KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
KUMASI
INSTITUTE OF DISTANCE LEARNING (IDL)

AN ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN
RURAL AND COMMUNITY BANKS IN GHANA: A CASE STUDY OF
UPPER MANYA KRO RURAL BANK LIMITED.

BY

ERIC ASAFO-ADJEI

A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE LEARNING,
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
KUMASI IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE

OF

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS
ADMINISTRATION (CEMBA)

JUNE 2011
DECLARATION

I hereby declare that this submission is my own work towards the Commonwealth Executive Masters of Business Administration (CEMBA) and that, to the best of 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.

Students’ Name
Eric Asafo-Adjei ................................................
(PG3042209) Signature Date

Supervisor’s Name ................................................
Joseph Frempong Signature Date

Certified by
Dean of IDL ................................................
Professor I. K. Dontwi Signature Date
DEDICATION

This piece is dedicated to my Dad, Mr. S. T. Asafo-Adjei, and my Mum, Madam Comfort A. Odjidja and the Almighty God.
ACKNOWLEDGEMENT

I am, first and foremost, grateful to the Almighty God who gave me the strength and wisdom to conduct this study. My honest gratitude also goes to Mr. Joseph Frempong, my supervisor who spared some of his precious time both day and night to guide and supervise me during the conduct of this study.

I am particularly thankful to Mr. James K. Otieku, the Board Chairman and a senior lecturer at the University of Ghana and the entire Board of Directors of the Upper Manya Kro Rural bank for their immense support and interest and allowing me to use the bank as a case study in conducting of this research.

A special thanks goes to Rev. Devine Nartey for his support both emotional and spiritual to bring this piece this far.

The role played by management of the Bank, especially the General Manager, Mr. Daniel Ransford Agyemang, cannot be overemphasized. I pray the blessed Lord will continue to grant them divine wisdom to continue to move the bank forward.

I am very grateful to all Credit Officers of the bank for the support and assistance especially, Mr. Eric Tettey, Mr. Daniel Kumi-Dei, Mr. Narh Terkperty Bartolommeo, Mr. Andrews Cudjoe and Mr. Mamphey Benjamin Agyepong.

I cannot forget the numerous customers of the bank who responded to the questionnaire to make this research a success.
ABSTRACT

The roles played by rural and community banks in Ghana cannot be overemphasized.

The objective of this research is to investigate the credit risk management practices at the Upper Manya Kro Rural Bank Limited, and find out the reasons for the high default rate in the bank.

The study employed a questionnaire containing 21 questions were administered to 130 customers of the bank and another questionnaire was administered to 40 Board members, management and staff of the bank. Purposive sampling was used to select some respondents. The stratified random sampling technique and the face to face interview methods of data collection were also used. The research found out that 71.5% of the problems of loan defaults were caused by endogenous factors with only 28.5% being caused by exogenous factors. Accepting collateral, ensuring both on-site and off-site monitoring, regular auditing are some of the credit risk management practices of the bank. Other findings were that loan defaults are either as a result of misapplication of loans or multiple loan contractions by borrowers. It was also revealed that the bank has low recovery rate as a result of lack of training for the credit officers and the credit recovery team. The research recommends that purposes of loan applications especially, trading loans should be scrutinized by credit officers so that borrowers do not divert or misapplied the loan. More training should be given to the banks’ credit officers to upgrade their skills and put them on top of their jobs.
TABLE OF CONTENTS

Declaration .................................................................................................................................i
Dedication .................................................................................................................................ii
Acknowledgment ......................................................................................................................iii
Abstract ......................................................................................................................................iv
Table of contents ......................................................................................................................v
List of tables .............................................................................................................................vii
List of Figures ..........................................................................................................................vii

CHAPTER ONE
INTRODUCTION

1.0 Background 1
1.1 Statement of the problem 5
1.2 Objectives of the research 6
1.3 Research question 6
1.4 Importance of the study 7
1.5 Organisation of the study 7
1.6 Limitations 8

CHAPTER TWO LITERATURE REVIEW

2.0 Overview 9
2.1 Risks in Banking 9
2.2 Credit Risk 10
2.3 Causes of Credit Risk 12
2.4 Types of Credits  15
2.5 The Interest Rate  17
2.6 Parties interested in Credit  18
2.7 The Credit Granting Process  18
2.8 Loan Repayment  19
2.9 Collateral  20
2.10 Restrictions on Lending Banks  22
2.11 Credit Policy  23
2.11.1 Restricted Activities  24
2.12 Brief History of Credit Risk Management  24
2.13 Importance of Credit Risk Management  25
2.14 Tools for Managing Credit Risk  26
2.14.1 Cashflow  26
2.14.2 Collateral  26
2.14.3 Guarantors  27
2.14.4 Character  27
2.14.5 History  28
2.15 Credit Risk Management practices of Rural And Community Banks  28
2.12.1 On-Site and Off-Site Supervision  30
2.12.2 The Audit Committee  30
2.13 Staff
Training  31
2.16
Conclusion  31

CHAPTER THREE METHODOLOGY

3.0 Overview  33
3.1 Research Design  33
3.2 Population and Sample Size  33
3.3 Sampling Technique ........................................................................34
3.4 Research Instrument .....................................................................34
3.5 Procedure for Data Collection .......................................................35
3.6 Data analysis Plan ..........................................................................36

CHAPTER FOUR _______ ANALYSIS AND DISCUSSION OF RESULTS

4.0 Overview .......................................................................................37
4.1 Findings .........................................................................................37
4.2 Responses of Staff and Management ..............................................37
4.3 Responses of Customers .................................................................43
4.4 Response of Interview Granted by Bank Officials .........................47

CHAPTER FIVE _______ SUMMARY, CONCLUSION AND
________________________ RECOMMENDATIONS

5.0 Overview .......................................................................................48
5.1 Summary of Findings ....................................................................48
5.2 Conclusion ....................................................................................51
5.3 Recommendations ..........................................................................52
References ..........................................................................................55
Appendices ..........................................................................................61
<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Responses on why there are defaults</td>
<td>37</td>
</tr>
<tr>
<td>4.2</td>
<td>Responses on terms, conditions and the credit policy</td>
<td>38</td>
</tr>
<tr>
<td>4.3</td>
<td>Staff and Management responses of staff knowledge on Credit Risk</td>
<td>39</td>
</tr>
<tr>
<td>4.4</td>
<td>Responses on multiple borrowing</td>
<td>42</td>
</tr>
<tr>
<td>4.5</td>
<td>Responses on why there are defaults</td>
<td>43</td>
</tr>
<tr>
<td>4.6</td>
<td>Responses Regarding Loan Approval</td>
<td>44</td>
</tr>
<tr>
<td>4.6</td>
<td>Responses on average amounts borrowed</td>
<td>44</td>
</tr>
<tr>
<td>4.7</td>
<td>Male-Female Default Rate</td>
<td>45</td>
</tr>
<tr>
<td>4.9</td>
<td>Cumulative responses on why there are defaults</td>
<td>46</td>
</tr>
<tr>
<td>FIGURE</td>
<td>DESCRIPTION</td>
<td>PAGE</td>
</tr>
<tr>
<td>--------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>4.1</td>
<td>Responses on training credit officers and the recovery team</td>
<td>40</td>
</tr>
<tr>
<td>4.2</td>
<td>Responses on when training was last organized for them</td>
<td>41</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND

A major cause of serious banking problem continues to be ineffective credit risk management (Eastern Caribbean Central Bank, 2009). The collection of deposits and provision of credit remains the primary business of banks in general and Rural and Community Banks (RCBs) in particular here in Ghana. From a miniature amount of GH¢ 162.67 million in the third quarter of 2007, the total loan size of the rural banks in the country had risen to GH¢ 307.87 million by September, 2010 (ARB Apex bank Circular, 2010). This increase of more than 89% in just three years shows that credit advancement by RCBs has risen so significantly that more proactive and appropriate risk management strategies and practices are needed to manage it. As the loan portfolio increased, the percentage of non performing loans (NPL) has also increased over the years, a reason why credit risk management should be taken seriously. “All the banks maintained capital adequacy ratios within prudential limits. However, the non performing loan ratio deteriorated from 16.2 per cent in December 2009 to 17.6 per cent as at December 2010” (Graphic Business, 2011).

The financial performance of many RCBs started to decline, however, for several reasons, including a drought that affected the country in 1983 (leading to high loan default rates), weak governing ability, conflicts within boards of directors, and ineffective management in many RCBs. Several reforms were undertaken to curb the deteriorating situation—exposure to risky sectors (mainly agriculture) was limited,
distressed banks were closed, supervision by the central bank was strengthened, and RCB managers and boards of directors were offered training. Nevertheless, RCBs continued to be relevant rural finance service providers, and the Government of Ghana has consistently provided support to the RCBs by financing capacity building (in partnership with several donors), restructuring programs, and undertaking regulatory reforms.

By the end of the third quarter of 2010, 133 RCBs were in operation with more than 584 service outlets. RCBs are regulated by Ghana’s central bank, the Bank of Ghana, and thereby form part of the country’s regulated financial system.

Even though there is a huge difference between the deposit rate and the lending rates, some banks still are unable to make maximum profit from loans because of the possibility of non-payment of loans by loan customers. This is known as credit risk. Since most of banks’ assets are in the form of loans, the effective management of credit risk will go a long way to determine the level of a banks’ profit all things being equal.

Risk is the possibility of loss in an investment or speculation. It involves getting less or even total loss in terms of returns than initially expected. Whenever there is investment, there is risk. This is because an asset’s actual return could differ from its expected return. This means that the future outcome of an investment is always uncertain even though it may be predicted with reasonable accuracy. Thus in every business venture, risk is an unavoidable phenomenon. Risk can be studied from a firm’s point of view and from the investor’s point of view. Credit risk has been defined by many scholars and writers.
According to (Sinkey, 1992) the primary danger of granting credit is the chance that the borrower will not pay. This uncertainty is known as credit or default risk.

Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligor who fails to honour their debt obligation as they have agreed and contracted (Colquitt, 2007).

(Casu et. al., 2006) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, is the most familiar of banking risks and it still remains the most difficult to quantify. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization.

Credit risk management means protecting an organization from finance-associated risks. These risks can include loan repayment and debt recovery. Credit risk management employs several practices, each aimed at reducing the financial risk to a company. They include credit policies and procedures, credit analysis and credit review, all of which help prevent poor lending decisions and protect company investments.

Credit risk therefore revolves around the core that an organization might not be able to recover all credit facilities extended to its customers or such facilities might not be paid on time. The after effects of the global economic crisis continue to reverberate through corporate boardrooms, bringing risk management into sharper focus. In the 2009 “What
Directors Think” survey conducted by PricewaterhouseCoopers and Corporate Board Member magazine, risk management was clearly of primary concern to directors (Ghana Banking Survey, 2010).

Like any other bank, the UMKRB is actively involved in the extension of credit facilities to customers. There are basically two main types of credit facilities at the UMKRB. These include loans and overdrafts. The bank grants salary overdrafts to the salary workers who receive monthly salary and revolving overdrafts to its business customers who operate business accounts. The bank however only grants revolving overdrafts to its customers who operate a current account. In other words if a customer does not have a current account then he or she does not qualify to be granted an overdraft. The granting of the overdraft allows the customer to overdraw his/her account to a limit to be approved by an approving authority. This means that the customer cannot overdraw his/her account above that agreed limit. The bank also grants loans to its customers.

These loans are categorized in the following areas such as agric loans for customers engaged in agriculture, Susu loans for those who engage in the bank’s mobile savings scheme. There are also trading loans to customers who engage in trading activities. Salary loans are also advanced to salaried customers of the bank. A unique loan product known as the Credit Savings with Education (CSWE) is a product advanced to groups of traders mostly women. Membership of the group ranges from a minimum of five (5) to a maximum forty (40) in one solidarity group. The security of this loan product rests with the solidarity group which ensures that members enjoy group guarantee. Thus if a
member refuses to repay his/her loan, other group members are required to pay on his/her behalf. What makes this group loan unique is there is an education portion attached to the loan. Group members are occasionally educated on topics such as breastfeeding, malaria, HIV/AIDS among others.

Customers who take loans and overdrafts sometimes are unable to repay these facilities as scheduled. In 2008, the total loan portfolio stood at GH¢ 3,778,481, an increase of over 55% over the previous year’s figure. In 2009 the total loan portfolio of the bank increased to GH¢ 4,228,800 representing an increase of 61.10% over the previous year’s figure. The total loan portfolio for the bank increased to GH¢ 5,097,396 in 2010.

This research looked at the credit risk management practices in Rural and Community Banks using Upper Manya Kro Rural Bank Limited (UMKRB) as a case study.

1.1 STATEMENT OF THE PROBLEM

Most rural banks are unable to attract staff with the right qualification, skills and competence who will implement the policies of the bank. However, in cases where they are able to attract such staff they easily loose them to the commercial, development and merchant banks. This situation often leads to policy failures in these banks.

In some rural banks, management has refused to share the bank’s credit risk management strategies with staff who are suppose to implement these measures.

Best practices are sometimes ignored by some banks in their bid to scramble for customers and increase their loan portfolios.
Sometimes banks are unable to recover loans granted because of reasons the research hope to unravel.

The main problem of the study is that there are ineffective credit risk management practices at UMKRB which has led to an increase the Non Performing Loan Ratio from 1.46% in 2009, to 3.29% in 2010 (UMKRB, 2010).

1.2 OBJECTIVES OF THE RESEARCH

Given the research problem above, the study proposed to:

(i) Examine credit risk management practices in the RCBs.

(ii) Examine the causes of the high default rates

(iii) Give appropriate recommendations concerning Credit Risk Management.

1.3 RESEARCH QUESTION

The following research questions guided the study:

(ii) What are the credit risk management practices in RCBs

(ii) How does RCBs manage risks associated with credits?

(iii) What are the causes of high default rates in RCBs

1.4 IMPORTANCE OF THE STUDY
If the set out purposes are achieved, the researcher envisions it would:

Help curb the growing trend of credit default of customers of UMKRB in particular and rural banks in general.

Minimize the risk to UMKRB in granting credit to its customers while at the same time increasing its total advances to customers.

Minimize the current increasing numbers of legal cases with its associated cost against defaulting customers of rural banks.

It will also add to the body of knowledge on credit risk management.

1.5 ORGANIZATION OF THE STUDY

The study consisted of five chapters.

Chapter one discussed the introduction and background to the study. This chapter looked at the background of the UMKRB and why it is chosen for the study. The chapter provided the introduction, problem statement, objectives of the research, the research question, importance of the study, literature review, research methodology and limitations of the study.

Chapter two looked at the literature review. Chapter three contained the data collection and sampling methods. Chapter four discussed the data analysis. Chapter five contained the conclusion and recommendations.
1.7 LIMITATIONS

The researcher was limited by a variety of factors and prominent among them are;

The time allowed for the research is inadequate.

Some respondents did not cooperate with the collection of data which is critical in providing the needed inputs for the research work.

CHAPTER TWO

LITERATURE REVIEW

2.0 OVERVIEW
This chapter takes a literature review of the topic credit risk management. It looks at issues such as the causes of defaults in credit administration, credit risk management practices, warning signs, industry best practices, the risks associated with credit and how it can be minimized if it cannot be eliminated.

2.1 RISKS IN BANKING

Risk is the possibility of an adverse event occurring and its potential for negative implications to the institution. In other words, it is the recognition of the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty as regards the outcome of the event. According to Sinkey, (2001) the key portfolio risk of the banking are credit risk, interest rate risks, liquidity risk and foreign exchange risk. McNaughton, (1992) stressed that risk taking is central to banking and banks are successful when the risk they take are reasonable, controlled and within their financial reserves and credit competence. She further highlighted that, to survive the numerous lending risks and to prosper, banks must re-examine their bureaucratic culture to become responsive to the financial needs of the economy. Barbaro, (1994), also identified that the main duty of a credit manager as risk management and the ability to avoid bad loans. The same view is held by Skees, (2006) who affirmed that rural financing is all about managing risk. Carey, (2001) also agreed with this by stating that, risk management is more important in the financial sector than in other parts of the economy.

Rural banks in Ghana are exposed to these risks above which have left some struggling to maintain their momentum. With most RCBs lacking highly qualified staff in terms of
qualification and experience, the issue of risk needs to be considered with utmost concern.

2.2 CREDIT RISK

Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligor who fails to honour their debt obligation as they have agreed and contracted (Colquitt, 2007). For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.
The effective management of credit risk is a critical comprehensive approach to total risk management and is fundamental to the safety and soundness of financial institutions. Appropriate policies, procedures and systems should be implemented at each financial institution to effectively identify, measure, monitor and control credit risk (Eastern Caribbean Central Bank, 2009).

With most rural banks cited in rural Ghana, the risks are greater and as result, most banks have neglected the rural areas (Webster and Fidler, 1996). A similar viewpoint is held by Anderson, (2001) who is of the view that, Agriculture, an intrinsically risky activity is cited as the primary activity of the great majority of rural households. The risks faced by rural residents depend on the local farming systems, climate, infrastructure and the policy and institutional settings (Anderson, 2001). Rapid changes in rules of trade, technology and climate often increase the risks that confront the rural folk. The most common forms of credit risk encountered in trading activities are issuer credit risk and counterparty credit risk which are defined as follows:

**Issuer risk** is the risk of default or credit deterioration of an issuer of instruments that are held as long positions in trading portfolios. While the short term horizon of trading activities often limits much of the issuer credit risk for relatively high quality and liquid instruments, other less liquid instruments such as loans, emerging-market debt, leveraged derivative transactions and below-investment-quality debt instruments, may be the source of significant issuer credit risk.
Counterparty risk is the most significant component of credit risk faced in trading activities. Settlement risk is the risk of loss due to counterparty’s failure to perform on a contract or agreement during the life of a contract. For most cash instruments, the duration of this risk exposure is limited to hours or days from the time a transaction is agreed upon until settlement. It is also important to do a thorough assessment of the customer’s ability to repay before the advancement of credit to each customer.

2.3 CAUSES OF CREDIT RISK

Over the years, people have researched into how credit risk can be controlled so that it does not lead to the collapse of credit advancement in the country. Pricewaterhouse Coopers (Ghana Banking Survey, 2010) identified high interest rates, lack of vigorous risk governance structures, not clearly defining and complying with the bank’s risk appetite and not instilling strong risk culture focused on optimizing return trade-offs within a defined risk strategy as some of the problems of credit risk management in Ghana.

According to Amidu and Hinson, (2006), larger banks have higher credit risk and the capital structure (equity to total assets) of banks is positively related to banks’ credit. According to Sinkey, (1992), the credit risk (or quality) of a bank’s loan portfolio depends on two sets of factors: these are those factors that external to the bank such as macroeconomic factors, natural disasters, death etc. The others are those factors that are subject to managerial discretion.
Credit risk = \( f (i, e) \)

Where \( i \) = internal factors

\( e \) = external factors

Macro economic indicators such as inflation, interest rate and exchange rate, natural disasters and death can have serious consequences on the credit portfolio. An increase in inflation means that the purchasing power of customer has reduced. In another words, it means that an individual can not buy the same quantity of a product s/he hitherto bought.

The exchange rate is another major exogenous factor that affects the credit risk management. Exchange rate risk is the effect of that an anticipated exchange rate changes have on the value of the firm. This section will look at the effect of currency fluctuations on lenders businesses and particularly their ability to repay loans on schedule. Currency fluctuations can have both negative and positive effects on businesses in the local economy depending on how the changes occur. Some internal or endogenous factors also affect the riskiness or quality of a bank’s loan portfolio. These are improper credit appraisals, lapses in the bank’s loan policy, the quality and integrity of the credit staff, willingness of management, and industry best practices among others.

Improper or poorly done credit appraisals can create big problems when it comes to loan repayment. Credit appraisal is the assessment of the various risks that can impact on the repayment of loan is credit appraisal. In short, you are determining "Will I get my money back?". Depending on the purpose of loan and the quantum, the appraisal process
may be simple or elaborate. For small personal loans, credit scoring based on income, life style and existing liabilities may suffice. But for project financing, the process comprises technical, commercial, marketing, financial, managerial appraisals as also implementation schedule and ability.

(Dunkman, 1996) attributes the causes of loan defaults to either failure of credit officers to judge repayment ability of the borrower correctly or a change in the condition of the industry or the economy as a whole. Credit appraisal is the process by which the lender assesses the credit worthiness of the borrower. It revolves around character, collateral capability and capacity. It takes into account various factors like income of the applicants, number of dependents, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrower.

It is appropriate to consider some measures to curb loan defaults after looking at some of causes of default. Some of such measures includes, monitoring loan accounts and businesses of borrowers.

2.4 TYPES OF CREDITS

Banks in Ghana lend to salaried customers, pre-financing of contracts, exports and import finance, guarantee, mortgage facilities, agricultural credit, small and Medium enterprises loan, microfinance loans. Many researches have confirmed this for example,
Kaufman, (1993) is of the view that banks can be evaluated on their credit delivery which forms the core of banking operations. Akakpo, (1994) maintains that, banks' profitability depends so much on lending that their performances and success depend on how effectively they manage their lending activities. Conversely, the view of Agyeman, (1987), is divided on the issue. While recognizing the importance of bank lending, he is also of the view that it has caused polarization of the rich from the poor and concentration of economic activities in the urban areas causing rural urban migration. Webster and Fidler, (1996) hold the view that, banks in making loans tend to favour large well established firms (mostly in the urban areas) as against small and newly established ones in the rural areas because large firms offer greater financial security.

The goal of credit management is to optimize the company’s sale and profits by keeping both credit risk and payment delinquencies within acceptable limits. Sound credit management involves finding the right balance in the risk/reward relationship between sales and bad-debt losses. There are a number of ways to manage credit risk. The most common include: Accepting risk, controlling risk, Avoiding risk and Transferring risk (Dennis, 2008).

Avoiding risk can be accomplished by refusing to extend credit to high-risk accounts. However, in most companies this is not a viable option since so many customers could be classified as high risk that refusing to sell to them would reduce sales to unacceptable levels.
Controlling risk involves developing a comprehensive plan to reduce credit risk in the company’s accounts base, then implementing that plan, and monitoring the credit department’s effort to carry out the plan.

Accepting risk involves a decision to do business with customers identified as high risk. These tend to be companies trying to gain market share, companies with high profit margins, companies with excess inventory, and companies with adequate reserves for the bad debt losses that are almost certain to accompany this policy.

The objective of credit risk management is to maximize a financial institution’s risk adjusted rate of return by maintaining credit risk exposure within acceptance parameters. Credit risk management should not only effectively address the credit risk inherent in the credit portfolio, but should also consider the relationship between credit risks and other risks.

2.5 THE INTEREST RATE

The interest rate is one of the major determinants of credit. Studies conducted by Ranlett, (1965) noted that the interest is the price necessary to induce individuals to forgo liquidity. Stiglitz, (1996) concluded that interest would be higher if the probability
of default is higher. Their analysis however overlooked the lending rate. Kaufman, (1973) however offered an analysis for both the depositor and the lender. He stated that: Interest rate is the price of renting money and has inverse relationship with borrowing; To the lender, interest is the reward for postponing consumption until repayment of loan and interest, which may be higher due to greater risk of non-repayment and greater expectation of price level increases.

On what determines the interest rate, Cox, (1988) stated that interest rates are influenced by: supply and demands for funds, risk premium, inflationary factors, amount of loan, higher interest rates are generally for large amounts and vice versa and time period; generally long term loans attract higher interest and vice versa.
Looking at why interest rates are charged, Tshibi, (1996) explained that loans are depositors’ monies which a bank takes at some cost. And in order to repay such monies and accrued interest, banks legitimately charge interest on loan granted by them at rate they consider commercially prudent.

2.6 PARTIES INTERESTED IN CREDIT

There are four parties interested in granting credit according to Olashore, (1988). These are the: the depositor, the borrower, the lending bank and the government. The bank wants the highest possible gains between the interest paid to the depositor and the
interest it receives from the borrower. The government places emphasis on the responsiveness of lending to the sectoral needs of the economy. Whist the borrower wants to pay the lowest interest on the loan, the depositor wants the highest possible interest on his/her deposit. It is the duty of the bank to analyze the situation so that it can maximize the returns and minimize the risks involved.

2.7 THE CREDIT GRANTING PROCESS

The credit process begins with the submission of an application letter by the borrower to the bank. In the application letter, the amount applied for both in words and figure, the purpose for which the loan will be used for and the duration of payment must be stated. An application form is filled and signed by the applicant. In processing the application, the credit officer has to assess the exact nature of an obligation, sources of funds for repayment, financial statements, and a forecasted cash flow covering the duration of the loan. When it is a salaried loan, banks ensure that the debt service coverage ratio or gearing ratio does not exceed 45%. According to Sinkey, (1992) the use of the five Cs namely Character (good citizen), Capacity (cash flow), capital (Wealth), Collateral (security) and Conditions (economic, especially downside vulnerability) in the administration of credit. The process or act of quantifying these Cs so that meaningful and consistent decisions can be made regarding a borrowers’ credit worthiness is termed credit analysis. From the credit analysis it will be clear if the credit can be advanced. Other lending guides are: CCCPARTS (Character, Capital, Capability, Purpose, Amount, Repayment, Terms and Security), PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration and CAMPARI which is Character, Ability,
Margin, Purpose, Amount, Repayment and Insurance (Journal of Chartered Institute of Bankers).

2.8 LOAN REPAYMENT

When loans are granted, management has to ensure that borrowers repay their loans because it determine the ability to grant further credit, profitability and sustainability of depositors’ funds. Because borrowers sometime do not repay loans as scheduled, Dunkman, (1996) believes that whereas financial statements determine ability to repay loans, willingness to repay loans can be determined by past records. On that note if, prior to making a loan, there is evidence that repayment is questionable, the processing is a non starter. To criticize Dunkman, (1996), good past financial statements and past records are no guarantees for future repayment.

Another area where repayment should be looked at is from group lending activities. The ideal size of a group is a subject of debate. Huppi and Feder, (1990) contend that, successful lending schemes work well with homogenous groups with joint liability for default. This makes individuals in the groups responsible for the default of other members and vice. If a member of the group default, members of the group are unlikely to receive further credit. This has a tendency to encourage members in these lending groups to ensure that members of the group are people they know and are confident will
repay the loan. It also makes locating borrowers easier as all members of a group are not likely to vacate the residences.

Since loan non repayment is likely, several studies have come out with pre-lending measures. Holden, (1987), identified the following: to ensure that the borrower has the legal right to borrow, ability to judge the character and credit worthiness of the borrower, and finally to ascertain whether or not an amount approved is adequate for the given purpose. With profit maximization and or risk minimization on their minds, lending banks need to balance between profitability on one side and liquidity and solvency on the other side. (Agyeman, 1987) and (McNaughton, 1992).

### 2.9 COLLATERAL

In order for banks insure against the unlikely event of default, accepting collateral security has become necessary. Several studies have been carried out on the concept of collateral. According to Tshribi, (1996) there are many types of collateral security and these include: mortgage of landed property, credit balance at bank, insurance policy, bond and treasury bills, assignments of proceeds of contracts, pledges of document title, guarantees and indemnities. He further advised that security whenever taken should not only be safe and sound but must also be reliable and enforceable. Hence “perfection of security” (i.e completion of all legalities) is an effective tool in loan recovery. Tshribi, (1996) also gave some importance of security as follows:

Serving to furnish insurance against unforeseen circumstances, giving the lending bank the right to save the customer, should there be a default, providing the bank the needed comfort and serving as inducement for the borrower to utilize the credit facility.
Should the customer become insolvent, the security enables the lending bank to avoid full consequences of a customer’s bankruptcy or liquidation as the case may be. If unsecured, the bank would need to prove the amount owned in competition with other unsecured creditors which may jeopardize the bank’s liquidity.

Dunkman, (1996) also outlined some reasons for security such as: safeguarding against some doubts about borrowers repayment ability, and as a last resort to recover loans in the face of default. Stigltz, (1996) was of the view that, security has the tendency of causing skewness of loans in favour of property owners.

On the contrary, Sey, (1986) believes that, unless a valuable asset of the borrower is put at risk, the recovery of loans becomes difficult and often impossible. This could affect the banks themselves as most SMEs do not have these collaterals though they have the potential for growth. According to Aryeetey, (1996), in western Nigeria, to ensure repayment, most borrowings are supported by pledging cocoa farms. Also in some cocoa growing areas of Ghana, the practice is common.

Another concern about collateral in modern Ghana is the difficulty in realizing landed property especially residential building in rural Ghana where most RCBs are operational. Native convention and the extended family system make it difficult to get prospective buyers to buy mortgaged properties. Thus banks can look for other forms of collateral where buildings are difficult to come with.

In order to check the authenticity of collaterals, the Collateral Registry was introduced by the Borrowers and Lenders Act 2008, (Act 773) and it is a database that records all
registration of charges or collaterals created by borrowers to secure credits provided by lenders. This automated web-based Registry (the collateral registry) was established in order to bring its processes and procedures up to speed with International best practices.

2.10 RESTRICTIONS ON LENDING BANKS

Though loan contracts take place between banks and their customers, there are legal constraints on banks determining what they can and cannot do. The Banking Act, 2004 outlines various restrictions regarding lending. These are prohibition of advances against security of own shares, limits on exposures, restrictions of lending to staff, requirements for lending to related parties. A bank shall at all times while in operation maintain a capital adequacy ratio of ten per cent (10%). The capital adequacy ratio shall be measured as a percentage of the adjusted capital base of the bank to its adjusted assets in accordance with regulations made by the Bank of Ghana. (part III- capital reserves 23 (1)). The capital adequacy requirement limits the size of a bank’s loan portfolio.

RCBs are further required to keep 30% in their secondary reserve. The secondary reserve includes the call money from discount houses, Ghana Government treasury bills etc.

Both the primary and secondary reserves are very helpful credit risk management tools because it ensures that at least 30% of depositors’ monies are intact and could fall upon in hard times. One striking difference between the primary and secondary reserve is that the primary reserve is more liquid meaning it can be easily convertible to cash compared with the secondary reserve.
2.11 CREDIT POLICY

The credit policy serves as a manual for banks in the day to day credit administration. The policy contains the principles and standards of the bank as differs from bank to bank. It spells out how loans are to be appraised, disbursed, monitored and recovered. Sinkey, (1992) believes that a bank must have a written loan policy. Some principles contained in the credit policy are: establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. The credit policy also serves as a tool for managing credit since it serves as a guide for credit officers. On who to formulate the credit policy of the bank, Summers and Webb, (2005) argued that the board of directors has the responsibility of formulating bank loan policy and to monitor compliance. We note however that because financial institutions are monitored by external regulatory agencies, bank boards may not influence loan policy. Aboagye and Otieku, (2010) studied 30 rural and community banks in Ghana using data over the period 2000 – 2005 and concluded that an index that captures the state of corporate governance, outreach to clients, dependence on subsidies and use of technology is not statistically associated with their financial performance.

2.11.1 Restricted Activities

It is against policy to finance

i. Hostile acquisitions/takeovers/mergers etc
ii. Politicians or political parties

iii. Money-laundering activities

iv. Acquisition of armaments etc.

2.12 BRIEF HISTORY OF CREDIT RISK MANAGEMENT

According to Stokes, (2010), credit risk management has been around for years and can be dated back to the 1840s as we know it. At that point in time, personal judgment came more into play when it came to determining who to lend to. Nowadays, credit risk is determined by default rates and how quickly a return can be made on an investment as laid out by W Braddock Hickman in the late 1950s.

To Huebsch, (2009), credit risk management dates as far back as the Hammurabi Code used by Mesopotamian society over 4000 years ago. The code implied the existence of basic credit principles---such as do not borrow what you cannot pay back---by only listing the penalties for default.

Credit risk has now received greater attention here in Ghana after the folding up of the Co-operative Bank and the Bank for Housing and Construction. Even though the Cooperative bank was liquidated on issues other than credit, the Bank for Housing and Construction (BHC) was liquidated as a result of the unpopular credit it advanced to the A-Life Group in 1997. A-Life Group could not repay its loans and this eventually led to the collapse of the bank. From experiences of the global financial meltdown, even some of the world’s outstanding banks fell under the heat of poor credit risk management and had to surrender to government bail out.
2.13 IMPORTANCE OF CREDIT RISK MANAGEMENT

Credit risk management practices if properly implemented will reduce the chances of lending to parties that will not be able to pay back the loans. (Huebsch, 2009)

The adoption of good credit risk management practices increases profit margins and significantly reduces bad and doubtful debt.

Good credit risk management practices if properly implemented will go a long way to boost investor confidence in the bank in particular and the banking sector in general.

Good credit risk management practices ensure that credit is not only advanced to the right people who need the funds but also to those who are able to apply them appropriately.

Good credit risk management practices will eventually reduce the price customers pay for loans (interest on loans). As less provision is made for bad and doubtful debt, the interest charged on loans reduces as provisions made for bad and doubtful debt is a determinant of bank’s interest rates.

2.14 TOOLS FOR MANAGING CREDIT RISK
Management of credit risk can be viewed from both the macro level and the micro level. The macro view credit risk at the entire credit exposure portfolio and tries to optimize asset allocation and the level of diversification, while the micro view manages credit risk on the basis of the individual entity’s particular risk characteristics. Managing credit risk at the micro level involves looking at cash flow, collateral, the strength of the guarantors, management’s character and their history. Keeping an entity within acceptable tolerance levels for each of these five factors goes a long way towards avoiding excessive credit risk.

2.14.1 Cash Flow
Cash flow is the best predictor of credit risk. If a company has a large and sustainable stream of free cash flow, then it will have an easier time paying back whatever credit is extended to it. Cash flow is often the primary source of repayment, and a history of a strong cash flow will greatly reduce its credit risk.

2.14.2 Collateral
Collateral is usually the secondary source of repayment. Typically, short term collateral such as cash, marketable securities, accounts receivable and inventory are used to secure short-term credit facilities such as working lines of credit. Long-term collateral, which are usually capital assets such as building, machinery and equipment, are used to secure long-term arrangements such as term loans or bonds. Collateral represents a safety blanket, though creditors never want to have to rely upon collateral for repayment.
because of the hassle and expense required to liquidate it when a firm can no longer repay what they borrowed---but it does reduce the risk associated with lending to a firm.

2.14.3 Guarantors
Guarantors represent the tertiary source of repayment. The primary use of guarantors in managing credit risk is to create an incentive for them to either generate enough cash flow from their company to cover debt service or to liquidate the company’s collateral themselves in the most lucrative way so they don’t have to use their personal wealth to make up the difference. Even though the primary use of guarantors is to create an incentive for them to cooperate before they have to use their own wealth, if there is not enough cash flow or assets to cover the debt, the guarantor’s personal wealth will be used to make up the difference.

2.14.4 Character
The character of management and any associated guarantors is important when managing credit risk. It is important to make sure that they are honest and are willing to care of their obligations and are managing the business in the best interest of their shareholders. It is better to have a financially weak guarantor who has integrity than a financially mediocre or strong guarantor who is dishonest or unwilling to take care of their obligations. It requires much less work, and the amount of money ultimately recovered from the guarantors net of legal fees and other expenses are often similar.
2.14.5 History

History is the final factor that needs to be taken into account when managing credit risk. If a company or management team has a history of successfully managing downturns or has many years of profitably running the company, credit risk is lower. As the cliché goes, past history does not guarantee future success, but it does make it much more likely.

2.15 CREDIT RISK MANAGEMENT PRACTICES OF RURAL AND COMMUNITY BANKS

Since the inception of the rural banking concept, the advancement of credit has been one of the core functions the rural banks could not neglect since it since interest from loans and overdrafts represents a huge portion of their profit. As a cardinal point for their survival, rural and community banks, both BOD and management of these banks have over the years adopted several credit risk management practices to keep their banks healthy in trying times. It must be noted however that those that could not glide through these practices had their fair share of the troubles of poor credit risk management. The central bank of Ghana (BOG) by some monetary policy measures have put certain checks in place to manage credit risk.

Among the measures are the reserve ratios which are the primary and secondary reserves. Rural banks are required currently to hold a total reserves of amounting to 43% of their deposits liabilities broken down as follows: Primary-8%, Secondary-30% and ARB Apex Bank-5% (Asiedu-Mante, 2011). Thus only 57% of deposits are available for lending. By the third quarter of 2010, ninety-two out of the 133 RCBs had secondary
reserves of 30.0% and above (Apex Circular, 2010). They however have other sources of funds such as their capital and borrowings.

Tools such as CAEL (Capital, Assets Quality, Earning and Liquidity) which is an analysis of early warning signs are used. The objective of this tool was to assess the performance of the banks holistically with reference to nine performance ratios which are directly related to the four key financial indicators named in the CAEL. Based on their performance, the banks were accordingly rated with the aim of identifying early warning signs that may need immediate attention.

The (Basel Committee on Banking Supervision, 2010) outlined the sound practices as follows:

(i) Establishing an appropriate credit risk environment; (ii) operating under a sound credit granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. Although specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. These practices should also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves.
2.12.1 On-Site and Off-Site Supervision

Regular and effective monitoring and follow ups by officials of the BOG is yet another credit risk management tool used by the BOG to ensure good credit risk management practices are adhered to. With its effective team of experienced auditors and IT personal, loan granted by banks are carefully scrutinized and areas where there seem to be lapses are figured out for corrective measures to be sought to them. The Bank of Ghana has a supervisory role to ensure that RCBs in particular and Banks in Ghana adhere to some credit risk management practices. There is periodic on-site and off-site supervision of RCBs. For the on-site supervision, this prudential supervision of rural banks is includes the periodic submission to the Bank of Ghana of a number of returns covering a bank’s operations (Asiedu-Mante, 2011). On the On-Site supervision, rural banks are governed by the Banking Act, 2004(as amended by Act 738) which requires that every bank in Ghana be examined , as least, once annually (sec. 54(I), Act 673). The Bank of Ghana has been fulfilling this responsibility since the inception of rural banking (Asiedu-Mante, 2011).

2.12.2 The Audit Committee

The audit committee is an extension of the board’s risk management function. The audit committee is a valuable tool to help management with the identification and handling of risk areas in complex organizations. The audit committee must be allowed to work independently without the intervention of the board or senior management. It is recommended that this committee be composed of, and chaired by an outside board
member. To ensure good credit risk management practices, there is the need for regular
effective auditing by both internal and external auditors.

2.12.3 Staff Training

The BOG under the auspices of the ARB Apex Bank organizes training workshops,
seminars to upgrade the skills of both management and credit staff on best practices and
modern credit risk management practices. According to Asiedu-Mante, (2011) there is
need to upgrade and sustain knowledge and skills and to also re-orient attitudes on the
job. Even in instances where people are professionally and/or academically qualified,
there is need to constantly train in order to update and upgrade skills and knowledge
throughout one’s working life. From 2002 to 2009, 13,731 staff of RCBs have been
trained (Asiedu-Mante, 2011).

2.15 CONCLUSION

After intense review of researches on the topic, the following appeared as the basic
tenets of Credit risk management. They include:
A defined credit policy, a credit risk management strategy, a well qualified and
competent staff
The additions this research seeks to add is to look at credit risk management practices in
a rural bank with most of its clients having little or no formal business management as
well as risk management education as regards to credit risk management and particularly
doing business in rural Ghana. Also considering the staff strengths in terms of training,
competence, skills and qualifications, how can the issue of credit risk management be embraced by staff to support in its implementation in RCBs?
CHAPTER THREE
METHODOLOGY

3.0 OVERVIEW

This chapter discusses the procedure used in this study. It includes the research design, the study population and sample size, sampling technique, research instruments used, data collection procedure and data analysis plan.

3.1 RESEARCH DESIGN

The research design is an aspect of the study which describes how the study was conducted. The plan of action of the study includes; the population and sample size of the study which covers staff and borrowers of the bank, the sampling technique, research instrument, data collection procedure and data analysis.

3.2 POPULATION AND SAMPLE SIZE

Out of a total number of a hundred and twenty six (126) board members, staff and management, forty (40) was selected for the study. Also from a total borrower base of 1690, a sample of 140 was selected for the study. The bank has five agencies in its catchment area. These agencies are Asesewa, Somanya, Koforidua, Asokore and Suhum. Data was collected from all agencies.
3.3 SAMPLING TECHNIQUE

This study made use of the judgmental/purposive sampling because questionnaires were administered to respondents who had taken specific amounts, those with some level of experience and exposure and mainly the executives of the Credit and Savings Associations. In this sampling technique, the selection of the sample is based on judgment of the researcher that those selected are the key individuals who can give the information required for the study. According to Guijt and Woodhill (2002), the purpose of this method is to make an explicit choice based on your own judgment about exactly whom to include in your sample.

The stratified random sampling technique was also used because customers were grouped into salaried, business and CSWE borrowers for the purpose of the data collection. In a stratified sample, the frame is divided into non-overlapping groups or strata, e.g. geographical areas, age-groups, genders. A sample is taken from each stratum, and when this sample is a simple random sample it is referred to as stratified random sampling (Hunt and Tyrrell 2001).

3.4 RESEARCH INSTRUMENT

Questionnaires and interviews were used for collecting the data because it is effective for obtaining first hand information about practices and conditions and for enquiring into opinions and attitudes of subjects. Questionnaire is stable, constant and has uniform measure without variation, it offers less opportunity for bias caused by the presence and attitude of the researcher. An interview also is easy and flexible for the researcher to
control the order in which questions are arranged. Again, personal contact increased the likelihood for the respondents to participate fully and provided the needed information. Also, secondary data from journal, publications, annual reports and circulars from the Bank of Ghana and the ARB Apex bank was of immense benefit to the study. Annual reports, publications, memoranda, circulars and the credit policy of the Upper Manya Kro Rural Bank also assist the study.

3.5 PROCEDURE FOR DATA COLLECTION

As with most organizations, the outflow of information is controlled. One would therefore need permission before any inside information is carried out into the public domain. Practices at the Upper Manya Kro Rural Bank limited follow the same format. An application had to be approved by the Board of Directors before the researcher had the permission to use the bank in carrying out this research. On the part of the customers used in the sample, the researcher had to assure them that the research was purely for academic purpose and had no business intention. They also had to be assured that information given by individuals will be treated with immense confidentiality and will not be passed on to any third party.

Because of convenience and the time involved in the research, salaried and trading borrowers of the bank were selected at random on first come first served basis. The sample was however collected over a period of one month to give each customer a fairer chance of being selected. Data concerning Credit Savings with Education (CSWE) customers who are based in the communities was collected on the field on their
respective meeting days. Copies of the questionnaire were personally given and thoroughly explained to them they provided the required information.

3.6 DATA ANALYSIS PLAN

The study used the Statistical Package for Social Sciences (SPSS) software and tools such as charts and table to analyze the data gathered. Responses were expressed in percentages. Data from the completed questionnaire was checked for consistency. The items were grouped based on the responses given by the respondents and coded for easy usage of the Statistical Package for Social Sciences (SPSS). This method was used because it is the best instrument to identify, compare, describe and reach a conclusion. According to Tippert (2010), merely analyzing data isn’t sufficient from the point of view of making a decision. How does one interpret from the analysis is not a decision making system, but a supporting system.
CHAPTER FOUR

ANALYSIS AND DISCUSSION OF RESULTS

4.0 OVERVIEW

This chapter looks at the data presented and analyzed.

4.1 FINDINGS

From the data collected and analyzed, these are the findings the researcher came out with.

4.2 RESPONSES OF STAFF AND MANAGEMENT

TABLE 4.1  Responses on why there are defaults

<table>
<thead>
<tr>
<th>Causes of loan default</th>
<th>RESPONSE</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple loan contraction</td>
<td>36</td>
<td>30.00</td>
</tr>
<tr>
<td>Delay/termination of salary</td>
<td>3</td>
<td>2.50</td>
</tr>
<tr>
<td>Misapplication of loans</td>
<td>30</td>
<td>25.00</td>
</tr>
<tr>
<td>Mismanagement of business by borrowers</td>
<td>6</td>
<td>5.00</td>
</tr>
<tr>
<td>Influence of big wigs</td>
<td>6</td>
<td>5.00</td>
</tr>
<tr>
<td>Inadequate monitoring (logistics)</td>
<td>9</td>
<td>7.50</td>
</tr>
<tr>
<td>Improper appraisals</td>
<td>12</td>
<td>10.00</td>
</tr>
<tr>
<td>Higher interest rate</td>
<td>9</td>
<td>7.50</td>
</tr>
<tr>
<td>Low sales</td>
<td>9</td>
<td>7.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field study 2011

From fig. 4.1 above, 40 staff and management members were asked to list the three greatest causes of loan defaults. 36 respondents representing 30% said that the recent high default from 1.46 in 2009 to 3.29 in 2010 is as a result of multiple borrowing by
customers. Customers after they have borrowed from the bank are able to borrow from other institutions and this leaves borrowers with a high exposure leading to their inability to repay loans they take from the bank. Another response from the study conducted indicated that 25% of the respondents in this category stated that the defaults are as a result of misapplication of the loans by borrowers. While 10% believe it is as a result of improper appraisals, 7.5% cited inadequate monitoring, high interest rates and low sales with 5% citing both mismanagement of business by borrowers and influence from the top. Only 3 responses cited delays in salary processing by borrowers. From the view of staff and management, multiple borrowing and misapplication of loans are the major causes of loan default faced by the bank.

Table 4.2  Responses on terms, conditions and the credit policy

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you fully assess the capacity of the borrower to repay?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Are repayment schedules reflective of a borrower’s business cash flow?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Are the customers aware of the mechanisms that could be adopted by the Bank to collect past due loans?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Is the borrower aware of the full consequences of default?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Are the clients aware of any credit risk management practices of the bank?</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>Does the bank have a credit policy?</td>
<td>34</td>
<td>6</td>
</tr>
<tr>
<td>Is the credit policy available to you?</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Field study 2011
From the Table 4.1 above, 40 staff and management of the bank were asked whether they fully assess the capacity of borrowers to repay, all respondents answered yes. They all answered in the affirmative when asked the following questions; Are repayment schedules reflective of a borrower’s business cash flow? Are the customers aware of the mechanisms that could be adopted by the Bank to collect past due loans?, Is the borrower aware of the full consequences of default? However when asked about whether borrowers are aware of any credit risk management practices of the bank, 35 respondents representing 87.5% of respondents answered in the affirmative with only 5 respondents answering no. The same response was cited when they were asked whether the bank have a credit policy. Respondents were further asked whether the bank’s credit policy is available to them, 16 respondents representing 40% answered no. From the above, it is evident that the banks’ credit policy is not available to majority of staff. It also means that the bank is doing well in making borrowers aware of the credit risk management practices of the bank.

### Table 4.3  Staff and Management responses of staff knowledge on Credit Risk

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Excellent</th>
<th>Very good</th>
<th>Average</th>
<th>Fair</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Respondents</td>
<td>0</td>
<td>11</td>
<td>19</td>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Field study 2011

From table 4.3 above, 19 Staff and management members representing 47.5% of respondents in this category mentioned that staff knowledge on Credit Risk Management is average. 11 representing 27.50% cited very good as the level of staff knowledge on
credit risk management with 22.50% saying that credit officers’ knowledge on Credit Risk Management is fair. However 1 respondent cited that staff knowledge on credit risk management is poor.

Thus majority of staff and management said staff knowledge on credit risk management is either very good or average.

**FIG 4.1 Responses on training of Credit Officers and the Recovery Team**

Source: Field Study 2011

From Fig 4.1 above, while 25 staff and management representing 62.50% of respondent agree that the bank have a recovery team, 68% think that members of this team have
never been trained. The findings are that, majority of staff are not trained to put them on top of their jobs.

**FIG 4.2  Responses on when training was last organized for Credit Officers**

From Fig 4.2 above, respondents were asked about when the last training workshop was organized for credit officers, 23 out of the 40 respondents said the bank last organized training workshop for credit officers more than 36 months ago, 8 respondents said a training was organized for credit officers in the last 6 months, 7 believe a training was organize for credit officers within the past 12 months with 2 stating that, the last time a
training was organized was within the last 3 years. From this, the study has revealed that majority of respondents stated that no training was organized for credit officers within the last 24 months.

Table 4.4  Responses on Multiple Borrowing

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are clients able to borrow from other institutions after they have borrowed from UMKRB?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Do you explain the dangers in multiple borrowing to the client?</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>Before disbursing a loan, are you convinced the customer understands the terms and conditions read and explained to him/her?</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>For salaried customers, does the bank make loan deductions from source (from Accountant Generals Department)?</td>
<td>0</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Field study 2011

From table 4.3 above, all 40 respondents confirmed that borrowers are able to borrow from other banks after they have borrowed from the bank. The same number answered no when they were asked whether the bank make loan deductions at source. They were further asked whether they explain the dangers of multiple borrowing to borrowers; of the 40 respondents, used in the study, only 5 representing 12.50% responded no. Also before disbursing a loan, all respondents were convinced that the borrower understood the terms and conditions read and explained to him/her.
4.3 RESPONSES OF CUSTOMERS

TABLE 4.5  Responses on why there are defaults

<table>
<thead>
<tr>
<th>Causes of loan default</th>
<th>RESPONSE</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple loan contraction</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Delay/termination of salary</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Misapplication of loans</td>
<td>52</td>
<td>40</td>
</tr>
<tr>
<td>Sickness of borrower</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Higher interest rate</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Low sales</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>130</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field study 2011

From the table 4.5 above, 130 respondents were asked to list the three causes of what is causing the loan default; these are the responses of the customers or borrowers. 40% of customers who have defaulted acknowledged they misapplied the loans they took from the bank with only 5% admitting that they had engaged in multiple loan contraction from other institutions and organizations. The research also found out that these institutions have relatively higher interest rates and employ tougher methods to recover their loans. This reason undoubtedly forces some of them to default in the repayment of their loans to UMKRB. While 21% of defaulters mostly traders cited low sales, 18% of respondents agree the default is as a result of high interest rates charged by the bank. Also, 13% of respondent’s mostly salaried workers believed they defaulted because there were delays in the processing of their salaries and intermittent deletion of their salaries from the Accountant General’s department. Another finding from the study revealed that 3% of
respondents defaulted because they fell sick at one point or another. On the whole, 61% of the 130 respondents cited either misapplication of loans or low sales as the greatest cause of loan default.

**TABLE 4.6  Responses Regarding Loan Approval**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the bank approve the entire loan requested?</td>
<td>97</td>
<td>33</td>
</tr>
<tr>
<td>Does the bank approve your loan on time?</td>
<td>98</td>
<td>32</td>
</tr>
<tr>
<td>Is the interest rate ok?</td>
<td>69</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Field study 2011

From table 4.6, ninety-seven (97) respondents representing almost 74.6% responded yes when they were asked whether the bank approves the entire loan requested while 75.4% answered yes when asked whether the bank approves the loan on time. On whether the interest rate was ok or not, 61 respondents representing 47% of borrowers said the interest rate was too high and thus should be reduced. Even though majority of borrowers cited that their loans are processed on time, a sizable percentage still complain that their loans are not processed on time. Also 47% of borrowers think the banks’ interest rate is too high and thus should be reduced.

**TABLE 4.7  Responses on average amounts borrowed**

<table>
<thead>
<tr>
<th>AMOUNTS TAKEN</th>
<th>GH¢ 0-500</th>
<th>GH¢ 600-2000</th>
<th>GH¢ 2100-5000</th>
<th>GH¢ 5100-10000</th>
<th>ABOVE GH¢ 10000</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESPONDENTS</td>
<td>12</td>
<td>56</td>
<td>37</td>
<td>20</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Field Study 2011
From table 4.8 above, respondents were asked about the average loans taken, 12 respondents representing 9% have taken on the average loan amounts taken ranges from 0 to GH¢ 500. 56 which represents 43% of respondents have taken loans ranging from GH¢ 600-GH¢ 2,000. 37 respondents forming 28% cited taking amounts ranging from GH¢ 2100- GH¢ 5,000 with 15% taking between GH¢ 5100- GH¢ 10,000 and the remaining 4% taking amounts above GH¢ 10,000. From this table above, the research has gathered that 71% of customers cited taking amounts between GH¢ 600-GH¢ 5,000 on the average.

### TABLE 4.8 Male-Female Default Rate

<table>
<thead>
<tr>
<th></th>
<th>DEFAULTED</th>
<th>NOT DEFAULTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALE</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>FEMALE</td>
<td>16</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Field Study 2011

From Table 4.8, the research found out that 39 respondents representing 30% of the respondents agreed that they have defaulted at least once. Out of this ratio, 23 representing 59% of borrowers who defaulted were male borrowers.
TABLE 4.9  Cumulative responses on why there are defaults

<table>
<thead>
<tr>
<th>Causes of loan default</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple loan contraction</td>
<td>17.50</td>
</tr>
<tr>
<td>Delay/termination of salary</td>
<td>7.50</td>
</tr>
<tr>
<td>Misapplication of loans</td>
<td>32.50</td>
</tr>
<tr>
<td>Mismanagement of business by borrowers</td>
<td>2.50</td>
</tr>
<tr>
<td>Influence of big wigs</td>
<td>2.50</td>
</tr>
<tr>
<td>Inadequate monitoring (logistics)</td>
<td>3.75</td>
</tr>
<tr>
<td>Improper appraisals</td>
<td>5.00</td>
</tr>
<tr>
<td>Higher interest rate</td>
<td>12.75</td>
</tr>
<tr>
<td>Low sales</td>
<td>14.25</td>
</tr>
<tr>
<td>Sickness of borrowers</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field study 2011

From the above, collating what these two groups of respondents cited as the reasons or causes of the default, (assuming equal weights were given to each percentage), 28.5% of that causes of loan defaults are caused by exogenous factors such as low sales, high interest rates, sickness of borrower etc. with the remaining 71.5% being caused by endogenous factors such as multiple loan contraction, misapplication of loans, improper appraisals etc. It is further found out that, the 52.5% of the causes can be attributed to the customers or borrowers and the remaining 19% attributed to management and staff.
4.4 RESPONSE OF INTERVIEW GRANTED BY BANK OFFICIALS

Responses from the general manager, the head of credit and head of microfinance of the bank outlines the following credit risk management practices in the bank.

The bank performs proper and thorough credit appraisals which include basic know your customer (KYC) tenants, it applies all lending conditions before disbursement of loans, two days in a week are used for monitoring loans and other advances, the bank tries to identify early sings of default to minimize the impact of default, the bank accepts collateral security as such as mortgages, share certificate, fixed deposits etc, the bank conducts training of credit officer to update them on industry best practices, There is regular auditing to see if these measures are being adhered to, there are both on-site and off-site supervision and monitoring by the Bank of Ghana, there is the availability of the Bank’s credit policy (which contains these guidelines) as a guide to proper credit risk management practices in the bank.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

1.0 OVERVIEW

This chapter deals with the summary of findings, conclusions and recommendations made by the study.

1.1 SUMMARY OF FINDINGS

This study has presented an overview of the assessment of the effect of credit risk management on profitability at UMKRB. Banks ensure that all information provided by clients are genuine and can be relied upon. The five Cs which are character, cash flow, capital, collateral and conditions are used in to check the credit worthiness of the clients. After loans are disbursed, credit officers monitor and control borrowers to ensure that the terms and conditions stated in the loan agreement form are strictly adhered to and the borrowers pay both loan principal and interest as scheduled. In the unlikely event where these conditions are not met, the bank employ courses of action such as holding guarantors, falling on the collateral security and even resort to court actions to have the borrowers repay the loans. It must however be noted that these actions in themselves do not prevent credit risk.

From the view of staff and management, multiple borrowing and misapplication of loans are the major causes of loan default faced by the bank whereas for borrowers the main causes of loan defaults are misapplication of loans, low sales and higher interest rate as the greatest cause of loan default.
The study further found out that, majority of the causes of default is under management’s control (endogenous factors).

Another revelation from the study is that majority of customer who have defaulted are male borrowers.

Another discovery made from the study is the credit risk management practices of the bank. These are listed below; The bank performs proper and thorough credit appraisals which include basic know your customer (KYC) tenants, it applies all lending conditions before disbursement of loans, two days in a week are used for monitoring loans and other advances, the bank tries to identify early signs of default to minimize the impact of default, the bank accepts collateral security as such as mortgages, share certificate, fixed deposits etc, the bank conducts training of credit officer to update them on industry best practices, There is regular auditing to see if these measures are being adhered to, there are both on-site and off-site supervision and monitoring by the Bank of Ghana, there is the availability of the Bank’s credit policy (which contains these guidelines) as a guide to proper credit risk management practices in the bank.

The study further revealed that even though these are measures are available some like the regular training, monitoring and proper credit appraisals are hardly adhered to.

The credit policy is hardly available as majority of credit officers lament they do not have access to it.
The credit policy clearly spelt out how loans should be appraised, disbursed and recovered and even monitored. Details of how these are to be done are clearly stated. The policy is however silent on the use of the five Cs namely character (good citizen), Capacity (cash flow), capital (Wealth), Collateral (security) and Conditions (economic, especially downside vulnerability) in the administration of credit. The process or act of quantifying these Cs so that meaningful and consistent decisions can be made regarding a borrowers’ credit worthiness according to (Sinkey 1992) is termed credit analysis. When this analysis is carefully done, it will go along way to reduce the default rate. The policy is also silent on how new and old credit officers will be trained and given their respective schedules. In a case where new credit risk management practices are to be implemented, the policy made no provisions or guidelines on how these are to be done.

Majority of staff and management said staff knowledge on credit risk management is either very good or average.

Majority of staff are not trained regularly to put them on top of their jobs.

The study has revealed that majority of respondents stated that no training was organized for credit officers within the last 24 months.

Even though majority of borrowers cited that their loans are processed on time, a sizable percentage still complains that their loans are not processed on time.
Although not the majority, a sizable number of borrowers think the banks’ interest rate is too high and thus should be reduced.

The research also gathered that majority of customers cited taking amounts between GH¢ 600-GH¢ 5,000 on the average.

5.3 CONCLUSION

In conclusion, it has been accepted that credit risk cannot be completely eliminated but can be managed to reduce it to a considerable length. Banks should therefore screen borrowers thoroughly to authenticate their credit worthiness using the five Cs before credits are advanced to them since majority of the causes of loan defaults are from borrowers.

Banks advance credit with the hope that borrowers will pay back with interest. Even though this is the ideal situation, it does not sometimes happen as borrowers are not able to pay back their loans and overdrafts. This situation is what is known as credit risk.

Banks should therefore do all within their power to reduce the probability of credit defaults to the barest minimum so that they do not have to keep colossal amounts as provision for bad and doubtful debts which is an expense item that will eventually reduce the profitability of the bank.
The study further concluded that more male borrowers defaulted as compared to females.

The also concluded that not all components of the five Cs of credit risk management are practiced in the bank.

5.4 RECOMMENDATIONS

As with every research, this research is meant to find some solutions to the problem of loan default and to minimize credit risk which is becoming a bane of the bank. From data gathered from the research above, it is evident that the more men have defaulted as compared to women even though majority of the loan customers are women thus it is recommend that more priority should be given to females borrowers and more checks should done when appraising loans for male borrowers.

Another recommendation the researcher will want to make is in connection to how borrowers apply the borrowed funds as a sizable number of respondents said that they misapplied the loans. On this, the researcher will like to recommend that the credit officers should ensure that the items financed are the only ones purchased. For instances if a customer applies for a loan to increase his stock, a payment order could be issued to the supplier instead of giving cash to the customer. This will help minimize the issue of misapplication of loans.
With multiple borrowing, the researcher will like to recommend that the bank should embark on more campaigns to dissuade customers from borrowing from other institutions. These could be in the form of awards, raffle draws, reduction in interest rates for customers who have not borrowed from other institutions etc. In appraising customers for loans the credit officers should be encouraged find out how much a borrower really needs before recommending amounts for approval. Moral suasion could also be used.

On low sales, the researcher will like to recommend that loan applications should be looked at critically as against the seasons so that in seasons where sales are likely to be low, borrowers would be advised to take smaller amounts.

The researcher will also like to recommend that effective and regular monitoring should be encouraged by providing resources for the credit officers.

Training should be organized at regular intervals for credit officers to upgrade their skills and make them abreast with best practices in the industry. Also board and top management interference in the appraisal process should be discouraged.

Regular training should be given to the banks’ recovery team to enable them do regular and effective monitoring. Delays in loan approval processes should be curtailed so that borrowers can receive their loans on time and thereby avoid repayment problems.

Regulatory bodies should help get the interest rate down as more borrowers are complaining. Borrowers should use the loans or overdrafts for the purposes for which they applied for them.

Borrowers should also avoid multiple borrowing from different institutions as it leaves them with a high gearing and generate repayments problems.
Thorough credit analysis should be done using the five Cs of credit risk management.

Not all RCBs comply with the Credit risk management practices set out by the bank of Ghana through the ARB Apex bank.
REFERENCES:


Agyeman, K. (1987), Short term lending Policies, Journal of Chartered institute of Bankers (Ghana), 2(1), 31-33


Eastern Caribbean Central Bank, (2009), *Guidelines on credit risk management for institutions licensed to conduct Banking Business under the Banking Act*. Port of Spain, Trinidad and Tobago.

Financial and yearly reports for the year (2007-2010), Upper Manya Kro Rural Bank Ltd.


General circular No. 41/10, (2010), Reports on the performance of RCBs, ARB Apex Bank Ltd, Accra.


Klerk, (2003), *Principles of Credit Risk Management*, Willey and Sons, USA.


WEB SITES

http://in.answers.yahoo.com/question/index?qid=20090624070251AAEF4qW date [21/02/11]

Dennis, C. M. (2008), *Credit Risk Management*.
(http://www.encyclopediaofcredit.com/Credit-Risk-Management) date visited [21/03/11]

Huebsch, R. (2009). *Principles of Credit Risk Management*
www.ehow.com/about_5705895_principles-credit-risk-management.html [20/03/11].

APPENDIX A

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

KUMASI

TOPIC: AN ASSESSMENT EFFECT OF CREDIT RISK MANAGEMENT ON PROFITABILITY OF UPPER MANYA KRO RURAL BANK LIMITED.

This questionnaire is meant to solicit information that would be used solely for academic purposes. The researcher will also like to assure you that all information given will be treated with utmost confidentiality and would not be deliberately passed on to any third parties.

QUESTIONNAIRE FOR CUSTOMERS

Please tick √ where applicable.

SECTION A

1. Age 18 ☐ 25-30 ☐ 31-35 ☐ above 35 ☐

2. Sex. Male ☐ Female ☐

3. Education Level. No formal education ☐ Primary ☐ Secondary ☐ Tertiary ☐

Other ☐

4. Are you a native of the community in which you reside? Yes ☐ No ☐

5. If no, where is the region of permanent residency?

..........................................................

6. Number of dependants 0-2 ☐ 3-5 ☐ above 5 ☐

7. Occupation: Trader ☐ farmer ☐ salaried worker ☐ other ☐

SECTION B

8. Number of loans taken from Upper Manya Kro Rural Bank Limited: 0-2 ☐ 3-5 ☐

more than 5 times ☐
9. Number of loans paid with difficulty. 0-2  □  3-5 □  more than 5 □

10. What is the lowest amount of loan taken
   GH¢ 0-500 □  GH¢ 600-2,000 □
   GH¢ 2,100-5,000 □  GH¢ 5,100-10,000 □  above GH¢ 10,000 □

11. What is the highest amount of loan taken
   GH¢ 0-500 □  GH¢ 600-2,000 □
   GH¢ 2,100-5,000 □  GH¢ 5,100-10,000 □  above GH¢ 10,000 □

12. (a) Have you ever defaulted in your loan repayment? Yes □  No □
    (b) If yes to 12 (a) give reasons
        ……………………………………………………………………………………………
        ……………………………………………………………………………………………
        ……………………………………………………………………………………………

13. Is interest on the loan okay? Yes □  No □

14. If no to Q.13, □ what □ would you recommend?
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………

15. Does the bank approve the entire amount requested? Yes □  No □

16. If no to Q.15 what reasons were given?
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………

17. Does the bank approve your loan on time? Yes □  No □

18. Do you sell on credit? Yes □  No □  □  □  □

19. If yes, to Q.18 how do you get your money back?
    ……………………………………………………………………………………………
20. If no to Q.18 above, please give reasons for not selling on credit?
..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
20. Has any bank official ever asked you for money in connection with the granting of credit?  Yes. ☐  No. ☐
21. If yes to Q.20 above, did you pay?  Yes ☐  No.  ☐
22. Does the bank require collateral security before granting loans?  Yes ☐  No  ☐
23. Does the bank require guarantors?  Yes ☐  No  ☐
APPENDIX B

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
KUMASI

TOPIC: AN ASSESSMENT EFFECT OF CREDIT RISK MANAGEMENT ON PROFITABILITY OF UPPER MANYA KRO RURAL BANK LIMITED.

This questionnaire is meant to solicit information that would be used solely for academic purposes. The researcher will also like to assure you that all information given will be treated with utmost confidentiality and would not be deliberately passed on to any third parties.

SAMPLE QUESTIONNAIRE FOR STAFF AND MANAGEMENT OF THE BANK.

SECTION A

Please tick ☐ where applicable

1. Position / schedule………………………………………………………………………………

2. Number of years of experience in your current position……………………………………

3. Number of years of experience in Banking………………………………………………

4. Numbers of years of experience in Credit Administration…………………………

5. Previous Department at UMKRB. ………………………………………………………

6. Education Level: No formal education ☐ Primary ☐ Secondary ☐
   Tertiary ☐ Other ☐

Section B
<table>
<thead>
<tr>
<th>S/N</th>
<th>Issue</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Do you fully assess the capacity of the borrower to repay?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Are the repayment schedules reflective of the client’s business cashflow?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Do you explain <strong>all</strong> the conditions attached to the product to the client: fees, savings requirements, interest rate, limits etc?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Do you explain the conditions attached to savings made as condition for contracting the loan where applicable?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Do you explain to the client the responsibility to pay back loans contracted on due dates?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Do you explain to the client what went into the computation of the interest rate to ensure that it is well understood?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>For salaried customers, does the bank make loan deductions from source (from Accountant Generals Department)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Are clients able to borrow from other institutions after they have borrowed from UMKRB?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Do you explain the dangers in multiple borrowing to the client?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Are the customers aware of the mechanisms that could be adopted by the Bank to collect past due loans?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Do you ensure that all documents the client has signed or thumb printed were explained and understood?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Are you satisfied that you have made all the necessary disclosure and you have been truthful to the client?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Before disbursing a loan, are you convinced the customer understands the terms and conditions read and explained to him/her?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Is the client aware of the full consequences of default?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Are the clients aware any risk management practices of the bank?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Does the bank have a credit policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Is the credit policy available to you</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Does the bank organize <em>training</em> on credit risk for the staff?*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
19. If yes to Q. 18 above, how often? 0-6 months ☐ 7-12 months ☐ 13-36 months ☐ above 37 months ☐ never ☐

20. When was the last time a program was organized on credit risk management for credit officers: 0-6 months ☐ 7-12 months ☐ 13-36 months above 37? ☐

21. How would you describe staff knowledge on credit risk management? Excellent ☐ Very good ☐ average ☐ fair ☐ poor ☐

22. In the unlikely event that a client defaults, how does the bank get the customer to repay? Debit Guarantors ☐ courts ☐ collateral security ☐ all of the above ☐

23. Does the bank have a strategy for recovering overdue loans? Yes ☐ No ☐

24. Does the bank have a recovery team? Yes ☐ No ☐

25. Are members of this team trained? Yes ☐ No ☐

26. In your opinion what are the three greatest causes of recent loan default?

..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................
..........................................................................................................................................................................................

...............