

**CREDIT APPRAISAL PROCESS AND REPAYMENT OF LOAN AT GN BANK.**

**A CASE STUDY OF UPPER AND LOWER DENKYIRA.**

**by**

**OSEI – NYARKO GEORGE**

**(PG.9615713)**

**A Thesis submitted to the School of Business, Kwame Nkrumah University of Science and  
Technology in partial fulfillment of the requirements for the degree of**

**MASTER OF BUSINESS ADMINISTRATION**

**JULY, 2015**

## DECLARATION

I hereby declare that this submission is my own work towards the Masters of Business Administration and that, to the best to my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

.....

.....

.....

Osei – Nyarko George

Signature

Date

(PG.9615713)

Certified by:

.....

.....

.....

Dr. K. O. Appiah

Signature

Date

Certified by:

Dr. K. O. Appiah

.....

.....

Head Of Department

Signature

Date

## **ABSTRACT**

This study examines the credit appraisal process and repayment of Bank loans at GN Bank. Specifically the study investigates the appropriateness of the credit appraisal process of GN Bank, the relationship between loan officers and customers and the effect of loan officer – customer relationship on the credit appraisal process. The study also identifies strategies to help improve the credit appraisal process of the Bank. A face-to-face household-level survey of 142 respondents is conducted in Upper and Lower Denkyira East Municipal, Ghana in 2015 with a structured questionnaire. The subjects for the study are formal and informal sector workers.

On the appropriateness of the credit appraisal process, the factors are loan processing time, nature of collateral, loan diversion, credit scoring and evaluation, loan amount disbursement, loan repayment and loan default. The study also finds out the loans department offers excellent reception to all customers irrespective of the loans officer's relationship with the customer. Loan officers provide assistance to most customers in completing the loan form and also advise them on how to invest the loan amount in the intended business or project. The relationship between loan officers and customers has almost no effect on loan repayment. Majority of customers who defaults loan repayment has no relationship with loan officers. Also, there should be a thorough screening of the borrowers before loans are disbursed. Further, there should be supervisory visits by credit officers after loans have been disbursed to ensure proper use of the borrowed funds thereby enhancing the chances for higher profitability of enterprises and loan repayment. Also, loan repayment period should be set in accordance with the financial viability of the project, loan size and market situation.

## **DEDICATION**

This work is dedicated to my daughter, Nana Adwoa Osei-Nyarko and my wife Ophelia Animah Konadu for their co-operation and good relationship during the period I pursued the course.

## **ACKNOWLEDGEMENTS**

I am very thankful to the almighty God whose inspiring words gave me the needed motivation for this work and the entire course.

My heartfelt appreciation also goes to my supervisor Dr. K.O. Appiah, Accounting Department, Kwame Nkrumah University of Science and Technology (KNUST).

His guidance and passion for me to accomplish this task has made this work a reality. May God richly bless him.

My special appreciation goes to staff of GN Bank, Dunkwa On Offin and Twifo Praso.

Special thanks go to my respondents who took time of their busy schedules to attend to me during the administering of the questionnaire.

Finally, I wish to extend my sincerest gratitude to Mum and Dad, who edged me on when I was down spirited in the process. God bless you.

## TABLE OF CONTENTS

DECLARATION .....	i
ABSTRACT .....	ii
DEDICATION.....	ii
ACKNOWLEDGEMENTS.....	iv
TABLE OF CONTENTS .....	i
LIST OF TABLES .....	viii
CHAPTER ONE.....	1
INTRODUCTION .....	1
1.1 Background to the Study.....	4
1.2 Statement of the Problem.....	4
1.3 Objectives of the Study.....	5
1.4 Research Questions .....	5
1.5 Significance of the Study.....	6
1.6 Organization of the Study .....	6
CHAPTER TWO .....	7
LITERATURE REVIEW .....	7
2.0 Introduction.....	7
2.1 Lending .....	7
2.2 Credit Assessment .....	9
2.2.1 Credit Appraisal .....	9
2.2.2 Credit Documentation.....	10
2.2.2.1 Collateral.....	11
2.2.2.2 Interest Rate.....	11

2.2.2.3 Size of Loan .....	12
2.2.2.4 Purpose of Loan.....	12
2.2.2.5 Loan Period .....	13
2.3 Credit Risk .....	13
2.4 Cost of Borrowing .....	15
2.5 Borrower Creditworthiness .....	17
2.6 Disbursement .....	21
2.7 Repayment of Loans.....	21
2.8 Monitoring of Loans.....	23
2.9 Causes of Poor Loan Assessment and Recovery .....	23
CHAPTER THREE.....	25
RESEARCH METHODOLOGY.....	25
3.1. Introduction.....	25
3.2 Population and Sampling Techniques .....	25
3.3 Data Collection Procedure .....	25
3.4 Research Instruments.....	26
3.5 Research Design.....	26
3.6 Data Analysis .....	26
3.7 History of GN Bank .....	27
CHAPTER FOUR.....	32
ANALYSIS AND DISCUSSION OF RESULTS .....	32
4.0 Introduction.....	32
4.1 Socio-economic Statistics .....	32
4.2 Appropriateness of Credit Appraisal Process .....	34

4.3 The Relationship between Loan Officers and customers .....	39
4.4 The Effect of Loan Officer's relationship with customer's on Loan Repayment.....	43
4.5 Strategies to improve the credit appraisal system of GN Bank ..... <b>Error! Bookmark not defined.</b>	45
4.6 Chapter Summary.....	46
CHAPTER FIVE .....	47
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	47
5.0 Introduction.....	47
5.1 Summary of Findings .....	47
5.2 Conclusion .....	49
5.3 Recommendation.....	50
REFERENCES .....	52
APPENDIX .....	56
Survey Questionnaire on Credit appraisal process of and loan repayment of GN Bank .....	56



## LIST OF TABLES

Table 4.1: Socio-economic Statistic.....	33
Table 4.2: Response on customers who have taken loans more than once.....	34
Table 4.3: Response on the nature of collateral provided.....	35
Table 4.4: Response on whether Loan was diverted.....	35
Table 4.5: Credit Scoring and Evaluation.....	36
Table 4.6: Loan amount disbursement.....	37
Table 4.7: Response on how regular customers repay loans.....	37
Table 4.8: Loan Processing Time.....	38
Table 4.9: The causes of Loan Default.....	38
Table 4.10: The reception offered to customers at the Loans Department.....	39
Table 4.11: Response on whether Loans Department Staff are approachable and cooperative...40	
Table 4.12: Response on whether Loan officers provide special assistance to friends and family members to ensure they secure the loan.....	40
Table 4.13: Response on customer's relationship with Loan Officers.....	41
Table 4.14: Response on whether customers were granted their loans because of their relationship with Loan Officers.....	41
Table 4.15: Response on whether Loan Officers provided any assistance to customers.....	42
Table 4.16: Response on whether customers were granted the loans as a result of the Loan Officers assistance.....	42
Table 4.17: Loan Officers approve all loans applied for by their friends and/or family members.....	43
Table 4.18: Friends and family members of loan officers mostly default loan repayment.....	43
Table 4.19: Loan repayment by customers who have relationship with loan officer.....	44
Table 4.20: Loan officers do not take legal action against friends and/or family members who default payment.....	44

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Banks and other financial institutions are faced with several risks. The most common and serious among them is credit risk, which is simply the possibility that borrowers will default repayment of credit facilities they obtain from a bank or any financial institution. Proper assessment of the borrower evaluates the financial conditions and ability of the borrower to service the facility within the stipulated period. Lending is a core function of any banking institution and hence banks should not deter from giving out credit due to the risk associated with it.

Llewellyn 1992, states that, it is evident that, in many countries, banking is the process of significant structural change and a limited secular decline. The enormous increase in the number of banks and other micro finance institutions have principally contributed to a rise in lending to borrowers. The recent economic situation in Ghana poses a big threat for lenders to forecast borrowers' performance to recessionary conditions.

Lewis, (1992) [21] states that loan assessment procedures such as credit scoring which is used to appraise whether customers should or should not be granted credit, loan screening aids such as advances in data technology, changes in regulatory environment, the firm's future profitability, the amount of the owners' equity in the business to preserve but have often not been fully revealing and are imperfectly correlated across banks.

When assessing creditworthiness of persons applying for loans, banks often refer to their previous situations with similar borrowers in similar markets. This means that, when a bank enters into a new market, it finds it difficult to assess the creditworthiness of persons applying for loans since there are no previous instances in this new market to compare with.

Assessing the creditworthiness of a borrower by a lender before granting the credit is termed credit appraisal. The process includes the collection of related information of customers and projects or business to undertake, assessing the risk involved before providing any loans. The process also assesses the technical, economic and financial feasibility of the anticipated project. It considers the borrower's character, collateral capability and capacity. Credit appraisal considers the applicant's income, his dependents, expenditure, repayment capacity, employment history, number of years of work and other factors affecting the credit rating of a borrower. The appraisal process also verifies the collateral security accessible for recovery of the credit facility in the event of default. Credit appraisal therefore ascertains the risk coupled with lending activities in financial institutions.

Accessing a credit facility from a bank or other financial institutions is not easy. The borrower applying for the credit goes through a number of tests. Banks pursue an extensive process of credit assessment before approving any credit facility. They examine the loan application from diverse angles. The principal objective of credit appraisal is to

ensure that the credit is granted to the right hands and the capital and interest income of the bank is comparatively safe.

Lending activities in banks are guided by credit policies which are usually strategies and measures that are taken to guarantee smooth lending activities and loan repayment. If credit facilities are not assessed properly, there is the likelihood that borrowers will default loan repayment (Feder and Just, 1980).

The major operations of banking institutions are savings mobilization and lending. According to Odongo 2004, margins, interest, fees and commissions on loans are the major source of revenue of banks.

In as much as banks want to increase lending activities and generate more revenue through interest, banks have to recover the principal loan amount granted to the borrower to ensure safety of depositor's fund to prevent capital erosion. For this reason banks have to adequately assess credit to minimize credit default rate.

Banks which are not able to recover the loans they grant to clients are left with small capital. They are forced to cut down the staff strength and other operations which reduce the profit of the bank and eventually wind up.

Loan default is a key aspect of the financial activities of any bank; it creates a certain cost for the institution. Most banks have folded up due to their inability to retrieve loans granted to their clients (Annual Report, Association of Rural Banks, 1992).

## **1.2 Statement of the Problem**

According to Ssewagudde (2000), selecting applicants who have a high probability of loan repayment and rejecting those who have a high probability of default defines the financial viability of any financial institution.

Banks basically make money by lending money at rates higher than the cost of the money lent. Lending activities are guided by credit policies and procedures which ensure prudent lending operations. Credit appraisal involves gathering adequate information about a client before granting a credit facility. Credit appraisal primarily ensures that the loans are granted to the right hands and the capital and interest income of the bank is relatively secured.

However, banks have unfavourable environment and capacity to gather the necessary information required before granting loans to clients. There is always unequal access to information between lenders and borrowers, that is, information asymmetry. Information asymmetry leads to adverse selection in the loan granting process.

Inadequate and inaccurate loan appraisal results in granting credit facilities to people who are not creditworthy. This subsequently leads to loan defaulting which is one of the major challenges of banks. The funds lent to clients do not belong to the banks and therefore must be repaid to be returned to depositors in future. For a loan to be classified as good, it

should be able to satisfy the banks quest for maximizing returns and also have a low default risk. This is achieved when Banks properly assess clients and acquire enough information before lending. The relationship between the loan officer and client should not influence the loan granting process. Most customers who are in good relationship with loan officers tend to default loan repayment expecting loan officer to pay for them because of their good relationship. Banks therefore need to strengthen their credit risk assessment mechanism and appraisal process for qualitative growth in credit and also to mitigate risk effectively. It is in light of this that the research seeks to find out how GN Bank assesses persons applying for credit facilities.

### **1.3 Objectives of the Study**

- i. To investigate the appropriateness of credit appraisal process of GN Bank.
- ii. To investigate the relationship between loan officers and persons applying for loans.
- iii. To investigate the effect of loan officers' relationship with customers on credit appraisal process and loan repayment.
- iv. To design strategies on how credit appraisal and repayment of loans in GN Bank can be improved.

### **1.4 Research Questions**

- i. What were the procedures used by GN Bank in credit appraisal?
- ii. What is the relationship between loan officers and persons applying for loans?
- iii. What is the effect of the loan officers' relationship with customers on loan repayment?
- iv. What strategies can help improve the credit appraisal system of GN Bank?

## **1.5 Significance of the study**

This study will be an important step in policy formulations to aid in tackling the challenges in assessing the creditworthiness of persons applying for loans. Moreover, this research would also aid as a guide for policy makers and other cooperate institutions to know the effect of loan officer – client relationship on loan repayment. The study would again add to the body of knowledge and literature for other researchers to possibly build upon. With the aforementioned issues therefore, this study was not only relevant but also necessary. The study will again provide an empirical data for policy makers of banking institutions to assist them in formulating appropriate policy environment for their operations. The study will finally provide recommendations on how to assess and recover loans granted to the customers of the bank.

## **1.6 Organization of the Study**

This project is structured into five chapters. Chapter one contains the background of the study, the objectives, the research questions and the relevance of the study. Chapter two provides an extensive literature review on credit assessment. The chapter three describes in detailed the study area, population and sampling techniques, data collection procedure, research instrument and data analysis. Chapter four provides descriptive analysis from the survey data and also discusses other findings. Chapter five provides a summary of the research findings, conclusion, some policy recommendations and suggestion for future research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

Studies conducted on various banking institutions worldwide validate the difficulty of credit assessment en route for determining the creditworthiness of a borrower.

The literature review examines the basic elements of credit appraisal in respect of: lending, credit appraisal, cost of borrowing, borrower credit worthiness, collateral, repayment of loans, monitoring, causes of poor loan assessment and regulation and supervision. The identified parameters constitute the basis for effective credit appraisal practice and underlining theoretical frameworks propounded by various authorities are detailed below:

#### **2.1 LENDING**

Lending is an important activity in the operations of banks and is identified as one of the pillars of the financial intermediation. It provides banks with a lot of income and at the same time highly risky.

McNaughton (1992) highlighted that, risk taking is part of banking activities and the success of banks depends on how reasonably they control and manage this risk within their financial reserves and credit competence. McNaughton further explained that Banks must re-structure their administrative tendencies to become responsible to the financial needs of the economy in order to survive the various lending risks and become successful. Loan applicants get frustrated



by these bureaucratic tendencies and are unable to secure credit facilities at the right time, which may hinder the success of projects leading to the high rate of loan default.

In the field of credit delivery, Rouse (1989) explained that lenders does not give the monies they lent away but they 'lends' them. The assessment of the borrower by the lender is for him to look into the future and ask, will the borrower repay the loan by the agreed date? There is the likelihood that customers will not be able to repay the loans they take, so the lender needs to demonstrate good skill and judgment in assessing the borrower, Rouse (1989). The success of banks (in the view of this researcher), centers on the banks' ability to identify the financial services of the public, produce those services and sell them at a competitive price.

Lending involves imagination and creativity it is therefore perceived as an art, Rouse (1989).The guidelines to be followed are prescribed by credit management and their religious adherence is also crucial for good credit management practices. The correctness of the officer's judgement depends on his skills, knowledge and foresight. Knowledge and skills in financial analysis, the performance of the sector receiving credit, macroeconomic conditions, the psychology in determining the perceived and indirect motive of the borrower and the anticipated impact of the credit on the performance of the lending institution. The situation makes lending activity very involving since a loan default causes detrimental financial losses and threatens the collapse of the

financial institution in question. In this respect, officers devoid of all egoistic sentiments and with the right qualification and skill are needed to take charge of the lending activities.

The bank, the depositor, the borrower and the government are four parties identified to have interest in bank lending activities, Olashore (1988). In as much as the depositor demands the highest interest on his deposit, the borrower look for the least interest rate on the amount borrowed. The bank on the other hand wants the highest spread between deposit and borrowing rates of interest whilst the government's attention is on the responsiveness of lending to the needs of all the sectors of the economy. The interest of the lending bank supersedes that of the other parties involved.

## **2.2 CREDIT APPRAISAL/ LOAN ASSESSMENT**

The first stage in the loan granting process is the credit assessment. The stage at which the necessary documentations are presented to the bank by the loan applicant in order to obtain a credit facility is credit assessment, Nsereko (1995).

### **2.2.1 Credit Appraisal**

The 'heart' of a high quality portfolio is credit appraisal, Anjichi (1994). It involves determining the loan applicant's creditworthiness and reducing the default between the lenders as principals and the borrowers as agents through the process of gathering, processing and analyzing of

quality information about the borrower. The credit assessment process is usually guided by the Banks credit policy, procedures and directives. Character, Capacity, Capital, Collateral and Conditions are the various principles of lending which banks base their credit appraisal (Matovu and Okumu, 1996). The principles are designed to ensure that actions that will facilitate repayment and reduce default rate are taken by lending institutions. Financial institutions take measures like requesting for collateral, shorter loan repayment period, high interest rates and other form of payment when the information gathered signals the possibility of the borrower to default payment (Stiglitz and Karla, 1990). The performances of financial institutions are highly affected when they do not adequately appraise loans.

Edminster (1980) observed that the abandonment of the credit appraisal process often resulted into several banks using credit card to process and therefore addressed the importance of credit analysis. The length of time taken to process loan applications, credit experience, proportion of collateral security to the loan approved and the purpose of the loan are the variables identified by Hunte (1996). It was concluded that informed credit decisions made by loan officers are affected by the long waiting time which reflects a shortage of credible credit information. This subsequently results in greater risk, more intense credit rationing and low repayment rates.

Loan experience shows the ability to manage the business loans portfolio better hence good quality borrowers for the business, Hunte (1996). A loan applicant with little loan experience is considered to have less ability to manage a business loan and therefore is not creditworthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This means that new loan applicants are

considered to bear high risk since the loan officer has no previous records of loan repayment from them.

### **2.2.2 Credit Documentation**

The credit assessment process covers the credit documentation and disbursement process. The Process ensures that collateral securities and formal documentation is completed before the credit facility is disbursed. It further ensures that all the documentation is within the credit polity of the institution. McNaughton et al, 1996, noted that documentation process should take into accounts the maintenance of updated credit files. He further stated that, lending institutions should impose relevant fees, update records and notification of credit reviews and renewal dates.

Loan documentation process involves reviewing the documents submitted by the borrower, checking the collateral security provided and a making a legal draft. It clearly outlines the necessary security and covenant before the credit facility is approved and disbursed. The legal aspect of the documentation process provides financial institutions the grounds to take legal action against borrowers in the event of default (Day et al, 1996).

Credit documentations clearly states the credit terms attached to the loan after the borrower's loan application has been favorably appraised. These includes:

#### **2.2.2.1 Collateral**

In lending agreements, collateral refers to a borrower's pledge of specific property to a lender, to secure repayment of a loan. The request for collateral by most Banks before approving a credit facility to customers is to reduce the risk associated with the facility. Lending institutions always ensure that the amount granted is a percentage of the value of the collateral provided by the borrower to ensure that the loan is paid back in return for the collateral. The use of groups as collateral is now being practiced by some banks (Yunus, 1996). The group becomes the collateral for the facility and in the event of default by one member, the other group members pay for that member. Group lending encourages other group members to monitor the progress of payment of other members leading to improved loan repayment. However, Antonio (2000) argues that most group members are dissatisfied when they are made to service the loan of a member who defaults payment.

#### **2.2.2.2 Interest Rate**

An interest rate is the rate at which interest is paid by borrowers for the use of money that they borrow from the lending institution.

Rose (1998) defined interest rate as the price of the loanable funds. Interest rates can be looked at from two perspectives, that of the borrower and the lender. Martin (1998) stated that to the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed. The borrower assesses the returns of the proposed project and considers the interest rate of the credit facility before deciding to take the facility. Lenders on the other hand consider costs such as production cost, the inflation rate, personnel, administrative costs, provision for loan loss and capital growth before determining the interest to be charged on a particular facility

at a particular time (Kasibante, 2001). Financial institutions should charge rates that can cover costs and make a contribution for the institution.

#### **2.2.2.3 Size of Loan**

Loan size refers to the amount of money disbursed to the borrower. The loan amount can be small, medium or big. Banks prefer bigger loans to smaller ones because the transaction costs of bigger loans are lower than small and medium loans but have higher returns. Efficient loan size should fit the capability of the borrower to repay and stimulate enterprise performance. Poor loan sizing is illustrated by extensive credit rationing, which issues too little credit to too many borrowers Pische (1991). However, Chirwa (1997), points to the fact that borrowers are tempted to divert portions of loans when the amount is relatively large for the project. He explained that most of such loans are diverted for non-business purposes, hence the default.

#### **2.2.2.4 Purpose of Loan**

Banks are more particular about the reason for which a borrower sought for credit due to the high risk associated with lending. Vittas and Chao (1996) identified that in many countries, Banks prefer to finance low-risk activities, such as self-liquidating, short-term working capital and trade finance. Most banks are generally reluctant to lend to finance projects that are perceived to have high risk and long payback period. Small firms or new businesses that lack adequate collateral also find it difficult to access credit facilities in most banks even though such firms may be more innovative and promising than others.

#### 2.2.2.5 **Loan Period**

The World Bank (1996) reported that Banks have little capacity and interest to provide long-term capital. This is partly due to the high composition of short term liabilities in their portfolio and also their concern for risks associated with lending activities. Banks in Uganda are therefore unwilling, for reasons of caution as well as profit to lend for periods longer than twelve months and because of stringent provisions of the Financial Institutions Statute, 2004.

### 2.3 **CREDIT RISK**

The granting of credit facilities is subject to the risk of default by the borrower when repayment is due. The primary danger in loan granting is the possibility of default by the borrower.

According to Williams and Heins (1985), risk identification refers to the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they come out. According to them the first step in business risk management is to identify the various types of potential losses confronting the borrower, and secondly, to measure these potential losses in relation to issues such as their likelihood of occurrence and their probable severity. This gives rise to the need to assess the inborn risk of a credit facility, the existing operational management to mitigating the risk and determining the actual risk. The assessment gives a fair idea of the intended quality of the credit facility.

Rouse (1989) stressed on the primary danger of loan granting stating that a lender 'lends' money and does not give it away and there will always be some risk that the borrower will default repayment. The bank therefore need to critically assess any credit request with reasonable assurance that repayment would not be a problem.

### **The role of supervisors**

On supervisory role, the Basel Committee (2000) suggested that supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management.

The Basel Committee (2000) further advised supervisors to conduct independent evaluation of the strategies, policies, procedures and practices of the Banks related to the granting of the credit and the ongoing management of the portfolio.

Additionally, supervisors should consider setting prudential limits to curb bank exposures to single borrowers or groups of connected counter-parties.

The issues raised in the Basel Committee Publications No. 54 (2000) are very relevant credit risk management information. The Board of Directors should endorse and occasionally review credit risk strategy whilst senior management should ensure it is effectively implemented.



A sound credit management process provides the basis for assessing the credit worthiness of customers and creates a procedure to be followed through. This reduces moral hazard in the granting process and ensures that credit facilities are used for intended purpose. This also unveils any bottlenecks, which may arise for appropriate course of action to be enforced. This mitigates the risk of the credit facility not achieving the intended purpose and generating sufficient cash flows to service the facility as well as liquidate the principal amount. Credit facilities meant for projects with high-risk profile should be given close and continuous monitoring to ensure being managed efficiently.

The Bank of Ghana has set limits for Rural Banks beyond which credit facilities should be submitted for ratification before disbursements are made.

The researcher considers the Basel Committee's report very relevant to the management of credit risk.

## **2.4 COST OF BORROWING (INTEREST RATE)**

Stiglitz (1987) is of the view that higher interest rates should be imposed on credit facilities when it is identified that the probability of default higher. As a result businesses with high risk of success attract higher interest rates. However, the higher interest rates attached to proposed risky businesses rather tends to increase the risk of default. This is because the higher interest

rated will add up to the cost of production of the business which may eventually affect the patronage of the products concerned, hence loan default.

Kumar, (2004) [18] shared the same view with Stiglitz, according to him, the high interest rates charged by most banks on credit facilities is a major contributing factor of loan default. Kumar argued that even if loans are adequately assessed, other factors such as high interest rates may cause borrowers to default payment.

The level of inflation in an economy is a determining factor of interest rate since a higher regime bears direct relationship on interest rates. Cox (1988), buttressed this assertion when he explained that, demand and supply for funds in an economy influences the interest rate charged on credit facilities. Other factors noted were risk premium, the loan amount and inflationary factors.

In 1990 before the liberalisation of the economy, interest rates of various banks were regulated by the Bank of Ghana. During the period of pre-liberalisation, the Bank of Ghana was the institution that fixed interest rates for the other banks to comply with. However, this system was abolished and banks were to determine the interest rates on their own according to the market forces and the economic conditions. The interest rate set by the Bank of Ghana becomes the benchmark. When Bank of Ghana revises interest rates downwards it takes time for banks to appropriately adjust to such revision.

The overwhelming competition in prices (interest rates) among banks and with imperfect knowledge of borrowers' ability to repay their debts has accelerated poor loan assessments to

potential borrowers, Bofondi and Gobbi, (2003) [7]. Considering Ghana's banking sector, most banks charge high interest rate due to the perceived risk associated with lending.

## **2.5 BORROWER CREDITWORTHINESS**

The creditworthiness assessment of borrowers involves the gathering, processing and analysing of information on the loan applicant. The most reliable way gathering information is by way of credit references and credit rating. Ghana is yet to have credit rating agencies, which will provide opinion on the credit standing of individuals and businesses in the system. The existence of such an agency would improve and speed up the credit decision process of banks.

According to Mensah, (1999) the success or failure of financial institutions are strongly influenced by how it manages its credit. Mensah, (1999) further outlined the following as the key elements to effective credit management:

- i. A well-developed credit policies and procedures
- ii. Strong portfolio management
- iii. Effective credit controls
- iv. A well trained staff

Loan officers should have adequate knowledge about the borrowers' business. In determining the credit worthiness of the borrower, loan officers need to conduct a proper credit analysis before approving loans for projects.

Credit risk evaluation involves a careful analysis of information regarding the borrower to determine the possibility of loan repayment (Vigano, 1993). The probability that a borrower will service his loan regularly depends on his operating environment and personal attitude towards loan repayment. The bank's success depends on its ability to evaluate these two factors through the information available to the bank.

Rose (1999), stated that the question that must be dealt with before any other is whether or not the customer has the ability and capability to service the loan, that is, pay out the credit when due, with a comfortable margin for error.

Character, capacity, cash, collateral, conditions and control are factors to be considered to safeguard the assessment of pre-lending.

Rouse (1989) on the other hand referred to mnemonics used as common checklist to review and assess loan application as:

CCCPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security);

PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration);

CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The variation in the mnemonics identified by Rose relates to the basic principle of assessing the potential of having loans repaid by borrowers.

Dunkman (1996) identified the following as reasons for security: safeguarding against some doubts about borrowers' repayment ability, basis for increasing amount of loans over and above existing facilities, and as a last resort to recover loan in the face of default by borrower.

Agyeman (1987) argued that, irrespective of the importance attached to the request of collateral security during the appraisal process, its requirement by banks must be done cautiously else it would be capable of being counter productive.

Stiglitz (1996) supported Agyeman's (1987) contribution adding that, the request for security collateral has the unintended tendency for causing property owners to have advantage over customers who are not able to provide collateral security during the appraisal process.

The researcher believes that if security becomes the leading factor in credit appraisal, profitable projects, may be denied credit due to the borrower's inability to provide collateral security.

Banks are usually faced with the problem of taking legal action against loan defaulters to take possession of assets pledged as collateral.

Akakpo (1994) stated that during the loan appraisal process, the request for security should be the last consideration. Credit should not be granted just because the borrower provided security. He argued that security should only provide cushion should the borrower default repayment.

Rouse (1989) however, argued that loan approval and disbursement should not be made until the borrower meets all the necessary security requirements. Rouse stressed on the fact that the provision of security should be paramount to taking a decision as to approve a loan or deny it. Delays during the credit granting process invariably affects the success of the customer's project, the researcher is of the view that, the strictness in demanding total secured collateral before disbursement of credit facilities needs to be relaxed.

## **2.6 DISBURSEMENT**

Loans are disbursed when all requirements relating to the loan are met. During disbursement, Banks ensure that proper documentation and the security requirements are met before funds are disbursed. According to Msi, (1994) and Nsereko, (1995), failure to put in place proper disbursement controls will lead to the abuse of the credit process. Proper documentation controls of loans will ensure that the right amount is paid to the borrower and this will in the long-run decrease the bad debt amount in the books of the bank resulting from loan default.

## **2.7 LOAN REPAYMENT**

After the credit assessment and disbursement is done, the credit customer is expected to repay the installment as per agreed schedule. Banks have various repayment mechanisms. Customers can repay loans weekly, bi-weekly or monthly depending on the credit policy of the bank

(Odongo, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring of clients and follow up actions.

Loan repayment performance is affected by a number of socio-economic and institutional factors. Some factors positively affect loan repayment while other negatively affect loan repayment.

Retta (2000), (cited in Abafita, 2003) revealed that factors such as the frequency at which a customer takes loan, loan officer's supervision, suitability of loan repayment period and other income sources of the borrower are found to encourage repayment hence reduce the probability of loan default. According to Retta (2000), educational level is negatively related to loan repayment.

## **2.8 MONITORING OF LOANS**

Monitoring in the loan granting process is a significant function which ensures that the loan amount is invested in the project for which it was applied for. Huppi and Feder (1990) revealed that an effective monitoring process enable banks to quickly identify possible dangers (like loan diversion) and leads to higher loan recovery. The monitoring teams also remind borrowers of their obligation to service loans and interest to banks.

Most banks embark on monitoring when there are signs of default. Such practice fails because the facility might have already gone bad.

The researcher is of the view that, monitoring of loans should commence immediately when the amount is disbursed. The monitoring team should monitor the progress of the borrower's project;

identify shortcomings and advice the borrower through field visits and discussions. The monitoring team must ensure that the borrower makes prompt repayment from the proceeds of the project and render advice on further expansion of business.

## **2.9 CAUSES OF POOR LOAN ASSESSMENT AND RECOVERY**

Hahn, (1992)[15] noted that, low-income consumers are perceive to be high-risk borrowers because it is assume their income is inadequate and that makes it difficult for them to regularly service loans. He further added that this is compounded by the higher interest rates charged to credit available to low-income earners because of the higher risk of default associated with such group of people. However, he failed to give explanation to the relationship that exist between poor loan assessment and low-income earners.

Hannig and Mugwanya, (2000) [14] shared the same view with Hahn. They also found out that low income borrowers are in poor position to provide collateral and therefore micro finance institutions sometimes deny them access to subsequent loans. However they also failed to explain how to determine the credit worthiness of a borrower.

Alter, (1980) [2] stated that, financial institutions have inadequate credit policies to determine the credit worthiness of prospective borrowers. According to Alter, (1980) banks have failed in determining the credit worthiness of borrowers because officers fail to comply with lending



policies. Low staff morale and bank officers' exposure to fraud also affect loan officers' decision in determining the credit worthiness of borrowers.

Burki and Perry (1998) [10] are of the same view like Alter and they revealed that fraudulent practices during the appraisal process leads to off-balance sheet operations. These fraudulent practices happen when officers' realize that their loan assessment system is weak and hence have nothing to fear.

Joseph et al., (2002) [17] supports the idea of Alter and adds that, there is the likelihood that loan officers might compromise with borrowers during the assessment process and as a result some of the compromised customers may fail to repay the loan.

The researcher shares the same view with Joseph et al. (2002) because experience shows that many customers who are in good relationship with loan officers tend to default loan repayment expecting the loan officer to pay on their behalf because of their relationship. This has led to an increase in default rate and also loss of job on the part of the loan offices.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

The chapter describes the methodology employed by the researcher in the conduct of the study. This section covers the population and sampling techniques employed for the study, data collection procedure, research instrument, research design and method of data analysis.

#### **3.2 Population and Sampling Techniques**

Using a random sampling method, a purposive sample of 152 respondents were taken from the total population of 250 respondents from Upper and Lower Denkyira. They were 10 Staff and 142 customers of GN Bank. The staffs sampled were those at the Credit Department, Operations Department, Customer Advisers and the Manager. On the other hand, the customers were those who have taken a loan facility from the Bank.

#### **3.3 Data Collection Procedure**

Both quantitative and qualitative data will be used. First, qualitative information provide an in-depth understanding of the activities of credit unions and to inform the quantitative analysis. The data collection procedure involves visiting the sampled respondents in their stores or shops as well as work places of respondents. This is to provide the opportunity to explain questions which are difficult to answer, to obtain the exact information needed for the study, and also to afford the interviewer the opportunity to educate the respondents. A structured questionnaire is used to conduct a face-to-face interview to interview the staff.

### **3.4 Research Instruments**

The research instrument for this study is a structured questionnaire. The questionnaire is designed and base on the strength of the review of the related literature and the research questions. The questionnaire comprises of four sections; the first section included questions on respondents' socio-economic characteristics such as age, gender, and educational level. The second section looks at the relationship between loan officers and persons applying for loans. Also, the third section examines the effect of loan officers – client relationship on loans whereas the final section identifies how loan officers evaluate the credit worthiness of new loan applicants.

### **3.5 Research Design**

The study was a study of GN Bank, Dunkwa On offin. A sample survey was carried out to seek the opinion of different bank officials and customers on implication of credit assessment process and policies in the bank and how this impacts on the quality of loan portfolios. This research design helps to gather opinions and other data relating to the occurrence of a phenomenon within a relatively large population. By this method, the researcher collects and analyzes view points from customers of the Bank and staff at the credit department. The data collection which involved the collection of both primary and secondary data using questionnaire was undertaken.

### **3.6 Data Analysis**

The quantitative and qualitative methods are employed in the data analysis. For the quantitative aspect, Statistical Package for the Social Scientist (SPSS version 20) is used. Correlation and factor analysis is used to identify the major factors used as a means of screening and to evaluate whether these factors are the loan repayment determinants as well. Frequency distributions,

percentages, mean and descriptive analyses are also used to assess the qualitative data and the results were presented in tables.

### 3.7 **History of GN Bank**

GN Bank is a wholly-owned Ghanaian financial institution licensed by the Bank of Ghana in 2006 to operate as a savings and loans company with a simple goal of making it “*the people’s bank*”. The Company was founded in May 1997 with its first branch opened on May 30<sup>th</sup>, 2006 at North Ridge in Accra. It attained a universal bank status on June 3<sup>rd</sup>, 2014. GN Bank is committed to helping develop the Ghanaian entrepreneurial sector while contributing substantially to the Ghanaian financial sector. The company aims and strives also to support Ghanaians in making financial decisions for their personal sustenance.

Within a period of Seven years, the institution has made banking easy and convenient for the people of Ghana by taking it to their doorsteps. The institution already has over 60 branches across the nation and staff strength of 1173, making available to the ordinary person; students, workers, farmers, traders, professionals and small to medium scale entrepreneurs our attractive products and excellent banking services. GN Bank is the only Financial Institution which is represented in all the 10 regions and also represented in the 3 Northern Regions of the country. We call it ‘The People’s Bank’ and that is exactly what it is.

### **Our Mission**

To be the National Bank for the ordinary person providing close to client banking service throughout Ghana and be known for excellent customer service while creating wealth for its stakeholders.

### **Our Vision**

To be a truly National Bank for the Ordinary person namely; Farmers, Professionals, Students, Workers, and Small and Medium Scale Entrepreneurs in Ghana.

### **Our Goal**

To become the People's Bank.

### **Our Core Values**

- We approach every aspect of our work with the highest standards of integrity.
- We value our customers.
- We approach our work as a professional team.
- We treat each other as we wish to be treated by others.
- Loyalty and absolute honesty.

### **Our Branch Network**

GN Bank currently has over 103 branches in Ghana.

### **Products and Services**

- **Sika Plus Domestic Money Transfer**

Internal money transfer within all our Branches Nationwide, competitive pricing, immediate delivery and quick cash transfer.

- **POS, ATM and SMS Services.**

- **International Money Transfer – Western Union, Vigo, MMall RIA, MoneyGram**

Fast and reliable global money transfer. GN Bank places emphasis on security, accuracy and compliance. It can be accessed in all our Branches nationwide.

- **Susu Savings**

Susu savings operates on a passbook scheme with small daily savings designed to assist micro/small entrepreneurs in the formal sector to expand business. Contributors deposit funds on a regular basis either daily or weekly. Contributors to the scheme may, after two months of savings qualify to access microfinance loans up to Ghc5000.00 for first time borrowers and up to Ghc6000.00 for repeat borrowers.

- **Savings Deposit Account**

An account in which a customer deposits money for any non-immediate use. No initial amount is required to open account. Withdrawals can be made once every 7 days only and interest is paid quarterly.

- **Current Account**

An account that can be owned by an individual or corporate entity. No initial amount required to open an account. It is a cheque book account with minimal cost of transaction (COT) charges. Withdrawals could be made as many times as possible. Overdrawn limits can be arranged on this account. Standing orders could also be established using this account.

- **Fixed Deposit Account**

Deposits to this account attract high rates of interest. Customers are required to deposit funds for 3, 6, 9 or 12 months period. The typical interest rate is at least 1% higher than commercial banks.

- **Wo Daakye Account**

An account in which daily deposits are made. It is also known as the daily microfinance savings scheme. Deposits are mobilized and collected by the Bank's Field Cashiers on a daily basis with a minimum savings of 50 Pesewas. A minimum contribution period of six months needs to be established before any withdrawal can be made. Any amount saved for 6 months attracts competitive interest.

- **Small Medium Enterprise (SME) Loan**

SME loans are loans to individuals and small companies for any declared legal purposes. The product is offered to existing and non- GN Bank customers who have been in business for at least 1 year. Non – GN Bank customers are required to open accounts for repayment. The SME term loans are equal installment amortizing loans with tenors between 1 to 2 years. The minimum amount will be Ghc10, 000.00.

- **Microfinance Group Loan**

A savings and lending scheme that can be accessed by a group. It is also referred to as the band group savings and loans programme. The group consists of between 5-10 members. Individual members of the group make daily savings into a savings account up to eight weeks to qualify for a facility.

- **Microfinance Susu Loan**

Customers make deposits for a minimum of two months. Build a guarantee fund of 20% of amount being borrowed. Security required for a Susu loan is a personal guarantor and a guarantee fund which would be created from the applicants susu account. Repayment of loans is made through a flexible package covering between six to twelve months.

Repayments are mobilized/collected by the Bank's Field Cashiers on a daily basis. Loan amounts are between Ghc400.00 – Ghc9000.00

- **Payroll Based Loan**

PBL are facilities granted to salaried staff of recognized institutions. Employers must guarantee to deduct repayment at source. Applicants must be a current account holder at any of our branches with their monthly salaries channeled through GN Bank. Applicant qualifies after three months of operating a current account.

- **Farmer Based Loans**

Farmer based loans are facilities granted to farmer based groups to support purchase of inputs. The Bank participates in MiDA programmes to administer funds made available to support farmers.

- **Diaspora Service**

The GN Diaspora Account allows Ghanaians abroad to open a cedi account with GN Bank. Each Diaspora Account Holder (DAH) gets a unique password. A Diaspora Account telephone number and email address is available for DAHs to use in making inquiries and executing banking transactions. Diaspora Accounts can be used to make payments for school fees, utility payments, regular remittance payments to relatives, housing construction payments, make investments on Ghana Stock Exchange and with approved mutual funds and unit trusts, etc.



## **CHAPTER FOUR**

### **ANALYSIS AND DISCUSSION OF RESULTS**

#### **4.0 Introduction**

This chapter presents the results and discusses the finding of the study. The areas covered under this chapter include socio-economic statistics, appropriateness of credit appraisal process of GN Bank, investigate the relationship between loan officers and persons applying for loans, effect of loan officers – client relationship on loan repayment and how to assess the creditworthiness of new clients.

#### **4.1 Socio-economic Statistics**

The socio-economic characteristics of the respondents are shown in Table 4.1. From Table 4.1, the majority (61.18%) of the respondents are females. More than half of the respondents (51.32%) were self-employed with 23.03 percent being public/civil servant while 25.65 percent are in the private sector. Most of the respondents had attained some level of formal education. 15.79percent of the respondents have had no formal education. Some have either completed primary education (12.50%), or junior high education (21.05%), or senior high education (14.47%), polytechnic/ diploma / university education (36.18%). The majority (48.03%) of the respondents are married. 81.58 percent of the respondents are Christians.

**Table 4.1: Socio-economics statistics of respondents**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	59	38.82
Female	93	61.18
<b>Marital status</b>		
Single	50	32.89
Married	73	48.03
Separated	18	11.84
Divorced	4	2.63
Widowed	7	4.61
<b>Educational level</b>		
No formal education	24	15.79
Primary school	19	12.50
Junior High/Middle School	32	21.05
Senior High/Technical	22	14.47
University/Polytechnic	55	36.18
<b>Employment Category</b>		
Public/Civil Servant	35	23.03
Private sector	39	25.65
Self-employment	78	51.32
Unemployed	-	-
Others	-	-
<b>Religion</b>		
Christianity	124	81.58
Islam	22	14.47
Traditional	6	3.95

Source: Field Survey, 2015

## 4.2 Appropriateness of credit appraisal process

This section presents findings on the first objective. The appropriateness of credit appraisal process was studied by examining the credit appraisal, collateral, credit scoring, evaluation and disbursement as discussed below:

Table 4.2 Response on customers who have taken loans more than once.

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Once	59	41.55
2 times	46	32.39
3 times	22	15.49
4 times	12	8.45
More than 5 times	3	2.11
Total	142	100

Source: Field Survey, 2015

As revealed in Table 4.2, out of the 142 respondents, 59 which constitute 41.55% of the total customers had taken loans once from the Bank. 46 respondents out of the remaining 88 representing 32.39% had taken credit facility twice from the Bank, 22 representing 15.49% had taken loans thrice from the Bank, 12 respondents representing 8.45% had taken credit facility four times from the Bank while 3 customers representing 2.11% had taken credit facility more than five times.

### **Collateral**

Collateral refers to asset pledge in exchange for the receipt of a loan. Borrowers are required to pledge existing assets as security for the receipt of the loans. According to Bank executives interviewed, most of the loans extended to SMEs were primarily secured by two guarantors and 20% of the amount in the customer's account as collateral.

Table 4.3 Response on the nature of collateral provided

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Mortgage	46	32.39
Hypothecation	59	41.55
Personal Guarantee	26	18.31
Guarantor	11	7.75
Total	142	100

Source: Field Survey, 2015

Table 4.3 disclosed that 32.39% of loans were secured by mortgages, 41.55% by hypothecation, 18.31% secured by personal guarantee and 7.75% were secured by guarantors. It was discovered that the bank maintained a safety margin on properties used to secure loans. The Bank lends between 50 – 60% of the values of the property presented. In respect of landed property, the bank requires a signed valuation report by a recognized valuer. Customers are required to save up to 20% of the amount required as collateral and also provide two guarantors. It was found out that most customers end up securing credit in other financial institutions because they are not able to meet these conditions.

Table 4.4 Response on whether Loan was diverted

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	-	-
No	136	95.77
No Response	6	4.23
Total	142	100

Source: Field Survey, 2015

Table 4.4 revealed that 95.77% majority of respondents confirmed that, the loans received were used for the purpose for which the loan was secured. 4.23% minority of the respondents ailed to answer as to whether part or the entire loan secured was diverted. It was revealed that majority of the loans are used for the intended purpose as a result proper of monitoring and follow – up exercise undertaken by the Bank to monitor customers.

Table 4.5      Response on Credit Scoring and Evaluation

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Account Performance	31	21.83
Collateral	55	38.73
Credit Worthiness	41	28.87
Previous relationship with the Bank	15	10.56
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.5 above, 38.73% of respondents agreed that the most important criteria for credit storing and evaluation were collateral. Creditworthiness of customers was the second most important criteria for credit scoring with 28.87%. The creditworthiness of a customer was determined by the ability and willingness of the customer to pay the loan. 21.83% considered account performance as the important criteria for credit scoring while 10.56% of respondents agreed that previous relationship with the Bank was the most important criteria for credit scoring and evaluation.

Table 4.6 Response on loan amount disbursement

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Approved as requested	75	52.82
Adjusted but adequate	38	26.76
Adjusted not adequate	29	20.42
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

Table 4.6 indicates that, more than half (52.82%) of the respondents confirmed that their loans were approved as requested. On the other hand, 26.76% had their loans adjusted but were still adequate for the purpose intended for. 20.42% of the respondents had their loans adjusted hence inadequate for the intended project or purpose. This contributed to loan default among customers. Majority of customers who defaulted were those who had the loan amount adjusted and was not adequate. They ended up securing another loan from other financial institutions making repayment of both facilities difficult.

Table 4.7 Response on how regular customers repay loans

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Loan Repayment on Time	98	69.01
Default Repayment	44	30.99
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

Table 4.3 shows the responses of respondents on loan repayment. 98 respondents representing 69.01% disclosed that, they service their loans on time while the remaining 44 representing 30.99% accepted that, they default repayment occasionally.

Table 4.8 Response on Loan Processing Time

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
1 -3days	-	-
4 -5 days	12	8.45
6 -7 days	31	21.83
More than 7 days	99	69.72
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.8, it took 69.72% of the respondents more than 7days to access their loans. Customers expressed their dissatisfaction with the time it takes them access loans from the Bank. They complained that delays that last for more than 7days sometimes make them take credit elsewhere. 21.83% of the respondents confirmed that it took them 6 – 7days to access loans from the Bank while 8.45% responded that it took them 4 – 5days to access their loans.

Table 4.9 Response on the causes of Loan Default

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
High Interest Rate	4	6.82
Longer Loan Processing Period	3	4.44
Adjustment of loan amount	15	31.82
Business Failure	22	56.82
Loan Diversion	<u>0</u>	-
<b>Total</b>	<b>44</b>	<b>100</b>

Source: Field Survey, 2015

As indicated in Table 4.9, the above factors contribute to the occasional default of loan repayment by the 48 customers who could not service their loans on time.

4 respondents representing 6.82% confirmed that high interest rate contributed to their default. 3 respondents (4.54%) said the loan process takes a longer time which affects the project they intend to use the facility for therefore the default. 15 (31.82%) expressed the concern that the full loan amount applied for are not granted, therefore the amount granted are not adequate to the intended purpose. Most (56.82%) of the respondents attributed their inability to service their loans regularly to business failure.

### 4.3 The relationship between loan officers and customers

Table 4.10 Response on the reception offered to customers at the Loans Department.

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Excellent	57	40.15
Very Good	29	20.42
Good	41	28.87
Normal	15	10.56
Bad	-	-
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.10, the researcher found out that 40.15% of the respondents were of the view that the Loans Department offers an excellent reception to its customer. 28.87% of the respondents classify the reception at the Loans Department as good, 20.42% sees the reception to be very good while 10.56% perceived the reception at the Loans department to be normal. No customer described the services provided by the Loans department as bad.



Table 4.11 Response on whether Loans Department Staff are approachable and cooperative.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	92	64.79
Agree	43	30.28
Not Sure	7	4.93
Disagree	-	-
Strongly disagree	-	-
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

As revealed in Table 4.11, majority 64.7% of the customers strongly agreed that the Loans Department staff were approachable and cooperative. It was found out that Loan Officers treated all customers equally without any preferential treatment. None of the customers disagreed to the fact that Loan Officers were approachable and cooperative. Customers were able to open up and seek clarification before securing loans which was good for the Bank in building and excellent relationship with customers.

Table 4.12 Response on whether Loan officers provide special assistance to friends and family members to ensure they secure the loan.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	2	1.41
Agree	25	17.60
Not Sure	37	26.06
Disagree	49	34.51
Strongly disagree	29	20.42
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.12, minority 1.41% strongly agreed that loan officers provided special treatment to friends and family members to ensure they secure their loans. 17.60% of the respondents also

agreed to this. It was found out that these customers constituted more than half of the customers who had their loan amounts adjusted and as a result was not adequate.

Table 4.13 Response on customer's relationship with Loan Officers

Responses	Frequency	Percentage
Friend	35	24.65
Family Member	2	1.41
School Mate	6	4.22
Neighbour	11	7.75
No relations	88	61.97
Total	142	100

Source: Field Survey, 2015

Table 4.13 revealed that 88 respondents (61.97%) had no relationship with loan officers. This shows that less than half of the respondents had relations with loan officers in one way or the other. 24.65% of the respondents were friends to loan officers, 7.75% were neighbours to loan officers while family members of loan officers constituted only 1.41% of the respondents.

Table 4.14 Response on whether customers were granted their loans because of their relationship with Loan Officers.

Responses	Frequency	Percentage
Yes	-	-
No	139	97.89
No Response	3	2.11
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

As revealed in Table 4.14, majority (97.89%) disagree with the fact that they were granted their loans as a result of their relationship with the loan officers. This means that loan officers were not influenced by their relationship with customers in assessing their credit worthiness.

Table 4.15      Loan Officers provided any assistance to customers.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	117	82.39
No	25	17.61
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

As shown in table 4.15, most (82.39%) of the respondents agreed to the fact that loan officers assisted them in their loan processing. The provision of advisory service on how to invest loans when granted goes a long way to help the Bank in loan recovery. This is so because customers' loan repayment ability depends on the survival of their businesses.

Table 4.16      Response on whether customers were granted the loans as a result of the Loan Officers assistance.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	-	-
No	133	93.66
No Response	9	6.34
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.16, majority (93.66%) of the respondents disagreed that they were granted the loans as a result of the assistance the loan officers provided them. According to them they secured the loans because they were credit worthy and met all the requirements of the Bank. 6.34% of the respondents failed to respond to whether they were granted the loan as a result of the assistance provided by the loan officers.

Table 4.17 Loan Officers approve all loans applied for by their friends and/or family members.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	3	2.11
Agree	5	3.52
Not Sure	35	24.65
Disagree	48	58.45
Strongly disagree	16	11.27
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

As revealed in Table 4.17, the majority (58.45%) of the respondents disagreed that loan officers approve all loans applied for by friends and family members. This is reaffirmed by the low (5.63%) of respondents on the opposing side. Loan officers confirmed that they approve loans for all customers who are able to meet all the requirements. If a friend or family member is not able to meet all the loan requirements that person is denied the loan as any other customer.

#### **4.4 The effect of Loan Officer's relationship with customer's on credit appraisal process.**

Table 4.18 Friends and family members of loan officers mostly default loan repayment.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	-	-
Agree	2	1.41
Not Sure	11	7.74
Disagree	35	24.65
Strongly disagree	94	66.20
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

From Table 4.18, the majority (66.20%) of the respondents disagreed that, friends and family members of Loan Officers mostly default loan repayment. This is reiterated by the low (1.41%) of respondents on the opposing side.

Table 4.19      Loan repayment by customers who have relationship with loan officers.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
No Default	46	85.19
Default	8	14.81
<b>Total</b>	<b>54</b>	<b>100</b>

Source: Field Survey, 2015

As already indicated in Table 4.7, 44 respondents out of the total of 142 respondents defaulted loan repayment. From Table 4.19 above, only 8 (18.18%) respondents out of the 44 respondents who defaulted repayment had relation with the loan officers. This clearly shows that majority of the respondents who defaulted payment had no relation with the loan officers. Moreover, the 8 respondents attributed their default to business failure and not because of their relationship with the loan officers.

Table 4.20      Loan officers do not take legal action against friends and/or family members who default payment.

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	9	6.34
Agree	21	14.79
Not Sure	32	22.53
Disagree	66	46.48
Strongly disagree	14	9.86
<b>Total</b>	<b>142</b>	<b>100</b>

Source: Field Survey, 2015

Table 4.20 shows that 46.48% of the respondents disagreed that, loan officers do not take legal action against friends and family members who default payment. Loan officers issue letters of default to customers who default loan repayment followed by a final demand notice. A legal action is then taken against the customer if payment is not made. This policy affects all customers including friends and family members.

#### **4.5 Strategies to improve the credit appraisal process**

This section presents findings on strategies designed to improve the credit appraisal process and loan repayment of GN Bank. The borrowers were asked to give their free opinion on analysis of loan performance, incidental cost of borrowing, interest rate and the loan period.

GN Bank lack credible information on borrowers' previous records with other financial institutions. It relied on the information provided by the customers themselves about their previous borrowings. Such information are hard to validate because customers in their quest to secure the loan will not provide all the necessary information. GN Bank should pool together under the auspices of the Bank of Ghana and establish a credit information bureau to which reference can be made before any loan disbursement.

Respondents were asked whether incidental costs to borrowing affected the repayment of their loan facility. Findings showed that costs incurred in securing a loan influenced the attitudes of borrowers towards repayment. The findings of the study showed that these costs are high and sometimes discourage the customers from repaying the loan principal and interest. GN Bank needs to review this arrangement and revise the charges downwards. In addition, subsequent borrowings and top-up loans by customers which are currently charged full commitment needs to be revised downwards.

Findings of the study revealed that the credit appraisal process was long and tedious. A loan process could take up to a week. Most customers were unhappy with the number of days it takes to secure a loan; hence look for alternative source of credit. GN Bank needs to review its appraisal process with a view of shortening the loan period.

The credit department should be properly resourced to improve the monitoring exercise in order to reduce loan diversion. Reminders in the form of text messages to customer's mobile phone and reminder letters are encouraged.

Loan repayment period should be set in accordance with the financial viability of the project, loan size and market situation.

#### **4.6 Chapter Summary**

This chapter presents the results and discusses the finding of the study. The socio-economic statistics of the respondents is provided. The appropriateness of the credit appraisal process findings are discussed in this chapter. Also, the relationship between loan officers and customers and the effect of their relationship on loan repayment are discussed. Finally, strategies that will help improve the credit appraisal system are underlined.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter summarizes the entire study; the findings of the study, recommendations by the researcher, limitations encountered and directions for future research.

#### **5.1 Summary of Findings**

This study assesses the credit assessment process and loan repayment of GN Bank. The appropriateness of the credit appraisal process, the relationship between loan officers and customers and the effect of their relationship on loan repayment are investigated. Also, the factors of loan repayment performance of clients are examined. The descriptive findings reveal that most of the respondents have attained some level of formal education. Majority (48.03%) of the respondents is married.

With the appropriateness of the credit appraisal process, the results show that, a greater percentage of the respondents had the loans secured by hypothecation (41.55%). The bank lends between 50 -60% of the value of property presented as collateral. The findings revealed that customers who were not able to save up to 20% of the amount required were not granted the full amount applied for. As a result, 47.18% of the respondents had their loan amount adjusted. The adjustment of loan amount contributed to 31.25% of respondents who defaulted loan repayment. With the loan processing time, it took 69.72% of the respondents more than 7days to have their loans processed and disbursed. Customers expressed their dissatisfaction with the time it takes



them access loans from the Bank. They complained that delays that last for more than 7days sometimes make them resort to credit elsewhere since they might need the money quickly to transact business.

For the relationship between loan officers and customers, the results reveal that majority (61.97%) of the respondents had no relationship with loan officers. A greater percentage (64.39% strongly agree; 30.28% agree) of the respondents give an affirmative response that the Loans Department is approachable and cooperative. This practice is one of the hallmarks of a Bank and this helps build a better customer relation for the Bank. Around 54.93 % of the respondents disagree that loan officers provide special assistance to customers who are their friends and or family members. This means that the loan officers are not bias. This was strongly affirmed by a majority (82.39%) who were assisted in one way or the other by loan officers. Majority (93.66%) or the respondents agree that, they were granted the loan because they met all the requirements and not because of the assistance provided by loan officers. It was found out that the assistance provided by loan officers to customers were mostly helping them to complete the loan forms educating them on injecting the full amount in the intended project.

The findings revealed that the relationship between loan officer's and customers had almost no effect on loan repayment. A greater percentage (66.20% strongly disagree; 24.65% disagree) of the respondents strongly disagree that friends and family members of loan officers mostly default loan repayment. The study revealed that, out of the 44 respondents who defaulted loan repayment, only 8 (representing 18.18%) had a relationship with loan officers. This 18.18% minority defaulted not because of their relationship with loan officers but due to business failure.

The study further revealed that majority (46.48% Disagree; 9.86% Strongly Disagree) of the respondents disagree that loan officers do not take legal action against friends and or family members. Loan officers confirmed in the study that, after two demand notice have been served on a customer who has defaulted loan repayment, a legal action is taken against the customer whether a friend or a family member.

## **5.2 Conclusion**

Base on the summary of findings, this study concludes that majority (51.32%) of the respondents are self-employed. The study also concludes that people in the municipal had attained some level of formal education.

From the findings, females constitute a higher percentage of respondents that could not repay loan on time. However females who are married and work in the public sector service their loans regularly. The study further revealed that females constitute over 70% of respondents who are friends to loan officers. Females who have no formal education and are friend's to loan officers mostly default loan repayment.

With the appropriateness of the credit appraisal process, the study concludes that most customers are not able to meet the collateral requirements and therefore resort to take credit facility from rural banks and other credit unions. The findings reveal that most customers do not divert the loans they secure but rather use the facility for the intended purpose. The study concludes that customers did not divert loans because of the proper monitoring and follow-up exercise undertaken by the Bank. The results also reveal that, the adjustment of loan amounts contribute greatly to loan default. Customers are not able to undertake the intended project when the loan amount is adjusted. Customers also raised concern about the number of days it takes them to

secure an SME loan. It took majority (69.72%) of the respondents more than 7days to secure loans.

The study also concludes that loan officers have an excellent relationship with all of their customers. The findings revealed that loan officers treat all customers equally irrespective of their relationship with some customers (friends and family members). The study further revealed that the loans department workers are approachable and cooperative providing assistance to all customers and not only friends and family members. The findings conclude that not all loans applied for by friends and family members of loan officers are approved. Friends and family members of loan officers are equally supposed to meet all loan requirements for approval.

The results also conclude that the relationship between loan officers and customers has no effect on loan repayment. The study accomplishes that some variables are responsible for loan repayment default, and these variables are loan diversion and adjustment of loan amount. The findings also concludes that loan defaulters (including friends and family members) are served first and second demand notice after which legal action is taken against customers who refuse to make payment.

### **5.3 Recommendation**

Base on the findings of the study mentioned earlier, the following policy recommendations are made to improve the credit appraisal process of the Bank. Since the study findings concluded that it took majority of the respondents more than 7days to secure an SME loan, it is therefore recommended that the Bank review its credit appraisal process to reduce the number of days it takes to process SME loans. This is because many customers resorted to other financial institutions that could process their loans for them in less than 7days.

From the study, customers complained of high interest rate charged by GN Bank. To improve this, the study recommends that GN Bank review its interest rate regularly to tally with prevailing market conditions. Frequent benchmark of interest rate will improve loan performance.

The study also finds out that, loan officers provide advisory services to customers on how to invest the full loan amount in the intended project. It is recommended that loan officers intensify this as well as the follow-up and monitoring exercise they undertake. This is due to fact that the results show that the advice and follow-up exercise by loan offices reduced loan default of customers.

The study also revealed that loan officers who have spent more than a year at a particular branch had more friends applying for loans at those branches. Even though minority of such customers defaulted, it is recommended that loan officers are transferred frequently to reduce granting loans to friends and hence loan default.

#### **5.4 Recommendation for Further Studies**

The following suggestions are made for further study:

1. Similar study may be conducted in Banks especially Rural Banks.
2. Borrowers' characteristics and their capacity for credit management.
3. Causes of loan failures – assess the behavioural and environmental aspects from both the lenders' and borrowers' perspective.

## References:

- Abafita, J. (2003) Microfinance and loan repayment performance: A Case Study of the Oromia Credit and Savings Share Company (OCSSCO) in Kuyu', MSc thesis, Addis Ababa University, Addis Ababa.
- Abreham, G. (2002). Loan repayment and its determinants in small scale enterprises financing in Ethiopia: case of private borrowers around Zeway Area. (Unpublished Master's Thesis).
- Agyemang, K. (1987). "Short term Lending Policies", *Journal Of The Ghana institute Of Bankers*, 2(1), 31-33.
- Akakpo, R. (1994). "Benefits of Appropriate Lending Techniques", *The Ghanaian banker*, 2(1), 35 – 36.
- Alec, M.C., and Annan, A. (2004). A report on Credit Valuation Models <http://www.sas.com/industry/banking/scoring/index.html>
- Asiedu Mante, E. (2002). "Silver Jubilee Celebration of the Rural Banking in Ghana", *The Rural Banker*, January – June, 2002.
- Assefa, B.A. (2002) 'Factors influencing loan repayment of rural women in Eastern Ethiopia: the case of Dire Dawa Area. A Thesis presented to the school of graduate studies, Alemaya Univeristy, Ethiopia
- Asymmetric information in securitization: An empirical assessment <http://www.sciencedirect.com/science/article/pii/S0304393214001597>
- Banks improve non-performing loans ratio <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=307649>
- Basel Committee on Banking Supervision, Principles for the Management of Credit Risk", September 2000.
- Berhanu, A. (2005). 'Determinants of formal source of credit loan repayment performance of smallholder farmers: the case of north western Ethiopia, North Gondar', M.Sc. Thesis, Alemaya Univeristy, Ethiopia

- Bofondi, M. and Gobbi, G. (2003). Bad loans and entry in local credit markets. Oxford University Press, New York.
- CAL Bank posts impressive Q3 results  
<http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=333192>
- Credit risk threatens banks  
<http://www.mubs.ac.ug/docs/masters/mba/OMARA%20MARTIN%20MBA.pdf>
- Credit Appraisal & Recovery Techniques  
<http://www.irm.edu.pk/index.php/programes-and-trainings/social-mobilization-training-program/credit-appraisal-recovery-techniques-cart/>
- Credit Risk Management: How to avoid lending Disaster and maximize earnings.  
<http://www.amazon.com/Credit-Risk-Management-Disasters-Maximize/dp/0071446605>
- Credit Risk management in Financial Institutions: A Case Study of Opportunity International Savings and Loans Limited.  
<http://ir.csuc.edu.gh:8080/xmlui/bitstream/handle/123456789/241/CREDIT%20RISK%20MANAGEMENT.pdf?sequence=1>
- Dena Bank Credit Appraisal  
<http://www.studymode.com/essays/Dena-Bank-Credit-Appraisal-1018594.html>
- Ghana Statistical Service (2013). 2010 Population and Housing Cesus, National Analytical Report. May, 2013
- Ghatak, M. and Guinnane, T. W. (1999). The Economics of Lending with Joint Liability: Theory and Practice. *Journal of Development Economics*. Vol. 60, pp.195-228.
- Ghatak, M., and Guinnane, T.W. (1999). The economics of lending with joint liability: theory and practice. *Journal of Development Economics*. 60, 195-228.
- Hanson & Rocha (1986), high interest rates, Spreads and the cost of intermediation, World Bank, industry and Finance series, Vol. 18
- Harrison, D (1996); Art or Science? The Importance of Understanding Credit Risk, The Chartered Banker, Vol. 1 No. 1

- Kim, D & Santomero, A (1993); Forecasting required loan loss reserves, Journal of Economics and Business, August 1993, pg. 315 - 329
- Lending decision making in banks: A critical incident study of loan officers  
<http://www.sciencedirect.com/science/article/pii/S0263237313000418>
- Lewis, E . M. 1992. *Introduction to credit scoring*. California: Fair, Isaac and Co., Inc.
- Literature Review On Loan Recovery Strategies  
<http://www.ukessays.com/dissertation/literature-review/literature-review-on-loan-recovery-strategies.php>
- Llewellyn, T. David, (1992); “Banking in the 1990’2: Challenges and responses,” Journal of International Banking and Finance, November, pp. 528 – 534.
- Loans should be well appraised. Mr Aye kusi. Akyem Bosome Rural Bank holds AGM  
[http://www.modernghana.com/news/486802/1/akyem-bosome-rural-bank-holds-agm.html?utm\\_source=twitterfeed&utm\\_medium=twitter](http://www.modernghana.com/news/486802/1/akyem-bosome-rural-bank-holds-agm.html?utm_source=twitterfeed&utm_medium=twitter)
- Martin Omara, 2003. Credit assessment process and repayment of Bank loans in Barclays Bank Uganda Ltd  
<http://www.mubs.ac.ug/docs/masters/mba/OMARA%20MARTIN%20MBA.pdf>
- MCDM approach to evaluating bank loan default models  
<http://www.tandfonline.com/doi/abs/10.3846/20294913.2014.913275>
- McNaughton, D. (1992), *Banking Institutions in Developing markets Vol. 1: Building Strong Management and Responding to Change*, Washington D. C: World Bank.
- Mengistu, B., (1999). Determinants of Industrial Loan Repayment in Ethiopia: The Case of Manufacturing Firms in Addis Ababa, Proceedings of the Eighth Annual Conference on the Ethiopian Economy, 1999. pp. 117-132.
- Mensah, C. (199). Bank Credit provision and Performance Measurement: The Experience of Rural Banking in Ghana, Unpublished Master’s Thesis.
- Mukasa Muyongo A. (1997); Uganda Barclays Bank non-performing loans: The role of lending process.

- Munene, H., Nguta Guyo, Huka, S. (2013) Factors Influencing Loan Repayment Default in Micro-Finance Institutions: *The Experience of Imenti North District, Kenya International Journal of Applied Science and Technology*. Vol. 3 No. 3; March 2013
- Nakamura, A. (2003). A report on bad loans and entry in local credit market. In: *Publication Distribution Banks of Canada*. <http://ideas.repec.org/p/bdi/wptemi/td-509-04.html>.
- Nsereko, J. (1995); Problems of Non-Performing advances in the Uganda Banker, Vol. 3, No. 1, pg. 26 - 35
- Njoku J.E. and Odii, M.A.C.A., (1991) Determinants of Loan Repayment Under the Special Emergency Loan Scheme (SEALS) in Nigeria: A Case Study of Imo State, *African Review of Money, Finance and Banking*, No.1, 1991, pp.39-52.
- Odongo, W. (2004), The effects of credit policies on the performance of loans by Barclays Bank in Uganda.
- Sevume, G. (2004), The effects of credit policies on the performance of loans officers in Barclays Bank. A case of Centenary Rural Development Bank.
- Ssewagudde, E. (2000), the management of loan portfolio and the performance of indigenous Barclays Bank in Uganda.
- Tjiptone, J. and Darmad, A. (2002). Lending still defensive in nature. *Proceedings of 2002summer Management Conference*, Lake Buena Vista, Florida, 57 – 78
- When does a loan go bad? Feature Article of Fri, 5 Dec 2014  
<http://mobile.ghanawebstatic.com/CameroonHomePage/features/artikel.php?ID=315723>



APPENDIX  
KWAME NKRUMAH UNIVERSITY  
OF SCIENCE AND TECHNOLOGY (KNUST)

**Survey Questionnaire on Credit Appraisal Process and Repayment of Bank Loans at GN Bank. A case study of Upper and Lower Denkyira (STAFF)**

*Your response to this Questionnaire will serve as a source of information for the thesis purpose.*

*Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.*

**SECTION A: SOCIOECONOMIC CHARACTERISTICS**

1. Gender                      male {    }              female {    }
2. Marital status    single{    } married {    } separated{    } divorced{    } widowed{    }
3. Indicate the highest educational level attained
  - a. No formal education {    }
  - b. Primary School              {    }
  - c. Junior High/Middle School    {    }
  - d. Senior High/Technical School    {    }
  - e. University/Polytechnic/Diploma {    }
4. Religion Christianity {    } Islam {    } Traditional {    } Others (specify).....

**SECTION B: To investigate the appropriateness of credit appraisal process of GN Bank.**

5. GN Bank has a credit policy for loan applicants.    (a) Yes {    }    (b) No    {    }
6. How long does it take a customer to secure a loan from GN Bank?
  - (a) 1 – 3 days {    }
  - (b) 3 – 7 days {    }
  - (c) 7 – 14 days {    }
  - (d) 14 days or more {    }
7. The Bank charge a reasonable interest rate on loans in the range of
  - (a) 10 - 20% {    }
  - (b) 21 – 25% {    }
  - (c) 26 – 30% {    }
  - (d) Above 31% {    }
8. The Bank has a proper way of accessing records of all applicants previous borrowings in other financial institutions.    (a) Yes {    }              (b) No    {    }

9. Loan Officers make follow up to ensure loan facilities are used for the purposes for which they were granted. (a) Yes { } (b) No { }

**SECTION C. To investigate the relationship between loan officers and persons applying for loans.**

10. How many years have you worked as a credit officer at GN Bank?
- a. 6 months – 12 months { } b. 13 months – 24 months { }
- c. 25 months – 36 months { } d. 36 months and above { }
11. How do you treat your clients during the loan process?
- a. Treat them equally { } b. Offer special treatment to family and friends { }
- c. other. Specify .....
12. Have you ever granted a loan to a friend or family member before?
- (a) Yes { } (b) No { }
13. If Yes, how many?
- (a) Up to 10 people { } (b) 10 – 20 { } (c) 21 – 30 { }
- (d) 31 people and more { }
14. Did you ask of collateral security from the friend or family member?
- (a) Yes { } (b) No { }
15. If No, why?
- (a) He was a family member { } (c) I knew his house and workplace { }
- (b) He had a good loan repayment record with the bank { }
- (d) Other. Specify .....
16. Did you provide your friend or family member with any special assistance during the process? (a) Yes { } (b) No { }
17. If Yes, what kind of assistance?
- (a) Filled the loan application form for the customer { }
- (b) Told him the kind of document he should provide as collateral security { }
- (c) Introduced the friend or family member to the Officer in charge { }
- (d) Guaranteeing the loan for friends and family { }
- (e) Other. Specify .....
18. Did your assistance help him/her to secure the loan?

- (a) Yes                      (b) No

**SECTION C. To investigate the effect of loan officer's relationship with customer's on credit appraisal process.**

19. Did all your friends and family fulfill their part of the loan obligation?

- (a) Yes                      (b) No

20. Did any friend or family member default repayment?

- (a) Yes                      (b) No

21. If Yes, what measures were taken to ensure repayment?

- (a) Convinced him to pay { }                      (c) Asked family members to talk to him/her { }  
(b) Took a legal action { }                      (d) Other. Specify

.....

22. What was the default rate for 2014? .....

23. What percentage were your friends and family members?

- (a) 1 - 5 %                      (b) 6 - 10 %                      (c) 11 – 20%                      (d) above 21%

24. What do you think should be done to make the loan assessment process more effective.

.....

.....

KWAME NKRUMAH UNIVERSITY  
OF SCIENCE AND TECHNOLOGY (KNUST)

**Survey Questionnaire on Credit Appraisal Process and Repayment of Bank Loans at GN Bank. A case study of Upper and Lower Denkyira (CUSTOMERS)**

*Your response to this Questionnaire will serve as a source of information for the thesis purpose.*

*Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.*

**SECTION A: SOCIOECONOMIC CHARACTERISTICS**

1. Gender                      male {    }              female {    }
2. Marital status    single{    } married {    } separated{    } divorced{    } widowed{    }
3. Indicate the highest educational level attained
  - b. No formal education {    }
  - b. Primary School              {    }
  - d. Junior High/Middle School    {    }
  - d. Senior High/Technical School    {    }
  - f. University/Polytechnic/Diploma {    }
4. Religion Christianity {    } Islam {    } Traditional {    } Others (specify).....
5. State the category of employment applicable to you
  - a. Public/Civil Servant    {    }
  - (c) Private Sector              {    }
  - b. Self-Employed              {    }
  - (d) Unemployed                  {    }
  - c. Others (Specify) .....

**SECTION B: To investigate the appropriateness of credit appraisal process of GN Bank.**

6. Have you taken loan from the Bank before?              (a) Yes {    }              (b) No {    }
7. If Yes, was it the first time?              (a) Yes {    }              (b) No {    }
8. If No, how many times have you secured a loan from the Bank?
  - (a) 2 times {    }
  - (b) 3 times {    }
  - (c) 4 times {    }
  - (d) more than 5 times {    }
9. The following collaterals are often asked for to secure the loan.
  - (a) Mortgage {    }
  - (c) Hypothecation              {    }
  - (b) Personal Guarantee    {    }
  - (d) Other (Specify) .....

10. Please state if the loans requested for are

- (a) Approved as requested { } (c) Adjusted but adequate { }  
(c) Adjusted and too little { }

11. Do you service your loan regularly? (a) Yes { } (b) No { }

12. If No, what causes you to default repayment of loan?

- (a) The interest rate of the Bank is too high. { }  
(b) It takes a longer time for the loan to be processed. { }  
(c) The loan provided is not adequate for the proposed project. { }  
(d) Other. Specify .....

13. How long did it take you to access your loan?

- (a) 1- 3 days { } (b) 4 – 5 days { } (c) 6 – 7days { } (d) More than 7days { }

14. Is the borrowed funds injected in the business for which it was borrowed?

- (a) Yes { } (b) No { }

15. Do Loan Officers visit regularly to monitor progress of your business?

- (a) Yes { } (b) No { }

**SECTION C: To investigate the relationship between loan officers and persons applying for loans.**

16. What was the reception by the Loan Officer(s) the first time?

- (a) Excellent { } (c) Good { }  
(b) Very good { } (d) Normal { }  
(a) Very Bad { } (f) Other. Specify.....

17. Did you know the loan officer(s) before your encounter at the Bank?

- a. Yes { } (b) No { }

18. If Yes, what was the relationship between you and the Loan Office.

- a. Friend { } (c) Family member { }  
b. School Mate { } (d) Others (specify) .....

19. Did you secure the loan because of your relationship with the loan officer?

- (a) Yes { } (b) No { }

20. Did the Loan Office assist you in any way aside the normal loan process?

- a. Yes { } (b) No { }

21. If Yes, what kind of assistance did he/she offer you?

- (a) He filled the loan application form for me. { }  
(b) He guaranteed the loan for me. { }  
(c) He introduced me to the Loan Officer in charge of my loan processing { }  
(d) Other. Specify .....

22. Did the Loan Officer's assistance help you secure the loan?

- (a) Yes { } (b) No { }

**SECTION D: To investigate the effect of loan officers – customers relationship on loan repayment.**

23. Have you repaid the loan or installments?

- a. Yes { } (b) No { }

24. Did you make all the repayment at the right time?

- a. Yes { } (b) No { }

25. If No, why did you default the repayment terms?

- (a) The Loan Officer was a friend or family member so I could pay at anytime { }  
(b) Business activities slowed down { }  
(c) I used the part of the loan money for a different purpose { }  
(d) Other. Specify .....

26. Did the Loan Officer play any role in the loan repayment process?

- a. Yes { } (b) No { }

27. Please tick (✓) appropriate box for each of the following questions

Questions	Strongly agree	Agree	Not sure	disagree	Strongly disagree
Loans Department staffs are approachable and cooperative.					
Loan Officers show excellent human relationship to <b>all</b> clients.					
Loan Officers treat friends and family better than other customers.					
Loan Officers approve all loans applied for by					

friends and family members.					
Collateral security is not demanded from friends and family members applying for loans.					
Loan Officers provide <b>special</b> assistance to friends and family members applying for loans to ensure they secure the loan.					
Friends and family members mostly default loan repayment.					
Friends and family members mostly expect Loan Officers to repay their loans for them.					
Friends and Family members of Loan Officers service their loans regularly than customers who do not have any relationship with them.					
Loan Officers do not take legal actions against friends and family members who default payment.					

28. What challenges did you encounter during the loan processing?

.....  
.....

29. What do you suggest the loans department do to make the credit assessment process more effective?

.....  
.....