AHMADU BELLO UNIVERSITY, ZARIA
THE PROBLEMS OF LOAN DOCUMENTATION AND SECURITY PERFECTION AS IT AFFECT CORPORATE CUSTOMERS (A CASE STUDY OF UNION BANK OF NIGERIA PLC., SAMARU

BY

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CERTIFICATION

I hereby declare that this project has been carried out solely by me under the guidance of Mallam Abdullahi Yusuf the project supervisor, Department of Business Administration, Ahmadu Bello University Zaria, Kaduna State.

Writers whose work has been referred to in the project has been acknowledged.

I take responsibility for all the work herein.

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APPROVAL

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DEDICATION

This research work is dedicated to my mother Hajia Hasia and my wife Mrs. Mansurat Abdulsalam.

ACKNOWLEDGMENT

All praise and thanks goes to Almighty Allah (The Beneficent the Merciful) for the courage and strength given me to successfully complete this course of study.

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ABSTRACT

This project work is a study of problem inherent in loan documentation and security perfection as it affect corporate customers advances/credits proposal. The study examine why the bank insist on taking adequate and good security for its credits/advances inspite all tenets of lending put in place to prove the viability of any credit request.

The study also attempts to find out the genesis of the problems in loan documentation and security perfection by corporate bodies with a view to elucidating clearly the prominence of these problems to the processes and gives recommendations on how to ameliorate the problems entirely.

The study is divided into five chapters that dealt with introduction and Background Information, Literature review, Research Methodology, Presentation and Analysis of data, Summary, Recommendation and Conclusion.

CHAPTER ONE

1.0 INTRODUCTION

The fact that, banks oil the wheel of economic activities in a country cannot be disputed. This is as a result of the large quantum of credit facilities they render to virtually all the facets of economic sectors that augment their business activities.

By this singular action of the banks, they serve as financial intermediator in the economy, mobilising and harnessing the surplus savings of one sector of the economy and making same available to the needing sector for productive investment.

The credits facilities rendered by banks to the sectors of the economy takes the form of one of the followings:-

(a) Direct Cash Disbursement

(b) Guarantees

(c) Indemnities

(d) Bonds

(e) Letters of Credit

(f) Bankers Acceptances

(g) Commercial Papers etc.

In the context of the overall strategy of Nigeria's economic development, the structure of the banks lending in Nigeria calls for over riding objective of the

strategies that will naturally ensure development of the economy as fast as possible and usher the country into self sustaining growth and economic take off. To this effect, the highest order of national priorities is accorded to agriculture, industry, transportation and rural development.

The harsh economic environment, in which many banks/financial institutions including Union Bank of Nigeria Plc. operates, has devastating effects on their advance attitude towards their corporate customers.

In the developed economy, the borrower's character forms the hallmark of tenets of lending that is generally acceptable by Bankers for their lending, any other collateral that may be obtained constitute an additional cushion against risk of loss of the invested funds in case the business unexpectedly failed.

Over the years, the persistent difficulties experienced by banks/financial institutions in getting their invested funds back, cut throat competition, fuzzy economic expediencies and downturn in corporate customers status quo have force many banks/financial institution to sideline the all acceptable tenet of lending (customer's character) for good and realisable security as the top most priority in credits/advances documentation.

Unfortunately, problems arise over the years in the process of documenting these credits/advances and perfecting securities to support them by corporate customers. These problems has been the stumbling block on the path of corporate customers' success in their bid for credits/advances from their bankers/financial institutions.

According to Olashore, an erstwhile Managing Director of First Bank Nigeria Plc. In a public speech on corporate lending he said, banks and financial institutions are custodian of peoples money. Our stock in - trade is other people's money. We cannot therefore lend without proper documentation supported by good and realisable security.

Dr. Paul Ogwuma, the erstwhile CBN Governor in his speech in a seminar organised by the Bankers' Committee, on banks failure and way out, agrees with Olashore's view that; obtaining good and realisable security enables a bank to play save and serves as cushion in the event of failure by the customer.

1.1 BACKGROUND INFORMATION OF THE BANK

Union Bank of Nigeria Plc. Was established in 1917 as a colonial bank with its first branch in Lagos. In 1925, Barclays Bank dominion Colonial and Oversees was formed to take over the activities of the bank. Between 1959 and 1970, 50 new branches were established to bring the total number to 59 in 1969, the bank was legally incorporated in Nigeria as a wholly-owned subsidiary of Barclays Bank International Ltd., and renamed Barclays Bank of Nigeria Plc. The ownership structure remained unchanged until 1971 when 8.33% of the bank's shares were offered to Nigerians. In the same year, the bank was listed on the Nigerian Stock Exchange. As a result of the Nigerian Enterprises Promotion Decree 1972, the Federal Government of Nigeria acquired 51.67% of the bank's shares, which left Barclays Bank Plc. London with 40%.

In 1979 Barclay sold half of its shareholding. This culminated in a change of the bank's name to Union Bank of Nigeria Plc. Which reflected its new progressive image and ownership structure. Today, Union Bank is one of the oldest, independent and non-governmental banking institutions in the country.

In 1986, it become the first bank in Nigeria to hit the N1bn (US$8.9m) mark in savings deposits and as at 31 March 2001, its savings deposits of #37.76bn (US$336m) was also an industry record. It has won the Nigerian Stock Exchange President's Merit Award in the Financial Sector more times than any other bank in Nigeria. In 2000, it won the Farmer of the years in 28 out of 36 states, including Abuja, and it has also won this award consecutively for over 10 years. In 2000 it was named by the UK's Bankers Almanac as the number one Bank in Nigeria.

Since its establishment in 1917., the bank has stood out strongly as a resilient institution, which has served as a veritable hub of the financial intermediation process in Nigeria's financial system. Under its current chairman, Mr. Kalu U. Kalu, a Chartered Accountant, and the current Group Managing Director/Chief Executive, Mr. Godwin Ahabue Thompson Oboh, an astute professional banker of repute, the bank remains a colossus not only in Nigeria but also in Africa. Its new head office building - a 23 - storey edifice - is the tallest and arguably the most beautiful concrete structure along the West coast of Africa. In preparation for the challenge of this millenium, the bank is currently reengineering and re-aligning its system and processes, an exercise which will,

when completed, not only reposition the institution but will also make it fitter and swifter.

LENDING POLICY OF THE BANK

In order to minimize the risk of loss of their investment, section IIA (b) of the banking Act 1969 particularly provides that, "No manager or other officer of a licensed bank shall grant any advance, loan or credit facility to any person, unless it is authorised in accordance with rules and regulations of the bank, and where adequate security is required by such rules and regulations, such security shall be obtained for the advance, loan or credit facility and shall be deposited with the bank.

Based on this legislative provision, Union Bank Nigeria Plc have made internal rules and regulations setting the limits of credit facilities which a branch manager, Area or Regional Manager, Head Office Advances Department and the Board Advances Committee, could grant either clean of security or with security obtained.

Unless credit facilities or advances are granted clean within the limits authorised by the regulations, it is the responsibility of a branch manager, rather than the bank legal officer, to ensure that the necessary items of documentation are obtained before the authorisation of credit payment vouchers are duly signed, and draw down allowed.

LENDING STATUS THE BANK

More often than not, approval for Union Bank Samaru Branch loans and advances to it corporate customers has always been sought from the controlling office as the amounts involve exceed the authorisation limit granted the branch under the general lending policy of the bank.

It is however, interesting to state here that the bank loans and advances to it corporate customers increased phenomenally by 14,712 million or 88.07% from 16,704 million to 31,416 million in the year 1996 to 2000 respectively.

The branch also recorded an impressive upsurge in its loans and advances to it corporate customers. The increase recorded is 3,491.45 million or 77.34% from 1,023.2 million in 1996 to 4,512.65 million in the year 2000.

Of this increase, agriculture and construction sector shares the highest consistent percentage of 30.6 and 30.76 percent respectively, while the balance is shared by others sectors, construction, general commerce, personal and professional and so on.

It is therefore, not surprising that the bank's customers (farmers) won the National award of the best farmers of the year consecutively in the year 1997 and 1998.

BRANCH NETWORK

Union bank has a large network of 294 branches, including a full-fledged offshore branch in the city of London and a representative office in Johannesburg, South Africa. The group as a whole has built up an extensive

presence throughout Nigeria with a total of 313 branches. These, in addition to our network of international correspondents, have put the world in our easy reach.

PRODUCTS AND SERVICES

Union Bank's services can be placed into two main categories: generalized services such as current, savings and deposit account, funds transfer, foreign currency domiciliation, loans and overdraft: and the tailor-made services such as equipment leasing, commercial papers, bankers' acceptance, credits, information, service/trade enquiries, import/export documentation and finance, all of which are designed to meet the particular requirements of our clients. Union Bank is currently one of the prime movers and one of the three core shareholders in a consortium of 38 banks promoting discount houses (Consolidated Discounts Limited) in Nigeria. We are also actively involved in the provision and marketing of non-bank financial services and products to customers nationwide.

INFORMATION TECHNOLOGY

With the competition and the need to ensure the implementation of best practice in the industry, Union Bank selected a robust banking, application of software-flexcube. It is gratifying that not only the bank but some of their peers in the country have now also acquired the system. Although the bank is still a

long way from their ultimate objective, 25 strategic branches and eight clearing centres nationwide are currently operating on-line, real-time banking.

Also in readiness for implementing the selected flexcube branches, 50 other locations have all been put on the VSAT enabled wide area network (WAN). With the sophistication of their communication network and using the flexcube softward as the backbone, *new electronic products* such as Union e-link, telephone banking, Union value Card and automated teller machines (ATM) are currently riding on flexcube and being enjoyed by their customers. Union bank is indeed in the driver's seat differentiating its products and services to add Value and convenience to its customers.

THE FUTURE

The bank has put in place the structures, strategies and strong management team to enable it to stay ahead of competition. The bank poised to exploit these limitless opportunities offered by the emerging train of globalization in the market place. And with the pace of growth in their business supermarket and strategic focus of their information technology, the bank has truly become a colossus in the domestic scene, a attribute their hope to transfer into the international arena. By so doing, the bank shall be living up to their Mission: 'To be the foremost financial institution with the most satisfied customer.

1.2 SIGNIFICANCE OF THE STUDY

The day to day running of a business requires finance over and above that which is necessary for purchase of fixed assets and the volume of work or trading which can safely be undertaken depends not only upon the finance which is available. Debtors, stock and work-in-progress have to be carried all the times, and whilst the amount of each of these may fluctuate very considerably, there must always be a matching aggregate total of finance upon which they can ride. The ability of the corporate customers to adequately tackle the problems in formulating loan request and security perfection that would bring about prospect in their credits/advances request is important towards achieving the aforementioned objective.

The research contains in it, some salient suggestions and it also unfold some requirements that will make the business public succeed in their loan request not only from the bank, but from other financial institutions to enhance the obtaining of their financial needs at all time.

1.3 OBJECTIVE OF STUDY

Ensuring that corporate customers succeed in their credits/advances bid is a key result area, that banks/financial institutions including Union Bank of Nigeria Plc. should strive to attain. The reason been that this area of their operation provides much to their profitability profile that ensure their corporate existence.

The primary aims and objectives of this study are to identify and analyse critically the genesis of problems inherent in loan documentation and security perfection as it affects corporate customers in their quest for credit/advances request.

Consequently, this study has the following objectives:

1. To attempt to gauge the genesis o the problems inherent in loan documentation and security perfection.
2. Examine the prominency of these problems and it effects as a stumbling block for corporate customers towards achieving success in their credits/advances request.
3. Examine critically why banks/financial institutions particularly Union Bank of Nigeria Plc. Could not adopt a liberal attitudes towards granting credits/advances to her corporate customers.

1.4 SCOPE OF THE STUDY

In this research work, every efforts was made to get the cooperation of the management staff of Union Bank of Nig. Plc. Samaru and the valued corporate customers.

Consequently, the research work is focused on two sectors Manufacturing and Merchandise. One corporate customer, private limited liability is selected from each of the industry and the companies are appraised for advances request.

The study will take a critical look of the two companies for the general tenets of lending. It will also consider the companies for problems in loan documentation as required by statutes and discuss the type of securities peculiar to corporate customers and the general processes of perfection having regard to the companies.

Finally, the research work also examines how the problems of loan documentation and security perfection as stated in the statement of general problem and objectives of the study affects the corporate customer.

1.5 STATEMENT OF GENERAL PROBLEMS

The problems encountered in perfection of securities and loan documentation are in two folds:-

The problem of risk of losing the invested funds by the bank which necessitate it insisting to obtain a good and realizable security which could be fallen back on as source of repayment on realization. This leads to the problems of perfecting the security offered by the borrower to secure the bank's advances and the loan documentation.

There is the problem of conducting a search in the company's registry. With the company's registry yet to be decentralized, it is becoming increasingly difficult and expensive considering the number of existing corporate companies and the number springing up day in day out in the economy to carry out a

search on a company and get reports as expeditiously as commercial practice demand.

PROBLEM OF OBTAINING GOVERNOR'S CONSENT: The problem of obtaining Governor's consent to charge the borrower's property is becoming more difficult than contemplated by the land use Act of 1978. Infact it is more easier for the head of camel to pass through the eye of a needle than for a person to obtain the consent of the Governor to mortgage his property for an advances.

The other side of the problem relates to what the corporate customer is expected to produce, how do they attend to the banker's interview to justify their loan request.

Would their explanation be accepted when compared with reference to the balance sheet figures on a looming trend in their business.

For these problems, loans that require quick disbursements in order to finance productive investment have been held up because the bank wants to play safe in its lending to it corporate customers. Thus slowing down the pace of commercial transactions and the development of the economy.

1.6 LIMITATION OF THE STUDY

This research is intended to cover all the major points of the study contained in the statement of objectives. It would however restrict itself to one company each form manufacturing and merchandise sector.

Preliminary investigation reveals that, a project like this would be met by stiff resistance from staff of the bank/companies under the pretext of protective confidentiality of information on the research work. However, due to genuine explanations, the researcher did his best to assure and reassure both parties of absolute confidentiality of information received.

Other limitation the researcher has is that, not all officials of the bank and customers interviewed are able to give adequate answers as a result of their dearth of knowledge on the research work.

Also, data collected through secondary method are subjective without no opportunity of making inquiry on items that appears not very clear to the researcher.

1.7 METHODOLOGY

The nature of this study, lent itself to two methods of primary data collection, namely interview and questionnaires. The data are obtained from two main sources. Primary and Secondary data.

Secondary data are from Union Bank Newsletters and other in-house publications and circulars.

The primary data were obtained through the use of structured questionnaires administered on thirty-three (33) corporate customers and thirty (30) staff of Union Bank Samaru- Zaria.

1.8 STATEMENT OF HYPOTHESIS OF THE STUDY

The following hypotheses have been formulated to guide the researcher based on the problems and objectives of the study.

i. Null Hypothesis (H_O)

Unwillingness of the Manager/ Appraiser Officer to take risk as a result of customers' characters-manner of account conduct over the years, attitude on keeping to promises will affect success of corporate customers in their credits/advances bid.

Alternative Hypothesis (H_I)

Unwillingness of the Manager/ Appraiser Officer to take risk as a result of customers' characters-manners of account conduct over the years, attitude on keeping to promises does not affect success of corporate customers in their credits/advances bid.

ii. Null Hypothesis (H_O)

Inability to provide convincing explanation by the borrowing company's management to a looming feature in the balance sheet will affect success of corporate customers in their credits/advances request.

Alternative Hypothesis (H_I)

Inability to provide convincing explanation by the borrowing company's management to a looming feature in the balance-sheet does not affect success of corporate customers in their credits/advances request**.**

iii. Null Hypothesis (H_O)

Material defects in supporting feasibility study will affect success of corporate customers in their credits/advance bid.

Alternative Hypothesis (H_I)

Material defect in supporting feasibility study does not affect success of corporate customers in their credit/advances bid.

iv. Null Hypothesis (H_O)

Obtaining Governor's consent will constitute a problem in the process of security perfection to support credits/advances request by corporate customers.

Alternative Hypothesis (H_I)

Obtaining Governor's consent does not constitute a problem in the process of security perfection to support credits/advances request by corporate customers.

1.8 DEFINITION OF TERMS

CREDIT:- Credit is a process of financial intermediation and is exercise within the framework of government regulation and peculiar features of specific market served.

LOAN DOCUMENTATION:- Loan documentation as used in the study means what the statute required the bank to enquire from it corporate customer before the loan agreement is sealed - Memorandum and article of association, certificate of incorporation and board resolution authorising the borrowing.

The statute also behoves the bank to do a careful study of these documents so as to avoid an unpleasant situation, whereby the borrowing cloud be declared ultra vires the customers, and the transaction becomes null and void.

SECURITY:- Security in the study is used to mean the assets of a limited liability company, both floating and fixed, consisting of goods in transit, raw materials, plants and machinery that are chargeable as security for bank lending. Legal and equitable mortgage on the company's real property including factory site, also offers additional security for the borrowing.

DIRECT CASH DISBURSEMENT: Means credit facility that involves cash advances to the customer in form of overdraft or loan.

LOAN: Loan is an outright credit in form of lump-sum of money made available to the customer's disposal.

OVERDRAFT: Is an arrangement where the banker allows the customer to draw his A/C up to an agree limit.

GUARANTEE AND INDEMNITY:- The banks often times issue undertaking to support the activities of their customers with their (customers) employers.

GUARANTEE: Is an undertake by the bank to be responsible to the liabilities of their customers if the activity guarantees does not occur. An indemnity however imposes absolute liability on the bank as the bank principally assumes the customers liability to his (customer) employer, which is in no way conditional on the customer.

BOND: A bond can be visualized from two perspectives- financial bond and performance bond.

FINANCIAL BOND: A financial bond Is a long term financial document issued by a corporation to its banker in return for a capital advancement.

PERFORMANCE BOND: Performance bond on the other hand is issued by the banks to cover a small percentage of the contract value of their customers in case performance of the contract is not consummated.

LETTERS OF CREDIT: Documentary Credits is a conditional written undertaking/guarantee given by a bank (issuing bank) at the request of a buyer (applicant) to effect settlement to a seller (beneficiary) against presentation of

documents relating to the goods specified by the buyer. The undertaking or guarantee is conditional because the terms and conditions stipulated in the credit must be strictly complied with before payment is effected.

Although, guarantee, indemnity, performance bond and letters of credit do not involve outright disbursement of cash by the bank, it however, imposes legal implication on the bank in case the customer fails in performance of the contract for which the instrument is issued.

CLEAN OF SECURITY: This is an advances term which donate credit given without security as a result of good track record/character of the customer concerned.

CHAPTER TWO

2.0 LITERATURE REVIEW

INTRODUCTION:

This chapter deals with write-ups as it relates to the research work. It deals extensively with financial experts opinions, concepts and beliefs and the researcher's position on these opinions.

According to Wright (1983:210), Literature on any subject is the review of information of the past with the belief that the past will help in explaining the present and provide a guide for the future. Based on the strength of this assertion, the researcher examined critically the opinions, views and beliefs of financial experts on the problems of security perfection and loan documentation as it affects corporate customers' success in their credits/advances request.

2.1 STATUTORY REQUIREMENT ON LOAN DOCUMENTATION AND SECURITY PERFECTION

There are statutory and regulatory requirements for banks to obtain securities for their lending in appropriate circumstances as stated in the banking act 1969 in order to minimise the risk of loss of their investments.

The enforcement of any loan agreement depends not only on adequate securities obtained by the banker but more importantly on proper documentation and perfection of the securities offered to secure the lending.

2.2 CUSTOMERS ATTITUDES BEFORE AND AFTER DRAW-DOWN OF CREDIT

According to Dr. Femi Adekanye (FIB) in one of his public lecture, (Problems of Loans Documentation By Corporate Customers), he said experience has shown over the years, that once the customer is allowed to draw the facilities before the required documentation, for perfecting the securities and documentation of the loan are obtained, the customer may become "elusive" and uncooperative." Whereas, before the authorisation of credit voucher is duly signed and draw down allowed, he is very supplicant, and willing to cooperate to make the necessary document available to facilitate documentation and perfection of securities offered.

Unfortunately, the understated processes of perfection of securities offered by the borrowing customer to secure his lending has been the bane of the delay experienced in any loan proposition that involve corporate customers.

2.3 PROBLEM WITH SEARCH ON CUSTOMERS FILE IN COMPANIES REGISTRY

According to Omolaja Adeniji (FIB) in his book, the Law and Practice of Banking in Nigeria, the centre piece of the perfection problems that readily comes to mind are:-

- The search to be conducted in the companies registry of the borrowing customer's file. Where securities offered includes title to land or factory site of the company, search must also be conducted in the relevant land registry.
- He further states that company's files are not properly kept in the company's registry thus constituting problems when search is to be conducted on a company's file.

2.4 PROBLEMS OF OBTAINING GOVERNOR'S CONSENT

According to Imolaja Adeniji, the other important problem in the perfection process is obtaining the Governor's consent. This is a remarkable feature of the land use Act 1978 that a title to land is inalienable without the necessary consent of the Governor of the state where the property is situated.

It should be noted that the loan or credit facility is something independent for which the securities offered exists to secure and since the above processes of perfection are statutory requirement, the banker will always follow the processes in it entity to avoid the situation whereby the contract of the charge could be declared null and void and the security cannot be realised.

2.5 THE PROBLEM WITH LOAN DOCUMENTATION

Bob E. Osaze' in his book, "Managerial Finance" believer that the problems associated with documentation of loan facilities for corporate customers are many and varied, depending on personal experience.

The ability of the borrower to repay the borrowed fund from the stream of cash inflow of the project financed by the borrowed money is one of the important watch-door for creditors in any banking proposition.

2.6 MAINTAINING CONGRUENCY IN CUSTOMER'S FINANCIAL STATEMENT

H.H. Hutchinson (FIB), in his book, 'interpretation of balance sheets' believes that the ability of the borrowing customer to form a congruency in the explanation of his financial statement vis-à-vis the lending proposition in the mind of the appraisal officer constitute a problem.

2.7 DECISION MAKER'S ATTITUDE TO RISK

Bob. D. Osaze believes that the decision makers attitude to risk and its influence on the final approval of the advances could create a problem on loan documentation.

According to him, surveys and studies have shown that individuals differs in their attitudes to risk and that for serious decisions such as credit/advances appraisal in business, decision makers are risk averters. This means that in general, decision makers would prefer a less risky investment even though it may have a lower expected value than a higher return on high risk investment.

FOOTNOTES:- While the researcher agrees entirely on the opinions and beliefs of the financial experts as it is expressed in item 2.1 - 2.5, on the ground that they are statutory and practical facts in nature, he stands to disagree with the opinion held Bob. E. Osaze on decision maker's attitude to risk.

Given the fact that this opinion is subjective in nature and of general view, the point cannot be rule out in a situation where decision makers could be risk lovers. This depends on the extent of their aggressiveness.

2.8 TYPES OF SECURITIES PECULIAR TO CORPORATE CUSTOMERS

The assets of a limited liability company, both floating and fixed, consisting of goods in transit, raw-materials, plants and machinery are chargeable as securities for bank loan. Either a first-charge, second charge or pari-passu charge may be preferred. Legal or equitable mortgage on the company's real property including factory site, also offered additional security for the borrowing.

More importantly, the securities could be inform of Debenture, Mortgage Debenture. Trust deed or Loan syndication agreement.

DEBENTURE:- A debenture denotes an instrument issued by a company and providing for the payment of or acknowledging the indebtedness of a specified sum or the amount outstanding from time to time and owed by the company, payable at a fixed date with interest thereof.

A debenture may create a charge over only the floating assets of a company, including its undertakings, goodwill, properties, plants and machinery but excluding land and building both present and future, including its uncalled capital and book debts. Such a debenture is called "floating Debenture".

A debenture that also incorporates a charge over the title to land and factory site of the company is called a "Mortgage Debenture".

If it happens that there are more than one lender to a corporate customer, a agreement have to be reached *between the lending banks,* that the assets of the company are adequate and sufficient to be shared pari-pasu by the lenders without any lender taken priority, thereby giving rise to "pari-pasu debenture" Under this arrangement, each lender is entitled to create its own debenture terms and conditions and are enforceable contemporaneously. At the same time, the lenders may agree that some of them have a first charge over the assets of the company in their debentures, while others hold a second charge.

This means in effect that the holders of the first charge would have to be satisfied before the holders of the second charge, when the debentures are due for enforcement.

2.9 MORTGAGE OF CORPORATE CUSTOMER'S TITLE TO LAND WITH OR WITHOUT FACTORY SITE

There are two types of mortgage that could be created on land, namely: Equitable and Legal Mortgage. The distinction between the two types has great practical significance as regard to land as a security for bank lending.

A mortgage is a security created by contract for the payment of a debt due or to become due. The debt is something independent for which the mortgage exists to secure. Therefore, where a house mortgaged to secure a loan is destroyed by fire or submerged under water, the debtor remains nevertheless liable to pay. Likewise, if the security, when realised, is insufficient to pay off the debt, the debtor is liable to the sued for the balance of the debt.

A mortgage is equitable where the mortgagor has only a equitable interest in the land. (e.g. an equity of redemption) or where it is made by an informal document that is a document under-hand or by means of a deposit of title deeds usually referred to as simple deposit.

It is usual for a deposit of title document to be accompanied by a memorandum of deposit signed by the mortgagor, which specifies the terms upon which the deposit was made. But, a memorandum is not necessary, if it can otherwise be proved that the deposit was made, as a title documents to be held as security for a debt.

However, a legal mortgage is usually created by a document under seal. The bank as mortgagee, under a legal mortgage is empowered to sell the

mortgaged property in case of default by the customer/mortgagor, but an equitable mortgage does not confer a power of sale on the bank/mortgagee without the order of the court.

2.9.1 TRUST DEED

A trust deed is usually resorted to when lenders form a consortium to make funds available to a company on the security of fixed and floating assets of a company including land.

In view of the legal bar from creating two legal interests on a landed property at the same time, where the property and conveyancing Act 1881 applies, and none of the lender or group of lenders is prepared to contend with equitable mortgage or charge, a trust deed is resorted to.

In this kind of security arrangement, there is the need for an inter-bank oriented-lenders agreement, setting out the names of the lenders, the amount of their commitments to the consortium lending. In addition, there must be an instrument executed by the members of the consortium appointing a trustees for the debenture holders, who will take custody of the security for the benefits of the lending banks, for an agreed fee.

From the above it could be seen that the banker or lender is accorded with varieties of charge documents that are adequately worded to it's favour upon the companies assets than can cushion it on it's credit or advances transaction with it's corporate customers in view of the inherent risk involved.

This probably explains the reason why relevant statute regulating the operations of banks and financial institutions in Nigeria behoves them to put all the necessary processes of security perfection in place so as to gain advantage of the provision of the charged documents incase the borrower unexpectedly failed.

It should be noted that the various documentation of loan and perfection of securities explained above directly applies to Union Bank operations with its corporate customers since all banks and financial institutions in Nigeria operates under the same umbrella-The Banking Act of 1969 as amended.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY AND DATA COLLECTION

INTRODUCTION:

This chapter will describe the method/instruments available for data collection, which is used in the analysis of the research work.

The nature of this study lent itself to two methods of Primary data collection, namely: interviews and questionnaires. The data obtained from two main sources, Primary and Secondary data.

PRIMARY METHOD:- This method of data collection on the research and the analysis is to a large extent up to date, accurate and practical than any other method of data collection. The primary data were obtained through the use of structured questionnaires administered on thirty-three (33) corporate customers of Union Bank of Nig. Plc. Samaru and thirty (30) staff of the bank.

SECONDARY METHOD:- Data collected through this method are used to supplement the primary data to attain the success achieved in the research work. These are information obtained from related textbooks, journals, communique, seminars and workshops.

DATA COLLECTION AND USAGE

Primary Method:- The officials of the bank (including the manager) are individual interviewed on the research work and their responses were used in

analysing the problems with perfection and documentation of securities offered by their corporate customers for their lending.

Primary data are also collected from customers through explanations received from them on bad trends in the balance sheet and financial statements and these are used in analysing the problem with loans and advances documentation.

Secondary Method:- Data collected by this method is essentially the balance sheet and financial statement of selected companies.

Data is also obtained from the bank's handbook, journals and advances circulars on evaluation and appraisal techniques of the bank.

Secondary data collected as stated in paragraph two above, are used in elucidating and analysing the balance sheet to test the viability or otherwise of the companies.

3.1 THE CONCEPT OF METHODOLOGY

Method of data collection would be more understood if it is exposed to certain vital issues such as, the target population, the sampling method used, and the major instruments commonly used in social sciences research to collect data. These are interview, questionnaires and observational methods.

3.2 TARGET POPULATION

A population is referred to as any group or object, which are similar in one or more ways and which form the subject of study in a particular survey. Population can consist of groups or inanimate objects e.g. machine-tools as well as human population which may in certain cases refer to as special section of the general population of a country.

Before a research is conducted, the population to be surveyed must be clearly defined Chisnall P. (1978:65). The population for this study comprises of staff of Union Bank of Nig. Plc Samaru and corporate customers of the bank.

3.3 ADMINISTRATION OF QUESTIONNAIRES

Two sets of questionnaires were administered, one for staff of Union Bank of Nig. Plc. Samaru and the other for the bank's corporate customers.

The questionnaires for the corporate customers contains twelve question. This was designed for the purpose of gathering series of information from the corporate customers to guide the researcher to investigate the problems on loan documentation and security perfection and it affect on corporate customers success/otherwise in their credits/advances request.

The questionnaires for the staff on the other hand, contains seventeen questions. The purpose of this questionnaires is to enable the researcher to gather some vital information concerning the problems encountered by corporate

customers on loan documentation and security perfection and the impact of these problems towards their success/otherwise in their credits/advances bid.

The only problem encountered in the course of administering the questionnaires has to do with the unwillingness on the part of some corporate customers especially the not too enlightened ones, who thought that the researcher was gathering information for possible litigation against the bank. However, after a thorough explanation and assurances, the suspicion was reduced considerably and they were able to express their minds freely.

3.4 TOOLS OF ANALYSIS

The tools of analysis used in this study are the percentage tabulation and the chi-square method. These two analytical tools will be used to interprete and present the data thus collected.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 ANALYSIS AND INTERPRETATION OF RESPONSES

This chapter deals with the analysis of data. It also deals with the analysis of the responses using percentages of the totals. The second part concerns the statistical test of the hypothesis stated earlier in chapter one.

The questionnaire aims at analysing the problems of Perfection of Security and Loan Documentation and it effect on corporate customers credits/advances proposal. A total of 33 questionnaires were administered on corporate customers of Union Bank Samaru, branch. A total of 30 questionnaires or ninety-one percent out of the thirty-three questionnaires administered was received.

Table 1: Distribution of Questionnaires as Regards to Sex

CLASSIFICATION OF RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES %
Male	28	93
Female	2	07
Total	30	100

The number of Corporate Customers that responded to the Questionnaires were total of 30, 28 male (93%) and 2 female (7%).

Table 2: Responses As To Age

CLASSIFICATION OF RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
15-30 years	-	-
21-30 years	3	10
31-40 years	19	63
41-50 years	6	20
51-60 years	2	7
61 and above	-	-
Total	30	100

The result obtained in the table above reveals that 3 respondents representing 10% are in the age bracket of 21 - 30 years, 19 respondents,

representing 63% are in the 31 - 40 years, 6 respondents (20%) are in the 41-50 years bracket, while 2 respondents (7%) are in the 51 - 60 years age bracket,

The chosen of this age bracket is in line with the bank's policy preference not to trade with people within the dependent age. This policy is borne out of economic point of view that the age bracket between 21-60 years forms what is known as the working-force in a given economy.

Table 3: Responses as regards to Occupation

Respondent Relative Frequency

CLASSIFICATION OF RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Construction	11	36
Agriculture	9	32
Merchandise	6	20
Manufacturing/Bakery	4	12
Any other	-	-
Total	30	100

Responses as regards to occupation show that 11 respondents representing 36% are in construction sector, 9 respondents representing 32%

are in Agricultural sector, 6 respondents representing 20% are in Merchandise, while 4 respondents 12% are in Manufacturing/ Bakery sector.

Table 4: Are You a Customer of Union Bank of Nig. Plc. Samaru?

Respondent relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	30	100
No	0	0
Total	30	100

The result obtained in the table above has shown that all 30 respondents representing 100% are customers of Union Bank Nig. Plc., Samaru.

Table 5: If Yes, What type of Customer?

Respondent Relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Corporate Customers	30	100
Other type of Customers	-	-
Total	30	100

The above table revealed that all the 30 respondents, representing 100% are corporate customers of union Bank of Nig. Plc. Samaru

Table 6: How Long Have You Been a Customer of Union Bank of Nig. Plc. Samaru.

Respondent Relative Frequency.

POSSIBLE RESPONSES In years	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
0-2	4	13
2-5	5	17
6-10	17	57
11- Above	4	13
Total	30	100

Table 6 shows that 4 (13%) of the respondents have been banking with Union Bank of Nig. Plc., Samaru for less than 2 years, 5 (17%) have banked for

up to five years, 17 (57%) have been banking with the bank as customers for ten years, while 4 (13%) have been customers of Union Bank, Samaru for over eleven years.

Table 7: Responses as regards Applications for Credits/Advances by the Corporate Customers

Respondents Relative Frequency

CLASSIFICATION OF RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Construction	12	40
Agriculture	8	27
Merchandise	6	20
Manufacturing/Bakery	4	13
Total	30	100

From above table, 12 applications (40%) was received from construction sector, 8 (27%) was received from agricultural sector, 6 (20%) was received from Merchandise while 4 representing 13% was received from Manufacturing/Bakery.

Table 8: Responses as Regards Success Achieved by the Companies in their Credits/Advances Request

Respondents Relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGTE OF RESPONSES(%)
1 – 24%	3	10
25 49%	5	17
50 – 74%	10	33
75% above	12	40
Total	30	100

Table 8 above reveals that 3 (10%) of the customers record 1 – 24% success in their credit/advances request 5 (17%) falls in 25 – 49% bracket, 10 (33%) record 50 – 74% success while 12 (40%) record success of 75% and above.

Table 9: Unwillingness of the Manager/Appraisal Officer to take Risk due to Customer's Character will affect consideration for Advances/Credits Request Adversely.

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Yes	20	67
No	4	13
Partially	6	20
Total	30	100

The analysis in the table above, reveals that 20 (67%) conceded to this opinion, 4, (13%) disagreed to it, while 6 (20%) support the statement partially.

Table 10: Do you Believe Obtaining Governor's Consent could Constitute Problem in Perfecting Security to Secure your Company's Credits/Advances Request?

Responses Relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Yes	20	67
Partially	7	23
No	3	10
Total	30	100

Table 10 indicates that 20 respondents, representing 67% agreed that obtaining Governor's consent could constitute problem in the process of

perfecting security to secure credits/advances proposal by corporate customers. However, 3 respondents, representing 10% disagreed. Only 7 respondents representing 23% agreed partially to the above statement.

Considering the respondents rating on the effect of obtaining Governor's consent before perfecting of security could be consummated, it then goes to confirm the need that, obtaining Governor's consent stands as the nucleus of the perfection process and that no property can be alienated without putting this condition in place.

Table 11: Do You Believe that Material Defect in the Supporting Feasibility Study could affect Success of Corporate Customers in their Credits/Advances request adversely

Respondents Relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Yes	2	7
Partially	6	20
No	22	73
Total	30	100

The table above reveals that 2 respondents representing 7% are of view that material defect in the supporting feasibility study could affect success of corporate customers in their credits/advances request, 6 respondents (20%)

agrees partially with this opinion, while 22 respondents representing (73%) disagrees with this view.

Table 12: Do you agree that Inability of the Management of the Borrowing Company to Provide a Convincing Explanation to a Looming Trend in the Balance Sheet could affect their Success Adversely in their Advances/Credits Request

Respondents Relative Frequency

POSSIBLE RESPONSES	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Yes	23	77
Partially	5	17
No	2	6
Total	30	100

The result of the above table 11 reveals that 23 respondents representing 77% agreed that inability to provide convincing explanation by the borrowing company's management could create problem towards success in their advances/credits request, 2 respondents representing 6% said it will not create problem. However, 5 respondents representing 17% said it could partially create problem.

UNION BANK OF NIGERIA PLC SAMARU STAFF RESPONSES (SECTION B)

Table 1: Have you ever worked in Advances Department of the Bank?

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Yes	27	90
No	3	10
Total	30	100

From the above table, ninety percent of the respondents confirm that they have worked in advances department while ten percent said they are not.

Table 2: Responses as regards to Sex

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Male	27	90
Female	3	10
Total	30	100

From the above, ninety percent of the respondents are Male staff, while ten percent of the respondents are Female.

Table 3: If Answer to one is Yes, for how long have you ever Worked in Advances Department?

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Less than 2 years	3	10
3 to 5 years	9	30
More than 5 years	18	60
Total	30	100

Table 3 above reveals that 3 (10%) out of the staff have worked in advances department for less than 2 years 9 (30%) have worked between 3-5 years while 18 representing 60% have worked more than 5 years.

Table 4: <u>What prominent task do you undertake in advances department?</u>

<u>Respondents Relative Frequency</u>

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES(%)
Appraising Customer's character	14	47
Appraising the financial statement of customers	10	33
Appraising customers repayment term/feasibility document	6	20

Total	30	100

Table 4 has shown that of the 30 respondents, 6 representing 20% are of the view that advances department function in the bank is to appraise the customer's repayment term vis-à-vis the supported feasibility study, 10 (33%) agreed that the work is to appraise financial statement of the customer, while 14 representing 47% averred that the task is to examine the customer's character critically. The above respondents shows convincingly that the customer's character stands at the apex of all the appraising techniques and of course the hall-mark of all the tenets of lending that is generally acceptable by all bankers and financial institutions alike for their advances consideration.

Table 5: <u>How many Corporate Customers Application do you handle in a year?</u>

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
30	27	90
None	3	10

From table 5 above 27 staff representing 90% responded that they handle 30 applications per year while 3 (10%) said they handle none because they have worked in advances department at all.

Table 6: Responses as regards Sectorial Distribution of Applications for Five Years between Corporate Customers

YEARS	CONSTRUCTION	AGRICULTURE	MERCHANDISE	MANUFACTURING/ BAKERY	TOTALS
1996	14	8	5	3	30
1997	12	9	6	3	30
1998	13	10	5	2	30
1999	15	8	4	3	30
2000	12	10	6	2	30
Totals	66	45	26	13	150

Do you agree to the above Sectorial Distribution of Applications?

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	30	100
No	0	0
Total	30	100

Table 6 above shows that all the 30 respondents representing 100% agrees to the Sectorial Distribution of applications between the corporate customers.

Table 7: Responses as regards to Sectorial Distribution of Advances/Credits Disbursed

YEARS	SECTORS CONSTRUCTION N(000)	AGRICULTURE N(000)	MERCHANDISE N(000)	MANUFACTU-RING/BAKERY N(000)	TOTALS N(000)
1996	300000	280000	180500	90000	850500
1997	240000	200000	122400	126700	689100
1998	425000	480000	280000	108300	1293300
1999	300000	180000	80000	75000	635000
2000	360000	300000	240000	141700	1041700
Totals	1625000	1440000	902900	541700	4509600

Table 7: Do you agree to the above Sectorial Distribution of Advances/Credits Disbursed?

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	30	100
No	0	0
Total	30	100

Table 7 above indicates that 30 (100%) respondents agrees to the above sectorial distribution of advances/credits disbursed.

Table 8: **What is the policy of your bank as regards source of repayment of borrowed funds.**

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Stream of cash flow from project to be financed.	15	50
Profit from operation	15	50
Debt to debt plan	-	-
Total	30	100

Table 8 reveals that 15 respondents representing 50% satisfied with cash flow from project to be financed as source of repayment, another 15 (50%) agrees to profit from operation while non of the staff support debt to debt as their source of repayment.

Table 9: Responses as Regards Security Provide to Secure Credits/Advances

Respondent Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Legal mortgage on landed property	12	40
Equitable mortgage	8	27
Fixed Charge on Company's Assets	4	13
Floating charge	6	20
Total	30	100

The result obtained from the table above, reveals that 12 respondents representing forty percent, agrees to legal mortgage 8 (27%) of the respondents indicated their preference for equitable mortgage, 4 (13%) prefer fixed charge and 6 (20%) support floating charge.

Table 10: Status of Advances Department Compared to other Functional Areas in the Bank

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
High status	22	73.3
Equal status	7	23.3
Lower status	1	3.4
Total	30	100

Table 10 reveals that 22 respondents representing 73.3% are of the view that advances department stands as the core of the bank compared with other functional areas in the bank. While 7 respondents, representing 23.3% viewed advances to be of a equal status compared to other functional areas, and the remaining 1 representing 3.4% is of the view that advances is taken to be of lower status compared to other functional areas in the bank.

Table 11: Do you think that Inability to provide a convincing Explanation to a Looming Trend in the Balance Sheet could

affect the success of a Corporate Customer Adversely in their Advances/Credits bid

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	23	77
Partially	6	20
No	1	3
Total	30	100

Respondents rating in the above table indicates that 23 respondents representing 77% are of the view that inability of the borrowing company to provide a convincing explanation to a looming trend in the balance sheet could affect their success adversely in their advances/ credits bid, six respondents representing 20% agreed to opinion while 1 respondent representing 3% however, disagree with the statement.

Table 12: Do you think Obtaining Governor's Consent will Constitute problem in Perfecting of Security offer for

Advances/Credits Request

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	27	90
Partially	2	7
No	1	3
Total	30	100

Rating in the above table, indicates that 27 respondent representing 90% agreed that obtaining governor's consent will constitute problem in perfecting of security to secure advances/credits request, while 2 respondents representing 7% consent to this view partially, only one respondent representing 3% disagree with the statement above.

Table 13: Do you believe that Unwillingness of the Manager/ Appraisal Officer to take risk as a result of Customers'

character will affect Success of Corporate Customers in Advances/Credits Bid?

Respondent Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	17	57
Partially	10	33
No	3	10
Total	30	100

The result obtained from the table above shows that 17 respondents representing 57% consent that unwillingness of the Manager/Appraisal officer to take risk will affect success of corporate customers in advances/credits bid 10 respondents representing 43% agreed partially to these view while 3 respondents representing 10% opined that the statement is of no effect.

Table 14: Do you agree that Material Defect in the Supporting Feasibility Study could Adversely Affect Success of

Corporate Customers in their Credits/Advances Request

Respondents Relative Frequency

POSSIBLE RESPONSE	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES (%)
Yes	6	20
Partially	12	40
No	12	40
Total	30	100

The above table indicates that 6 respondents (20%) agrees that material defect in the supporting feasibility study could affect adversely, corporate customers success in their advances/credits while 12 respondents representing 40% each partially agreed/discontented to the view respectively.

4.2 STATISTICAL TESTING OF HYPOTHESIS

The hypothesis stated in the earlier chapter will be tested here using chi-square test. The condition for using chi-square test stipulates that the number of observations must be sufficiently large (No 30).

4.2.1 HYPOTHESIS ONE

Null Hypothesis

Obtaining Governor's consent will constitute problem in perfecting security to secure company's credits/advances request.

Alternative Hypothesis

Obtaining Governor's consent will not constitute problem in perfecting security to secure company's credits/advances request.

Question nine of the customers questionnaire and question ten of the staff questionnaire which ought to determine the extent to which obtaining of governor's consent could create problem in security perfection process are relevant to this hypothesis.

Table A Problem Endemic in Obtaining of Governor's Consent

Respondents Relative Frequency

RESPONSE	YES	PARTIALLY	NO	TOTAL
Staff	27	2	1	30
Customers	20	7	3	30
Total	47	9	4	60

Source: Primary Data

To determine the expected frequency (ef), the below stated formula is used.

$$\frac{\text{Row total X column total}}{\text{Grand total}}$$

Table B: Contingency Table for Testing Hypothesis one

Of	ef	of-ef	$(of-ef)^2$	$\frac{(of-ef)^2}{ef}$
27	23.5	3.5	12.25	0.5219
20	23.5	-3.5	12.25	0.5319
2	4.5	-2.5	6.35	1.4444
7	4.5	2.3	6.25	1.4444
1	2.0	-1	1	0.5
3	2.0	1	1	0.5
				4.9526

Using the formula = $\chi^2 = \frac{\sum (of-ef)^2}{fe}$

χ^2 = Chi –Square

of = An observed frequency

ef = An expected frequency

Therefore:

$$\chi^2 = \frac{(27-23.5)^2}{23.5} + \frac{(20-23.5)^2}{3.5} + \frac{(2-4.5)^2}{4.5} + \frac{(7-4.5)^2}{4.5} + \frac{(1-2)^2}{2} + \frac{(3-2)^2}{2}$$

$$= 0.53 + 0.53 + 1.44 + 0.5 + 0.5$$

The next step in the use of Chi-square test is to determined χ^2 Critical value from chi-square table using appropriate degree of freedom and level of significance.

Degree of freedom is represented by:

$$df = (r-1)(c-1)$$
$$= (3-1)(2-1)$$
$$= 2$$

The level of significance chosen here is 0.05. Using 0.05 level of significance and degree of freedom, 2, χ^2 critical value from the table is 5.99.

Decision Rule:

If χ^2 calculated is less than or equal to χ^2 critical value, accept Null Hypothesis.

If χ^2 calculated is higher than or equal to χ^2 critical value, reject Null Hypothesis, Since χ^2 calculated of 4.95, is less than χ^2 critical value, the researcher has accepted the Null Hypothesis-that obtaining Governor's consent will constitute problem in perfecting security to secure company's credits/advances request.

Hypothesis Two

Null Hypothesis

Inability of the borrowing company's management to provide a convincing explanation to a looming trend in the balance sheet could affect success of corporate customers adversely in their advances/credits request.

Alternative Hypothesis:

Inability of the borrowing company's management to provide a convincing explanation to a looming trend in balance-sheet does not affect success of corporate customers adversely in their advances/credits request. Question 12 and 11 of both customers and staff questionnaires respectively are relevant to this hypothesis.

Table C: Inability of the Borrowing Company's Management to Provide a Convincing explanation to a Looming Trend in the Balance-Sheet/Financial Statement could create Problem.

RESPONSES	YES	PARTIALLY	NO	TOTAL
Staff	23	6	1	30
Customers	23	5	2	30
Total	46	11	3	60

Sources; Primary data

On the basis of the result tabulated in the table above, a larger proportion of the respondents which is 76% (46/60 x 100) agreed with the hypothesis that

"inability of the borrowing customer to provide a convincing explanation to a looming trend in the balance sheet could create problem in the success of credits/advances request

Table D: Contingency Table For Testing Hypothesis Two

Of	ef	of-ef	$(of-ef)^2$	$\frac{(of-ef)^2}{ef}$
23	23	0	0	0
23	23	0	0	0
6	5.5	0.5	0.25	0.0455
5	5.5	-0.5	0.25	0.0455
1	1.5	-0.5	0.25	0.1667
2	1.5	0.5	0.25	0.1667
				0.4244

The researcher calculated the degree of freedom using the formula

$$df = (r-1)(c-1) = (3-1)(2-1) = 2$$

χ^2 calculated = 0.424

The significance's level = 0.05

Degree of freedom (df) = 2

The χ^2 table value = 5.99

Decision Rule:

If χ^2 calculated is less than or equal to χ^2 critical value, accept the Null Hypothesis. If χ^2 calculated is higher or equal to χ^2 critical value, reject the Null hypothesis.

Since χ^2 calculated of 0.42 is less than χ^2 critical value of 5.99 the Null Hypothesis that, "inability of the borrowing customers to provide a convincing explanation to a looming trend in the balance-sheet could affect credits/advances request adversely should be accepted thus the Alternative Hypothesis that "inability of the borrowing customers to provide a convincing explanation to a looming trend in the balance-sheet does not affect credit/advances request adversely", should be rejected.

4.2.3 Hypothesis Three

Null Hypothesis

Unwillingness of the Management/Appraised Officer to take risk due to customer's character will affect advances/credits consideration negatively.

Alternative Hypothesis: Unwillingness of the Manager/Appraisal Officer to take risk due to customer character does not affect advances/credits consideration negatively.

Questions 9 and 13 of customers and staff questionnaires respectively are relevant to this Hypothesis.

Table E: Unwillingness of the Manager/Appraisal Officer to take risk due to Customer's Character Affect Decision on Advances/Credits Proposition Negatively.

RESPONDENTS	YES	PARTIALLY	NO	TOTAL
Staff	17	5	8	30
Customers	20	3	7	30
Total	37	8	15	60

Sources: Primary Data

On the basis of the result tabulated in the above, a larger proportion of the respondents which is 62% (37/60) X (100/1) agreed with the hypothesis that "unwillingness of the Manager/Appraisal Officer to take risk due to customer's character will affect negatively advances/credits consideration".

Table F: Contingency Table For Hypothesis Three

Of	ef	of-ef	$(of-ef)^2$	$\frac{(of-ef)^2}{ef}$
17	18.5	-1.5	2.25	0.1216
20	18.5	1.5	2.25	0.12116
5	4.0	1.0	1.0	0.2500
3	4.0	-1.0	1.0	0.2500
8	7.5	0.5	0.25	0.0333
7	7.5	-0.5	0.25	0.0333
				0.8098

The researcher calculated the degree of freedom (df) using the formula:

df	=	(r-1) (c-1)
	=	(3-1) (2-1)
	=	2
χ^2 calculated	=	0.8098
Significant level	=	0.05
Degree of freedom (df)	=	2
χ^2 critical value on table	=	5.99

Decision Rule

If χ^2 calculated is less than or equal toχ^2 critical value, accept the Null Hypothesis. If χ^2 calculated is higher or equal to χ^2 critical value, reject the Null hypothesis. Since χ^2calculated of 0.81 is less than χ^2 critical value of 5.99, the Null Hypothesis that "Unwillingness of the Manager/Appraisal Officer to take risk due to customer's character will affect decision on advances/credit proposition negatively should be accepted. Hence the alternative hypothesis that "Unwillingness of the Manager/Appraiser Officer to take risk due to customer's character does not affect decision on advances/credit proposition" should be rejected.

Hypothesis Four

Null Hypothesis

Material defect in the supporting feasibility study could affect adversely corporate customer's success in credits/advances request.

Alternative Hypothesis: Material defect in the supporting feasibility study does not affect adversely corporate customer's success in credits/advances request. Questions 11 and 14 of the customer's questionnaires and staff questionnaires respectively, are relevant to this hypothesis.

Table G: Material defect in the supporting feasibility study could affect adversely corporate customers' success in credits/ advances request.

RESPONDENTS	YES	PARTIALLY	NO	TOTAL
Staff	6	12	12	30
Customers	2	6	22	30
Total	8	18	34	60

Sources: Primary Data.

On the basis of the result tabulated above, a majority of the respondent which is 57% (34/60 x 100/1), disagree with the hypothesis that "Material defect in the supporting feasibility study could affect adversely corporate customer's success in credits/adversely request.

Table H: Contingency Table For Hypothesis Four

Of	ef	of-ef	$(of-ef)^2$	$\frac{(of-ef)^2}{ef}$
22	17	+5	25	1.7857
12	17	-5	25	1.7857
6	9	-3	9	0.8181
12	9	+3	9	0.8181
2	4	-2	9	0.8000
6	4	+2	4	0.8000
				6.8100

The researcher calculated the degree of freedom (df) using the formula:

$$df = (r-1)\ (c-1)$$

$$df = (3-1)\ (2-1)$$

$$= 2$$

χ^2 calculated = 6.81

Significant level = 0.05

Degree of freedom (df) = 2

χ^2 critical value on table = 5.99

Decision Ruled

If χ^2 calculated is less than or equal to χ^2 critical value, accept the Null Hypothesis. If χ^2 calculated is higher or equal to χ^2 critical value, reject the Null hypothesis.

Since χ^2 calculated of 6.81 is higher than χ^2 critical value of 5.99, the Null Hypothesis that 'material defect in the supporting feasibility study could affect adversely corporate customers' success in credits/advance request" should be rejected. Thus the Alternative Hypothesis that, "Material defect in the supporting feasibility study does not affect adversely corporate customers' success in credits/advances request" should be accepted.

4.3 Summary

The chapter dealt with data analysis. Responses to the questionnaires were analysed. The bank's customers and staff recognises the importance of the need to manage very well the problem highlighted by the researcher in the statement of hypothesis towards ensuring success of corporate customers in their credits/advances proposition.

This is reflected in the number of respondents who indicated that corporate customers could not succeed in their credits/advances bid if these problems are not well managed.

On the verification of the hypothesis, using chi-square method, hypothesis one which states that, "obtaining Governor's consent will constitute problem in the process of perfecting security to secure credits/advances request", was accepted. Also hypothesis two, which said that, "inability of the borrowing company's management to provide a convincing explanation to a looming trend in the balance sheet/financial statement could create problem was accepted. Hypothesis three, which states that, "Unwillingness of the manager/appraisal officer to take risk due to customer's character could affect credits/advances request adversely was equally accepted. Whilst hypothesis four which states that, "Material defect in the supporting feasibility study could affect success of credits/advances proposition was rejected.

From the above analysis therefore, the researcher has come out with the following conclusions:-

i. Obtaining Governor's consent will create problem in the process of perfecting security to secure credits/advances request. This conclusion was reached based on the fact that the chi-square method used in verifying this hypothesis accepted the fact, and the percentage calculated show that 78% of the respondents are in support of this opinion.

ii. Inability of the borrowing company's management to provide a convincing explanation to a looming trend in the financial statement/balance sheet could constitute problem of success in

credits/advances proposition. This conclusion was arrived at based on the fact that chi-square method used in verifying this hypothesis accepted this assertion, and the percentage calculated put at 77% of the respondents opinions are in consent with this conclusion.

iii. Unwillingness of the manager/appraisal officer to take risk due to customers 'character' could affect the success of credits/advances request adversely. This conclusion was reached based on the fact that the chi-square method used in verifying this hypothesis accepted the idea, and also the percentage calculated shows that 62% of the respondents are in support of this conclusion.

iv. Material defect in the supporting feasibility study could affect adversely, advances/credits proposition. This conclusion was rejected based on the fact that the chi-square method in verifying this hypothesis rejected the opinion, and also the percentage calculated show a minority support of 30% to the conclusion.

Three out of Null Hypothesis (H_o) have been accepted and their Alternative Hypothesis rejected with only one Null Hypothesis reject and the Alternative accepted.

Given this circumstances therefore, the researcher conclude without any fear of contraction that, there exist a correlation between the percentage calculated and the chi-square method used in verifying the hypothesis.

CHAPTER FIVE

5.0 SUMMARY, RECOMMENDATION AND CONCLUSION

SUMMARY:- Financial intermediation is one of the key role behoves of banks and financial institutions in the economy. In carrying our this role, the banks and financial institution ensures smooth flow of loananble funds, mobilizing idle funds from the surplus sector to the needing sector for productive investments in the economy.

It is interesting to note that this function is not being allowed to be carried out indiscriminately by the actors involved, there are several guidelines and procedures by the regulatory bodies, (central bank (CBN) Nigerian deposit insurance Corporation, (NDIC) and Legal requirements that governs the Execution of this important function to safe guard depositors money and to ensure that the actors play safe in their investment.

Union Bank of Nigeria Plc., the researcher realized has an handful of procedures and guidelines within the frame work of that prescribed by the regulatory bodies and statue requirements that propels it advances/credits proposition.

In chapter one, the researcher's main objective was to define the problem and reduce it to hypothesis that are testable and or verifiable. The chapter was concluded with the definition of some basic key terms, something which is considered very necessary for academic reasons. Chapter two basically dealt with existing literature on problems of loan documentation and security perfection as

it affects corporate customers advances/credit proposition. The reason for this chapter as noted earlier, has been that of making certain that the problem is a research, rather than a teaching one. The research methodology, which constitutes chapter three, was seen as a strategic plan by which the research activity is to be carried out. The research statistical tools, such as percentages and the simple test of proportion were used to analysed the data collected. The researcher also used these two statistical tools to test the formulated hypothesis.

Chapter four focused on the data analysis and interpretation. A total of 60 respondents, 30 staff and 30 corporate customers of Union Bank Samaru, was deemed as a fair representation of the subject matter under examination. Their response to the questions in the questionnaire, formed the basis of the researcher's analysis and interpretation. Four hypothesis were formulated and verified, the result of the hypothesis verification, supported three out of the four Null hypothesis and rejected the fourth Null Hypothesis. This result was accepted, considering the ratings and the result obtained from calculated percentages.

5.1 FINDINGS

It is realized from the research work that various features could sum up to create problem for the corporate customer in it bid to obtain advances/credits from the bank.

i) It is observed that problem could emanate from incompetent/lousy management hands in the company. The researcher also saw that a bad trend in any of the company's financial statements does not necessarily suggest its doom. Explanation could be given by the management of the company to elucidate convincingly the looming trend by comparison of the current balance sheet figures with the corresponding previous year figures.

ii) Problem could also come from material defect in the feasibility study supporting the proposal, but this problem could not be more prominent as to affecting advances/credits proposition adversely as seen in respondents opinion to this hypothesis. Aside from this, the researcher saw that since the feasibility study derives its input from the previous financial statement/balance sheet, any material defect in it could has well be dealt with in the management of the company explanation to a looming trend in the financial statements/balance sheet.

iii) There could also be problem on documentation of security offered to secure the credit in the form of obtaining Governor's consent to mortgage the landed property. The researcher realised from the staff and customers responses to questions in the questionnaire that the problem with obtaining Governor's consent is bureaucratic and political in nature. Evidence has also shown that it is only easier for companies that has influences in the government circle to obtain Governor's consent to

mortgage their property while it takes years for others to obtain same. Given the fact that a landed property is inalienable without the governor's consent, this has always been a prominent problem to corporate bodies in the process of security perfection and documentation. Consequently, any banks that execute a charge on a property without the governor's consent will be treated as having no security. A current case here is the court of Appeal decision in the case of "Ajilo Versus Savannah Bank of Nigeria. Ltd." Where the charge or mortgage of the bank was declared Null and void because the mortgage was executed without the Governor's consent.

iv) Unwillingness of the Manager/Appraisal Officer to take risk due to customers character could affect advances/credits proposal adversely.

The researcher realized from the respondent to this question in the questionnaire that, the Manager's/Appraisal Officer's willingness to take risk informed by the customer's character is very prominent in ensuring success of an advances/credits proposal.

The researcher also saw it obviously that, the Manager's/Appraisal Officer's willingness to bear risk, informed by the customers' track records is what determines the extend to which reliance could be placed on any explanation given by the customers/ on the trends of the balance sheet/financial statement provided for the advances/credits proposal.

5.2 RECOMMENDATION

In the light of the facts stated in the findings to the research work, the researcher will like to make the following recommendations:-

i) That is behooves of corporate bodies and enterprise to be of good character-character here embodies been honest, keeping to promises and obligations as and when due and satisfactory conduct of their Accounts at all time so that if business noise dive, the bank can still look back on their honesty, loyalty and the tract records to bail them out.

ii) It also behoves of corporate bodies and Enterprise, to be well verse or have in their employment a cream of expert personnels who are well verse in the intricacies endemic in their business ventures, as the banks and financial institution will always desirous to placing their loanable funds in competent hands. This is necessary in need for convincing explanation in the financial statement/balance sheet that would corroborate their credits/advances proposition.

iii) To cap it all, there is also an urgent need for reformation of the land Use act of 1978 that vested ownership of all land in a state territory unto the state Governor. Until this is done, companies and enterprise will continue to face problems in their bid to perfect security to secure advances/credits request.

5.3 CONCLUSION

In conclusion, it is a generally acceptable fact that corporate bodies and Enterprises will continue to look for financial assistance from banks and financial institutions either to assist their working capital or to obtain more plans and equipment for expansion or growth purposes.

The banks are always ready to extend the assistance since advances/credits given appears to be the core of their major sources of income.

It is therefore required of corporate bodies and enterprises to always endeavour to put in place all processes to obtain advances/credits ahead of time before their needs.

To this end, the owners of companies should endeavour to see that competent hands are employed into their business who can steer effectively and efficiently the affairs of the company and ensure continuous corporate existence into the foreseeable future.

5.4 FURTHER AREAS OF RESEARCH

The conclusion and recommendations drawn from this project are not totally exhaustive. The researcher therefore recommends for further research work on the same topic with a wider coverage of problems inherent on the topic as it relates to the whole of Northern or southern Nigeria, or even the country as a whole, for more deeper insights.

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QUESTIONNAIRE AND RESPONSES OF UNION BANK, SAMARU STAFF TO THE RESEARCH WORK

I am an MBA student of the Ahmadu Bello University Zaria. These research questionnaires will enable me carry out a research work on the "problem of Loan Documentation and security perfection as it affects corporate customers".

Any information given in this questionnaire will be treated highly confidential.

Please tick your responses appropriately as provided.

RESEARCH QUESTIONNAIRES (STAFF)

1. When did you join the bank?
2. What is your present status in the bank?
3. Have you ever worked in the advances department of the branch? Yes or No
4. For how long? 2 year, 3 year, 4 year, 5 year and above
5. About how many corporate customers' advance/credits proposal do/ did you handle per year?
6. What is/was level of success achieved by these customers in their credits request during your stay in the department 1%,-24%, 25%, - 49%, 50%-74%, 75% and above?
7. What prominent task do you undertake in loan documentation?

8. With your experience in handling corporate customers loan and credit request, what has been the major problems faced by these category of customers.
9. How do you think these problems could be lessened or solved completely?
10. What is repayment plan most preferred by your bank?

a) stream of cash flow from project to be financed
b) profit from operation
c) debt to debt plan

11. What type of security do your bank preferred for it lending to it's corporate customers.

a) Legal mortgage on their landed property
b) Equitable mortgage
c) Fixed charge on the company's assets
d) Floating charge
e) Debenture.

12. What according to your experience of corporate customers transactions with your bank is the problems encounter by them in their \bid to perfect the security offered for their lending.

a) delay in obtaining good certificate of tittle from corporate affairs commission
b) Delay in converting local government C. of O to state statutory C of O.
c) Delay as a result of obtaining governor's consent to mortgage their landed property.
d) All of the above

13. How then do you think these problems could be ameliorated or removed totally.

14. Do you agree with sectiorial distribution of applications to corporate customers as attached?

15. Do you consent to sectorial distribution of credits disbursed as attached?

16. What is the stature of advances department compared to other department?

a) High status b) Equal status c) Lower status

17. Please indicate your sex

a) Male b) female

ADVANCES/CREDITS DISBURSED

YEARS	SECTORS CONSTRUCTION n(000)	AGRICULTURE N (000)	MERCHANDISE N(000)	MANUFACTURING/BAKERY N(000)	TOTALS N(000)
1996	300000	280000	180500	90000	850500
1997	240000	200000	122400	126700	689100
1998	425000	480000	280000	108300	1293300
1999	300000	180000	80000	75000	635000
2000	360000	300000	240000	141700	1041700
Totals	1625000	1440000	90200	541700	4509600

APPLICATIONS FOR FIVE YEARS BETWEEN CORPORATE CUSTOMS

YEARS	CONSTRUCTION	AGRICULTURE	MERCHANDISE	MANUFACTURING/BAKERY	TOTAL
1996	14	8	5	3	30
1997	12	9	6	3	30
1998	13	10	5	2	30
1999	15	8	4	3	30
2000	12	10	6	2	30
Totals	66	45	26	13	150

QUESTIONNAIRE AND RESPONSES OF UNION BANK PLC SAMARU CORPORATE CUSTOMERS TO THE RESEARCH WORK

I am an MBA student of the Ahmadu Bello University Zaria. These research questionnaires will enable me carry out a research work on the "problem of Loan Documentation and security perfection as it affect corporate customers".

Any information given in this questionnaire will be treated highly confidential.

Please tick your responses appropriately as provided.

RESEARCH QUESTIONNAIRES (CUSTOMER)

1. When did your company opened account with the bank?
2. What is your present status in the company?
3. What is the nature of business undertaking by your company?
4. About how many times have your company applied for credits/advances since you opened account with the bank?
5. What is/ was the level of success achieved by your company in your credits/advances request 1%-24%, 25%-49%, 50%-74%, 75% and above?
6. What according to your experience, had been the problems encountered by your company's bid for credits/advance request?

a) Obtaining governor's consent on the property to be mortgage.

b) Unwillingness of the manager/appraiser officer to take risk

c) Material defect in the supporting feasibility study

d) Inability of the corporate customers to provide convincing explanation to looming trend in their balance sheet

7) What has been your company's repayment plans for credits/ advances granted your company?

a) stream of cashflow from project to be financed

b) profit from operation

c) debt to debt plan

8) What types of security does your company provides to support your credits/advances requests?

a) Legal mortgage on their landed property.

b) Equitable mortgage

c) Fixed charge on the company's assets

d) Floating charge

e) Debenture

9) What according to your company's experience are the problem encountered in the process of perfecting these securities?

a) Delay in obtaining good certificate of title from corporate affairs commission.

b) Delay in converting Local government C of O to state statutory C of O.

c) Delay as a result of obtaining Governor's consent to mortgage their landed property.

d) All of the above

10) How then do you think these problems could be ameliorated or annulled completely.

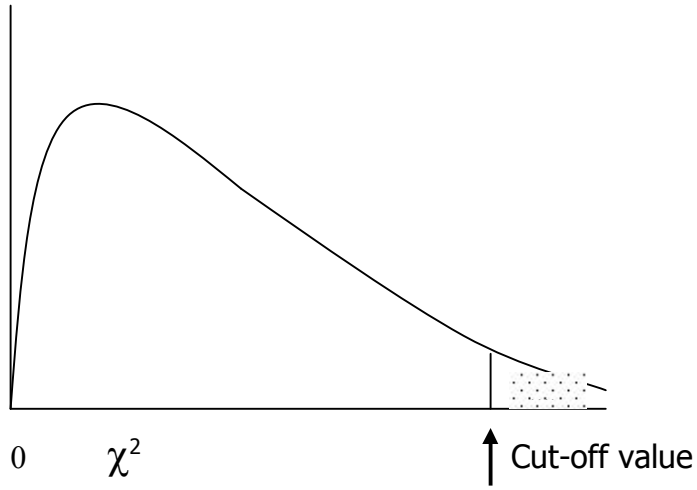
11) Please indicate your age

12) Please indicate your sex

(a) Male (b) female

TABLE IV

THE χ^2 DISTRIBUTION



DEGREES OF FREEDOM	LEVEL OF SIGNIFICANCE	
	5%	1%
V = 1	3,841	6,635
2	5,991	9,210
3	7,815	11,345
4	9,488	13,277
5	11,070	15,086
6	12,592	16,812
7	14,067	18,475
8	15,507	20,090
9	16,919	21,666
10	18,307	23,209
11	19,675	24,725
12	21,026	26,217
13	22,362	27,688
14	23,685	29,149
15	24,996	30,578
16	26,296	31,999
17	27,587	33,409
18	28,869	34,805
19	30,144	36,191
20	31,410	37,566
21	32,671	38,932
22	33,924	40,289
23	35,172	41,638
34	36,415	42,979
35	37,652	44,314