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Factors that Contribute to Loan Delinquency and its Management Mechanisms in Five Selected Banks in Ghana

By

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DECLARATION

'I hereby declare that this submission is the true findings of my own research work presented towards an award of Master of Science in Industrial Finance and Investment. No part of this work has been previously neither published by another person nor submitted to any other university or institution for the award of degree except where due acknowledgement has been made in text'.

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ABSTRACT

Loan delinquency management has been an issue of concern for most profit-making financial institutions as borrowers are finding it hard time repaying. The objective of this study was to assess the loan delinquency management practices of five banks in Ghana (Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana). Specifically, this study examined the mechanisms in place to manage delinquent loans by the banks, identify the effectiveness of loan management policies in the bank and identify the challenges that the bank faces in its loan management mechanisms. This was a survey design. There was the use of multi-stage random sampling method to select 200 credit staff from the Greater Accra branches of the five banks. Online questionnaires were used to collect data. It was found that all the staff were educated to at least the tertiary level and some had additional professional qualifications. It was ascertained that the clientele base had a bearing on repayment and consequently loan delinquency. Non-compliance to credit policy of the banks was also found to be a cause of delinquent loans in the bank. Among the mechanisms to manage delinquent loans were the formal training of credit staff in credit appraisal and training of borrowers on cash management practices. Based on the findings of the study, recommendations such as intensifying loan monitoring, and strictly adhering to institutional standards regarding credit policies among others were made.

DEDICATION

I dedicate this work to the Lord Jesus the author and finisher of our faith. Again, I dedicate this work to my beloved family for their support throughout the period.

ACKNOWLEDGEMENTS

All thanks and praises to the Almighty God who has seen me through to the successful end of this programme, without him, I could not have made it.

I am very grateful to my supervisor who guided, supported and corrected me throughout the period. He made me a better person.

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LIST OF ABBREVIATIONS/ACRONYMNS

BoG	Bank of Ghana
CGAP	Consultative Group to Assist the Poor

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Loan is one of the main activities of financial institutions in other part of the world as well as in Ghana. This can be seen from the volume of loan portfolios banks carry on their books from year to year. As per Bank of Ghana's Summary of Economic and Financial Data (2018), the total loans advanced by the banking sector stood at GHS 38.7 billion. This is an annual growth of 3.1%. Through financial intermediaries, deficit borrowers obtain loans from surplus lenders. The banks make revenues from loans through interest income.

The concept of loan can be traced backed to the beginning of banking when the Merchants of the world were the banks. The merchants loaned grains to farmers and traders who carried goods between cities (Moduch, 1999). Loan, as a concept, was largely appreciated in Europe after the World War II and later on also appreciated in Africa (Moti et al., 2012). Banks in USA gave loans to customers with high interest rates which sometimes discouraged borrowers hence the loan did not become popular until the economic boom in USA in 1885 when the banks had excess liquidity and wanted to lend the excess cash (Ditcher, 2003; cited in Moti, et al., 2012). In Africa the concept of loan was largely appreciated in the 50's when most banks started opening the credit sections and departments to give loans to white settlers. In 1990s loans given to customers did not perform which called for an intervention (Moti et al., 2012). According to Moduch (1999), many of the suggestions for the intervention of delinquent loans did not work but rather, loan delinquency increased because these suggestions mostly assessed customers' capability to pay back the loan, bringing in loan Delinquency Management.

Delinquent loans are the loans that travel longer than agreed payment schedule. Repayment of interest and principal of such loans are not made when they fall due. Such loans are mostly issued by the banks and other finance companies. Per the International Monetary Fund (IMF), a delinquent loan is that loan that is overdue for three months (90 days). A loan that is overdue for less than 90 days but repayment is not probable or a loan that misses agreed repayment schedule can also be classified as delinquent loan.

The banks generate cash flows from the payback of interest and principals on loans. This increases the revenue of the bank and translates into profit. A high delinquent loan, therefore, erodes the turnover of the bank and further, reduces their profit. It also reduces the banks' capability to grant loans to other customers. This eventually affects the economy negatively. Due to this, Mwangi (2012) argues that "financial institutions carry out credit risk management as a measure of administering credit to borrowers. This is done by having a well-developed credit mechanism and procedure, which includes; credit appraisal, training of staff and setting credit standards and terms to offset the possibility for loss to improve financial performance."

A central condition for effective administration of loan lies in the capability of reasonably, efficiently and effectively running the credit lines in terms of customers (Moti et al., 2012). Suitably, to minimize exposure to delinquent loans, bad debt, over-reserving and bankruptcies, institutions should be abreast with the financial strength of the customer, credit score reference and history and the changing patterns in payments. The bank of Ghana has a credit reference bureau department to provide credit score histories of individuals, businesses and organisations. However, this is hardly done, leaving the banks devising their own means of assessing credit worthiness and risk of prospective borrowers.

1.1 PROBLEM STATEMENT

There have been many studies on delinquent loans in Ghana (Ntow-Gyamfi & Boateng; Addae-Korankye, 2014; Tshorhe et al., 2011; Ameyaw-Amankwah, 2011; Kwakwa, 2009). Though these studies examined the causes of delinquent loans (Alhassan et al., 2017; Ofosu-Hene & Amoh, 2016; Kutsienyo, 2011; Owusu-Antwi et al., 2014), concentration was given to external factors such as inflation, gross domestic product, exchange rate and employment rate over time. These studies made use of secondary panel data to assess the loan delinquency in the banks and how it contributes to the performance of the banks through reduced or increased annual revenues. These studies argue that delinquent loans result in poor performance of banks in Ghana. Though these studies provide invaluable insight into loan delinquency in Ghana, the perspectives of the bank staff, especially those concerned with credit and assessing credit worthiness of borrowers are largely ignored in literature. Regarding Ghana's banking sector, the Bank of Ghana banking sector report for April 2018, the value of gross loans and advances of the banking industry in Ghana was GHS 36.75 billion at the end of April 2018. This figure excludes gross loans and advances of the defunct UT and Capital banks. The total value of delinquent loans, as per the Bank of Ghana banking sector report for April 2018, stood at GH¢8.63 billion. This represents 20.8 percent growth compared with a 24.5 percent growth the same period of 2017. The current Delinquent loans stock translated into delinquent loan ratio of 23.5 percent in April 2018 from 19.8 percent in April 2017. It can therefore be argued that delinquent loans are a problem in the banking sector in Ghana. In late 2019, the Bank of Ghana engaged in a banking sector clean-up which resulted in some banking and deposit taking institutions merging or exiting the country while others also collapsed totally. It is therefore necessary to assess factors which determine delinquent loans in the banks in Ghana in order to guard against these factors within the sector.

1.2 OBJECTIVES OF THE STUDY

The general objective of this study was to assess the factors which determine delinquent loans in Ghana, with particular attention to five commercial banks, that is, Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana. Specifically, this study sought to:

1. Examine the causes of loan delinquency in the five selected banks.
2. Examine mechanisms in place to manage loan delinquency in the five selected banks.
3. Assess the effectiveness of the identified loan delinquency management policies of the five selected banks.
4. Assess the conformity of the five banks to industry practices in respect of loan delinquency management.

1.3 RESEARCH QUESTIONS

The study was guided by the following research questions:

1. What are the causes of loan delinquencies in the five selected banks?
2. What mechanisms are in place to manage loans delinquencies the five selected banks?
3. What is the efficiency of the identified loan delinquency management policies of the five selected banks?
4. What is the conformity of the five selected banks to industry practice in respect of loan delinquency management?

1.4 SIGNIFICANCE OF THE STUDY

The management of delinquent loan is characteristic of all financial institutions in Ghana. This study brings to light how delinquent loans are managed and provide suggestions as to how improvements can be. This study is significant to four main parties. To the academic community and body of knowledge, this study offers deeper insight with issues related to delinquent loans and how better to deal with them. Outcomes from this study will serve are literature source and springboard for other academics who may want to investigate delinquent loans in general and in Ghana specifically.

Outcome from this study will also be relevant to the selected banks which are serving as cases for this research. Outcome of this research will expose the bank to reasons why loans may not be performing and the need to strategize for better performance of loans.

The whole banking industry in Ghana and elsewhere stands to benefit from the findings of this study. The whole industry will be aware of loan management techniques that work and those that do not work and help the industry to innovate to meet the current rise in delinquent loan figures. This will go a long way to help bring down delinquent loans.

The government, through its regulator of banking institutions in Ghana also stands to benefit from the findings of this study. This study's finding will inform the regulators of what is currently happening within the sector through the case study and help the regulator (Bank of Ghana) to fashion out regulations that will protect the banks and the monies of depositors.

1.5 BRIEF METHODOLOGY

This study was exploratory and adopted the survey design, making use of quantitative approach to data collection and analysis. The population was all credit staff in the Greater Accra branches and head offices of Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana. The multi-stage sampling technique was used to select 200 employees for this study. Questionnaires in the form of Google Forms were used to solicit data from the sample. Data was analysed and presented using tables only. The instrument had a Cronbach's Alpha reliability of .79.

1.6 SCOPE AND LIMITATION OF STUDY

The scope of this study was on five commercial banks in Ghana and how they managed their loans and the factors which contribute to delinquent loans in the banks' portfolio. The study stayed within this confine and did not extend beyond. The loan management mechanisms used by the banks (Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana) were explored and how effective they are. This study was limited by this scope. Generalisation was therefore not be possible beyond these banks' branches in the Greater Accra region of Ghana.

1.7 ORGANISATION OF THE STUDY

The study consists of five chapters. Chapter one comprises background information, problem statement, justification of the study, objectives of the study, research question, significance of the study and conceptual framework. Chapter two reviews literature. Chapter three is on research methodology which includes study design, study area, population, sample size, sampling method, data collection techniques, data interpretation tools, ethical consideration, quality control and data analysis. Chapter Four dealt with the analysis of data while the last chapter gives the summary, conclusion and recommendations based the findings of the study results.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The previous chapter delved into the general introduction of the study and the problem statement that has necessitated this study. This chapter critically reviewed literature related to loan delinquency and its management and the theories associated with loan delinquency. The concept of loan delinquency has also been expatiated for clarification as well as related theories.

2.1 LOAN DELINQUENCY

The concept delinquent loan is a delayed payment of a loan (CGAP, 1999). A loan with a less recovery chance can be classified as delinquent loan. Delinquent loans posse risks to the bank, in the form of liquidity risk, operation risk, funding risk, among other financial risks. A measure and management of delinquent loan helps management to understand the trends in making strategic decisions towards it.

In a broader perspective, delinquent loans have been classified into three; the rate of collection, the rate of arrears and the rate of portfolio at risk (CGAP, 1999). The rate of collection defined the actual amount received for loan repayment against amounts due as loan repayment. The arrears rate explained the loans overdue in relation to total loans disbursed. The rate of portfolio at risk looked at the overdue loans that are not paid on scheduled time in relation to total outstanding balance of all loans.

When a borrower did not comply with conditions of the loan, delinquency can be said to have occurred. This is to say, when a borrower under a loan contract missed a scheduled loan repayment or did not work out the terms of the loan, the loan could be considered as delinquent (Ameyaw-Amankwah, 2011).

Unable to settle borrowed funds churn the loan to delinquent. When a borrower is unable to settle what he/she owes, it makes the loan delinquent. A loan is also said to be delinquent when the borrower is unable to keep to the agreed scheduled payment of the loan and that payment becomes overdue (Murray, 2011). Delinquency is defined by Pearson and Greeff (2006) as the level of risk that explains the periods in the borrower's records that the borrower missed the agreed loan repayment schedule for at least three months within one year. The default of three month within one year is indicative of increased risk of default of the loan. Since analyst yearned for a common definition of delinquent loan for objective and parallel analysis, this definition by Pearson and Greef (2006), which was in line with international standards, was of essence. This does not indicate that the loan has been written off as bad or doubtful debt nor the borrower had totally neglected his or her obligations of repaying the loan under the loan contract and the loan recovery process has set in. Where the borrower is unable to keep to the agreed scheduled loan repayment when they are due, the loan can be classified as delinquent (Balogun & Alimi, 1990).

2.2 LOAN MONITORING

The function of loan monitoring is an integral part of quality credit that should ensure credit facilities remain within the performing loan circle, that is, the days of past-due obligation should be or less than 90 days. It is a system of bank control over the entire process of lending, which is usually manifested in the constant control of the passage of individual loans, as well as the quality of the entire loan portfolio. There are good numbers of researches on loan monitoring activities but there are disagreements among researchers on which action constitutes loan monitoring.

According to Aremu et al. (2010) loan monitoring which is the work of the relationship manager and in most cases is optional but a must function for effective and efficient credit (loan) administration in the banking sector.

The essence of every monitoring is to ensure full compliance with the loan agreement such as ensuring that the loan is being used for the eligible purposes, the quality of the loan will be maintained in the future and its repayment sources are protected in order to guard against unacceptable deterioration of the credit. Strahan (1999) argued that once a loan is made, banks monitor the actions of borrowers to protect their investment. In practice, monitoring comes down to refusing to renew a revolving loan that has reached its maturity or "calling" a loan early when a borrower has failed to meet the terms of the loan contract, restructuring the loan with the consent and cooperation of the distressed borrowers, and efficiently salvaging collateral when borrowers default.

There are various tools that are used by banks in monitoring loans; notable among them are transaction account monitoring, relationship management, regular reporting requirements, loan covenants, loan stress testing as well as internal credit rating and scoring. There are quiet numbers of researchers that advocated the adoption of loan monitoring by the lending banks (for example, Mester et al., 2007; Aremu et al., 2010; Intrater, 2002; Nakamura, 1991; Treacy and Carey, 2000; Nakamura and Roszbach, 2013).

2.3 CREDIT APPRAISAL

The credit appraisal is a complete exercise which starts from the time a potential borrower walks into the branch and concludes in credit delivery and monitoring with the objective of certifying and maintaining the quality of lending and managing credit risk. According to Sharma and Kalra

(2015) credit appraisal is the assessment of the viability of proposed long-term investments in terms of shareholder wealth and the formal analysis of all project costs and benefits which is used to justify the project proposal. This in effect represents the bank's philosophy towards effective corporate governance. A good appraisal justifies spending money on a project. A proper consideration of each of the key components of project appraisal is essential. Key issues in appraising projects include need, targeting and objectives; options; inputs; outputs and outcomes (Sharma & Kalra, 2015).

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. 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 & Karla, 1990). The performances of financial institutions are highly affected when they do not adequately appraise loans.

2.4 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. Interest rate is 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 (Obamuyi, 2009). Financial institutions should charge rates that can cover costs and make a contribution for the institution.

2.5 LOAN UTILISATION THEORY

The theory as noted by Simanowitz (2000:129) states that it is important to monitor loan utilization which helps members to be serious about their businesses and prevent them from taking the business monies for family use which destroys the business. This refers that loan monitoring prevent unplanned loan usage and identifies early problems which can be averted.

The tradition way thought of loan dispensation could not identify and therefore allowed borrowers use loan for personal purposes that was not stated during the loan application process.

2.6 MINIMIZING EX-ANTE MORAL HAZARD THEORY

According to Guttman (2006), minimizing ex ante moral hazard theory could be explained to mean that, borrowers most of the time, have private details of the amount of effort they need in making their projects succeed or in the specific projects they undertake using the borrowed funds. Sometimes, borrowers have other projects in which they can invest the borrowed funds. Higher returns projects may mostly require extra efforts and cost. Borrowers tend to save the extra cost and effort by investing in a low returns projects and even for family expenditure. In times the legal means for ensuring repayment of the loan and borrower's collateral are lacking, borrowers do profit by investing in lower returns project and claim the project failed, making repayment impossible and therefore delinquent loans.

2.7 LOAN PORTFOLIO THEORY

Markowitz (1959) noted in the loan portfolio theory that the efforts to obtain effective diversification of portfolios is driven by the maximizing returns objectives given the level of risk or minimizing risk for a given level of return. The work of Markowitz (1959) portfolio theory has been applied to common stocks, Elton and Gruber (2005). Portfolio theory concentrates on risk reduction when an investor switches from complete commitment on one asset line shares in one company or one project to the position when resources are split between two or more assets (Baisi, 2008).

2.8 LIQUIDITY RISK THEORY

Liquidity theory states that risk emanates when a project is not able to generate sufficient resources to meet its liabilities or if an entity cannot meet payment when they fall due. As per Merna and Njiru (2002), it becomes difficult for the borrowers to honour their loan repayment schedule when the profitability of the business is unable to meet its obligations. This is to say, businesses will be borrowing whiles generating low profit or selling assets lower than the market price. This will lead to penalties under the loan contract. It is important for borrowers to select a project that generates enough returns to enable them pay back their loans.

2.9 FRAUD RISK THEORY

Fraud risk theory indicate zombie debt, kickback schemes, bribes and client repayments not recorded as the main source of fraud in lending institutions as well as banks. Merna and Njiru (2002), provides three risk identification techniques: intuitive, inductive (e.g. 'What if?' techniques) and deductive (e.g. 'So how?' techniques). Risk can be identified through brainstorming, checklists, interviews and completing of risk registers. Unfortunately, such frauds are not detected since the traditional audit processes are not resourced enough to detect these frauds.

2.10 CAUSES OF LOAN DELINQUENCY/DEFAULT

Ahmad (1997), identified unwillingness of borrowers to pay back loan, borrowers diverting funds and inability of credit officers to properly appraise borrows as causes of delinquent loans. It was identified by Hurt and Fesolvalyi (1998) as cited in Kwakwa (2009), that delinquent loans have a negative relationship with gross domestic product while it has a positive relationship with exchange rate depreciation. This is to say, as the gross domestic product of the country increases, loan delinquency falls whiles a depreciation of the exchange rate reduces the ability of the borrower to fulfil his/her loan repayment agreement. Balogun and Alimi (1988) identified major attribution to delinquent loans to include; high interest rate, poor supervision by loan officers, borrowers not investing in profitable ventures, shortage of loans, age of the borrowers, delay in the loan disbursement time, government sponsored credit programmes do not get the autonomy to operate from the government. Akinwumi and Ajayi (1990), also identified the size of farm, the size of family, how large one's operation is, technical knowhow and the size of the expense of the family as some factors that may causes delinquent loan or may affect the farmers ability to repay the loan. In the findings of Olomola (1999), a delay in disbursing the loan and a high interest rate (related to the loan or the economy) increases the cost of the loan and can affect the ability to repay the loan by the borrower.

Berger and De Young (1995) surveyed banks in India and noticed that inappropriate selection process of the banks, inequitable collateral to the loan value, inefficient project analysis, loan terms and repayment scheme being unachievable are some of the causes of loan delinquency.

Okorie (1986), also identified causes of delinquent loans in Nigeria's Ondo state as lack of supervision, the lateness of loan disbursement and inadequate assessment of enterprise profitability. These causes hamper the loan repayment ability of the borrower and increases delinquent loans. Other major factors that causes delinquent loans include the loan type assigned to the borrower, the loan terms, the rate of interest assigned to the loan, the level of income of the borrower, inefficient credit scoring scheme and the cost of transaction of the loan. As per Vandel (1993), where banks charge high interest rate on loans, loans delinquency is high. The research findings of Okpugie (2009) reiterated the fact interest rate on loan had a positive correlation with loan delinquency. Therefore, the higher the interest rate on the loan, the higher the delinquency rate. Gorter and Bloem (2002) asserted the high delinquent loans to bad economic decisions by individuals and unlucky environmental problems such as unfavourable weather conditions and unfavourable movement in prices among others. Here, lenders can provision for normal delinquent loans or insuring the loans to spread and reduce risk.

According to Nishimura, Kazuhito and Yukiko (2001), companies and industries were not honouring the loan repayment schedule during the bubble burst era of Japan. Financial institutions could not retrieve the loans from the borrowers which fell delinquent. Delinquent loans made the stagnation of Japan's economy longer. This was because delinquent loans made the financial intermediaries not function well which delayed economic structural reforms. Some borrowers diverted loans taken from the intended use, others had management processes that were poor and other borrowers decided not to pay back the loan. These, according to Kohansal and Mansoori (2009), were major causes of loan delinquency.

In Kenya, the study of Warue (2012) revealed that most delinquent loans can be attributed to management failures of Self-Help Groups (SHG). External factors contribute to delinquent loans of Self-Help groups since these factors are not under the preview of the SHG management. It is therefore important for banks and lenders to look more at internal controls and processes, which they have oversight, to reduce delinquent loans.

The global economic downturn at it beginning affected the liquidity of the banks and concerns shifted to the quality of asset held by the banks during the recovery period (CGAP, 1999). This indicates that there is a relationship between loan delinquency and external factors. Research conducted on this revealed that, there is a relationship between the stability of the bank/lender and the stage of the business cycle.

In the studies of Fofack (2005) on the causal analyses and macroeconomic effect on delinquent loans on countries in the Sub-Sahara, it was indicated that a fall in delinquent loans can be attributed to growth of the economy and stability of the macroeconomic indicators. On the other hand, a rise in delinquent loans can be connected to economic shocks coupled with a rise in the cost of borrowing and capital.

Waweru and Kalani (2009) in their study of banks in Kenya found that cost push inflation, a fall in national economic performance and other legal issues were some of the causes of delinquent loans. The study also accepts to place similarities between delinquent loan concept and delinquent loans.

Sheila (2011) also pointed out improper analysis of the borrower and his finances as a cause of delinquent loans. This occurs when officers in charge of loans do not go through the due processes in accessing the borrower's qualification for the loan or the processes put in place for the assessment of borrowers may be deficient in identifying risk factors. In the case of Uganda, as per Sheila (2011), loan delinquencies also arise as a result of inadequate loan support to business and individuals. Where loan is made available, the inadequacy of it does not assist the institution to bounce back, sustain or improve growth. He points out that loan officials do a thorough assessment of borrowers to know the depth of financial needs and assist accordingly. Invariably, loan officials do not do this, and where this assessment is done, the loan amount is always inadequate leading to a continuous rise in delinquent loans.

In his research, Sheila (2011) also noted lack of technical knowhow and illiteracy as causes of loan delinquency. Most borrowers are working with traditional businesses with low salary and have not added other skills or businesses. The do not provide them with opportunity for other avenues in case current business fails. As the borrowers are illiterate, they are unable to neither read nor write. They are unable to provide proper account of the business they are engaged in to repay their loans. At points where loan officers make mistakes, liabilities are shifted to the borrowers because they are illiterates. Some borrowers disappear from the reach of the lender which also leads to delinquent loans.

Poor business practices also leads to delinquent loans. In the view of Kasozi (1998), there are some weaknesses of the borrower of which the lender has little or no control. How the business is managed is to be desired. Since it can be noted that most business owners lack the technical knowhow in records keeping and accounting for the performance and growth of their business, this is not done till loan repayment period falls due. This means that businesses are unable to assess and plough back profit leading to loan delinquency. The study added competitive environment of lenders as a cause of loan delinquency. Many banks (lenders) are competing with each other over few borrowers. The banks therefore are able to disburse loans without proper assessment of the borrower or inadequate collateral.

According to Bichanger and Aseya (2013), causes of loan delinquency include delay in the processing of the loans by the lender, ineffective and inefficient monitoring of small business by the banks and over centralization of loan decision making allowing just a person to approve all loan application.

The characteristic of a business is one of the causes of loan delinquency in Kenya (Nguta, and Guya, 2013). It was noted that loan delinquency was common with manufacturing sector recording 67.9%, service sector recording 64.0%, agriculture sector 58.3% and the trade sector 34.9%. The trade sector record of lowest delinquency among other sector could be attributed the fact the trade industry deals with fast consumer goods which means that goods traded here do not stay in store for long and therefore generates higher revenue which will accommodate honouring loan repayment when it is due. In terms of how long the business has been operating and it relation to loan delinquency, businesses that had been operating within two years had 52.4% of loan defaults, 44.2% of loan default for those who have operated within two and five years and 78.6% default rate (which was the highest) for those between the operation period of five and ten years. Businesses which had operated for more than 10 years had 0.0% default rate in loan repayment. In addition, the location of the business had a relation to the likeliness of loan delinquency. Business located in the regional capitals and municipalities had a higher loan delinquency rate compared to businesses outside regional capitals.

2.11 MANAGING DELINQUENT LOANS

Banks and lenders must adopt mechanisms, such as collateral enforcement and verification, obtaining guarantees from third parties and obtaining credit scores from credit rating institutions to help reduce loan delinquency (Kohansal & Mansoori2009).

Kay Associates Limited (2005) cited by Aballey (2009) noted that if loans are disbursed to only borrowers who have the ability to pay back and are not likely to go solvent, loan delinquency can be restricted. Efficient assessment of the borrower is needful to know the credit risk of the borrower in making loan disbursement decision.

Monitoring of loan repayment is of essence. Banks are expected to take actions whenever there is a loan default. Banks are, therefore, to avoid disbursing risky loans, monitor repayments by borrowers to ensure they are done according to schedule and renegotiate the loan terms when borrowers get into difficulties (Ameyaw-Amankwah, 2011).

Banks need to install monitoring systems that brings out repayment issues early enough to allow loan officers and supervisors deal with issue of loan delinquency before it becomes unmanageable (Warue, 2012).

The basic stage of loan process as per Sheila (2011) is effective and efficient assessment of the borrower. This is important way of reducing loan delinquency. To ensure a high quality loan portfolio, the assessment and appraisal stage is of importance (Anjichi1994). This means an on point assessment and appraisal of the borrower and the business is needed. Loan officers should research to have information that will guarantee and verify data and figures provided by the borrower and will be in line with a pro-margin error (Sheila, 2011).

The period to assess the borrower's credit worthiness is of importance (Hunte, 1996). He asserts that the longer it takes to assess a borrower, the better. Most of the information needed by the loan officers is obtained from personal visitation by the loan officers to the houses and business place of the borrowers. This help the loan officer to obtain information that will not be available if he chose to just go through the documents presented to him at the office. This makes evaluation of the borrower easier,

Bigambah (1997) contends that it is important to assess the borrower before a loan is disbursed. The assessment, among other things, should look out for the borrower's credit worthiness and the borrower's repayment ability. He established that loan appraisal is a key factor of loan delinquency in Uganda. Verification of documents received in processing the loan is mostly not done. This provides a way for falsified and doctored documents to pass through the process. Credit risk analysis of the borrower is another important aspect of loan appraisal. The assessment of the borrower should consider both the past and present records.

The capability, capital, character, purpose, amount, repayment, term and security should be a baseline for assessing a borrower. From the above, investigation should also cover the capacity of the borrower, the past records and experience. Security consideration is made after the borrower has met the stated criteria. The lender assesses to know how effective the borrower will utilize the loan and determine how likely change in the business will occur after the loan is granted. These are all part of the loan appraisal process.

Sheila (2012) identified the loan disbursement stage as another important stage of the lending process. This is critical to borrowers as well as the lender since a delay may cause a mishap in their business. There are times the banks delays in disbursing the loans. This may mean, the borrower may not be able to acquire his inputs on time to ensure business growth and continuity. The agricultural sector is of no exception. They do depend on favourable weather condition to determine the time of the season favourable for planting. A delay in disbursement of loans to farmers will mean a delay in the planting season. The obtained loan, if not used for that season, may be used up by the farmers on other things and might end up as a delinquent loan

A thorough assessment and control stage of the loan process is considered vital to control delinquent loans (Sheila, 2011).

According to Anjichi (1994), most loan delinquencies could have been avoided if proper monitoring and evaluation was done as part of the loan process. This could be done by personal visitations of the loan officers to the abode and business premises to assess to collateral and capacity of the borrower, and other relevant inspections that will be needful in the loan process. Banks will review it own loan policies if it is concern about business growth of the borrower. It will implement loan tracking sheet to monitor disbursed loans. This will provide analytics of the repayments which can be used to monitor possible delinquent loans before going delinquent. Knowledge of possible delinquent loans is important and assists in reducing loss. This means, when possible delinquency is detected, re-appraising of the borrower and redesigning the payment schedule may be needed to give the borrower the lean way in honouring the repayment.

According to sawyer (1998) lenders/banks should see it important to develop interest in the borrower and his activities to continuously monitor his ability to repay the loan. The monitoring should compare actual turnover per months compared to budgeted turnover. Details and reasons should be requested for the variances that may be extracted. This will assist to have trends and knowledge on possible default in loan repayment by the borrower.

Bigambah (1997) noted that constant visit to the borrower helps maintain a healthy relationship. These visits help the loan officer understand the business of the client and, if the need be, renegotiate the payment schedule to ensure the client is placed on a realistic and not too much stressing schedule. This reduces possible chances of loan delinquency. In the assertion of Mugisha (1995), weak banking system is cause of loan delinquency in Unganda. He added that the banks do not have loan officers to ensure payment schedule is adhered to or loan is recovered where there is a default.

Warue (2012) stated that lenders should be concerned about the increasing delinquent loans in the industry and institute the needed techniques to avert this issue. To add, review of credit risk techniques should be done on a regular basis and increase the monitoring scope for Self Help Group (SHGs) for proper assessment of loans.

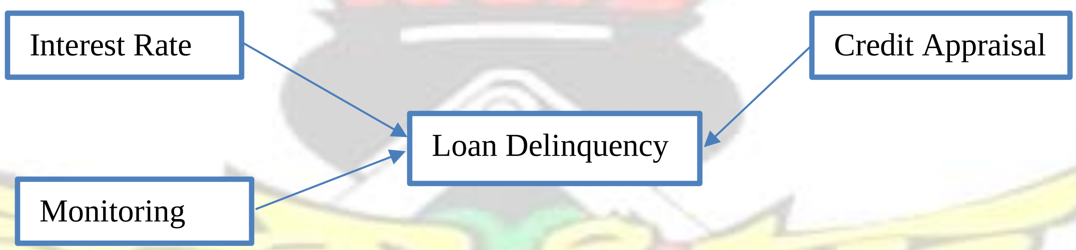
Saloner (2007) noted that lending to a group of people as one will reduce the instances of delinquent loans. Many lenders choose to lend to groups rather than individuals. These groups have their meeting times and payback the loan as a group. Addition or removal of a group member is decided by group. The group ensures that it members are credit worthy since a default by a member automatically transfers the liability to the group.

There have been studies that identify group lending as an efficient method of lending that reduces loan delinquency. Performance of borrowers in repaying the loan is improved as a result of group lending (Woolcock, 2001). He noted that apart from the guidance and other helps one get from the group, individuals have their own reputation to protect and therefore will like to repay the loan on time. Mostly, these groups are formed by people close to each other, in the same area or in the same town.

Although group lending do has a positive outcome for lenders, some researchers have suggested that it could lead to an unhealthy society. In his assessment of the effect of group lending, Islam (1995) noted that group lending provides a way where each member monitors other members which provides flexibility to the lenders and their finances. Lenders may choose to provide loan at lower rates and expect early or on time payment with a lower risk of delinquency. Most of the researches on group lending produce positive effect but the work of Kaboski and Townsend (2005) in Thailand pointed out that group lending has no effect on loan repayment.

2.12 CONCEPTUAL FRAMEWORK

Figure 1: Conceptual Framework



Source (Researcher's Construct, 2020)

From the simple framework in figure 1, it can be ascertained that loan monitoring, credit appraisal and interest rate impact on loan delinquency. That is, if loan monitoring is low, credit appraisals are poor and interest rates are high, loan delinquency is likely to occur while if there is good loan monitoring, proper credit appraisal and low interest rates, delinquent loan are less likely to occur.

2.13 SUMMARY

The literature review provided an overview of loan monitoring, credit appraisal and interest rate, and the importance of adopting effective credit risk practices and portfolio management to help achieve the goal of reducing loan delinquency. This is important since it provides the banks with sustainable growth, improving asset quality and capital adequacy and maximizing shareholders wealth in the long run. Analysis of theoretical research and practices noted in this chapter by experts and authorities on principles of managing delinquent loans are the basic guide for the research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The research methods that one uses mainly affect the outcome of the research. This chapter looks at the methods used to investigate loan delinquency in the five selected banks. This chapter covers the research design, population, sample, unit of analysis, sources of data, data collection and analysis.

3.1 RESEARCH DESIGN

The exploratory research strategy was employed in this study. As per Shields, Patricia and Rangarjan (2013), exploratory research is research conducted for a problem that has not been studied more clearly, intended to establish priorities, develop operational definitions and improve the final research design. An exploratory study is a valuable means of finding out 'what is happening; to seek new insights; to ask questions and to assess phenomena in a new light (Robson, 2002:59). Broadly, exploratory studies, are sometimes explained as studies intended to generate evidence needed to decide whether and how to proceed with a full-scale effectiveness study. Also, the study was exploratory because it sought to examine the determining factors of delinquent loans in the five selected banks (Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana).

Research design includes planning, organization and execution of social investigation (Kumekpor, 2002). The survey research design was adopted for this study. This is because the survey will allow the researcher to reach the population of interest through the use of questionnaires with standardised questions to collect data. This study was quantitative and exploratory in nature. This study was quantitative because it collected data that was quantified and used for analysis.

3.2 POPULATION

The population of the study was all credit staff in the Greater Accra region branches and head offices of Fidelity Bank, Absa Bank, Zenith Bank, Republic Bank and Ecobank Ghana. This is because they are concerned with credit could speak about the topic and provide the needed data for the study. They are the ones who deal directly with borrowers and monitor them for repayment.

3.3 SAMPLING SIZE AND SAMPLING PROCEDURES/TECHNIQUES

This study made use of a total of 200 credit staff from the Greater Accra region branches and head offices of the five selected banks. This sample comprised only those concerned with the management of credit and for that matter loans. This is because they had the first-hand primary data to report for the study for analysis. In research, the sampling frame is the complete list of elements of interest. Table 3.1 shows the banks, their number of branches and sample allocation.

Table 3.1: Sample allocation

Bank Name	**No. of Branches**	**Head Office**	**Total**	**No. of Selected Branches**	**Allocated Sample per branch**	**Total Sample**
Fidelity Bank	48	1	49	40	2	80
Absa Bank	27	1	28	20	2	40
Zenith Bank	8	1	9	5	2	10
Ecobank	32	1	33	25	2	50
Republic Bank	13	1	14	10	2	20
Total	**128**	**5**	**133**	**100**	**10**	**200**

Authors' Construct from the Field (2020)

The multi-stage sampling technique was used. The first stage involved the purposive sampling of the head offices and their branches in Accra of the five banks in Ghana. Secondly, within each head office of each bank, a sampling frame was made of branches including the head office. Simple random sampling was used to select the required number of branches of each bank. Allocation of two credit officers is then made for each of the selected branch as indicated in Table 3.1. This gave a total of 200 sample size.

3.4 DATA COLLECTION

The data used for this study was predominantly primary. The primary data was sourced through the sampled credit staff from the five selected banks. Self-administered questionnaire was the main method used for the collection of data for analysis. The questionnaire was designed in Google Forms, an online data collection tool.

After credit staff were identified through the sampling process, their email addresses were sought from their human resources department of the head offices of the banks and the questionnaire's link sent electronically to them to respond to the questionnaire. This was because some of the selected credit staff through the sampling process were not available in the office due to shift system of working during the pandemic. This virtual means of data collection method was used since it reduces physical contact and reduce the spread of COVID-19. Also, all the sampled credit staff representing the banks were educated and could read, understand and write without any aid and also use the internet and smart phones. The questionnaires had clear guidelines as to how credit staff were to answer the questions and what to do after the questionnaires had been answered. Also, the researcher included personal contact and email on the form that will allow credit staff to contact the researcher if they needed any clarification.

3.5 DATA ANALYSIS

Descriptive method of data analysis was used. This involved the use of comprehensive sentences in the explanation of charts, frequency tables and percentages. Some inferential statistical tools were employed after the data was cleaned and entered into data analysis software. The frequency tables helped the researcher to ensure that the total number of questions and questionnaires had been entered. Statistical Package for Social Sciences (SPSS) was employed. This was used to answer the hypotheses. Severity Index was also calculated. Attempts were made to draw relations as to whether particular findings were supported by the reviewed literature or not.

3.6 RELIABILITY AND VALIDITY OF DATA

3.6.1 Reliability

Reliability is referred as the extent to which a test, measurement procedure or a questionnaire generates common outcomes on repeated trials. As per Traub and Rowley (1991) Reliability coefficients range from 0 to 1, with lower coefficient indicating lower reliability level and a higher coefficient indicating higher reliability level. Reliability was checked in this study through the use of Cronbach's Alpha. Cronbach's Alpha value of .79 was realised.

3.6.1 Validity

Validity is a degree to which an instrument or test measures what is needed to measure. Validity was adopted in this study by pilot testing the questionnaire with a different sample to see whether constructs are accurately measured.

3.7 ETHICAL CONSIDERATIONS

Since the banks are closed organisations, the researcher negotiated entry through appropriate gatekeepers by sending formal letter to the bank's human resource department at the head office for permission to conduct the study. Anonymity was ensured by not taking the names of the research participants during data collection. Also, confidentiality was ensured.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

4.0 INTRODUCTION

This chapter analyses and presents the data collected from the field. Data was collected from total of 200 credit staff of the five banks in their Greater Accra region branches. Analysed data is discussed in relation to literature to situate the topic in academic lens. The presentation and discussion are done in sub-sections according to the specific objectives of the study. Data is presented in tables only.

4.1 BACKGROUND OF CREDIT STAFF

This section presents and analyses the demographic data of the credit staff. From Table 4.1, it can be observed that majority of the credit staff were males representing 58% while the remaining were females. This simply indicates that there are more male credit staff of the five banks. Regarding age group, it can be ascertained that majority of the credit staff were in their early twenties to mid-thirties, while few had aged more than thirty years.

Again, the table shows that exactly 67% of the credit staff had attained tertiary education and 33% had attained in addition to the tertiary education, some professional qualifications. This indicated that all credit staff had gone through Basic, Senior High School and tertiary or equivalent. Most of the credit staff had worked for their banks for more than six years.

The findings indicate that the five banks have a strong credit staff with many years of experience since majority had worked for more than six years in their organization. Also, it can be argued that the credit staff are well educated which is likely to influence the performance of the bank since the human resources can be considered as developed.

Table 4.1: Demographic Characteristics of Credit Staff

Gender	Frequency	Percent
Male	115	58.00
Female	85	42.00
Total	**200**	**100.00**
Age Group	Frequency	Percent
23-27 years	74	37.00
28-32 years	80	40.00
More than 33 years	46	23.00
Total	**200**	**100.00**
Level of Education	Frequency	Percent
Tertiary	134	67.00
Professional	66	33.00
Total	**200**	**100.00**
Number of years of working in institution	Frequency	Percent
Less than one year	15	7.00
One to three years	42	21.00
Four to six years	31	16.00
More than 6 years	112	56.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.2 CAUSES OF DELINQUENT LOANS

Literature has examined the various causes of delinquent loans (Kwakwa, 2009; Okpugie, 2009; Nishimura et al., 2001). This section of the research examines the causes of delinquent loans in the five banks from the perspectives of the credit staff.

4.2.1 Largest Clientele Base

Gorter and Bloem (2002) argue that delinquent loans can manifest in instances where the clientele base of a bank are not diverse. This is because towing in the direction of any one particular clientele base will mean that if business do not go well with that clientele base, the bank is likely to suffer from delinquent loans. It is based on this background that this study investigated into the clientele base of the banks.

From Table 4.2, it can be gathered that the credit staff indicated that the banks have a diverse clientele base which shows diversified portfolio of some sort since these different clients have some acting as buffer for others. From the table, it can be seen that farmers, traders, artisans and fishermen as well as salaried workers form the clientele base of the five banks. Balogun and Alimi (1990), found that African farmers are at a high likelihood of loan default because they rely largely on the natural rainfall pattern for crop cultivation which sometimes is unreliable. This makes them a particularly a risky group of clients to loan monies to as they can be unfavoured by the weather.

Ssekiziyivu et al. (2017) found in their study on microfinance in Uganda that the characteristics of the borrowers have influence on the ability of the borrowers to repay their loans. This means that, as found by this study, the type of economic activity or occupation that the borrowers are engaged in can greatly affect their power to repay the loans taken with interest. If it adversely affects the repayment power of the borrowers, then bad loans are the result. It is therefore necessary the economic backgrounds of the borrowers are thoroughly investigated before loan approval.

Table 4.2: Largest Clientele Base (Borrowers) according to Credit Staff

Clientele Base (Borrowers)	Frequency	Percent
Farmers	27	13.00
Traders	57	29.00
Artisans	20	10.00
Fishermen	22	11.00
Salaried Workers	74	37.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.2.2 Perceived Cause of Delinquent Loans

The credit staff were asked what they perceived causes delinquent loans in the five banks since they have been working in the organisation for years. Their responses are shown in Table 4.3. From the table it can be ascertained that 11% perceived poor credit appraisal as the cause of delinquent loans in the five banks. Kwakwa's (2009) finding agrees with this study's finding that among the causes of delinquent loans is poor loan appraisal by credit staff of banks. When loans are poorly assessed and the borrower's background information and credit worthies are not considered, there is the high likelihood of default and subsequent plunge into bad loans. It can be argued that sometimes complete and comprehensive information may not be available for banks to assess the credit worthiness of borrowers.

Fifty nine percent of the credit staff indicated that high interest rate is the cause of delinquent loans in the five selected banks. This finding agrees with that of Okpugie (2009) who found that high interest rates affects loan repayment and leads to loan delinquency. Borrowers in the quest to borrow money for emergency expenditures, do not always consider the interest rate given to them until later when they start to repay the loan before they are faced with the reality of high interest rates. For example, Jasson (2002) maintain that borrowers who cannot read and write sometimes realise at a later stage that they are paying more in terms of interest rate that were told by credit officers. This is because they could not read and understand the terms and conditions of the credit.

Ineffective monitoring was also considered by credit staff as contributing to loan delinquency. Warue (2012) sides with the credit staff by asserting that poor monitoring of loans after they have been approved results in high tendency of default. Due to poor monitoring, borrowers are able to make use of monies for reasons other than what the loan was given for. This affects the power to repay and on time. Those who considered wilful default as leading to loan delinquency were 12 representing 6% and delayed loan approval was 5%. This finding agrees with that of Addae-Korankye (2014) who identified borrowers of microfinance institutions in Ghana and found that wilful default by borrowers lead to loan delinquency as some of the credit staff indicated that they wilfully default because they could not pay back or channel other resources into saying back the loans.

Table 4.3: Perceived Cause of Delinquent Loans

Cause	Frequency	Percent
Poor Credit Appraisal	22	11.00
High Interest Rate	118	59.00
Ineffective Monitoring	38	19.00
Wilful Default	12	6.00
Delayed Loan Approval	10	5.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.2.3 Non-Compliance Leading to Delinquent Loans

Regarding non-compliance to banking practice leading to delinquent loans, as much as 184 credit staff representing 92% indicated that non-compliance leads to delinquent loans while 8%

representing 16 credit staff said non-compliance do not lead to loan delinquency. Those who indicated that non-compliance leads to loan delinquency explained that industry standards are guarding against the occurrence of delinquent loans so non-compliance to industry standards is likely to lead to, and increase delinquent loans. However, those who indicated that non-compliance does not lead to loan delinquency indicated that some other factors lead to delinquent loans such as improper documentation. Warue (2012) for example, opine that banking standards and principles, when violated leads to many problems in the bank, including delinquent loans. This means that if there is non-compliance in the practices in banking by any bank, the resultant effect is delinquent loans.

Amuakwa-Mensah and Boakye-Adjei (2015) contend that compliance to industry standards in the banking industry is more likely to reduce delinquent loans, as these standards are tried and tested over time and have been found to be effective. It is therefore imperative that banks adhere to industry standards in order to avoid or reduce delinquent loans. As found by this study, delinquent loans are also caused by non-compliance to banking standards, in agreement with those found by Amuakwa-Mensah and Boakye-Adjei (2015).

Table 4.4: Non-Compliance Leading to Delinquent Loans

Response	Frequency	Percent
Yes	184	92.00
No	16	8.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.2.4 Causes of Delinquent Loans

Some factors were outlined and presented to the credit staff in a likert scale format to indicate their level of agreement whether those factors lead to delinquent loans or not. Their responses were used to calculate the descriptive statistics displayed in Table 4.5. On the table is the mean and standard deviation for the various factors.

From the table it can be observed that business failure accounted for most delinquent loans as this had a mean of 3.77, which is the highest mean with a standard deviation of 1.24. This finding agrees with that of Boateng (2018), who found that savings and loans companies in Ghana have a problem with borrowers' business failure which affects the ability of the business owners to repay their loans. It is worthy of note that loans are taken by business owners to either expand their businesses or start new businesses. In cases where the businesses fail, these business owners find it hard time repaying the loans they had taken from these financial institutions resulting in delinquent loans being recorded by these financial institutions.

Business failure was followed by poor loan appraisal with a mean of 3.57 and a standard deviation of 1.25. This high mean also indicates that poor appraisal of loan applications also leads to delinquent loans. This is because poor appraisal may not reveal the ability of the borrower to not pay or pay back the loan. This finding agrees with that of Kwakwa (2009) who also found that poor loan application appraisal leads to delinquent loans. Poor appraisal means that all risks are not assessed which goes to affect the repayment of loans.

Diversion of loans from intended purpose for collecting the loans by borrowers also had a mean of 3.14. This also indicates that loan diversion also leads to delinquent loans. For example, if loans approved for income generating activities are diverted to household expenditure, it is to be expected that repayment of the loan will be a delayed and in worst cases not happen at all. Addae-Korankye (2014) found in his study that loan diversion is a cause of loan delinquency in Ghana. This stands to reason that in Ghana, individuals usually use loans for different purposes other than for the purpose for which the loans were applied for.

In the macroeconomic vein, low economic growth also had a mean of more than three with a standard deviation of 1.23. This also means that in instances of low economic growth, loan delinquent rises since the economy is not expanding enough for borrowers to make profit on loans in order to repay. Nishimura et al. (2001) argue that an economic uncertainty such as low economic growth is an important determinant of loan delinquency. Their finding and this current study's finding show that when the economy of any nation is going through periods of recession, delinquent loans should be expected. This is because when an economy is in a bad shape, trust in the financial industry machinery wanes and businesses are not making enough profits to be able to meet their loan repayment schedules, resulting in delinquent loans. It is worthy of note that any shock felt in the macroeconomic variables of any nation trickles down to the smaller firms and even the larger firms and individuals resulting in loan defaults. Inadequate business management knowledge of borrowers and marketing problems did not have high means indicating that their effect on loan delinquency is low.

Table 4.5: Causes of Delinquent Loans

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Business failure	200	1	5	3.77	1.24
Poor loan appraisal	200	1	5	3.57	1.25
Diversion of loan by customers	200	1	5	3.14	0.99
Poor monitoring	200	1	5	3.11	1.43
Low economic growth	200	1	5	3.09	1.23
Inadequacy of business management knowledge of borrowers	200	1	5	2.89	1.42
Marketing problems	200	1	4	2.58	1.32

Source (Field Data, 2020)

4.2.5 Hindrance to Loan Monitoring

Though loan monitoring has been lauded by studies to help fight loan delinquency (Okpugie, 2009; Vandel, 1993), not all financial institutions are able to engage in loan monitoring appropriately and timely to mitigate loan delinquency. The credit staff were asked what they considered as hindering effective monitoring of loans.

From Table 4.5 it can be observed that inadequate staffing in the bank is a major hindrance to loan monitoring. This was indicated by 97 credit staff representing 49%. This finding stands in contrast to that of Addae-Korankye (2014), who found that wilful negligence and improper appraisal by credit officers is a hindrance to loan monitoring and consequently delinquent loans in Ghana. This means that it is not an issue of inadequate staffing, according to the findings of Addae-Korankye that leads to delinquent loans, but rather the actions of the credit officers and other individuals within the banking sector dealing with issues of credit lead to delinquent loans. For example, he asserts that wilful negligence on the part of the credit officers leads to delinquent loans because these officers do not monitor the loans as they are supposed to.

Sixty-five credit staff representing 32% indicated that lack of logistics hinders effective loan monitoring in the bank while 24 representing 12% also indicated that bad road networks affected their monitoring. This is because they had to travel to the borrowers to ensure that they are actually using the loans for the intended purpose for which the loans were taken. Only 7% indicated that ineffective supervision by management affected their monitoring of loans.

Table 4.6: Hindrance to loan Monitoring

Hindrances	**Frequency**	**Percent**
Inadequate Staffing	97	49.00
Lack of Logistics	65	32.00
Bad Road Network	24	12.00
Ineffective Supervision by Management	14	7.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.2.6 Reasons for Loan Diversion by Borrowers

Since the study found that there are instances of loan diversion by borrowers for different purposes, the study examined reasons why loans are likely to be diverted by the customers. From Table 4.7, 62 credit staff representing 31% indicated that inadequate knowledge of terms and conditions attached to loans is a reason why borrowers divert loans into other ventures for which the loans were not sought for. This was followed by 50 credit staff representing 25% who also indicated that ineffective monitoring by the banks leads to the borrowers diverting funds into other ventures. Forty-eight representing 24% made it clear that anticipation of better returns from other ventures entice borrowers to divert funds into those perceived profitable ventures while 36 representing 18% indicated that fluctuating interest rates applied on loans in different sectors at different times induce the customers to divert loans.

Loan diversion by borrowers to be used for other purposes has been investigated by Kohansal and Mansoori (2009) and has found that it is among the major causes of delinquent loans. They contend that diverted loans are likely to negatively influence repayment since the purpose for which loans are sought are among the reasons why the loans are granted and thus banks see the purpose for which loans are taken as viable enough to result in repayment. When diversion takes place, it means that the purpose for which loan was taken that will be able to help with repayment is defeated. Though borrowers may deem different purpose for loans as viable, it does not justify loans to be diverted.

Vandel (1993) has indicated that poor monitoring of loans by credit staff result in loan diversion since the customers are not checked to make sure that they are making use of the loans for the purpose for which they were taken and also advise them on best practices for the use of loans to help them repay and on time.

Table 4.7: Reasons for Loan Diversion by Borrowers

Reasons	Frequency	Percent
Anticipation of better returns from other ventures	48.00	24.00
Inadequate knowledge of attached terms and conditions	62.00	31.00
Fluctuating interest rate applied on loans in different sectors at different times	36.00	18.00
Ineffective monitoring	50.00	25.00
Other	4.00	2.00
Total	**200.00**	**100.00**

Source (Field Data, 2020)

4.3 MECHANISMS TO MANAGE DELINQUENT LOAN

4.3.1 Training in Credit Appraisal

The credit staff were asked whether they had received any training in credit appraisal in their organisations. This was to ascertain whether they had competencies in appraising loans. From Table 4.8, majority of the credit staff representing 90% indicated that they had received training in appraising loans. Only 10%, that is 20 of the credit staff indicated that they had not received any such training. Waweru and Kalani (2009) indicated that training of credit staff in issues related to credit appraisal and credit in general enhances their skills and abilities to be able to manage borrowers and their loan to reduce delinquent loans. Per the finding of this study on the training of credit officials, it can be argued that their banks are making headway in addressing its delinquent loan issues.

Table 4.8: Training in Credit Appraisal

Response	Frequency	Percent
Yes	180.00	90.00
No	20.00	10.00
Total	**200.00**	**100.00**

Source (Field Data, 2020)

4.3.2 Loan Repayment Point apart from Banking Halls

Regarding loan repayment points, all the credit staff indicated that their banks do not have any loan repayment point apart from the banking halls. This means that borrowers who want to repay their loans can only do it at the banking halls, unless it is a direct debit from the person's account. This served as an extra cost to the borrowers since they may have to travel to the nearest available banking hall which could be expensive. However, if the bank had some other forms of repayment methods and points, the borrowers could easily access. This will increase repayment and reduce delinquent loans.

4.3.3 Loan Portfolio Health Monitoring Technique

As much as more than half (134 credit staff representing 67%) indicated that the most common method or technique used to monitor health of loan portfolio was the aging analysis while 33% indicated that portfolio at risk was used to monitor loan health. This is shown in Table 4.9.

Table 4.9: Loan Portfolio Health Monitoring Technique

Technique	Frequency	Percent
Aging Analysis	134.00	67.00
Portfolio at Risk	66.00	33.00
Total	**200.00**	**100.00**

Source (Field Data, 2020)

4.3.4 Dealing with Delinquent Loans

There are many ways of dealing with loans that are delinquent. According to 120 of the credit staff representing 60%, outsourcing debt collectors to deal with delinquent loans was resorted to. Sixty-four representing 32% resorted to legal actions while only 8% write off delinquent loans. This means that majority of the cases of delinquent loans are sold to external debt collectors who then act on behalf of the bank to retrieved such loans that are delinquent. This is shown in Table 4.10.

Table 4.10: Dealing with Delinquent Loans

Response	Frequency	Percent
Outsourcing Debt Collectors	120	60.00
Legal Action	64	32.00
Writing Off	16	8.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.3.5 Collateral

In case of people who are not salaried workers, collateral was sometime taken based on appraisal of the credit worthiness of the Borrowers. Borrowers who were deemed loyal and regular with their loan repayments are normally excluded from presenting collateral. Thus, past credit history of the borrowers in question comes into play if the borrowers is not a salaried worker and desires to be given a loan.

This question of collateral requirement was asked as some borrowers are not salaried workers with regular flow of income with high tendency of default that those with regular flow. This was to ascertain how the bank guards against default by such persons who come to the bank for loans. The credit staff considered it as almost always a must for collateral to be provided by those borrowers who are not salaried workers. This is shown in Table 4.11. Seventy two percent indicated that collaterals are a must while 28% indicated that collaterals are not a must.

In consonance with this current study, Gisemba (2010) researched on the relationship between risk management practices and financial performance of banks in Kenya and found out that the banks adopted various approaches in screening and analyzing risk before awarding credit to borrowers to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. He concluded that for banks to manage credit risks effectively they must minimize loan defaulters, cash loss and ensure the organization performs better, increasing the return on assets through the use of collaterals.

Table 4.11: Collateral for Loan

Collateral	Frequency	Percent
Yes	143	72.00
No	57	28.00
Total	**200**	**100.00**

Source (Field Data, 2020)

4.3.6 Mechanisms in Place to Reduce Delinquent Loans

The credit staff were asked to describe the mechanisms in place by their banks to reduce delinquent loans. This was to know how the bank in actuality goes about as part of its strategies to reduce bad loans. Among the mechanisms described were three main emerging themes.

The use of education came out strongly among the mechanisms to reduce bad loans. Here, borrowers who were coming for the loans to use for businesses were educated on cash management practices and how to handle cash and go about their businesses for maximum returns. This training was usually for free as the bank had an interest in such education in reducing bad loans. Borrowers are usually advised to use the loans for the reasons for which they have been given.

Secondly, monitoring was considered by some of the credit staff in their description of the mechanisms to manage bad loans by the bank. Monitoring is very important as it puts borrowers on their toes that they should use the monies for the reason for which they have been give. When loans are monitored, any loan diversions can be brought to book and the borrower advised to stick to agreed reasons why the loans were given.

The third was training and development of credit staff regarding loans. There was the training of credit staff and relationship managers on good customer relations and the ways of dealing with customers who are headstrong regarding loan repayment. These training and development equip them with the needed acumen to help deal with the incidence of delinquent loans in the banks.

These make us understand that the selected banks are not partial about bad loans but is actively involved in reducing its incidence. The above mentions strategies though not exhaustive, to some extent help to reduce bad loans in the five banks.

4.4 EFFECTIVENESS OF LOAN MANAGEMENT POLICIES

On the efficiency of loan management policies, a set of policies were given to the staff to rank the policies which are most effective from one to five. This was used to calculate severity index for the policies. This is shown in Table 4.12. From the table it can be observed that training of small business owners before giving them loans ranked first with a severity index of 94%. To the credit staff, if small business owners are trained before they are given loans; it will serve to help them operate their businesses better and make profits to repay their loans. Compulsory post-dated cheques ranked second with severity index of 88%.

This was then followed by continual monitoring as third with severity index of 86%. Continual monitoring of loans has been advocated to be very effective so that borrowers do not divert funds given to them for businesses. Threats of lawsuits to defaulters was also envisaged as a good policy in reducing problem loans but ranked forth out of the six policies given with a severity index of 82%. New repayment terms in difficult economic times ranked fifth with a severity index of 78%. To the staff in instances where things get tough, borrowers can be called in the rearrange for new repayment terms so that they can repay without any troubles. This was followed by compulsory provision of collateral for personal loans. This ranked last with a severity index of 71%.

Table 4.12: Severity Index of Effective Loan Management Policies

Severity Index	Loan Management Policies	Rank
94%	Training of small business owners before giving them loans	1st
88%	Compulsory post-dated cheques from salaried workers	2nd
86%	Continual Monitoring	3rd
82%	Threats of lawsuits to defaulters	4th
78%	New repayment terms in difficult economic times	5th
71%	Compulsory provision of collateral for personal loans	6th

Source: Field Data (2020)

4.5 CONFORMITY TO INDUSTRY PRACTICE

When the credit staff were asked if they are aware of any set of standards to be followed in dealing with delinquent loans, all said yes there exists some standards set to be followed in dealing with bad loans. They were then asked to explain those standards set. First, if loans have become delinquent, all necessary steps possible are made to recover it. Three main steps are taken to deal with it. These are legal control, physical control and financial control.

Under legal control, the credit staff are to make sure that all documents regarding the loans are properly executed and enforced constantly so that they comply with various legal formalities such as charges registration and other internal directives and that of the Bank of Ghana regarding defaults. Under the physical control, the inspection of the physical securities such as collaterals and other businesses premises of borrowers are made to ensure that at least some money can come from there or otherwise. The book of accounts of the borrower is also verified. However, the financial control has got to do with evaluating the performance of the company on the basis of periodic financial statements. The cash flow of the borrower is assessed to know if indeed such a borrower can pay back. All these are standards that need to be followed before any other action can be taken such as legal suits.

4.5.1 Industry Standard for Dealing with Delinquent Loans

Regarding conformity to industry standards, a set of sample standards were given to the credit staff to rank the standards which are most conformed to from one to five on a likert scale. This was used to calculate severity index for the industry practices conformed to. This is shown in Table 4.13. From the table it can be observed that fully explaining loan terms and conditions to borrowers ranked first with a severity index of 92%. To the staff their banks mostly adhere to explaining the loan terms and conditions to the borrowers since they perceive that will contribute to reducing loan delinquency. Adherence to KYC policies ranked second with severity index of 84%. This was then followed by rigorous loan application appraisal as third with severity index of 82%. Compulsory collateral for non-salaried borrowers followed with a severity index of 81%. This shows that among the five sampled banks, adherence to the first four on the ranked is done.

Table 4.12: Severity Index of Industry Practice

Severity Index	Industry Practice	Rank
92%	Fully explaining loan terms and conditions to borrowers	1st
84%	Adhere to KYC policies	2nd
82%	Rigorous loan application appraisal	3rd
81%	Compulsory collateral for non-salaried borrowers	4th
75%	Borrowers are to be financially educated by the bank	5th
65%	Monthly deduction of no more than 50% of salaried borrowers	6th

Source: Field Data (2020)

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.0 INTRODUCTION

This chapter presents a summary of the findings gathered by this study and suggests recommendations based on the findings and conclude. This chapter will serve to give a summary understanding of the whole study.

5.1 SUMMARY OF FINDINGS

The summary of the findings from this study will be done with reference to the objectives and research questions which informed this study in paragraphs. This is done to enhance reader comprehension and appreciation of the work. It will also bring to the fore the answering of the research questions of this study. This study assessed loan delinquency in five banks in Ghana. The main objectives investigated were the causes of delinquent loans and the mechanisms to manage delinquent loans. Adherence to banking practices in mitigating delinquent loans was also investigated.

The study revealed that most of the staff were males with few females. A clear indication that the staff of the banks are male dominated with youthful age group. All the sampled staff dealt directly or indirectly with credit with most of them being credit officers. It is however interesting to note that all the staff sampled had some formal education and that the least qualification requested by the banks before they employ anyone is a tertiary education. Some of the staff however, had additional professional qualifications.

It is worthy of note that clientele base has a bearing on repayment and consequently delinquent loans. The study revealed that the largest clientele base of the banks was salaried workers. This was not surprising as these borrowers are more likely to repay loans than those who are not salaried workers. This was followed by traders as some traders are loyal to making regular deposits and paying off loans. Among the most pressing cause of delinquent loans ascertained from this study were inadequate loan monitoring, high interest rate and wilful default on the part of the customers or borrowers. Poor borrower appraisal was also realised to be among the factors which has the tendency of causing delinquent loans in the selected banks.

Again, non-compliance to credit policy of the bank was stressed by all the sampled staff as the one basic underlying factor for the increase in delinquent loans. It was realised that the credit policy of the bank was basically to guard against delinquent loans. In constructing severity index for causative factors of delinquent loans, diversion of funds by customers ranked first, followed by poor loan monitoring, business failure of customers and low economic growth. The study, thus, makes it clear that diversion of funds and poor loan monitoring are the most severe cause of delinquent loans.

The study sought to find out what hinders loan monitoring since it was ascertained that it is one of the most significant contributors to delinquent loans. Inadequate staffing and lack of logistics were voted for by the staff as the hindrances to effective loan monitoring. This means that if these are attended to, delinquent loans will reduce in the five banks.

It was revealed in this research that almost all the staff are taken through a formal training in credit appraisal. This was done in order to equip the staff with the needed skills to effectively and properly work on credits. It was understood that formal training in credit appraisal does not necessarily lead to high performance and low occurrence of delinquent loans. The banks had no loan repayment points outside of their banking halls. This made it difficult for borrowers to repay loans on time as they would have to queue to make payments at the banking halls. This deterred some customers.

Ageing analysis and Portfolio at risk were the two main portfolio health monitoring methods used by the banks. However, reliance was heavily on ageing analysis. In dealing with bad loans, the bank either outsource, take legal action or write off the loan. These three main means were used on bad loans. Collateral was a must if the borrower was not a salaried worker. This was done to secure loans given out to people with uncertain incomes. When there is a default, the bank can then sell off the collateral of the borrower to defray all or part of the loan amount. This made sure that delinquent loans are reduced in the bank.

On effective loan management policies, education and training of borrowers on cash management was done. This was envisaged as a means of making borrowers know how to conduct their businesses and avoid loss which will go against repayment of any loan. There was also the continual monitoring of such people who have been trained. This continual monitoring was to ensure that customers do not divert loans away from the purpose for which loans were given and also to ensure that customers are loyal to the bank and repay on time. Compulsory post-dated cheques were also collected from salaried workers. Threats of law suits and new repayment terms for those who have defaulted were all brought to bare in managing bad loans. These threats of law suits compel the customers to make every effort possible to repay the loans.

5.2 CONCLUSION

From this study, it has been clearly established that delinquent loans are present in the banks and that the main causes are high poor loan monitoring, high interest rates, poor client appraisal and non-compliance to the bank's credit policies. It must be noted that training and education of small business owners was found to be very effective against wilful default which in turn positively affects repayment. It is thus recommended that the possible known causes be dealt with.

5.3 RECOMMENDATIONS

Based on the findings from the study, the following paragraphed recommendations are made. It must be noted that these suggestions are made as informed by the key findings and not all findings.

First and foremost, the banks should consider intensifying loan monitoring. As the study proved, poor loan monitoring together with high interest rates are common known causes of delinquent loans. Therefore, if concentration is put on these two factors, delinquent loans in the bank will be greatly reduced. However, looking at these two factors will not mean despising other known factors which also can cause delinquent loans, especially credit appraisals. If appraisals are done right and correctly, it will serve to help deal with customers who wilfully default.

Education and training of customers who are traders should not be taken for granted. This is because as such people are made to understand that loans are to be repaid and are educated on their jobs, they will most likely repay loans given to them. It must be noted that this will most likely fight against funds diversion by customers and ensure that monies are used for the reasons for which they were received.

Since the banks has its own standards set with which credit officers are work with, compliance to those standards set will tremendously go a long way to help reduce delinquent loans. Enforcement of industry practice should therefore be taken seriously. This will go a long way to reduce delinquent loans.

5.4 RECOMMENDATIONS FOR FURTHER STUDIES

Since this study made use of only five banks in Ghana, it is recommended that a further study is conducted using all commercial banks in Ghana through the survey research method. Such a study will then become a national study through which recommendations can be made for the commercial banking scene in Ghana. The study can even do comparative study among the commercial banks to ascertain which of them is doing better and which is doing worse in terms of dealing with delinquent loans.

Also, a qualitative enquiry from the perspective of the borrowers on why they default will go a long way to help researchers understand why loans become delinquent. Such a study should throw light on the micro level understanding of the borrowers on the challenges they face that negatively impact on their ability to repay their loans and on time. An understanding from the perspective of the borrowers can help devise means of dealing with delinquent loans better.

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APPENDIX-Questionnaire and List of Banks

List of Banks

1. Fidelity Bank
2. Absa Bank
3. Zenith Bank
4. Republic Bank
5. Ecobank Ghana

ASSESSING THE FACTORS THAT DETERMINE LOAN DELINQUENCY AND MANAGEMENT MECHANISMS IN FIVE SELECTED BANKS IN GHANA

I am a Msc. Industrial Finance and Investment Student from Kwame Nkrumah University of Science and Technology - Institute of Distance Learning, conducting research on the above topic. This is part of the requirement for the award of Master of Science Industrial Finance and Investment. Please be assured that all the information you provide will be held in confidence and used only for the said purpose. Your name will not be mentioned anywhere for providing this information. Thank you for your time.

Demographic Characteristics of Respondents

1. Gender [ ] Male [ ] Female
2. Age in Years [ ] Less than 18yrs [ ] 18-22 [ ] 23-27 [ ] 28-32
   [ ] 33-37 [ ] 38 and above
3. Highest level of education [ ] No education [ ] Elementary [ ] SHS
   [ ] Tertiary [ ] Other ___________________

4. Number of years of working with institution [ ]Less than 1year [ ] 1 to 3years [ ] 4 to 6years [ ] More than 6 years

Causes of Delinquent Loans

5. Largest clientele base [ ] Farmers [ ] Traders [ ] Artisans [ ] Fishermen [ ] Salaried workers [ ] Others, please specify ________________________________
6. In your opinion, which of the following most accounts for incidence of delinquent loans in your organization? [ ] Poor Credit Appraisal [ ] High Interest Rate [ ] ineffective Monitoring [ ] Wilful Default [ ]delayed loan approval [ ] Other, Please Specify __________________________
7. Do you think non-compliance with credit policy account for Delinquent Loans in your bank? [ ] Yes [ ] No
8. Explain your choice of answer in question 8. ____________________________________
____
____

From the table below, on the scale of 1 to 5 choose the appropriate response to each statement in relation to causes of delinquent loans in your bank. Where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree.

No.	**Statement**	**1**	**2**	**3**	**4**	**5**
10	Low economic growth					
11	Diversion of loans by customers					
12	Business Failure					
13	Marketing problems					
14	Inadequate business management knowledge					

15	Poor monitoring					
16	Poor loan appraisal					

17. Which of the following most hinders effective loan monitoring?

[ ] Inadequate Staffing [ ] Lack of Logistics [ ] Bad road network

[ ]Ineffective supervision by management [ ] Other, Please specify _______________

18. Which of the following reasons account for loan diversion by customers?

[ ]Anticipation of better returns from other ventures

[ ]inadequate knowledge of attached terms and conditions

[ ]Fluctuating interest rate applied on loans in different sectors at different times

[ ]Ineffective monitoring

[ ] Other, Please specify _______________

Mechanisms to Manage Delinquent Loans

19. Do you have any formal training in credit appraisal? [ ] Yes [ ] No

20. Do you have loan repayment points across the country apart from the main banking hall?

[ ] Yes [ ] No

21. What technique do you employ to monitor the health of loan portfolio?

[ ] Ageing Analysis [ ] Portfolio at Risk (PaR)

22. How do you deal with delinquent loans?

[ ] Outsourcing (External Solicitor/Debt Collectors) [ ] Legal Action

[ ] Write Off [ ] Other, Please Specify __________________

23. Collateral is a must in order to qualify for a loan if the customer is not a salaried worker.

[ ] Yes [ ] No

24. What mechanisms have your bank put in place to help reduce delinquent loans?

____

____

____

25. What other measures should your bank employ to help reduce delinquent loans?

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Effectiveness of Loan Management Policies

From the table below, on the scale of 1 to 5 choose the appropriate response to each statement in relation to efficiency of loan management policies in your bank. Where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree.

No.	**Statement**	**1**	**2**	**3**	**4**	**5**
26	Compulsory provision of collateral for personal loans					
27	Continual Monitoring					
28	Training of small business owners before giving them loans					
29	Compulsory post-dated cheques from salaried workers					
30	Threats of law suits to defaulters					
31	New repayment terms in difficult economic times					

Conformity to Industry Practice

26. Are you aware of any set of standards to be followed in dealing with delinquent loans?

[ ] Yes [ ] No

27. If you answer to the previous question is yes, which of the following steps is taken?

[ ] Legal control

[ ] Financial control

[ ] Physical control

From the table below, on the scale of 1 to 5 choose the appropriate response to each statement in relation to conformity to industry practice in giving out loans in your organisation. Where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

No.	**Statement**	**1**	**2**	**3**	**4**	**5**
32	Adhere to KYC policies					
33	Borrowers are to be financially educated by the bank					
34	Monthly deduction of no more than 50% of salaried borrowers					
35	Rigorous loan application appraisal					
36	Compulsory collateral for non-salaried borrowers					
37	Fully explaining loan terms and conditions to borrowers					