IMPACT OF NON-PERFORMING LOAN ON PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA
A CASE STUDY OF GUARANTY TRUST BANK PLC. AND UBA PLC.

BY

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BEING A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY KEFFI, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE IN BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that this Project has been written by me and it is a report of my research work. It has not been presented in any previous application for any Degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

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CERTIFICATION

The Dissertation entitled "Impact of Non-performing Loan on Performance of Deposit Money Banks in Nigeria: A case study of Guaranty Trust Bank Plc. and UBA Plc." meets the regulations governing the award of Masters of Business Administration (MBA), Faculty of Administration, School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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DEDICATION

This research work is dedicated to Almighty GOD.

ACKNOWLEDGEMENT

ABSTRACT

This dissertation centred on evaluation of Impact of Non-performing Loan on performance of Deposit Money Banks in Nigeria: A case study of Guaranty Trust Bank Plc. and UBA Plc. was based on objectives which were: To evaluate the relationship between credit risk management and non-performing loan and to examine the extent non-performing loan affects performance of deposit money banks. A survey design was employed. A simple percentage was used to present the relationships between the study variables and a Chi-square (x^2) test statistics was used to investigate the Impact of Non-performing Loan on Deposit Money Banks in Nigeria. Data was collected through questionnaire from a sample of 55 staff of Guaranty Trust Bank Plc. and UBA Plc. The finding shows that there is a positive significant relationship between non-performing loans on performance of Deposit Money Banks. It is recommended that, Banks Management should establish sound lending policies, adequate credit administration procedure and an effective and efficient machinery to monitor lending function with established guidelines. It is recommends that financial institutions should all together, set up credit bureau system which is a form of data bank where every bank will submit the names of its defaulting customers for references by others.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Traditional areas of need may be for capital asset acquirement - new machinery or the construction of a new building or plant. The development of new products can be enormously costly and here again capital may be required. Normally, such developments are financed internally, whereas where internal source in not enough the firm may result to external sourcing. In this day and age of tight liquidity, many organizations have to look for short term capital in the way of overdraft or loans in order to provide a cash flow cushion.

Generally, the financial system is more than just institutions that facilitate payments and extend credit. It encompasses all functions that direct real resources to their ultimate users. It is the central nervous system of a market economy and contains a number of separate, yet dependent, components all of which are essential to its effective and efficient functioning (Sanusi, 2012). According to Aruwa (2011), commercial banks remain the formal source of finance for enterprises. He states that banks have three social and economic functions: to collect and secure savings and other deposits; to finance the economy by handing out credits; and to facilitate payments and to transfer funds. Their role is to reduce the gap between supply and demand that exists between idle money and productive investments.

Bank lending is guided by credit policies which are guidelines and procedures put in place to ensure smooth lending operations. Bank lending if not properly assessed, involves the risk that the borrower will not be able or willing to honour their obligations (Feder, 2003). Beyond the urge to extend credit and generate revenue, banks have to recover the principal' amount in order to ensure safety of depositors' fund and avoid capital erosion. Bank lending therefore has to consider interest income, cost of funds, statutory requirements, depositor's needs and risks associated with loan proposals. For these reasons banks have overtime developed credit policies and procedures which stipulate the lending process. This process includes among others the credit appraisals, documentations, disbursement, monitoring and recovery processes of lending.

According to Lewis (2001), giving credit to worthy borrowers is one of the most significant functions of commercial banks that are directly related to the development of the economy. If those loans or credit where not grown, the expansion of our production facilities and operations would almost be impossible and take a longer time for expansion.

Lending criteria are basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions. Adeyemi in Jimoh (2014) describes, using lending criteria as credit analysis as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as way of determining the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process.

Matovu and Okumu (2006) states that, banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions. This Matovu and Okumu (2006) aver that, it is designed to ensure that lenders take actions which facilitate repayment or reduce repayment likely problems. This information about the riskiness of the borrower has necessitated banks to beam their search lights on thorough scrutiny through measurement of debtor's capacity and capital structure as lending criteria; they also take remedial actions like asking for collateral, shorter duration of payment, high interest rates and other forms of payments (Stiglitz & Karla, 2000). When these steps are not adhered to, loan performance is highly affected. Edminster in Jimoh (2014) stresses the importance of credit analysis, when he observed that its abandonment often resulted into several banks witnessing non-performing loans and bad debts. The variable we have, according to Hunte in Jimoh (2014) includes the scrutiny of debtors' Capacity and Capital structure, credit experience, proportion of collateral security to the loan approved. It was found out that capital structure reflected in inability to repay larger credit facilities accessed, while Capacity reflected on shortage of credible performance information required to make informed credit decisions.

Non-performing loan is a non-income earning loan, full payment of principal and interest is no longer anticipated, principal or interest is 90 days or more delinquent, the maturity date has passed and payment in full has not been made. The issue of non-performing loans (NPLs) has gained increasing attentions in the last few decades. The multiple consequence of large amount of NPLs in the banking system is liquidity problems and eventual distress. However, many researches on the causes of bank distress find that asset quality is a statistically significant predictor of insolvency (Barr & Siems 2004), and that

failing banking institutions always have high level of non-performing loans prior to failure. There is no global standard to define non-performing loans at the practical level. Variations exist in terms of the classification system, the scope, and contents. Such problem potentially adds to disorder and uncertainty in the NPL issues.

1.2   Statement of the Problem

The banking industry has achieved great prominence in the Nigerian economic environment and its influence play predominant role in granting credit facilities. The probability of incurring losses resulting from non-payment of loans or other forms of credit by debtors known as credit risks are mostly encountered in the financial sector particularly by institutions such as banks. The biggest credit risk facing banking and financial intermediaries is the risk of customers or counter party default.

During the 1990s, as the number of players in banking sector increased substantially, Nigerian economy and banks witnessed rising non-performing credit portfolios. This significantly contributed to financial distress in the banking sector (Hamisu, 2011). Also identified were the existences of predatory debtors in the banking system whose modus operandi involves the abandonment of their debt obligations in some banks only to contract new debts in other banks.

The major cause of serious banking problems continues to be directly related to low credit standards for borrowers and counterparties, poor portfolio management, and lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of bank's counter parties. Ojo (2011) avers that, it is also clear that

banks use high leverage to generate an acceptable level of profit. Credit risk management comes to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable limit in order to provide a framework of understanding the relationship between credit policy management and performance of loans.

The discovery of the imminent collapse of five banks by the Central Bank as a result of high non-performing loans which the banks were exposed to, necessitated subsequent auditing of other banks, which led to more discovery of high liquidity risk, poor risk management, insider dealings, by these banks (Sanusi, 2012). This can be pinned on the lending criteria used by the banks.

However, it is interesting to know that financial providers often depend too much on credit risk management, to the detriment of lending criteria, for increasing the loan performance level which may be misleading (Owojori et al., 2011). Furthermore, Owojori et al. (2011) highlight that available statistics from the liquidated banks clearly showed that inability to collect loans and advances extended to customers that were not well analyzed were major contributors to the distress of the liquidated banks. At the height of the distress in 1995, when 60 out of the 115 operating banks were distressed, Owojori et al. (2011) assert that, the ratio of the distressed banks' non-performing loans and leases to their total loans and leases was 67%. The ratio deteriorated to 79% in 1996; to 82% in 1997; and by December 2002, the licences of 35 of the distressed banks had been revoked. In 2000 for instance, the ratio of non-performing loans to total loans of the industry had improved to 21.5% and as at the end of 2001, the ratio stood at 16.9%. In 2002, it deteriorated to 21.27%, 21.59% in 2003, and in 2004, the ratio was 23.08% (NDIC Annual Reports- various years).

Banks and other financial intermediaries are at the heart of the world's recent financial crisis. The deterioration of their asset portfolios, largely due to distorted credit management, was one of the main structural sources of the crisis (Fries, Neven & Seabright, 2002; Kashif, 2008; Sanusi, 2010). To a large extent, this problem was the result of inappropriate lending criteria. More so, loan performance is a major constraint affecting the success and survival of development finance institutions.

This study therefore aims at assessing the impact of non-performing loan on Deposit Money Banks in Nigeria.

1.3   Research Questions

The following research questions are set to guide the conduct of this research finding:

i.   What is the relationship between credit risk management and non-performing loan?

ii.   To extent does non-performing loan affects performance of deposit money banks?

1.4   Objective of the Study

The primary aim of this study is to assess the impact of non-performing loan on Deposit Money Banks in Nigeria. The study seeks to achieve the following specific objectives:

i.   To evaluate the relationship between credit risk management and non-performing loan.

ii.   To examine the extent non-performing loan affects performance of deposit money banks.

1.5 Statement of Research Hypotheses

For the purpose of the study, the researcher will be testing the following hypothesis:

H_{01}: There is no significant relationship between credit risk management and non-performing loan.

H_{02}: There is no significant relationship between non-performing loan and performance of deposit money banks.

1.6 Significance of the Study

The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou, Brissimis, & Delis, 2005). Therefore, loan performance in banks have attracted the interest of academic research as well as of bank management.

The findings of this study will help banks and other financial institutions in formulating effective lending criteria that will reduce bad debts and non-performing loan.

It will enable Nigerian government and other regulatory authorities like Central Bank of Nigeria (CBN) formulate policies and institute reforms that will enhance performing loans.

By examining the relationship between lending criteria and corporate loan performance, it will assist business owners in the preparation of necessary lending criteria in other for them to have access to quick loan.

Finally, academicians and researchers will find this study useful as it shall increases the body of knowledge on loan performance in Nigeria.

1.7 Scope of Study

The scope of this research covers the impact of non-performing loan on Deposit Money Banks in Nigeria, in two selected banks used as case studies. The banks include Guaranty Trust Bank Plc. and UBA Plc. The period under review covered 2004 to 2015; being a period that witnessed series of turbulence and subsequent reforms in the banking sector.

1.8 Definition of Operational Terms

Some term used were defined in order to eliminate some misinterpretation or misunderstanding at the research work. These terms include;

Efficiency: this is the short- term measure of how well on organization uses its resources.

Effectiveness: this refers to how well an organization reaches its objectives over a period of times.

Management: this refers to the act of getting thing done through people or labor by planning, organizing, staffing, motivating, directing and controlling etc.

Performance level: this is the state of act living a designed goal.

Capacity: itrefers to the customer's ability to fulfill his/her financial obligations.

Capital Structure: this isthe financial strength, more so in respect of net worth and working capital.

Character: it refers to the client's willingness to or commitment to meeting loan obligations and the client's past repayment record.

Collateral: is the property, fixed assets or chattels, pledged as security by clients.

Condition: it relates to the general economic climate and its influence on the client's ability to pay.

Credit Crunch: A situation without widespread bank runs, but in which banks are reluctant to lend, because they worry that they have insufficient funds available.

Financial Crisis: The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. Many financial crises are associated with banking panics, and many recessions coincided with these panics.

Financial System: This is a composition of various institutions, markets, instruments and operators that interact within an economy to provide financial services. It can also be seen in the context of sets of rules and regulations, and heap of financial arrangements within the financial sector.

Regulatory Authorities: These are institutions, which are responsible for the orderly development of the financial system. They ensure compliance with laid down rules and regulations guiding their operations.

CHAPTER TWO

LITERATURE REVIEW

2.1   Conceptual Review

2.1.1   Concept of Loan

The loan portfolio is typically the largest asset and the predominant source of revenue. Lending is the ability of bank to loan money on the promise that debtors will repay future. According to Adedoyin and Sobodun in Jimoh (2014), "lending is undoubtedly the heart of banking business. Therefore, its administration requires considerable skill and dexterity on the part of the bank management". While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loan-able avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application.

The prudential guidelines (2001) succinctly convey a more comprehensive definition of credit, it defines credit facility as the aggregate of all loans, advances, overdrafts, commercial papers, bankers' acceptances, bill discounted, leases, guarantees and other loss contingencies connected with a bank´s credit risks. Also, the definition of credit proposed by the CBN Monetary policy circular (1992) agrees with the view above. Generally, we could conclude that credit includes all commitments by a bank that has risk exposure and that may result in financial loss to the bank. Mandel (1974) describes credit simply as the right of a lender to receive money in the future in return for his obligation

to transfer the use of funds to another party in the interim. The facility is as old as man, though in the primitive society it was known as "mutual aid", because it was based on ancient customer of ensuring substance of all members of the community. Credit therefore arises out of the need to bridge the gap between the surplus and deficit economic units such that the highest level of satisfactory function is performed by the financial institutions notable among which are the Money-deposit banks. In agreeing with this view, Abdullahi (2005) state that credit is a crucial factor in growth process of any economy and that by lending banks provide valuable services to the community as they serve to channel money from those who have idle fund to those who put the money in to constructive use.

Furthermore, Acher and Ambrose (2009) opine that Money-Deposit banks are in business to make loans. They however, added that the loan should work out in such a way that it will not seriously endanger the loan portfolio and solvency of the bank. This view appreciates that though some dangers may arise, lending is, and should be a major activity of Money-deposit banks. The techniques and complexities of lending have been changing with growth in the society.

Perhaps that is why Mather (1955) describes banking as an art as well as a science. He went further to say that in addition to the wealth of technical and legal knowledge; a bank manager should develop the aptitudes to assess every request for an advance according to innumerable factor pertaining to the political borrower.

2.1.2   Assessment of Loan

The three processes in assessment of credit in commercial banks include Loan Approval Process, Loan Monitoring Process, and Loan Termination Process. Understanding each of the mentioned processes in the assessment of credit is central to successful loan portfolio management. Because of the significance of a bank's lending activities, the influence of the assessment of credit culture frequently extends to other bank activities. Staff members throughout the bank should understand the bank's assessment credit culture. According to Jimoh (2014), the knowledge should pass from the chief credit policy officer to account officers to administrative support. Directors and senior management should not only publicly endorse the credit standards that are an assessment of credit culture's backbone but should also employ them when formulating strategic plans and overseeing portfolio management

2.1.3   Analysis of Loans

Analysis of loans varies from bank to bank. Some banks' analysis of loans is done using a very conservative approach, as a result of lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk which calls for a rather more sensitive analysis of loans. These differences are grounded in a bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance in all three (Saunders, 2003).

However, the emphasis on approach to analysis of loans will influence how lending activities are conducted and may prompt changes in credit policies and risk control

systems. For example, a bank driven to achieve aggressive growth targets may require more detailed credit policies and more controlling administrative and monitoring systems to manage the analysis of loans. Consistently successful banks achieve a balance between asset quality, growth, and earnings. They have cultural values, credit policies, and processes that reinforce each other and that are clearly communicated, well understood, and carefully followed (Saunders, 2003).

2.1.4 Credit Rating

According to Treacy and Carey, (2000), credit risk rating in large U.S. Banks and development finance institutions are becoming increasingly important in credit risk management. They argued that credit rating summarizes the risk of loss due to failure by a given borrower to pay as promised. However, each development finance institutions' rating systems differ significantly from the other both in architecture and operational design as well as in the uses to which ratings are put. One reason for these differences is that, ratings are assigned by bank personnel and are usually not revealed to outsiders. For large development banks, whose borrowers may number in the tens of thousands, internal ratings are an essential ingredient in effective credit risk management. In short, risk ratings are the primary summary indicator of riskfor banks' individual credit exposures and risk rating are provided mainly by risk rating agencies. Credit rating agencies gather and analyze all sorts of pertinent financial and other information, and then use it to provide a rating of the intrinsic value or quality of a security as a convenient way for investors to judge quality and make investment decisions (Hickman, 2001).

Galil (2002) examines the quality of corporate creditratings in relation to their default prediction power. The focus was on whether ratings efficiently incorporate publicly-

available information at the time of rating, the extent to which ratingclassifications are informative and whether ratingclassifications are consistent across industries and countries of incorporation. The results reveal that ratings could be improved by using publicly-available information such as size, leverage and availability of collateral. Therefore, combining such public information, industry classification with ratings could produce a better assessment of default risk. Despite the fact that ratings have some undesired qualities, the real informational content of ratings cannot be disregarded. Ratings provide a better assessment of default risk than public information alone. This result is consistent with the findings of Kliger and Sarig, (2000) and may confirm that CRA activity adds value, even though ex-post ratings are not found to be entirely consistent across industries and the narrowness of rating categories is found to be not particularly informative.

2.1.5 Credit Risk Management Strategies

The credit risk management strategies are measures employed by banks to avoid or minimize the adverse effect of credit risk. A sound credit risk management framework is crucial for banks so as to enhance profitability guarantee survival. According to Lindergren in Kargi(2011), the key principles in credit risk management process are sequenced as follows; establishment of a clear structure, allocation of responsibility, processes have to be prioritized and disciplined, responsibilities should be clearly communicated and accountability assigned. The strategies for hedging credit risk include but not limited to these;

Credit Derivatives: This provides banks with an approach which does not require them to adjust their loan portfolio. Credit derivatives provide banks with a new source of fee income and offer banks the opportunity to reduce their regulatory capital (Shao & Yeager, 2007). The commonest type of credit derivative is credit default swap whereby a seller agrees to shift the credit risk of a loan to the protection buyer. Frank Partnoy and David Skeel (2006) say that "credit derivatives encourage banks to lend more than they would, at lower rates, to riskier borrowers". Recent innovations in credit derivatives markets have improved lenders' abilities to transfer credit risk to other institutions while maintaining relationship with borrowers (Marsh, 2008).

Credit Securitization: It is the transfer of credit risk to a factor or insurance firm and this relieves the bank from monitoring the borrower and fear of the hazardous effect of classified assets. This approach insures the lending activity of banks. The growing popularity of credit risk securitization can be put down to the fact that banks typically use the instrument of securitization to diversify concentrated credit risk exposures and to explore an alternative source of funding by realizing regulatory arbitrage and liquidity improvements when selling securitization transactions (Michalak & Uhde, 2009). A cash collateralized loan obligation is a form of securitization in which assets (bank loans) are removed from a bank's balance sheet and packaged into marketable securities that are sold on to investors via a special purpose vehicle (SPV) (Marsh,2008).

Compliance to Basel Accord: The Basel Accord is international principles and regulations guiding the operations of banks to ensure soundness and stability. The Accord was introduced in 1988 in Switzerland. Compliance with the Accord means being able to

identify, generate, track and report on risk-related data in an integrated manner, with full audit ability and transparency and creates the opportunity to improve the risk management processes of banks. The New Basel Capital Accord places explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirements (Chen & Pan, 2012).

Adoption of a sound internal lending policy: The lending policy guides banks in disbursing loans to customers. Strict adherence to the lending policy is by far the cheapest and easiest method of credit risk management. The lending policy should be in line with the overall bank strategy and the factors considered in designing a lending policy should include; the existing credit policy, industry norms, general economic conditions of the country and the prevailing economic climate (Kithinji, 2010).

Credit Bureau: This is an institution which compiles information and sells this information to banks as regards the lending profile of a borrower. The bureau awards credit score called statistical odd to the borrower which makes it easy for banks to make instantaneous lending decision. Example of a credit bureau is the Credit Risk Management System (CRMS) of the Central Bank of Nigeria (CBN).

2.1.6 Lending principles and practices of Nigerian Banks

Lending practices in the world could be traced to the period of industrial revolution which increase the pace of commercial and production activities thereby bringing about the need for large capital outlays for projects. Many captains of industry at this period were unable to meet up with the sudden upturn in the financial requirements and therefore turn to the banks for assistance (Ezirim, 2005). However, the emergence of banks in Nigeria in 1872

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with the establishment of the African Banks Corporation (ABC) and later appearance of other banks in the scene during the colonial era witnessed the beginning of banks' lending practice in Nigeria. Though, the lending practices of the then colonial banks were biased and discriminatory and could not be said to be a good lending practice as only the expatriates were given loans and advances. This among other reasons led to the establishment of indigenous banks in Nigeria. Prior to the advent of Structural Adjustment Programme (SAP) in the country in 1986, the lending practices of banks were strictly regulated under the close surveillance of the bank's supervisory bodies. The SAP period brought about some relaxation of the stringent rules guiding banking practices.

Analysis of loans varies from bank to bank. Some banks' analysis of loans is done using a very conservative approach, as a result of lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk which calls for a rather more sensitive analysis of loans. These differences are grounded in a bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance in all three (Saunders, 2003).

However, the emphasis on approach to analysis of loans will influence how lending activities are conducted and may prompt changes in credit policies and risk control systems. For example, a bank driven to achieve aggressive growth targets may require more detailed credit policies and more controlling administrative and monitoring systems to manage the analysis of loans. Consistently successful banks achieve a balance between asset quality, growth, and earnings. They have cultural values, credit policies, and

processes that reinforce each other and that are clearly communicated, well understood, and carefully followed (Saunders, 2003).

Mather in Jimoh (2014) identifies three basic principles that should guide all banks lending viz, safety, profitability and suitability. In addition to the principle enunciated by matter, other important guiding factors include the character and integrity, management accounting and technical skill of the borrower as well as his capacity for hard work and his experience in the particular field for which the finance is required and the possibility of the proposed investment generally sufficient profits, to ensure repayment of the advance.

Credit Policy

Credit policy may be defined as a set of guidelines or policies of action designed to minimize costs associated with credit while maximizing the benefits from it (Ahimbisibwe, 2002). The objective of credit policy to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of Microfinance Institutions as commercial enterprises.

In rgu1ating credit policy managers are concerned about three main variables (elements of a credit policy) namely; credit standards, credit terms and collection procedures (Kargi, 2011). With these variables managers evaluate the credit worthiness of the borrowers, the repayment period and interest on the loan and collection methods and procedures to take in case of loan default. Thus a credit policy of an organization may be lenient or stringent depending on the manager's regulation of these variables.

A lenient credit policy tends to give credit to customers on very liberal, soft terms and standards. The main purpose of a lenient credit policy is to increase benefits through extending more credits to customers (Pandey, 2001)

A stringent credit policy on other ether hand gives credit to customers on a highly selective basis. Only customers who have proven credit worthiness and a strong financial base are given loans. The main objective of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs and disturbances (Pandey, 2001). A firm must try to balance between these two extremes in order to maximize portfolio performance

Credit management is the executive responsibility of determining customer's credit ratings as part of the credit control function (Jimoh, 2014). Credit management is a risky business therefore it should be guided by credit policies in order to contribute to a banl4 success (Credit management course manual, 2000).

According to Johansson and Terry in Kargi (2011), credit policy means procedures aimed at checking and controlling the granting of credit facilities to follow up procedures to obtain collection of debts outstanding. The form credit policy is used to refer to the combination of these discussion variables:-credit standard and Credit efforts on which the financial manager has influence.

Need for credit policy

The essence of credit policy is to maximize the value of a firm (Adams, 2011). An optimum credit policy is achieved through proper adjustment of credit standards, credit

terms and collection efforts. These are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable.

Hulme in Adul (2009) advances that, credit policy provides a framework for i: entire credit management process Policies are a cornerstone of sound credit management, for they set the criterion and parameters to guide bank officers who grant loans and manage the loan portfolio. This ensures operational consistency and adherence to uniform and sound practices.

Credit po1icy is a guide to successful credit administration but benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing clients, acquisition of new ones, must be weighed against costs like production and selling Costs, administration costs, incurred through assessment, supervision and collection of credit and bad debt losses (Pandey, 2001).

Credit policy is aimed at having an optimal investment, that level of investment where there is a tradeoff between the benefits and costs associated with it, that point where the objectives of security liquidity and profitability arc harmonized. Bad debts, un-performing loans and un timely payments can be minimized through proper administration of the credit policy, for example by obtaining collateral, third party guarantors, proper assessment of credit worthiness, optimum interest rate and credit period and setting time limits before which the credit is to be repaid and fines for late payment (Jimoh, 2014)

Credit policy variables

Credit standards; A customer must exhibit financial strength and credit worthiness in order to qualify for a loan. Kalungulu (2004) asserts that credit standards form the basis or the criteria followed to screen and determine who should be offered credit. Only reliable and financially sound clients should be given cre4it. He further asserts that tight credit standards reduce the cost of administration and the risk of bad debt losses. Consequently, setting of credit standards aids the firm to exercise some degree of control over quality of accounts in its portfolio (Kalungulu, 2004)

Block and Hirt in Jimoh (2014) holds the view that firms ascertain the nature of risk in Light of prior repayment compliance, financial stability, current net worth, and many other relevant factors. They should be incorporated in the credit standards, which are used to analyze the clients' credit worthiness.

Carnpsey and Brigham in Kargi (2011) propound that the evaluation of an individual should involve; gathering of relevant information on an applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of '5Cs' criteria as a guide in analyzing credit worthiness. The 5Cs stand for; Character, Capacity, Capital Collateral and Condition. To them, character refers to the client's willingness to or commitment to meeting loan obligations and the client's past repayment record. Capacity refers to the customer's ability to fulfill his/her financial obligations. Collateral is the property, fixed assets or chattels, pledged as security by clients. Capital portends the financial strength, more so in respect of net worth and working capital. Evaluation of capital may be by way of

analyzing the balance sheet using the financial ratios. Condition relates to the general economic climate and its influence on the client's ability to pay.

According to Kargi (2011), in advancing loans, credit standards must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest risk of loss possible.

Credit standards can be tight or loose (Kargi, 2011). Tight credit standards make a firm lose a big number of customers and when credit standards are loose the firm gets an increased number of customers but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery. In agreement with other scholars Van Horne (1994) advocates for an optimum credit policy, which would help to cut through the weaknesses of both tight and loose credit standards so the firm can make profits.

2.1.7 Lending Criteria of Nigerian Banks

Lending Criteria which are used for credit analysis is based on the popular considerations such as the character of the applicant, capacity of the customer to repay the loan, capital in relation to contribution of the customer to the project funding, collateral security being offered by the customer for the loan, condition of the economy, cash generation from the project for repayment, and lastly control of the bank over the loan facility. Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help Banks to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

According to Olayinka (2009), banks generally provide avenue for savings to those who have surplus funds and the bulk of such funds are lent out to needy customers in form of loans and overdrafts. Thus, when a commercial bank is approached for loans, special guidelines have to be followed. He went further to say that such bank has its general principles, for example, some banks use the PAPERS criteria and 5C's of credit lending:- P - Person A - Amount P - Purpose E - Equity R - Repayment S - Security. 5cs are character, capacity, capital, collateral and condition (Olayinka, 2009). The customer is expected to be able to determine fairly accurately how much finance he requires. He should therefore submit a cash budget. The capital resource will also have to be determined to ascertain whether the bank is being asked to lend too much in comparison with the resources.

Character

This consideration is the personal integrity of the customer requesting for the loan, which is relation to his business dealings with the bank and other banks. The bank officers or loan officers would take steps to determine the character of the customer to ensure that they are convinced that the customer has a well-defined purpose for requesting bank credit and a serious intention to repay the funds appropriately. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers & Forgy, 2005). This is the personal impression the client makes on the potential lender. The factors that influence a client can be categorized into personal, cultural, social and economic factors (Osuma, 1996). The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment. Banks consider this factor

by observing and learning about the individual. In most cases it is not considered on first application of credit by an applicant but from the second time. Under social factors, lifestyle is the way a person lives. This includes patterns of social relations (membership groups), consumption and entertainment. A lifestyle typically also reflects an individual's attitudes, values or worldview. Reference groups in most cases have indirect influence on a person's credibility. Banks try to identify the reference groups of their target as they influence a client's credibility.

Capacity

This involves the authorization of the person making the request to make a demand for loan facility, which is normally defined by virtue of his position. Therefore, the bank always takes steps to ensure that the customer requesting credit has the authority to do so. The bank will also consider the approval of the board of directors and the legal standing of the person to sign a binding loan agreement on behalf of his firm. This customer characteristic is known as the capacity to borrow money.

A crucial component of determining credit worthiness is capacity (Titus, 2012). He opines that determining capacity, should be the priority area as all other factors come to support capacity. Capacity refers to ability to meet the loan obligations. The major variable when determining capacity is the nature of cash flows which is contained in business plan of borrowers. In credit, cash is king as loan repayments are made by cash. It follows naturally that capacity to generate revenue and collect all receivables will have a big impact on loan repayment.

Quan, (2002) considers that there are challenges in determining capacity of borrowers by money deposit banks in Africa, due to insufficient or no records. Most banks keep rudimentary records, mostly of sales or cash received in a day (and this is also not done consistently). To make good risk decisions, it is highly important that some sort of financial analysis has to be taken. To do this, the loan officers have to reconstruct the records from available data and borrower's word and generate some financial statements. Hughes (2004) on the other hand argue that other ways used, in addition to financial statements analysis include asking the borrowers how much they can comfortably pay in a month (from personally working with this segment, it's amazing the accuracy with which the borrowers know this figure).

According to Myers, (2001) the importance of analyzing financial statements to determine capacity cannot be gainsaid; however, many borrowers do not use the bank in a way that their bank statement gives a good reflection of their business health (sales growth rate). Money deposit banks have incorporated analysis of mobile money transfer statements in analysis of capacity of potential borrowers. This is because the mobile money transfer has become a common way of settling business transactions and easily recordable (the amount of money that has been introduced into the formal financial market and thus easily factored into economic statistics by mobile money is enormous).

Collateral

The bank will also assess the borrower's security in terms of whether or not it possesses adequate net-worth. The assessment also applies to the quality of the assets in providing adequate collateral support for the loan. The bank officials will be interested in evaluating

the assets of the firm particularly in relation to such considerations as the age, condition, and degree of specialization for the firm's operations.

Collateral is any asset that customers have to pledge against debt (Lawrence & Charles, 1995). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral is in form of hard assets such as real estate and office or manufacturing equipment. Alternatively accounts receivable and inventory can be pledged as collateral. Lenders of short term funds prefer collateral that has duration closely matched to the short term loan According to Weston and Eugene (1966) Securities for bank lending are property pledged as collaterals for loans by borrowers.

Conditions

This has to do with the assessment of the economic conditions and the industry in which the firm operates. The bank officials or credit analysts are to consider the recent trends in the borrower's line of work or industry and the dynamics of the changing economic conditions might impact on the usage of the funds and the repayment. To assess industry and economic conditions, most banks maintain files of information newspaper clippings, magazine articles, and research reports-on the industries represented by their major borrowing customers.

Capital

This refers to the contribution of the customer's business to the financing of the project or which the loan request is desired. This is important because in the absence of any appreciable contribution or the capital base of the business, the customer will not feel that

the firm has any stake in the scheme of things. Therefore, the project may be allowed to fail and the bank will lose its funds.

Capital is measured by the general financial position of the borrower as indicated by a financial ratio analysis, with special emphasis on tangible net worth of the borrower's business. Thus, capital is the money a borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail.

Dhankar *et al*. (1996) in their research noted that sound financing decisions of a firm would ideally lead to an optimal capital structure because capital structure in general had an effect on the cost of capital, net profit, earnings per share, dividend payout ratio and the liquidity position of the firm therefore, when a firm decides to use debt financing for its operations it's faced with a financial risk and it's referred to as a levered firm.

Brigham and Houston (2007) define financial risk as that additional risk placed on common stock holders as a result of the decision to finance using debt. Financing risk is the probability that the earnings of the firm will not be as projected because of the method of financing. Brigham and Houston (2007) continue by saying that financing risk arises because debt has a fixed financing obligation usually in the form of interest which must be met when the obligation falls due before the shareholders can share in the retained earnings. The above gives rise to a possible relationship between capital structure and cost of capital in the sense that additional interest payable reduces the earnings available to shareholders thereby increasing the risk of their investment and consequently

increasing the cost of capital as new investors will require a higher return on equity to compensate for the increased financial risk.

Brigham and Houston (2007) findings also seem to concur with the findings of Dhankar *et al*. (1996) who in their research on cost of capital, optimal capital structure and value of a firm a case of Indian companies noted that change in capital structure and cost of capital were negatively or inversely related because cost of capital decreases with increase in debt levels and that cost of debt was less than the cost of equity because interest payments were tax exempt. Furthermore, since the cost of capital is measured using historical data, the weighted average cost of capital is likely to decrease with the increase in debt. This therefore meant that a change in capital structure is not denoted by a proportionate change in the cost of capital.

Dichev and Skinner (2002) found that financial covenant violations lead to significant modifications to loan agreements in terms of higher interest rates and reduction in credit availability. Chava *et al*.(2008) and Nini *et al.* (2008) in their research found that covenant violations were associated with significant declines in investment spending which arose as a result of inclusion of new covenants limiting investment spending. In addition, Cem *et al.* (2008) found that borrowers with tight covenants significantly decreased their investment spending and net debt issuance after the inception of the loan agreement. Cem *et al.* (2008) further noted an improvement in covenant variable and decline in investment spending and net debt issuance for borrowers with tight covenants that were in compliance with their covenants. They however found no relationship between covenant intensity and the outcome of covenant violation.

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2.1.8 Concept of Loan performance

The concept of loan performance refers to the ratio of non-performing advances (loans) to the total portfolio. A non performing advance/loan is that part of loan whereby interest and principal installment are still outstanding for at least six months after they are due (Mugoya, 1972). It can be calculated as follows:

None performing ratio =   {Non Performing advances} X 100
                            Total loan portfolio

According to CBN report (1992), a ratio of 10% is accepted to be non-performing and the higher the ratio, the worse the loan performance. Performance of loan portfolio may be measured using proxies for credit risk and measures of loan quality such as provision for loan losses, net losses or charge offs, nonperforming assets, return on net assets and return on equity among others. A high proportion of loans to total assets and rapid growth of the loan portfolio are potential early warning signals of loan quality problems which indicate potential failure (Sinkey, 2008). As noted by Adamu (2012), simple comparisons of average loan performance between two groups of borrowers can be misleading if the groups do not exhibit similar distributions of expected returns. If, for example, the proportion of highly qualified non-minority borrowers is substantially higher than that of highly qualified minority borrowers, default rates of non-minority borrowers—observed without controlling for other determinants of credit quality would be lower than those associated with minority borrowers. This finding, however, would simply reflect the differences in average creditworthiness for the two groups of borrowers and would not necessarily indicate differential underwriting standards (Jimoh, 2014). Simple correlations suggest that default probabilities differ significantly by loan,

borrower, and location characteristics. For example, higher default rates appear to be associated with higher loan-to-value ratios, lower incomes, and smaller loanamounts. Another caveat is that the basic theoretical prediction that discrimination results in better observed relative loan performance depends on the assumption that lending bias takes the form of different standards of creditworthiness for different groups.

Non-performing loans are loans that are past due and unpaid for more than 90 days (usually equally to three dates of payments) (Bundasbank, 2003; Hamberger & Diehm, 2004; Cortavarria *et al.,* 2000) and a performing loan is that which is serviced as agreed between the financial institution and the client. Okurut, Banga and Mukung (2004) say that banks work best when they disclose and measure their performance. Accurate standardized performance is imperative and this takes into account both social (number of clients reached and their poverty levels) and financial information display in terms of interest rates, loan repayment and cost recovery.

Arene (2002) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, distance between home and source of loan, education, household size, adoption of innovations, and credit needs. Von (2000) identifies two problems as major causes of poor loan recovery performance: credit project design problems and credit project implementation problems.

Credit project design problems include debt versus equity, realism versus aspiration (how realistic the projection of the project designer is), expected value versus dispersion

(detailed consideration of the variety of results which occur in the field), book keeping convenience versus borrower cash flow patterns, collection mechanism, institutional scope or range of services offered and interest rates. Credit project implementation problems include low service levels, coordination, access (i.e. information problem and lack of decision making experience in lending to specific target groups) and financial recording. The findings above revealed that the probability of loan repayment depends on the borrowers' specific characteristics (i.e. age, education, experience, sex, household size, loan utilization), loan contract terms (i.e. repayment installment, collateral, frequency of maturity, grace period, loan volume, interest rate, number of disbursement) and other factors such as political influence, technical advice, level of social cohesion (for micro enterprises).

Louis and Henry (2003) opine that, there have been persistently high non-performing assets that have pervaded the banking system for a prolonged period of time. This situation was partly a result of poor culture of loan repayment compounded by economic decline suffered in the 1970s and 1980s. The risk aversion tendency is based on the experience of poor loans repayment over many years. This has led to exceptionally high lending rates and interest rate spreads. Since 1994, interest rate spreads have remained between 10-20%, while the lending rates have fluctuated between 10-25% since 1996. It should be noted that these high rates also constrain private sector demand for credit.

Berger and De Young (2008) analyze the relationship between cost efficiency and NPLs in an ambivalent way that the higher the NPL-volume the lower the cost efficiency; nevertheless, mismanagement also lead to a rising amount of bad loans. Louis et al. (2003) state that, the financial institutions themselves have suffered from governance and

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management weakness that have resulted into weak internal controls, inability to accurately assess lending risks, monitor loans and recover loans. In some situations, there have been shortages of skills and strong social pressures on loan officers to favour certain borrowers especially those who are politically connected. The failure to correctly assess the creditworthiness of borrowers arises because of information asymmetry and the resultant adverse selection problem. To circumvent this problem, banks have generally required firms to pledge more collateral than the value of the credit they receive and/or limited their services to prime borrowers whose reputation, collateral and other types of guarantees reduce the default risk to a minimum. It is noted that prime borrowers are mainly foreign firms that enjoy the trust of foreign owned banks, dominating the banking sector.

Financial stability is mostly about profitability which is expected to have a number of positive effects in terms of performing loans than the non performing loans (NPLs), (Tetime et al., 2002). The operating policy guidelines should focus on ensuring that Banks have sustainable growth to guarantee the community access to financial services by the poor, by maintaining a ratio of 20:1 of performing loans to non-performing loans since previous research shows that non-performing loans are part of many financial institutions, (Robyn, 2002). This provides tangible means like expanded loans advances and credits, growth in financing sources, import and export benefits and expansion facilities.

Banks are about building a permanent local institution. Gleh (2002) argues that when the poor eventually become empowered financially, they instead get to borrower bigger sums of money which is an advantage to the Banks since that means it is rolling towards

sustainability. This will also reduce institution dependence more on donors and government funds; it will be able to stand on its own. All Non-Performing Corporate Loans (NPLs) shall be written off; one month after the loan is classified as "Loss". This shall however not extinguish the Bank's right of recovery of such written-off loans, (Bundasbank, 2003; Hamberger & Diehm, 2004; Cortavarria *et al.,* 2000).

2.1.8   Obstacles of Effective Performance

As should be expected in most business enterprises in developing economies the banking industry has certain factors that are militating against the effective performance of their lending function. Most of the people operating various businesses in Nigeria are illiterates. They do not easily understand nor do they appreciate reasons a lot of difficulties are encountered if loans are mismanaged. Explaining to such business men and women ways and means of improving their account with the bank before asking for loan is usually a mere waste of time. They would prefer to offer kickbacks than to understand the simple operation of the system. *The* credit departments of some banks do not have the required level of man power and the will needed to perform difficult and technical transactions involved in lending (Jimoh, 2014).

Factors Responsible for Customer's Default

According to Onwudiegwu (2001), the concept of default is less obvious than it first seems, for it could result from non - or delayed payment of interest and or principal for a given period. One or a combination of the following factors could contribute immensely to default especially in a depressed economy. The more one borrows; the more one would want to borrow consequently. The volume of the loan would increase which decreases the

ability to repay as opposed to the willingness to repay. The ability to repay increases with increased net income although that does not say anything about the willingness to repay. One would expect borrowers with high net income to have low debt/equity ratio, the lower the debt/equity ratio, the higher the ability to repay. The effect of high net income and low debt/equity ratio is a precaution for borrowers to build up valuable assets.

Onwudiegwu (2001) equally posits that, as the value of the collateral increases, the default rate is expected to decline. Where there is income variance as a result of economic or natural circumstance, credit service ability per individual borrower decreases and hence default could increase. Such income variances are common in agricultural and manufacturing sectors. The higher the interest rate, the more the outstanding balance the borrowers have to pay considering the principal. Rate of inflation has link with the real interest to be paid by the borrowers. If inflation is higher than the interest rate, it will mean that the lending bank would be paying borrowers to take its loans. The close monitoring of borrowers to ensure a loan is not diverted to unproductive use, though costly, has a lot of bearing on ability of the borrower to repay. The effort is put in ensuring utilization of a facility, the less chance of default.

Strategies for improving Loan's Performance

According to Mutesasira in Jimoh (2014), loan loss risks should be minimized on the outset of loan assessment based on the borrowing capacity and credit worthiness of the applicant. Mutesasira in Jimoh (2014), in agreement with Pandey (2003) and Van Horne (2000) assert that when there is evidence or plausible reason to assume that the client target groups are unable to make profitable investments with their loans and repay them,

they should not receive credit. They also agree that target groups who have deliberately refused to repay loans in the past should be altogether excluded from future lending.

However, careful borrower selection is not sufficient enough to remove risks during the loan period. (CBN reports, 1997). Close loan monitoring or in some cases strict loan and or collateral repossession by the lending institution is called for. Any weakness in these areas encourages delinquency, delay in repayment, which can easily result in loan loss. Therefore, ongoing up-to-date monitoring of all borrowers and consistent procedures for repossession are necessary.

According to Ahimbisibwe (2002), and Alade (2012), commercial lending system incentive and sanction mechanisms are the main instruments for guiding client behavior and have proved more effective than conditions and rules. Positive financial incentives for borrowers such as interest discounts for timely and full repayment have proved successful. On the other hand, freezing loans are consistently barring defaulters from future loans art: effective sanctions in a long term lending relationship.

In line with the CBN reports (1997), a policy, which favors a system of staff incentives, is particularly important; the personal loan portfolio quality of each loan officer should be utilized as a basis for performance tied remuneration. In addition Soludo (2011), Puxty and Dodds (2001), all agree that collateral should be required in the broadest sense for small and micro Loans. Because microfinance institutions serve poorer segments of the population who are unable to provide traditional forms of collateral such as land titles and mortgages, other securities like household goods, furniture, commercial goods, livestock and market stalls can act as chattel mortgages in more flexible loan security policies.

Other securities may include borrowers' credit worthiness over the past period, client deposit balances and group guarantee in solidarity groups.

According to Ahimbisibwe (2002), despite the utilization of all types of preventive measures, the risk of loan loss remains. Repayment risks can be reduced by various measures and incentives but external risks to lending are always impossible to calculate especially in rural areas. So, adequate loan loss provisions must minimize the remaining risk.

It is also important to diversify the loan portfolio over different branches, locations, scales of enterprises, loan amounts and loan periods. The loan portfolio should be diversified for both reasons of risk and efficiency; high business volume reduces average unit cost, hence higher credit returns.

Loan Recovery

In simple terms, loan recovery refers to the pay back of the principal loan amount together with interest (Wamasembe, 2002). In spite of the measures taken by microfinance institutions such as project appraisal, client monitoring, collection effort and a score of other aspects, recovery rates leave a lot to be desired.

Webster (2001) propounds that the economic environment cause poor collection. She indicates the relationship between income per capita and collection performance. High repayments are traced in countries with high per capita incomes and the reverse is true. Thus, suggesting that it is difficult to recover loans in poorer areas because of less favorable conditions.

Abdullahi (2006) stipulates that the incentive argument to explain how recovery loan is maximized. They articulate that borrowers are more likely to repay when their relationship with the creditors is valuable to them. if a loan is perceived as a grant or political hand-out, or the lender is considered to be transitory unlikely to provide additional services in future, then the incentive to repay is diminished.

Suruma (1996) states that, "the problem of moral integrity remains a fundamental problem inside and outside financial institutions. Inside, frauds and outright theft are a continuing problem; outside, non-repayment of loans by diversion of repayment funds to new activities remains a serious obstacle to loan recovery."

Semukono (2002) says that credit institutions have suffered from inadequate planning and inefficient operation. These deficiencies have resulted into an imbalance between banks' supply led loan portfolio and mobilization of savings. Subsequently, they have become more disbursement avenues rather than full service financial institutions. With low motivation and impetus, they have become victims of inadequate credit evaluation, management and monitoring, inevitably leading to low loan recovery.

2.2   Empirical Review

Recent studies of lending activity have documented large and persistent disparities on the relationship between appraisal and performance (Audu, 2012). From the studies done on mortgage lending to minority and nonminority borrowers in the United States, the basic premise is that biased lenders will require higher expected profits for loans to minority borrowers and hold minority applicants to underwriting standards in excess of those required for other applicants (Becker, 1971). Thus discrimination through

appraisal process results in lower expected default costs for loans originated for marginally qualified non-minority borrowers (Munnell et al., 1992). This premise implies that biased lenders may hold minority applicants to more stringent underwriting standards than those required for other applicants (Jimoh, 2014). Thus discrimination results in lower expected default costs and higher expected profits for loans originated for marginally qualified minority mortgage borrowers in comparison with those observed for marginally qualified non-minority borrowers. It is important to note that this theory assumes that discrimination against minorities occurs at the margin, affecting those who are near the borderline for creditworthiness, and excludes the possibility that the discrimination is unrelated to credit risk. The theory predicts that this discrimination changes loan performance at the margin. Thus inferencesabout discrimination that are made from loan performance data must distinguish between average and marginalloan performance.

Peters (1995) also supports this argument by stating that simple comparisons of average loan performance between two groups of borrowers can be misleading if the groups do not exhibit similar distributions of expected returns in the absence of distribution.

However, assessing credit worthiness based on repayment potential requires certain skills. The success or failure of this policy depends to a large extent on accurate appraisal of the customer's repayment capacity (Hurlmutt, 1997). In a paper on movement towards large and more complex banking, quality loan performance depends on bank- borrower relationship and the loan officers' capability to appraise the borrower's ability to pay.

2.3 Theoretical Review

The theoretical framework for this study is adapted from the following theories.

2.3.1 Loan Pricing Theory

Banks cannot always set high interest rates. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz & Weiss, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behaviour or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the reasoning of Stiglitz and Weiss (1981), it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

2.3.2 Firm Characteristics Theory

This theory predict that the number of borrowing relationships will be decreasing for small, high-quality, informational opaque and constraint firms, all other things been equal (Godlewski & Ziane, 2008).

2.3.3 Theory of Multiple-Lending

It is found in literature that banks should be less inclined to share lending (loan syndication) in the presence of well-developed equity markets. Both outside equity and mergers and acquisitions increase banks' lending capacities, thus reducing their need of greater diversification and monitoring through share lending (Carletti, 2006; Ongene &

Smith, 2000; Karceski, 2004; Degryse, 2004). This theory has a great implication for banks in Nigeria in the light of the recent 2005 consolidation exercise in the industry.

2.3.4   The Signalling Arguments

The signalling argument states that good companies should provide more collateral so that they can signal to the banks that they are less risky type borrowers and then they are charged lower interest rates. Meanwhile, the reverse signalling argument states that banks only require collateral and or covenants for relatively risky firms that also pay higher interest rates (Chodechai, 2004; Ewert & Schenk, 1998).

2.3.5   Credit Market Theory

A model of the neoclassical credit market postulates that the terms of credits clear the market. If collateral and other restrictions (covenants) remain constant, the interest rate is the only price mechanism. With an increasing demand for credit and a given customer supply, the interest rate rises, and vice versa. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium (Ewert, 2000).

2.3.6   Hold-up and Soft-Budget-Constraint Theories

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget-constraint problems. According to the hold-up literature, sharing lending avoids the expropriation of informational rents. This improves firms' incentives to make proper investment choices and in turn it increases banks' profits (Von Thadden, 2004; Padilla & Pagano, 1997). As for the soft-budget-constraint problem, multiple-bank lending enables banks not to extend further inefficient credit, thus reducing firms' strategic defaults. Both of these theories

consider multiple-bank lending as a way for banks to commit towards entrepreneurs and improve their incentives. None of them, however, addresses how multiple-bank lending affects banks' incentives to monitor, and thus can explain the apparent discrepancy between the widespread use of multiple-bank lending and the importance of bank monitoring.

2.4   Summary

The chapter gave an overview of concept of loan, loan performance and it discusses empirical review. It ends by looking at theoretical review.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1   Research Design

Research design is the framework which specifies the type of information to be collected, the sources of data and data collection procedure. In essence, research design refers to the plan structure and strategy of investigation conceived by the researcher so as to obtain answers to research questions. Hence the research design applied in this study is the survey design.

The survey approach is used because it involves collecting data in order to answer research questions as well as to test hypothesis related to the study.

3.2   Population, Sample and Sampling Techniques

The geographical location of this study was Abuja, Nigeria. The study population for the survey research was all credit officers of Guaranty Trust Bank Plc. and UBA Plc. There was a total of Sixty-Four (64) staff in the Zonal Head Office, Abuja which forms the total population of this study.

The sample size computed by Taro Yamani sample selection method (Guilford & Frucher, 1973) as stated below:

According to Yaro Yamani, $n = N / [1 + (Ne^2)]$,

Where: n is the sample size,

N is the population,

e is the error limit (0.05 on the basis of 95% confidence level)

Therefore, $n = 64/ [1 + 64(0.05^2)]$

$$n = 64/ 1.16$$

$$n = 55$$

Based on the calculation, the sample size of 55 with error limit of 5% is considered appropriate for this study. A total number of 55 copies of the questionnaire will be distributed.

3.3 Method of Data Collection

Primary and secondary data required for the study were diligently sourced. The primary data was sourced from credit officers of Guaranty Trust Bank Plc. and UBA Plc., with the use of designed questionnaire and personal interview conducted. The data gathered were statistically analyzed and tested in order to draw conclusions.

The secondary data were obtained journals, financial reports, and periodicals. Other sources of the secondary data were management journals, Newspapers, textbooks, scholarly internet publications as well as seminar papers.

In order to obtain necessary information, structured questionnaire was designed. The likert five point scales method was used in designing the questionnaires, which included Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree.

3.4 Technique for Data Analysis

Data collected with the use of research instrument were analyzed and interpreted using the simple percentage method. Thus, each statement in the questionnaire as well as the response from the closed-ended questions was analyzed using simple percentage method.

Hypotheses would be tested using Chi-square (x^2) test statistical at 5% level of significance and (k-1) degree of freedom, where k = number of options with the aid of the Package for Social Sciences (SPPS) version 21. Hence, the following formula would be used in computing the chi-square value of the data.

Model Specification

The formula for chi-square

$$X^2 = \sum \frac{(Qi\text{-} Ei)^2}{E1}$$

Where

X^2 = chi-square

$\sum$ = summation

O_i = Observed frequency

E_i = Expected frequency

Decision Rule

If x^2 calculated exceeds (that is greater than) X^2 tabulated at 5% level of significance and (k-I) degree of freedom, accept the null hypotheses (H_o), otherwise reject.

3.5 **Justification for Methods**

The choice of descriptive research design is based on its broadness. Basically, it collects data for each item or variable for two or more distinct periods; it analyses two or more cases that are comparable from one period to the next; and the analysis involves some comparison of data between or among periods (Menard, 1991).

The justification for the use of Chi-square test was based on the quantum of data available for the computation. The use of the Taro Yamani was because it determines the consistency of scales used to measure study sample (Mulondo, 2011).

The questionnaire was close-ended and designed in a simple-to-answer form as it provides columns for the respondents to tick any of Strongly Agree, Agree, and Disagree, strongly disagree or undecided options. The five alternatives ensured that respondents gave accurate answer as they could only tick under "undecided" where they are not sure.

3.6   Summary

The chapter discussed variables used in the study. It begins by research design; it discusses empirical review, population of the study and sampling techniques, methods of data collection and methods for data analysis. It ends by looking at justification for the method of data analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1   Data Presentation and Analysis

The presentation and analysis of this research work was purely based on the evaluation of the data gathered in the course of this research work. The result from the use of questionnaire and interview conducted will be evaluated. From the research questions in chapter one, it could be seen that questionnaire can only be used for some direct questions while interviews and observation will be appropriate in order areas for technical questions.

Therefore, the analysis of data in this chapter is based on the data collected by or any of questionnaire interview and observation. A total number of 50 questionnaires were administered on selected staff of Guaranty Trust Bank Plc. and UBA Plc., and all the 50 questionnaires were returned duly completed by the respondents. The analyses of respondent's responses were done using simple percentages.

Response Rate

Institution	Frequency	Percentage
First Bank Plc.	50	100
Total	50	100

Source: Field Survey 2017

According to the results in the table above, all the 50 questionnaires distributed to respondents were returned completed representing 100% response rate.

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TABLE 4.2.1:Gender Classification

VARIABLES	RESPONDENTS	PERCENTAGE
Male	34	78
Female	16	32
Total	**50**	**100%**

Source: Field Survey 2017

The above table shows that the organizations have more male staffs and more than their female counterpart. This implies that the number of staffs that will not be disturb with domestic activities are more than the numbers that will be disturb with domestic activities.

TABLE4.2.2: Age Classification

VARIABLES	RESPONDENTS	PERCENTAGE
18-25 Yrs	2	4
26-29 Yrs	24	48
30-39 Yes	20	40
40 and above	4	8
Total	**50**	**100%**

Source: Field Survey 2017

This table shows the various age categories as contained in the questionnaire. It shows that the respondents are made up of men and women who are young and dynamic to be innovative in administration.

TABLE 4.2.3:Marital Status

VARIABLES	RESPONDENTS	PERCENTAGE
Single	14	36
Married	24	60
Widowed	2	4
Total	**50**	**100%**

Source: Field Survey 2017

The analysis of the table reveals that, 36% of the respondents are single, 60% of the respondents are married, while 4% of the respondents are widowed. It is the general believe in the society that a married or widowed person is more responsible and reliable. This implies that they will be more devoted to their duties.

TABLE 4.2.4: Educational Qualification

VARIABLES	RESPONDENTS	PERCENTAGE
WASCE/SSC/GCE	3	6
OND/NCE	10	20
B.SC/HND	30	60
MSC/MBA/PHD	7	14
Total	**50**	**100%**

Source: Field Survey 2017

The above table reveals the qualifications of the respondents. From the above analysis, one can deduce that most of the workers of the bank are qualified to understand the affairs of the company, except people with WASCE which is just 6% of the total respondents. This implies that the workers of the bank are qualified to understand the affairs of the company.

TABLE 4.2.5: Department of Respondents

VARIABLES	RESPONDENTS	PERCENTAGE
ADMIN	0	0
OPERATIONS	0	0
CREDIT	50	50
Total	**50**	**100%**

Source: Field Survey 2017

This table shows the departments of the various respondents to the questionnaire. The respondents are all credit staff. This implies that the respondents will have good knowledge of loan in the bank.

TABLE 4.2.6: Assessment of business plan from all clients/ borrowers before granting loan.

Responses	RESPONDENTS	Percentage
Strongly Agree	25	50
Agree	17	34
Neutral	3	6
Disagree	5	10
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The table above shows that 50% of the respondents strongly agree that banks assess business plan from all clients/ borrowers before granting loan, 34% agree while 6% are neutral and 10% disagree. This implies that banks assess business plan from all clients/ borrowers before granting loan.

Table 4.2.7: Assessment of relevant experience of the loan applicants.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	17	34
Agree	28	56
Neutral	3	6
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

Table 7 above shows that, 34% of the respondents strongly agree that banks assess relevant experience of the loan applicants, 56% of the respondents strongly agree, 6% are undecided, while only 4% disagreed. This implies that banks assess relevant experience of the loan applicants.

TABLE 4.2.8: Effects of credit risk management on loan performance.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	35	70
Agree	13	26
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The above table shows that, 70% of the respondents strongly agree and 26% agree that banks assess cash flow projections of a given project before granting loan; however and 4% disagree. This implies that banks assess cash flow projections of a given project before granting loan.

TABLE4.2. 9: Interest coverage ratio is important before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	18	36
Agree	30	60
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

For the table above, only 36% strongly agree while 60% agree that the Interest coverage ratio is important before granting loan. However, 4% of the respondents disagree, while none of the respondents strongly disagreed. This implies that banks consider interest coverage ratio before granting loan.

TABLE4.2.10: We analyze growth in sales of our borrowers before granting   loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	13	26
Agree	17	54
Neutral	3	6
Disagree	2	4
Strongly disagree	5	10
Total	**50**	**100**

Source: Field Survey 2017

The above analysis indicates that 26% of the respondents strongly agree and a higher 54% agree that banks analyze growth in sales of our clients/ borrowers before granting loan. However, 6% of the respondents are neutral, while 4% and 10% disagree and strongly disagree respectively. This implies that banks analyze growth in sales of our clients/ borrowers before granting loan.

TABLE 4.2.11: Financial analysis determines credit strength of a client before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	18	36
Agree	30	60
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The table above indicates that, 36% and 60% of the respondents strongly agree and agree respectively that financial analysis were done to determines credit strength of a client before granting loan. However, 4% of the respondents disagree. This implies that financial analyses were done by banks to determine credit strength of a client before granting loan.

TABLE 4.2.12: Assessment of the net worth of the business before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	35	70
Agree	13	26
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The above table shows that, 70% of the respondents strongly agree and 26% agree that banks assess net worth of the business before granting loan; however and 4% disagree. This implies that banks assess net worth of the business before granting loan.

TABLE 4.2.13: Assessment of the relationship between non-performing loan and banks performance.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	18	36
Agree	30	60
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

For the table above, only 36% strongly agree while 60% agree that there is a relationship between non-performing loan and banks profitability. However, 4% of the respondents disagree, while none of the respondents strongly disagreed. This implies that there is a relationship between non-performing loan and banks performance.

TABLE 4.2.15: Assessment of for past financial reports from all clients before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	13	26
Agree	17	54
Neutral	3	6
Disagree	2	4
Strongly disagree	5	10
Total	**50**	**100**

Source: Field Survey 2017

The above analysis indicates that 26% of the respondents strongly agree and a higher 54% agree that banks assess past financial reports from all clients before granting loan. However, 6% of the respondents are neutral, while 4% and 10% disagree and strongly disagree respectively. This implies that banks assess past financial reports from all clients before granting loan.

Table 4.2.16: Assessment of the quality of financial report presented before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	17	34
Agree	28	56
Neutral	3	6
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

Table 16 above shows that, 34% of the respondents strongly agree that banks assess the quality of financial report presented before granting loan, 56% of the respondents strongly agree, 6% are undecided, while only 4% disagreed. This implies that banks assess the quality of financial report presented before granting loan.

TABLE4.2.17: Analyze financial reports before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	35	70
Agree	13	26
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The above table shows that, 70% of the respondents strongly agree and 26% agree that banks analyze financial reports before granting loan; however and 4% disagree. This implies that banks analyze financial reports before granting loan.

TABLE 4.2.18: Assessment of how non-performing loan impact on banks profitability.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	30	60
Agree	16	32
Neutral	1	2
Disagree	2	4
Strongly disagree	1	2
Total	**50**	**100**

Source: Field Survey 2017

The above table shows that, 60% of the respondents strongly agree and 32% agree that, non-performing loan has impact on banks profitability, 4% disagree, and only 2% were neutral and also strongly disagree respectively. This implies that non-performing loan has impact on banks profitability.

TABLE 4.2.19: Assessment of how non-performing loan affects service delivery in banks.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	35	70
Agree	13	26
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

The above table shows that, 70% of the respondents strongly agree and 26% agree that, non-performing loan affects service delivery in banks; however and 4% disagree. This implies that non-performing loan affects service delivery in banks.

TABLE 4.2.20: Assessment of capitalization of the business before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	18	36
Agree	30	60
Neutral	0	0
Disagree	2	4
Strongly disagree	0	0
Total	**50**	**100**

Source: Field Survey 2017

For the table above, only 36% strongly agree while 60% agree that banks assess capitalization of the business before granting loan. However, 4% of the respondents disagree, while none of the respondents strongly disagreed. This implies that banks assess capitalization of the business before granting loan.

TABLE 4.2.21: Assessment of the long term planning horizon of every loan applicant before granting loan.

RESPONSES	RESPONDENTS	PERCENTAGE
Strongly Agree	13	26
Agree	17	54
Neutral	3	6
Disagree	2	4
Strongly disagree	5	10
Total	**50**	**100**

Source: Field Survey 2017

The above analysis indicates that 26% of the respondents strongly agree and a higher 54% agree that, banks assess long term planning horizon of every loan applicant before granting loan. However, 6% of the respondents are neutral, while 4% and 10% disagree and strongly disagree respectively. This implies that banks assess long term planning horizon of every loan applicant before granting loan.

4.2   Data Analysis and Results

Having established and given the analysis and discussion of data findings, it is now necessary to clarify how they relate to the postulated hypotheses. The hypotheses will be tested using Chi-Square statistical tool for test of significance.

HYPOTHESIS 1

H$_{01}$:   There is no significant relationship between credit risk management and non-performing loan.

The above hypothesis is tested using data from table 4.2.18.

Table 4.3.1

	Observed N	Expected N	Residual
Strongly Disagree	1	10.0	-9.0
Disagree	2	10.0	-8.0
Slightly Agree	1	10.0	-9.0
Agree	16	10.0	6.0
Strongly Agree	30	10.0	20.0
Total	50		

Table 4.3.2

Test Statistics

	LP
Chi-Square	66.200[a]
Df	4
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 10.0.

Decision: Since the calculated table value (X^2 cal) is 66.2 which is greater than tabulated value (X^2 tab) of 9.49, then we accept the alternative hypothesis (H_1) which states that, there is a significant relationship between credit risk management and loan performance, hence we reject the Null Hypothesis (H_o).

HYPOTHESIS 2

H_{02}: There is no significant relationship between non-performing loan and performance of deposit money banks.

The above hypothesis is tested using data from table 4.2.13.

Table 4.3.3

	Observed N	Expected N	Residual
Disagree	2	16.7	-14.7
Agree	30	16.7	13.3
Strongly Agree	18	16.7	1.3
Total	50		

Table 4.3.4

Test Statistics

	BP
Chi-Square	23.680[a]
Df	2
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.7.

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Decision: Since the calculated table value (X^2 cal) is 23.68 which is greater than tabulated value (X^2 tab) of 9.49, then we accept the alternative hypothesis (H_1) which states that, Risk management significantly impact on loan performance., hence we reject the Null Hypothesis (H_o).

4.3   Discussion of Findings

The survey confirmed that non-performing loan impacted on banks profitability as follows:

i.   Bad debts destroy loan which are banks earning assets. They are the source of earning as well as the essential determinants of the liquidity and ultimate solvency of the bank. It is these earnings that translate into cash, which of course is the life and blood of any business. Eating them up therefore, amounts to slamming death certificates on banks. This findings conform to Peters (1995) who stated that Bad debts destroy loan which are banks earning assets.

ii.   Due to the fact that the higher the bad debts written off from the profit of the bank, the lower the net profit and, therefore, the amount available for distribution as dividends to shareholders and, in fact, the amount ploughed back into the business to enhance its future revenue earning capacity.

iii.   Since credits (loans and advances) are funds availed the deficit unit for investment purpose, the amount available for future credit is lowered. Because the loan is lost, it becomes impossible to re-cycle that particular fund

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(as demonstrated above), which may have enabled new projects, take off or existing ones expand. The success or failure of this policy depends to a large extent on accurate appraisal of the customer's repayment capacity (Hurlmutt, 1997).

iv. Social services to communities by government are covered because lowered taxes result from reduced profits occasioned by bad debts. This is in agreement with the findings of Peterson (1981).

v. The banking culture is threatened due to lack of confidence in the financial system. This supports the findings of Mullen (1992) who found that banking culture is threatened due to lack of confidence in the financial system.

vi. Reduction on the amount available for shareholders as dividends due to reduction on profits occasioned by bad debts. This conforms to excess of those required for other stakeholders (Becker, 1971).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Summary

The aim of this study is to examine the impact of non-performing loan on banks profitability of which First Bank of Nigeria Plc. was studied. The general description of the area of study, which depicted the inevitability of performing loan in achieving higher loan performance in a money deposit banks, was stated. In the course of the study, statement of problem such as; the existences of predatory debtors in the banking system whose modus operandi involves the abandonment of their debt obligations in some banks only to contract new debts in other banks, their unwillingness to repay their debts and how to ensure that loans are giving to debtors that can repay were pointed out. To identify the relationship between non-performing loan and banks profitability, to evaluate the impact of non-performing loan on banks profitability and to examine the extent non-performing loan affects service delivery in banks form essential part of the objectives of the study. Questions relating to the objectives and problems were also looked at.

The study looked into some review literatures that covered different models and theories on loan performance, various definitions given by several scholars, different means of loan performance. Various textbooks, journals, articles and other scholarly materials were used to get terms, ideas, concepts and academic as well as professional view point.

The credit officers of the studied bank were selected as the study population with the use of Taro Yamane sampling technique. Both primary and secondary data were also used for this research work. The primary data was based on questionnaire while the secondary data was based on published and unpublished works. The data collected were processed and analyzed. Data analysis, cross tabulations, and frequency tabulations and chi-square was used to present the results of the study, while the findings of the study were discussed.

5.2   Conclusions

In conclusion, lending involves more risk than virtually any other banking activities. Not all loans should be granted. A profitable loan, which is not safe, should not be granted. The attitude of most borrowers towards loans and advance granted to them should not be ignored – as they regard such credit facilities as their own share of the national cake. Moreover, some fraudulent bank officials receive bribe before approving loans, some officials still bargain the percentage of the credit to be given to them before the approval is made. These eventually lead to poor appraisal of such facility and as well in danger of becoming a doubtful debt because such a bank officials will lack the moral justification to pursue and recover the loan.

Furthermore, failure of banks to make use of trained, qualified and experienced personnel in their credit management is a problem that should be addressed Management should therefore analyze the nature of risk carefully before extending credit. Efficient and effective credit management remains a hidden treasure the exact value of which undiscerning boards may be unaware. Efficiency should be predicated on a high quality

credit management and adherence to professional banking ethics. It is however, gratifying that, to ensure compliance by enthroning deterrence, the CBN plans a Credit Risk Management Bureau to stem the activities of bad debtors. Credit Bureau (Alao, 1996) is envisaged to provide information on bank debtors and their profit to enable banks take decisions on persons applying for loans. This is to arrest the ignoble activities of bad debtors and their accomplices who move from one bank to another leaving a trail of non-performing loans. This will enhance the compilation of "Bad Debtors Black Book" advocated by Sadiku (1993). If this book is introduced, people will be scared to have their names in that register.

5.3 Limitations of the Study

There is no research carried out which would not encounter difficulties in one way or the other. Just as many other research works, this one too is may be faced with the following constraints:

Funding; the study needs to be properly financed so as to gather enough information.

Another militating factor will be time. As it is known that the study would be combined with course work, which will make the time available too limited.

Lastly, the attitude of Nigerians towards research is another problem, Nigerians are known to have negative attitude towards research.

5.4 Recommendations

The prescription for bad and doubtful debts in Nigeria Commercial Banks could be resolved through the following recommendations:-

a. Banks Management should establish sound lending policies, adequate credit administration procedure and an effective and efficient machinery to monitor lending function with established guidelines.

b. Reduction of interest rates on lending.

c. The character and financial statement of the borrower must be properly studied.

d. The Central Bank of Nigeria should re-introduce interest rate regulation on banks.

e. Banks should be making public the names of bad and doubtful debtors (by compilation of bad debtor black book in banks).

f. For agricultural lending, the rate should be pegged; say 5% while banks that extended such credits to farmers should be allowed to recoup their loss margin through fax rebate among other incentives.

g. Giving business advisory services to customers and further extension of credit to alleviate a promising problem loans.

h. Finally, the financial institutions should all together, set up credit bureau system which is a form of data bank where every bank will submit the names of its defaulting customers for references by others. This will equally frustrate multiple borrowing from banks for the same purpose by the dubious customers.

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APPENDIX

QUESTIONNAIRE

I am a final year student of University of Abuja and currently carrying out a research on the topic title "Impact of Non-performing Loan on Deposit Money Banks in Nigeria". A case study of Guaranty Trust Bank Plc. and UBA Plc.

Members of staff of this institution have been selected as a unit of analysis. Please kindly respond to the questionnaire by filing in as appropriate. The information given through this questionnaire is purely for academic purposes, but the recommendations there from may be beneficial to your organization. Your response will be treated with utmost confidentiality.

IBEZIM JOSEPH

NSU/ADMIN/MBA/BUS/206/15/16

GENERAL INFORMATION

(Tick the appropriate box)

1.   Gender

   a) Male   ☐   Female   ☐

2.   Age

   a) 20-30 years ☐ b) 31 -40 years ☐ c) 41- 50 years ☐ d) above 50 years ☐

3. Marital Status

a) Married ☐ b) Single ☐ c) Divorce ☐   d) Widow ☐

4. Education

a) Diploma   b) Degree   c) Masters   d) Phd and above

5.   Have you ever worked in a credit department before?

a) Yes   ☐ b) No.   ☐

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices.

		5	4	3	2	1
		SA	A	U	D	SD
1	Assessment of business plan from all clients/ borrowers before granting loan					
2	Assessment of relevant experience of the loan applicants					
3	Effects of credit risk management on loan performance.					
4	Interest coverage ratio is important before granting loan					
5	We analyze growth in sales of our clients/ borrowers before granting loan					
6	Financial analysis to determines credit strength of a client before granting loan					
7	Assessment of the net worth of the business before granting loan					
8	Assessment of the relationship between non-performing loan and banks profitability.					
9	Assessment of for past financial reports from all clients before granting loan					
10	Assessment of the quality of financial report presented before granting loan					
11	Analyze financial reports before granting loan					
12	Assessment of how non-performing loan impact on banks					

	performance					
13	Assessment of how non-performing loan affects service delivery in banks					
14	Assessment of capitalization of the business before granting loan					
15	Assessment of the long term planning horizon of every loan applicant before granting loan					

SA: Strongly agree

A: Agree

U: Uncertain

D: Disagree

SD: Strongly disagree

Thanks for your time and cooperation.