated funds and short-term bank loans. Most companies generate funds invested in accounts receivable themselves. Others prefer to use the factoring method which, in its mildest form, involves the use of a factor or "debt collector" who collects the accounts receivable on behalf of the company and deducts a previously agreed percentage before crediting the customers' account with the balance. This means the outright sales of the account receivable to the factor with all the delinquency and default risks involved.

The average here is that the company may save costs and may also improve its liquidity position. Delays associated with applying for loans and raising funds may be avoided since the factor will pay as soon as agreement to sell and buy is reached.

Some other methods of accounts receivable financing are credit insurance, and wholly owned subsidiaries set up for the purpose of account receivable financing. These methods appear not to be in use to any appreciate degree in this country.

CREDIT LIMITS

The objective of establishing a customer's credit limit or total company credit line is to ensure that credit is not extended beyond a point at which the probability of default is considered unacceptable.

In other words, since a company cannot continually extend credit indefinitely, at which level of risk should insist on "Cash only" policy be adopted.

Analysis of the various views on this issue indicates that majority of companies use the credit selection yardstick for establishing credit limit. Such instruments as Bank references, Trade references and financial statements do help in the selection. But a credit officer, having been satisfied that a particular customer is credit-worthy, the amount of credit he is worth is a different problem, and may be beyond the scope of the use of the popular traditional six C's – capital, capacity, conditions, collateral, insurance coverage and character.

MONITORING THE CUSTOMER'S CREDIT LIMIT AND TOTAL CREDIT LINE

Once the credit limits have been set, effective credit management requires that some measures or yardsticks be established for monitoring both the individual customer's credit limit and the company's total credit line. This is essential so that corrective steps could be taken from time to time. This is done through the following methods:

a. Periodic review of customer's performance
b. Strider accounting controls by ways of preparation of weekly schedules of customers' outstanding debts.
c. Monthly orders from customers compared with supplies, with a view to determining and controlling credit balances.
d. Credit ageing analysis.
e. Use of customer's passbooks by sales departments to control limits on daily basis, and use of debtor's statements by marketing and commercial department to control limits on a monthly basis.
f. Checking customer's credit positions before new credit transactions are approved or entered into.
g. Granting of approval on new orders only if credit limiit is not exceeded and will not be exceeded when order is serviced.
h. Holding of credit committee meetings, review of ageing analysis of trade credits and occasional publication of accounts receivable positions.
i. Use of Accounts receivable turnover and average collection period ratios.
j. Consistent check on reasons for divergence between expected default risk and actual default debts.

2.4.2 CREDIT WORTHINESS AND SOURCES OF CREDIT INFORMATION

If goods or services are being supplied on credit, it is essential that there should be an efficiently organised system through which business organisations can obtain information regarding the credentials of persons or organisations apply for credit facilities. There are many sources of credit information available but in practice, the use of all available methods would be costly and in addition, the inevitable delays involved could lead to the loss of orders.

It is therefore extremely important that the credit executive should consider very carefully the costs and benefits arising from the various credit investigation methods. It does appear that there is no formal or informal credit association in the country through which information about debtors is exchanged. However, the banks and trade references constitute major source of credit information. Most companies use these sources of credit information.

SOURCES OF CREDIT INFORMATION

The following sources of credit information provide a very useful insight in determining the credit worthiness of potential and existing customers.

1. TRADE REFERENCES: -

Many business firms insist that all prospective credit customers should fill in a credit application form which generally asks, amongst other things for information that will lead to the provision of two trade references and one bank reference. In most cases, letters are sent to the persons or organisations, which have been named. There may be situations in which telephone calls are considered more appropriate.

A typical letter of a trade would normally request for the following information:

a. Name of company reported on
b. Number of years of trading experience
c. Maximum credit allowed
d. Normal speed of payment
e. Any other comments
f. Name of reporting official.

2. **BANK REFERENCES**

Requests for a bank reference will usually be made through the seller's own bank. An indication should always be provided through the amount of credit required.

The reply provided by the bank manager, in response to this type of letter will usually be evasive. This is because the banker has a duty to protect and not damage the image of his customer based on the facts known to him.

3. **PERSONAL VISITS**

Special visits may be arranged by sales or credit personnel when requests are received for credit facilities. With small firms, it may be difficult to arrange visits of this native largely because of geographical considerations but exceptions may be made with an important order.

The information obtained as a result of personal visits varies tremendously. Many large companies seek to build up information regarding the size and the status of the organisation covering such aspects as; how long it has been established, the type of business, the condition of the premises and equipment, size of stocks, competitive situation and any other facts that could be obtained from local contacts. Detailed records can then be kept regarding all credit customers, with information updated at regular intervals.

4. STATUS REPORTS

The services provided by credit reporting agencies and trade protective associations are being increasingly used to obtain status report about prospective customers. A typical report provides some fairly brief information regarding company history and management, trade affiliations, financial structure, mortgages and charges, size of operations and payments record. The credit manager who has a significant number of inquiries each month from prospective credit customers should, therefore, seriously considers the use of status reports.

5. FINANCIAL STATEMENT

All limited companies registered in Nigeria have to lodge copies of their annual accounts with the Registrar of companies and Allied Matters

Commission. Copies of these accounts can be inspected at the company's recent history, size, growth record, and financial strength of the company, analysing and interpreting the balance sheet, profit and loss accounts over a period of about three years.

6. **OTHER SOURCES OF INFORMATION**

There are numerous other sources of information that are of value to the efficient credit manager, e.g.;

a. Sales ledger data – Can be reviewed periodically in the case of existing customers wanting a higher credit limit.

b. Reference Books:- Not yet popular in Nigeria, but very much in use abroad e.g., Who Owns Who, Guide to key British Enterprises, Stock Exchange Official Year-Book.

c. Newspapers and Magazines:- Daily Times, Business Times, etc, carry valuable information regarding liquidations, bankruptcies, cash flow problems, etc.

CREDIT WORTHINESS

In order to evaluate the credit worthiness of a prospective customer, it must be realised that effective and efficient manager begins with the careful selection of the prospective customer' Infact, ABILITY TO PAY is the essential information required as this establishes the credit worthiness of the prospect. On prima face, a basis, the following factors could be readily applied to assess the prospective customer.

Favourable Factors	**Unfavourable Factors**
- Has good record of payments	- Moves frequently
- Is married	- Changes jobs frequently
- Pays rent promptly	- Has no bank accounts
- Owns a home	- Slow in paying rent
- Has a stable employment record	- Has a criminal record
- Maintains a checking account	-Has a history of bankruptcy

COST OF GRANTING CREDIT

Credit cost refers to the cost incurred by a company when credits is given or debt is collected. If a company sells strictly on "cash only" basis, it may not --- any

credit or collection costs. But once a company extends credit, however minimal some form of cost is incurred, because funds have to be raised to finance the capital tied down in receivables.

In other words, the costs and risks in credit policy should be weighed against the additional profit, which such policy is expected to generate.

Listed below are the cost elements taken into consideration in credit and debt collection policies and procedures:

a. Normal production costs
b. Administrative costs
c. Transportation costs
d. Debt collection costs and Interest on capital tied up in receivable.
e. Bad debts and commission to staff debt collectors
f. Labour cost, materials and bad debts
g. Collection of staff salary and cost of financing debts
h. Bank Interest, company's liquidity and budget
i. Discount, transport and interest
j. Litigation and bad debts
k. Cost, financing debts as indicated by the ruling rate of borrowing
l. Bank interest on overdraft for financing receivables
m. Unearned interest on bad debts and on delinquent accounts
n. Legal cost and implication of litigation on bad debts and future trade relations.
o. Hotel costs
p. Material cost of sales and labour costs
q. Damage to good trade relations and staff expenses on follow-up
r. Solicitor's fees.

2.4.3 DEBT COLLECTION POLICIES AND PRACTICES

A credit cycle begins with the granting of credit and the delivery of goods. The cycle is complete only after payment is effected. Collection problems are created when some customers fail to observe the terms of the credit transactions. The goal therefore, of any collection policy should be to collect outstanding debts. How this is carried/done is determined by the credit collection policies of the company.

CREDIT COLLECTION POLICY

The policies adopted by many companies could be typified by the following statements:

a. "The debtor is obliged by our policy to settle the past month's debt before taking another".
b. "Customers' statements are out on every 3rd day of the following month and are distributed by Marketing Representatives"
c. "Strict observation of the credit limit and follow-up action to collect overdue accounts"
d. "Very strict control of credit limit with a view of ensuring liquidity and reduction of bad debts to the barest minimum"
e. "Our policy is geared towards encouraging customers to pay for the materials and services provided to them without straining normal trade relationship"
f. "Invoices are hand-delivered to customers and thereafter letters or reminder statements of accounts, by salesmen and Debt collectors".

Generally, there is no best collection policy. Collection policies are often derived from the peculiar circumstances of every company. That is, it is impossible to generalise about credit collection policies as conditions can vary from one company to the other. Apparently, much will depend on the nature of the business in which the organisation is involved. All manufacturers, wholesalers and retailers sell goods on credit but their terms of sale may be very different.

The degree of competition amongst sellers is also likely to be an important factor in collection procedures. If there is little or no competition in the industry, it may be possible for the seller to implement strict collection policies, which would be impossible under more competitive condition.

The profitability of goods sold or services provided should be an important factor when decisions are made on collection policy. If there is a substantial margin of profit on sales, a generous credit collection policy may be implemented. The volume of business with a particular customer must also be considered.

The speed with which goods can be sold by the purchaser may also have a significant effect on collection policy. If goods are sold for cash within a few days

of receipt e.g., with many food and drink products, prompt settlement would normally be expected. On the other hand, goods which may take many months to sell e.g., machinery and furniture, are likely to be the subject to more generous credit policies.

The corner stone of every collection policy should be PROMPTNESS, REGULARITY AND SYSTEMISATION. Infact, promptness and methodically pre-planned program that can be adapted to different situations.

CREDIT COLLECTION FOLLOW-UP SYSTEMS

According to Beckman and Foster "Keeping track of debts in order that special attention may be given them at the critical time is for the most part a problem of record keeping".

An industry investigation on credit collection follow-up systems indicate that many companies do not have any organised collection systems. For the sake of clarity, each of these collection follow-up systems in briefly reviewed.

i. **THE LEDGER PLAN:-** Involves the use of the creditors' ledger records. These are inspected frequently on regular intervals to detect which accounts are overdue. This plan requires that an efficient book-keeping system is maintained.

ii. **THE CARD TICKLER SYSTEM:-** Involves the use of a file divided usually into 31 compartments on a monthly basis. A card on which details of each debtor's account (ie., the amount, due data, past due amounts and collection efforts so far made). Its position indicates the time when next collection effort will be made.

iii. **THE DUPLICATE INVOICE SYSTEM:-** Is similar to the card tickler system but instead of cards, it is the duplicate of every invoice that is filed in the tickler.

An effective collection policy should be able to identify some special collection problems. When these are identified, specific policies should be made in respect of them. Areas that generally pose problems include: -

a. Customers' taking unearned discounts i.e., although, a customer did not pay at the expiration of the cash discount period, his discount is still maintained.
b. The charging of interest on overdue accounts
c. The suspension of delinquent accounts.

The policy of most companies is to review the discount policy of their company or place embargo on future orders by a customer who continues to take unearned discount. Very few companies in Nigeria charge interest on overdue accounts, rather most companies take the easy way out by suspending delinquent accounts as a matter to deliberate policy.

STEPS AND METHODS ADOPTED IN DEBT COLLECTION EFFORTS

The type and number of steps in debt collection efforts vary from company to company. Usually, the more lenient policies adopt a larger number of steps while the strict policies employ fewer steps.

In general, whether the credit policy or a company is lenient or strict depends on the state of demand and competition. Regardless of the methods and steps adopted, two factors are significant. These are:

I. **SEQUENCE:-** This is the order in which the various methods are arranged and
II. **INTERNAL:-** This relates to the frequency of the use of various efforts, methods or means of collecting debts which include;
    a. Letters
    b. Personal visits
    c. Debt collectors
    d. Solicitors
    e. Litigation

Generally, the sequence often adopted in the debt collection process is as follows:

a. Statements and Invoices
b. Letters
c. Reminders
d. Personal visits

e. Debt collectors

f. Solicitors (Threatening letters)

g. Litigation.

a. STATEMENTS AND INVOICES:-

Trade credit system cannot operate satisfactorily if there are substantial delays in the dispatch of invoices and statements.

There have been controversies regarding the need for monthly statements. Some medium sized and large purchasing organisations make use of statements in their settlements procedures as payment is related to invoice received, and each cheque is accompanied by a remittance advice. On the other hand, many firms still consider that the statement is a most important document in checks that are carried out on amounts outstanding, and in some cases, payment will not be made if statement are not received.

b. COLLECTION LETTERS:-

Most business organisations send out letters to remind debtors about their overdue accounts. These letters may be duplicated, printed or individually produced, depending on the circumstances relating to each debt and general company policy on these matters.

The number of reminders that are sent out is always a controversial subject. Many companies send out at least three reminder letters before more drastic steps are taken. This is to ensure that customer goodwill is not lost. Others, after a reminder cut off supplies, emphasizing that the debtor should realize immediately the seriousness of his action in not paying up. Obviously, this method cannot be adopted in all situations.

In many cases, the first reminder letter suggests that non-payment may be due to an “oversight” and settlement is frequently asked for “in the near future”. The tone of the next letter may be more severe, and by the time the third is dispatched there may be a threat of legal action if a cheque is not received within the next seven days.

c. TELEPHONE CONVERSATION:-

Some credit executives make use of the telephone system when debts are overdue, especially when there is a well-known contact man at the other end who can arrange for prompt payment or can influence those people responsible for payment. The major draw-back of this method of approach in Nigeria is the non-functioning of the telephone system.

d. PERSONAL CALLS:-

When debts are considerably overdue, calls may be arranged by sales or credit personnel. There are strong differences of opinions regarding the relationship between sales, credit and accounting staff in the organisation.

It should also be noted that personal visits by senior credit executives can be very expensive in terms of time, cost and expenses incurred, except for big overdue accounts.

e. COLLECTION AGENCIES

When a debt is considerably overdue and normal collection methods have failed, the company may turn to an outsider for assistance. In some circumstances, a solicitor may be consulted, and in other cases, debts are handed over to agencies for collection purposes.

Before choosing an agency as much information as possible should be collected to ascertain its credibility in terms of history ability to handle the accounts, major companies worked for, approaches, rates charged, clients and past records regarding recovery of debts, etc.

The point should also be made here that there is little or no point in taking legal action if there is no real hope of recovery of the outstanding debt i.e., if the debtor is likely to be insolvent.

There is no doubt that the ability of any company to formulate and implement sound credit policies will, to a large extent, depend on top management's conception of the significance of credit function in their organisations.[13]

2.4.4 LEGAL ASPECT OF CREDIT MANAGEMENT

Legally, financial credit may be obtained from a money Lender, Financial Houses, Insurance Companies and Banks. Sound Lending is premised on the expectations that the borrower will repay as agreed from funds generated from operations and from other known sources. It is however, wise for any giver of credit to secure his credit in case of any unexpected development which disrupts the normal sequence and jeopardizes the creditor's position. This is not to say that a bad credit proposal should be disqualified solely on account of availability of security but that even in cases where the credit proposal has not only good prospects but also viable and profitable ones, the issue of security must be adequately addressed.

Security is aimed primarily at providing an insurance against any unknown event, since no business, whatever its nature, is devoid of some element of risk and uncertainty. The legal aspect of credit and security for advances, especially from the banks perspective are mainly in documentation of credit facilities, and perfection of the securities for the credit given.

A loan agreement is all that needs to be prepared where there is only one lender/creditor. Where it is a loan syndication (by two or more creditors) there must be two documents viz the loan agreement and inter Lender Agreement. Where the Lender is a Bank, it must not exceed the statutory lending limit "single obligator limit". This is imposed by government in order to forestall any incidence of over exposure to a single borrower or one sector of the economy. It must not commit more than 33% of the sum of the paid up capital and statutory reserves for the bank to any single borrower as contained in section 13(IX) (a) of the Banking At 1969 as amended.

The lender's solicitors should prepare the documents for the security and perfect them depending on the type of security taken. There are different types of security acceptable for credit given.

They are as follows:-

1. Interest in land
2. Stocks and shares

3. Company floating assets
4. Guarantees
5. Bill or promissory notes
6. Deposits of title documents of goods
7. Insurance policies
8. Lien on deposits
9. Letter of Hypothecation
10. Letter of comfort or Awareness
11. Negative pledge.

1. INTEREST IN LAND

Under the Land Use Act of 1978, security of land is confined to a right of occupancy in land. This is evidenced by a certificate of occupancy issued by the State Governor. A title document can be in the form of certificate of Occupancy or conveyance duly registered before the Land Use Act in 1978. it may also be a lease for a reasonable number of years or an assignment of such a lease, made after the promulgation of the Land Use Act, which must have the consent of the State Governor.

A legal charge can be created in form of a legal Mortgage or a Debenture. It is created by a demise for a term of years absolutely subject to a proviso for or by a charge by deed expressed to be by way of legal mortgage or by assignment with a proviso for Casers on redemption.

Before binding himself to give credit, the lender should search the land's Registry to ascertain that the property is unencumbered and that the would-be borrower has good title. Thereafter, provided all matters are right and terms of credit have been agreed upon and appropriate draft is prepared for the consideration of both parties and if the draft is not objected to by both parties, the documents are endorsed for execution.

STOCKS AND SHARES:-

Stocks and shares of companies listed on the Nigerian Stock Exchange may also be used to secure loans and advances. The mortgage of shares can either be legal or equitable. A legal mortgage is effected by taking steps to transfer the

shares and getting them registered in the lender's or his nominee's name. An equitable mortgage is effected by depositing with the lender the share or stock certificates with or without delivery of a blank transfer form to the lender.

COMPANY FLOATING ASSETS:-

A charge can be created on the floating assets of a company. Such charge covers plants and machineries, stock in trade, raw materials and future assets of the company. A floating charge can also be created on all the company's assets including fixed assets. Section 197 of the Companies and Allied Matters Decree 1990 requires that a floating charge should be registered with the Corporate Affairs Commission. An unregistered charge, though valid, against the company is avoided against other creditors of the company.

GUARANTEE:-

This is a personal security predicated on the existence of a contract of guarantee between the lender and a third party known as the surety or guarantor in consideration of a specific advance to a debtor. This must be supported by a valuable consideration. The deed of guarantee is enforceable against the guarantor unless he signs it. Unless otherwise provided, a guarantor is not liable for debts incurred before the execution of the guarantee.

BILLS OR PROMISORY NOTES:-

Both the Bill of Exchange and Promissory Notes are negotiable instruments and are transferable by mere delivery without a formal assignment unless it is payable to order, in which case, it requires endorsement. The deposit of a Bill or Promissory Note as security does not preclude the lender from pursuing other remedies available to him, such as suing for the debt.

DEPOSIT OF TITLE DOCUMENTS TO GOODS:-

To have a charge on the documents because of its essentiality when it comes to transfer. The Bills of Sales or Bills of Sale Acct 1879 affected individuals and therefore charges created by companies on documents of title were not void as unregistered Bills of Sale. Security on goods is not complete unless there has been actual delivery of the goods. A constructive delivery is also sufficient. It may be by handling over the keys to the store or warehouse where the goods are

stored, delivery of valid documents of title such as Bill of Lading or an acknowledgement by the warehouse keeper that he holds the goods on behalf of the creditors. This is called atonement.

INSURANCE POLICIES:-

There are various types of insurance policies. There are, however, only two of these that are popularly acceptable as security. These are Life Insurance Policies and Mortgage Protection Insurance Policy.

LIEN ON DEPOSITS:-

A borrower obtains credit on this basis when he has invested by depositing for a fixed period in the bank, and is in dire need of working capital. The lender can only obtain as credit the sum standing to his credit in his account with the Bank or else, he cannot obtain more. The form of security is easy to take and needs only be in writing, duly signed by the borrower as evidence of the lien should the situation arise.

LETTER OF HYPOTHECATION:-

This gives a charge over the goods but the borrower retains possession. It is common in cases where it is actually impossible to give the lender possession. This kind of security is unreliable in that it offers no control over the goods.

LETTER OF COMFORT/AWARENESS:-

This is written acknowledgement of the borrower to the lender by a person of repute, whether corporate or individual, supporting the credit transaction, but without any liability or commitment on his part.

NEGATIVE PLEDGE:-

This is a commitment or undertaking by the borrower to the lender not to charge its assets in favour or a third party so long as the loan remains unpaid. There is no charge created. Where the understanding is violated the only remedy for the lender is to call up the loan or sue for it. A negative pledge may cover the existing assets, then assets subsequently acquired can be mortgaged.[14]

2.4.5 MACHINERY FOR THE RECOVERY OF BANK CREDITS AND ADVANCES

Under the above heading, we shall be examining the legal and other machinery for the recovery of debt by Banks and other Financial Institutions. In doing this, it is necessary to know at what point in time, loan or credit facility becomes a debt worthy of recovery by legal action or otherwise, the various machineries of recovery (depending on the legal personality of the debtor, whether an individual, partnership, limited liability company, ministries, statutory corporations or Government departments and the nature of the security obtained.

Also essential in the classification, for the purpose of recovery, debts owed to Banks and other Financial Institutions, into two categories, namely SECURED and UNSECURED. This is because the machinery for recovery also depends on this classification, apart from the legal personality of the debtor.

NATURE OF THE RELATIONSHIP BETWEEN BANKER AND CUSTOMER

Although, the relationship between Banker and Customer is fundamentally that of a debtor (the Bank) and Creditor (the Customer) when money is deposited with the bank by its customers, there are times in the course of their relationship when the rule is sometimes reversed. A customer therefore becomes a debtor to the bank when loan, credit facility or financial accommodation is granted to the customer by the Bank, either for his personal use or to finance his business transactions.

It is when the loan or financial accommodation so granted is not repaid according to the repayment programme, or at all or where the credit facility granted for a fixed term has expired, and though not renewed the account remains in debit thereafter, and all necessary demands by the Bank on the customer to put the account into funds (i.e., make it active) remain unheeded.

A cursory look at the Annual Reports and Balance Sheets of some of the Banks shows huge provisions for bad and doubtful debts are made annually.

CLASSIFICATION OF DEBT FOR PURPOSE OF RECOVERY:-

A debt may be classified as secured or unsecured for the purpose of recovery.

UNSECURED DEBT

The first approach at recovering an unsecured debt is for the banker to first draw the attention of the debtor/customer to the irregularity in his account and requesting that it should be put into funds. If the debtor refuses to respond, then the matter of recovery would be referred to the Legal Department of the Bank for legal process, which involves formal letter of demand, or eventually a court action.

LEGAL CONSEQUENCES OF DEFAULT IN PAYMENT, AND ENFORCEMENT OF THE OBLIGATION TO PAY DEBT

Default in payment of loan or credit facility after the necessary demand could have quite unpleasant results for the debtor. From the legal point of view, a defaulting customer faces the embarrassment of action, which may cost him loss of ownership of cherished investments, like houses, businesses and may become bankrupt.

Banks and other Financial Institutions are not usually keen on litigation, except as last resort. Once a decision is taken to take court action, the solicitor takes over and obtains the necessary writ of summons, order for judgment for the debt amount and interest. On obtaining judgment, the debtor becomes a JUDGMENT DEBTOR. The implications of being a judgment debtor are considered below:

i. **Imprisonment For Civil Debt:-** A judgment debtor may be imprisoned for six weeks if the court is satisfied of his ability to pay. Such imprisonment does not however relieve him of his liability to pay the judgment debt.

ii. **Levying Execution on the Debtor's Property and Assets:-** The debtor's property or Assets could be sold levying execution and obtaining "writ of attachment and sale" from the Registrar of the Court. The court sheriff would then have the debtor's residence sealed off and may proceed to seize some of his property/assets for sale. A garnishee order or ex-pâté motion may be granted stating that the debt must be paid within a time limit or execution may be leveled against him, if he defaults.

iii. **Bankruptcy Of Debtor:-** The debtor may be declared bankrupt as means of getting him to pay the debt or make him suffer some disabilities as a deterrent to others in line with the provisions of Bankruptcy Act of 1979 for individuals and partnerships or winding up of the debtor company in line with the rules and procedures contained in the Companies Act, 1968 and

Companies and Allie Matters Decree, 1990.

SECURED DEBT-ENFORCING THE SECURITY

A secured creditor need not first proceed against the debtor on his personal obligation to pay, but he could proceed straight forward on default to enforce the securities held.

Such securities may consist of legal mortgage on landed properties and buildings, including stocks and shares, debentures over the assets of limited liability companies, assignment of life policies, personal guarantees or overseas bank guarantees. On realization of these securities, money recovered would be credited to the debtor's account to offset or reduce the indebtedness, after which the creditor could still proceed to enforce the personal obligation to pay as earlier discussed.

RECEIVERSHIP:- A deed of debenture like a legal mortgage usually makes provision for the appointment of a Receiver or Receiver/Manager to administer the affairs of the company on the enforcement of the security in accordance with section 101(1) of the Companies Act, 1968.

Whenever a Receiver is thus appointed, he is charged with the responsibility of selling the assets of the company and recovering the total amounts owed; and such receiver usually turns to be a liquidator eventually.

If he is Receiver/Manager, he could take possession of the assets, and superintend over the administration of the company, with authority to appoint manager, officer, agents, lawyers, accountants, advisers, stewards, workmen and others for the purpose of running the affairs of the company.

Any Receiver/Manager so appointed is by the deed of appointment, deemed to be the agent of the company, and the company shall be responsible for his acts, defaults and remuneration; although he looks forward to the mortgage or debenture holder who appoints him for instructions in his dealings with the affairs of the company.

The Receiver is expected to give full account of his receivership before he is eventually released, and notice to that effect must be given to the Registrar of Companies.

Recovery of outstanding debt owed by bank customers is a common problem among Banks and Financial Institutions (though of varying degree) as evidenced by the staggering amount of bank lending being classified as bad and doubtful in their annual accounts and balance sheets. The serious economic recession no doubt has in no small measure contributed to the customer's inability to repay loan or credit facility lawfully granted them on schedule.

RECOVERY OF DEBT OWED BY MINISTRIES, STATUTORY CORPORATIONS OR GOVERNMENT DEPARTMENTS

Recovery of debts owed by ministries, Government departments and statutory Corporations, or secured by their guarantees, requires special handling, because it has not been possible or practicable to proceed against them like in cases of private individuals, partnerships or limited liability companies earlier discussed. This provides a reason why various sums are outstanding for recovery by the banks from the Central Bank of Nigeria under the Agricultural Credit Guarantee entered into for and on behalf of the Federal Government of Nigeria in cases where the former beneficiaries have defaulted in their repayment of agricultural loans granted by the banks.

Rather than make itself liable for court action for recovery of debts owed, the recent approach by the Government is to reschedule its various debts.[15]

In conclusion, recovery of difficult debt by legal action during this period of economic recession should be pursued with utmost caution, because a large number of customers' accounts have become dormant, not because of bad management or loss of assets, but because of economic recession which results in less foreign exchange earnings to impart raw materials, leading to some cases of complete cessation of production by manufacturing companies as well as partial cessation of foreign trade by importers and exporter.

Therefore, the creditors should adopt the methods of persuasion and possible reactivation of dormant accounts where found necessary, and a realistic repayment proposal which may result, should be seriously considered as an alternative to the realization of the securities held, or enforcing the obligations to pay by instituting court action or even contemplating embarking a bankruptcy proceedings.

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CHAPTER 3

RESEARCH METHODOLOGY

3.0 INTRODUCTION

As pointed out by Arnold[1], Facts do not simply lie around waiting to be picked up. Facts must be carved out of the continuous web of on-going reality, must be observed with a specific framework of reference, must be measured with precision and must be observed where they can be related to relevant facts". Therefore, research methodology is that portion of the research, which makes explicit the study design, which constitutes how the research has been carried out.

The research methodology includes the following:-

i. The population to be studied;
ii. The type of sampling to be followed;
iii. The size of the sample to be drawn;
iv. The type of instrumentation for the purpose of this work, questionnaires have been used;
v. The statistical tools to be used – in this research work, the percentage analysis method will be used to analyse the results;
vi. The type of tabular presentation – for example, tables and figures will be used.

3.1 RESEARCH METHODOLOGY

In carrying out this research, a method of direct data collection is used. This will be done with the aid of questionnaires. Data (information) will also be gathered from the management of some banks interviewed.

Basically, whatever data embodied in this research will derive its authority from either of the following sources:

(i) Information collected from textbooks relevant to the topic, journals, business newspapers and magazines,
(ii) Answers to questions supplied by bank officials interviewed
(iii) Answers to the questionnaires, and
(iv) Observations and inferences drawn from the administration of the questionnaires

Here, appropriate sampling method has been used to select a sample of ten (10) banks. Namely, First Bank Plc, Union Bank Plc, UBA Plc, Zenith International Bank Ltd, Oceanic Bank, Standard Trust Bank, Chartered Bank, Diamond Bank and Guaranty Trust Bank. Stratified sampling has been used, so that all the cases in the population have an equal probability of being chosen. In essence, the probability sampling method is used. Then, inferential statistical tools which are appropriate have been chosen to analyse the data collected.

3.2 RESEARCH DESIGN

The research design employed for this research is EXPLORATORY research method. This is warranted because relatively little is known about the phenomenon to be investigated. The general purpose of this exploratory research is to gain insight and ideas into the study. It is helpful particularly because it helps in breaking broad vague problem statements into smaller more precise sub-problem statements in the form of hypotheses as has been earlier done in chapter one.

3.3 SOURCES OF DATA

In seeking information, a researcher has two broad sources of data, namely:-

a. Sources of secondary data;
b. Sources of primary data.

The secondary data are data already in existence, having been gathered for some other purposes, while the primary data are those gathered specifically for the project at hand[2]. The secondary data used in this research were obtained from Economic and Financial reviews, Business Times, Financial Analyst, Financial Guardian and others, such as text books and journals were mainly used.

In a bid to complement the information requirement for this research, a questionnaire was designed to gather primary data which has direct relevance with the hypotheses to be tested. Interviews were also conducted to ensure a fair reconciliation of the ideas already contained in the questionnaire.

3.4 POPULATION

Having specified that the data to be used in this research work entails both primary and secondary data, there is the need to specify the population from

which the primary data is to be obtained. A population, as defined by Fraud and Williams, is a "set of data that consist of all conceivable possible or hypothetically possible observations of a certain phenomenon".[3]

The population considered pertinent and therefore used in this investigation is defined as the whole commercial banks operating in Nigeria.

3.5.0 SAMPLING

3.5.1 SAMPLING UNIT

This is the specification of the elements within the population that will be surveyed. The sampling unit represents each of the banks chosen for the random sampling that is the branches of First Bank, Union Bank, UBA Plc, Zenith Bank, Fidelity Bank, Oceanic Bank, STB, Chartered, etc, used for this research.

3.5.2 DETERMINATION OF SAMPLING SIZE

A sampling size is an entity representative of a class or set of elements drawn from and analysed to estimate the characteristics of a population.[4] In the determination of the sampling size for this research, the fifty (50)

3.5.3 SAMPLING PLAN OR METHOD

A sampling plan refers to the operational procedures for the selection of the sampling units.[5] It has already been stated that because of the need to make valid generalizations from the study, the random sampling technique was used for the selection of the sampling units.

The elements in the population are spread over the length and breath of the country. While some have over 200 branches spread across the country, for example, Union Bank Plc, First Bank Plc, United Bank for Africa Pl, others have fewer than five branches.

The operational procedures for collecting primary data used for this study were the questionnaire and oral interview as earlier mentioned.

3.6 QUESTIONNAIRE

A questionnaire was designed to gather primary data that will throw more light on commercial banking and credit management and debt collection in Nigeria. The

questions were framed in such a way that their responses would be used in testing the hypotheses earlier formulated.

In all, fifty (50) questionnaires were administered in five (5) Nigerian cities through personal calls and with the help of friends staying or residing in these places. The cities include Abuja, Jos, Kano, Lagos and Kaduna.

The questions were principally the objective answers. The open ended questions were used to direct the respondents' frame of mind as that of the researcher, while at the same time permitting them to put forward their views in the form of brief comments. As much as possible difficult questions that were unlikely to be answered without assistance were omitted.

In the same vein, sensitive questions requiring clearance from their various Head Offices were avoided in order to ensure an encouraging and high response. No clerical staff was allowed to complete the questionnaires but only the Bank Managers and top rank credit officers of the banks.

3.7 INTERVIEW

In order to complement the information obtained from the data in the completed questionnaire and to reconcile any discrepancies in the questionnaire, the researcher interviewed fourteen (14) credit officers of banks in Abuja. the banks interviewed were; Zenith International Bank, Standard Trust Bank, First Bank of Nigeria Plc, African International Bank, New Nigeria Bank, Bank of the North, Habib Bank, Afribank, Oceanic Bank, Union Bank of Nigeria Plc, Lion Bank, United Bank for Africa Plc, Chartered Bank and Citibank.

3.8 TOOLS OF ANALYSIS

The completed questionnaires were analysed using the percentage distribution of the responses. Where the null hypothesis permits, the chi-square is applied directly to the statistics using the relevant questions. Where this is not possible because of difficulty in estimating the expected frequencies (fe) under the null hypothesis, the percentage distribution was used to arrive at a conclusion in the first instance. The second stage in such cases involves the use of chi-square to test whether such results have occurred by chance or not.

All hypotheses were tested at the 5 percent level of significance. In order to satisfy the condition that the chi-square can only be used where the expected frequency (fe) is at least equal to five (5). A number of categories at each end of the frequency distribution is combined to give an expected frequency (fe) of at least five.

The chi-square test method is considered more appropriate here because of the limited number of categories of events. Another consideration is its simplicity and lack of technical equipment such as computer that would have enabled a multi-variant analysis and categorical ranking of the factors.

3.9 SUMMARY

This chapter detailed out the methods used to generate and analyse the data for this study.

The secondary data were obtained from published materials while the primary data were generated through the use of questionnaires and oral interviews. These two sources were selected and used to complement each other and to ensure an adequate reconciliation of any discrepancies in the completed questionnaires.

The population in this study is made up of all the commercial banks in Nigeria as at date. A sample of fifty (50) of the questionnaires administered and received was chosen using simple random sampling techniques.

For the analysis of the primary data, the percentage method was used. The results obtained from these methods are consistent with each other and thus laid a sound foundation for the findings and recommendations.

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CHAPTER FOUR

4.0 DATA PRESENTATION AND DATA ANALYSIS

4.1 INTRODUCTION

Data on its own may be useless or meaningless unless analysed and interpreted, thereby becoming information to form the basis for decision making or drawing of conclusions.

This chapter presents the data collected through the use of questionnaires and interviews. A total of fifty questionnaires were distributed to various commercial bank branches in Abuja, Lagos, Kaduna, Jos and Kano.

Out of the fifty questionnaires distributed, only 34 were duly completed and collected. This accounts for 68% of the total number of questionnaires distributed which is impressive and indeed, it was against this background that relevant statistical techniques have been applied to prove whether the statement should be accepted or rejected. Percentage distribution and chi-square have been employed for this data analysis because of their appropriateness in this direction.

4.2 STATEMENT OF HYPOTHESES

In this sub-section, the hypotheses are reproduced to refresh out memory.

4.2.1 HYPOTHESIS I

This hypothesis is aimed at finding out the category of customers most favored with regards to granting of credit/loans. Thus we have the null hypothesis and alternate hypothesis as follows:

Null Hypothesis (Ho):- The category and business of customers have an insignificant effect on credit/loan approval.

Alternate Hypothesis (Hi):- The category and business of customers have a significant effect on credit/loan approval.

4.2.2 HYPOTHESIS II

The second hypothesis is aimed at finding out how customers have been meeting up with their credit/loan obligations and the effect on loan approvals.

Null Hypothesis (Ho):- Servicing of loans/credit has an insignificant effect on loan/credit approval.

Alternate Hypothesis (Hi):- Servicing of loan/credit has a significant effect on loan/credit approval.

Pertinent questions in the questionnaires, which have direct relevance to the hypotheses, are:

1. With respects to hypothesis I, questions 1 to 4 are of direct relationship, but question 2 has been used to test the hypothesis.
2. In hypothesis II, questions 5-13 have direct relationship with this hypothesis but question 5 has been used to test the hypothesis.

4.3 DATA ANALYSIS INTERPRETATION (PERCENTAGE DISTRIBUTION)

4.3.1 Question 1 was framed to find out the experience of the bank as regards credit matters. Years of this shows that majority (61.81) of the banks have been operating between 10-20 years.

Classification of Responses	No. of Responses	Percentage
Below 5 years	0	0
Between 5-10 years	1	2.9
Between 10-20 years	21	61.8
Above 20 years	12	35.3
Total	34	100

4.3.2 Question 2 was designed to find out the most favoured category of customer who requires credit/loan facilities. The most favoured is the manufacturing firms & multi-nationals.

Classification of Responses	No. of Responses	Percentage
Small and large scale Businessmen	5	14.7
Corporate organisations	2	5.9
Manufacturing firms and Multinationals	23	67.6
Others – Individuals, staff, et.	4	11.8
Total	34	100

Question 3 was framed to find out the basis for favouring the category of customers in Question 2.

Classification of Responses	No. of Responses	Percentage
Sound asset base	20	58.8
Little or no history of default	2	5.9
Collateral security with the Bank	10	29.4
Others – Goodwill, other deposits with the bank, etc.	2	5.9
Total	34	100

Question 4: To explain the ease/ closeness of customers to approving authority that is at what level are loans/credits approved for customers.

Classification of Responses	No. of Responses	Percentage
Departmental level	0	0
Branch level	3	8.8
Regional level	10	29.4
Head office level	21	61.8
Total	34	100

Question 5. What percentage of debtors are defaulters?

Classification of Responses	No. of Responses	Percentage
Less than 10%	25	73.5
Between 10%-25%	4	11.8
Between 25% - 50%	3	8.8
50% and above	2	5.9
Total	34	100

Question 6. To what extent does the level of response of customers to their credit/loan obligations affect the banks credit?

Classification of Responses	No. of Responses	Percentage
Favourably	30	88.2
Unfavourably	3	8.9
Adversely	1	2.9
Total	34	100

Question 7. What percentage of credit/loan demand by customers has been met?

Classification of Responses	No. of Responses	Percentage
Below 10%	2	5.9
Between 10%-25%	4	11.8
Between 25%-50%	25	73.5
50% and above	3	8.8
Total	34	100

Question 8. If not 100% why?

Classification of Responses	No. of Responses	Percentage
Single obligor limit	1	2.9
Inadequate security	10	29.4
Time difference between perfection of security & need/urgency of fund	3	8.9
Others – SWOT Analysis, inadequate liquidity to support request, New customers, etc.	20	58.8
Total	34	100

Question 9. What are the requirements for granting loans/credits?

Classification of Responses	No. of Responses	Percentage
Good and satisfactory account history	15	44.1
Guarantors	2	5.9
Feasibility study are area of investment	10	29.4
Collateral security	7	20.6
Total	34	100

Question 10. What method of debt collection is employed by the bank?

Classification of Responses	No. of Responses	Percentage
Letters of reminder	1	2.9
Factoring	8	23.6
Classified assets Management	22	64.7
Solicitors	2	5.9
Others – Lien on other accounts	1	2.9
Total	34	100

Question 11. What credit analysis method(s) are employed in assessing credit request?

Classification of Responses	No. of Responses	Percentage
Qualitative -based on loan proposal	15	44.1
Liquidity ratio	10	29.4
Gearing ratio	2	5.9
Others – Qualitative, etc	7	20.6
Total	34	100

Question 12. The credit period normally granted to customers is for:

Classification of Responses	No. of Responses	Percentage
Less than 30 days	14	41.2
Between 30-60 days	6	17.6
Between 60-180 days	4	11.8
Between 180-365 days	10	29.4
Total	34	100

Question 13. What percentage of credit is promptly served?

Classification of Responses	No. of Responses	Percentage
Up to 10%	1	2.9
Between 10%-25%	3	8.8
Between 25%-50%	8	23.6
50% and above	22	64.7
Total	34	100

4.4.0 TEST OF HYPOTHESES

4.4.1 TEST OF HYPOTHESIS I

Step I: STATING THE HYPOTHESIS

Ho: The category and business of customers have an insignificant effect on credit/loan approval.

Hi: The category and business of customers have a significant effect on credit/loan approval.

The relevant questions to this hypothesis in the questionnaire are questions 1-4, but to test this hypothesis question 2 was used.

No. of Question	Question	Responses	Fo	Percentage
2	What category of customers does you mostly advance loans/credit to?	Manufacturing firms and Multinationals	23	67.6
		Others – Small and large businessmen, corporate organisation, individuals, staff	11	32.4
Total			34	100

Step II: CALCULATION OF THE EXPECTED FREQUENCY (FE)

Because we have two groups of responses, and the total sample size is 34, our expected frequency is:

$Fe = \frac{34}{2} = 17$

Step III: CALCULATION OF CHI-SQUARE (X^2)

Chi – Square is any particular case is given by:

$$X^2 = \frac{\sum(fo-fe)^2}{Fe}$$

Where $\sum$ = Sum or Total

Fo = Observed frequency

Fe = Expected frequency

Responses	Fo	Fe	Fo-fe	$(fo-fe)^2$	$\frac{(fo-fe)^2}{fe}$
Manufacturing firms and Multinationals	23	17	6	36	2.12
Others	11	17	- 6	36	2.12
Total	34	34	0	72	4.24

Chi-square (X^2) computed = 4.24

Step IV: CALCULATION OF DEGREE OF FREEDOM (DF)

The formula for calculating degrees of freedom is:

DF = C – R or (C - 1) (R – 1)

= (2 – 1) (2 - 1)

= 1

Where C = Number of columns and R = Number of rows

Step V: DECISION RULE, DECISION AND INTERPRETATION

Decision Rule: The decision rule is that, if the calculated hi-square (X^2) is less than the table value, then the null hypothesis will be accepted at the chosen level of significance otherwise, it is rejected and vice versa.

DECISION: Since from the computation and table value, the calculated value of Chi-square (X^2) is 4.4 and it is greater than the table value, which is 3.84 at 0.05 level of significance, we will reject the null hypothesis and accept the alternative hypothesis.

INTERPRETATION:- This means that the category and nature of business of customers have a significant effect on their credit/loan approval.

4.4.2 TEST OF HYPOTHESIS II

Step I: STATING THE HYPOTHESIS

Ho: Servicing of loans/credit has an insignificant effect on loan/credit approval.

Hi: Servicing of loans/credit has a significant on loan/credit approval.

The relevant questions to this hypothesis from the questionnaire are questions 5-8, but question 5 was used to test the hypothesis.

No. of Question	Question	Responses	Fo	%
5	What percentage of debtors are defaulters?	Less than 10%	22	64.7
		Between 10% to 100%	12	35.3
Total			34	100

Step II: CALCULATION OF THE EXPECTED FREQUENCY (fe)

$$Fe = \frac{34}{2} = 17$$

Step III: CALCULATION OF CHI-SQUARE (X^2)

Responses	Fo	Fe	Fo–fe	$(fo–fe)^2$	$\frac{(fo–fe)^2}{fe}$
Less than 10% Between 10% to 100%	25 9	17 17	8 - 8	64 64	3.76 3.76
Total	34	34	0	128	7.52

Chi-square (X^2) computed = 7.52.

Step IV: CALCULATION OF DEGREE OF FREEDOM (DF)

DF = (C – 1) (R – 1)

= (2 – 1) (2 – 1)

= 1

Step V: DECISION RULE, DECISION AND INTERPRETATION

DECISION RULE: The decision rule is that if the calculated Chi-square (X^2) is less than the table value, then the null hypothesis will be accepted at the chosen level of significance, otherwise it is rejected and vice versa.

DECISION: Since from the computation and table value, the calculated value of Chi-square (X^2) is 7.52 which is greater than the table value which is 3.84 at 0.05 level of significance we will reject the null hypothesis and accept the alternative hypothesis.

INTERPRETATION: This means that the majority (about 90%) of debtors meet up with their credit/loan obligations. Hence, making more funds available to other prospective debtors. Thereby, positively affecting loan/credit approval and management.

4.5 SUMMARY OF FINDINGS

In carrying out this research work, various discoveries were made which time and space will not allow an exhaustive treatment of. The major findings of this research work can be summarized as follows:

a. The category of customers loans/credit are mostly advanced to are the manufacturing firms and Multinationals like Unilever, PZ, Cement Manufacturing Companies, etc because of the sound asset base, collateral, goodwill and history of prompt servicing of loans and payment of credit.

b. Credit and loan approval processes are sometimes showed down because in most cases approvals must be gotten from the banks' Credit Department at their Head Offices.

c. The research revealed that the banks used to maintain good credit/loans policies hence; about 90% of their customers promptly service all outstanding loans/credit.

d. A good credit analysis both qualitative (satisfactory account history, feasibility studies, pertinent or inherent risks, etc) and quantitative (ratio analysis) minimizes and reduces delinquent loans/credits to the barest minimum.

f. Credits normally given to customers are short-term in the form of overdrafts, etc.

CHAPTER 5

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

All the end of every research work, conclusion must be drawn and recommendations made based on the findings. In this chapter, the general summary of the study will be made, followed by conclusion and lastly recommendations.

5.1 SUMMARY

Credit has varied ramification; to the accountant, it is the other side of debit. This idea is shared by the banker to whom there must be two sides (debit and credit) to every transaction, without which the day's operations will not balance. Credit could also be the amount of money available to one in his bank account, an entry in a bank account acknowledging lodgment of money, or one's financial reliability. It could also be the trust given to someone who offers promise(s) today in lien of payment at a later date for goods and services already supplied. This type of credit otherwise called lending is undoubtedly most interesting to the banker and indeed, the focus of this research, because for most customers, bank (lending) credit is a primary source of available debt financing while for banks, good credit is the most profitable asset. Extending credit to businesses and individuals as with any investment involves taking risks to earn high returns. Returns come in the form of loan interest, fee income and investment income from deposits.

In chapter one of this research work, we were introduced to what the research work was all about, that is credit management and debt collection – A case study of some selected banks. Generally, in managing credit and debts (loans) in commercial banks, five constituencies to be satisfied are namely: the lenders, borrowers, shareholders, regulatory authorities and the government. Also treated were the background to the study, statement of research problem, scope of the study, hypotheses to be tested before arriving at the conclusion of the study, the objective, significance and limitations of the study.

In chapter two, which is the literature review, the researcher defined who a banker (or bank) is, the brief history of commercial banking in Nigeria, definition of credit, types and classes, credit policy issues, credit worthiness and sources of credit

policy issues, credit worthiness and sources of credit information, Debt collection policies, practices and management in commercial banks.

In chapter three, the research methodology, was on how the data was generated, that is through questionnaires and interviews. Fifty questionnaires were administered but thirty-four of them were correctly responded to and received. The chapter also introduced us to the tools of analysis, which were used in analyzing the data gathered.

In chapter four, which is the data presentation and analysis, the percentage distribution was used in presenting the data in an easily understandable form after which, the hypotheses were tested using the Chi-square (X^2) method. The hypotheses were accepted or rejected where appropriate and necessary decisions and conclusions were made.

Chapter five is the concluding chapter of the study.

5.2 CONCLUSION

This research has examined the various areas of credit and lending in commercial banks with a view to ensuring it proper management, also solutions (in the form of recommendations) to ensure the right steps are taken in managing credit and loans thereby maximizing the opportunities and challenges facing the banking industry.

5.3 RECOMMENDATIONS

For improved and better credit and loan (debt) management in commercial banks in Nigeria, the following are recommended:

a. Credit policies should be carefully thought out and should be part of the overall aims and objectives of the firm.
b. Credit cost information:- There should be an awareness within the organization as to the cost of granting credit.
c. Periodic surveys should be conducted to assess the effectiveness of all credit investigation procedures.
d. Most credit managers carry out superficial examination of historical profit and loss accounts and balance sheets for credit investigation purposes. Recent internal financial statements are reports should be requested for

and used.

e. The cost and benefits of all types of legal action should be carefully considered, as there is no point in chasing a debtor who has little or no funds available to settle accounts where legal costs are prohibitive.

f. Management reports showing ageing schedule, average collection period, percentage of each month's collections still outstanding, etc.

g. Establish terms that are clearly defined and fair to both the company and the customer.

h. Follow up even to a legal conclusion when investigation reveals that the debtor is financially able to meet his obligations.

i. Prompt attention should be paid to early financial warning signals like:

   a. Balance sheet:- failure to get statements in timely fashion
      - Showdown in inventory turnover
      - Deterioration in liquidity working capital
      - Substantial increases in long term debts
      - Significant changes in balance sheet structure
      - Low equity relative to debt
      - Decline in current assets as percentage of total assets.

   b. Income statement – Declining sales
      - Falling profits
      - Rising levels of bad debt losses
      - Increasing overhead in relation to sales
      - Operating losses.

   c. Early management signals – Change in behavior/personal habits of key people
      - Marital problems
      - Change in attitude towards bank or bankers
      - Change in management, ownership or key personnel
      - Inability to meet commitments on schedule
      - Poor financial reporting and controls
      - Neglect or discontinuance of profitable standard
      - Unrealistic pricing of goods and services
      - Desire and insistence to take business gambles and undue risk(s).

d. Early operations warning signals – Change in nature of company's business
   - Heavy reliance on short-term debt
   - Sharp jumps in size/frequency of loan requests
   - Evidence of cheques written against uncollected funds
   - Poor financial planning for fixed asset requirements or working capital requirement.

e. Early Banking Warning signals - Declining bank balances.
   - Heavy reliance on short-term debt
   - Sharp jumps in size/frequency of loan requests.
   - Evidence of cheques written against uncollected funds
   - Poor financial planning for fixed asset requirements or working capital requirement.

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Department of Business Administration,
Ahmadu Bello University,
Zaria,
Kaduna State.

Dear Sir,

I am a final year postgraduate student of Masters in Business Administration, Ahmadu Bello University, Zaria.

The purpose of this questionnaire is to help in analysing some issues relating to credit management and debt collection in commercial banks in Nigeria.

Your answers to the following questions will be of immense benefit to this study and every information will be treated with secrecy and utmost confidence.

Yours faithfully,

Olabode Ebenezer Farinuola

QUESTIONNAIRE
(PLEASE TICK WHERE APPROPRIATE)

1. How long has your bank been in business?
   (a) Below 5 years
   (b) Between 5 – 10 years
   (c) Between 10 - 20 years
   (d) Above 20 years.

2. What category of customers do you mostly advance loans to?
   (a) Small and large scale business men
   (b) Corporate organisations
   (c) Manufacturing firms and Multinationals
   (d) Others (Please specify):…….

3. What is your reason for advancing loans (credit to the category chosen in 2 above?
   (a) Sound asset base

(b) Little or no history of default
(c) Collateral security with the bank
(d) Others:……

4. At what level of Management are loans approved for customers?
   (a) Departmental level
   (b) Branch level
   (c) Regional level
   (d) Head office level

5. What percentage of debtors are defaulters?
   (a) Less than 10%
   (b) Between 10% - 25%
   (c) Between 25% - 50%
   (d) 50% and above

6. To what extent does this affect credit policies/management?
   (a) Favourably
   (b) Unfavourably
   (c) Adversely

7. What percentage of credit demand by your customers has been met?
   (a) Below 10%
   (b) Between 10% - 25%
   (c) Between 25% - 50%
   (d) 50% and above

8. If not 100%, why?
   (a) Single obligor limit
   (b) Inadequate security
   (c) Time difference between perfection of security and urgency of fund
   (d) Others (please specify):……

9. What are the requirements for granting of loans?
   (a) Good and satisfactory account history
   (b) Guarantors
   (c) Feasibility study and area of investment
   (d) Collateral security

10. What method of debt collection does the bank employ?
    (a) Letters of reminder
    (b) Factoring
    (c) Classified Assets Management
    (d) Solicitors
    (e) Others:……

11. What credit analysis method(s) are employed in assessing credit requests?
    (a) Qualitative-based on loan proposal
    (b) Liquidity ratio
    (c) Gearing ratio
    (d) Others ……

12. Credit period for which credit is normally granted are:
    (a) Less than 30 days
    (b) Between 30 – 60 days
    (c) 60 – 180 days
    (d) 180 – 365 days

13. What percentage of credit is promptly serviced?
    (a) Up to 10%
    (b) Between 10% 25%
    (c) Between 25% - 50%
    (d) 50% and above

14. Recommendations (If any):……
    ……
    ……