CREDIT RISK MANAGEMENT PRACTICES AMONG RURAL AND COMMUNITY BANKS (RCBS) IN GHANA(CASE STUDY: SEKYERE RURAL BANK)

By

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DECLARATION

I hereby declared that this submission is my own work towards the master of Business Administration (Finance Option) Degree and that, to the best of 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'.

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ABSTRACT

This study of credit management– A Case Study of Sekyere Rural Bank is an attempt to point out the importance of credit management in financial institutions such as commercial banks, micro finances and others. Thus, the justification behind for undertaking this study is to deeply investigate the causes of credit management problems and to propose the possible solutions that facilitate the bank to run its operation in a safest way as credit is known to be the main stay of all banks. The ability of banks to formulate and adhere to policies and procedures that promote credit quality and curtail non-performing loans is the means to survive in the stiff competition. Inability to create and build up quality loans and credit worthy customers leads to default risk and bankruptcy as well as hampers economic growth of a country.However, little work is done to search the ways and means that enable to quality loan creation and growth as well as to determine the relationship between the theories, concepts and credit policies.The main objective of the study is to evaluate the performance of credit management of Sekyere Rural Bank as compared to bank of Ghana's requirements in comparison with its credit policy and procedures.For the purpose of the study both primary and secondary data are used. Primary data is collected using semi structured questionnaires. The secondary data is collected from annual reports, directives, and bulletins of the bank. Descriptive statistical tools are used in analyzing the data collected. Hence, the nature of the Study is descriptive.Finally, based on the findings possible recommendations are given. These include the issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

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A number of persons played key roles in making this work a success therefore, the need to acknowledge my profound gratitude. My first indebtedness goes to Almighty God for his plentiful provision which has seen me through the course

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Finally I would like to say a special thanks to each of my colleagues for all the great times we had together and for providing me with much needed laughter. Always remember that *"it is not the mountain we overcome but ourselves*." Said by Edmund Hillary. So to you I say never say no to your dreams.

DEDICATION

I sincerely dedicate this work to my entire family, especially my wife Mary Ampong (Mrs.) and my lovely children Nana AdwoaNhyirabaBoakye and Nana OseiAdomBoakye who have given me the support, encouragement and permitted my long absence from home most of the time to enable me prepare this work.

TABLE OF CONTENTS

CONTENT **PAGE**

LIST OF TABLES

TABLE **PAGE**

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACCUP: Advanced Certificate in Credit Union Practice.

BOG: Bank of Ghana

CUS: Credit Union Studies

EAD: Exposure at default

EMV: Expected money value

Grandfather Rule: The term given to credit personnel with eight or more year's experience.

ILCU: Irish League of Credit Unions

LAF: Loan Approve Form

LGD: Loss Given Default

MAPDEG: Mortgage Arrears and Personal Debt Expert Group

NPLGL: Non Performing Loans to Gross Loans

PD: Probability of Default

QFA: Qualified Financial Advisor.

XRS: Expert Revenue Systems

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Banks are financial institutions that are well-known for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guide lines of a particular country. In the midst of their activities, credit provision is the main product which banks provide to prospective business entrepreneurs as a main source of making income.

While providing credit as a main source of generating income, banks take into account many considerations as reasons of credit management which facilitates them to curtail the risk of default that results in financial distress and bankruptcy. This is due to the reason that while banks providing credit they are uncovered to risk of default (risk of interest and principal repayment) which need to be supervised effectively to acquire the required level of loan growth and performance. The categories and degree of risks to which banks are exposed depends upon a number of reasons such as its size, complexity of the business activities, volume etc. It is said that generally banks face Credit, Market, Liquidity, Operational, Compliance /legal/ regulatory and reputation risks among which credit risk is known to have the undesirable impact on profitability and growth. For this reasons, the success of most commercial banks lies on the achievements in credit management to tone down risk to the acceptable level.

Charles Mensah (1999) in his paper indicates the importance of credit management as follows: Credit management process merit special emphasis because proper credit management greatly controls the success or failure of financial institutions.

However to protect banking industry from failure, the credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management.

Credit management means the total process of lending preliminary from inquiring potential borrowers up to recovering the amount granted. In the wisdom of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, recovery of non-performing loans, etc Shekhar, (1985).

According to Hettihewa, 1997, Credit Management is extremely important as giving way credit is considered to be the equivalent of investing in a customer.

However, payment of the debt should not be deferred for too long as delayed payments and bad debts are a cost to the company. Hence, Efficiency and effectiveness in performing each steps of loan processing by means of various parameters has significant effect on performance of credit management.

Sekyere Rural Bank Limited is one of the financial institutions engaged in providing short and long term credit like other commercial banks in the country in general and in the region in particular. In the last few years, both public and private sectors in the economy undertook encouraging development in investment and business activities, thus becoming the productive ground for the banking industry. Sekyere Rural Bank has been striving to exploit such and all other opportunities towards achieving its corporate goals. The bank has been granting only short and medium loans and advances to its customers because of its early stage of capital base and liquidity position. The bank has been playing an important role in providing loans and advances to its customers that augments the investment need in the country and as means of generating income for its share holders.

Hence, the purpose of this study is to assess the performance of credit management problems and strengths of Sekyere rural Bank in Ashanti Region from different perspectives in light of the practices of modern credit management in financial institutions.

1.1 Statement of the Problem

According to Shekhar, 1985, credit plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Credit is mostly granted by banks including numerous other functions like mobilizing deposits, local and international transfers, and currency exchange service. Hence, the issue of credit management encompass a profound implication both at the micro and macro level. Therefore, credit evaluation decisions are important for the financial institutions involved due to the high level of risk associated with wrong decision. The process of making credit evaluation decision is difficult and unstructured. According to Saunders and Cornett (2005), the very nature of the banking business is so sensitive because more than 85% of their liability is deposits mobilized from depositors. Banks use these deposits mobilised from depositors to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process, if not managed properly, exposes the banks to high default risk which might lead to financial distress including bankruptcy. Absence of effective management of such risk has resulted in significant losses to the institution. The consequences of such losses not only disrupt the intermediation functions of the institution but also impose large financial burden and profitability of the bank. Effective credit management is therefore vital to ensure that banks credit activities are conducted in a prudent manner and the risk of potential bank failures reduced. This study therefore assesses the credit management processes in Sekyere Rural Bank Branches in Ashanti Region and prescribes the best practices to ensure prudent conduct in the operations of the banks‟ credit granting activities.

1.2 Objective of the Study

The main objective of the study is to access credit management policy and procedures of sekyere rural Bank as compared to central Bank requirements. Thus the attention is focused towards:

1. To access the effectiveness of credit management policies in Sekyere Rural Bank.
2. To examine loan application and approval process in sekyere rural bank.
3. To investigate sekyere rural bank loan monitory process.
4. To evaluate the Sekyere Rural Bank's loans default intervention.

1.3 Research Questions

1. How effective are credit management policies of Sekyere Rural Bank use?
2. What is the process of loan application and approval in Sekyere Rural Bank?
3. How does Sekyere Rural Bank do monitor its loans approved?
4. How does Sekyere Rural Bank intervene in their loan default?

1.4 Significance of the Study

Loans and advances are known to be the main product of all commercial banks. They dwell in an important part in gross earnings and net profit of the banks. The loans and advances forms a lion share in the total asset of the bank (almost more than 60 percent) and as such it is the back bone of banking sector. Bank lending is very important for it makes possible the financing of agricultural, industrial, construction, and commercial activities of a country. The health of the advances is the strength and soundness of the banking system. Therefore the ability of banks to formulate and stick to policies and procedures that promote credit quality and curtail nonperforming loans is the means to survive in the stiff competition. In ability to create and build up quality loans and credit worthy customers leads to default risk and bankruptcy as well as hampers economic growth of a country. However, little work is done to search the ways and means that enable to quality loan creation and growth as well as to determine the relationship between the theories, concepts and credit policies both at country level or regional level.

Hence, this study is assumed to be significant in indicating best practice and concepts for prudent lending to enhance the performance of credit management to all managers and policy makers of the bank as well as to all financial institutions and banks. Furthermore, it may assist as a benchmark for researchers who are interested in the area to extend it further.

1.5 Scope of the Study

The study is concentrated on Sekyere Rural Bank limited. This is because; Sekyere Rural Bank is one of the rural and community banks working with leading area coverage in the Afigya Sekyere District. The credit policies, procedures and credit operations of the bank will be covered by the study. It measured whether the loan growth and performance is to the required level of the bank or not. In addition, the study is concerned with identifying the major reasons for best practices of credit management, loan growth, and causes of loan default if any in the bank. Since the lending rules and procedures of the Sekyere Rural bank is the same in all its branches, the result achieved believed to reflect the situation of all branches of the Sekyere Rural bank in the district under normal circumstance.

1.6 Limitation of the Study

Though studying at full-fledged level of the bank would have better result, due to the time and finance constraints the researcher is limited to undertake the study in nine branches located in Afigya Sekyere District, Kwabre District and Kumasi Metropolitan Assembly. The branches are opened in three districts in Ashanti region and this has entailed transportation problem, hardship, and time scarcity. The limitation of time had significant impacts on the study.

1.7 Organization of the Study

The Study is organized into five chapters. The first chapter begins with the background of the study, the research objectives and questions, significance of the study, scope of the study, limitation of the study and organization of the study. The theoretical and empirical review of the related literatures will be presented under chapter two. The third chapter of the study deals with methodology of the study and profile of the organisation. The fourth chapter illustrates the analysis, results and discussions. The fifth chapter presents the conclusion and recommendations drawn from findings of the data in addition with implications for further research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter deals with various credits management policies and procedures of banks. In addition the researcher will discuss various empirical studies. Thoughts and ideas from different sources will be linked together to formulate a meaningful and magnificent material. Empirical studies about credit risk management and loans default will be developed in this chapter and finally, the summary of the literature review will be drawn.

2.1 Credit Policy

Credit policy refers to rules that delineate how to choose which clients are sold on open record, the precise installment terms, the points of confinement set on extraordinary offsets and how to manage reprobate records. As per Brigham (1985) credit policy is characterized by the credit period, credit principles, the company's accumulation strategy and any markdown given for right on time installments in an association. Omolumo, (2003) clarified acknowledge approach as the choice variable that impacts the measure of exchange credit that is put resources into receivables which a firm may attempt at any given time. From Maysami (n.d) opined that credit strategy alludes to the moves made by a business to allow, screen, and gather the money for remarkable records receivable. A few different essayists of writing like Pandey (2004), Atkinson (2007), and so forth have characterized credit approach in like way as the blend of such terms as credit period, credit gauges, accumulation policy, money rebates and credit terms.

As associations contrast so do their credit policy, while most organizations have their own particular strategies, techniques, and rules, it is far-fetched that any two organizations will characterize them in a comparable way. However regardless of how substantial or little an association is and paying little mind to the distinctions in their operations or item, the impact of its credit policys normally achieve comparable outcomes, that is, their credit approach is either sufficient to bring development and benefits or sufficiently terrible to bring declination and misfortunes. This comparability is as a consequence of the point of each chief which is to gather their receivables productively and viably, along these lines expanding their money inflows.

As per Miller (2008), there are no less than four reasons why an association ought to have a composed credit approach, and they each add to the efficiency of the whole association:

To begin with, the obligation of controlling receivables is a genuine undertaking. It engages restricting awful obligations and enhancing income. With exceptional receivables regularly being a company's primary resource, it is evident that a contemplated and organized way to deal with credit administration is crucial.

Second, an approach guarantees a level of consistency among offices. By recording what is normal, the arms of the organization (whether advertising, creation, or money) will understand that they have a typical policy of objectives. Additionally, a composed policy can portray every office's capacities so that duplication of exertion and unnecessary erosion are kept away from.

Third, it offers for a reliable methodology among clients. Choice making comes to pass for a legitimate capacity in light of pre-decided parameters. This streamlines the choice process and gives it might be said of reasonableness that will just enhance client relations. At long last, it can offer some acknowledgment of the acknowledge office as a different substance, one which is deserving of giving information into the general method of the firm. This allows the office to be an essential asset to upper administration.

From the above, it can be obviously seen that building up a strategy is more than a need. It is a chance to propel the productivity of the whole association.

2.2 What is credit risk management?

Fatemi and Fooladi (2006) portray acknowledge risk as risk that happens from the uncertainty in a borrowers‟ ability to meet his/her obligation. At an alternate edge, King (2008) characterizes acknowledge administration as the "approaches and practices organizations follow in gathering installments from their clients". Concerning of need in budgetary organizations, it is obvious that their primary center is to warrant that this kind of danger administration is compelling most importantly others Fatemi and Fooladi (2006).

2.3 Controlling for credit risk

As indicated by Bernanke (2009b), "one of the lessons gained from the current money related emergency has been the requirement for auspicious and successful interior correspondence about dangers". This is seen in a study led by the Comptroller of the Currency where the discoveries demonstrate that the primary part to the disappointment of money related foundations was the lacking control over credit quality Apadoford (1988). He records the accompanying as the parts to this poor advance quality:

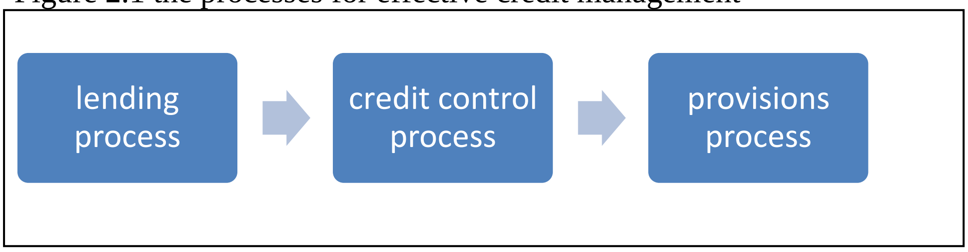
a. Inattention to loan policies.
b. Over indulgent loan terms and nebulous standards.
c. Perilous concentration of credit.
d. Weak control over loan administrators.
e. Inadequate systems to identify loan problems.
f. Excessive growth of loan portfolio which facilitates poor control over quality.

Consequently these examples are worthy of further investigation in credit unions in terms of their presence and the measures taken to combat them.

2.4 The processes for effective credit management

Basu and Rolfes (1995) state that top-quality credit management processes are key components in the foundation upon which every successful financial establishment is built. Corroborating this, Oesterreichche Nationalbank (2005) emphasise the importance of the individual stages in the process of credit management. Moreover this process takes many forms and exploits several structures Basu and Rolfes (1995). From extant studies emerge three key areas in which credit management is performed in (Figure 2.1)

Figure 2.1 the processes for effective credit management



2.4.1 Lending process

Ralston and Wright (2003) add to two components to fantastic loaning practices from their study on credit unions. The principal step is getting precise distinguishing proof of risk of every credit candidate. Saunders (1997) further concurs that it is essential for monetary establishments to gauge the likelihood of borrower default. On the other hand, Thomas (2009) burdens that measuring the peril of a borrower can be troublesome as the issue of good risk could emerge. Besides Ralston and Wright (2003) highlight the need for credit unions to conform the giving states of an advance keeping in mind the end goal to join the high risk of a borrower. As a rule the vicinity or nonattendance of these components may be huge for credit unions with respect surprisingly administration forms.

2.4.1.1 Credit limits

One of the fundamental elements of a financial institution is to acknowledge legitimate control over credit. Bessis (2002) underlines the significance of executing a point of confinement strategy in order to stay away from any single loss that could jeopardize the budgetary organization. Dekker (2004) contends that it is the giving officers‟ part to put a portion period and guideline sum that would supplement the reasonableness of the borrower. Be that as it may, Bessis (2002) additionally thinks that this cutoff on giving will clash with the improvement of the money related foundations business volume as it will check the level of acquiring from clients. In addition, he considers that shorter length of time advance periods limit the interest income produced. It further builds the likelihood of clients not meeting their month to month commitments, as the pay portions are too high. In this manner borrowers are pointlessly classified in a misconduct state Dekker (2004). In opposition to this, Dekker (2004) states that the more extended the length of time of an advance the more noteworthy the risk that borrower is because of the changing environment and maybe changing situation of the borrower. In like manner, the inquiry emerges are credit unions actualizing a stringent loaning point of confinement procedure?

2.4.2 Credit control process

Finlay (2008) underlines that the loss produced from credits that are written- off are one of the greatest expenses of a financial institution. In perspective of this Ralston and Wright (2003) emphasize the significance of the performance of opportune unfulfilled debts techniques. Proving this mentality, Weaver (1994) state that review of the performance of credits is as significant as careful evaluation of the first advance application. Then again, Ralston and Wright (2003) watch that this audit is not being regulated in acknowledge a union as regularly as what is needed. In light of this, the level of consistency of a credit unions‟ credit control procedure may affect the sustainability of the credit unions business performance.

2.4.2.1 Arrears intervention

Finlay (2008) states that amid the early delinquency stage, sufficient weight ought to be set to empower the installment of unfulfilled debts. On a parallel vein, MAPDEG (2010) inclination financial establishments to fuse an adequate correspondence process when attempting to recover unpaid debts. Regarding this Finlay (2008) delineates the stages that could be utilized as a part of credit unions to accomplish the higher likelihood of gathering the back payments. Here he discovers that the utilization of auspicious back payments methods is critical to the achievement of recuperating overdue debts. This procedure incorporates the standard issuance of clear however firm letters and telephone calls. Nonetheless, even with a methodology set up Finlay (2008) contends that it is frequently hard to sort a client into a particular gathering before choosing what type of correspondence to take. Originating from this hindrance, XRS (2010) apply fastidious innovation to help money related foundations in recovering their debts. This framework puts an incredible level of association and control on the acknowledge administration process as it shows credit control officers what records to take a gander at every day. As indicated by XRS (2010) this innovation could help money related foundations understand a 60% decline in account holder days. Concerning the advantages of this framework, M.C.C.C credit union expresses that it has helped them to diminish their back payments considerably (XRS, 2010). Given that few credit unions in Ireland utilize this innovation, ought to this framework be executed in all credit unions? Regardless of the common sense of these procedures, Hinder (2008) conveys to light the trouble of keeping up a client agreeable state of mind amid the unfulfilled debts process. This particularly is of concern to acknowledge unions as their ethos of helping the group is weighed up against the intercessions used to guarantee their money related dependability Financial Regulator (2010). Block (2008) further expresses that money related establishments ought to act capably by listening to their borrowers, by not trying so as to pester them and to recuperate the overdue debts in an expert way. Along these lines accumulations speak the truth "client administration, ensuring the benefit and velocity recuperation" Hinder (2008). At an alternate position Hinder (2008) battles that when the wrongdoing length of time gets longer, the accentuation the money related foundation places on keeping up their association with the borrower diminishes and their need of ensuring their advantage increments.

2.4.3 Bad debt provisioning and write-offs

Finlay (2008) states that somewhere around thirty and ninety days of misconduct, the debt gathering procedure has fizzled and the record is exchanged to debt recuperation. Therefore this debt is composed off and is recorded as a loss in that money related organizations benefit and loss sheet Finlay (2008). MAPDEG (2010) subsequently stretch that this is an event that every financial institutions wish to stay away from; consequently stringent back payments intercessions are crucial. At an alternate point of view, Posner (1990) considers the reason behind these benefits is the absence of experience, time and specialized learning of staff. Likewise Byrne et al (2002) contends that this is the circumstance in credit unions as a result of their volunteer nature.

2.5 Barriers to effective credit administration

Lang and Jagtiani (2010) deduce in their exploration on the disappointments of credit administration that there is an essential for an update on able inward control frameworks and a strong self-governing credit hazard administration capacity. With respect to unions two noteworthy obstructions rise up out of surviving writing. These are credit cultureand instruction.

2.5.1 Credit culture

Basu and Rolfes (1995) characterize acknowledge culture as a structure of shared standards, perspectives and credit related exercises. They further illuminate that credit cultureinfluences the acts of the budgetary establishment concerning credit administration; for instance the ethos of a money related organization advocates the kind of loaning led. In this way Middlemiss (2004) states that budgetary foundations ought to have an all the more "ethically worthy methodology" to surveying credit and ought to sanction a certain level of social debt.

Therefore it is imperative that credit culture fits the general business of the credit union as per Rouse (2002); where it supplements the significance of its social debt as per Ralston and Wright (2003). On the other hand, Lenihan (2009) highlights that given the present financial atmosphere, credit unions social part debt is being put under weight. He builds up this announcement by focusing on that credit unions must guarantee that their money related position is not undermined, their members‟ investment funds secure and their reports precise and steady. Then again he expresses that they should likewise keep up their debt of giving money to the group. In this manner the writing proposes that a decent adjust must be directed between these two issues.

2.5.2 Education and training

Another barrier as indicated by Hobbs (2010b) is that credit unions "do not have the business keenness to completely value the risks to the business they are in charge of administering". Furthermore MAPDEG (2010) states that banks must give extensive training to bleeding edge staff with the goal them should evaluate and screen a credit productively. In light of this, administrative prerequisites have now been placed set up which obliges all credit union staff that offer money related items to their clients to turn into a certify individual (ILCU, 2010). This applies to all people that offer protection items to their individuals. General the staff can be adequately qualified by either acquiring a granddad standard, QFA, (ILCU, 2010). On the other hand, is experience under the „grandfather rule" enough? Should all credit personnel acquire some qualification regardless of what products they sell?

2.6 Credit Analysis

Credit analysis is the vital system in decreasing the credit risk on a loan solicitation. This involves deciding the financial strength of the borrowers, assessing the likelihood of default and diminishing the risk of non reimbursement to an acceptable level. As a rule, credit assessments are remained on the credit officer's subjective appraisal (or judgmental evaluation procedure). When a client asks for a credit, bank officers dissect all accessible data to figure out if the loan meets the bank's risk return targets. Credit analysis is basically default risk investigation, in which a loan officer endeavors to assess a borrower's capacity and eagerness to reimburse. In the same way Compton (1985) distinguished three unmistakable regions of business risk examination identified with the accompanying inquiries: 1) what risks are inherent in the operations of the business? 2) What have managers done or neglected to do in relieving those risks? 3) How can a loan specialist structure and control its own risks in supplying funds? The primary inquiry drives the credit analyst to create a rundown of reasons that show what could harm a borrower's capacity to reimburse. The second perceives that reimbursement is to a great extent an element of decisions made by a borrower. Is management mindful of the critical risks, and has it reacted? As Tomothy (1995:665) cited, the last question compels the expert to indicate how risks can be controlled so the bank can structure to a worthy credit understanding. The five C's of credit regularly use by bank's credit experts to center their investigation on the key measurements of a candidate's financial soundness. Lawrence (1997:776-777), recognized five C's of credit. They include; Character, Capacity, Capital, Collateral, and Conditions.

1. **Character:** The applicant’s record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.

2. **Capacity:** The applicant’s ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant’s capacity.

3. **Capital:** The financial strength of the applicant as reflected by its ownership position. Analysis of the applicant’s debt relative to equity and its profitability ratios are frequently used to assess its capital.

4. **Collateral**: The amount of assets the applicant has available for use in securing the credit. The larger the amount of available assets, the greater the chance that a firm will recover its funds if the applicant defaults. A review of the applicant’s balance sheet, asset value appraisals, and any legal claims filed against the applicant’s assets can be used to evaluate its collateral.

5. **Conditions:** The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. For example, if the firm has excess inventory of the items the applicant wishes to purchase on credit, the firm may be willing to sell on more favorable terms or to less creditworthy applicants.

Analysis of the general economic and business conditions, as well as special circumstances that may affect the applicant or firm is performed to assess conditions.

The credit analyst typically gives primary attention to the first two C’s-character and Capacity-because they represent the most basic requirements for extending credit to an applicant. Consideration of the last three C’s-Capital, Collateral, and Conditions- is essential in structuring the credit management and making the final credit decision, which is affected by the credit analyst's experience and judgment.

According to Golden and Walker (1993), there are five Cs of bad debt; which represent things to guard against in order to help prevent problems. They include: Complacency, Carelessness, Communication breakdown, Contingency, and Competition.

Complacency refers to the tendency to assume that because things were good in the past they will be good in the future. Common examples are an over confidence on guarantors, reported net worth, or past loan repayment success because it's always worked out in the past.

Carelessness involves poor underwriting, typically proof by inadequate loan documentation, a lack of current financial information or other pertinent information in the credit files, and a lack of protective covenants in the loan agreement. Each of these makes it difficult to monitor a borrower's progress and identify problems before they are unmanageable. Loan problems often occur when a bank's credit objectives and policies are not clearly communicated**.** This is **communication breakdown**. Management should eloquent and enforce loan policies, and loan officers should make management aware of specific problems with the existing loans as soon as they appear.

A contingency refers to lenders' tendency to play down or pay no attention to circumstances in which a loan might in default.

Competition involves following competitors' behaviour rather than maintaining the bank's own credit standards.

2.7 Credit Information

Satisfactory and convenient data that empowers an agreeable appraisal of the financial soundness of borrowers applying for a bank credit is vital for settling on reasonable lending decisions. One of the important variables in guaranteeing the financial soundness of banks is the satisfactory data on the credit worthiness of a client which prudent lending decisions are made. In any case, there has been not kidding trouble in Ghana of getting exact and convenient data on forthcoming borrowers that encourages the settling on of such reasonable giving choices. One of the methods for allaying this trouble of getting precise and opportune data on forthcoming borrowers is the establishment of a Credit bureau licensed under the credit reporting Act, 2007 (Act 726) where relevant information on borrowers is assumed to be pooled and made available to lending banks.

2.8 Credit Process

The fundamental objective of commercial and consumer lending is to make profitable loans with minimal risk. Administration ought to target particular businesses or markets in which lending officers have mastery. The credit process depends on every bank's frameworks and controls to permit administration and credit officers to assess hazard and return tradeoffs. As per Timothy (1995), the credit procedure incorporates three capacities: business advancement and credit examination, credit execution and administration, and credit review.

2.8.1 Business Development and Credit Analysis

Business development is the process of advertising bank services to existing and potential clients. With lending it includes recognizing new credit clients and requesting their banking business, and additionally keeping up associations with current clients and cross-offering non-credit services. Every bank employee, from tellers handling drive-up facilities to members of the board of the directors, is responsible for business development. Each employee regularly comes in to contact with potential customers and can sell bank services. To encourage marketing efforts, many banks use cash bonuses or other incentive plans to reward employees who successfully cross-sell services or bring new business into a bank.

2.8.2 Credit Execution and Administration

The formal credit decision can be made exclusively or by board of trustees, contingent upon a bank's authoritative structure. This structure changes with a bank's size, number of workers, and sort of loans handled. A bank's Board of Directors regularly has the last say on which credits are sanction. Normally, every giving officer has free power to sanction credits up to some fixed dollar sum.

2.8.3 Credit Review

The loans review efforts are directed at decreasing acknowledge risk and additionally taking care of issue loans and selling resources of fizzled borrowers. Viable credit administration isolates loans audit from credit investigation, execution, and organization. The survey procedure can be separated into two capacities: observing the execution of existing credits and taking care of issue loans. Numerous banks have a formal loans survey advisory group, autonomous of loans officers, that reports specifically to the CEO and chiefs' loans council. Loans review personnel review current credit to check that the borrower's financial condition is satisfactory, loans documentation is set up, and pricing meets return targets.

2.9 Credit Approval and Implementation

The individual steps in the credit approval process and their implementation have an extensive effect on the risk connected with credit approval. The quality of credit approval procedures relies on upon two elements, i.e. a straightforward and exhaustive presentation of the risk when conceding the credit from one perspective, and a satisfactory evaluation of these risks on the other. Besides, the level of effectiveness of the credit approval procedures is a vital rating component. Because of the significant contrasts in the way of different borrowers and the resources for be financed and in addition the extensive number of items and their intricacy, there can't be a uniform procedure to evaluate credit risk. The quality of the credit approval process from a risk viewpoint is dictated by the best conceivable recognizable proof and assessment of the credit risk resulting from a possible exposure.

2.10 Loan monitoring

Credit risk monitory refers to perpetual monitoring of individual credits comprehensive of Off-Balance sheet exposures to obligors and in addition general credit arrangement of the bank. As indicated by the Guidelines for Commercial Banks for Pakistan Banks, Banks need to articulate a framework that empowers them to screen nature of the credit portfolio on regular premise and take therapeutic measures as and when any weakening happens. Such a framework would empower a bank to find out whether advances are being adjusted according to office terms, the sufficiency of procurements, the general risk profile is inside of points of confinement set up by administration and consistence of administrative breaking points. Setting up a productive and viable credit monitory framework would help senior administration to screen the general nature of the aggregate credit portfolio and its patterns.

Therefore the administration could tweak or reassess its credit system/approach as needs be before experiencing any real setback. The banks credit strategy ought to expressly give procedural rule identifying with credit risk monitoring. At the base it ought to set down system identifying with:

a. The parts and obligations of people in charge of credit risk monitoring

b. The evaluation systems and investigation methods (for individual advances & general portfolio)

c. The recurrence of monitoring

d. The occasional examination of pledges and credit agreements

e. The recurrence of site visits

f. The recognizable proof of any weakening in any credit

2.11 Credit Collection Techniques

Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to give confidence to customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks. Therefore a number of collection techniques are employed. Under normal situations loan clients are expected to pay in cash or deposit or keep their instalment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. The basic techniques used are:

Telephone Calls: If the loan client passes the due date, a telephone call may be made to the customer to request immediate repayment and up to date his or her account.

Personal visits: - If the telephone call made is not yield positive response visiting his business and discussing the issue with the customer can be a very effective collection procedure.

Letters: - If the efforts made so far is unsuccessful and not resulted positive answers a polite letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence. Collection letters are the first step in the collection process for past due and overdue loan accounts.

Using Collection Agencies: Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically quite high; the firm may receive less than fifty percent on accounts collected in this way.

Legal Action: legal action is the most stringent step in the collection process. It is an alternative to the use of a collection agency not only is direct legal action expensive, but is may force the debtor in to bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount.

2.12 Financial Analysis

Review, appraisal and follow-up are three basic essentials in credit management and decision-making. At the time of considering fresh proposals or enhancement proposals, the banker reviews the past operations with judge the health status of the client. According Timothy (1995) three basic elements used in credit management to evaluate the creditworthiness of clients are identified.

a) Review is for the past**.** It should enable the banker to find out whether it is safe to lend to a particular client. In order to arrive at this decision, the banker has to satisfy himself about the risk and viability of the unit. Review of any unit involves assessment of solvency, liquidity and profitability of that unit as revealed by its financial statements, i.e. profit and loss accounts and balance sheets. Review, thus, involves classification of profit and loss account and the balance sheet according to bank's requirement and analysis of these statements.

b) Credit appraisal implies consideration of fresh or enhancement proposals on the basis of futuristic data. While appraising proposals, banker tries to find out: financial need of the client, end-use of funds, viability of operations and risk involved.

In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuing period. Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis.

c) Follow-up may be defined as a continuous activity aimed at ensuring observance of stipulations laid down by the bank, picking up signals on health status of client's position, remedial action and ensuring results of action on a continuous basis. Safety, need-based finance and end-use are the key assumptions of lending. A banker needs various types of data and information from the borrowers for taking the credit decisions. Such information is generally available in various financial statements such as income statement, balance sheet, cash flow statement, funds flow statement, etc. But mere collect of these financial data from the borrowers is of little help unless the banker is able to use these statements; arrange or classify them according to his/her needs and analyze them with a view to draw meaningful conclusions.

2.13 Default Problems

Non-payment of loans has several detrimental consequences. It gradually weakens the credit system. Costs of loan administration of overdue loans are high. And defaults push up lending costs without any corresponding increase in loan turnover. Defaults reduce the resource base for further lending, weaken staff morale, and affect the borrower's confidence.

According to Sanderatne, (1978), after a comprehensive survey of defaults in Sri Lanka, identified six factors which contributed to defaults:

a) Variability in incomes caused by fortuitous, seasonal, or unforeseen factors;

b) Defects and inadequacies in the organization disbursing credit;

c) Attitudinal conditions not conducive to repayment;

d) Misallocation of borrowed funds;

e) Miscellaneous reasons such as illness, death. Etc.

According to Oesterreichische National bank Credit Approval Process and Credit Risk Management (2000), the credit risk can be distributed among four risk components.

a. Probability of Default (PD)

b. Loss Given Default (LGD)

c. Exposure at Default (EAD)

d. Maturity (M)

The most important components in credit approval processes are PD, LGD, and EAD. While maturity (M) is required to calculate the required capital, it plays a minor role in exposure review. The significance of PD, LGD, and EAD is described below.

a) Probability of Default (PD): Reviewing a borrower's probability of default is basically done by evaluating the borrower's current and future ability to complete its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank.

Furthermore, it has to be taken into account that —for certain finance transactions — interest and principal repayments should be financed exclusively from the cash flow of the object to be financed without the possibility for recourse to further assets of the borrower. In this case, the credit review must address the viability of the underlying business model, which means that the source of the cash flows required to meet interest and principal repayment obligations has to be included in the review.

b) Loss Given Default (LGD): The loss given default is affected by the collateralized portion as well as the cost of selling the collateral. Therefore, the calculated value and type of collateral also have to be taken into account in designing the credit approval processes.

c) Exposure at Default (EAD): In the vast majority of the cases described here, the exposure at default corresponds to the amount owed to the institution. Thus, besides the type of claim; the amount of the claim is another important element in the credit approval process.

According to Pandmanabhan (1986: 26-31), causes of delinquencies and defaults are classified as relating to three levels: borrower level, financing institution level, and economy level.

a) Causes at borrower level:

- **i.** Borrowers who deliberately divert loans to non-essential consumption find it difficult to meet repayment commitments on time.

ii. Investments fail to generate sufficient incomes due to improper technical advice; absence of supporting services, inadequate marketing, etc. investments also fail due to unforeseen causes like floods, drought, etc. in both cases repayment would be affected.

iii. When borrowers have liabilities towards informal lenders, they get precedence over institutional lenders.

iv. Contingencies at borrower household like death, sickness, etc, affect repayment performance. Formal institutions which do not extend consumption and emergency loans are liable to have higher default rates.

b) Causes at financing institution level:

I. Defective procedures for loan appraisal in the financing institutions could lead to the financing of bad projects and consequent defaults.

II. Quality of loan officers, their ability and knowledge in the field, and their capacity to judge borrowers as also the incentive packages available to them affect repayment performance.

III. Fixing of inappropriate repayment schedules and lack of flexibility often result in defaults. Similarly, when the procedure for repayment is cumbersome borrowers tend to delay repayments.

IV. Defaults have a ‘spread effect’ particularly in the marginal cases. When lenders show reluctance to enforce sanctions against conspicuous defaulters, defaults tend to increase through a process of imitation.

c) Causes at economy level:

i. When overall government policies, particularly those relating to pricing of inputs and outputs, marketing, etc., discriminate against the specific sector.

ii. Faulty monetary and fiscal policies of governments could result in high inflationary conditions. Borrowers tend to delay repayments in such a situation to take advantage of the fall in value of currency.
iii. Interest rate policies of government have a vital role in the promotion of repayments. When the real rate is excessively low, borrowing and consumption will be much more profitable than saving and repayment.
iv. Excessive government intervention in the day-to-day administration of financial institutions could result in bad loans.
v. Calamities like droughts, floods, market glut, etc could result non performing loans.

2.14 Empirical Studies

Hong and Sung (1995) have tried to analyze Korean banks' performance which was reflected on their financial statements and to make available some comments to improve their banking business. The study was carried out by comparing the eight Korean banks' past five years performance results with other banks in the State of California, other banks include Asian banks other than Korean banks owned by such Asians (e.g., Chinese and Japanese) and American banks owned by other ethnic groups of Americans (e.g., "white" American). The comparative financial analysis showed that Korean banks were relatively conservative in managing operations and lending and were more actively involved in their services for international business and sales activities. The analyses also pointed out that the Korean banks' loan quality was relatively low and their loan market appears to have been saturated. They propose on the basis of the analysis that the Korean banks should adopt a more active marketing strategy to enlarge and create their own market, consider tighter control for their operations with understanding banking regulations (e.g., Financial Institutions Reform, Recovery, and Enforcement Act) and adopt the loan policy in a way that they can make a loan decision with more reliable cash flow analysis.

Abdus (2004) has scrutinized empirically the performance of Bahrain's commercial banks with respect to credit (loan), liquidity and profitability during the period 1994-2001. Nine financial ratios (Return on Asset, Return on Equity, Cost to Revenue, Net Loans to Total Asset, Net Loans to Deposit, Liquid Asset to Deposit, Equity to Asset, Equity to Loan and Non-performing loans to Gross Loan) were selected for measuring credit, liquidity and profitability performances. By applying these financial measures, this paper establishes that commercial banks' liquidity performance was not at par with the Bahrain banking industry. Commercial banks are relatively less profitable and less liquid and, are exposed to risk as compared to banking industry. With regard to asset quality or credit performance, this paper found no conclusive result. Nonperforming loans to gross loans (NPLGL) indicates that there was no difference in performance between the commercial banks and the banking industry in Bahrain. Chowdhury and Ahmed (2007) have made an effort to analyze the development and growth of selected private Commercial Banks of Bangladesh. It was observed that all the selected private commercial banks were able to achieve a stable growth of branches, employees, deposits, loans and advances, net income and earnings per share during the period of 2002-2006. Seven trend equations have been tested for different activities (growth in branch, employees, deposits, loans and advances, net income and earnings per share) of the private commercial banks. Among them the trend value of branches, employees, deposits and net incomes were positive in case of all the selected banks.

The above empirical review of literature emphasizes that all the studies so far conducted are mainly discussing the loan recovery problems, determinant factors for default of borrowers in financial institutions in general at Macro-level. The researcher also observed in the review of literature that there are no studies conducted mainly to identify the problems related to lack of effective credit management with reference to Sekyere Rural Bank Limited. Thus, the researcher felt it appropriate to take up the present study entitled “credit management- a case study of Sekyere Rural Bank” to assess the credit management problems and thereby to recommend courses of action that are assumed to promote quality loan growth and curtail non-performing.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.0 Introduction

This chapter deals with how the research is to be conducted in order to achieve the stated objectives and it presents the research design and methodology that has been used to carry out the research. It presents the research design, the population, and sample selection, sampling procedure, and research instruments, methods of data analysis and data collection and limitations encountered during the research process.

3.1 Research Design

This is historical and analytical research based on a case study approach.

3.2 Population of the study

The target group of this study are the loan clients of the bank and the employees who are directly involved in credit processing and administering. This means, senior bank professionals, Department heads, Branch managers, Assistant branch managers, Loan section heads, Loan officers, Loan clerk, and Loan Committee members of all branches are included in the target group.

3.3 Sampling Technique

The sampling technique used for the purpose of this study is stratified random sampling as it is assumed to make available more efficient sample considering the sort of loan clients and staff of the bank. Furthermore, the sample is assumed to reflect accurately the population on the basis of the criterion used for stratification. As the bank classifies its clients as performing and non-performing clients based on their repayment status as per their repayment agreement and the regulatory body. Taking into account the objectives of the study, Proportionate Stratified Sampling (PSS) approach is followed to select the number of respondents. Using stratified random sampling, about 100 loan clients out of whom 50 loan clients were selected. All employees who are concerned in credit processing and administrating are considered as other additional target group of the study. They were 20 in number and all are considered in the sample.

3.4 Data Collection

For the intention of this study, both primary and secondary data are used. Interviews and questionnaires are used to gather primary data. Unstructured interview is prepared and administer to the staff working in the loan area and branch managers and assistant branch managers of the Bank. This helped to address the research questions more specifically or to concentrate more on the topic itself.

Interview is undertaken by the researcher himself in order to effectively gather pertinent information to the study. Secondary data is collected from clients' files, reports, directives, manuals and bulletins of the bank by the researcher.

3.5 Data Analysis Method

In order to evaluate the performance of credit management problems of Sekyere Rural Bank, more of qualitative method of analysis is employed in addition to quantitative method so as to address the aforementioned problems of the Bank. Both methods of analysis used the data collected through the semi-structured questionnaires, interviews and secondary sources Findings, which reflect a high degree of problems, were selected from interview and questionnaires, the raw data were analyzed, presented, and interpreted to furnish solutions for the research problem. Additionally, most of the data were summarized and presented in tables and Figures, by the help of the Statistical Program for Social Sciences, version 16.0, (SPSS, 2005). To facilitate the analysis and to make it presentable for the readers Percentages for these data were calculated. The data gathered were more of qualitative in nature; hence, they were presented by using descriptive analysis. For this reason, the nature of the study is descriptive.

3.6 Reliability and validity

Reliability and validity are often used by the scientific researchers in their studies, both qualitative and quantitative. Reliability refers to the uniformity and accuracy of the research results. In the quantitative research, reliability can be demonstrated as the stability of the measurement over time, the similarity of the measurements during the given period, and also the degree to the same results of the measurement given repeatedly.

Validity means the truthfulness of the measurement of which it is proposed to be measured and how truthful the results of the research are. The researcher also sought expert opinion in the field of study especially the researcher's supervisor and lecturers in the school of business, this enhanced the validity of the study.

3.7 Organizational profile

3.7.1 Establishment of Sekyere Rural Bank Limited

Sekeyere Rural Bank was set up and commissioned in 1983 at Jamasi in the Ashanti Region of Ghana. The role of the Bank is to play an intermediary role between surplus fund holders and those in need of funds for their economic activities in the communities in which the Bank operates. Sekyere Rural Bank Limited is dedicated primarily to the mobilization of resources from its operational area for on lending to individual savers, groups, small and medium scale enterprises. The bank is registered under Ghana's Companies Code 1963 (Act 179) and licensed under the Banking Law, 2004 (Act 73) to operate the business of banking.

The nature of the businesses that the Bank is authorized to carry on are:

The provision of Current and Deposit Accounts for customers

To provision of Savings and Fixed Deposit for customers

To act as Agent of other financial institutions in the country

To accept and Discount Bills of Exchange

To act as Executors or Trustees of Wills for people in the community

To provide finance for farmers, small and medium scale enterprises.

3.7.2 Vision

To continue to grow into a recognized financial institution locally and abroad, and always offer value-added service to clients.

3.7.3 Mission Statement

To be a unique financial service provider in the rural and peri-urban area in Ghana, propelled by a motivated workforce, customized products and superior Customer Service than our competitors, sustain the payment of returns to our shareholders and seen as a vehicle for rural development.

3.7.4 Principles and Values

I. Sekyere rural bank operates in accordance with the highest standards in all relationships with customer, suppliers, the environment and the community.

II. Sekyere rural bank fosters a climate which encourages innovation and diligence amongst staff and rewards accordingly.

III. Sekyere rural bank partners individuals, groups, government, and nongovernmental organisations for rural and community development

3.7.5 Objectives of the Bank

The Bank has mainly the following objectives

a) To increase the level of capital in order to rise the lending limit of the Bank and obtain a high share

b) To increase market share

c) To maximize profitability and increase efficiency

d) To contribute to the general economic development efforts of the nation.

3.7.8 Major Services of the Bank

a. Major services of the Bank include

b. Accepting different types of deposits,
c. Granting variety of loans,
d. Offering full-fledged international Banking services, and
e. Render local and international money transfer services.

3.7.9 Branch Network

Sekyere Rural Bank has a network of 8 branches of which two branches are located in Afigya Sekyere east district, four branches are located in Kwabre east and west district and two branches are located in Kumasi metro which is the main business center of the country.

3.7.10 Computerization

Sekyere rural bank limited has already introduced the first of its kind integrated computer wide area network since 2000 that had networked its head office and all branches in Ashanti regions.

3.7.11 Management and Human Resource

Sekyere rural bank limited is governed by the Board of Directors consisting of a chairman, a vice chairman and Eight members. The Chief executive officer (CEO) who is appointed by the board of directors and is being assisted by Eight Department Managers.

Currently, the number of permanent employee of the bank stood at 168 showing the bank's continued efforts to create significant level of employment opportunities for a number of qualified people during the preceding couple of years. Out of the total number of employees, (80.4%) were semi professionals and professionals with compatible educational background such as University degree or diploma, while the number of support staff was (19.6%) with different levels of educational background.

3.7.12 Product and Services

Sekyere rural Bank offers banking services and products which includes the following.

Agric Loans, Funeral Loans, Aku Sika, Bronya Anidasoo, Me Daakye, Commercial Loans, Western Union/Apex Link Electronic Money Transfer (I-Trans), Fixed Deposit, Current Account And Savings Accounts, Overdraft Facilities, Salaried Loans, Loans, Fund Management Loans, Micro Credit, Advisory Service, E-Zwich, Money Gram. ETC

3.1.10 Management of Non-performing Loans (NPLS)

The bank has a system to review the loan approval form (LAF) as a first step in post disbursement of credit monitoring. The purpose of the review is to ensure appropriate loan documentation and to gather sufficient information to serve as a reliable basis for monitoring.

The bank has two forms of credit monitoring such as

a) Case-by- Case review

It is exercised to insure that the repayment of the loan is according to the approved repayment schedule.

b) Portfolio Review

It refers to the status of credit portfolio in aggregate exposure analysis with respect to economic sector, customer, product, location, etc.

3.7.11 Basic Requirements for Credit Decisions

Sekyere rural bank has uniform basic requirements which applicants are expected to present and become eligible for loan. Thus, credit decisions of the Bank are based on the fulfilment of these requirements as mentioned below.

1. Loan application letter
2. Amount Required
3. Purpose
4. Term of repayment of loan requested
5. Type of proposed security/collateral.
6. and others

So as to qualify for credit, every applicant should fulfil the aforesaid requirements. If there is match between the documents provided by the client with that of the requirements set by the bank on the check list, the client will be eligible for the loan.

In the lending process, as per the interview conducted with the branch manager, and loan officers the Bank prefers the business type and applicant creditworthiness as first way out and security /collateral is the second way out as basis for lending.

3.7.12 Assessment of Applicants Creditworthiness

Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. The Bank assesses the creditworthiness of a loan applicant mostly by gathering detail information with regard to:

a. The applicant

I. Whether the applicant is customer of any other bank. This is done to check whether the applicant has any loan arrear with other banks. This will be checked by the help of credit Bureau Database of the credit information center.

II. The exposure of the applicant to credit and his track record in meeting his obligation.

III. The educational level and experience of the applicant.

IV. The character, capacity of the applicant and his social acceptance in trustworthiness.

b. Collateral

1) Marketability and habitability
2) Easily transferability

c. Business viability

Based on the basic financial measurements used to certify the credit worthiness of the business the Bank depends on liquidity rate, solvency, efficiency ratio, sales turnover and profit margin of the business.

Once the Bank assessed the creditworthiness of the applicant, the credit decision flow is as depicted below.

3.7.13 Provisions

Loans and advances are financial instruments originated by the bank by providing money to the debtors. It is stated at costless impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The Bank follows the BoG Supervision of Banking Business Directives in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into the following.

a) Current Loans

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. It is fully secured, both as to principal or interest payments, by cash or cash substitutes are classified under this category regardless of past due or other adverse credit factors.

b) OLEM

Any loan or advance past due 30 days or more, but less than 90 days.

c) Substandard

Non- performing loans or advances past due 90 days or more but less than 180 days.

d) Doubtful

Non- performing loans past due 180 days or more but less than 360 days.

e) Loss

Non-performing loans or advances past due 360 days is classified as loss.

3.7.14 Extent of Provision Required

As per the directive of the Bank of Ghana the extent of provision required for impairment of losses is determined as follows.

a. Current 1 percent of outstanding loan balances

b. OLEM 10 percent of outstanding balance

c. Substandard loans 25 percent of the net loan balance

d. Doubtful loans 50 percent of the net loan balance

e. Loss 100 percent of the net loan balance

CHAPTER FOUR

PRESENTATION OF DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter is concerned with the presentation, analysis, and interpretation of the data gathered via primary sources both questionnaires and interviews and secondary sources collected from the bank's annual reports, manuals and data bases.

4.1 Response Rate

Table 4.1: Performance of Questionnaires Administered

Questionnaires	**Respondents**					
	clients		**Employees**		**Total**	
	No	%	No	%	No	%
Distributed	50	100	20	100	70	100
Collected	50	100	20	100	70	100

Source: Researcher's Result from Primary Data Sources

As it can be seen from Table 4.1, 70 questionnaires were distributed to both loan clients and employees which are 50 to loan clients in the target branches and in the same manner 20 questionnaires were distributed to employees of the Bank who are working and experienced in the loan area. In all cases 100.0 percent of the distributed questionnaires were collected. As the distribution and collection of questionnaires is managed by experts in the area together with high cooperation rendered from the employee and clients the achievement was to the required level and this has enabled to extract sufficient and relevant information to the objective of the research.

4.2 Descriptive Statistics

In order to know the general characteristics of respondents, they were asked to identify their gender and their response is shown below.

Table 4.2 characteristics of respondents

Response	Frequency	Percentages
Male	50	71
Female	20	29
Total	70	100

Source: Researcher's Result from Primary Data Sources

As shown in table 4.2, out of 70 respondents approached 71.00 percent were males and 29.00 percent were females. From this it seems that the involvement of females is low when it comes to credit management as compared to males.

4.3 The Effectiveness of Credit Management Policies.

4.3.1 Credit Policy and Procedure

Table 4.3: Credit policy, processing, and collection procedures

Credit policy, Processing and Collection	Yes		No	
	Freq.	%	Freq.	%
Have credit policy	15	75	5	25
Is the credit policy up to date	11	55	9	45
Is the credit policy compliance to BOG	14	70	6	30
Is loan growth as required	8	40	12	60
Is loan service as client's preference	8	40	12	60
Is lending and overriding limit convenient	11	55	9	45
Is the collection technique effective	15	75	5	25

Source: Researcher's Survey Result from Primary Data Sources

Producing and developing credit policy and procedures as well as other pertinent manuals and guidelines help to create common understanding and uniformity among all employees. Lending is the core product line which contributes the biggest share to the profitability of a banking organization. It is crucial to have credit policy document to protect the bank against over exposure, mal-administration of credit arresting the creation of non-performing loans, and arrive at a trade-off between returns and risks. In the table 4.3, 75.00 percent of the bank employee replied positively for having credit policy and procedure manuals. 55 percent of the employees responded positively that the existing credit manuals are up to date but needs amendments. While 45 percent of them said the credit manuals are not up to date. Moreover, 70 percent of the employees have agreed on the compliance of the credit policy and credit procedures to the regulation and directions of the bank of Ghana (BOG), which is the regulatory body of the nation. Though loan provision is the main product of the bank as it is the main source of income its growth is not as expected almost in all branches of the bank. This is disclosed by 60 percent of the respondents and by the interviews made with the senior staff. In the table 4.3, 60 percent of the employees are not satisfied of the prevailing growth of loans while 40 percent accepted the current status of growth as satisfactory. 55 percent of the bank employee have agreed on the impediments for the loan growth being the branch lending and overriding limit, as well as 60% of them have recognized the deviation of the loan service provided with the preference and expectation of the potential loan clients.

4.3.2 Rating the credit policy.

In compliance to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist to provide different type of credit within each credit policy to their loan customers. Therefore, knowing the outlook of loan clients for each bank is very important in reshaping its credit policy and procedures.

Hence, In order to know the nature of the Bank's credit policy, the researcher raised questions for the employees of the Bank and interviewed senior bankers and branch managers.

Table 4.4: employee's responses on rating the effectiveness of the credit policy

Response	**Freq.**	**%**
Very effective	**5**	**25**
Effective	**10**	**50**
Ineffective	**5**	**25**
Total	**20**	**100**

Source: Researcher's Result from Primary Data Sources

Consequently, as revealed in Table 4.4, 50 percent of the respondents said the credit policy and procedure of the bank is effective in its workability and 25 percent claimed as it is not effective. While, another 15 percent of them said that the credit policy of the Bank is very effective. In the unstructured interview made, most of the senior bankers and branch managers have agreed on the importance, attractiveness and convenience of making very effective credit policies and procedures as it assists for loan creation and growth.

4.4 Loan Application and Approval Process

4.4.1 Loan application

Loan processing starts from loan application and gathering information from various sources confidentially and interviewing the applicants in order to screen their eligibility. This facilitates to mitigate risks that can face after the loan is granted. Nevertheless the manner of application denotes the integration of the bank towards potential loan applicants and the effort of the employee in mobilizing and treating loan applicants as loan is the main source of income to banks. In order to know the manner of allocation of clients, 50 clients were approached.

Table 4.5: Manner of application of clients

First application	Freq.	%
By self initiation	25	50
By effort of former client of the bank	15	30
By staff effort of the bank	10	20
Total	**50**	**100**

Source: Results from Primary Data

As it is denoted in table 4.5, 50.00 percent of the applicants approached the bank by own initiation and 30.00 percent of the new applicants were approached to the bank by former loan clients of the bank. In addition 20.00 percent of the new applicants approached the bank through the efforts of the employee. From these it can be concluded that the bank has already created dependable awareness among the potential applicants and well integrated with in the business community. It also shows that, former loan clients and employees participate in the effort of mobilizing and screening new clients.

4.4.2 Loan Processing

Loan processing is one of the measurements of credit management in banks and other financial sectors such as micro finances. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client - bank relationship. For researcher to know how the loan processing is and client relation, 50 clients were contacted.

Table 4.6: Loan processing and client relation

Response	Yes		No	
	Freq.	%	Freq.	%
Have you met the bank service as expected	23	46	27	54
Employees visit during loan request	40	80	10	20
simplicity of application requirement	35	70	15	30
Loan processing time convenience	10	20	40	80
Access to relevant information	35	70	15	30
Extension of relation with the bank	40	80	10	20

Source: Result From Primary Data

From the table 4.6 below, 70 percent of the respondents disclosed the convenience and simplicity of the application requirement while 30 percent of them commented to further simplify it by excluding the trade license certificate.

As business visiting and assessment is part of the viability assessment for loan processing, 80 percent of the respondents replied positively regarding the importance of visiting of the employees. This confirms that as part of prudent credit management system whenever there is loan request the concerned bank employee uses to visit and supervise and gather some important information that helps for loan processing and decision making minimizing risk.

Further, most of the respondents, 70 percent revealed that they get the required information and counseling/answers to their questions in whatever time from any of the branches. This indicates the level of competence of the staff in treating clients and promoting the vision of the bank.

Adequate and reliable information enhances prudent credit management and long lasting loan client – bank relationship and business reputation.

However as it is denoted in table 4.6, 54 percent of the applicants disclosed the deviation of the information from what they had before about the convenience of loan processing procedures and requirements. This is due to their reservation on property estimation, loan approving time, and amount of loan and repayment schedule of the Bank. While 46 percent stated what they met the bank service as expected. Meanwhile 80 percent of the respondents are confidently explaining their interest to extend their business relation with the bank while 20 percent hesitated whether to continue or not with the bank. The reason stated is the low collateral estimation value, small loan approving practice, long loan processing time, and short repayment period.

4.4.3 Loan Approval

In order to know the loan approval process, 20 employee of the bank were asked.

Table 4.7: Loan recommending/approving

Loan recommending or approving procedure	Freq.	%
By Loan committee at all level	2	10
By CEO and credit Manager	15	75
By Branch manager and loan officer	3	15

Source: Result From Primary Data

All loans and advances of the bank is recommended or approved by the CEO and credit manager both at branch and at head office as per the discretions provided. As it is shown in table 4.7, 75 percent of the bank employees have confirmed it.

4.5 Loan Monitoring Process

4.5.1 Loan Collection and Supervision

In order to ensure the sound execution and operation of businesses, banks should carry out timely follow-up or supervision visits, because they have to ascertain the utilization loans granted is per the purposes for which they were intended to and to ensure timely repayments as planned. The purpose of supervision or follow-up in banks is, to enable loan clients improve their efficiency in business implementation and loan utilization that improves income and loan repayment status. If there is continuous follow up and supervisions to evaluate the loan utilization and repayment, this makes borrowers to observe their obligation and improve the proper utilization of the loan thereby improving repayment performance. For the researcher to ascertain the information on loan monitory process, 50 clients were approached to their credit follow up status.

Table 4.8: Credit follow up status

Fellow up	Yes		No	
	Freq.	%	Freq.	%
status of follow up	40	80	10	20
Sufficiency of loan granted	15	30	35	70
Convenience of loan schedule	24	48	26	52
Relevance of business follow up	45	90	5	10

Source: Result From Primary Data.

As shown in table 4.8, 80 percent of the respondents agree to the importance of follow up and supervision to be made by the bank employee and 20 percent responded negatively of its importance. Again In table 4.8, 90 percent of the respondents reflected the relevance of supervision and follow up to their business growth as it provides them encouragement while 10 percent reflects that its relevance is not to such emphasized level. As Table 4.8 clearly shows, 52 percent of the respondents said that the repayment schedule of the bank is not sufficed to discharge their obligation while 48 percent of them replied positively. Similarly, 70 percent of the respondents complained that the loan granted is not sufficient for the intended purpose of business while 30 percent reflected positively.

This indicates that, Most of the loans delivered are for the purpose of working capital and lays in the range of short term and medium term period that is for one year and to some extent below two years respectively. This leads to say the amount of loan used to be granted is not meeting the demand of clients. Moreover, the periodic repayment schedule of the Bank is very short and not convenient to discharge their responsibility.

4.5.2 Credit Recovery

The credit recovery method, used by the bank is treated in the same fashion as of credit collection methods. The measures that are used include strict follow up and insisting the client, debt rescheduling, court proceeding, and foreclosure. In the bank, credit is transferred to the legal service when it fails to regularize or settle the loans in default and when all efforts to amicably settle the loans fail and it is ascertained that legal action is to be the last alternative. In order to know the methods used to improve repayment, 20 employees of the bank were approached.

Table 4.9: Methods used to improve repayment

Measures	Freq.	%
Loan rescheduling	7	35
Frequently insisting the client	12	60
All	1	5

Source: Result From Primary Data

As it is indicated in table, 4.9, 60 percent used to settle the non-performing loan through frequent follow up and insisting the loan client. Moreover, 35 percent of the bank employees have replied the bank reschedules loans when the cause of default occurs justifiable.

4.5.3 Enforcement Measures

For the researcher to know the enforcement measures put in place to meet the monitory process, 20 employees of the bank were approached.

Table 4.10: Enforcement measures

Enforcement measures used	Freq.	%
Court proceeding	7	35
Foreclosure	10	50
Both	3	15
Total	20	100

Source: Result From Primary Data

If the efforts made to settle loans in default is exhausted the legal proceeding is taken as enforcing measurement. In the table 4.10 above, 50 percent of the respondents replied foreclosure is used while 35 percent replied court proceeding is used. Out of the respondents, 15 percent replied that both measures are used to settle the loan in default.

4.6 Loan Default Intervention

4.6.1 Reasons for Default

There are different reasons why customers of banks become unable to pay their periodic repayment. They include market problems, environmental problems, loan diversion, credit policy of the bank, lack of follow-up, and so on. It is obvious that these factors are not similar from place to place. Thus, to find out the major causes for default in the study area, the researcher raised questions and interviewed the clients as well as the employees of the Bank. Accordingly, the summaries of responses given are depicted in the subsequent tables. Some of these problems were from the Bank's side while the others were from the clients' side. The remaining factors were from external factors, like environmental and market problems.

Table 4.11: Reasons for default

Factors for default	Freq.	%
Market problem	19	38
Environmental Problem	8	16
Loan diversion problem	15	30
Bank policy problem	8	16
Total	**50**	**100**

Source: Result From Primary Data

According to Table 4.11, 38.00 percent of the respondents who are unable to pay their periodic repayment indicated that the major reasons for default were market problem, 30.00 percent used the loan for other purposes like consumption (loan diversion), and 16.00 percent are due to credit policy problem of the bank like repayment time schedule, loan granting period (season), and loan amount provided. The remaining 16.00 percent responded that environmental problem like shortage of rain was the main problem which affected the success of their business especially agricultural business in the northern part of the Ghana.

In most commercial banks loan diversion is the most common problem of defaults which banks usually take care of and exert possible efforts to protect from it through proper business viability assessment analysis, supervisions, and loan reviewing made before and after the loan provision.

In order to further investigate the reasons for default, the researcher asked the employees of the Bank as well. Based on the question, they replied that in addition to what the clients of the bank mentioned, in adequate information about customer's creditworthiness, lack of follow-up and supervision are the other major reasons for default.

4.6.2 Default Measures by the Bank

For the researcher to know the various mechanisms used by bank recover the non performing loans, 50 customers were approached as shown in the table below.

Table 4.12: Measures taken by the bank to recover the NPLS

Measures	**Frequency**	**Percentage (%)**
Refusal of additional loan	9	18
Foreclosing	7	14
Warning	34	68
Total	50	100

Source: Result From Primary Data

In table 4.12, 68.00 percent of the non performing loan clients are served warning, 18 percent are refused from entertaining for additional loan, and the rest 14.00 percent are under foreclosure. This indicates that, when loans failed to non-performing status the Bank uses various mechanisms. Out of the mechanisms, rescheduling is advisable if the causes of non-performing is reasonable as well as if the background, experience, and track record of the loan client in his/her previous record was trustworthy. Additional loan is not recommended unless the case is very justifiable. If there is no promising ground for rescheduling a forcing measure is used such as strict follow up and counseling followed by reminding and warning letters. These are the efforts that help to settle amicably. If these all are exhausted foreclosing and court proceeding are to be taken as a last solution of recovery.

4.7 Credit Operations of Sekyere Rural Bank Limited

The credit operation of the Bank shows how much the Bank is performing in terms of disbursing, collecting and arresting non-performing loans from period to period and the compliance of the credit management to the requirement of Bank of Ghana Regulation. In table 4.30 shows the loans and advance granted by all branches is amounted to GHC14,025,735.69 as of September, 2014.

Table 4.30 Summary of Loans granted by branches

BRANCHES	LOANS GRANTED
JAMASI	2,600,531.95
AGONA	1,613,901.55
NTONSO	920,224.10
MAMPONTENG	1,940,711.16
AHWIAA	2,557,876.69
ABREPO	2,449,731.35
AFRANCHO	1,244,904.91
KRONUM	697,853.98
TOTAL	**14,025,735.69**

Source: The Bank's Progress Report of branches

As most of the branch managers and loan officers disclosed in the questioners administered and unstructured interviews made, the reason behind is not due to lack of potential loan clients or due to competition but due to lack of common understanding for the same mission between the branch loan officers, loan committee and head office loan analysts and credit approving management committee. As most of the respondents from loan clients and bank employees commented, the lack of up to date credit policy and guidelines regarding property estimation, branch loan discretion, loan processing time, and loan repayment duration are the main factors impaired the loan growth.

4.6.3 Non- performing Loans to Total Loan Ratio (NPTL)

This is one of the most important criteria to assess the quality of loans or asset of any commercial bank. Non- performing Loans to Total Loan Ratio (NPTL) measures the percentage of gross loans which are doubtful in banks' portfolio. The lower the ratio of Non-performing loans to total loan ratio (NPTL), the better is the performance. Table 5.32 below shows the non-performing loans to total loan ratio of each branches of the Bank.

Table 4.31 Summary of total loan balance and Non-performing by branches

BRANCHES	LOAN BALANCE	NON-PERFORMING	%
JAMASI	2,600,531.95	422,458.87	**16.25**
AGONA	1,613,901.55	163,395.95	**10.12**
NTONSO	920,224.10	190,145.77	**20.66**
MAMPONTENG	1,940,711.16	280,237.59	**14.44**
AHWIAA	2,557,876.69	221,050.27	**8.64**
ABREPO	2,449,731.35	536,252.38	**21.89**
AFRANCHO	1,244,904.91	129,914.96	**10.44**
KRONUM	697,853.98	25,204.95	**3.61**
TOTAL	**14,025,735.69**	**1,968,660.74**	**14.04**

Source: Progress Report of each branches of the Bank

Figure 5.2 shows the performance of the bank in terms of total loans granted by the branches compared to non performing loans by all the branches, the ratio is 14.04 percent which indicate that the performance of the bank is high.

4.5.2 Provisions

Loans and advances are financial instruments initiated by the bank by providing money to the debtors. It is affirmed at costless impairment losses. Impairment losses consist of specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The bank follows the Bank of Ghana Supervision of Banking Business Directives in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into: current, OLEM, Substandard, Doubtful, and Loss. The bank also classifies the loan categories in consistence to the BOG criteria.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.0 INTRODUCTION

In this chapter, a conclusion of the research findings that has been conversed and analyses in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly linked with the research objective of this paper are presented.

Moreover, potential recommendations based on the findings are made. Finally, implication for further research is indicated.

5.1 Conclusions

The following conclusions are drawn based on the findings revealed.

Most of the loans granted are on short term repayment schedule. This is because the capital base of the bank is limited. However, it is currently causing burden of installment repayment and most of loan clients preferred to be improved as most of the time faces difficulty to manage it accordingly. It is one of the causes for loan client termination.

The collection techniques so far accepted by the bank is appropriate and convenient to most loan clients to manage it. Reliable to the convenience of the collection techniques, the repayment behavior of most loan client is improved to the required level revealing one step forward in the culture of meeting obligation and trustworthiness. Most of loan clients nowadays are considering loan repayment for every contract agreement as ethical and obligation. Moreover, most business people understand the advantage of creating friendship ground with the financial sector as a best strategy to their business growth and success.

The Bank is compliant to all directions of the regulating body in all of its activities of credit management. Hence the way of categorizing and holding provisions for the non performing loans is as per the direction and requirement of the Bank of Ghana.

The default problem in the bank is due to market problem, environmental problem, loan diversion, and policy problem like the credit policy of the bank related to loan duration and amount. The default problems lead to credit risk that encompass bad consequences on the Bank's financial stability, clients' business performance, and economy of the country.

5.2 Recommendations

On the source of the outcomes and conclusions of this study, the following policy propositions are recommended so as to be considered in the future intervention strategies which are aimed at improving the credit management of the bank.

1. The credit policy and procedure of the Bank should integrate the ideas of the clients and employees to become more competitive in the banking industry and congregate its vision. On the other hand, to meet potential loan clients it is better for the Bank to make its credit policy flexible thereby putting a good administrative set up that improves Credit lending and administration. The periodic repayment schedule of the Bank should be flexible by taking into account the operation of the clients' business as repayment duration has its blow on the performance of loan collection.
2. As it is revealed in the analysis part of the study most of the loan clients and bank employees have criticisms on the credit policy and guidelines regarding the collateral, loan discretion, length of loan processing time, repayment

schedule, and excessive requirements for analysis. These are the major reasons impeding client reputation and retarding to catch the attention of potential loan clients. For this reason, the bank should made significant changes on its credit policy and procedure guidelines regarding the above aforementioned problems in order to solve the current problems and achieve the client reputation.

3. The system of loan sanctioning and decision stands on committee level as well as the lending and overriding limit both in branch and head office is good enough as a direction for prudent credit management and control. But most often it is observed as obstacle when loans are forwarded to head office causing long time loan processing and reduction of loans without essence and offends potential applicants. Therefore, the amount of lending and overriding limit of each branch should be enhanced and the credit management committee should focus on big loans and on loans that are difficult in nature.

5.3 Further Research

This study is undertaken in Sekyere Rural Bank as a case study of credit management performance of the Bank by considering the eight branches. It has paid attention on credit while there are also other performance measurements like profitability, liquidity etc. Therefore, it is worth to study in comprehensive level in order to solve the persistent problems and promote the bank as per its vision to the competitive level.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
COLLEGE OF HUMANITY AND SOCIAL SCIENCE
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

TOPIC: CREDIT MANAGEMENT PRACTICES AMONG RURAL AND COMMUNITY BANKS IN GHANA.
(CASE STUDY SEKYERE RURAL BANK)

Preamble

This questionnaire seeks to collect data to be used in a study of "credit management practices among rural and community banks in Ghana". You are kindly requested to provide answers to these questions as honestly and precisely as possible. The information you will provide will be treated as confidential and will be used only for the purpose of this study.

PART A: (Loan Clients)

INSTRUCTIONS:Please encircle or/and fill in the blank spaces your possible answer to the corresponding question and comment on open questions.

I. Personal Details:

1. Gender:

a) Male b) Female

2. Age:

a) 18-25 b) 26-35 c) 36-45

d) Above 45

3. Marital Status:

a) Single b) Married

4. Educational level:

a) Illiterate b) Primary educationc) Secondary education d) Above

I. Loan application and processing:

5. Who approach you for your first loan request?

a) Self b) Loan clients of the bank c) Staff

6. Did loan provision service meet your expectation?

a) Yes b) No

7. If your answer to Q no, 6 is "No", Please explain the problems observed ______

8. Does the bank staff visit your business site during your loan request or before loan approval?

a) Yes b) No

9. Do the application requirements and procedures convenient and simple?

a) Yes b) No

10. If your answer to Q 9, is "No", please specify what you think not necessary

____

11. Is the loan processing time short and convenient for you?

a) Yes b) No

12. If your answer to Q no.11 is "No", where do you think the problem is?

a) At branch level b) At head office level

13. When you approach the branch do you get relevant information you request/need?

a) Yes b) No

14. If your answer to Q no.13 is no, please specify the problems you faced______

III. Loan provision and Loan collection

13. You became unable to pay your periodic loan repayment, what is/are the majorreason/s/ forfailure?

a) Market problem

b) Environmental problem

c) Contingencies problem such as death, sickness, etc

d) Usage of the loan for other purposes like consumption

e) Policy problem like credit policy of the bank

f) Lack of appropriate management

g) Other, (specify), ______________________________

18. In which part do you think the bank needs improvement?

a) In accepting loan applicants

c) In follow up & collection of loans

b) In collateral estimation.

d) In processing & approving loans

e) Both b & d

19. Would you please indicate the reason for any answer of Q no., 18?

____

20. Do you prefer to extend your relation further with the bank?

a) Yes b) No c) It depends

21. If your answer for Q. no, 20 is "No" or It depends,which level do you think theProblem is?

a) Branch level b) Head office level c) At personal level

22. What solutions or amendments do you think is vital to the bank in futurefor long lastingclient relationship______________________________?

23. Do you think the existence of the bank add value to your business growth?

a) Yes b) No

24. If your answer to Qno.23 is "No", please explain the reason

____

25. Does the bank visit your business sites after loan granting?

a) Yes b) No

26. Do you think visiting to your business has significance?

a) Yes b) No

27. Explain your answer to Q no, 26 for any one of your answer

____

28. Do you think the amount of loan approved was enough for the intended Purpose peryour request?

a) Yes b) No

29. If your answer to question no. 28 is “No”, specify the problem you think

____

30. Do you think the loan repayment duration convenient to your business?

a) Yes b) No

31. If your answer to question no. 30 is “No”, can you suggest the mostsuitable repayment

schedule which you think is appropriate? Why?

____

32. Which of the following is/are the most important one/s motivating you torepay your loan ontime?

a) Not to lose collateral

b) To keep social status

c) Expectation of getting another loan

d) Knowing that paying bank loan per the agreement is ethical and an obligation

e) Others, (specify); ________________________

33. If you have any idea, or comment towards improvement of overall creditmanagement of the bank, please write them on the space provided below.

____

II. Loan provision and Loan collection

8. Was the amount you took enough for the intended purpose and per yourInterest?

b) Yes b) No

9. If your answer to Q no. 8 is “No”, explain if it has any impact on your businessPerformance

____

10. Would you please mention any problem/s/that affects your performance youencountered during loan delivery of the bank?

____

11. Do you think the loan repayment duration was convenient to your business?

a) Yes b) No

12. If your answer to Q no, 11, is “No”, can you suggest the most suitable repaymentschedule which you think was appropriate? Why?

____

14, who do you blame for the failure

a) Yourself b) the bank c) others, specify _________________

15. If your answer to Q no, 14 is the bank, specify the reason

____

16. What mechanism have you designed to pay the unpaid loan balance?

a) Change of the business type b) Sell of property

c) Borrowing from other financial institutions

d) Borrowing from relatives, friends, and familye) Others, (specify) ________

17. What measures are taken by the bank for your delay in repayment?

a) Legal under taking b) Refusal of additional loan

c) Foreclosing d) Others, (specify), ________________

20. If you have any idea, or comment towards improvement of credit management of the bank,please write them on the space provided below.

____

Thank you!

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
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PART B: Response from the Bank Employees

Instruction: Please encircle or/and fill in the blank spaces your possible answer to thecorresponding question and comment on open questions.

I. Personal Details:

1. Gender:

a) Male b) Female

2. Age:

a) 18- 25 b) 26-35 c) 36-45 d) Above 45

3. Marital Status:

a) Single b) Married

4. Your educational qualification

a) Secondary c) Degree holder b) Diploma holder

d) Master and above

5. In which department/ section/unit/ of the bank are you working?

____

II. Details on manuals:

8. Do you have a credit manual or policy?

a) Yes

b) No

9. If your answer to Q no, 8, is “Yes”, when was the manual or policy revised?

____

10. Do you think it is up to date & convenient for loan creation?

a) Yes b) No

11. If your answer to Q no, 10, is “No”, specify the impediments encountered

____

12. How do you see your institution’s credit policy and procedure?

a) Very effective b) Effective c) Ineffective

13. Do the policies and procedures exactly comply with regulations of bank of Ghana?

a) Yes b) No

14. If your answer to Q no, 13, is “No”, please specify the gaps

____

III. Credit creation and procedure

15. Do you think your branch’s loan growth is as required?

a) Yes b) No

16. If your answer to Q no, 15 is, “No”, please specify the most reasons

____

19. Does the bank provide loan service that fit to the preference of the borrowers?

a) Yes b) No

20. If your answer to Q no, 19, is “No”, please specify the reasons

21. Do you think the branch lending limit and overriding limit has any impediment in youbranches loan providing capacity and growth

a) Yes b) No

22. If your answer to Q no, 22, is yes please suggest other most convenient procedure

____

23. What are the main reasons to loan client's dissatisfaction in loan processing?

____

24. Your banks loan approving/recommending procedure of the credit proposal of clientsisbased on

a) Loan committee at all level

b) Branch Manager and president

c) Loan department

d) Board

25. Would you please indicate the pro and cons facing due to your answer to Q no, 24

pro___________________ Cons_______________________

IV. Follow-up collection

26. Do you think the credit collection technique used by your bank is effective?

a) Yes

b) No

27. If your answer to Q24 is "No", please specify the appropriate technique(s) that you think is

best? ____

28. How often does your institution visit clients' business?

a) Monthly

b) quarterly

c) Semi-annually

d) in time of default

29. What do you think is/are the major reason(s) for default in yourBranch?

a) Lack of follow-up

b) Lack of training

c) Inadequate information about customer creditworthiness

d) Loan diversion

e) Absence of book-keeping

f) Lack of market for clients’ product

g) Unfavorable Environmental conditions

h) Others, (specify) ___________________________

30. What preventive measures do you think effective to be used before failing loans to default?____

31. What measures should the bank take to improve therepayment situation?

a) Loan rescheduling

b) Additional loan

c) Frequently insisting the client

d) Others, (specify) ____________________________

32. Do the measures bring an improvement in repayment?

a) Yes

b) No

33. If your answer to Q 33 is “No”, what enforcement repayment measurestaken by the bank?

a) Foreclosure

b) Court proceedings

c) Others, (Specify) ___________________

Thanks you!