LEASE FINANCING BY NAL MERCHANT BANK PLC

BY

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A PROJECT SUBMITTED TO THE POST- GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY,ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION.DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF ADMINISTRATION AHMADU BELLO UNIVERSITY, ZAR1A.

OCTOBER, 1998.

CERTIFICATION

This project entitled LEASE FINANCING BY NAL MERCHANT BANK PLC. By UMAR IBRAHIM SIDI meets the regulations governing the award of the degree of Masters of Business Administration (M.B.A) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I, hereby declare that this project has been written by me and that is a record of my own research work. All sources of information and their writers views have been duely acknowledge in form of bibliography.

I submit that this piece of research work has never been previously presented in any form for an award of a higher degree.

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Name of Supervisor	Signature	Date

DEDICATION

This project is dedicated to the memory of my late parents HAJIYA AISHATU AND ALHAJI SIDI UMAR, who passed on some couples of years back, may the Almighty Allah grant their souls enternal rest. Amen.

ACKNOWLEDGEMENT

First, and foremost I thank the Almighty Allah the beneficient and the merciful for giving me the courage, resources and good health to accomplish this work successfully.

I am indebted to the following people for the immeasurable assistance rendered in the course of this study. Alhaji Bello Mandiya of the Nigerian Immigration Service, Sani Isiyaku Gumel of F. H. A.. Mohammed Salisu of Union Bank. The board of directors Alhaji Ramalan &Sons Limited, Umar Obande of Unipetrol, Mallam Umar Adabara of NAL merchant bank plc area office Kaduna and Hajiya Lantana Ibrahim Ramalan of N. M. A Abuja.

I wish to acknowledge and extend my sincere thanks and appreciation to my supervisor Hajiya M. L Shafii for her highly valuable time, efforts and patiences of going through this research work and ensuring that I did the right things. Also all the lecturers of the department of business administration.

Equally appreciated are Mallam Baba Yusuf Musa of WAIFEM and Tijani Mohammed of ILO, Mallam Bashir Yusuf Ibrahim of faculty of law A. B. U Zaria, Hajiya HadizaYero, Alhaji Habib Ramallan M.D. Alhaji Ramallan and Sons, Alhaji Ibrahim Yusuf of BNH Engineering limited Alhaji Baba Yola my class Chairman in M. B. A class, Mallam Suleiman Hussaini and Mallam Adamu Hamisu of the Department of busines Administration A.. B. U Zaria, Mallam Inuwa Abdullahi the departmental librarian, and Rita I. Ojogwu of Faith Printers for typing of this project.

Lastly, my live wire in the Institute of Administration Mallam Abdulrahman Yusuf Okene for his brotherly and sincere advice and support may the Almighty Allah reward them all Amen.

ABSTRACT

Lease financing is one of the functions of merchant banks whose objective is to enhance efficient utilization of capital, other functions provided by mercant banks includes financial advice, merger and acquisition portfolio and investment management.

A lease is a contractual agreement by which the lessor (owner) grant rights to the lessee (tenant) for the use of real or personal property (asset) over a specified period of time, less than its (Actual) working life in return for rental payments over the specified period of time,NAL merchant bank plc being a whole sale banker is involved in lease financing, it is of vital importance to evaluate the contribution of the bank to many sectors of the Nigeria economy. The benefits to both the lessors and the lessees, its advantages to other forms of financial services . Financial and operating leases as well as leveraged lease

to examine the type of leases: legal aspects of lease finance tax aspectsof lease finance and the accounting aspects of lease finance and the problems encountered when leasing.

The contribution of lease financed assets to the total assetsof the bank in percentage and to determine whether lease financed assets has been on the increase or decrease and the reason for such trend developments. And also the contribution of interest income from leases to the bank funds based interest income as opposed to the total interest income comprising bank fund based interest income and non bank interest income earned from commissions and fees for capital market floatation

Finally the structuring of lease finance request at NAL merchant bank plc including the issues and the conclusion and recommendations of the study to various parties involved in lease finance activities in Nigeria.

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

The topic of the project is introduced in this Chapter starting with a background foundation of the study next is the statement of the problems followed by the objectives of the study specifying the type of questions that attempt would be made to answer. This is followed by the significance of the study, then the scope of what the study would cover, the limitations and the delimitations of the study are discussed after the scope of the study. Background information about NAL merchant bank plc comes next after which a schematic presentation is also included in the order in which facts of the study are presented, and lastly some key terms that are employed in the study are defined.

1.1 BACKGROUND OF THE STUDY

Lease financing is among the functions of merchant bank whose objective is to enhance the efficient utilization of capital. The concept of lease financing is not easy to define; it started as a result of the establishment of merchant banks in Nigeria with Nigeria Acceptance limited as the pioneer merchant bank in Nigeria which later transformed to NAL merchant bank plc. Merchant banking originated from the United Kingdom around the 15th and 16th centuries.

A lease finance is a contractual agreement by which the lessor (owner) grants rights to the lessee (tenants) to use real or personal property (assets) for a specific period of time less than its (actual) working life in return for compensation in the

form of specified periodic cash payment as rents, this study would try to evaluate the contribution of lease financing as a vital function of merchant banks with NAL merchant bank plc as the case study the importance of lease financing and the benefit of leasing as alternative to outright purchase of assets is also discussed.

1.2 STATEMENT OF THE PROBLEMS

Merchant banks as whole sale banks carry out lease financing as a function among others, it is of vital importance to evaluate their contribution to many sectors of the Nigeria economy considering what the Nigerian Banking sector has over the last past years gone through, deepening crisis of confidence as manifested by wide spread distress which has hampered the performance of its functions. The growth in importance of lease financing as a source of finance for commerce and industry has become prominent, the problem is how effective has the merchant banks with the case of NAL plc on study been able carry out lease financing functions with regards to the advantage of lease financing to other form of functions discussed.

1.3 OBJECTIVES OF THE STUDY

NAL merchant bank plc role on lease financing is what the objectives of the study all focus on. To examine lease financing as a means of financing by considering what type of lease, a case of leasing as opposed to outright purchase. The legal aspect of lease, tax aspect and accounting problems posed by leasing. The research work would also try to answer such question by examining the following:

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The function of lease financing by NAL merchant bank plc as a unique function to it and other financial institutions that may perform such function.

- To critically examine the extent to which NAL merchant bank plc have adequately performed their function of lease financing to corporate bodies in the face of problem/ hindrance encountered by such corporate bodies and merchant banks.
- To evaluate the contribution of lease financing as a percentage of NAL merchant bank plc total income and determine whether on the increase or decrease.
- To examine lease financing by NAL merchant bank plc as a means of financing as opposed to outright purchase and the benefits or advantages attached to it.
- To suggest where possible on terms of problems encountered by lessee or lessor and finally to speculate on the future of lease financing in Nigeria.

1.4 SIGNIFICANCE OF THE STUDY

An essential feature of commerce in any developed or developing country is an efficient and effective use of a suitable credit instrument. Lease financing as an alternative is a means by which a firm can acquire the economic use of an asset over a specified period of time, Thus an avenue of not tying the firm's fund to purchase of capital equipments or the problems of obsolescence because of technological changes.

The purpose of a business enterprises is to combine financial capital, raw materials and labour in proper mix as a result create more financial capital than there was originally. It is theoretically unnecessary as an intermediate step, to acquire tangible capital in the forms of owned assets, from the business entity's perspective the simple use of the assets should be equally satisfactory.

The lessee acquires most of the economic values associated with outright ownership of the assets even though the lessor retain the tittle it to.

It is used in place of other methods of financing to acquire the use of asset. An alternative method of financing might be to purchase the assets and finance its acquisition with debt. Both the lease payment and the payment of principal and interest on debts are fixed obligation that must be met, inability to meet these obligation will result in financial embarrassment.

Lease financing has developed rapidly with a wide variety of application . as well as a substantial increase in the volume of transactions.

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1.5 SCOPE OF THE STUDY

This study is a general analysis on the performance of NAL merchant bank plc engaged in lease financing activity. It cover the period 1993-1998. Secondly, information gathered in this study relates specifically to the sample of the research work which has been obtained from NAL merchant bank plc.

The study shall also look only into the contribution of lease financing to the total income of NAL merchant bank plc and also to determine whether this contribution of lease financing to total interest income of NAL plc has been on the increase or decrease the study also covers the concept of leasing which reveal different forms of lease financing between lessor and lessee.

1.6 LIMITATIONS AND DELIMITATIONS OF THE STUDY

Limitations

a. The first limitation is that of human error of commission or omission, because some of the data and information were obtained through discussions and interviews I had with lease officers of NAL merchant bank plc as such prone to sentiments

b. The limitation of reliability and validity of the data and informations obtained from respondents who may try to exaggerate or hide some important informations in order to portray a good image of their organisation.

c. Information gathered in this study strickly relates to the research work which was obtained from NAL merchant bank plc this reducing the information and data needed to what the bank is willing to reveal, the bank tends to hide certain operational information for obvious reasons

Delimitations

a. The research work was carried out through oral informations and interviews and data collected from NAL merchant bank plc Area office in Kaduna and the Nigerian stock exchange office also located in Kaduna.

b. There was no any other source of data and informations than the annual report and accounts of the NAL merchant bank plc for the study

c. The research also covers period of five years from 1993-1998 to show the performance of the bank in lease financing and evaluate the contributions of lease finance as a merchant bank function to the growth of the bank total assets and the growth of leasing over the period of the study in -particular and to the development of the Nigerian economy in general

1.7 BACKGROUND OF NAL MERCHANT BANK PLC

NAL Merchant bank plc (NAL),The pioneer merchant bank in Nigeria, was established on 25th, November 1960, as Nigeria Acceptances limited, a wholly owned subsidiary of John Holt (Liverpool) limited to carry on among other things the business of banking in Nigeria.

In July 1969, NAL merged it operations with those of financial holdings (Nigeria) limitation, then trading. Under the name of Philip Hill (Nigeria) limited. In November 1969, NAL became the first Nigerian financial house to be granted a licence under the banking Act of 1969 to operate as a merchant bank. In July 1981, the name of the bank was changed from Nigerian Acceptance limited to NAL merchant bank limited. To reflect the full range of the bank's activities and to enhance its perception by the public. NAL became a Nigeria public limited company in April, 1992.

The shares of the bank are owned 51% by Nigeria and foreign institutional investors and 49% by Nigerian individuals. The bank has its head office at NAL towers, 20 marina Lagos and has six area offices spread around the country to cater for its clients the bank offers a comprehensive range of whole sale banking services which include capital market, financial Advisory services, investment management, international operations lending and Treasury.

1.8 SCHEME OF PRESENTATION

This research work is divided into six chapters the first an introduction to the study the objective and significance of the study is highlighted here. The limitations and the delimitation as well as background profile of NAL merchant bank plc, the

second chapter is a review of related literature on lease financing and a conceptional frame work to the study. The third chapter is on how the research will be conducted the method of data and information collected, the period covered under the study and how the data and information collected is analyzed. The fourth chapter contain write up on lease financing and its benefits in Nigeria and the role of the equipment leasing Association of Nigeria while the fifth chapter is on how the data collected is presented and analyzed issues involved on lease financing at NAL merchant bank plc and problems of lease financing. The sixth and final chapter summaries the findings of the study. Conclusion and recommendations of the research findings.

This chapter provided a general background of the study, the objective and significance of the study limitation and delimitations of the study, the next chapters is on literature review and the conceptual frame work to the study.

1.9 DEFINITIONS OF TERMS

Lease: A contract under which one party the lessor owner of an assets, agrees to grant the use of the asset to another, the lessee, in exchange for periodic rental payment

Lessee: Lender, one or whom assets is leased

Lessor: Borrower, one who leases the asset i.e the owner.

Merchant Banks: A Merchant Bank is a whole sale bank as licenced under the banking Act, 1969, (Amended(1979) that engaged in

	medium and long-term activities such as acceptances, loans and advances, equipment leasing foreign exchange services, investment and financial advisory services e.t.c
Financial Lease:	A long-term lease that is not cancellable
Operating Lease:	A short-term lease that often cancellable
Rentals:	This is a periodic payments by which a lessee obtains quite possession of the asset leased.
Leverage Lease:	A situation whereby a third party finances usually most of the cost of the assets purchased by the lessor. With the lessor providing only a minimal portion of the cost. The lessor's return is leveraged by funds provided.
Sales and Lease Back:	An arrangement where a firm sales an assets with the agreement to immediately lease it back for an extend period of time
NAL PLC:	Nigerian Acceptance limited plc

Net Lease:	A lease where the lessee maintain and insures the leased assets.
Fair Market Value:	The price at which property, can be sold in an arms-length transaction
Residual Value:	The value of a leased assets at the end of the lease period.

CHAPTER TWO

LITERATURE REVIEW AND CONCEPTUAL FRAME WORK

2.0 INTRODUCTION

The purpose of this chapter is to review related literature and concepts on the subject of lease financing, this chapter, therefore is subdivided in sections, the first section is on literature review while the second section is a conceptual frame work to the study of lease financing, benefits of lease financing, accounting, legal and tax aspects of leasing financing project and equipment lease finance are all discussed

2.A LITERATURE REVIEW

J.C VanHorne (1998)[1], defines a lease as a contract whereby the owner of an asset the (lessor) grants to another party the (lessee) the exclusive right to use the assets in return for the payment of rent. Most of us are familiar with lease of apartment, car and telephone. For corporate financing purposes, there is a similar obligation to make periodic lease payment, usually monthly or quarterly.

Typically these payments are in advance, which simply means they are paid at the beginning of the period. This contrast with in arrears, which is at the end of the period. Also, the lease contract specifies who is to maintain the asset. Under a maintenance, the lessor pays for maintenance, repairs, taxes and insurance. Under a net lease, the lessee pay these costs

As a lease contract embraces an interest rate cost to the lessee and an interest return to the lessor, effectively. It is a capital market instrument. Though certain features differentiate it from other fixed income financing.

Hanson (1986) [2] defines leasing as "A contractual agreement under which a party in return for an agreed rental uses capital asset owned by another"

Leasing is also defined by the equipment leasing Association of Britain as " A contract between lessor and lessee for the hire of specific asset selected from a manufacturer or vendor of such asset on payment of specified rentals over a period"

It should be noted that the usage of leased assets is more important than ownership, because what creates goods and services is not the ownership, but usage . This is the basis of leasing, which tremendously improves the productive capacities of developed world by enabling entrepreneur to engage in activities at a scale above what available fund can provide. Canon (1992)[3]

2.A1 TYPES OF LEASING

Lease financing developed and continues to develop at a fast pace. venturing into many areas and giving birth to many "brands" principally, the various types of lease financing are capital or financial leasing, vendor or sale type leasing, consortium or syndicated leasing, leveraged lease financing, cross border leasing and operating lease finance

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2.A2 CAPITAL OR FINANCIAL LEASE

According to J.C VanHorne (1998)[4] for a lease transaction to qualify as capital or financial lease, it has to meet the following conditions.

1. The lease transfer tittle to the lessee at the end of the lease period.
2. The lease contain an option to purchase the asset at a bargain

3. The lease period is equal to or greater than 75 percent of the estimated useful life of the asset.

4. At the beginning of the lease, the present value of the minimum lease payments equals or exceeds 90 percent of their fair market value of the leased property. If these conditions are met the lessee is said to have acquired most of the economic benefits and risks associated with the leased property and therefore a capital or financial lease is involved.

2.A3 VENDOR OR SALE-TYPE LEASING

Amembal et el (1988)[5] said a sale-type leasing is involved when a manufacturer or vendor of an equipment offers it products to buyers, who do not want outright purchase, on lease over periodic rental payments. In practice vendor leasing is very common to products like photocopiers and typewriters. An organization that is reknown for this practice world wide is rank xerox.

2.A4 CONSORTIUM OR SYNDICATED LEASING

For assets requiring very high capital outlay or where a lessor wishes to share the risk with others, two or more parties may come together to jointly lease out an asset on a joint venture- Amembal et el (1988)[6]. This is called syndicated or consortium lease, because syndicate or consortium of financiers come together to provide funds for the acquisition of the lease equipment.

Lapite (1993)[7] said under consortium or syndicated lease arrangement, the party or the institution that brought all the other financiers or co-lessors together to agree on terms and conditions of the lease called lead- lessor or lead manager.

Apart from bringing them together, the lead-lessor coordinates the lease syndication process by liaising between the member lessors of the syndicate and the lessee throughout the contractual period

2.A5 LEVERAGED LEASE FINANCING

Akinfemiwa (1991)[8] defines leveraged lease finance as " The acquisition of an item of capital equipment for a period equal to most, but not all of its anticipated economic life and the sale of the residual value and tax benefits of ownership to another party in exchange for a lease rate that is lower than the debt rate that would have applied to a purchase of the equipment". A leveraged lease has three important characteristics.

1. There are three parties to the agreement lessee, lessor and lenders.
2. Who provide non recourse debt
3. At a substantial degree of leverage.

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The lessor in a leveraged lease is the owner of the equipment. He becomes, the owner by providing a portion of the financing required to purchase the equipment. In USA and Japan, where leveraged leasing has become very popular , usually the lessor provides between 15 and 20 percent of the required funding, whilst the remaining funds come from institutional investors on a non-recourse basis. The loan from the investors secured by a charge on the equipment. The lease and lease rentals are also assigned to the lender A membal et el (1988)[9]

According to Akinfemiwa (1991)[10], the lessor on a leveraged lease enjoys all of the tax benefit as the true owner even though the contribution of the lessor to the

purchase of the equipment is characteristically about 20 percent of the cost. This ability of claim all the tax benefits on the equipment while providing only a portion of the cost of the leased equipment is the leverage in the leveraged leasing. This gives the lessor the leverage to be able to price the lease at a lower lease rate.

2.A6 CROSS BORDER LEASING

Ibrahim (1991)[11] defines cross border lease financing as an arrangement whereby" The lessor and the lessee operate in different countries". In other words It is a method in which the owner-lessor of equipment in one country lease out the equipment to the user- lessee in another country.

Essentially, transaction under cross border lease financing is affected by both tax and foreign exchange laws of the countries of the lessor and the lessee A membal et. el (1988)[12]

2.A7 OPERATING LEASES

An operating leases normally a contractual arrangement whereby the lessee agrees to make periodic payments to the lessor for five of fewer years for an asset's services. Such leases are generally cancellable at the option of the lessee, who may be required to pay a predetermined penalty for cancellation. Operating leases are most commonly used for leasing such things as computer hardwares heavy equipments, automobiles and cash registers. Assets leased under an operating lease generally have a usable life longer than the term of the lease.

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2B CONCEPTUAL FRAME WORK

This section will provides conceptual frame work to the study. Shall consider lease financing as a concept what is it all about? The concepts of lease financing as is obtainable in the developed and developing countries emphasis is laid on the benefits of lease financing. The accounting, legal and tax aspects of lease financing, then project and equipment lease financing shall also be discussed.

2.B1 CONCEPTS IN LEASE FINANCING

The purpose here is to discuss lease financing as an alternative to the more traditional means of financing assets acquisitions. Leasing is a method available to a Business of financing the acquisition of property. Under a lease arrangement, a leasing company or financial institution (the lessor) legally owns property that it in turn leases to another firm (the lessee). The concepts of leasing originated with large scale applications. Such as the leasing of rail load railing stock or special equipment lensing by companies that preferred leasing to selling (such as IBM or rank xerox). Now a much broader scale of industry has evolved, that leases everything from office machines to barges

Instead of a lender and borrower, as in a typical financing arrangement, In a lease arrangement there is a leasing company and its customer. The fundamental characteristic is the differentiation of "use" from ownership". This is to say that the lessee only has the right to use the equipment for a specified period of time but the lessor remains the legal owner of the good(s) at any point in time.

A lessee, willing to retain the goods to himself after the lease period will be expected to pay an amount that will be specified by the lessor usually lower than the rent. The option may be to purchase the assets at expiration. For tax reasons the purchase price must be significantly lower than the fair market value. If the lessee does not exercise its option, the lessor takes possession of the asset and is entitled to any" residual value" associated with it. The determination of the cost of lease financing to the lessee, and return to the lessor, depends importantly on the residual value assumption. This is particularly true for operating lease which is relatively short term and cancellable with proper notice.

2.B2 BENEFITS OF LEASE FINANCING

The benefits of lease financing are numerous to mention, for the purpose of this study and ease of understanding. They are treated in the following subheadings, that is lease versus cash purchase and lease versus traditional financing.

LEASE VERSUS CASH PURCHASE

Leasing provide numerous benefits to both lessor and lessee these are expressed in the following ways:

1. Lease financing in the views of Horne (1986)[13], conserves capital, it has decisive advantage over purchase as 100 percent financing can be provided, resources of capital which would have been utilized for purchase of the equipment will be used for other useful purpose aimed at meeting the set objectives of organization.

2. Lease financing provides exclusive tax advantages. Rentals may be fully deductible expenses. Thus a N500 a month rental for a company under 45 percent tax bracket would mean a next cash outlay N275 a month. Rental deductions may be superior to or timed better than depreciation deductions when the lease is shorter than the depreciable life of the equipment. A membal et el (1988)[14]

3. In case of unplanned or unexpected equipment need, leasing offers an attractive alternative especially to company that tries to budget for capital expenditure goods Saliu (1991)[15] in other words leasing provides substitutes for capital expenditure budgetting.

4. According to A membal et el, (1988)[16] leasing is an effective edge against inflation where an inflation persists payment rate would also continue to depreciate.

5. Heavy depreciation deductions and interest expenses for purchase of equipment can impair a company's book income of reported earnings. During the early years a lease permit a regular rental payment expenses. This result in a minimum impairement of book income- Awolewa (1991)[17]

LEASE FINANCING VERSUS TRADITIONAL FINANCING

Debt and equity financing have been used by companies seeking capital goods and equipments. Both methods deserves serious consideration when equipment need arise. A membal et el (1988)[18]. However, the advantage of lease financing method over the traditional method debt and equity, as expressed by various scholars and organizations are detailed below:

1. According to A membal et el (1988)[19], leasing usually gives cheaper rate. This is particularly true in the case of a company that cannot take advantage of such tax benefit as capital allowances, lessor can purchase the equipment claim the tax benefit and pass the saving along to the lessee in the form of low lease rates.

2. Public disclosure of financial information is not required when leasing is arranged, while it is required in the prospectus of public offering of debt or equity.

3. Leasing is an off balance sheet financing. The law guiding practice does not compel the lessee to disclose the equipment leased in their annual accounts. The only recorded rental payments as expenses in the profit and loss account. This makes the debt equity ratio of the lessee look more debt free than it really is Awelewa (1991)[20].

4. Leasing avoids the dilution of ownership which is the case with sale of securities to raise capital Lapite (1993)[21]Lease, therefore, provide 100 percent financing without affecting the capital structure or the ownership equity.

5. Lease payments are flexible . Adewumi (1991)[22]. They can be structured to coincide with earnings generated from the use the equipment or they can follow the pattern of seasonal business this advantage is of importance to planning of activities of firms. The rental may be smaller at the beginning and increase gradually to the end of the lease period. This way the lessee would be able to organize and all it resources to meet its capital and recurrent commitments.

6. Leases are excluded from credit expansion limit which applies to the traditional method of lending. Adewunmi (1991). For example, there is a limit to which a bank can expand over its previous years traditional credit portfolio. This is seriously guarded and surveilled by the monetary authorities and stiff penalties are sanctioned against defaulters. Leasing is however not part of the credit expansion limit and its growth is not restricted by any regulatory policy.

2.B3 ACCOUNTING ASPECT OF LEASE FINANCE

The International Accounting Standards Committee (IASC) of which the Institute of Chartered Accountants of Nigeria (ICAN) is a member issued IAS 17- Acounting for leases in 1983, and it becomes operative in January 1984 paragaph 44 of this standard state as follows.

"A finance lease should be reflected in the balance sheet of a lessee by recording an asset and a liability at amount equal at the inception of the lease to the fair value of the leased property net of grants, and tax credits receivable by the lessor..... thus, under a finance lease it is being recommended that the lessee shows in his balance sheet the leased assets while the capital allowance will be claimed by the lessor.

Leasing has been a controversial issue ever since it came into prominence as a financing device. The greatest problem the accounting faces is with the disclosure of leasing arrangements. There is presently a disagreement about what information is to be disclosed, how it should be disclosed and where it should be disclosed while some accountants favor the recognition of assets and liabilities under a finance

lease, some feel this information is adequate disclosure. Others favors non recognition of lease in the balance sheet but would recommend extensive foot notes disciosure of relevant information pertaining to them. Yet there are some accountants who would not like to see leases reported either in the balance sheet or as footnotes. To them leasing should be a legitimate " off balance sheet" financing.

2.B4 TAX ASPECTS OF LEASE FINANCE

For tax purpose lease are classified as a either capital or operating lease. Capital lease are those that are substantially equivalent to purchase while operating leases are more likely to the lay man's understanding of term lease to determine a particluar tax on a property It has got to be established that the agreement between a lessee and lessor is that of a lease or a sale back of property. Courts some time regard a lease as a sale or financing for tax purposes even though the lease agreement specifically excludes transfer of tittle. And also the fact that a lessee eventually purchases leased property does not necessarily mean that a conditional sale was intended at the inception of the lease. When an intended lease is treated as a lease for federal income tax purposed the lessor reports the rental income from the lease while the lessee receives a deduction from rent expenses.

The lessor also retains the right either o depreciate the assets and to receive the investment tax credit or pass through the credit to the lessee.

2.B5 LEGAL ASPECT OF LEASE FINANCE

From the legal perspective, we can divide lease financing into three major catergories

1. Sale lease back of real property e.g land/ or building or apart of building
2. Lease intended as security agreement or collaterals.
3. True lease of personal property

There is a fourth category of lease that invloves the right to exploit real property through mining or drilling for oil or gas or recovery of other natural resources.

Right of ownership in real property are called estates and are classified to indicate the quantity nature and extent of the rights.

The two major categories of estates are freehold estates, (Those existing for an indifinite time) and estates that are less than freehold those that exist for a pre-determine time). By law lease for a term than a specified period of time must be in writing.

LESSEE'S OBLIGATION TO PAY RENTS

Although the leasehold estate carried with it an implied obligation to pay reasonable rent. The lease contract almost always contain an express promise known as convenant, by the lessee to pay rent in specified amount and at specified time the breach of these convenants entitle the lessor the lease at an end and will give him the right to regain the possession of the property. If there were no such provision in lease the lessee's failure to pay rent when due will give the lessor only

the right to recover a judgment from the law court for the amount of such rent. Payment of leasehold ceases when the leasehold is transferred by assignment. This is only possible when the lease does not contain an express agreement to pay rent but the implied obligation to pay reasonable rent passes to the assignee. Under an express convenant to pay rent, the lessee remain liable despite the fact that he has assigned the leasehold to another lessee unless the lessor releases him from the obligation.

EXPIRATION OF THE LEASE

A lease for a definite term expires at the end of the term by virtue of its own limitation. Most lease financing agreement are for a definite term . A lease containing a provision that either party may terminate at will creates a tenancy at will. So does a lease that does not specify any duration.

2.B6 ECONOMIC OF LEASE FINANCE

Leasing has arisen in response to an economic need to

a. Transfer tax benefits to those who can use them most appropriately

b. Provide use, rather than ownership, of assets that have relatively short lives

c. Provide access to assets when ownership is difficult or impossible.

In a capitalist, economy enterprises will attempt to gain economic control of scare resources (e.g oil bearing properties, timber land, choice of sub urban real estate, or uranium and then exploit such assets until the market demand is exhausted. Leasing is a mean of gaining economic control. Hence entrepreneurs

may have desirable assets, and although they will not sell such assets they will lease them.

Leasing is preferred to ownership when state legislature prevent purchase of certain assets by governmental authorities, when public utilities have difficulty in obtaining financing of new plant and equipment, in industries where there is rapid technological innovation. The risk associated with obsolescence may be assumed by a lessor who is able to spread such risk among a number of lessees and over multiple assets and improving a company's financial position through off balance sheet financing.

2.B7 EQUIPMENT LEASE FINANCE

Equipment leasing is an unusual method of business asset acquisition. Equipment is usually financed as part of the overall capital requirements of business, along with plant, inventory, receivable and working capital. The increasing popularity of lease financing techniques is attributable to the significant advantage that an equipment lease financing is likely to offer lower cost of funds compared to the conventional financing. The feasibility of an equipment lease must be determined before proceedings with further analysis of the lease.

Feasibility should be questioned in several areas.

1. Feasibility under the lessee's corporate indenture and other credit documents.
2. Feasibility under regulatory considerations peculiar to the lessee or the equipment
3. Feasibility of the equipment it self

When the equipment has already been ordered, the terms of purchase may affect feasibility of lease financing, the lessee's existing bond indentures, some of which may prohibit equipment lease financing and similar debt agreement should be received for provision that may affect lease. If the prospective lessee has tittle to the equipment these after- acquire clauses may not be applicable. Covenants contained in debt instrument should be reviewed to be sure that the execution of a proposed lease does not render the lessee unable to satisfy any additional invested capital of the lessee or security for the lessee's bond holders.

Obstacles to a successful equipment lease financing may arise from the nature of the equipment itself.

Cost: Once an equipment lease proposal is feasible, an analysis of cost of the proposed. Lease should be made. Normally the prospective lessee seeking, and expect to enjoy, a savings in the cost compared to alternative methods of financing the equipment but care should also be taken of the indirect costs which are inherent in an equipment lease . Surrendering of residual value of the equipment by the lessee is one significant indirect cost. This help in the determination of the real cost of the financing. Other factors contributing to cost include the surrendering of benefits of ownership, fees of the parties involved in equipment lease, and also counsel fees. Incidental costs that are inherent in a lease financing should be considered which include sales or excise taxes etc.

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2.B8 SALES AND LEASE BACK IN REAL ESTATE

Organizations often carry on their balance sheet a substantial amount of fixed assets of real estate that may have a higher value than the amount at which such asset are carried on the books. By selling and leasing back such assets to an entity a company may generate cash. A sale- lease back entails the sale and simultaneous lease back of real property for a period of years. In a sale-lease back, rental payment represent repayments of the sale price of the property to the purchaser lessor plus some elements of return on the ivestment comparable to the payment of interest and principal under a mortage.

2.B9 PROJECTS LEASE FINANCE

Project financing has more appeal when it does not have a significant impact on the balance sheet or the credit worthiness of a sponsoring company (the sponsor). Lease financing as a method of financing projects may be a means to accomplish the end of off-balance sheet financing.

Project financing has been used to describe all types and kinds of financing of projects. The term is more precisely defined as " A Financing of a particular economic unit in which a lender is satisfied to look to the cash flows and earnings of that economic unit as the principal source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan" Off balance sheet financing can be accomplished by using credit of a third party to support the transaction. An independent economic unit that qualifies as a liable credit for a project financing will usually be backed by a strong credit. This backing may be

provided by the sponsor or by a third party the credit backing may be for the construction and start-up period only rather than for the life of the project; It may take the form of direct or indirect quarantee, take or pay contracts, or economic necessity contracts.

Two type of lessors are involved in project financing.

1. Third party leasing companies
2. Sponsors of parties interested in the completion of a project.

Third party leasing companies are engaged in the finance business and offer an outside source of funds to finance projects and their rates are often more attractive than those of many alternative source of funds due to the fact that in "true lease" financing the lessor claims tax benefits that are passed through to the lessee in the form of lower cost lease rentals.

This chapter provided the literature review of the study and the conceptual frame work to the study in lease financing at NAL merchant bank plc, the next chapter is on the research methodology used in conducting the research work.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The purpose of this chapter is to discuss the various methods of research and data collection in general, attempt shall be made to briefly give explanation on the methods and specifically dwell on the kind of research concerned with the study and the adopted technique of data and information collection of the study.

Research is a scholarly or scientific, as well as diligent investigation or inquiry in seeking facts or principles it is a s systematic and controlled approach for providing answers to question. This result from man's natural inquisitiveness, it seek to discover the characteristics form of social phenomena. The problem that requires solution may be purely of intellectual nature or practice orientated. These problems may be technical or technological, economic, social, historical or methodological. The following are the various form of research.

1. HISTORICAL RESEARCH

Historical research is concerned with being able to understand and explain the present and predict the future, through an evaluation of available records of past events. Historical research consist of two broad group of evaluation methods.

A. **External Criticism:** External criticism of historical data implies attempting to establish the authenticity of a document or artifact, that is to say, whether the document or artifact is what it purports to be, it seek to arrive at a judgement on the document or artifact authenticity.

B. **Internal Criticism:** Internal cristicim inform us on the worth, meaning and truth of event reported, or the observations made on the document. It is concerned with known facts.

2. DESCRIPTIVE OR SURVEY RESEARCH

Descriptive research of data gathering from usually a large number of respondents who themselves constitute a samples, survey research is a discovery of meaning in the data collected so that facts and events can be understood letter, interpreted and explained, this is based on much prior knowledge about phenomenon of interest

The following are the three main types of decriptive research

a. Case Study

This is an intensive analysis of one instance or a few instances of a phenomenon for the purpose of greater understanding of the phenomenon and the possibility of generalization

b. Longitudinal Analysis

These studies rely on a fixed sample respondent for data on a particular phenomenon. This fixed sample know as a panel is surveyed repeatedly for a data on the identified phenomenon over a period of time

c. Cross sectional analysis

A cross sectional study usually consist of data gathering from a sample of elements from the population of interest this could either surveys or field study. While the survey has greater width or scope the field study is interest in the in-depth study of a few typical cases.

3. EXPLORATORY RESEARCH

Exploratory research is embarked upon to discover ideas and insight when the researcher or investigator has little or no prior knowledge about the problem or situation under investigation.

Exploratory research seek to achieve the following objectives

a. Gather data or information about practical problems of carrying out researches on some particular conjectural statements

b. Establish priorities for further research

c. Clarify concepts

d Increase the researcher's familiarity with the problems some methods for exploratory research are

- Literature survey:- Going through the work of others in a related problems area.
- Experience survey:- going through the knowledge and experience of those who are familiar with, or exposed to a phenomenon or subject being investigated.
- Analysis of selected cases:- This is an intensive study of carefully selected case.

4. CAUSAL RESEARCH

Causal research is concerned with establishing or determining cause and effects relationship, it typically take the form of experiment in handling or determining cause and effects relationship.

An experiment is taken to mean a scientific investigation in which an investigator manipulates and controls one or more independent variables and observe the dependent variable or variables for variations concomitant to the manipulation of the independent variables", We can therefore say, that an experiment examine the effect of an independent variable on a dependant variable.

In addition to these variable, there may be other variables that may be active in an experiment that needs explanation these are the intervening and extranous variables.

3.1 METHOD OF DATA COLLECTION

Observation Method

This could be direct or indirect,

A. In the direct method the researcher witness or experience event or phenomenon at first hand. This could be controlled (e.g laboratory experiment) or uncontrolled as in field experiment. Controlled observation properly assumes external or independent checks upon one's finding. This mode of research is more appropriate in studying relatively small group.

B. Indirect observation does not opportune the observer to perceive the given social phenomenon but rather depends upon who directly observed or

experienced these phenomenon to reconstruct them for him, indirect observation is perhaps the most popular data gathering procedure in social science, this is because of the impossibility of researcher observing directly certain kinds of behavior, either because they are sensitive or inaccessible.

1. INTERVIEWS

Interviews as data collection techniques are meetings in which the investigator direct questions at the subject and records the obtained response. These are face-to-face interaction, although they can as well take place on the phone, unlike the questionnaire, the researcher both ask the questions and records the answers. However, when a questionnaire is used to conduct an interview, it is called an interview schedule as a method of data collection tools interview allow for quicker collection of information.

Response rates tend to be higher than in mailed questionnaire its disadvantages include cost of training of interviewers which may be long and expensive and the possibility of wrong recording of information, also where proper rapport with the respondent has not been established may lead to non co-operation. The structure of interview depends on the interview, on the questions asked by the interviewer and the response. Interview can either be structured or unstructured

2. QUESTIONNAIRE METHOD

The questionnaire is probably the most used method of data collection. The questionnaire is a device for obtaining answers to research relevant questions from a sample of respondent by using a form which the respondent fills himself. The

questionnaire, questions are presented with exactly the same wordings, and in the same order, to all respondent. The aim is to ensure that all respondents reply to same questions and this helps to get the same type of information from a large number of respondents.

Questionnaires may be delivered directly to the respondents or through post. Questions in the questionnaire may be opened ended or closed ended.

Open-ended questions are designed to permit a free response from the respondent rather than one limited to stated alternatives the respondent is asked to provide his/her answers to questions.

Closed-ended : Questions is one in which the responses of the subject are limited to stated alternatives. Which may be yes or no here the respondent is asked to select an answer from among a list provided by the researcher. Closed ended questions are very popular, since they provide a greater uniformity of responses and are more easily processed.

3. DOCUMENTARY SOURCES

Document both published and unpublished are a vital source of data for a researcher. A review of related literature like books, journals, official reports etc does not only sharpen our understanding of the research problem and formulation of hypothesis but vital sources of data. It is methodical possible to collect all data needed to draw valid conclusion on research problem entirely from documentary sources. These include among other, official Gazettes, yellow pages economic indicator, Nigeria trade summary, central bank publications official reports and end

of year company report and publications of various professional and non professional organization the documentary sources have some advantage like they are ready made and their collection and classification are beyond the control of the researchers.

They are not limited to time and space, that is the researcher need not have been present at the time and place of collection.

3.2 METHOD OF DATA COLLECTION FOR THE STUDY

The method used for collection of data and information for the study includes interview and documentary sources. These were obtained from the Nigerian stock exchange Kaduna and NAL Merchant bank plc area office in Kaduna. These were categorised into primary and Secondary data sources. A sample of the interview form used for the lessors and lessee is attached at the appendix sections of the study.

A. Primary Sources: Thus took the form of discussions and interviews with lease practictioners, lessees and credit officers of NAL merchant bank plc. These provided valuable information for the study.

B. Secondary Sources: The study reviewed various textbooks, written on lease financing, equipment leasing association of Nigeria (ELAN) publication and the annual report and accounts of NAL merchant bank plc for the study period. Also reviewed were business jornals, seminar papers presented by experts on the field of lease financing, MBA thesis (A. B. U. Zaria) and (Bayero University Kano) and central bank Nigeria publications like:

- CBN monetary and credit guidelines
- Economic and financial reviews
- The bullion

3.3 METHOD OF DATA ANALYSIS

The data and information collected for this study were analysed through the tabulation of result from the annual report and accounts of the selected bank and tables were constructed from which a trend analysis and ratio were used to compare the growth of lease financing over the study period. This enable the contribution of lease financed assets to the total assets of the bank to be determined. Also the contribution of lease interest income to the interest income generated by the bank fund based activties a bar chart graph will be used to further illustrate the result from the table, based on the following.

A. Contributioon of lease finance assets to total assets of the bank is extra polated from the income statement and balance sheet of the bank.

B. Interest income on lease finance activities is based on bank fund based income as opposed to the total interest income of the bank. From the (bank and non bank), thus is to enable a realistic extra polation to enhance the validity and reliability of the reseach study. Bank funds actitivities is the business of the bank that is supported by the bank's funds, while the non-bank interest income is from services rendered by the bank such as capital market floatation fees and commissions.

This chapter has set up the framework for the data presentation and analysis by first all discussing the various methods of reseach and data collections the reseach method adopted for the study, how the presentation and analysis of data is conducted. The next chapter is on lease fiancing in Nigeria, its benefits to the industrial developments of he country. The role of the equipment leasing association of Nigeria (ELAN). The Federal Government policies towards lease finance and the credit issues involved in the analysis of lease proposals at NAL merchant bank plc.

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CHAPTER FOUR

LEASE FINANCING IN NIGERIA

4.0 INTRODUCTION

The purpose of this chapter is to introduce, the concept of lease financing, within the Nigeria context. Its evolution and growth, some of the benefits of lease financing to the Nigeria economy would also be highlighted. The role of Equipment Leasing Association of Nigeria (ELAN) shall also be reviewed, while the federal government policies towards lease financing and credit issues on the analysis of lease proposal at NAL merchant bank plc shall conclude the chapter.

4.1 LEASE FINANCING IN NIGERIA

The first merchant bank to start lease financing was when, Hill, Samuel and company a United Kingdom merchant bank opened a subsidiary firm in Nigeria Under the name Philip Hill limited. In 1964, the federal government with the assistance of the word bank established the Nigeria Industrial Development Bank limited (NIDB),Nigeria bank for commerce and industries (NBCI)and then many merchant banks engaged in all aspects of merchant banking, lease financing inclusive.

In October 1973, United Dominions corporation(Nigeria) limited, a subsidiary of United Trust International, which is wholly owned by UDT limited, a hire purchase company was allowed to convert its hire purchase business that was experiencing some difficulties because of the hire purchase regulation of 1968, into lease financing to be done through merchant banking. UDT Nigeria limited later changed

its name to the present Nigeria merchant bank limited. 1975 witnessed the establishment of more merchant bank and roads Nigeria limited a road construction company was the first customer or lessee to be granted equipment on lease by NAL merchant bank plc. The National Bank of Chicago limited, established in 1975 is still in existence today as the International Merchant Bank (I.M.B) and it financed the tower Aluminum Nigeria limited by leasing some properties to it. Also most of these merchant banks were American or British origin or both and were all interested in serving their multinational customers operations in Nigeria at their inception.

4.2 BENEFITS OF LEASE FINANCING IN NIGERIA

Without tangible benefit emanating from lease financing as an alternative financing vehicle, the product would not have been able to generate so much acceptance in Nigeria. Within so short a period of time. The benefit of lease finance shall be evaluated from the perspective of the lessors and lessees and the entire benefits to the Nigeria economy. These benefits are:

- Lease financing is one of the ways in which the lessor can invest idle capital in order for his capital to grow that can be ploughed back to other sectors of the economy for economic growth and development Hereby creating employment.
- Leasing makes cash flow forecasting much easier from the cash management position for the lessee, lease payment may be structured within limited to correspond to expected cash flow from operations or projects, thus operations and projects management are more efficiently and effectively handled by the lessee.

Lease financing enhance diversification of financing sources as an additional source of financing and avoids any over dependence on a single source of finance or funds.

The benefits of the diversification is to minimize the risk of too much over dependence on the traditional banking lending system, particularly in times of inflation and rising rate. Interest

When a lessor do business with a large number of lessees he is more likely to buy large quantities of equipments, than individual lessees, for a lessor, it will financially be prudent, therefore to buy in bulk and take the advantage of trade and/ or cash discount available, and thus reduced the unit capital outlay on each piece of item. In order to remain competitive some of the financial benefits are usually passed on to the lessee in the form of lower charges.

Lease financing offers tax benefits, leasing offers lessors the attraction of high capital allowances for significant tax deferrals, likewise lessee obtain equally significant tax savings by being able to expense both the principal and interest components of lease rentals payable,

The flexible nature of lease financing as a contrast, provide another benefits as it offers a good hedge against inflation. Lease financing is the only form of credit. That improves value-added without necessarily distorting the price level stability. This is because flexible rental payment can be organized in such a way that early instalments are small, while later instalments are large. In this way, cheaper money will be used in paying off future debts. Most other loan arrangement require regular repayments over the loan period.

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- Lease financing provide a natural hedge against technological obsolescence, of the equipment on lease. The flexibility inherent in leasing could allow the lessee upgrade, at a minimal cost, in case of equipment that belong to rapidly changing technologies, this is even more relevant when we look at the state of Nigerian technological development.
- The industry also made innovative strides in the reaction to the new business challenges. Lease syndication, corporate acquisition using lease funding, aviation leasing exemplifying the industry's ability to meet the challenging needs of the Nigeria business community.

From the foregoing it is therefore clear the growth of the leasing industry has occurred against the back ground of the most fundamental changes in the Nigeria economy.

- Active lease financing by merchant bank started in 1976, as the first attempts at the leasing in the early 70s were confused with the concept of hire purchase. Lease financing was relatively new by late 1985 in the country than the more regular means of funding business ventures. Such as term loans and advance are better known. With the advent of SFEM and the subsequent depreciation of the naria, the price of productive machinery and equipment escalated, beyond the reach of most entrepreneurs in the country It become difficult for investors to acquire equipment under the traditional and very familiar funding arrangements partly accountable for thus as well is the requiremonts for collaterals for the more familiar funding vehicles

Lease financing has now been embraced as a practical technique for financing

capital goods in Nigeria needed to Modernize, diversify, and or enhance production activities or services.

The acquisition of plant and machinery for industrial production has been on the increase also are ships and aircraft enhancing development in the maritime and aviation industries.

The central bank of Nigeria (C.B.N) had in it with monetary credit policy guideline for 1990 fiscal year granted approval to commercial bank to book leases, the CBN having granted lease approval to the commercial banks brought leasing hitherto not regarded as a form of credit, under the aggregate credit ceilings, and thus limiting the growth of the industry. The limitation of equipment leasing to only 15 percent of a bank's asset has now been removed all these development favor the growth of lease finance activities in the country.

4.3 THE ROLE OF EQUIPMENT LEASING ASSOCIATION OF NIGERIA ELAN

As lease finance business prospered with the granting of operating licences to move merchant banks thus expanding their leasing activities the need arose for a format forum to discuss ideas and current developments in the leasing industry. The equipment leasing association of Nigeria developed out of series of informal meetings among representatives of six Merchant banks. The first of such meeting was held on the 23rd April 1982.

On June 29, 1983, six merchant banks formed the equipment leasing association of Nigeria (ELAN)

The founding members are the first generation of merchant banks in Nigeria,

Namely:

1. NAL merchant banks plc
2. International merchant bank (IMB)
3. ICON Limited (merchant bankers)
4. Nigeria merchant bank (NMB)
5. Continental merchant bank (CMB)
6. Nigeria- America merchant bank limited

The equipment leasing association of Nigeria (ELAN) is the umbrella body of leasing organization (Lessors) in the country and the broad aims of the association includes.

a. The promotion and protection of the interest of the association members on the exercise of their business as equipments lessors.

b. Dissemination of relevant information and data to industry players. As well as representing members of the association in all or any of their relationship with government department. Either public or trade associations and professional bodies.

c. Promotion of ethical practice in the conduct of members business

d. It also affiliates with the financial and related institutions both within and outside Nigeria. As part of the association primary function of gathering and disseminating information on leasing, it began in 1987 the following projects.

1. A news letter titled " LEASING IN NIGERIA" provided on a quarterly basis the market with update on analysis of developments in the industry.

2. A leasing reference book that provide members with an all inclusive guide to available leasing services in the market, the equivalent of a leasing "Yellow pages"

3. An annual survey of leasing business a publication that document the association efforts at collating operational information on leasing business conducted by members on a yearly basis

4. A leasing text books, that will fill the existing gap in local educational literature in leasing businesses.

The association has made a remarkable progress and achievement as far the development of equipments leasing business is concerned.

ELAN has attained a tremendous growth in member ship from six members at inception of the association in 1983, twenty one in 1988 and sixty six in 1991, equally the membership has continued to grow. Among the factors responsible for the steady growth of leasing business is the enhanced awareness campaign embarked upon by the association through both print and electronic media. ELAN also organizes seminar and workshops as well as publications to enhance the growth of the business and to create an impact not only among practitioners but also among other professionals government bodies, students as well as the general public.

Meanwhile, as the association continues to entertain various enquiries from reporters, students ans the public in general on matters affecting leasing, in Nigeria there arose for a permanent secretariat to enhance the operational efficiency of the association the association has therefore established a permanent secretariat at No1

engineering close, engineering house, victoria island Lagos. The secretariat presently houses a library that contains the most recent information on leasing activities within Nigeria and world wide.

4.4 FEDERAL GOVERNMENT POLICIES TOWARDS LEASE FINANCING IN NIGERIA

The introduction of the structural adjustment programme by the federal government of Nigeria. It became apparent that the government was determined to put a squeeze on credit expansion this necessitated many enterprises to opt. For the various alternative sources of funding projects which require huge capital outlays.

Lease financing became the available and indeed easiest form of financing. This is because it requires little or no collateral securities before making funds available to a lessee.

A part from guidelines issued by the federal government to lessors (mostly international and commercial banks) on the conduct of both medium and long term loan to quite a numbers of lessees, similar quidelines are also issued to take care of small and medium scale industries/enterprises (SME). In view of that the national economic reconstruction fund (NERFUND) Decree No 2. Of 1989 was signed into law with the view to observe inadequacies in the provision of medium to long term financing to small and medium scale industries enterprises. Especially manufacturing and Agro Allied Enterprises

In line with "NERFUND" the central bank of Nigeria issued a circular on the Small and Medium Scale Enterprise (SME) loan scheme. The primary objective of

this scheme is to support existing enterprises re-structure and modernize their operation in maintaining their comparative advantage and to regain competitiveness, and thus help establish a new generation of viable investment in the private sector and services industries.

The "S.M.E" scheme is contributing to the development of rural areas where the industries are located, leasing is therefore living up to the objective of being designed to be a grass root funding mechanism in . And is likely to move from the larger industrial project in the urban area to grass root small and medium scale industries in the rural areas with substantial raw materials. The scheme has triggered off a boom in small ticket lease and new players to meet the ever increasing demand of lease finance facilities. Lessors are now dealing with more sophisticated lessees who understand the art of the game more than ever before.

Export stimulation loan (ESL) is another policy embarked upon by the federal government. So that industries can expand their production capacity to engage in export especially to non oil sector. This programme is to increase the export of commodities such as cocoa, rubber, gum- aratic, sesame seeds and their bye-products. With the addition of investment tax credit (ITC) currently been enjoyed by lessors of agricultural plant and machinery, both parties can work together to generate the much desired export proceeds. The small farmers can raw afford to lease simple farm instruments to boost their production while lessor will structure the leases such, that the rental will fall due only in harvest seasons when cash flow is most likely to be generated. Lease is known for its flexibility and our farmer and exporters of non oil products may do well to take advantage of this development.

4.5 CREDIT ISSUES IN THE ANALYSIS OF LEASE PROPOSAL AT NAL MERCHANT BANK PLC

Whenever there is a request or enquiry at NAL merchant bank plc for lease financing faculity, the credit officer in charge will ensure that the lessee meets the general credit policy of the bank.

From interview had with an officer of the bank, lease financing is basically the same with any other type of bank lending when it comes to issues of credit analysis as such the need for proper adherence to the basic criteria, such as the lessee's reason for wanting to lease the assets come into play. It could be a start-up project' expansion proposal or as a means of raising working capital e.tc. An estimate of the capital out-lay, lessee's ability to make rental payments as and when due and most importantly the other options available in financing the project to know that leasing is in the best interest of the lessee e.t.c. It is after the lessee has satisfies such basic criteria that the credit officer concerned goes on to request for additional information to enable him fully assess the whole proposal. These additional information may include

a. A formal letter of application for the lease facility stating he estimated total capital outlay
b. Copy of certificate of incorporation of the lessee in order to verify the length of time the lesee has been in operation
c. Copy of memorandum and articles of association in order to a certain that the use to which the asset is to be put is permitted by rules governing the objectives of the company.

d. Cash flow projections to cover the tenure of the lease. This is very important to the bank, in that it is from the expected cash flows that the lessees meet his rental payments.

e. Audited accounts for at least three years and that the credit officer concern must be satisfied with the external auditors of that company.

f. Briefs description of the nature of business to include the industry trends and the company's market shares, source of raw materials (locally sources or import dependant) manufacturing process major suppliers and customers e.t.c

g. Detail technical specification of the equipment, this include year of manufacture, make and mode, serial number, e.t.c

h. Information on any previous or outstanding lease relationship with other lessors. This is, so because some companies treat lease transaction as "off balance sheet" Items in the audited account reports. This kind of information is mostly obtained by way of credit checks and/ or informal inquires from other banks. This enables the credit officer to know the lessees ability to services his previous rental payments obligation if there has been any.

I. A visit to the site of the factory gives the credit officer a first hand information on the lessee's operation, staff and general surroundings. This also enables the credit officer to satisfy his feelings as to the real capability of the lessee to qualify for the size and the cost of the equipment he (lessee) intends to lease.

j. It is of great importance for the credit officer to analyse the risk involved in the whole transaction, for there is no business without the inherent risk, these risk include foreseable and unforseables. He is therefore expected to analyse,

these risks and how they can be taken care of in view of the prevailing circumstances

If the lessee meets all the bank's requirements for leasing, the bank and the lessee will sign the lease contract. A typical lease transaction at NAL merchant bank plc would see the user-lessee first deciding on the equipment needed. The lessee then decides on the manufacturers, the make the model. The lessee will specify any special features desired, the terms of warranties, garantees, delivery, installation and services. The lessee negotiates the price at which point the sales contract is negotiated and a lease agreement is entered into with the lessor (NAL). The lessee negotiated with the lessor on the tenor of the lease the rental, delivery and installation charges to be included (or not) and other optional considerations.

After the lease has been signed, the lessee assigns its purchase rights to the banks, who then buys the equipment as specified by lessee. When the equipment is delivered, the lessee finally inspects the equipment to make sure it gets exactly what was ordered the bank then pays for the equipment and the lease goes into effect.

At the end of the lease term, the lessee usually has the options to renew the lease to dispose of the equipment to an unrelated third party on behalf of the bank, or terminate the agreement and return the equipment.

4.6 CONSTRAINTS TO LEASE FINANCE DEVELOPMENT

Even though lease finance plays a very significant role to the industrialisation of the Nigerian economy, lease finance have been constrained by the following problems.

1. Complying with provisions of the indusrial inspectorate acts various provisions of the act call for.

   a. Pre notification of capital expenditure for any particular year.

   b. The physical inspectiton of leased equipment on which capital allowance will be claimed. Given the predictable nature of leasing. Volume and the geographical diverse location of end users and equipment complying with the industrial inspectorate act can pose a heavy administrative burden on the lessor

2. General business awareness of the product. Leasing remains a relatively new product in the financial market.

   General level of awareness, exposur and knowledge are low.

3. Uncertainty in tax treatment with no specific codes for leasing, determining the tax impact to various lessee contract or structures involves a degree of uncertainty currently, decision are made on a case by case basis

4. Low capital allowance; this means that higher capital allowance would make leasing more attractive.

5. Liquidity in the money market restrict lending by dictating what bank can lend because of mopping of excess liquidity by the C. B. N, the ceiling by C. B. N on the loan portfolio of banks including lease finance constraint lease finance development, this is because even where leasing is attractive or lucrative the bank cannot lend or lease as a result of liquidity and limit on bank total loan and advances portfolio.

6. In a rapidly changing technology, the lessor may find it difficult to obtain

payment from lessees who find their equipment suddenly obsolete.

7. From the lessee's point of view, the constraint are operational and financial. In most cases, the lessee cannot use the asset as he pleases because of certain operational restrictions imposed by the lessor. The restriction to which the lessee is subjected when leasing may, in some cases be more annoying than those found in debt contracts. For instance, a lessee may be required to obtain permission from the lessor before needed improvement are made to a property. If the contract is non cancellable the lessee may find himself with a rotten apple which he is helpless to change, with an owned property, the owner can do whatever he so wishes with the property he can sell it or pledge it for another debt or even write it off.

It is worth noting that merchant banks in Nigeria are equipped to finance leases and also strategically placed to finance Nigerian Industrialisation, because

a. Of all the financial institutions, they have been given the legal rights to undertake lease financing.

b. Their services are well concentrated to have the desired impact.

c. A sizeable percentage of their loans and advances are devoted to the important or preferred sectors of the economy.

d. Their innovative customer driven services has impact positively and continue to be popular as a means of financing business operations

This chapter started by reviewing lease finance in Nigeria from the historical background, through the growth and development of the leasing industry. The benefits of lease finance to the lessors and lessees the general public and the

Nigeria of economy. Also discussed in the chapter is the role of equipment leasing association of Nigeria (ELAN) the federal government policies towards lease financing and finally the credit issues in the analysis of lease proposal at NAL merchant bank plc

The next chapter is on the presentation and analysis of data of the study. The contribution of leasing to the total assets of the bank as well as the total income, the issues and trends at the bank constraints to development of lease financing is also highlighted and the problems at NAL merchant bank plc on lease financing.

CHAPTER FIVE

DATA PRESENTATION AND ANALYSIS

5.0 INTRODUCTION

The purpose of this chapter is to evaluate lease financing as one of the functions of merchant banks by considering lease financing in NAL merchant bank plc. The contribution of lease finance to the total assets of the bank as percentage. Also, determine if lease finance has been on the increase or decrease and the reasons of such development and at what level. The data analysis is based on interview had with lessor/lesses. It is also the aim in this chapter to evaluate lease finance interest income to the fund based generated income of the bank. The interest income of the bank comprises bank and Non bank income. For the purpose of this study we shall only consider bank fund interest income, because it is strictly the use of the bank's fund to generate interest income, unlike the non-bank interest income that involves service rendered by the bank, such as commission and fees for capital market floatation.

The data collected is presented and analyzed, using trend analysis and bar chart distribution for illustration of the growth of lease finance in terms of its contribution to the total assets and fund based income activities, issues and trend on lease finance activities would be also be part of this chapter.

5.1 ANALYSIS OF DATA ON GROWTH OF LEASE FINANCE AT NAL MERCHANT BANK PLC

TABLE 1:

Growth of Lease Finance at NAL Merchant Bank Plc 31 March 1993 31 March 1998

Years	Total assets (N000)	lease financed asset (N000)	% increase or decrease in value of lease finance	% of lease finance assets to total assets
1993	2874 422	123 382	100	4.29
1994	3263 654	114 891	(6.88)	3.52
1995	8715 270	109 430	(11.31)	1.26
1996	7668 271	266 964	116.37	3.48
1997	8633 169	611 894	395.93	7.09
1998	7816 505	516 130	318.32	6.60

SOURCE APPENDIX II.

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ANNUAL REPORT AND ACCOUNTS NAL MERCHANT BANK PLC 31ST MARCH 1993-31 MARCH 1998.

Table 1 shows the value of total assets and lease financed asset the percentage increase or decrease in the value of leased assets and the percentage contribution of lease asset to the total assets of the bank.

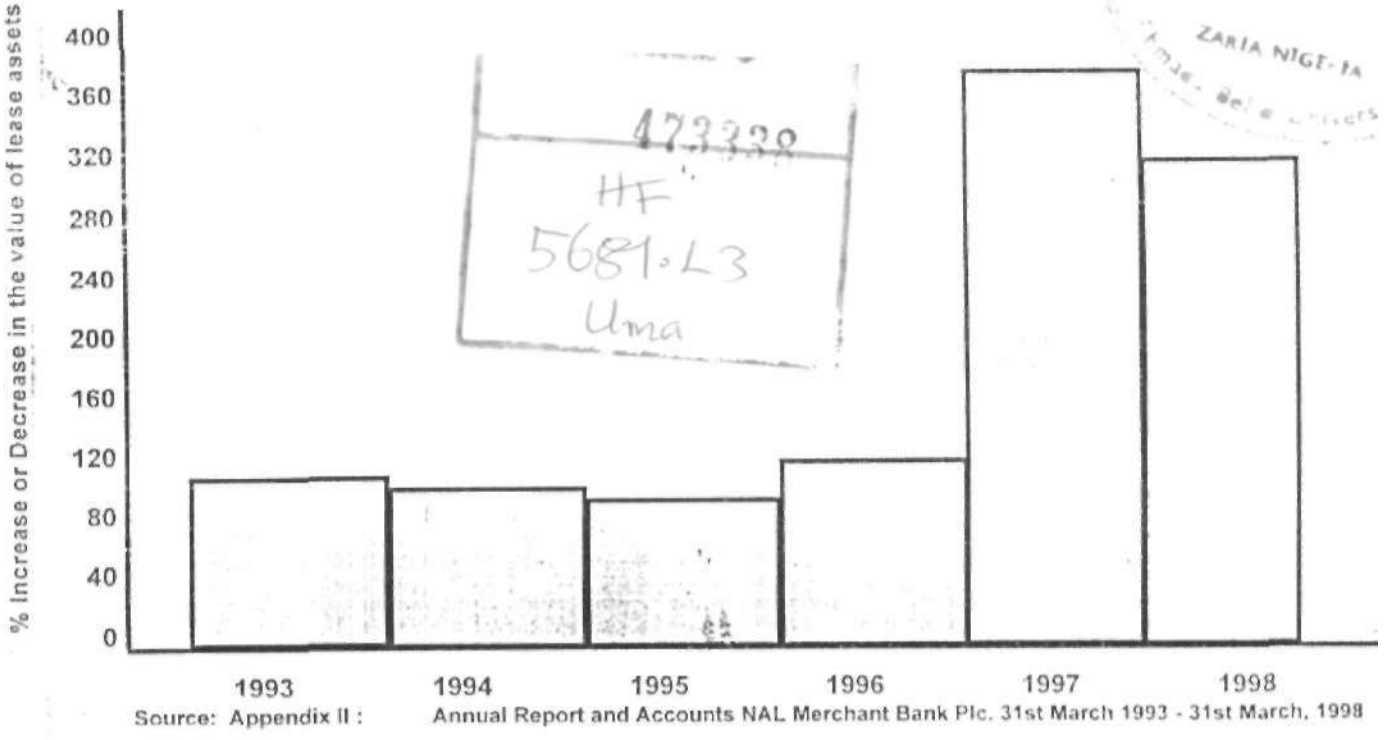
From 1993 through 1994 to 1995 lease finance activities was on the decline at the bank as can be seen from the table i.e

₦ 123 380 million in 1993 to ₦114891 million in 1994 and ₦109430 million in 1995. Using 1993 as the base year in expressing the percentage increase or decrease for

leased assets, for 1994. It was (6.88) percent while in 1995 (11.31) percent reason attributed to the above trend was the general business climate at that period, this was also confirmed from interview had with lessor/ lessee during the period of the study. From 1996 to 1998 lease finance was on a steady increase i.e ₦266 964 million or 116.37 percent in 1996 and ₦611 894 million or 395.93 percent in 1997. There was then a slight decline in 1998 i.e- ₦516 130 million or 318.32 percent. Reasons for steady rise in lease financed assets at NAL merchant bank plc from interview conducted indicated that the naira exchange rate played a significant role, it became increasingly difficult for companies to sources for foreign exchange to buy the required machine, plant and equipment needed for their operations. More over these equipment are imported as such not financially via able, thus opting to lease financing. This is where the bank comes in because of their expertise they are patronized for lease finance services, for assets like motor vehicle, textile machine, extrusion machine for plastic companies, boat for oil companies for movement around the creek, as well as cold truck for fishing companies export. It is invariably cheaper for the companies to lease than to outright purchase these assets thus resulted the increase in lease financed assets of the bank, this is further illustrated with bar graph distribution below.

Figure 1: **The Information from Table 1 on Increase/Decrease of Value of Lease Finance Assets at NAL Plc for the study period.**

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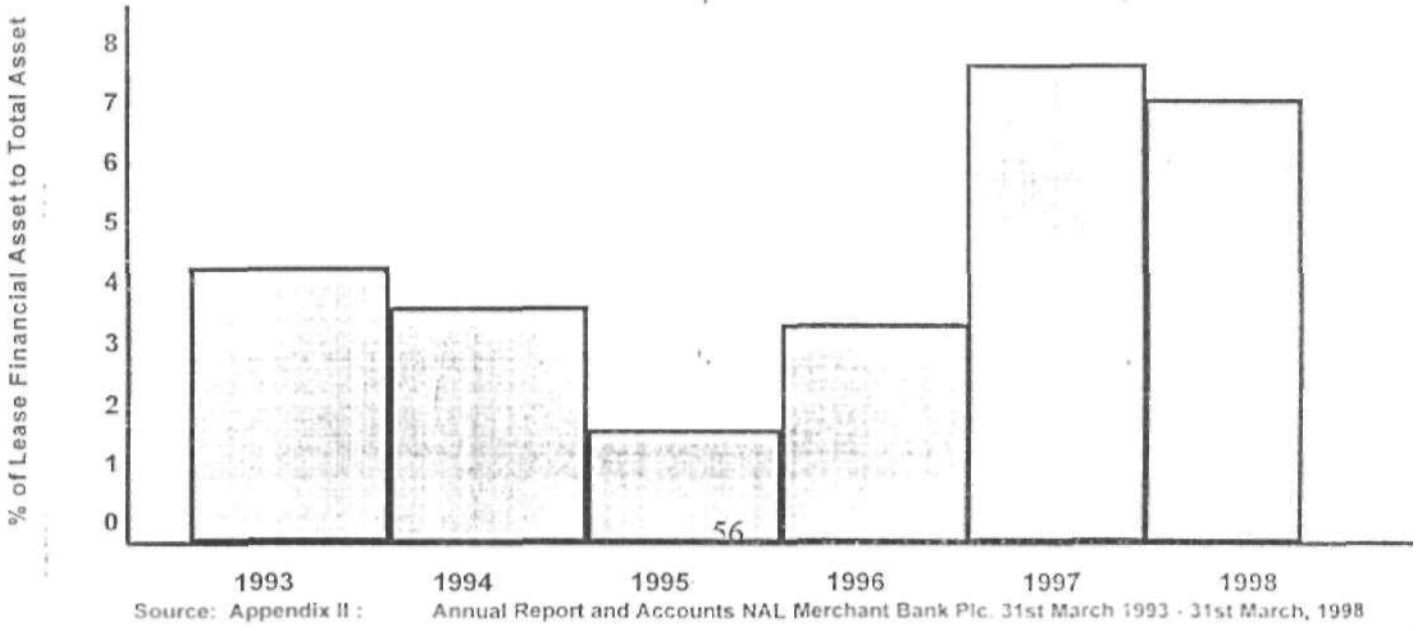


Source: Appendix II : Annual Report and Accounts NAL Merchant Bank Plc. 31st March 1993 - 31st March, 1998

Table 1, also show that in 1993 the percentage of lease assets to total assets of the bank was 4.29 percent, which declined in 1994 and 1995 to 3.52 percent and 1.26 percent respectively: in 1996, the percentage of leased assets to total assets increased to 3.48 percent and 7.09 percent in 1997 before a slight decrease in 1998 6.60 percent of the total assets. Reasons attributed to the above developments at the bank from interview conducted with lessor officers were the continuous devaluation of the naira dollar exchange rate which consequently pushed prices of machinery like vegetable oil extraction machine for oil milis extrusion machine for plastic molding and textile machine to generating set and transmission equipment to high price beyond the reach of individuals and business organization. Imagine a machine costing ₦100.000 at ₦22: $ 1 exchange rate in 1994/95 will now cost different at ₦85: $ 1 in 1997/98. The commitment of the bank in providing capital resources across various sectors of the economy through lease finance arrangement resulted in the above development.

Equally responsible was the increased level of awareness created by the equipment leasing association of Nigeria (ELAN) through seminars and workshops regularly organized by the association.

Figure II: Additional information from Table 1 is illustrated with bar charts below on the percentage yearly increase/decrease of leased assets to total ssets of the Bank



Source: Appendix II : Annual Report and Accounts NAL Merchant Bank Plc. 31st March 1993 - 31st March, 1998

Figure. II the additional information from table 1 is illustrated with bar charts below on the percentage yearly increase decrease of leased assets to total asset of the bank.

Table II **Contribution of lease finance to NAL Merchant Bank Plc Bank Fund based interest income;**

Year	Bank fund based interest income (₦000)	interest income from lease finance (₦000)	% of interest income from lease finance to bank fund based interest income (₦000)
1994	184 565	47 600	25.80
1995	135 162	24 600	18.20
1996	323 727	36 000	11.12
1997	289 948	85 000	29.32
1998	263 469	114 000	44.27

SOURCES APPENDIX III--V

ANNUAL REPORT AND ACCOUNT NAL MERCHANT BANK PLC 31st MARCH 1994-31st MARCH 1998.

Table II show interest income on lease finance that has been extrapolated as a percentage of the banks fund based interest income. That is income generated from bank's deposit fund contrary , to the total interest income comprising bank and non bank interest income.

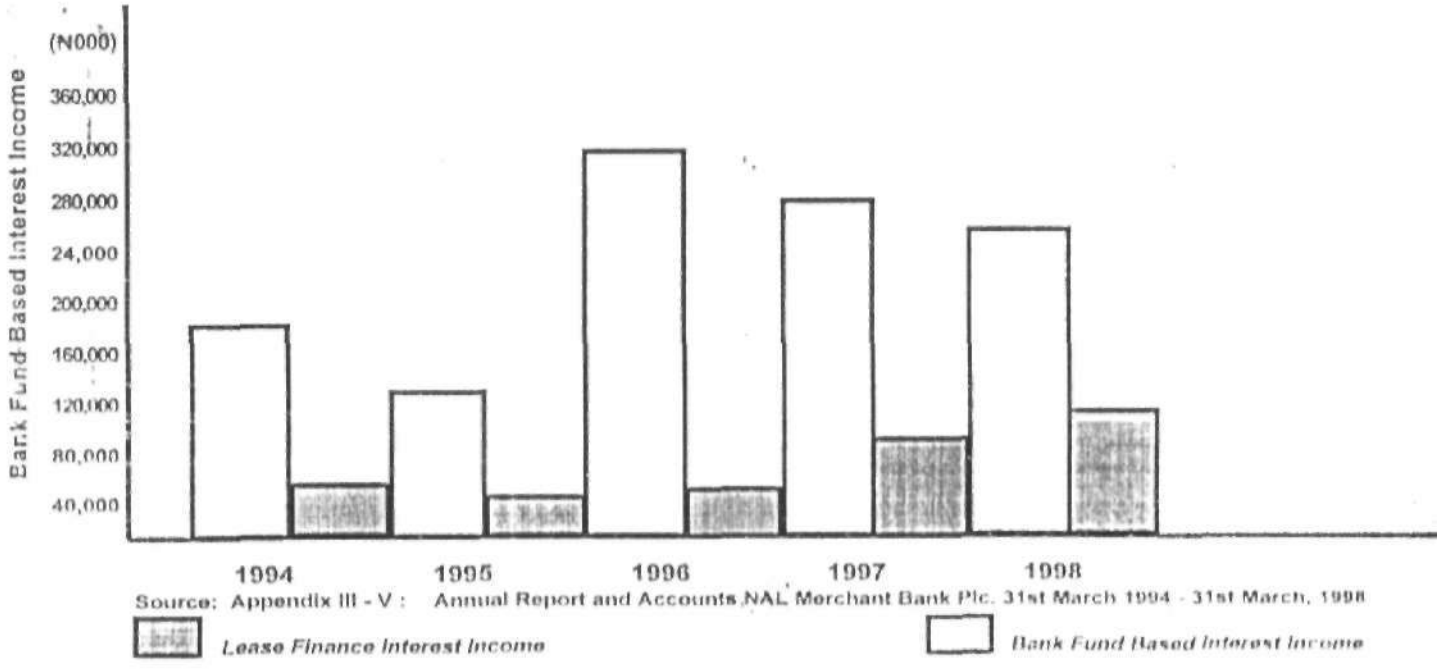
From interview responses on how the bank interest income is determined to enable the generation of the income, it was found out that the bank receive income in the form of rentals for the equipment leased out on finance lease basis which in the main line of the bank lease function.

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Reasons for the above interest income trend from 1994 of 25.80 percent to a decline in 1995 and 1996 o a very low percent of about 11.12 percent before it started increasing in 1997 to 29.32 percent and finally to 44.27 percent in 1998 making 85 million and 114 million interest income from lease finance in 1997 and 1998, respectively.

This was as a result of the bank expertise in lease finance structuring , since interest is calculated in rental form. There is no rule of thumb when it comes to lease finance rental calculation, unlike the normal bank loan with a prime lending rate of interest. What obtain in lease finance is that the higher the rental price on the leased equipments the higher the income generated from lease finance to the bank. This is also done within the stipulated guideline of the central bank of Nigeria to avoid its wrath. Another reason for the interest income on lease finance to the bank fund based interest income trend was taxation. The 1993 amendment statement of accounting standard II stipulates that any financial; institutions that grant lease finance could no longer enjoy capital allowance (tax benefits) on the equipments so leased, this was responsible for the initial decline in the interest income from lease finance to the bank fund based interest income.

Figure III: Depicts the contribution of lease finance interest income to the bank's. Fund based interest income.



Most of the assets leased out that generated interest income in rentals to NAL Merchant Bank plc included motor boat for shell company's activities around the coastal creek textile machine used by UNTL textile, tractor and bulldozer for construction companies and generating sets and air conditioners for plant and office uses the cost of these machines and equipment is indicated in the audited annual report and accounts of NAL merchant bank plc equally the amount earned from these leased machineries in the form of rentals is also disclosed in the annual report and accounts for the period of the study.

Regarding replacements, most leases at the bank are financial leased as such the lessee make the request for the need of the asset and at the end of the lease period or tenure the lessee buy them since they are still required by the lessee or make arrangement for a third party buyer.

The bank does not have any replacement policy for lease asset they only make them available when requested by their clients. Amount earned from lease finance in the form of rental is part of the bank fund that is used for trading, since the bank trade in money, it uses income from lease finance ploughed back into the business, in loans and advances or dividend payment to shareholders, also to meet operating expenses or acquiring some other assets for expansion of the bank portfolio of investment. Alternatively, the income from lease finance is put in placement with other banks to generate interest.

5.2 ISSUES AND TRENDS ON LEASE FINANCE AT NAL MERCHANT BANK PLC

Lease finance plan can be offered in many variety, this means that each lease plan so chosen is endowed with specific structural features.

Since most lease evaluation parameters for granting a finance lease facility is similar to that governing credits. Most parameters for evaluating lease finance are very stiff, hence the structuring of lease is usually proceded by the evaluation of the key risks associated with finance lease facility relationship. The structuring of most lease finance require First of all the information for granting of credits. These are:

1. On going business or companies (that is going concern)

a) Data on selling price and cost.

b) Industry data where appropriate to determine how those on the business are already doing,

c) Market trends including effects of competition and government regulations.

d) Customers base and terms of sale

2. Start -up Companies

a. Total investments

b. Equipment supply source

c. Financing requirements.

d. Projection of balance sheet, income statements and cash flow,

e) suitability of location

3. General company background

a. The certificate of incorporation where applicable

b. Ownership by percentage

c. Description of nature of business

d. Copies of at least two year prior tax return of owners and company (of owners only in start-up business)

e. The article of memorandum and association.

Lease facilities, in addition to the above (1.2&3) the following are also necessary.

1. The estimate of operating life of the equipment under normal use.

2. Estimation of the market value of the equipment over the primary lease period.

3. Details of third parties willing to sell the equipment on behalf of the bank should the need arise.

The evaluation of the lessee's ability to promptly make rental payments involves mostly the through assessment of the financial and cash flow forecasts of the projects for which the equipment lease facility is meant for. This evaluation of the credit risk is with a view to discounting greater uncertainty about the size and variability of future cash-flow as well as voluntary disposition of the project sponsor to apply the cash flows towards settling the rental payable and as when due.

A well structured lease results from the proper integration if its main group of lease variables.

1. Lessors's risk assessment variables

2. Lessors's requirements variables

3. Lessee need variables

4. Lease structuring variables.

RISK ASSESSMENT VARIABLES

This results from the degree of credit worthiness of the lessee combined with collaterals and residual value of the equipment to be leased. Also general business risk affects the transactions indirectly, once risk is assessed it must be converted into a structuring variables.

When risk is deemed risky by lessor the following variables might be affected.

a. Personal guarantee required

b. Security deposit required

c. Lease yield increased with all other factors except payment amount remaining constant.

d. All variable risk insured.

LESSOR REQUIREMENTS

Whenever a request for lease finance facility is received by NAL plc the bank required the following information to facilitate the structuring of the lease be provided

- Why the need for the lease, why NAL merchant bank plc why not existing banks?
- Where do they expect the equipment from is it to be imported and how long will it take to come in?
- The cost and manufacturer of the equipments cash flow of the lessee, whether it can accommodate the lease rental payment

NAL then gives quotation to the lessees, called lease quotation this contain information on the lease agreement, what to be leased and the cost of the equipment

The bank would also require the tenure of the lease and how the rentals is to be paid, whether quarterly, semi annually or annually.

Also required is the rental payments per period, whether in arrears or in advance for each period and the commencement date for the lease.

LESSEE REQUIREMENTS

Lessee's requirements at NAL merchant banks plc is that once lease agreement accepted by the lessee, the following shall also be needed

- Access to the machine for periodic inspection when and if necessary.
- Insurance cover on the machine by the lessee is also provided lessee shall also in event of default of rental payment due, to release or retrieved by the lessor the equipment to enable the lessor look for buyer as a recourse. Also required by the bank is the ability of the customer or lessee to service the rental when they fall due.
- After the tenure of lease finance agreement the bank allow the lessee to purchase the equipment so lease, this is more particular with capital equipment like boat used by oil companies, satellite communication equipments , generating sets and cold truck for fishing companies, this not withstanding the bank shall avoid fair market value purchase option in lieu of fixed percentage or fixed amount purchase option.

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LEASE STRUCTURING VARIABLES

Once a lease proposal accepted by the bank amd the lessee accepts the lease quotation containing information on lease agreement, their quotation letter, their internal approval to book the lease with the bank is given. If the cost of the lease is ₦15 million or below only the internal directors of the bank sign the agreement, but where the lease is above ₦15 million the board of directors of NAL merchant bank plc approve and sign the lease, the bank also formalize the quotation in the offer letter to the potential lessee. Once the lease accepted , board resolution of the company is given followed by compliance with special resolution if the lease agreed equipment is to be imported the bank opens a letter of credit in the name of NAL merchant bank plc, but where the machine can be sourced locally the bank write a cheque in the name of the equipment vendor and a receipt in the name of NAL Merchant Bank Plc.

Detail specific of the machine is provided before signing and stamp duty paid for the lease agreement and the documents and ownership of the assets is registered in the name of the bank.

Finally the machine is installed attaching the NAL merchant bank plc sticker on the assets.

Part of the problems from the lessor/lessee experience has to do with funding, long term deposit on the Nigeria financial market are in short supply, this neccessiate the lessor coming up with all range of hedges from compulsory deposit, wide margin pricing and short tenure lease, these all aim at keeping lease finance alive.

5.3 LEASE FINANCE PROBLEMS AT NAL MERCHANT BANK PLC.

Lease finance is gradually becoming a major source of income to the financial institutions engaged on it. Merchant banks constitute predominantly the big players in the business. NAL Merchant bank plc is a leading contender in the business among the merchant banks.

That is not to say, the bank does not encounter some problems that has impeded the bank's ability in structuring and delivering lease finance facility, from interview had with lease officers of the bank, the following are some of the problems advanced.

- lack of awareness from the public about opportunities abound in lease finance as alternative means of acquiring the use of capital equipments without the actual purchase of the equipment: this has not been very effectively publicised that is why the Equipment Leasing Association of Nigeria (ELAN) organizes courses, workshop and seminars to enlighten the public and create more awareness and more knowledge on leasing products.
- the naira exchange rate to other international convertible currencies like the U.S Dollar and the British pounds sterling created an obstacle to lease finance function of NAL plc take for instance the cost of capital equipment with high foreign or import contents at the present exchange rate of $ N85 huge sum of money in naira is needed, Peugeot was in 1992 about N500,000 now 1998 is over N1.2 million. At the current exchange rate it means not enough equipment can be purchased.

- fluctuating interest rates has affected the funding of lease finance at the bank, since rental payments are fixed and determined before the commencement of the lease transaction the lessor profit margins may vanish or even turn negative when interest rates are rising.
- Increasing competition in the leasing industry reduces NAL's share of the market, this is because of entrant of independent leasing companies, stock broking firms, finance companies and the equipment manufacturers themselves.
- During the period of economic recession, mâ̂y companies (lessee) are unable to meet their obligations in payment of rental resulting in default thus reducing the income realized from lease finance. This also causes the control of second hand market be lost by manufacturers as the market gets flooded with used equipments which nobody wants.

The chapter started with data presentation and analysis of lease finance, in terms of assets and interest income expressed in percentage contribution to the total assets and bank fund based interest of the bank reason for the development of the trends s obtained from, interview result. Also discussed was lease structuring variables and the problems of lease finance at the bank. The next chapter which is the final chapter provide a summary, conclusion and recommendations of the study.

CHAPTER SIX

SUMMARY CONCLUSION AND RECOMMENDATION

6.0 INTRODUCTION

The final chapter encompasses the summary conclusions and recommendation of the study. The first section give a brief summary of what the study has attempted to do, based on the major findings. From the research conclusions are made and this is contained in the second section, the third section advances some recommendations to NAL merchant bank plc on one hand and the regulating authorities that includes the federal ministry of finance, the central bank of Nigeria (C.B.N) the federal board for inland revenue and the equipment leasing association of Nigeria (ELAN) the lessees or clients who are the main beneficiaries of an effective lease finance functions.

6.1 SUMMARY

Lease financing involves transaction between lessor and lessee the contractual relationship between the lessee and lessor determine the nature and terms of the contract lease financing takes many form which included operating lease, finance lease and syndicated lease. The lessor are merchant banks, commercial banks, development companies and institutional investors as well as independent leasing companies. The lessee include the manufacturing, transport, construction industries and oil and gas companies to agriculture merchant banks play a dominant role in the leasing industry, because they make funds easily available to companies who seek alternative means to acquire capital resource.

Lease finance is a recent development in business but has become an important financial tool lease finance has contributed immensely to the development of the various sectors of the economy by providing additional source of finance this among the functions that is performed by NAL Merchant Bank Plc.

The equipment leasing association of Nigeria ELAN firmly believes that leasing can make a contribution in the industrialization of the Nigeria economy leasing provide finance for the acquisition capital equipment. This assists the level of investment by providing industry with additional sources of finance some benefits of lease financing includes:

1. Lease expands the financial market by providing a wide range of finance choice, increasing the competition among sources of finance and increasing the availability of funds. There are specific instances when on very similar terms creditors would prefer to lease rather than to lend.

2. The flexibility of leasing makes it suitable for introducing financial innovation. This enable the tailoring of finance to suit the specific needs of a wide range of lessees.

3. Leasing allows the survival of industries that are in financial crises, and with the government incentives of allowing the lessors to enjoy capital allowances lessors will pass this to the lessees in form reduced rentals.

4. The lessor assumes a credit risk, equipment and legal risk for an anticipated profit from managing and disposing of the assets. The value of the collateral, technology of the marketing environment, tax laws and the stability of the cost of funding, in short the lessee gets the use of equipments and makes a periodic rental payment.

6.3 CONCLUSION

The continued growth, development and sophistication of the Nigerian economy means that lease finance as an option of financing capital resources has come to stay, more and more companies are embracing it. Leasing as a financing devices has made a tremendous impact in the industrialization of Nigeria. It is a viable strategy for business organization especially the manufacturing construction transportation agriculture and the oil sector of the economy. Leasing offer alternative to out right purchase of assets on the face of ever increasing cost of capital assets. It also offer the business organizations the options of selling their assets and leasing the same assets. Thus improving their liquidity position without having to go for loan and still maintain the services of the assets concerned.

For the banking sector, lease finance offer them an alternative to credit facilities which the government through the C.B.N guidelines for credits and prudential try to control. They use lease finance to substitute or take care of the vacuum created by the shortage of borrower (particularly the industrial subsector which is a priority area of the government in terms of credit facilities to the private sector) because of high interest rates and still reap a good margin of profit.

Despite its virtue, lease finance is at a growing stage and is plagued with a lot of problems among them are.

1. Credit policy and lack of adequate funding
2. Accounting policies on leasing plans/ assets
3. Lack of viable projects and tax incentives
4. Lack of leasing laws
5. Low awareness about opportunities abound in lease finance,lease financing, if encouraged and directed or controlled towards meaningful purpose. we shall see greater developments in this method of finance than others. Chapter one of the study discussed among other things the statement of the problems and objectives of the study significance and scope of the study to the background information on NAL merchant bank plc. Chapter two is a literature review and a conceptual frame work to lease finance study. Chapter three is on the research method adopted to the study method of collection of data and information to how the collected data was analyzed . Chapter four focused on lease financing in Nigeria benefits of lease financing in Nigeria to the role of equipments leasing association of Nigeria to the (ELAN). Federal government policies towards lease finance and lease proposal at NAL merchant bank plc chapter five is on the presentation and analysis of the data for the period covered of the study on the growth of lease financing at NAL merchant bank plc, examined the assets on lease as a percentage of the total assets and the contribution from lease interest income to the bank funds based interest income of the bank. And problems of lease finance at NAL the last chapter

(six) is the summary of the study, the conclusion and recommendations to enhance on lease financing on the country.

6.3 RECOMMENDATIONS

Lease finance as an option for financing capital resources in Nigeria has prospects that if realized would have a tremendous impact in the industrial development of various vital sectors of the economy. This is only possible if the operators and the government, through their policies encourages. Its growth some recommendations are therefore advanced under the following headings.

1. The lessors and lessees
2. The regulating authorities
3. The equipment leasing association of Nigeria (ELAN)

1. THE LESSORS AND LESSEES

a. The lessors should try as much as possible to transact leasing business with the end users of the equipment financed. Since the asset being financed is primarily the security

b. Lessor should try and liberalise their policy of receiving compulsory deposit immediately a leasing agreement is signed as an encouragement to the lessees.

c. The lessor should expand their clients pooling by not discriminating among the lessees as it is presently done by NAL merchant bank plc of leasing to companies that are high net worth in value like shell, lever brothers united

Nigeria textiles limited and Guinness plc they should try and lease to small scale enterprises instead of restricting their services to multinational blue chips companies operating in Nigeria.

d. Improve on the creation of awareness by selling leasing ideas to the un-informed Nigerian business men and industrialists about the advantage of lease financing.

e. They should intensify their efforts on new venture financing the risk involved in this aspect should not deter them, for this is a merchant banking function. It is through new-companies that the bank can speed up Nigeria's industrial development.

f. Lessors should lay more emphasis on the strong end user to allow penetration of the construction industry where security is primarily the equipment being financed. The financing should be approximately 75% of the equipment cost.

2. THE REGULATING AUTHORITIES

a. The Central Bank of Nigeria together with the federal ministry of finance should a certain based on the need of the economy, the objective to be achieved by merchant bank, the function to be performed in order to achieve these objective should be precisely stated

b. The activities of leasing companies should be streamlined, the regulations regarding the purchase of equipment for lease. There is the inspectorate decree 1971, Apart from the pre-shipment inspection by societe, generale de surveillance (SGS) established in 1978. (Now replaced by three companies).

These two performs the same function as such the inspectorate decrees of 1971 should be abrogated.

c. The regulating authorities should increase the capital allowance available on essential production equipment. The equipment which are considered crucial to the country's economic growth. The government can give a boost by keeping the tax law as it stands now that is, by giving the right of claim to capital allowance to lessor only. If this is maintanied, it will serve as an incentive to promoting the leasing business. what needs be done is to prevent lessors from over exploiting uniformed lessees by charging high interest rates and taking capital allowances in the leases all at the same time.

d. A large proportion of big business in Nigeria are government corporations which rely heavily on the federal government statutory allocations, this prevents then from going into the capital market to raise long term funds. This reduces the merchant banks corporate financing activities and lease finance function and thereby weaken the capital market. Government should gradually reduce these subvention to enable these corporations start raising fund from the capital market. In this way the services of the merchant bank will be fully utilized.

e. The central bank's guidelines only stipulated what percentage of the total loans and advances of the merchant bank should go to what sector of the economy, this alone may not have sufficient impact on industrial lease financing. Within the manufacturing constructions oil and gas sectors there should be a direction on the amount to be devoted to:

1. New project (Ventures)
2. Expansion project
3. Rehabilitation or merger and acquisitions

The guidelines should also lay more emphasis on lease finance and other corporate finance services.

3. THE EQUIPMENT LEASING ASSOCIATION OF NIGERIAN (ELAN)

The equipment leasing association of Nigeria (ELAN) the unmberella association for all lessors in the country was established to protect the interest of all the members of the association safeguard ethical practice and standards. As well as educate the lessors and lessees on lease financing it is hereby recommended that the association should include the following on its objectives.

a. To establish and maintain good relationship between members of the association and the public in general and to publish and make known information on matter relating to the business carried on by lessors both for the protection of the public and of the members of the association

b. To also try to analyze information on trends development by giving vital statistics to all the members and the public through print out periodical publication, journals and phamplet and continue to improve on the contents of it annual lecture, seminars, workshops and training aimed at up dating the staff of the leasing companies with the recent information as and when available.

c. To promote honorable practice in the conduct of their business by members of the association by instituting a code of conduct for its members in order to stream line leasing business practice in the country.

d. Acting as a central clearing house for all information that will facilitate the transaction of leasing business to all comer in the industry

e. By regularly meeting with relevant federal government agencies with a view to ensuring that appropriate regulations for leasing business is enacted accordingly

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INSTITUTE OF ADMINISTRATION
P.M.B. 1013
ZARIA, NIGERIA.

Your Ref:_____

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Date: 3rd August, 1998

TO WHOM IT MAY CONCERN

LETTER OF INTRODUCTION

Mal/Mrs./Miss UMAR IBRAHIM SIDI (G97BAF7080) has completed the course work leading to the award of the Degree of Master of Business Administration (MBA) in this University. He is currently undertaking a research study entitled *"LEASE FINANCING BY NAL MERCHANT BANK PLC"*.

For this purpose, we urge you to assist him with the necessary data and information he requires . The department has given instruction to the students that data and information so obtained should be kept in strict confidence and should be used only for the purposes of research.

We would be very pleased if permission is granted and the above named student given as much assistance as possible.

NAL MERCHANT BANK PLC

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Annexure II

Five-Year Summary

For The Year Ended 31st March, 1998

	1998	1997	1996	1995	1994
ASSETS EMPLOYED	N'000	N'000	N'000	N'000	N'000
Cash and short term funds	2,202,292	3,610,603	3,893,285	3,723,143	1,623,202
Placements	711,364	343,868	397,665	330,000	90,264
Investments	829,356	644,194	599,215	426,827	310,897
Loans and advances	1,824,666	1,831,892	1,398,514	825,962	632,830
Advances under finance leases	516,130	611,894	266,964	109,430	114,891
Other assets	1,347,992	1,369,591	960,730	3,171,923	400,240
Fixed assets	384,705	221,127	151,898	127,985	91,330
	7,816,505	8,633,169	7,668,271	8,715,270	3,263,654
FINANCED BY					
Share capital	354,375	141,750	141,750	94,500	94,500
Reserves	1,723,607	2,017,360	1,790,067	1,763,960	508,140
Deposits	3,699,101	4,258,105	3,423,672	2,460,558	1,311,055
Other liabilities	1,515,260	1,563,842	1,653,854	3,613,384	1,133,099
Deferred taxation	524,162	652,112	658,928	782,868	216,860
	7,816,505	8,633,169	7,668,271	8,715,270	3,263,654
Confirmed credits and other obligations on behalf of customers and corresponding customers' liabilities thereon	779,749	1,889,259	583,928	286,124	336,619
PROFIT AND LOSS ACCOUNT					
Gross income	1,566,993	1,420,474	1,216,068	830,352	725,539
Interest expense	(362,746)	(439,182)	(516,728)	(323,455)	(404,204)
Operating expenses	(525,747)	(424,088)	(420,394)	(307,904)	(171,191)
Provision for losses	(254,053)	(124,385)	(28,848)	(19,420)	(49,949)
Profit before taxation	424,447	432,819	250,098	179,573	100,195
Taxation	(61,267)	(43,161)	(47,066)	(38,240)	(12,862)
Profit after taxation	363,180	389,658	203,032	141,333	87,333
Dividend	(70,875)	(113,400)	(113,400)	(75,600)	(51,030)
Transfer to Reserves	292,305	276,258	89,632	65,733	36,303
Earnings Per Share (Adjusted)	51k	55k	29k	20k	12k
Dividend Per Share (Adjusted)	10k	16k	16k	11k	7k

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APPENDIX III

NAL
MERCHANT BANK PLC

Notes to the Financial Statements

For the year ended 31st March, 1998

1. THE BANK

NAL Merchant Bank PLC (NAL), the pioneer merchant bank in Nigeria, was established on 25th November, 1960, as Nigerian Acceptances Limited, a wholly owned subsidiary of John Holt (Liverpool) Limited to carry on among other things the business of banking in Nigeria. In July 1969, NAL merged its operations with those of Financial Holdings (Nigeria) Limited, then trading under the name of Philip Hill (Nigeria) Limited. In November 1969, NAL became the first Nigerian financial house to be granted a licence under the Banking Act of 1969 to operate as a merchant bank. In July 1981, the name of the Bank was changed from Nigerian Acceptances Limited to NAL Merchant Bank Limited, to reflect the full range of the Bank's activities and to enhance it's perception by the public. NAL became a Nigerian public limited company in April, 1992

The shares of the Bank are owned 51% by Nigerian and foreign institutional investors and 49% by Nigerian individuals.

2 INTEREST INCOME

The analysis by source bank/non-bank and geographical area of interest income is as follows:

		1998 N'000	1997 N'000
Source			
	Bank	263,469	289,948
	Non-bank	515,606	497,084
		779,075	787,032
Geographical area			
	Domestic	535,139	559,044
	External	243,936	227,988
		779,075	787,032

Interest income includes finance lease earnings of N114million (1997 : N85million)

3 INTEREST EXPENSE

	1998 N'000	1997 N'000
Deposit accounts	271,263	315,882
Inter-bank takings	91,483	123,300
	362,746	439,182

All interest expense was paid in Nigeria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 1996.

1. THE BANK

NAL Merchant Bank PLC (NAL), the pioneer merchant bank in Nigeria, was established on November 25, 1960, as Nigerian Acceptances Limited, a wholly-owned subsidiary of John Holt (Liverpool) Limited, to carry on, among other things, the business of banking in Nigeria. In July, 1969, NAL merged its operations with those of Financial Holdings (Nigeria) Limited, then trading under the name of Philip Hill (Nigeria) Limited. In November 1969, NAL became the first Nigerian financial house to be granted a licence under the Banking Act of 1969 to operate as a merchant bank. In July, 1981, the name of the Bank was changed from Nigerian Acceptances Limited to NAL Merchant Bank Limited, to reflect the full range of the Bank's activities and to enhance its perception by the public. The Bank subsequently acquired the status of a Public Liability Company following a resolution to that effect by the shareholders in March, 1992. NAL is engaged primarily in development lending, letters of credit, leasing, and other merchant banking activities.

NAL is a Nigerian public company whose shares are owned 50.4% by Nigerian and foreign institutional investors and 49.6% by other Nigerian citizens and associations.

2. INTEREST INCOME

The analysis of interest income by source (bank/non-bank and geographical area) is as follows:

	1996 N'000	1995 N'000
Bank	323,727	135,162
Non-bank	531,439	445,753
	855,166	580,915
Domestic	606,761	507,052
External	248,405	73,863
	855,166	580,915

Interest income includes lease income earnings of N35.5m (1995: N24.6m)

3. INTEREST EXPENSE

Current accounts	2,611	2,215
Deposit accounts	302,466	286,080
Inter-bank takings	198,325	32,917
Domiciliary accounts	13,326	2,243
	516,728	323,455

All interest expenses were paid in Nigeria.

4. OTHER OPERATING INCOME

Fees	85,489	53,932
Foreign Exchange Earnings	8,235	26,182
Commissions	72,766	41,490
Profit on Sale of External Assets	135,693	74,455
Rental Income	22,387	7,566
Other Income	36,332	13,245
	360,902	216,870

Appendix V

FOR THE YEAR ENDED 31ST MARCH 1995

1. THE BANK

NAL Merchant Bank PLC (NAL), the pioneer merchant bank in Nigeria was established on November 25, 1960, as Nigerian Acceptances Limited, a wholly owned subsidiary of John Holt (Liverpool) Limited to carry on, among other things, the business of banking in Nigeria. In July 1969, NAL merged its operations with those of Financial Holdings (Nigeria) Limited, then trading under the name of Philip Hill (Nigeria) Limited. In November 1969, NAL became the first Nigerian financial house to be granted a licence under the Banking Act of 1969 to operate as a merchant bank. In July, 1981, the name of the Bank was changed from Nigerian Acceptances Limited to NAL Merchant Bank Limited to reflect the full range of the Bank's activities and to enhance its perception by the public. NAL is engaged primarily in lending, letters of credit, leasing and other merchant banking activities.

NAL is a Nigerian public company whose shares are owned 50·4% by Nigerian and foreign institutional investors and 49·6 % by other Nigerian citizens and associations.

2. INTEREST INCOME

The analysis by the source and geographical area of interest income is as follows:

	1995 N'000	1994 N'000
SOURCE		
Bank	135,162	184,565
Non-Bank	445,753	399,965
	580,915	584,530
GEOGRAPHICAL AREA		
Domestic	507,052	527,052
External	73,863	57,478
	580,915	584,530

Interest income includes lease finance earnings of N24·6m (1994: N47·6m)

3. INTEREST EXPENSE

Current Accounts	2,215	2,574
Deposit Accounts	286,080	379,587
Inter-bank Takings	32,917	19,411
Domiciliary Account	2,243	2,632
	323,455	404,204

All interest expense was paid in Nigeria.

APPENDIX VI

SAMPLE QUESTION USED IN INTERVIEWING LESSOR AND LESSEE

LESSOR

1. What type of leases do you handle and when did you start leasing business
2. Is leasing a major functions of your bank
3. Who are your major client and competitors
4. What are the common items or projects you have leased so far?
5. Has the level of inflation deregulation and exchange rate had any significant effect on the volume of your leasing transactions
6. What are the benefit that you derive from lease financing
7. What are the major problem/constraints you normally encounter in your lease financing operation?
8. Do you consider leasing to be an alternative to buying of capital equipment and is it a sophisticated financial tools?
9. Do you have any dealing with ELAN?
10. What are the developments or innovation that you envisage in the nearest future on the leasing industry?

LESSEE

1. What are the common item or assets you acquired from lease financing
2. What types of lease do you go for and when did you start leasing assets
3. Why do you prefer leasing assets to outright purchase of the asset?
4. How is the exchange rate deregulation affecting your leasing ability and also your business?
5. What are the major benefits you derive from lease financing
6. What problem/constraints do you normally envisage in the leasing industry in the nearest future