TOWARDS EFFECTIVE AND EFFICIENT LOAN PORTFOLIO MANAGEMENT IN NIGERIAN COMMERCIAL BANKS: A STUDY OF SAVANNAH BANK (NIG) PLC AND HABIB NIGERIA BANK LTD

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DECLARATION

I hereby declare that this project tittled " Towards Effective and Efficient loan Portfolio Management in Nigerian Commercial Banks: A study of Savannah Bank Nigeria Plc and Habib Nigeria Banks" for the awards of the degree of Master of Business Administration of Ahmadu Bello University, Zaria to the best of my Knowledge is the original product of my research findings. All materials used have been acknowledge accordingly in the references.

Signature _____ Date 16/8/1998
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The above declaration is confirmed

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CERTIFICATION

This project entitles " Towards Effective and Efficient loan Portfolio Management in Nigeria Commercial Banks: A study of Savannah Bank (Nig) PLC and Habib Nigeria Bank Ltd" by AUDU JOSEPH TACHIA, meets the regulations and requirements governing the award of the degree of Master of Business Administration, in the Post-Graduate School, Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation,

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DEDICATION

This project is dedicated within honour and glory to Almighty God for his absolute divine protection and provision, and in memory of my late parents, Mr Audu Tortimin and Mrs Audu Mercy Aninga, Nee Kwange-Nyadam.

ACKNOWLEDGEMENT

When a man undertakes a journey he has the goodwill of both human and spiritual forces. Normally, when he returns he is expected to bring with him great appreciations for the grace and mercies of such forces. My 'journey' too was not an exception. I therefore wish to extend my indebtedness to certain human and spiritual forces, who have made immense contributions towards my academic struggles, especially the Post-graduate programme.

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ABSTRACT

Apart from fraud, one of the greatest problem facing most banks in Nigeria today is debts, (non-performing debts or loans, bad and doubtful debts). Usually these are loans and advances that were given to customers with the full assurance backed by guarantee that they would be repaid back as soon as the businesses were completed and payment made to the bank debtors.

The commercial banks have been the major energisers of economic growth and development in Nigeria. Monetary policies which the government has been alternating and sometimes combined with fiscal policies to extricate the country from economic crisis has been implemented, especially, through commercial banks. To be able to pursue this towa[r]ds ensuring systematic economic, industrial and socio-political development, the banks need enough funds to support lending • to various individuals and corporate customers, so when most of the loan facilities granted become "hard core", commercial banks are not able to fulfil perfectly this responsibility and their continuous existence is threatened.

The research study, therefore, focused on the efficient and effective management of loan portfolio in Nigerian commercial banks, using Savannah Bank Nigeria PLC and Habib Nigeria Bank Limited, as case study. The study was carried out through administration of questionnaires to employees of the banks in the loans and advances department, through their area and branch offices. The aim of the study has been to find out how the banks manage their loan portfolio, the major causes of bad and doubtful debts, and the control measures taken by the banks to minimise the level of such bad and doubtful debts.

The study has shown that efforts toward recovery of substantial portions of such debts becomes imperative and compelling on the banks. It also revealed the manner in which loan facilities are granted and treated by the banks employees. Additional measures that could aid recovery of loans and minimise emergency of new bad and doubtful debts have been identified and recommended for adoption by our commercial banks.

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CHAPTER ONE

INTRODUCTION

1.1 AN OVERVIEW

A close look at Commercial Banking and indeed, general banking today reveals that lending has been one of the oldest and most important services rendered by them. More especially, the assets portfolio of commercial banks are largely determined by loans and advances. It would not be surprising, therefore, that the bulk of the profits accruing to the banks are as a result of lending services.

Indeed, lending is the main stream of a commercial banking business. Loan accounts for over 60% of resources of these banks. The ability of the banks to generate profit emanates from their lending portfolio. It is therefore, clear that only commercial banks well conceptualised loans management strategies could survive the competition now and in the future.

The Nigerian banking environment today, is highly competitive. With the liquidity squeeze and generally unfavourable economic trends, lending has become a very risky business, particularly for commercial banks which have to lend at very high cost.

Although it must be noted that, lending has remained one of the most important aspects of commercial banking, there is increasing trend in bad and doubtful debts profile. This has resulted in some banks being classified as distressed, at the verge of collapse, while some twenty-six (26) banks were liquidated recently. The main cause of their liquidation or

distress situations has been traced to poor lending practices and poor credit quality.

For fear of further bad and doubtful debts, and possible insolvency, it is important, therefore, that adequate credit control procedures and techniques be involved for management of credit related risks. It is in the process of granting these loan facilities that lending errors do occur. Losses that result from such activities and how they are being managed will be the focus of this research study.

1.2 STATEMENT OF THE PROBLEM

The concern of any business organisation is basically to make profit. To do this successfully, the business organisation has to put in some capital from where it can generate such profit. Most organisations cannot provide the whole lot of capital required and as such seek out for loans from commercial banks. This resulted in rapid increase in the loan facilities extended by commercial banks to meet the demand of their customers. Due to the nature of the unsecured loans and poor collaterals that are being extended by such customers, the banks are not able to recover such loans, thus increasing their bad and doubtful debts accounts. In this regard, most of the commercial banks in the country are faced with the adverse situation of uncalled liabilities (loans, advances, bad and doubtful debts), over total deposits available to them. As a result of this, banks are compelled to limit their credit facilities and recalling some of the debts, in order to recover the huge figures of their bad and doubtful debts accounts.

In recent time some banks were liquidated while some are on distress list. Lack of effective and efficient loan portfolio management accounts largely for their conditions.

In this regard, the major problem thus is, that of devising effective and efficient ways and means by which such bad and doubtful debts will be recovered, and the efficient management of loan portfolio units in such a way that further bad and doubtful debts are not accrued to mistakes and lending errors that might result in the various procedures that are involved in the allocation of loans to respective customers, so that the past mistakes which led to distress and liquidation of some banks, would be corrected and amended.

1.3 OBJECTIVES OF THE STUDY

Lending which is an important factor in the economic development of a nation should then be managed with minimum encumbrance by the lenders (Banks). However, in Nigeria loan acquisition has become a general problem in our banks. This has then led our banks to the problem of credit control or portfolio management, which is an important element of lending.

Most commercial banks in Nigeria are currently being threatened by huge bad and doubtful debts burden. This incidence has done so much damage to the banking industry, such that shareholders funds are in some cases completely eroded, leading to distress and eventual liquidation by the monetary authorities. Thus the major objectives of this research study are to:-

(i) Find out the various management procedures undertaken by Savannah Bank (Nig) PLC and Habib (Nig.) Bank, to monitor loan portfolio accounts.

(ii) Find out how effective and efficient management procedures taken by these banks are towards the control of such loan portfolio.

(iii) Find out the actual causes of default in loans repayment (bad and doubtful debts).

(iv) Recommend other efficient and effective measures that the banks should undertake in order to reduce the causalities that do result to poor loan portfolio management - bad and doubtful debts.

1.4 RELEVANCE OF THE STUDY

Lending is the most important aspect of commercial bank business. It contributes a lot to the large proportion of profits made by the commercial banks. About 60% of the resources of these banks come from loans. Lending also provide the means of carrying on production for those who otherwise would not have been able to mobilise funds. In this way lending contribute a lot to the economic development of a nation.

It could be seen that the profitability of any commercial bank is determined by the earnings accruable from expanded good credit, granted to its customers. Thus it becomes vital importance to such commercial banks to extend such credit in a manner in which they are easily recovered, and managed in such a way that even if errors occur, they are at minimal, and does not very much affect the profitability of the banks.

Thus the study will be very much of importance to such commercial banks, as it findings will form a sort of footpath to follow in granting out such loans and how the occurrence of bad and doubtful debts accounts and control measures that could be taken to monitor such bad and doubtful debts.

Such measures will be, of course, very much relevance to loan officers and managers of bank as they are the major people that are concerned with the allocation of such loans. This research work, therefore, is apparently going to be useful to top managers as relevant recommendations will be made and various strategies suggested for the effective and efficient management of lending and credit portfolio. Credit managers as well as branch managers of commercial banks will be guided on loan disbursement to avoid the costly mistake of not adhering strictly to the guidelines and the economic analysis of the environment.

Bank shareholders will be able to acquaint themselves, on the adverse effects of poor loan portfolio management, bad and doubtful debts hitherto hidden by their respective banks and consequently take appropriate measures to check the activities of their management team in loan disbursement.

Moreso, students of Banking and Finance in A.B.U., Zaria, particularly will find this work useful in their academic pursuits as they will have a comprehensive and probably a first hand knowledge of the topic "Towards Effective and Efficient Management of Loan Portfolio in Nigerian Commercial Banks". Academicians and researchers may find the work a

handy reference in their bid to teach or research into greater depth of efficiency in management of loan portfolio and probable causes of poor loan portfolio management, in the country's commercial banking.

1.5 SCOPE OF THE STUDY

The research is particularly aimed at finding out the reasons for the accrual of bad and doubtful debts in the loan portfolio management of Savanah Bank Nigeria PLC and Habib Nigeria Bank, and how these bad debts are managed to see that they are at the minimal level.

Thus the investigation was conducted only in Area offices and branch offices. The study covers the loan extension department of these Banks. Questionnaires were administered mainly to Branch managers, credit managers, senior managers and other officers of the banks who have direct or indirect dealing in the loan matters.

The research concentrated on the effective and efficient management of loan portfolio before and after the loan, up to the final repayment, in our commercial banks. Emphasis was placed on the causes of bad and doubtful debts, in the process of loan portfolio management, effects and possible remedies that could be employed to alleviate the current trend.

The general assumptions in this study work are:-

(i) that all commercial banks grant credits/loans to deserving customers with a high expectation that such loans will be repaid plus interest.

(ii) that all commercial banks are governed by the credit guidelines and prudential guidelines issued by the Central Bank of Nigeria in addition to their respective internal policies with regard to loan disbursement.

The study is limited to loans granted for which repayment is required within one year to five years.

1.6 LIMITATIONS OF THE STUDY

In the conduct of this study, certain problems were encountered which hindered the easy and due completion of the study. This forms the basis of limitations.

First as it could be seen in chapter three, the study made use of questionnaire for the collection of data from respondents. hence the disadvantages associated with questionnaire study are some of the inhibiting factors in the application of the result and conclusion. The basic limitation faced here is the prompt completion and return of the questionnaires. Moreso, the tight schedule of the banks' employees does not allow that to be done in time. There were cases of poor response due to outright refusal to accept questionnaires and leaving some questions unanswered. Because of disparity in knowledge and experience of the respondents, the validity of the responses has its own obvious handicap.

The time available for the research is short, considering the geographical spread of the subjects and the difficulties of finding bank officers on seats. The current economic hardships had its effect in terms of the financial resources that could be committed to the study.

Furthermore, it was not possible to obtain actual figures of bad and doubtful loans in the banks. This was because of the fact that such information was considered as classified information. It is therefore necessary that the conclusions drawn from the findings are applied with due cognisance of these limitations.

1.7 DEFINITION OF TERMS/CONCEPTS

The banking industry has a large responsitory of terms and concepts which are used more or less in everyday banking transactions. For the purpose of clarity, therefore, attempt will be made here below to define a few relevant words or terms, and expressions that are considered useful in the course of compiling this research work.

It will however, be pointed out that some of the definitions and terms as well as expressions as listed are mere base aggregation or synthesis from a variety of sources, thus paraphrased. At other instances, it is found more expedient to cite intoto certain definitional categories lifted from defined authoritative sources. Where such occurs, efforts were made to acknowledge the appropriate source.

MANAGEMENT: (Drucker, 1954) "an organ of the society which is specifically charged with the responsibility of making resources productive". It is the person or group of persons managing a business, institution etc. As a process, Griftin(1984) regards it as "planning, organising, leading and controlling an orgnisation's human, financial, physical and information resources to achieve an organisational goal in an effective and efficient

manner". In this research work, however, management covers only the causes and efficient control of bad doubtful debt accounts in loan portfolio management.

ADMINISTRATION - This is often used to refer to the activities of the higher level of the management group who determines major aims and policies of a government department or an enterprise. It is also used in the narrower sense of controlling the day to day running of an organisation or enterprise.

EFFICIENCY - Ability to produce a given output with least possible use of resources effort, expense or minimising waste. It also implies maximum output with minimum input of labour and or capital.

EFFECTIVENESS - The quality of producing a definite or desired result or the level of services provided.

LOAN - A business transaction between two legal entities whereby one party known as the "lender" agrees to "rent" funds to the second party known as the "borrower". A loan may be short-term or long-term in duration.

LENDING - The process by which a customer is afforded the use of Bank funds for specified business or personal purpose for a fixed period of time with a promise to repay the amount borrowed at an agreed future date with a fixed interest.

CREDIT - This involves giving (receiving) goods or purchasing power now in return for a promise to receive or repay the goods or purchasing power latter. It is the sale of goods or money claim in the present in exchange for

a promise to pay (usually money) in the future. It includes the power to use a bank loan by giving a promise to pay both the principal and the interest instalmentally or in lump sum in future. Paraphrasing, it is a present right for future payment. In banking industry loan, lending, debt and credit are often used interchangeably and they will also be used as such in this study.

LOAN PORTFOLIO - This implies a collection of different kinds or types of loans a bank allows to its customers at different time for different purposes.

BANK - A business establishment or financial house authorised to perform financial transactions such as receiving (savings and deposits) or lending (loan and advances) or money, as the primary functions.

BANKING - The business of the bank or bank official or banker.

COMMERCIAL BANK - A financial institution or house which is officially chartered (licensed/auhorised/designated) by the Federal Government of Nigeria, through Central Bank of Nigeria, primarily to engage in domestic and international banking, making short-term and medium-term industrial, commercial and even agricultural and housing loans by creating demand deposits or checking (current) deposits, and in retiring loans by cancelling demand deposits.

CENTRAL BANK OF NIGERIA (CBN) - The principal apex bank of Nigeria, named by the Federal Government with the primary responsibilities of initiating, regulating and enforcing the monetary policies of the nation, while working closely with and controlling the operational perspectives of commercial and other financial houses.

ACCOUNT PAYABLE - Money owed to others, but not yet paid and considered payable within the next 12 months period.

ACCOUNT RECEIVABLE - Money earned but not yet received and considered receivable within the next 12 months period.

BAD AND DOUBTFUL DEBTS - Bad debt is a loan or debt which has become irrecoverable at the date of maturity. Doubtful debts are account receivables that are uncollectible or where collection (recovery) at the date of maturity is highly doubtful. A loan may be termed bad or doubtful when the borrowers fails to pay the loan in accordance with the terms and conditions of the loan agreement.

CLEAN LOAN - Implies a loan granted to a customer without a tangible security supporting it. It is granted, perhaps, based on the credit worthiness of the customer.

DEFAULT - This is simply the failure of the borrower to repay the principal and the outstanding interest in accordance with the terms and conditions of the loan agreement.

ANTICIPATORY DEFAULT - Recognises the happening of certain events which are "ipso factor" conclusive evidence of default whether or not the loan or the interest has fallen due.

COLLATERAL - Personal or real property pledged as a security for an obligation. This provides safety, freedom from danger or anxiety and serves as a pledge for repayment of a loan or fulfilment of a promise or undertaking.

LIQUIDITY - Ability of the bank or any business enterprise to meet its short-term obligations.

CUSTOMER - A client, person or organisation who holds regular transactions with a bank through a special account or pass-books.

BANK LINE OF CREDIT - The loan limit that a bank establishes for each of its business customer, is called a line of credit. This line of credit cost the business man only the normal interest for the period which money is actually borrowed.

DISTRESSED BANKS - Banks, which among other things, cannot meet CBN's liquidity ratio requirements, capitalization level, prudential guidelines and have deficient management Simply, they are banks having acute financial difficulty.

LIQUIDITY RATIO - The ratio of current assets to the current debts of an organisation at any point in time.

LIQUIDATION - The final stage of a business that is beyond redemption. It involves the sale of a business assets to redeem its liabilities.

PRUDENTIAL GUIDELINE - The CBN's guidelines on the methods of accounting and reporting for banks covering such areas as income recognisation, loss recognisation and balance sheet classification.

PROFIT - A measure of business performance which represents the net effect of business financial transactions.

FRAUD - Deception deliberately practiced to secure unfair or unlawful economic gain.

CREATIVE ACCOUNTING - The manipulation of accounting figures by altering the authentic figures.

OVERDRAFT - Is the grant of permission by a bank to a customer to withdraw money in excess of the credit balance of his/her account up to a certain limit during a fixed period of time.

CREDIT ANALYSIS - This involves the determination of the capacity of a loan applicant to borrow, or not, and his ability to repay the loan in accordance with the terms and conditions of the loan agreement.

ASSET - A physical (tangible) object or right (intangible) that conveys economic value to its owner. For (banks) balance sheet purpose, assets are broadly grouped as current and fixed (tangible); and within the groupings are descriptive title such as receivables, inventories, investments and plants, equipments, goodwill and patients.

TENOR - The contractual time period within which a borrower is expected to repay the loan granted to him in advance.

POLICY - a general statement or undertaking that guides or channel thinking in decision making.

1.8 PRESENTATION OF THE PROJECT

This project work is divided into five(5) chapters. Each chapter is further sub-divided to permit readability and comprehension.

Chapter one starts off with the introduction of the study. It deals with the statement of the problem, objective of the study as well as the relevance of the study. The scope of the study, limitations of the study,

definition of terms/concepts as well as presentation of the project are stated in this chapter.

Chapter two focuses on the literature review which covers the writings and opinions of others in the area under study. It provides the conceptual framework which forms the theoretical base of the research work.

Chapter three deals with the research methodology. It treats sources of data as well as the methods of data collection.

In chapter four, the data collected are presented and analysed, in the light of the research question. The findings are equally stated in this chapter.

Chapter five provides the summary, a recap of the study - conclusion drawn from the research findings and recommendations based on them; which could help eliminate or reduce lapses in loan portfolio management.

Finally, some reference materials and bibliography are provided at the end of the project for further information or consultation.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The objective of this research is to evaluate the effective and efficient management of loan portfolio in Nigerian commercial banks. Sequel to this, it is expedient to review related literature so as to set the ground for our discussion on the subject of the study, by taking an excursion to the concept of loan portfolio management, the importance of lending, types of loans, classification of loans, as well as the general principles of lending. We shall equally consider to review the causes of bad and doubtful loans(debts), loan control mechanism, standard for credit worthiness. Finally, the chapter will further review the efforts of monetary authorities in ensuring effective and efficient loan portfolio management in the Nigerian commercial banks.

2.1 CONCEPT OF LOAN MANAGEMENT IN NIGERIAN COMMERCIAL BANKS

Commercial banks are in general all-purpose retail bankers. They mobilise deposits of all sizes and from all and sundry in retail as well as in wholesale markets. They lend to all and sundry, both wholesale and retail and for all purposes. In this way, they differ from many other financial intermediaries, most of whom specialise in particular loan or deposit markets and in particular economic sectors. While the risk are similar, it follows, by definition, that commercial banks' lending is more diverse and the criteria for such lending more complex. Nwankwo(1991:101).[1]

Business activities in Nigeria today have become so competitive and dynamic that every business strive harder to maintain and push ahead of others to achieve excellence in its performance. The role of banks in any nation is obviously a prime pre-requisite to the economic survival and growth of such a nation. Actually, banks perform a number of interrelated functions, many of which are necessary part of our private, government and free enterprise system.

In this regard, commercial banks and banks in general brings into being the most important ingredients of the money supply and demand deposits; through the creation of credit in the form of loans and investments. They are the custodians of the community's money as well as the suppliers of its liquidity. Banks also provide flexibility and mobility to the money supply by maintaining the interchangeability of currency and banks deposits along with the mechanism through which money payments can speedily and efficiently be made. They also participate with other institutions in the process of accumulating and investing funds as well as performing other financial services.

Similarly, the task of competent loan management is to perform the economic function inherent in banking business in such a way to minimise the return on the invested funds over time without taking excessive risk of making huge losses. From experience, it is certain that, a bank which serves the economic needs of its nation (community) will not minimise the returns on shareholders investment, but will have favour from the government and full support in form of patronage from the public. It is

certain that no matter how efficient and effective a bank is, in managing its loan portfolio, it must still face the question of how to avoid risk that normally results from normal bank lending activities. The topic under study stem from the risky lending activities which form part of the day to day operations of bankers.

2.2.1 IMPORTANCE OF LENDING

The importance of lending activities, both to commercial banks and the economy, cannot be over-emphasised. In general, commercial banks obtain most of their incomes from the money they lend, and banks of course, have to pay interest to several depositors who have provided the money. Even when this is deducted from interest earned, the profit left is for most commercial banks, more than the profit from the rest of the banks' business (Henderson 1988:115).[2]

The provision of loans and advances to individuals and corporate bodies has led to the growth and development of small, medium and large scale enterprises. The multiplier effect is, increase in employment and better standard of living. According to the Central Bank briefs (1992:2) commercial banks' assets/liabilities as at the end of May, 1992 amounted to ₦138.4 billion with loans and advances totalling ₦35.6 billion going into the economy.

Banks play very important roles in the development of the economy of any nation through lending. It has been generally accepted that they provide the cheapest, most convenient and efficient sources of credit

including short-term credits for all sectors of the economy. Thus, if banks lending is not available to the productive enterprises of the nation, they could be many instances where productive activities would have to be curtailed because of lack of working capital.

Commercial banks equally create money by granting overdraft facilities, issuing sight deposits and generally extending other lendings in excess of cash reserves in their vaults. Lending by commercial banks therefore contribute alot to the economic growth and development of a nation.

2.3 TYPOLOGY OF COMMERCIAL BANK

Though diverse, commercial bank lending can be classified in many ways. They can, for instance be classified by purpose, of the loan. The two most popular methods of classification are by purpose and by maturity. This is the method used in Nigeria Nwankwo(1991:101).[3] However, Adeusi(1992:1) in discussing different classes of credit facility and their impact on lending portfolio, included credit by cash disbursement as another class of credit or lending.[4]

2.3.1 CREDIT FACILITIES BY MATURITY(TENOR)

The tenor of a credit is the contractual time period within which a borrower is expected to repay the amount of loan granted to him. On the basis of this, a credit may be:

(i) Short-Term Credit that is, when full payment of the facility is expected to be made within a period not exceeding one year e.g. L.P.O. financing.

(ii) Medium-Term Credit: that is, when full payment may extend beyond one year, but not more than three years e.g. financing of capital acquisitions.

(iii) Long-Term Credit: that is full payment is expected to extend beyond three years.

2.3.2 CREDIT FACILITIES ACCORDING TO PURPOSE

These are credit facilities on the purpose for which they are utilised. They are classified into different groups for the purpose of meeting the requirements of the regulatory authorities. They include:-

(i) Credit to priority sectors: These include loans to agricultural production and manufacturing enterprises.

(ii) Credit to other sectors: These include credit facilities granted to non-priority sectors of the economy. These include commerce, mining, construction, etc.

(iii) Credit to rural borrowers: These are granted exclusively to finance economic activities in rural areas.

(iv) Credit to small-scale wholly Nigerian-owned enterprises

According to the 1994 monetary and credit policy guidelines, a small-scale enterprise is defined as an enterprise whose total cost, excluding cost of land but including working capital is above ₦1 million but does not exceed ₦10 million. Any loan granted to such an enterprise is therefore classified as such.

2.3.3 CREDIT FACILITIES BY CASH DISBURSEMENT

(i) Overdraft - This is a situation where a customer is granted permission to withdraw money in excess of the balance in his/her account up to a certain limit. They are usually expected to be repaid within one year, but can be renewed subject to review and satisfactory utilization. However, if cancelled, the outstanding balance automatically becomes due for repayment. Interest is calculated on a daily basis, and consequently, the customer pays only for the amount he uses.

(ii) Term Loans - These are facilities usually granted for specific projects or clearly identified expense of specific amounts, the repayment of which is tied to the completion of the underlying transaction. Repayment is made in specified instalments or in bulk within a given time period. Interest on the loan commences once the loan account is created regardless of the level of utilisation of the loan amount transferred to the current account.

(iii) Personal Loans - These are loans granted to personal individuals for the purchase of an item or any other specified expenses. For example, shares, house furnishing, car purchase, etc. Unlike the term loan, repayment is expected to be made from the borrower's personal income/emolument.

(iv) Bridging Loan - is usually a short-term advance granted to fund capital, but repayment is from another source, that is not from the performance of the asset funded by the loan. The banker only bridges the gap on a short-term basis.

(v) Leasing - is a financial management under which the banker buys an asset required by the customer and in law, retains ownership of such an asset but allows possession to the customer for his use under the term of the agreement (lease terms) for a rental fee.

Until 1989, only merchant banks were allowed to book leases, but commercial banks are now allowed to transact in leases. A lease can be an operating or a finance lease (Adeusi 1992:3).[5]

(vi) Bills Discounted - These are facilities under which a bank provides funds to a customer who has a first class tenor bill of exchange, and retain the bill for collection on due date. The cash provided is the face value of the bill less a discount at an agreed rate.

(vii) Commercial Paper - This is a short-term unsecured promissory note issued by a company at a discount to an investor for cash. It is usually for a specified maturity period. A bank may invest in a commercial paper by paying its value to the company, and retaining it as an asset in its books pending realisation at maturity.

(viii) Certificate of Deposit - This is an evidence of cash deposit with a bank. The certificates are usually money market instruments which are used by banks in lending to other banks.

(ix) Others These include, acceptance, guarantees, bonds, indemnities and letters of credit.

Upon all these classes of loan facilities, commercial banks prefer to grant loans or credits with a very short term repayment periods usually one year or less. Commercial banks are the main source of short-term debts that are likely to be generated for immediate financial needs.

However, instances abound where they grant loans exceeding one year. The traditional theory holds that commercial banks should be limited to making loans for short periods to provide for temporary working capital to finance current operations. However, such loans fail to meet all the needs of their customers and because of this other lucrative outlets for banks funds, it appears that banks quite often have to embark upon a wide variety of loan programs. Thomas (1977:152).[6]

Thomas(1977:152) further classified commercial banks loans into various forms based on the purpose of the loan. His own classification include among others

(i) Loan to business organisations (commercial and industrial enterprises).

(ii) Loans to agriculture for current purposes.

(iii) Loans for purchasing and carrying securities.

(iv) Loans on real estate mortgages.

(v) Customer Loans

(vi) Other loans not falling into the above categories.

2.4 TYPES OF LOANS

All loans granted by commercial banks to their customers may be either secured or unsecured, Thomas(1977:158).[7]

2.4.1 SECURED LOAN

A loan is said to be secured when the lender obtains some protection over and above that afforded by the borrower's signature on the note. In order to make a loan secured, commercial banks required in some instances a collateral security so as to reduce their risk of loss. With security, commercial banks have two sources of loan repayment the cash flow ability of the firm to service the debt and if that source fails for some reasons, the collateral value of the security.

The securities for a commercial bank loans may consist of pledged securities, warehouse receipts, lieu on equipment and other title thereto, real estate, mortgage and assignment of receivables and future income from investment.

Most commercial banks will not make a loan for a customer, unless the customer firm or individual has expected sufficient cash flow to make proper servicing of debt probable. To reduce their risk further, however, they require security as well.

2.4.2 UNSECURED LOANS

This is referred to as loans granted by commercial banks which are not secured by any collateral security, like stock, pledge or bond or any other assets that can be deposited as collateral. Some commercial banks borrowers obtain loans without pledging any collateral or security. This type of loan is granted usually to reputable customers who do not deal in commodities that can be pledged conveniently to a commercial bank and

yet their owners have sufficient character, capacity and opportunity for profitable operations to justify the advancement of a loan. Naturally, commercial banks like to make secured loans ever possible for all category of customers, but the credit standing of some customers are high that banks freely lend them money without security. It is important to mention here that unsecured loans are contributing the highest percentage of the increasing level of bad and doubtful debts in our commercial banks (CBN Annual Report 1996)

Most banks are not prudent enough in granting unsecured loans. Consequently, certain vital appraising factors are waived and the borrowers eventually takes the advantage of the liberality and refuse repayments of such loans neither by omission or commission.

2.5 GENERAL PRINCIPLES OF GOOD LENDING

It is important to bankers or most lenders of funds to practicalise the use of principles of goods lending, in establishing whether a given loan applicant is qualified for further evaluation of his credit worthiness or not. One of the important point which a banker must be cleared upon receipts of a request for a credit facility is the legal capacity of the borrower. For limited companies, the banker is obliged to examine the Memorandum and Articles of Association critically, to established that the borrowing is within the authority of the directors of the company .

Writing under the caption " Principles of goods lending " J.N Holden (1975) stated that in addition to ensuring that the borrower has the

necessary capacity to borrow, the lending officer should also undertake a careful examination of the following requirements, in order to avoid/minimise emergence of bad and doubtful accounts.[8]

These principles are briefly discussed below and are not cast in stone, therefore the banker must use his initiative and must be quite flexible.

i. Legal Capacity

As earlier on stated it is necessary to establish the legal capacity of the advance applicant whether an individual government agent or a limited liability company. In the case of a limited liability company a careful study of its memorandum and Articles of Associations and other information may be necessary.

ii. Purpose of the Advance/Loan

The purpose of the loan must be satisfactory and economically viable to the banker. It is also important for bankers to observe certain government control policies against granting loans/advances to individuals or business organisations as the case may be. In this case considerable care must be exercised with small unsecured advances to customers who are salary earners with no capital resources. On the surface they look harmless, but they are really not. A lot of bad and doubtful debts results from these categories of customers

iii. Amount of Loan/Advance needed

The assessment of the account relates to the purpose of a loan, as such its sufficiency should be determined. It is necessary to ascertain

whether the proposed amount is reasonable in relation to the customers own resources. The amount of the loan/advance should not exceed his capacity to repay. In this case, a close look at the customer's statement of assets and liabilities or monthly or yearly income may be of great help.

When lending to partnership or companies, a more detailed investigation may be necessary. For example, copies of their balance sheet, income statement and others for the past three years should be scrutinised. The aim is to establish the liquidity of the business thereby avoiding the risk of bankruptcy or liquidation.

iv. Profitability of the Loan/Advance

Interest on the loan/advance must ensure some satisfactory revenue, as a return on investment to the bank. Occasionally, the government moderates such lending rates at least on sizeable loans for the interest of the borrower.

v. Sources of Repayment

Information must be obtained on how the loan, if granted, is going to be repaid and the sources through which the money will be obtained. Some of the resources could be through the sale of property, against security of life insurance policy, out of profits over a period of time, etc. All these sources and many others not mentioned must be verified.

Risk in lending arises because repayment is not completely certain. Banks will be willing to lend if they are sure that repayment will be made (Henderson 1988:120).[9]

vi. Duration of the Loan/Advance

The general rule is that the banker advances are repayable on demand, particularly when the customer defaults. Now once the duration is agreed upon based on the nature of the customer's business endeavours, the bank and the customer are expected to adhere to the period stated, unless otherwise.

vii. Security for the Loan/Advance

Security as stated earlier, is something that provides safety, freedom from risk or anxiety, something given as a pledge for the repayment of a loan or fulfilment of a promise or undertaking. Security for the proposed loan/advance should be required even if the borrower's financial position appears to be so sound. The financial position can and sometimes does change very rapidly. A security should be the least defence for a banker to fall back on in exceptional circumstances only.

However, the qualification of a successful banker especially in an economy like Nigeria's is the ability to judge the character and credit worthiness of his customers. In lending situations, personal knowledge of the customer is not important, but it is desirable to satisfy oneself as far as reasonably possible, from a careful consideration of all the relevant facts that the borrower is capable of effecting repayment in accordance with the promise.

However, Perry (1979:300-301) while arguing with the contention of Holden(1975) that such question as "how much the customer wants to borrow, purpose, duration of the advance, and sources of repayment" are

fundamentals of good lending, stated that a perfect advance (lending) requires more than answers to these questions. According to Perry, many other factors such as the risk involved, profitability of the transaction to (earning accruable), the best interest of the borrower and the community generaliy, but specifically and importantly the character of the borrower, must be allowed to influence the decision making of the lending officers. It is in his opinion that although collateral securities are taken for advances, unsecured borrowing in the form of balance sheet advances to big established companies are usually less trouble than the secured advances. In fact, the best security according to Perry is the character of the borrower.[10]

2.6 STANDARD FOR EVALUATING CREDIT WORTHINESS OF CUSTOMERS

A major step that must be taken after an applicant for a loan/advance has been qualified through the principles of good lending is to evaluate their credit worthiness. This further step must be taken to minimise risk.

Most financial experts agreed that all loan officers should consider the three Cs of the borrower, (that is the Character, Capital and Capacity), while embarking on lending. According to Daniel Kujawa(1971), in addition to the three Cs of the borrower, the banker should be able to consider other Cs such as Condition(economic), Collateral(where a secured lending is involved) and Competition(relative strength of the borrower in relation to

his competitors)". In his article titled "A Banker's Approach to Business Loan", Kujawa opined that borrower's ability, experience, reputation, character and his personality sometimes influence the loan officer in taking lending decision. It is also the contention of Kujawa, that deposit balances, collateral, interest rate, past experience, economic conditions and any other relevant factors should not be underplayed in considering customers' applications for credit facilities. He emphasised that such factors may have significant influence on the risky nature of the loans/advances.[11]

i. Character

This refers to the possibility that a customer will try to honour his obligation. Will the customer make an honest efforts to pay his debt/loan or is he likely to get away with the money? This element touches on the moral if the customer to be and it is always very important for evaluating credit worthiness. Credit is generally granted by commercial banks based on confidence in a customer's ability to repay the amount granted plus the agreed fixed rate of interest.

The earlier mentioned authors are of the view that in time of adversity, character of the borrower is very vital ingredient. And therefore, the personal evaluation of the borrower by the lending banker is very crucial. what the banker establishes here is frankness, integrity and business capacity of the borrower. It would not be disturbing at all, argued the authors, if bad loans experience of commercial banks were results of losses incurred while lending with rogues. But the sad aspect is, inexperience and lack of financial expertise by borrowers and defects in borrowers' temperament.

ii. The Capacity

The capacity element of the customer is a subjective judgement of his ability to meet his obligation as it falls due. This is normally based on the past record, supplemented by physical observations of the customer's plant or store and business methods.

iii. Capital

This is measured by the general financial position of the firm as indicated by a financial ratio analysis touching on the tangible net-worth of the firm. The ratios analysis among other things comprise of the debt management ratios. This group of ratios show the extent to which a firm uses debt financing leverage. For the lending banker, the more commonly used ratios fall into the following debt ratio, debt equity ratio, debt to total capitalisation, time interest earned, fixed charges coverage. (Osayameh, 1986:58).[12]

(a) Debt Ratio - This is the ratio of total debt to total assets. It measures the percentage of total funds provided by creditors

$$= \frac{\text{Total debt}}{\text{Total Assets}} \times 100$$

(b) Debt Equity Ratio - This ratio indicates the relationship between the long-term funds provided by creditors and those funds provided by the firm owners; thus calculated as

$$= \frac{\text{Total debt}}{\text{Net worth}} \times 100$$

(c) Debt to Total Capitalisation - This ratio is concerned with the importance of long-term debt in capital structure of the firm. The ratio is calculated as

$$\frac{\text{Long-term debt}}{\text{Total Capitalisation}} \times 100$$

(d) Time Interest Earned - measures the ability of the firm to meet its annual interest payments. It is computed thus

$$\frac{\text{EBIT}}{\text{Interest charges}}$$

Failure to meet the obligations results to bankruptcy.

(e) Fixed charges coverage - expands upon time interest earned ratio to include the firms annual long-term lease obligations.

$$= \frac{\text{EBIT + Interest Charge + Lease obligations}}{\text{Interest charges + lease obligations}}$$

iv. Condition

This refers to the impact of the general economic trends on the business, individuals or to special areas of the economy that may be more affected, thereby affecting the customer's ability to repay the loan. Bankers in Nigeria must take this point seriously in tightening up their lending requirements. That is tougher lending policies. This is necessary because of the recessionary trend of economic activities being experienced. Even at present most of the banks seems to be going distressed and lack of good lending policy has accounted very much for their ugly state. They have to exercise caution in their lending activities in the present condition of the Nigerian economy.

v. Collateral

This is the asset(s) that a customer may offer as a pledge or security against a loan to be granted to him. Requesting and accepting security back-up for any lending is the prerogative of the banker, and the stronger the security the more money he may be prepared to lend out to the customer. Realisation of security as the only way of retrieving advance or loan granted is considered as bad banking. Money granted from prepositions of loans should be enough to repay the facility.

Where security is to be taken for a loan, a third party security is considered as the best. (Holden 1975). The reason being that in the event of liquidation or bankruptcy, it confers the right of double proof enabling a banker to go further than if the same security were lodged by the actual borrower. The banker can prove for the full amount of the debt against the debtors assets, and still look for the full value of third party for any short fall.[13]

Moreso, the margin required here ought always to be sufficient to throw the burden of the value of fluctuation on the shoulders of the borrower, so said Holden(1975:36) " ..... any security should be regarded as the last line of defence to fall back upon in exceptional circumstances only. To lend money against security knowing fully well that one is likely to have to realise that

security is bad banking practices; since the realisation of securities is sometimes a lengthy, costly and complicated business"[14].

In addition to what have been said above, three major sources of external information need to be used to further refine the screening exercise.

(a) External organisations who can provide credit worthy information, because of their experience with the customer may be used. If an association exists that can offer such information, its services can be tapped and used.

(b) Secondly, bankers in the course of their informal meetings can clarify some of their dealings that inter-linked them with one another. They can use such a forum to publicise bad debtors. Such information will help bankers to identify bad debtors before engaging in negotiations with them.

(c) If the situation on bad and doubtful loans becomes more intolerable, banks may have to start thinking of insuring themselves specifically against bad and doubtful loans.

It is hope that when these are put together effectively in evaluating loan/advance applicants, banks are likely to minimise the risk that is unavoidable in bank operations.

2.7 CAUSES OF BAD AND DOUBTFUL DEBTS

Bad and doubtful debts do not just arise as a key product of the activities of the banking institution, but due to certain specified reasons which may as a result of the activities of the borrowers or the banker, or the government.

In his seminar paper presented in the Department of Business Administration, Ahmadu Bello University, Zaria, titled "Bad and doubtful debts management in Commercial Banks" Mirza (1988) identified four major factors as being responsible for the growth of bad and doubtful debts, such as:

(a) Non-observance of the laid down guidelines in granting credits to loan applicants.

(b) Personal vested interest of the approving officers.

(c) Inability of the loan officers to recover such facilities in which they have vested interest.

(d) Government interference in the banks' lending, as it affects down ward and upward adjustment of interest rates.

Reacting to the Guardian Newspaper Reporter's question who is to be blamed? (July 3 1991:24) Benedicts Molokwu(Miss) specifically reacted thus "we businessmen, bankers and everybody have all contributed to this problem, because we are all part of the governance that has run down the economy. So we should share the blame equally". She explain further "If people are less fraudulent, if contractors will execute their projects and if government will spend less ..... and will pay back debt obligations (to contractors), I (Molokwu) think the banks will be out clean".

But Lagos Chamber of Commerce and Industry (LCCI) President Alhaji Ladi Salami, wants businessmen exonerated from the financial mismanagement in the commercial banks. He argued that banks ensure adequate security against payment default before loans are approved for

any borrower. His words "If there are bad debts ..... it is strange to us (LCCI) because before a businessman is given a loan, the bank would ask for adequate collateral as security in case the loan is not repaid. So I am surprise about what we are hearing about bad debt". (Guardian Financial Weekly, August 5, 1991:10).

In an interview with The Banking and Financial Digest, Magazine, (Vol.5,1991:9). Mr. Tony Amosu, identified the penchant of debtors not to pay up their debts resulting to bad and doubtful debts) and traced this to three reasons, namely

(a) That some creditors do not have any aggressive debt collection or recovery policy, and that where such policy exists, it is only on paper and may be due to lack of proper machinery of enforcement or existence of deliberate attempt to sit on it.

(b) that when the contract between the debtor and the creditor ends up in dispute, repayment is subject to justly, resolving the dispute and

(c) that there are professional debtors, who will stop at nothing to procure a credit facility but will never want to pay back.

Mr. Tony, therefore recommended exactly what every banker is supposed to do in appraising loan applicants, that is "here then lies the need for thorough appraisal in granting credit request".

Moreso, partisan politics 'man-know-man' careless, government policies and acts of God, are some causes given for why loans granted for which repayment is expected plus interest go bad. Most banks are now neck deep in bad and doubtful debts and found themselves in financial

distress, situation through mismanagement of their loan portfolio. Considering the ratio of defaults in banks with government equity and those that are one hundred percent private ownership, one tends to agree that partisan politics in its rotten form has influence in granting and managing loans. Anthony Ononye, believed there is what he called "political lending".

Mr. Ayo(1993) a Chartered Accountant also opined that tribal and sentimental lending is eating deep into lending and credit management of commercial banks. He stated that bankers relax more than they should because Mr. 'A' knows Mr.'B'. A good percentage of bad and doubtful loans is also believed to fall within loan granted to government contractors who have failed to collect that money from government, due to political changes resulting from political and economic instability.

Another reason given which was confirmed by Bayo(1994) was the present economic downturn in the country. Most businesses and individuals could no longer cope with the repayment program because of the adverse effect of the Structural Adjustment Program (SAP), which have driven some firms out of operations. The rising level of inflation coupled with the increased rate of interest have contributed to default.

Other analysts believed that loans go bad due to human errors or unforeseen circumstances. This we have highlighted before. Some argued that the inconsistent economic policies is largely responsible for why certain loans turn out to be bad and doubtful. These inconsistent economic policies of government make feasibility study to become obsolete. This often creates a situation where the expected returns do not tally with the

intention of the borrower, making all the assumptions initially considered in the proposal to become unrealistic.

However, in spite of all these factors, it is still believed that bankers are not blameless. Some banks have reckless lending policies which do not ensure that loans are properly secured. Lack of proper documentation and execution of securities by some banks to ensure recovery of loans have made them loose substantial loan grants. It is also observed that some credit managers deliberately work against the credit guidelines of their banks. Some observes blame it all on most customers who are not honest enough to make good their obligations or inform the banks about their problems. Whatever, be the case, the bankers still have much to do in their lending and credit management, if the current level of bad and doubtful debts, which has thrown many banks into ugly situations, is to be reduced or eliminated.

Thus from the above discussions, the causes of poor loan portfolio management in our commercial banks seem to center around the following:

1. Corrupt Practices of Bank Personnel

While debtors have attributed the high incidence of indebtedness to poor investment climate and consequent poor returns, Mr. Adedji Okunobi, President of Trading Rights (Nig.)Ltd, holds that the major contributory factor to the high spade of indebtedness is the corrupt practices of loan managers. Many of these managers have interest in the borrower, ranging from personal interest to kick backs, popularly known as "ten percent", which give the borrowers the confidence not to pay. (The Guardian June 7, 1993:11)[15]

2. Lack of Proper Training of Personnel

The vast majority of bank members of staff in Nigeria are either inexperienced, or are poorly trained. According to a survey of manpower situation in Nigerian Banking Industry conducted by NDIC 1992, only 46% of the staff in commercial banks have more than 10 years working experience, while majority have less than 10 years.

A detailed examination revealed that a few of the big commercial banks which were established before 1986, accounted for over 81% staff who have more than 10 years working experience. (Business Concord Nov.3, 1993:20). This lack of training in the industry resulted to poor lending appraisal which culminated into poor credit quality and thus accounting for huge bad and doubtful loans, the number one factor causing banks' insolvency in our economy.[16]

3. Lack of Proper Credit Monitoring

The monitoring of loan portfolio is very vital aspect of credit administration as it is one of the means of detecting any error of judgement committed during the loan appraisal. It help to observe any down-turn in a company's fortunes. However, this will be achieved when monitoring is on a regular basis, as borrowers do not become insolvent overnight. In many cases, a company's or a person's decline to repay the loan is gradual, and proper monitoring would observe danger signals long before the situation becomes bad.

4. High Interest Rates

The high lending interest rates prevalent in the interbank market and in banks' credit to customers resulted in the high rate of defaults in repayments. This characterised the market during the period of deregulation particularly between 1992 and 1993 (Ekpenyong 1994:19).[17]

During this period, a customer may take a loan at an interest as high as 70% with the hope of making some reasonable profits from his investment. However, the investment may not yield much returns, thus making it difficult for the customer to repay the principal and the interest thereon.

5. Others

Other miscellaneous causes of bad and doubtful debts include the following:-

- Inadequate utilization of the loans for the projects they were meant for.
- Poor management of investments by borrowers.
- Diversion of loans taken for particular projects to less economically viable ones like buying and celebration of chieftaincy titles, building private houses, marrying of more wives etc.
- Inability to delineate between the role of the boards and that of the day to day managers, and separation of policy from execution.
- Honouring of customers' cheques against instruments in the process of collection, thus overdrawing the accounts. When such collections bounce, the accounts are left unoperational and subsequently turn out to bad loans.

- Professional misconduct by estate valuers occasioned by over valuation of properties pledged as collaterals committed by bank customers. When such properties are realised due to customer's default in repayment, the proceeds hardly cover the principal amounts owed by the customers.
- Loan facilities to government agencies, especially in the case of indigenous banks, which remained unserviced for years.
- Business failures due to inability of companies to import raw materials because of government ban, and difficulty inherent in changing to local raw materials.
- Economic dull due to hard government policies which cause financial squeeze and premature closure of many business organisations.
- Competition between small and larger banks and among smaller banks which led to ease in which credit is extended, and the risk inherent in imprudent and improvident lending multiply.

2.8 LOAN PORTFOLIO CONTROL MECHANISMS

Loan portfolio control is as important as the initial evaluation of the proposal. A customer who is aware that his operations are not being closely monitored has the tendency and temptation to divert the loan to other ventures which could be detrimental to the bank and the customer.

Mr. M. O. Sadiku (1992) in his paper "loan management" quoting Waine(1979) advised banks to give lending control high premium in their internal functions. Although lending enjoys an established place, its

operation is not as often examined as those of some of the more recently introduced and fashionable sides of the banking activities. He emphasised that regular changes and innovations on lending control are compulsory.[18]

Okigbo (1981) observed that "customers often pay loyalty to a particular officer through whom loans may be easily secured; knowing that loans and advances secured from a particular bank can be treated almost like a grant with the collusion of the staff or through inefficient book-keeping, the bank will not press its claims, when they are due to be retired. He further stated that each officer tends to draw to his bank part of his community for whom he becomes the centre of the application to the bank, and on whose behalf he tries to wield whatever influence he can to provide loans and advances.

Argenti (1969) likened a manager who blames his huge loans going bad on economic recession/condition to a ship captain who has not heard the weather forecast. He remarked "and what does the manager expect, a world without economic cycles? Some managers blame the government ..... perhaps again, what does he expect, a world in which taxes and laws are not changed"[19].

All the above arguments have been put forward to buttress the strong need for effective and efficient supervision and control of loan portfolio. To minimise the incidence of bad loans, certain control measures have to be evolved. Some of these measures include:

1. Conduct of Account

How frequent is the account operated upon, that is, the turnover? Is the account inactive? All these could send signals to the credit control officer. Note also that some customers have succeeded in deceiving their bankers that turnover was being generated by them, whereas all that is being done is "kite flying" or cash "recycling". They make credit lodgements from sources unrelated to their operations while simultaneously withdrawing such funds thereby giving false impression of an active account.

Accordingly, branch managers/credit managers should keep an eye on the client's account and watch the following:

(a) Source of payments into the account

(b) Direction of cheques paid out on the account

(c) Frequency of excess request, countermand, etc.

2. Periodic Review of Financial Statements

The good performance of a company is usually reflected in its financial statements. Any significant variance should be queried.

A trend analysis of turnover, net profit, long term borrowing, networth, fixed assets, working capital, current liabilities and assets between 3 and 5 years will prove very useful in revealing the company's performance.

3. Industrial Comparism

Statistical figures of companies within the same industry can provide useful information to the bank. When an industry is enjoying a boom, most companies within the same industry will reflect that.

Comparism of the performance of companies within the same industry enjoying facilities with commercial banks is worth taking by the bank at specific periods.

4. Customer-Bank Dialogue

Branch managers and credit control officers should not absolutely rely on information from the company's financial statements alone. Visits to the client's office and factory are usually revealing and provide on-the-spot assessment. Also inviting customers for periodic discussions on the use of funds, performance and proposals will do the bank good in effective loan portfolio management.

5. Others

- Loan facility requests by customers should be obtained in writing.
- Customers must have accounts with the bank and should be operational for at least six months to enable loan officers study the trends.
- Ascertain what facilities are requested either loan, overdraft or advance, to avoid diversion of funds or misappropriation.
- Obtain sufficient collateral which should be subjected to periodic reviews to ascertain its adequacy, and good condition.
- Loan facilities accounts just like other accounts should be closely monitored on a daily basis by the loan officers and other employees charged with such responsibility.
- Training and development of bank employees within and outside the bank to broaden and update their lending and skill should be paramount.

- Ascertain the sufficiency of the loan facilities required by customers.
- Disbursement of loan funds should be strictly on agreed terms and conditions.
- Regulation of discretionary lending powers of managers and loan officers by higher authorities within the commercial banks.
- Failure of committed bank customers to regularise their accounts should necessitate classification and immediate realisation of the collateral pledged or legal action should be taken.
- Discourage lending to customers without collateral at branch level and caution use of same power of higher levels.
- The purpose for which the loan is to be granted for, should be ascertained in order to conform with the approve activities (Laws of the Country).

2.9 LENDING DIRECTIONS AND REGULATIONS

2.9.1 LENDING DIRECTIONS

The terms on which banks accept deposits from customers determine the terms on which they can lend. If they borrow on short-term basis they will lend on short-term. Also other depositors can ask for their money on short notices. So, by borrowing on short-term and lending on long-term, the potentials for profit is high, but the risk is equally greater.

Also, the direction of lending could be influenced by the cost of borrowing. For example, with the interest rate deregulation between 1992 and 1993, monetary and credit guidelines stated that banks deposits and

lending rates would be determined by market forces. So the higher the cost of funds, the higher the lending rate. These high rates made the lending direction to be shifted from real producers to peddlers of paper money. They(paddlers) used the opportunity through manipulations and speculations to make money for themselves without any tangible contribution to the real sector of the economy.

It should be noted that the trend, that is, lending direction was heavily influenced by the Central Bank of Nigeria.

2.9.2 LENDING REGULATIONS

Historically, banks encountered alot of constraints in performing the role of intermediation. During the period of the gold standard, every pound receipt of notes issued was fully backed by gold reserves. Thus banks lending which inevitably meant bank credit creation was eventually regulated. The gold standard provided an automatic mechanism for regulating bank lending and ensuring a stable value for the currency (Okunrounmu 1992:1).[20]

The conditions to be met before facilities are granted can be categorised into three viz:

- the prospective borrower
- the project itself and
- the safety or otherwise of the bank to honour such a proposal.

From the above, the tools of commercial banks' lending regulation fall into the following:-

2.9.2A CENTRAL BANK OF NIGERIA CREDIT GUIDELINES

The Central Bank regulates the operations of commercial banks through its monetary and credit policy circulars, containing all policy measures in the federal government's budget. Some of the major provisions in the credit policy guidelines are:-

(a) Credit ceilings on the banks. Prior to September 1992, the Central Bank had imposed a ceiling on individual commercial banks' credit to the private sector. However, the banks can expand their credit only when they meet the Central Bank's guidelines on cash reserve, liquidity ratio, prudential guidelines, minimum paid-up capital and sound management.

(b) Sectoral Allocation:- In order to stimulate growth in the non-oil sector of the economy, commercial banks are given priority sectors and percentages that must be made in the granting of their credits. An example of the sectoral allocation for commercial banks is shown below using the years 1993 and 1994, sectoral allocation of credit by commercial banks

Table 2.9.2A Sectoral Allocation of Credit by Commercial banks

	SECTOR	Percentage Allocation	
		1993	1994
1	Priority Sectors:		
	a. Agricultural production	15.0	18.0
	b. Manufacturing Enterprises	35.0	42.0
	c. Exports	-	10.0
2	Others	50.0	30.0
	Total	100.0	100.0

Extracted from: 1993/94 CBN Monetary and Credit Circulars.

(c) Loans to rural areas - Commercial banks are given stipulated percentages of loans to be made available to rural areas from their deposits. This is to accelerate the development of the rural areas. For

example, since 1992, the ratio of commercial banks' rural lending to deposit mobilised in rural communities is fifty percent (50%).

(d) Loans to Small Scale Enterprises - Similarly, for the purpose of sustained promotion of Small Scale enterprises, a share of commercial banks' total credit is allocated to this category of enterprises in the economy.

2.9.2B CENTRAL BANK PRUDENTIAL GUIDELINES FOR LICENCED BANKS

In an attempt to guide licensed banks in the analysis and the concept of loan portfolio management by the banks, the Central Bank of Nigeria (CBN) have outlined certain prudential guidelines for all licenced banks to follow in the management of their loan portfolio. These prudential guidelines are outlined below.

Without prejudice to the requirements of the Statement of Accounting Standard on Accounting by the Nigerian Banks and non-financial Institutions to be issued by the Nigerian Accounting Standards Board (NASB) in the near future, all licenced banks shall be required to adhere to these prudential guidelines. In view with the International nature of banking, the guidelines are based on practices endorsed by reputable international financial institutions and regulatory authorities.

These guidelines should be regulated as minimum requirements and licenced banks which already have more stringent policies and practices in place are encouraged to continue with them.

Credit Portfolio Classification System

Licenced banks should review their credit portfolio continuously (at least once in a quarter) with a view to recognising any deterioration in credit quality. Such review shall systematically and realistically classify bank's credit exposure based on the perceived risks of defaults. In order to facilitate comparability of banks classification of their credit portfolio, the assessment of risk of default should be based on criteria which should include capacity on the basis of current financial condition and not realisable value of collateral. Credit facilities (which include loans, advances, overdrafts, commercial paper, bank acceptance, bills discounted, losses, guarantees, and other loss contingencies connected with a bank credit risk) and should be classified as either "performing" or "non-performing" as defined below

(a) A credit facility is deemed to be non-performing when any of the following conditions exists:

(i) Interest payments equals to 90 days interest or more.

(ii) Interest payments equals to 90 days interest or more have been capitalised, rescheduled or rolled over into a loan, except were facilities have been reclassified as specified below.

The practice whereby some licenced banks merely renew, reschedule or rollover non-performing credit facilities without taking into consideration the repayment capacity of the borrower is objectionable and unacceptable. Consequently before, a credit facility already classified as "non-performing" can be classified as performing, the borrower must effect

cash payment such that outstanding unpaid interest does not exceed 90 days. Non-performing credit facilities should be classified into three categories, namely, sub-standard, doubtful or lost on the bases of criteria specified below:

(a) Sub-standard

The following objective and subjective criteria should be used to identify sub-standard credit facilities:

i. Objective Criteria: Facilities in which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days.

ii. Subjective Criteria: Credit facilities which display well defined weakness, which could affect the ability of borrower to repay, such as inadequate cash flow to service debt, under capitalisation or insufficient working capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest and inactive accounts where withdrawals exceeds repayments or where repayments or where repayment can hardly cover interest charges.

(b) Doubtful

The following objective and subjective criteria are used to identify doubtful credit facilities.

i. Objective Criteria: Facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or projected realisable collateral in the process of collection or realisation.

ii. Subject Criteria: Facilities which in addition to weakness associated with sub-standard credit facilities, reflects that full payment of the debt is not certain or that realisable collateral values will be insufficient to cover bank's exposure.

(c) Lost of Facilities

The following objectives and subjective criteria should be used to identify lost credit facilities:

i. Objective Criteria: Facilities on which unpaid principal and/or interest remains outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realisable collateral in the course of collection or realisation.

ii. Subjective Criteria: Facilities which in addition to the weakness associated with doubtful credit facilities, are considered uncollectible and are of such little value that continuation as a bankable asset is unrealisable such as facilities that have been abandoned, facilities secured with unmarketable or unrealisable securities and facilities extended to judgement debtors with no means or foreclosable collateral to settle debts.

Banks are required to adopt the criteria specified in credit portfolio classification system to classify their credit portfolios in order to reflect the true accounting values of their credit facilities. Licenced banks should note that the Central Bank of Nigeria(CBN) reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

Provision for Non-performing Facilities

Licenced banks are required to make adequate provision for perceived losses based on the credit facilities portfolio classification prescribed earlier in order to reflect their true financial condition. Two types of provisions (that is specific and general) are considered adequate to achieve this objective. Specific provisions are made on the basis of prescribed risk of default or specific credit facilities while general provisions are made in recognisation of the fact that even the performing credit facility harbour some risk of loss no matter how small. Consequently, all licenced banks shall be required to make specific provisions for non-performing credit as specified below:

i. For facilities classified as substandard doubtful or lost:

- Interest overdue by more than 90 days should be suspended and recognised on cash basis only.
- Principal repayment that are overdue by more than 90 days should be fully provided for and recognised on cash basis only.

ii. For principal repayments not yet due on non-performing credit facilities, provision should be made as follows:

- Substandard Credit Facilities: 10% of the outstanding balance
- Doubtful Credit Facilities: 50% of the outstanding balance
- Lost Credit Facilities: 100% of the outstanding balance

For prudential purpose, provisioning as presented above should only take cognisance of realisable tangible security (with perfect legal title) in

the course of collection or realisation. Consequently, collateral values should be recognised on the following basis:

i. For credit exposure where the principal repayment is in arrears by more than six months, the outstanding unprovided principal should not exceed 50% of the estimated net realisable value of the collateral security.

ii. The credit exposure where the principal repayment is in arrears by more than one year, there should be no outstanding unprovided portion of the credit facility irrespective of the estimated net realisable value of the security held.

iii. For a credit exposure secured by a floating charge or by an unperfected or equitable charge over tangible security, it should be treated as an unsecured credit and no account should be taken of such security held in determining the provision for loss to be made.

General Provisions

Each licenced bank is required to a general provision of at least 1% of risk assets not specifically provided for.

Credit Portfolio Disclosure Requirement

i. Each licenced bank is required to provide in audited financial statements, an analysis of its credit portfolio into "performing" and "non-performing" as defined earlier.

ii. The amount of provision for deterioration in credit facilities quality (that is, losses) should be segregated between principal and interest.

iii. A maturity profile of credit facilities based on contracted repayment programme, should be provided along with the maturity in the financial statement.

Interest Accrual

It is the responsibility of bank management to recognise revenues when they are earned or realised and make provision for all losses as soon as they can be reasonably estimated. However, experience has revealed a wide diversity amongst licenced banks on income recognition. While a few banks cease accruing interest on non-performing credit facilities after three months, some after six months or one year, some do not appreciate the need to suspend interest on such facilities.

In order to ensure the reliability of published operating results, the following criteria should be adopted by all licenced banks for the treatment of interest on non-performing credit facilities.

i. All categories of non-performing credit facilities should automatically be placed on non-accrual status, that is, interest due thereon should not be recognised as income.

ii. All interest previously accrued and uncollected but taken into revenue should be reversed and credited into suspense account specifically created for this purpose which should be called "interest in suspense account" unless paid in cash by the borrower future interest chargers should also be credited into same account until such facilities begin to perform.

iii. Once the facilities begin to perform, interest previously suspended and provisions previously made against principal debts should be recognised on cash basis only. Before a "non-performing facilities" can be re-classified as "performing", unpaid interest outstanding should not exceed 90 days.

Classification of Other Assets

The term "Other Assets" relates to those assets items, not shown separately in the balance sheet of a bank. These items include: Impersonal Accounts (of various descriptions), Suspense Accounts such as frauds and cashiers' shortages, cheque purchased, uncleared effects and inter-branch items. More often than not, the accounts usually grouped together as "Other Assets" contain fictitious or intangible assets. The accounts could contain many long outstanding items, the origins of which had been long forgotten, untraceable as well as unreconcilable. In situations like these, the items if not material should be written off and where material (that is, at least 10% of aggregate balance of other Assets) should be classified as below. However, it should be noted that items enumerated below are by no means exhaustive.

i. Sub-Standard

- Cheques purchased and uncleared effects outstanding after the permissive clearing period.
- Fraud cases of up to six months old and under police investigation regardless of the likely outcome of the cases.
- Inter-branch items of between two to three months.
- All other intangible suspense accounts existing in the books up to 3 months.

A minimum provision of 10% should be made for "Other Assets" classified as sub-standard.

ii. Doubtful

The above listed features must have been aggravated and are likely to result in losses higher than recommended for sub-standard items. Items for doubtful classification should include, but are not limited to the following:

- Cheques purchases of between three to six months old but which have been withdrawn or cancelled and substituted with new ones. Similar treatment should be accorded to uncleared effects for which values have been given.
- Outstanding fraud cases of 6 to 12 months old and with slim chances of full recoveries.
- Inter-branch items outstanding for between 3 to 6 months.
- All other intangible suspense accounts outstanding for between 6 and 12 months.

A minimum of 50% provision should be made for "Other Assets" items classified as doubtful.

iii. Lost

Items for lost classification should include, but are not limited to the following:

- Cheques purchased and uncleared effects over 6 months old and for which values had been given.
- Outstanding fraud cases over 12 months old whether or not the origins are known.
- All other tangible suspense accounts over 12 months old.

Full provision (that is, 100%) should be accorded to items classified lost.

Off-Balance Sheet Engagements

A proper appraisal of off-balance sheet engagements should be undertaken with a view to determining the extent of loss a bank may likely sustain. Off-Balance Sheet items include letters of credits, Bonds, Guarantees, Indemnities, Acceptances and Pending or Protracted Litigations (the outcome of which could not be easily determined).

The following factors should be taken into consideration in recognising losses on Off-Balance Sheet engagements:

- Date the liability was incurred
- Expiry date
- Security pledged
- Performance of other facilities being enjoyed by the customer, e.g. loan, and advances.
- Perceived risk.

Full provision must be made for any loss that may arise from Off-Balance Sheet engagements (transactions). Off-Balance Sheet engagements should not form part of balance sheet total while their disclosure in note form should distinguish between:

- Direct Credit Substitutes, such as guarantees, acceptances and standby letters of credit serving as guarantees;
- Transactions related contingencies, such as bid bonds, performance guarantees and standby letters of credit related to particular transactions;

- Short-term self-liquidation trade related contingencies resulting from the movement of goods; and
- Other contingencies.

Thus the concept of loan portfolio management (debt management) by all licenced banks is centered around the above mentioned guidelines given by the Central Bank of Nigeria (CBN) to be followed. In this regard, banks to some extent may deviate in certain cases, provided rules and regulations are not broken by either exceeding or not, to research the limits provided as the case may be.

2.9.2C BANKS' OWN PRIVATE CREDIT GUIDELINES

In addition to the Central Bank's guidelines, Commercial banks have their own guidelines that regulate their lending functions, to their customers. Some of the guidelines fall under specific categories, thus:

i. Proposal for the finance of capital projects which stipulates the type of loan, purpose and a statement of the pay back period.

ii. Market survey which shows the existence of a ready demand for the investor's finished products.

iii. Feasibility study of the proposed investment, including details of the structure of the company, the human resources available, factory site, building, plant and equipment.

iv. The financial standing of the intended borrower.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The aim of this research work is to assess the effective and efficient management of loan portfolio in the Nigerian commercial banks, a focus on Savannah Bank Nigeria PLC and Habib Nigeria Bank Ltd. It also aimed at looking for ways of efficient and effective management of loan portfolio in Nigerian commercial bank, especially the ones under case study. To do this, attempts were made towards identifying the various types of research methods available and specify the research framework within which the study problem can be tackled.

This chapter focuses on describing the techniques employed and the procedures followed in the conduct of the study and their justification.

3.2 RESEARCH METHODS

A research work must lead itself to some methodology of data collection, analysis and interpretation. The different types of research methods in use and their applications depend on the nature of the problem at hand.

They include:

i. Historical method

ii. Descriptive/survey method

iii. Case Study

iv. Experimental method

Let us review them briefly paragraph by paragraph.

Historical Research method tends to interprete past trends of attitude, event and fact. Apart from discovering past events, it tries to establish the genuiness of the position. It is based on collected and recorded data emanating from secondary sources in the literature. Historical research facilitates a search process and reduces the expenses of going into the field to collect raw data.(Osaze 1985).

Descriptive or survey research method usually consists of methods of gathering data from usually large number of respondents, who themselves constitute a sample. The term descriptive and survey are often used inter-changeably, to denote a type of research explained above.

However, the survey method is really the most common method of executing a descriptive research. Generally, it involves the collection of first-hand information and data from primary source by the researcher. This may be done either by observation on inquiry through the use of questionnaire. In the words of Osaze(1985) "survey data are usually susceptible to sampling and respondents errors which the researcher must be aware of". So the accuracy of information collected depends on the ability and competence of the researcher, his honesty, integrity and capability to relate questions asked to the objectives of the research.

Case study is an intensive analysis of one instance or a few instances of phenomenon and the possibility of generalisation. A case study, because it is an indepth analysis, may often present a method for improving and simplifying hypothesis before they are tested out in a wider scope.

Often a question arises as to whether it is better to have a case study or a sample. However, it often depends on the objective of the research, the resources of the researcher and the state of knowledge of the research problem. In the words of Osaze(1985), "if the topic has been thoroughly researched through survey and sampling methods, and the researcher wishes to obtain indepth knowledge of the behaviour of some variables, it might suit in to engage in a case study".

A major advantage of a case study is that it allows or permits the collection of data on a large number of variables and this enhances the validity of the findings. It is therefore, the preferred for testing a complicated hypothesis or one which requires the use of new and untried measurement devices.

The chief disadvantage of the case study is that owing to the single or in some cases limited number of cases examined, grounds often do not exist for establishing the reality or generality of its findings. This is particularly so due to the danger that the case or cases examined may be truly unique or a typical one.

Experimental research method requires actual comparism of certain variables in an attempt to establish the cause and effect of relationships. Experimental data usually come from a laboratory situations, either in the field or in pure science laboratory. In this case, the researcher conducts experiments to discover trends, confirm or disconfirm present or earlier established phenomena.

Usually there are both experimental group and a control experimental group, so as to ascertain any change in the course of the experiment. They are used mainly for hypothesis testing and for determining relationships between or among variables. According to Osaze(1985), experimental group is subjected to several errors which include, the contamination of the control group by the experimental group, the problem of mortality members of the experimental group and the costly nature of the approach.

In pursuit of the objective of this study - efficient and effective management of loan portfolio in Nigerian Commercial Banks - the descriptive or survey research method was adopted. The major aim was to describe systematically the state of the phenomenon.

As Osuala(1982:145) puts it "the need for systematic ways of telling what a situation is, means that the situation is no longer simple. It can no longer be understood directly and without synthesis".

As earlier on said, survey research describes both large and small population by selecting an unbiased sample and using the result to generalise on the population.

The choice of this method is based on the study's objective, which is to highlight the lapses in management of loan portfolio in Nigerian commercial banks and to also find ways for efficient and effective management of the loan portfolio. To this end, a sample of two commercial banks is drawn from the 51 existing commercial banks in Nigeria. On this sample a uniform questionnaire was administered.

The use of questionnaire was necessary and justified because of the sensitive nature of the research topic, and no alternative method was feasible. Also, the advantages associated with questionnaire as a research technique and from the point of view of the researcher lended weight to its usage.

3.3 SAMPLE POPULATION

The concept of sampling is fundamental to the conduct of a research and the interpretation of the results. To be objective, the sample must be a representative of the population. A research population is therefore, the totality of all elements subject or members that possess a specific set of one or more common features. It can be infinite or finite population.

A population can be finite, yet so vast that only a sample could be used, for the research purpose. In practice, most of the information obtained by researchers about any population comes from examining a small representative subset of the population. This is called sampling.

Sampling according to Lucey(1979:7) is "the process of examining a representative number of items out of the whole population or universe". The aim is to get an understanding about the whole population based on the characteristics of the sample. The sample only provides an estimate of a population characteristics and accuracy of the estimate will depend on the size of the sample, selection process and the extent of variability in the population. In most cases the design and operation of the sampling investigation is a complex and technical matter, but the overall objective is

to select a representative sample as possible without bias and at a realistic cost.

The population sample of this study consists of two of the 51 Nigerian Commercial Banks in existence. The objective was to establish an effective and efficient management of loan portfolio in Nigerian commercial banks with a focus on Savannah Bank(Nig) PLC and Habib Nigeria Bank Ltd.

The stratified sampling technique as a type of sample method extends the idea of sample-random-sample strata taken account of in the sample. This is classified into random and non-random sampling techniques.

The non-random sampling is adopted in this research work. The reason being to reduce sampling errors. After a survey and reference to necessary directory, a non-random sample was drawn across two branches and one area office of each of the banks under study. Subjects were drawn from among the members of staff of these offices.

3.4 SAMPLE SIZE

A total of 100 members of staff consisting of middle and top management level were selected from the research population of two area and branch offices of each of these banks. Twenty from each of the two branches and ten from one area office of Savannah and Habib banks respectively.

Statistics from the sample shows that most of the members of staff covered have full knowledge of the topic under study.

3.5 DATA COLLECTION

In the words of Francis(1993:11), data collection can be thought of as "the means by which information is obtained from selected subjects of an investigation". There are different data collection sources from which one can use in research work. The sample method of data collection technique sometimes dictates which source to use and in other instance, it is determined by time, labour and cost. Basically there are two sources of data: Primary and Secondary Sources.

3.5.1 PRIMARY SOURCE OF DATA

The researcher envisaged the sensitive nature of the topic under consideration as it may not permit respondents to express the full truth in the questionnaire. In the light of this short-coming, the questionnaire was augmented with the conduct of extensive oral interviews.

While questionnaire may be subjected to misinterpretation, depending on the perception of the respondents, this was minimised by the use of oral discussions, held between the researcher and some respondents.

Beyond this generally accepted feature, a wide range of views on the subject matter were discussed that helped revealed certain useful information, that were not covered by the questionnaire. In fact, oral interview is a powerful method of research, when appropriately used.

Attached to the questionnaire was a cover letter which readily introduces the research topic to the respondents. See Appendix B. The

distribution of the questionnaire was done by personal visits to the area and branch offices (of the banks) covered by the study. The questionnaire copies were left with the respondents to be filled at their leisure time, unless where immediate responses were granted, then the researcher had to wait to collect them back immediately.

Similarly, the collection of the distributed copies of the questionnaire was done mostly by personal visits back, except for some respondents where stamped self-addressed envelopes were left with them to send their responses through post. A total of one-hundred copies of the questionnaire were distributed. In each of the two area offices, ten questionnaire copies were issued and twenty were issued to each of the two branches of the banks, covered by the research. This was done with the hope of getting at least five completed and returned questionnaire copies from each of the area offices and fifteen from each of the branch offices.

3.5.2 SECONDARY SOURCE OF DATA

This research exercise started with the collection of secondary data. Various relevant books in the libraries, publications in journals, national newspapers and unpublished materials, relating to the topic were carefully examined and used.

The research made use of summary tables in presenting data collected, through the questionnaire and the secondary data from various literatures. Percentages were used in some instances to analyse data obtained through the primary and secondary sources of data for the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND RESULTS

4.1 INTRODUCTION

The aim of this chapter is to present and analyse the data (primary and secondary) collected in the course of this study. It will equally put forward the findings encountered in the process of the research.

4.2 DATA PRESENTATION

Presentation of research data can take many forms. The important thing is that, it should be understood. Below are some of the methods of presenting research data:

(a) Summary Table: This allows a great deal of quantitative information to be presented in a very simple manner. It can be read quickly and easily understood.

(b) Some information are best illustrated by graph or figures.

The research made use of summary tables in presenting data obtained from the questionnaire and secondary data, such as quarterly publication by CBN, publications by the banks under study, trade journals, newspapers and magazines. In order to enhance the clear analysis and interpretation of data in such a form that would synchronise the problem with the research design, the research further made us of percentages in analysing and presentation of data so obtained through the primary and secondary sources.

4.5 DATA ANALYSIS - ANALYSIS OF BANKS' EMPLOYEES' RESPONSES

As earlier on stated in chapter three, one hundred copies of a uniform questionnaire were distributed at the two banks under study (Savannah Bank and Habib Bank). At one of the Area offices of each of the banks ten copies of the questionnaire were issued and twenty copies of the same questionnaire were distributed to the employees of the banks at two different branches of each of them. Out of the 10 questionnaire copies distributed at one of the Area office of Habib Bank and Savannah Bank, seven and eight were duly completed and returned respectively.

The success rate was 60% for Savannah Bank and 65% for Habib Bank, meaning that on a whole 30 out of the 50 copies of the questionnaire distributed at Savannah Bank were returned. Similarly, 32 out of the 50 distributed at Habib Bank were equally returned. Thus, the analysis was based on the responses of the 62 employees covered by the study.

Table 4.3.1 -Comparison of years of service of the Bank Employees in the banks

Bank	Less than 4 years	4-6 years	6-8 years	8-10 years	Above 10 years	Total
Savannah	3	6	9	6	6	30
Habib	2	4	13	4	9	32
Total	5	10	22	10	15	62

From the above table, it is shown that 57 out of the 62 respondents have banking experience of 4 years and above. This amounted approximately to 92% as against 5 respondents having less than 4 years working experience. This is an indication that a large proportion of the employees of the banks are conversant or should be conversant with the operations of their banks due to their duration in the services of the banks.

Thus most of the employees must have worked in the credit or loans and advances department in the banks. This assertion holds on the rotational training of commercial banks which allows for wider exposure of employees to all of its departments so that they will be acquainted with the activities of the various departments.

Table 4.3.2 - A Comparison of qualifications of the Banks Employees

Bank	Primary school certificate	WASC/ GCE	Diploma or Equivalent	University Degree	Total
Savannah	--	--	18	12	30
Habib	--	--	15	17	32
Total			33	29	62

From the table above 33 out of 62 respondents are diploma or its equivalent holders, 29 out of the 62 respondents are University degree holders. None of the employees covered by the study was employed with WASC/GCE or Primary School Certificate. Thus it could be traced that

employees with lower academic qualifications are more than those that have higher certificate and sound theoretical background. However, Nigerian banks prefer employees who stay long on their jobs and acquired sound and practical training over the years.

Table 4.3.3 - A comparison of relevance of academic qualifications of the employees to banking profession.

Bank	Business Admin.	Banking & Finance	Economics	Accounting	Marketing	Others	Total
Savannah	2	--	5	2	3	18	30
Habib	1	2	8	4	2	15	32
Total	3	2	13	6	5	33	62

In any banking profession the first five discipline, that is, Business Administration, Banking and Finance, Economics, Accounting and Marketing are the most significant. The analysis of data above gives us a clear picture that only 29 or approximately 47% of the 62 employees covered by the research were from these disciplines, while 33 or 53% of the 62 employees(respondents) were from other disciplines which are less vital to the banking profession. These employees have basic general qualifications comprising other disciplines. Perhaps, this deficiency could affect the ability of the employees to effectively and efficiently evaluate applications by customers for loans. This could equally be the initiating contributory factor to the accrual of bad loans.

Table 4.3.4 - Types of Lending in Practice in the Banks

Bank	Secured	Unsecured	Both Secured & unsecured	Total
Savannah	5	10	15	30
Habib	8	6	18	32
Total	13	16	33	62

An analysis of the data shows that at both banks, a combination of secured and unsecured lending activities are being practiced. Sometimes secured lending prevails while at other times unsecured lending prevails. This basically depends on the circumstances at hand. Thus the banks never restrict themselves to only secured lending or only unsecured lending. However, 10 and 6 respondents from Savannah and Habib banks respectively opined that only unsecured lending is practiced, while 5 and 8 respondents from Savannah and Habib banks respectively revealed that their banks grant loans on secured basis only. This respondents may not have full knowledge of the lending practices of their banks.

Table 4.3.5 : Attendance of Training Course in Lending

Bank	Yes, have attended Training	Have not attended Training	Total
Savannah	11	19	30
Habib	18	14	32
Total	29	34	62

From the above table, 11 and 18 out of the 30 and 32 respondents from Savannah and Habib banks have attended training courses in lending

as compared to 19 and 14 out of the 30 and 32 employees from these banks respectively, who have not attended training course in lending. Handling of loan applications by employees that have undergone a training in this field might have a drawback on required theoretical thoroughness for the employees in question.

Thus the involvement of such employees in the processing of loan applications could have serious implications for the quality of recommendations on the applications for final approval.

Table 4 .3.6- Factors having influence on lending decisions as perceived by respondents.

Bank	A,B,D & E	A,C,D & E	C, D & E	A,B,C, D & E	Total
Savannah	6	4	5	15	30
Habib	6	6	2	18	32
Total	12	10	7	33	62

Note:

A = The credit turnover recorded by the account of a customer for a reasonable length of time.

B = The importance of customers to the society

C = The strength of connection of the customer

D = Payment ability of customer

E = Type of collateral pledged

The table shows that 33 out of the 62 respondents favoured the credit turnover, the importance of customer to the society, the strength of connection and repayment ability in ranking order as steps followed in

appraising loan facility applications. The type of collateral pledged is also considered. This may be due to the fact that each of these factors are being considered even through at different stages for the appraisal. In this regard all the factors are considered.

This is followed by 12 out of the 62 respondents who held the credit turnover, importance of customers to the society, repayment ability and the type of collateral pledged. 10 out of the 62 respondents held that, the credit turnover, strength of connection, repayment ability of customers and type of collateral pledged as factors used in the loan appraisal. 7 out of the 62 respondents held that the strength of connection, repayment ability of a customer and the type of collateral pledged are used for appraisal.

All the respondents were of the opinion that the type of collateral that is being pledged is highly considered in approval of a loan. 60 out of the 62 respondents indicated that credit turnover recorded by the account for a reasonable length of time is of great influence. Also all the 62 respondents held that the repayment ability of customers is of vital importance in the appraisal tools for a loan facility.

Table 4.3.7- Percentage of bad and doubtful loans and advances in the banks as perceived by the respondents.

Bank	1-20%	21-40%	41-60%	61-80%	None	Total
Savannah	16	18	6	--	--	30
Habib	9	18	5	--	--	32
Total	25	26	11	--	--	62

The table shows that 16 out of the 30 respondents from Savannah bank perceived 1-20% of their bank's loans are bad and doubtful, 8 of the 30 respondents perceived 21-40% of the loans are bad and doubtful, while 6 out of the 30 respondents from the same bank perceived 41-60% of the loans as bad and doubtful.

On the other hand, in Habib bank 9 out of the 32 respondents perceived 1-20% of the bank's loans and advances as bad and doubtful; 18 respondents out of 32 perceived the loans and advances as bad and doubtful. Only 5 of the 32 respondents from Habib Bank perceived 41-60% of the loans as bad and doubtful.

It could be inferred, therefore, that between 21-40% of the loans and advances, granted by the banks became bad and doubtful due to lending errors committed by the loans and advances officers.

Table 4.3.8 - Percentage of Unsettled loans that are unsecured.

Bank	Below 10%	11-20%	21-40%	41-60%	61-80%	None	Total
Savannah	4	--	21	5	--	--	30
Habib	--	9	15	8	--	--	32
Total	4	9	36	13	--	--	62

From the table above, it could be seen that in Savannah Bank out of the 30 respondents 21 or 70% held that 21-40% of the bad and doubtful loans are unsecured, 5 respondents held that 41-60% of the bad and doubtful debts are unsecured and 4 held that below 10% of the bank's loans that are bad and doubtful are unsecured.

On the other hand, respondents from Habib Bank who are 32 in number have different views. 15 out of the 32 respondents held that 21-40% of the bad and doubtful loans are unsecured. Similarly, 9 out of the respondents held that 11-20% of the bad and doubtful loans are unsecured and 8 respondents out of the 32 held that 41-60% of the loans are unsecured.

In total, out of the overall 62 respondents to this question from the two banks, 36 held that 21-40% of the bad and doubtful loans are unsecured. 13 of the respondents held that 41-60% of the bad and doubtful loans are unsecured. Only 4 respondents out of 62 held that 40% of the bad and doubtful loans are unsecured.

Table 4.3.9 - Percentage of unsettled loans that are secured

Bank	Below 10%	11-20%	21-40%	41-60%	61-80%	None	Total
Savannah	7	18	5	--	--	--	30
Habib	10	14	8	--	--	--	32
Total	17	32	13	--	--	--	62

From the above table, it can be deduced that out of the 30 respondents from Savannah Bank, 18 held that 11-20% of the bad and doubtful loans are secured and 5 respondents held that 21-40% of the bad and doubtful loans are secured.

On the other hand, respondents from Habib Bank who were 32 in number had different opinions. 14 out of them held that between 11 and

20% of the bad and doubtful debts are secured. 10 of the 32 respondents expressed that below 10% of the bad and doubtful debts are secured. Only 8 of the respondents indicated that between 21 and 40% of the bad and doubtful debts are secured.

In all, out of the 62 respondents from the two banks 32 held that 11-20% of the bad and doubtful debts of the banks are secured. 17 held that below 10% of the bad and doubtful debts are secured, while 13 out of the overall 62 respondents indicated that between 21 and 40% of the bad and doubtful loans are secured.

From table 8 and 9, we can see that the percentage or level of unsettled loans and advances that are unsecured is between 10-60%, while the percentage of unsettled loans that are secured is between 10%-40%. It could now be deduced from the two tables that the percentage of unsettled debts that are unsecured is much higher than the percentage of bad and doubtful debts that are secured. Meaning that most of the loans granted b y the lending officers are done on clean basis, rather than following the lending principles or standard for evaluating a loan applicant of the banks, to acquire collateral security before approval of such loans.

The low percentage of the bad and doubtful loans that were secured may also be attributed to misapplication of the lending power by the lending officers, especially the branch managers at branch management level of the banks.

Table 4.3.10 - Percentage of bad and doubtful loans which were approved at the branch, area and head office level.

Bank	Branch Office	Area Office	Head Office	Total
Savannah	54%	25%	21%	100%
Habib	48%	36%	16%	100%
Total	102%	61%	37%	200%

The response to the question at what percentage of bad and doubtful loans granted was approved at branch, area and head offices, attracted different opinions from the respondents and reveals the highest percentage in each case as indicated in the table above. That is, ranging from the lowest to the highest as given by different respondents.

From the above table, it is clear that while 54%, 25% and 21% of bad and doubtful loans were ascribed to branch, area and head offices approval respectively by the respondents from Savannah Bank, the corresponding figures for Habib bank is 48%, 36% and 16% for branch, area, and head offices approvals respectively.

Interestingly, a higher percentage of the overall bad and doubtful loans and advances were ascribed to approvals by branch offices of these banks. This indicates that majority of the bad and doubtful debts in the banks were created by those that are closer to the customers, and who are suppose to have better information about their customers.

Table 4.3.11 - Level at which loans are approved as prescribed by the respondents

Bank	Area Mgt. Level	Head Office	Branch/Head Office	Total
Savannah	7	14	9	30
Habib	5	16	11	32
Total	12	30	20	62

From the above, it could be seen that out of the total number of 62 respondents 12 held that the banks loans and advances are approved at the area management level, 30 held that the loans and advances are given approval by the head office of the banks. However, 20 out of the 62 respondents indicated that loans and advances are approved at all the office levels. This may be due to the fact that approval of loans may be connected to the amount of loan and advance that is in question, as loans and advances that involve huge sums of money need the recognition of Head Office, and those that do not involve huge sum need not to reach the head office but other levels, as the case may be.

Table 4.3.12 - A comparism of the Sectoral allocation of bad and doubtful loans.

Bank	Agriculture	Industry & Commerce	Housing	Others	Total
Savannah	32%	50%	12%	6%	100%
Habib	38%	45%	13%	4%	100%
Total	70%	95%	25%	10%	200%

Analysis of the above table reveals that 50% of the loans to industry and commerce in Savannah Bank and 45% in Habib Bank were held by the respondents to constitute the bad and doubtful accounts, while in the case of Habib Bank however, 13% of bad and doubtful accounts were associated with those loans given to housing construction sector and 12% of the bad and doubtful account in Savannah Bank is attributed to the same sector. The respondents from the two banks rated loans to agricultural sector with 32% for Savannah Bank 38% for Habib Bank, that are bad and doubtful.

It is clear that the loans granted to Agricultural, Industry and Commerce, and housing construction were held to constitute the largest portion of the total bad and doubtful loans and advances of the bank.

Table 4.3.13 - Comparison of the Extent to which the Banks adhere to the Guidelines issued by the Central Bank of Nigeria (CBN).

Bank	Yes	No	Total
Savannah	25	7	30
Habib	26	6	32
Total	49	13	62

The above table indicates that 49 out of the 62 respondents held that their banks strictly adhere to the guidelines given by the CBN to banks. On the other hand, 13 out of the 62 respondents were of the view that their banks do not adhere strictly to the CBN guidelines. This could be attributed to the fact that the banks deviate a bit from these guidelines in

cases where ceiling level is given and also floor level both minimum and maximum. Thus the banks put themselves in a position that best suits them, provided they do not exceed the maximum or go beyond the maximum rate stipulated by the CBN.

Question 14:

What effect does the guidelines issued by the CBN have on nature of the management of bad and doubtful loans in your bank?

The responses given by the 62 respondents seems to be similar and have interrelations. The following represent the responses of all the respondents.

- There is decrease in lending percentage and also in the interest rates of the banks.
- The guidelines has given specific percentage that is to be made as provision for bad and doubtful debts by the banks in their financial statements.
- It has also helped in the improvement in the recovery of loans.
- The guidelines have outlined how the banks should treat debts classified as bad and doubtful.
- The guidelines have given the banks the clue to prevent future occurrence or decrease in the level of bad and doubtful debts.

Question 15:

Since the introduction of the guidelines by the CBN, has there been improvement in bad and doubtful debts level of your bank? If yes, how?

Response:

All the 62 respondents indicated that the level of bad and doubtful debts of the banks has improved since the introduction of the CBN guidelines. This they perceived was done through the classification of bad and doubtful debts. Also it has their banks to write off bad and doubtful debts so as to reflect the true value of their balance sheet.

Careful supervision of loan accounts will minimise the level of bad and doubtful debts accounts. The enforcement of time limit for the settlement of accounts helps in the prevention of build up of arrears of debts and identifying possibility of bad and doubtful debts. Once a debt is recognised bad and doubtful, it should be written off immediately to bad and doubtful accounts, so that the list of debtors accounts reflects only good debts. That is, debts that are expected to be honoured.

Question 16:

What measures your bank expect you to adopt in the management and granting of loan facilities?

Response:

The responses given by the 62 respondents were related and intertwined. Thus, the following correlate their responses.

- Obtain written applications from the customers seeking for loan facilities from the bank.
- The customers should state the purpose for which the loan is wanted for.

- Make sure the loan applicants have current accounts with the bank which must be operational for at least six months.
- Ascertain the type of facilities that is requested, whether loan, overdraft, or advance.
- Obtain customers financial and management accounts or statement of affairs for the past three years for indepth analysis.
- Ascertain the ability of the customer to repay the loan facility so required on schedule.
- Do obtain sufficient collateral to cover the bank's risk exposure.
- Monitor operations of the accounts on daily basis to spot accounts turning to "hard core".
- Appoint auctioneer to sell the property given as collateral or institute a legal action against the customer for full payment for debt owed.
- Where an account becomes "hard core" a mark "for reduction only" call in the facility, and follow up with the customer for full regularisation.
- If no response, recommend the account to the head office for classification as bad and doubtful debt.

Question 17:

Why do customers still renege in repaying loans granted them, despite enforcement of the control measures by your bank?

Response:

The respondents gave the foilowing as reasons why customers still fail to repay loan obtained from their banks.

- The effect of Structural Adjustment Programme (SAP) on the general business performance.
- Loss of source of income by some customers because of retrenchment from their job, and subsequent abandonment of their loan accounts.
- Diversification of funds borrowed to other areas other than the one specified in the loan application.
- Interest deregulation policy which led to astronomical increase in interest charged on the loans granted by the banks, which customers could not provide for.

Question 18:

What are the likely factors responsible for the creation of bad accounts in your bank?

The responses given to this question reflected the following:

- Management's hand in the use of funds that is borrowed.
- Abuse of lending powers by those charged with the responsibility of approving/rejecting loan facilities for customers just to derive personal benefits.
- Economic and political crisis that is witnessed by the country.
- Loan facilities approved solely on political considerations by those political recruits in the banks. Since most of them do not in most cases possess the thorough banking knowledge, and discretion is discarded.

- Professional misconduct on the part of estate valuers in valuation of properties used as collateral by the customers to secure loans from the banks. Most of the properties are over-valued and so in the event of default or complete abandonment of accounts by customers and subsequent auctioning of the properties, proceeds from the sales do not cover the total loan plus accrued interests.

Question 19:

What other measures do you suggest should be used by your bank to reduce the level of bad and doubtful loans?

- The bank should stop granting unsecured loans.
- All loans and advances should be secured
- Lending at the branch and area management level without collateral should be discouraged and cautiously be used at higher levels.
- Frequent and intensive training and retrain of staff in the techniques of lending should be encouraged by the banks.
- The banks should hold on tangible security before disbursing funds to a borrower.
- Only seasonal bankers or officials should be charged with the duties of loan officiating and be given discretionary lending power accordingly.

Question 20:

What steps your bank take to recover loans in the management of loan portfolio?

Response:

The employees gave the following as the various steps and ways taken by their banks to recover loans.

- Holds the guarantors responsible.
- Litigation, that is, taking legal action.
- Constant calls on the beneficiaries to remind them of their indebtedness so as to pay up their loans.
- Auctioning of whatever security placed at the disposal of the banks as at the time the loan was accepted by a customer.

4.4 RESULTS/FINDINGS

With due regard given to the general analysis of the data collected for the research study, several findings were encountered as regard the management of loan portfolio in the commercial banks. These include:

- Bad loans in banks arise as a result of abuse of discretionary lending power by the loans and advances officers, in granting these facilities to their customers. As earlier stated in the literature review, this is a major cause of bad and doubtful debts in our commercial banks.
- It appears to the banks under study that interest deregulation policy of the CBN which led to the astronomical interest rate charged by commercial banks do cause bad and doubtful loans.
- It has been found that the Structural Adjustment Programme (SAP) has played a vital role in the inability of customers to pay up their loans.

- The guidelines issued by Central Bank of Nigeria (CBN) to all commercial banks has played a vital role in the effective and efficient management of loan portfolio.
- Loan facilities accounts, just like any other accounts, should be closely monitored on the daily basis by the loans and advances officers and other employees charged with such responsibility.
- Legal action should always be taken as a measure of recovery of bad and doubtful loans as borrowers will be exposed and forced to pay up their loans.
- There is reluctance on the part of loan officers to do thorough analysis on loan applications in accordance with the cannons of lending procedures.
- Bank employees should be trained within and outside the banks to broaden and update their lending knowledge and skills.
- Once a borrower is perceived as a defaulter, the security that has been pledged as collateral should be auctioned to repay back the loan.

From the study, it was equally possible for the researcher to trace the many causes of bad loan accounts in our banks. Some of these causes have earlier on been highlighted in the literature review and in this regard some apply to the banks under study. These are:

- Misapplication of borrowed funds by customers because of insufficient monitoring by the banks' officials.
- Economic and political crisis of the country.

- Professional misconduct of banks officials occasioned by their connivance with the customers when approving loans.
- Granting loans on unsecured basis.
- Qualifications of employees are more in other disciplines other than those relevant to banking, e.g. Banking and Finance, Business Administration, Economics, Marketing and Accounting, which are the core disciplines associated with banking.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The research study was tailored towards effective and efficient loan portfolio management in our commercial banks, with due establishment of the causes of bad and doubtful debts of the commercial banks. The bad loans of the banks under study were given a good analysis. The annual reports of the banks understudy give the figures of the loan facilities extended by the banks. However, the exact estimates of bad loans of the banks was difficult to get definite response from the respondents who gave some estimates of the loans, which they perceived as bad and doubtful debts.

In the literature review an indepth analysis of the concept of loan portfolio management in our Commercial banks as well as the typology of *Commercial banks lending and the types of loans granted were reviewed*. The contribution of the CBN towards the efficient and effective running of loan portfolio by Commercial banks with the provision of the prudential as well as credit guidelines to follow so as to have a good lending portfolio management were seen. An analysis of the principles of good lending was equally considered so as to establish whether a given applicant for a loan or advance is qualified for further consideration. A critical look at the standard for evaluating the credit worthiness of customers was also considered. The control mechanisms which is the core issue in the efficient and effective management of lending portfolio was also

enumerated. A critical review of the lending direction and regulations in our commercial banks was equally visited.

It was also vividly depicted how through deliberate actions of customers, connivance of bank employees or the unnecessary interference of government on behalf of well connected individual customers, bad loans can be created in our commercial banks. The study has shown that commercial banks are at making paper profits without the required adequate financial prudence in the management of loan portfolio.

Thus, lending and hence effective and efficient loan portfolio management is one of the vital factors in achieving the profit objective of the banking industry. Any negligence or dereliction in the execution of the management machineries would be detrimental to the image of our commercial banks. The end effect then, will be loss of public confidence in the system.

5.2 CONCLUSION

In conclusion, it has been established that in granting loans by the lending officer(s) an error or errors of judgement could occur. Whether the error is intentional or inadvertent, it means a loss of the principal asset, loss of interest receivables on such an asset and of course, reduced profits. This consequently reduces the bank's market rating and public perception of the banks management ability to make sound loan judgement.

Regardless of these implications, commercial banks in Nigeria are still swimming in enormous amount of bad loans, which has led most of them into distress state.

However, these trends notwithstanding, if the recommendations put forward in this study, can be carefully and patiently implemented effectively and efficiently, they still help to not only reduce the incidence of bad loans but also help in recovering these debts that have become irrecoverable over years. And there will be no need for the Central Bank to issue guidelines on this problem.

Moreso, the study has succeeded in identifying the major steps for the management of lending portfolio in our Commercial banks. The principles of good lending practices established the control measures for growth of bad and doubtful debts in the banks. In essence, adherence to detailed analysis of loan applications conveniently takes care of more than 60% of control of these loans.

Last but not the least, commercial banks are the pinnacle of our economy, and where we willingly cause its collapse by mismanagement, the whole economy will record slow if not negative growth. They will not only fail to support government economic goals or efforts squarely, but will also be unable to stimulate economic activities in the productive industrial sector. Since the banks will have little resources in chasing loan recovery.

Our banks must be helped to get over this incidence of mounting bad loan accounts and whoever is granted a loan facility must see it as a honourable obligation to pay back or redeem such loan. That is the basic taste of fair economic practice.

5.3 RECOMMENDATIONS

Commercial banks constitute the primary source of industrial and commercial loans in most nations economies and because they operate the payments or cheque collection system, they have little competition for deposits that represent purely working balances. This is the bread and butter of commercial banking system, elsewhere. Production, distribution, consumption, investment and the needs of the government are frequently financed through commercial bank loans.

In fact, some commercial banks share capital as been established, is being gradually eroded due to the incidence of bad loans, thereby leading them into financial distress. Most industrial observers have lost confidence in our commercial banking system. And if commercial banks fail, then the community of the at large will suffer. This we have highlighted before.

Thus, in addition to the various ways and measures taken for the management of loan portfolio, the under-listed mechanisms should be adopted as compliments for recovery and minimisation of bad loan accounts. On the basis of the limitations encountered and corpus of findings in the course of this study, I do humbly and respectfully advance herewith the following recommendations for effective and efficient loan portfolio management in our commercial banks.

1. Lending solely against collateral or security should be spiced with thorough scrutinising of loan applications in strict conformity with dictates of cannons of lending principles.

2. To fully guarantee depositors' welfare and guard effectively against bank failures, and bad loans in particular, the CBN should strengthen and stiffen the relevant legislations on bank frauds, and above all, bad and doubtful debts arising from nepotic loans and guarantees.

3. There is the need for stable and long enduring monetary and fiscal policies of the government, systematic and structural economic development to minimise failure of projects financed with banks loans.

4. Government should allow the use of Bankruptcy Act of 1989, to recover most of the loans from the loan defaulters. Declaring any corporate or individual customer bankrupt entitles denying them a lot of previledges and opportunities, hence they are likely to pay back their debts to the banks.

5. Efforts should be made to prohibit directors, bank officers, stockholders and related interest of commercial banks from direct borrowing of money from their particularistic banks, especially for purposes of commercial undertakings.

6. The banks should continue recruiting the most efficient and qualified personnel and continue to maintain the highest standard in efficiency and integrity among the staff.

7. Loan portfolio managers and banks management must ensure that loan policies and credit guidelines are effectively and efficiently implemented, and strictly adhere to in all cases. It is evident from the study that most of the loans that became bad today were granted in violation of loan policies and guidelines. The personality

10. Interest rates on loans should be responsive to competition risk, cost of handling the loan, maturity of loans, gross yield, and fees for commitments. A few customers interviewed expressed sincerely that they run away from paying back loans, because after two or three attempts of payments, all you did was to reduce the level of accumulated interest on the loan. This discouraged them from continuing with payment of the whole amount granted to them.

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

12. In examining the conduct of a customers bank account, care must be taken to ensure that certain details are ascertained. The investigation has shown that some customers deceive their bankers that adequate turnover was being generated by them, whereas what is been done could be referred to as "kite flying" or "cash recycling".

That is, they make credit lodgement from sources of funds that are unrelated to their operations with simultaneous withdrawals of such funds, thereby giving a false impression of a swinging account.

Therefore, adequate care must be taken to check:

(a) The source of payment into account.

(b) Direction of cheques paid out from the account.

(c) Frequency of excess requests.

13. Finally, a combination of the appraisal techniques would be very useful in each case. Therefore, rather than relying on either character or collateral or capacity, all these factors should be considered vigorously in each case, as it has been proven from the study that each of these has some limitations. Moreso, documents of charge over assets pledged should be properly filled and legally perfected.

It is hope that despite all the implications of these recommendations, when they are carefully implemented they stand to help in no small measure in minimising, if not total eradication of incidence of bad loan accounts in our commercial, but will equally enhance effective and efficient loan portfolio management in the banks.

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APPENDIX B

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY

ZARIA

Dear Sir/Madam,

BANK EMPLOYEES' QUESTIONNAIRE: "TOWARDS EFFECTIVE AND EFFICIENT MANAGEMENT OF LOAN PORTFOLIO IN NIGERIAN COMMERCIAL BANKS (A CASE STUDY OF SAVANNAH BANK NIGERIA PLC & HABIB NIGERIA BANK LTD)".

I am a Post-graduate student of the above mentioned school, conducting a research on the above mentioned topic, and your bank has been chosen for this case study. This exercise is purely academic and have nothing to do with anything that may be detrimental or jeopardise the chances of your organisation in its business efforts.

The information you send will be treated in strict confidence and no quotation(s) will be made without your permission. Your name and signature are not required.

I would be grateful if you could complete this questionnaire and pass it to the bearer.

Thank you for your cooperation.

Yours faithfully,

Audu, J. T.

NOTE FOR COMPLETING THE QUESTIONNAIRE

Multiple choice answers have been provided to some questions, out of which you are to tick the number which most accurately provide the answer to the question asked. For other questions are asked to which you are to give a very brief comment.

1. For how long you have been an employee of the Bank?
   (a) Less than 4 years (b) 4 - 6 years
   (c) 4-8 years (d) 8 - 10 years
   (e) Above 10 years.
2. With what qualification did you join the Bank?
   (a) Primary school certificate (b) WASC/GCE
   (c) Diploma/A "level certificate (d) Degree/Equivalent certificate
3. In what discipline was your qualification?
   (a) Banking & Finance (b) Business Administration
   (c) Economics (d) Accounting
   (e) Marketing (f) Others
4. What type of lending is practiced in your bank?
   (a) Secured lending (b) Unsecured lending
   (c) Both the secured and unsecured.
5. Have you attended any course in connection with bank lending?
   (a) Yes (b) No
6. What factor or combination of factors among the following do you always consider when processing loan applications for approval?
   (a) The credit turnover recorded by the account for a reasonable length of time.
   (b) The importance of the customer to the society
   (c) The strength of connection of the customer with the bank officials.
   (d) The payment ability of the customer.
   (e) Type of collateral pledged

7. Since you have been in the bank, what percentage of loans and advances remained bad and doubtful debts for the past immediate 3 years?

(a) 1-20% (b) 21-40%

(c) 41-60% (d) 61-80%

(e) 81-100% (f) None of the above

8. Would you indicate the percentage of unsettled loan facilities that were not secured.

(a) Below 10% (b) 11-20%

(c) 21-40% (c) 41-60%

(d) Over 60%

9. Would you equally indicate the percentage of these bad and doubtful debt that were secured.

(a) Below 10% (b) 11-20%

(c) 21-40% (d) 41-60%

(e) Over 60% (f) None of the above

10. Indicate the percentage of bad and doubtful loans that were approved at the following levels:

(a) Branch level ..... (b) Area management level .....

(c) Head office .....

11. At what level(s) loan applications by customers get final approval?

(a) Branch level (b) Area management level

(c) Head office (d) All of the above

12. Rank the following sectors in order of percentage of bad and doubtful accounts that resulted from the loan facilities granted by your bank.

(a) Agriculture .....% (b) Industry & Commerce .....%

(c) Housing .....% (d) Others ..... %

13. Is your bank strictly adhering to the policies and the guidelines issued by the Central Bank of Nigeria (CBN) to Commercial Banks?

(a) Yes (b) No

14. What effect does the guidelines issued by CBN have on the nature of management of bad and doubtful debts of your bank?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

15. Since the introduction of the guidelines by the CBN, has there been any improvement in the level of bad and doubtful debts in your bank?

(a) Yes (b) No

If Yes; how?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

16. What measures does your bank expect you to adopt in the management and granting of loan facilities?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

(vi) _____

17. Why do customers still renege in repaying loans granted them despite enforcement of control measures by your bank?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

18. What are the likely factors responsible for the creation of bad accounts in your bank?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

19. What other measures do you suggest should be used by your bank to reduce the level of bad and doubtful debts?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

20. What steps does your bank normally take to recover loans in the credit department?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

NB What other observation(s) do you have on the topic for the research study?

Thank you once again for your participation.