# AN ASSESSMENT OF CREDIT MANAGEMENT PROCESS OF CREDIT UNIONS:

# (A CASE OF SOCIETIES IN OBUASI MUNICIPALITY)

BY

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## DECLARATION

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

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## ABSTRACT

This research investigates the credit management processes that are employed by credit unions to sustain their business performance. The purpose of this study is to examine what tools, interventions and standards are exercised in credit unions. Moreover the skill set and level of credit management personnel is assessed as well as the gaps in the credit management processes. The overall principle of this research is to observe if these processes are sufficient enough to sustain their business performance or do they need to be updated. The survey was concentrated on five societies in Obuasi Municipality in order to obtain an insight into their daily credit management process. To complement this survey, interviews were conducted. The key results underline that credit unions appear to be deficient in the credit management department; namely in the areas of experience, academic qualification of credit committee members and the consistency of areas interventions use by credit unions. Moreover, the lack of technology operated in the loan decision process is apparent. Therefore more complex and sophisticated models are a prerequisite if credit unions are to maintain financial stability. In spite of this a number of arduous challenges will face credit unions to implement these changes as their ethos and social duty must be considered. This study therefore provides an insight into this topic and helps promote further research into same. In general, this research has a practical value to it as it will disseminate the findings to the survey participants. Subsequently, these credit unions can incorporate the recommendations from this study into their credit management processes in order to sustain their performance.

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## DEDICATION

I dedicate this study to my parents Mr. and Mrs. Danso, to all my brothers and sisters and to the Manager, Board of Directors, staff and Committee members of St. Thomas Credit Union.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 BACKGROUND OF THE STUDY

The negative effects of loans default has caused financial institutions to reconsider their internal controls, loan appraisal and loan risk management policies to decrease the increasing rate of credit default. Executive Secretary of Ghana Bankers Association, Mensah (2011) states that the increasing rate of loan default  in the accounts of the financial institutions is causing problems among the institutions and industry watchers. None – performing loans has been reduced from16.2 percent to 17.6 percent. This improvement took place between December 2009 and December 2010, this was measured by using the none-performing loan ratio which compares the ratio of credit default to gross advance.

This situation has brought down the share of the big institution in the industry from 49.5 % in 2009 to 45 % in 2010. According to Mensah (2011) besides strengthening their loan control schemes, financial institutions have started a sequence of court actions against credit defaulters to get back their monies. As at June 2013, the NPL rate was 12.8 % down from 13.2 % as at June 2012. Even though the rate of NPA is going down, it is still high. The credit unions like any other financial institution are not without problems concerning credit management.

At present credit unions are dealing with customers who are facing financial difficulties and desire to obtain financial support. The Central Regional Manager of the Credit Union Association (CUA) said in a speech delivered during Annual General Meeting that default of credit repayment is one of the main difficulties presently affecting the credit management of societies. He stated that credit default has ended the credit unions making big losses which are reducing profitability of credit unions.

Hence the need to research and find out exactly the credit management process of credit unions and determine any gap that exist in the current process .The credit unions are facing problems with loans default as a result of poor credit management policies. Hulme David (l997) advanced that credit policy provides a framework for entire credit management process which serves as a cornerstone of sound credit management. The current developments in Ghana's financial sector since the beginning of the economic liberalization program in 1985 has brought some difficulties to the Credit Unions.

The banking sector in Ghana, like most developing economies has been segmented in terms of different institutions using varied methods to serve different customers. For Credit Unions to be competitive, the credit unions need to work at a reduced cost. This means the credit unions will have to work efficiently. Furthermore, credit unions need to combine efficient credit management processes which will protect the largest asset of the credit unions. Loans constitute the largest assets on the financial report of most credit unions; revenue from loans is a significant part of the entire revenue generated within the financial year. This is made up of: loan processing fees, interest on loans, loan insurance premium refund etc. This is an indication that loans are very delicate assets of credit unions which has the potential of making or unmaking the credit union.

For this reason, loans portfolio should be managed effectively so that it does not unmake the socities. Lang and Jagtiani (2010) state that loan administration is a process which is designed to avoid damages to an organization as a result of events unanticipated even though possible. According to Asiedu-Mante (2011) loans management includes instituting proper rightful policies and measures that will make sure that proper authorities give out loans, the loans get to the right customers, the loan is given for productive reasons which are economically viable and appropriate.

The loan should be recoverable and adequate for the reason why it is granted. There should be sufficient information readily available for effective credit assessment. Financial institutions in Ghana are faced with enormous difficulties in managing their credit loss reserves as of result terrible loans and bad credit management process used by the financial institutions. This was stated by Ampah (2010) in a piece titled "Rural Bank in Ghana collapsing"

For this reason a lot of the financial institutions have been left in debt and could soon cease operation if serious measures are not put in place to turn around the situation. The piece indicates that the bad performance of financial institutions comes from both unfavourable operating environment and capacity of loan portfolio managers to efficiently manage the portfolio. It is therefore, essential to put in place rightful processes and measures which will make sure among other things that:

- People with the right qualification and experience are employed to manage the loan portfolio.
- There is critical evaluation of the credit management process by credit unions in Obuasi Municipality
- To assess the gaps within the present credit management procedures concerning the variety of tools and methods employed.

## 1.2 PROBLEM STATEMENT

It is clear that the contributory factor of the collapse of most financial institution is the weaknesses of the institutions credit management process. There are problems with risk management in many financial institutions particularly credit risk management. In a related vein there is an overreliance on statistical risk models.

Credit unions have unfavourable environment and capacity constraints to critically assess borrowers effectively to reduce the incidence of loan default. In spite of this, the credit unions grant loans to their customers with no security to protect the loan. Granting financial supports to lower income earning people with unimpressed credit history or cannot offer any collateral protection is very expensive and dicey. The problems in managing credit unions' credit have led to the closure of so many credit unions.

Loans constitute the biggest financial asset of the credit unions whiles interest on loan is the major source of income to the credit unions in Ghana. The funds granted out as a matter of fact are not owned by the credit unions, they are liabilities to the credit unions which are owned by the members or customers of the credit unions and must be made available to the depositors when the need be. The credit unions are usually under pressure to make sure that credit given out are retrieved on schedule to enable them meet withdrawal demand of their members.

When withdrawal demands are not met, information could be sent out and can cause panic withdrawal by members which will collapse the credit union. This makes it an important issue to ensure that credit unions manage their loan portfolio effectively and efficiently in other to avoid potential fold up situation. The research sought to uncover the effectiveness of credit management processes of credit unions in Obuasi Municipality.

## 1.3 OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To evaluate the skills and size of the loans management administrators of credit unions in Obuasi Municipality
2. To critically assess the credit management process of the credit unions by observing how the process is conducted, monitored and updated.
3. To assess the gaps within the present credit management procedures concerning the variety of tools and methods employed.

## 1.4 RESEARCH QUESTIONS

In the bid to accomplish the set objectives of the research work, the following research questions are posed:

1. What is the skill and size of credit management administrators in Obuasi credit unions?
2. How to critically assess the credit management process being used by credit unions in Obuasi Municipality?
3. Is there any gap in the present credit management process concerning the variety of tools and methods employed?

## 1.5 SIGNIFICANCE OF THE STUDY

The research gives a realistic assessment to societies in Obuasi Municipality because the findings will be given to the participating credit unions. The attention of the credit unions will be drawn to the gaps in the current credit administration process by the results of the survey. The findings will indicate the areas in the present process which are problematic and show how it can be dealt with. The research will provide helpful means which will guide the management process of the various credit unions. The research will provide more efficient and effective methods of credit assessment which can be included in the operations of the various credit unions. The findings will add knowledge to the existing information on credit management process available to the credit unions. Credit management process by credit unions has very little research undertaken on it. This survey makes provision for further research into how credit unions manage their loan process.

## 1.6 SCOPE OF THE STUDY

The survey will duel on the best processes by which credit unions manage their loans in Ashanti Region in general and societies in Obuasi Municipality in particular as well as all credit unions who are affiliated to CUA the mother body as all of them have the same conditions and operational policies.

## 1.7 LIMITATION OF THE STUDY

As a result of the limited time given for the survey to be undertaken and the burden of getting all respondents within the restricted time, sharing of questionnaire to the sample population and conducting of interviews was very difficult. The other limitations include the following;

- Raising funds for the study is the most important hindrance for the research work. The reason is that, money will be spent on typing and printing of the final work. The questionnaires will also be typed and printed; the researcher will have to pay for these to be done. Some of the respondents failed to answer the questions whereas others respondents refuse return the questionnaires.

## 1.7 OVERVIEW OF THE METHODOLOGY

Due to the nature of the study, diverse techniques are used to collect and analyze data. This includes the usage of questionnaire and semi-structured interviews to collect primary data. The primary source provides data which is original and might have not been used before. The semi – structured questionnaires are administered to the credit department staff, the manager, the board of directors ,the loans committee members ,other committee members and members or customers of the various credit unions.

Secondary data is a data which is obtained from a source which provides data which already exist and might have been used. The data from this source is obtained from annual auditor's report from the various credit unions and the report from credit union association of Ghana (C.U.A).

## 1.8 ORGANIZATION OF THE STUDY

The whole survey is divided into five main parts known as chapters. The opening part of the research covers the following: the background, the statement of the problem, objectives of the study, the research questions, the problem statement, the significance of the study and the scope of the study. Each area will be treated in detail. The literature related and relevant to the research topic is reviewed in the second chapter. The methodology of the study is discussed in the chapter three. This includes the following: the population, the sampling process and the sampling size, the research instruments that is used for collecting relevant data and the limitations encountered during the data collection period. The data gathered from the field is analysed and presented in the chapter four. For better understanding, data is evaluated and presented in graphical form. The last chapter is the chapter five, In this chapter the researcher summarises the entire work, makes recommendations and gives conclusion.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 INTRODUCTION

This chapter gives the framework of the present literature on the procedures and processes that can be included in the operations of the credit unions to make sure that their credit management processes are effective which can make them financially strong. Additionally, the hypothesis suggests that societies must acquire broad skills and technology in order to understand the risks that they are handling and its consequences if not properly handled.  Nonetheless the survey further states that numerous difficulties may affect the society's capabilities to do same. Generally, the literature creates the basis on which loans management procedures employed by the unions could be improved in order to enhance the loans portfolio performance of the credit unions.

## 2.1 CREDIT MANAGEMENT

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate procedures and policies that will ensure that the proper authorities grant credit, the credit goes to right people, the credit is given for the productive activities or for businesses which are economically and technically viable. The appropriate size of credit is given, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. Loans management refers to the effective use of the four major credit policy variables to ensure that there is quick collection of loan given to borrowers when due and at the same time improve on their confidence and loyalty to the bank (Van Home, 1995). The first variable is the assessment of state of the customer accounts.

This helps to determine the capabilities of the prospective borrowers to make prompt repayment when due. By doing this the financial institution must grant enough time to allow the customers to enjoy the full benefit of the loan. The time should not be too long in order not to put the bank in a disadvantageous position. The next is variable is discount which is given to borrowers to encourage to make timely repayment. To achieve the reason for the discount, it must be motivating enough. The last variable looks at how to control cost or how cost can be controlled to the bares minimum during the recovery exercise. This simply means that financial institutions need not to give loan where the cost of retrieving the loan will probably be greater than the loan itself. To bring these variables together into an effective and efficient feasible system demand careful planning, controlling and co-ordinating of material and human resources available Office of the Comptroller of the Currency (2011) define credit portfolio administration process as by which risk inherent in the credit management are identified, controlled and managed. It includes the procedure bank managers take to categorize and control all through the loan procedure. The evaluation seeks to identify what management does to enable them identify the problematic issues before they become very difficult to deal with.

Guidelines for Pakistan Banks (2009) perceive loans administration as a process of controlling risk associated with credit this kind of risk occur from a situation where a borrower is either unable to repay or is unwilling to repay the loan. This could result from the fact that the borrower's ability might have been impaired resulting in economic loss to the financial institution. An appropriate credit assessment and monitoring systems yield wealth of information to assist financial institutions evaluate risk and realise opportunities, thus protecting the institution and making it profitable.

Knowing your customers more the better your credit decision about a customer will be Reviewing credit profiles and monitoring it provides you with important pieces of information about the particular customer you are dealing with. This depict the fact that credit can negatively affect a financial institution's financial position when it is not managed well hence the need for this survey.

## 2.2 CREDIT MANAGEMENT PROCESS

Loans constitute 70% of total assets of credit unions as prescribed by CUA's operating standard. It is therefore necessary that the credit unions loans committee and board of directors take maximum care in handling loans. Lending decisions by credit unions are made based on the information contained on the loan application form submitted by applicants which is part of the lending process. Basu and Rolfes (1995) indicate that the success of a financial institution is built on a proper and quality credit management process. This is a key component of success in every financial institution.

Supporting this Oesterreichch National bank (2005) lay emphasis on the importance of individual stages in the loans management process. Furthermore the processes take several forms and numerous structures are exploited (Basu and Rolfes, 1995). From the existing survey come into view key areas in which loans management is performed. As a result the writer discusses the different procedures that can be employed in each of these areas with the sole aim of examining the present loan management procedure of credit unions. The poor quality of a loan portfolio of a financial institution is sometimes due to assessment processes which are factors not attributable to the lending process of the financial institution but can be due to reasons such as adverse selection and moral hazard thus diversion of loan or any other external shock that can affect the borrowers capability to repay the loan.

Nonetheless, the quality of loan portfolio of financial institutions could be affected by the process by which financial institutions grant and monitor loans. A weak credit risk management system is the reason for many none performing loans (Nishiru and al, 2001). Credit unions face problems concerning credit granting due to the nature of their set up. Cooperative credit union is a co-operative financial institution which is owned and managed by the share holders of the credit union. As a result of this, credit assessment in credit unions are sometimes characterised by favouritism, nepotism and sentiments.

The required credit assessment procedure laid down by CUA is sometimes ignored. For these reasons, it is necessary to review the management of credit by the credit unions in order to capture the structure of poor loans management and significant details related to the management processes are reviewed. The credit management areas of CUA include the following:

- Credit application
- Credit assessment
- Credit disbursement
- Credit monitoring
- Credit recovery

### 2.2.1 Credit Application

The credit application is the primary step in the credit management process. Regardless of the size and purpose of the loan a loan application is required. Though it may appear as simple questions to the applicants they should understand the importance of the document. The application documents contain detail information about the applicant. The

information among other things include: name of the applicant, address, residential address, age, telephone number, marital status, number of dependants, educational background, hometown, the type of business, business location ,number of years in business, reasons for the loan, amount
required, the repayment period, security pledge if any and guarantors.

The loan application form make provision for loans committee's members approval signature and rejection comment. Generally this is the content of the model loan application form prescribed by CUA. This document is the most important document as far as the loan agreement is concerned. It is the content of this document which the credit union can take any legal action against a borrower who defaults. Since this is the initial stage of the credit management process any error committed at this stage goes a long way to negatively affect the whole process. A loan defaulter can escape legal punishment if the content of the loan application form is not properly structured. Hence the need to evaluate the existing loan application forms to ensure that they are properly structured to protect the credit unions.

### 2.2.2 Credit Assessment

This is the procedure for gathering the necessary information on a potential borrower and projects in other to conduct risk assessment exercise to determine the associated risk. This is carefully done by the financial institutions before providing any loans. This is also done to check the viability of the proposed project to undertaken. This as well helps to examine the technical viability, the economic viability and the financial viability of the project to be undertaken. The risk associated with the loan can be reduced by doing the above. Credit risk simply means the risk of default as a result of a borrowers' failure to repay the loan taken from a financial institution.

Appropriate assessment of a customer determines the financial situation and also helps to measure capability of the customer to repay the loan when due. This involves the authentication of primary and collateral security provided by the customer which will be relied on when the repayment of the loan becomes difficult. This is a fundamental point in the credit procedure. It is said to be the heart beat of a healthy credit portfolio. This involves collecting, analyzing and processing information as provided by the applicant on the credit application form. This helps to assess the applicants' credit worthiness and helps to reduce the difficulties between borrowers as an agents and the financial institution as the principal. The lending institution's loans management processes procedures and directives controls the loan evaluation processes. The question that must be answered before anything else is whether or not the borrowers have the financial capacity to repay the loan, that is, repay the credit when due with the appropriate interest rate. The factors underlying the evaluation of a borrower should be based on the credit assessment principles of the financial institution which is the basic principles of lending which is also used by the financial institution , it is also known as the 5 C's which is Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu,1996). In another context, Rouse (1989) referred to mnemonics used as common checklist to review loan application as: CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The disparity in the mnemonics relates to the fundamental principle of evaluating the potential of having credit repaid. Credit Appraisal thus ascertains the risks associated with lending functions in financial institutions .This is an indication that if the credit assessment is not properly done by the credit union, the risk associated with the credit will not be identified. It is generally carried out by the trained staff of the credit department of the institutions which are engaged in providing credit to their customers. In the present case, process used in credit risk assessment and appraisal has been studied to identify the various parameters and stages in credit assessment; appraisal and disbursement processes exist in the credit unions. It is intended to make sure actions which lenders take which facilitate repayment or reduce repayment likely problems. This information about the riskiness of the borrower makes the financial institution to take remedial actions like asking for collateral, shorter duration of repayment, high interest rates and other forms of payment (Stiglitz and Karla, 1990) .When a financial institution does not do it well, its performance is highly affected. Edminster (1980) stressed the importance of credit analysis when he observed that its abandonment often resulted into several banks using credit card to process. The variables we have, according to Hunte (1996) added the period taken to process loan applications, credit experience, part of collateral security to the loan approved. It was established that long waited period of time reflected a shortage of credible credit information required to make informed credit decisions and availability of funds for onward lending. This in turn leads to a bigger risk, more extreme credit rationing and low repayment rates. Hunte (1996) also realised that customers with loan experience showed the capability to manage the loans better hence good quality borrowers for the financial institution.

A less borrower who is not experienced has less ability to handle a business loan and therefore is not credit worthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This shows that there are big risks linked with first time borrowers since the loan officer has scanty information on their credit records and little knowledge on their ability to repay the loan when deu. Therefore credit unions should attach all the seriousness to the credit assessment process in order to reduce the credit risk associated with credit since loans are the largest assets of credit unions.

### 2.2.3 Credit Disbursement

After an applicant has been carefully assessed and has been proven that the applicant meet the credit requirement of the credit union. The credit officer together with the credit committee gives their approval by appending their signature on the credit application form. This gives the credit union the right to disburse the funds to the applicant.

Credit disbursement is the act of giving or paying out money to customers who have been accessed and approved to be given credit. Disbursement ensures that money is made available to the customer after all assessment has been done and approval has been given. The assessment process also ensures that the authenticity of the security and other required documentations are received certified before funds are given out to the qualified customer. If the loan pay-out control is not strong, the reliability of the loan management process will greatly be affected and can be undermined and misused by the unscrupulous staff of the organisation. Thus, documentations and pay-out of the loans are vital in the management of loans because they ensure that the lending institution has the right documentation, collateral and guarantees of the loan agreement.

These are significant in the case of the customers failure to pay because the financial institution would be suitably secured and have legal backing to guarantee the retrieval of the loan. This would eventually reduce the provision for bad debts that financial institutions have which will improve their financial position. Once the credit application satisfies all the credit union's credit conditions, a comprehensive analysis is done to determine if the application complies with the institution's conditions then approval is given for disbursement to the applicant. Credit Unions have quite different way of disbursing loans to its members which is different from how other financial institutions do.

Some Credit Unions disburse their loans to their members on monthly basis, thus they put all loan applications within the month together and the loans committee will meet the applicants for assessment after which the committee will put all the approved loans together so that the board chairman will issue cheques for payments to the applicants. This is done once in a month. This process is used by Credit Unions whose members' contributions are deducted from the source of their income, because the Union gets major portion of its mobilizations at the end of the month that is why loans are disbursed monthly.

This system is applied by the work based Credit Unions. Some Credit Unions go through the above mentioned process every fortnight, they do not solely depend on the contributions of their members who are salary workers but have members who run their own businesses and therefore their contributions are on daily bases. This system helps them to mobilize money at faster rate to meet the demand of their loan applicants. This kind of credit unions are the work based credit unions which are opened to the public.

Other Credit Unions operate like the traditional banks; their offices are opened from morning to evening on daily bases. In these Credit Unions loans are disbursed to members as and when the loans are approved. The appraisal and approval of loans do not take more than one week. This means loans disbursements are done on weekly bases. These Credit Unions are the community based Credit Union.

### 2.2.4 Credit Monitoring

Credit Monitoring is an integral part of lending activity. Financial institutions have a great responsibility to maintain the quality of the assets and to recover the interest and principal due in time. Though adequate precautions are taken during assessment and approval of a loan, a financial institution has to be more vigilant. Unless early warning signals are captured, a financial institution may not be able to take proper remedial measures to arrest and reduce bad debt in the institution. A financial institution needs to put in place a very sound and effective credit monitoring system for watching the borrower’s account from various angles for prompt action. In line with Robinson (1962) and Anjichi (1994), many of the agonies, frustrations and distress financial institutions can be reduced by good credit monitoring and follow up process. A good supervision helps maintain a good loan good. It may be by visiting the borrowers' places of business to examine the general state of affairs. Insufficient maintenance is often an early sign of financial distress. The general business policy and advice the client as to how to put things in order. A financial institution can modify its own lending policies as well as loan monitoring procedures. Furthermore, keeping track of deposits trend and deposits balances gives a clue to the present state of affairs of the customer. Monitoring of loan facilities given to customers is an important task in ensuring that the project from which repayment will be made is successful.

Huppi and Feder (1990) revealed that efficient monitoring leads to high retrieval of loans by revealing likely dangers (like loan diversions) and reminding defaulters of their responsibilities towards the lending institution ,thus calling for redoubling of efforts in the direction of loan repayments. Monitoring of credit facilities has been directed characteristically on ensuring repayment when there are signs of defaults for repayment of interest and principal instalments.

Such practice, in the view of the researcher, fails to achieve desirable loan repayments since the facility might have already gone bad. It is believed that monitoring of loans should be total by following events right from the disbursement of the facility, ascertaining the deployment of funds on the intended project, follow up and reviewing progress of the project, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the project and advising on further expansion or re- direction of the project among others. “Armed-chair” monitoring invariably becomes a factor for non-repayment of credit facilities. Efficient monitoring should be instituted by credit unions credit officers and credit committee members and appropriate management of the state of affairs of each project. Credit unions can adjust their credit monitoring by using online monitoring of automatically generated, risk-adjusted clients’ borrowing bases to decrease exposure and systematically manage the key risks of extending working credit to businesses. Because acquiring standard loan documentation is automated, you can comfortably extend your lending footprint and extend credit to smaller businesses at acceptable rates. Less time is spent monitoring the loan and managing the loan documents. This system is costless and very efficient but it is feasible to customers who do business on line . Most of the customers of credit unions are the lower income earners who are mostly illiterates therefore application of the online monitoring will be highly difficult.

### 2.2.5 Credit Recovery

It is undeniable fact that any institution in the business of lending is likely to meet customers who will default in payment or will fail to pay at all, this is why the institutions create provision for bad and doubtful debt in their books to take care of these eventualities. When despite every attempt by the lender to reach amicable arrangement for repayment and no agreement has been possible it will be necessary to treat the loan as a recovery matter. This is especially prominent in the financial institutions especially where the institutions provide services which are continuous but not one time. Loan recovery is the collection of a loan amount from a customer in default.

In simple terms, loan recovery refers to the pay back of the principal loan amount together with interest. Financial institutions need to be aware of loans that are at risk of not being paid back (also known as default loans). Collections department of the bank will begin contacting the individual loan defaulters. They must notify them of the amount owed and any interest accrued. The financial institutions may also contact any guarantor of the loan if it is a secured loan, the institution may go through the laid down legal process to take over the asset.

If it is a personal loan without security, the financial institution may file a lawsuit. (Wamasembe, 2002). In spite of the measures taken by microfinance institutions such as project appraisal, client monitoring, collection effort and a score of other aspects, recovery rates leave a lot to be desired. lndjejikian (1997) found out that in many

developing countries the loan recovery rates of commercial banks and other development financial institutions were quite low, ranging between 25% and 50%.
He identified three main reasons for this: the common view among borrowers that credit from government sources does not have to be paid, the high co linearity between loan repayment and production risks and the inability to enforce loan policies and contracts. Webster, (1991) propounds that the economic environment cause poor collection. She indicates the relationship between income per capital and collection performance. High repayments are traced to countries with high per capital incomes and the reverse is true. Thus, suggesting that it is difficult to recover loans in poorer areas because of less favourable conditions.

This means recovering credit from borrowers within the lower income level is difficult especially when proper credit assessment was not done before the loan facility was granted. Adams, (1986) stipulates that the incentive argument to explain how recovery of loans is maximized. They articulate that borrowers do not default when they place much premium on their relationship with the lending institutions. If a loan is perceived to be donation or political gift or the lender is considered to be transitory thus the institution lacks the capacity to provide further loans in future, then the motivation to repay the loan will not be there.

Suruma, (1996) states that, “the problem of moral integrity remains a fundamental problem inside and outside financial institutions. Inside, frauds and outright theft are a continuing problem; outside, non-repayment of loans by diversion of repayment funds to new activities remains a serious obstacle to loan recovery.”Ssemukono (1996), says that credit institutions have suffered from inadequate planning and inefficient operation.

These deficiencies have resulted into an imbalance between banks' supply led loan portfolio and mobilization of savings. Subsequently, they have become more disbursement avenues rather than full service financial institutions.

With low motivation and impetus, they have become victims of inadequate credit evaluation, management and monitoring, inevitably leading to low loan recovery rates. This leads to liquidity problem and has the potential of collapsing the financial institution. This has given reason to assess the recovery process of credit union to determine how it can be improved in other to make them competitive to sustain their businesses.

## 2.3 CREDIT RISK MANAGEMENT

OCC (2011) identifies fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls. Rose and Kolari (1995) see credit risk as the likelihood that borrowers will not be able to repay their loans within the period agreed upon. Kay (2002) sees Credit risk as distribution of financial losses due to unexpected changes in the credit quality of counterparty in a financial agreement.

Kay (2002) also sees it as the possibility of loan default or any type of inability to honour a financial agreement when due. Kay stated that the likelihood of default is estimated by specifying a model of investor uncertainty; a model of the available information and its evolution over time and a model definition of the default event.

Smook (1997) defines risk assessment as the general procedure of risk identification, quantification, evaluation, acceptance, aversion and management. He explains that risk management involves risk evaluation and risk control. In the piece he states that Risk assessment is a complex procedure of developing tolerable levels of risk to individuals, groups, or the society in general. It includes the associated procedures of risk acceptance and risk aversion. Fatemi and Fooladi (2006) characterise credit risk as risk that occurs from the ambiguity in a borrowers‟ capacity to meet his/her debt. At a different slant, King (2008) defines credit management as the “policies and practices businesses employ in recovering payments from their defaulting customers”.

With respect to the levels of priority in financial institutions, it is expected that their main focus is to make known that this type of risk management is efficient beyond all others Fatemi and Fooladi, (2006). Risk acceptance means that the risk taker is ready to admit some risks to make a gain or benefit from it. This is when the risk is not avoidable or cannot be controlled. The acceptance level is a reference level against which a risk is identified and then compared. If the risk determined is less than the level that it can be accepted, the risk is then said to be within the acceptable range. On the other hand, if it is higher than the accepted level it is seen as unacceptable and avoidable, steps may be taken to control the risk or the project in question should be stopped.

Credit risk means the possibility of loan loss as a result of a borrower’s inability to make payments as per the loan agreement. Credit risk management, meanwhile, is the practicing of measures that reduces the impact of those losses by appreciating the competence of both a bank’s capital and loan loss reserves at any given period time, a process that has long been a challenge for financial institutions to fully implement. The worldwide financial predicament and the credit crunch that followed makes credit risk management very relevant.

Accordingly, regulators began to call for more transparency. They wanted to know that a bank has thorough knowledge of customers and their related credit risk. And new Basel III regulations have created an even greater regulatory trouble for banks. To abide by the more rigorous regulatory requirements and contain the higher capital costs for credit risk, many financial institutions are changing their approaches to credit risk. The institutions who see this as sternly being a compliance exercise are being short-sighted. Better credit risk management also creates a chance to greatly progress overall performance and secure a competitive advantage over the competitors. The perception and the reception of risks differ base on the nature of the risks and depend on many fundamental factors.

The risk may include a "dread" hazard or a common hazard, be encountered occupationally or non-occupationally, have immediate or delayed effects and may affect average or especially sensitive people or systems. Risk aversion is the control action taken to keep away from risk. Risk management is concerned with the outcome of future events, whose exact result is not certain and the design of strategies to handle these uncertainties, over a variety of probable results. Generally, outcomes are categorized as favourable or unfavourable, and risk management is the art and science of planning, assessing, and handling future events to ensure favourable outcomes.

The large amount of debt that has been dispersed in the financial institutions over the years has undoubtedly has resulted bad debts and loan arrears across most of the financial institutions. This survey will concentrate on the management of credit and its impacts on the existence and profitability of the credit unions.

## 2.4 EFFECTS OF CREDIT RISK ON FINANCIAL INSTITUTIONS

Management of credit risk is a serious threat to the continued existence of financial institutions as result different researchers have evaluated the effect of credit risk on financial institutions. Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios which are used to determine the performance of banks and risk associated with loan are gathered from the annual reports of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques which are appropriate.

The results showed that management of credit risk has a substantial effect on the profitability of Nigerian banks. It ended that banks' profitability is negatively affected by the quantum of loans and advances that are not performing and deposits thereby exposing them to great risk of liquidity and distress in their operations. Epure and Lafuente (2012) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The findings indicated that performance enhancement follow regulatory changes and that risk which explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin. Kithinji(2010) examined the impact of credit risk management on the profitability of commercial banks in Kenya.

Data on the amount of credit, non-performing loans and profits were collected for the period 2004 to 2008. The result showed that the profits of commercial banks are not influenced by the amount of credit and non-performing loans, for that reason the suggestion that other variables other than non-performing loans. Ahmad and Ariff (2007) assessed the key determinants of credit risk of commercial banks on rising economy banking systems compared with the developed economies.

The survey realised that rules and regulation are important for banking systems that offer multi-products and services; management quality is critical in the area of loan-dominant banks in growing economies. When a financial institution's provision for losses go up it is a significant determinant of probable credit risk. The research additionally indicated that credit risk in emerging economy banks is greater than the banks in the developed economies.

Al-Khouri (2011) assessed the impact of financial institutions specific risk characteristics and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. Using fixed effect analysis, results shows that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk. Ben - Naceur and Omran (2008) in attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks' margin and profitability in Middle East and North Africa (MENA) countries from 1989 - 2005 found that bank capitalization and credit risk have positive and significant impact on banks' net interest margin, cost efficiency and profitability. Ahmed, Takeda and Shawn (1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance of financial institutions adversely.

## 2.5 CREDIT RISK MANAGEMENT STRATEGIES

These are strategies that are used by financial institutions to avoid or decrease the unpleasant result of credit risk. A well planned credit risk management structure is crucial for institutions so as to enhance profitability guarantee survival. According to Lindergren (1987), the key principles in credit risk management procedures are sequenced as follows; establishment of a clear structure, allocation of responsibility, processes have to be prioritized and disciplined, responsibilities should be clearly communicated and accountability assigned.

The strategies for hedging credit risk include but not limited to these;

I. Credit Derivatives: This provides banks with an approach which does not require them to adjust their loan portfolio. Credit derivatives provide banks with a new source of fee income and offer banks the opportunity to reduce their regulatory capital (Shao and Yeager, 2007). The commonest type of credit derivative is credit default swap whereby a seller agrees to shift the credit risk of a loan to the protection buyer. Frank Partnoy and David Skeel in Financial Timesof 17 July, 2006 said that "credit derivatives encourage banks to lend more than they would, at lower rates, to riskier borrowers". Recent innovations in credit derivatives markets have improved lenders' abilities to transfer credit risk to other institutions while maintaining relationship with borrowers (Marsh, 2008).

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

III. Compliance to Basel Accord: The Basel Accord is international principles and regulations guiding the operations of banks to ensure soundness and stability. The Accord was introduced in 1988 in Switzerland. Compliance with the Accord means being able to identify, generate, track and report on risk-related data in an integrated manner with full audit ability and transparency and creates the opportunity to improve the risk management processes of banks. The New Basel Capital Accord places explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirements (Chen and Pan,2012).

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

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

## 2.6 PROPOESD LENDING TOOLS

The current economic difficulties craves for new credit management processes to be put in order to help reduce the lending risk (Fatemi and Fooladi, 2006). Consequently, several tools and technologies will be discussed that have emerged from other research work which could be integrated in the management of credit in the unions.

### 2.6.1 Credit limits

Credit limit is one of the tools financial institutions use to control their loan portfolio. Setting credit limit is one of the main ways financial institution use to control its' credit process to reduce risks associated with lending. Bessis (2002) shows the significance of employing the credit limit process so as to avoid any credit risk which could imperil the financial position of the institution. Dekker (2004) argues that the credit officers‟ responsibility is to set repayment period and principle amount that would support the affordability of the customer.

Nevertheless, Bessis (2002) also states that the setting of credit limit could conflict with the development of the financial institutions business volume as it will control the customers rate of taking loans. Furthermore, he states that a shorter loan repayment period affects the interest income generated by the banks. This further increases the possibility of customers not being able to meet their repayment instalment as the it will increase big.

Consequently borrowers are needlessly grouped into a delinquency state (Dekker, 2004). Contrary to this, Dekker (2004) indicates that the longer the repayment period of a loan facility the greater the likelihood that borrower will default in repayment. This is due to the changing environment and possibly the changing circumstance and situation of the borrower. Accordingly, the question then arises that, are financial institutions employing a rigorous credit limit procedure in their credit assessment? The amendment of credit unions system of credit assessment is to support their basic values of their formation which is assisting their members in the time of difficulties. However, this can create more problems for the credit unions with respect to the management of credit portfolio. The management of credit limits is largely the only instrument to control and bound credit losses" (Bessis, 2002). Nonetheless Hobbs (2010) indicates that credit unions are currently battling with problems. Consequently this survey's purpose is to evaluate the regulatory policy to ensure if it has been altered and the way forward for credit unions in this present economic difficulties.

### 2.6.2 Affordability

Increased regulatory focus and rising interest rates mean lenders need to revisit their measures of affordability ahead of changes. Precisely evaluating customers' affordability and suitability are indispensable requirements for all lending institutions who wish to widen credit responsibly as well as reducing exposure to risk. As lending institutions trying to balance growth with risk, some customers are faced with insufficient disposable incomes, the current economic situation has made it necessary for lending institutions to employ a better credit processes. Failure to implement a proper credit management process could put pressure on customers and lenders at a time when the economic climate not improving. 'Affordability is the assessment of a customer's financial capabilities to fund new and outstanding loan now and in the future.

Burton (2008) contemplates the reason behind the granting of additional loan to borrowers who have existing loans that they were already finding it difficult to repay loan. He argues that this gives rise to the use of affordability in the credit assessment procedure of lending institutions. At a different perception, Thomas (2009) indicates that when assessing the affordability of a borrower it is their lack of cash flow and not assets that causes loan default in institutions.

In spite of the viability of this method, Wilkinson and Tingay (2004) as discussed by Burton (2008) conducted a research on the effectiveness of using affordability tests in credit assessment. The findings show that the affordability method is weak when it comes to determining the default risk of a borrower as there is a high link between it and the more conventional information obtained from the loan application of the borrower. In spite of this, Burton (2008) indicates that recently the Financial Regulator and lending institutions have given additional processes of assessing the affordability of borrower with high risk.

Conversely, given the non profit nature of credit unions can they have the means to finance this method of assessment where the system automatically decides how much should be given? This system reduces the human involvement in decision making. Affordability as a lending tool marches a borrower's disposable income with the regular payment that will be expected from the borrower. This is done with regards to the percentage of the borrower's earnings that can be used to secure the loan. In Ghana according to bank of Ghana Act, you cannot use deduct more than 40% of some one's income to service a loan. Middlemiss (2004) states that the main barrier in updating technology is getting financial institutions to invest in it. Overall it appears the use of affordability tools in the context of borrower assessment has enormous benefits and credit unions in Ghana as a whole and Obuasi in particular.

### 2.6.3 Risk Assessment Models

Risk Assessment Model is internal rating software intended to aid a bank or financial institution in evaluating a borrower for credit. This is in line with the requirement under the internal ratings-based processes of the Basel II Accord. With cautious mix of objectives and subjective methodologies which helps to facilitates database for borrowers' information for credit risk assessment. This was revealed by RAM.

In order to control credit risk, the lending institution should do a credit check on the potential borrower, this requires the borrower to take out an insurance policy or provide a guarantor or both. This enables the institution to critically evaluate the risk associated with a particular borrower. Fatemi and Fooladi (2006) state that financial institutions need a new method to assess credit risk of borrowers.

Conversely, there are a number of products available in the financial institutions (Fatemi and Fooladi, 2006). There technologies that can be used with the philosophy and the lending process of credit unions. They further insisted that credit scoring models can be employed by the financial institutions in their credit evaluation processes.

Besides the usefulness of risk evaluation models however, Kindred (2004) states that they are based on the supposition that economic situations are unpredictable, thus the current situations are not like the past. One of the Irish credit unions risk assessment technologies is the Irish Bureau Model, this is utilised by many credit unions in Ireland in their process of examining borrowers for credit. Betts (2004) says credit bureaux are organisations that “bring together and maintain credit data of customers of financial institutions operating in Ireland.

The ICB (2010) is a model which enhances the evaluation of risk associated with lending in Ireland by providing borrower’s information concerning repayment history, their level of arrears and the amount of loans which has been repaid. In general Hobbs (2010) asserts that the use of models like these lead to a more credible lending decisions and cheaper, more proficient, credit management. Nevertheless, others have put forward a suggestions that the ICB must further develop its database to integrate all loans as well as the guarantors who guaranteed for them.

The societies in Ghana can come together and establish a team that will put data of their customers together so that the team of aspect in credit risk assessment can render such services which will be assessable to credit unions regardless of the location of the society.

### 2.6.4 Stress testing

This is a financial terminology that is used to assess the capability of a financial institution to deal with risks associated with the loan portfolio of financial institutions. These risks can be related to the entire operations and risk associated with financial projections which base on estimates. A financial institution or its regulators may undertake stress testing where they look at how robust the institution is against certain risks which is a form of scenario analysis. This emphasis on adequate, risk adjusted determination of capital has been further enhanced by modifications to banking regulations such as Basel II.

Stress testing models can be used to test variety of events as well as individual risks. Stress tests centre on key risks for instance credit risk, market risk and liquidity risk which has effect on the banks' financial position. For the purpose of this work, the concentration will be on stress testing for the robustness of the credit union against credit risk. When this is carefully done effectively predict the effect of the non- payment of a loan on the credit union.

This will inform the credit decision of the credit union.

Honohan (2009) defines stress testing as a method that is suppose to envisage the condition of a financial institution in severe situation and Baptista (2006) state that financial intermediaries normally use stress testing to set limits on their credit level in other to reduce risk exposure. Moreover stress tests support the conventional models (Hilbers and Jones, 2004). Consequently, credit unions should stress test their portfolio in other to detect the difficulties in their credit portfolio and find solution to them. An examination undertake under adverse economic situation which is intended to establish whether a bank has sufficient capital to survive the impact of unfavourable economic situation. Banks can undertake stress test on their own internally or by a supervisory body as part of their oversight role on the financial institutions.

These Stress tests are done to reveal weak spots in the operations of the banks at an early stage, this will help for corrective measures to be employed to deal with the situation. In recent times, the economic difficulties have called for credit unions to stress test their loans in order to detect the extent of the risks associated with their loans. Conversely, Honohan (2009) warns that while stress testing is helpful, it provides information on risks associated with the system. Therefore a question is asked whether stress test can guarantee credit unions a solid financial position?

### 2.6.5 Credit Rating or Scoring

This is a statistical system used to foretell the possibility that a loan will be in arrears, become delinquent or a borrower will default in repayment (Loretta 1997). CreditThis method is largely accepted as the primary system of examining the creditworthiness of customers.

Credit scoring is used to set credit limit in financial institutions. It is also used to determine whether a customer qualifies for credit. Credit scoring is as well used to set credit limits on credit cards. The behavioural modelling such as collections scoring and also in the pre-approval of additional loan to a bank's existing customer base. The inefficiencies of the traditional loan assessment processes with its attendant problems culminating from non-payment of loans which increases the bad debt provision in banks. This has been the concerns of most lending institutions. This then means that there is the need for measures to arrest the inefficiencies in the credit management processes. The CBN (2005) insisted that the credit structure of lending institutions should be planned to serve as a tool for monitoring and controlling risk associated with the borrowers. This concept is known as credit rating by some lending institutions. This model assigns scores for prospective borrower by determine the likelihood of loan default based on borrowers' existing credit record (Myra 2000). The borrowers information that relevant to lending institutions are monthly income, outstanding debt, financial assets, duration on the job, lending history of the customer, collateral owned, type of bank accounts, repayment period etc. The listed needed borrowers' information are necessary for the score card and the performance of the loans.

The non-existence of a body that regulates the credit regime in Ghana has been a source of concern for lending institutions when it comes to good credit rating by the institutions. The credit management processes must be able to address the risks associated with the lending. There should be a cut-off point beyond which a loan will not be granted. At the initial stage of the lending process ratings should be given and retrieved at least half-yearly and when undesirable situation happens (CBN 2005). However, whenever credit risk is identified, the score assigned to a borrower should be altered with immediate effect. This model does not approve nor rejects the loan application but assist in the credit assessment process.

This indicates the relevance of credit scoring process in the credit assessment process of credit unions in their credit administration procedure.

### 2.7 Arrears interventions

Arrears is a legal term used by lending institutions to describe the part of a loan that is unpaid, overdue or repayments is missed as per the agreed loan terms. The amount of the arrears is the amount unpaid or missed from the date on which repayment should have been paid. An account is said to be "in arrears" if one or more payments are unpaid or missed in contravention of the loan agreement. The loan agreement requires regular payments such as mortgage, rent payments, school fees payment utility bills payment etc. The term is usually used in relation with periodically recurring payments. A clear definition of what constitute non-performing, risks exposures and the provision process which will include how unrelated categories of difficult loans should be examined and deal with.

Finlay (2008) indicates that pressure should be put on loan defaulters at the early stages of the default, this action remind the defaulters about their obligations towards the institution. In line with Finlay's assertion, Hinder (2004) urges financial institutions to integrate adequate communication process when retrieving debt in arrears from customers. Accordingly, Finlay (2008) shows the stages that credit unions can employ to bring down the rate of non-payment or default loans.

He indicates that for successful recovery of loans financial institutions should employ timely arrears interventions thus they should start the arrears recovery process early. The process involves regular issuance of firm letters, phone calls and visit to the customers. Conversely, with arrears intervention in place, Finlay (2008) says that it is sometimes difficult to group the customers into specific categories before taking a decision on the means of communication to reach them. From this hindrance, Finlay (2008) suggested scrupulous expertise to aid financial institutions in recovering their loans arrears. The arrears intervention system places a great degree of responsibilities and control on the credit management process because it gives credit control officers a clue as to the particular accounts that should be monitored on daily basis. The daily monitoring of some selected accounts helps financial institutions to detect debt default early for prompt action. Concerning the relevance of this system, M.C.C.C credit union indicates that it has aided them to bring down their arrears or default rate considerably. Now the question is, should the credit unions employ this system? Looking at how practical this system or processes is, Hinder (2004) indicates the problems of maintaining a customer friendly relationship with customers after employing this arrears recovery system. This is the major concern of the credit unions as their fundamental principles behind their formation as self help financial institution is weighed up against the arrears interventions used to ensure their financial stability and their survival (Financial Regulator, 2010). Hinder (2004) additionally asserts that financial institutions must behave responsibly by giving their borrowers hearing to know the reason behind the arrears and not to harass them. The institutions should retrieve the arrears professionally such that the customers will not feel bad. Therefore collections of arrears should be done with customer care principles in mind.

The processes of dealing with overdue loans instituted by the financial institution should be followed to the later to guarantee the recovery of the loan and its interest. When this processes do not yield the expected results then the provided to secure the loan should be looked for invoke the part of the loan agreement concerning the collateral security, the security provided can deteriorated and fall in value due to passage of time, as a result lending decisions should not be based on the value of the collateral security. Should this occur there must be clear policy guidelines to follow in order to deal with such situation. This policy guidelines should incorporate in it details on how the officer in charge will handle it. The The arrears policy and procedure should detail as to who has the authority to make final decision and the kind of decisions that can be taken. Hinder (2004) states that when delinquency duration gets longer maintaining a cordial relationship between the borrower decreases and the financial institution becomes difficult.

With respect to credit unions, Hobbs (2010) encourages the credit unions to incorporate strict measures when handling significant challenges concerning credit arrears they encounter during their operations. On the other hand, loan rescheduling as a method in retrieving arrears is being greatly contended recently. Hobbs (2010a) shares the opinion that it makes the risk associated with credit unions worse. On the contrary, credit unions believe that reschedule of a non-performing loan takes out the risk associated with it (Hobbs, 2010a). In general with a significant percentage of credit union loans in arrears there literature reviewed with respect to the credit management process in the credit unions.

### 2.7.1 Payment reminder process

From the literature issuance of reminder letter on timely basis is one of the processes of dealing with loan arrears. This method is examined in the survey by demanding from the respondents the time frame given in their various credit union's reminder letter procedure, thus first reminder, second reminder and transfer to solicitor for legal action to be taken against the customer. The results indicate that the least time for first reminder letter is 1 week after delinquency, the mean reminder letter period is 3.05 weeks and the maximum reminder letter period is 5 weeks. Subsequently, 2 weeks is the minimum period for the second reminder letter to be served on the defaulting customer, the maximum second reminder letter is 8 weeks and the average reminder letter is 4.71 weeks. Subsequent, the transfer to the solicitor for legal action to take place is done between 5 weeks and 10 weeks where the mostly the common period is 9 weeks upon default. However the latter mean score is slightly fallacious as 19% of respondents stated that the transfer to solicitor of a default loan is either longer than 10 weeks or is unknown because each account is treated differently. Moreover 4.8% of respondents did not answer this question; again this is probably due to the same reason. Additionally the standard deviation is somewhat consistent across the three stages as it is between 0.973

and 1.864. This proposes that each of the respondents‟ reminder process differs by approximately 1 or 2 weeks in each stage.

### 2.7.2 Loan rescheduling

Loan rescheduling is a process by which the loan repayment agreement is changed as a result of loan default in loan repayment. Most credit unions have rescheduling policy in place which helps them to minimise the effect of none performing loans. Practice that involves restructuring the terms of an existing loan in order to extend the repayment period. Debt rescheduling may mean a delay in the due date(s) of required payments or reducing payment amounts by extending the payment period and increasing the number of payments.

In the other wards it refers to loans that have been restructured and re-negotiated between authorized institutions and borrowers because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or the repayment period, are non- commercial.

In line with this, Jensen (1989) states that, once the going concern value of a financial institution is more than the liquidation value, its value of debt will have to be controlled in order to guarantee the survival of the financial institution. A well developed literature has focus on the borrower – lender bargaining process in the design of debt contract (Hart and Moore 1998). At this point the new terms is done in favour of the loan defaulter thus it is done to the ability of the loan defaulter. The essence is to ensure that the loan does not go bad.

## 2.8 EFFECT OF CREDIT DEFAULT ON FINANCIAL INSTITUTION

Credit default is the failure or the incapability of a customer to repay the credit as per conditions of a loan as agreed with the lending institution. Credit default occurs when borrowers are unable to meet the required payment or when borrowers are unable to honour the loan agreement. Defaulting on a loan obligation can place a company or individual in financial trouble. Balogun and Alimi (1988) look at credit non-payment as the incapability of a customer to perform his or her loan obligation under a loan agreement when due.

Baku and Smith (1998) states that the loan default has negative impact on the borrower and the lending institutions. The cost of loan default to the lending institutions involves. The lost of loan interest, commitment fees, loan processing fees, other charges in relation to the loan and the opportunity cost of using the principal. To the borrower the cost of loan default includes, the penalties meted out to borrowers who default by the lending institution, the lost of reputation and credit record upon which further loans assessment will be based on.

Accordingly Hampel et al (1994) the lending process is the most compound activity in the operations of a bank and the solvency and profitability of the financial institutions depend to a large extend on how effective and efficient default risk will be controlled and managed. This is properly done through efficient credit management process being used by financial institutions. This has caused this survey to effectively and efficiently examine the management of loans in credit unions in the Ashanti Region focusing on the societies operating in the Obuasi Municipality.

# CHAPTER THREE

# METHODOLOGY

## 3.0 INTRODUCTION

The methods used in assembling data and information for this research is shown and justified in this chapter. To make sure that the research is clearly linked and tailored to the reasons of the survey, the work must be properly designed. The research objectives and questions are formed in accordance with theories that are related to the survey topic and other necessary literature. Consequently, there is a description of how the survey will be presented which will involved the rationale behind the selection of the specific method of collecting and analysing data. Lastly, the responds to the questionnaire and the interviews conducted are provided in detail as it happened.

## 3.1 THE RESEARCH DESIGN

Data could be collected and analysed on the basis of research design because it provides the structure for such an assessment, Bryman and Bell (2013). According to theories of literature that are necessary to the survey topic, the survey objective and questions are formed. Selecting the appropriate methodology could be difficult according to Wails (1999). This work is a descriptive survey, the survey uses questionnaire as data collection tool. This was exactly used to collect useful information for assessment of loans management process of credit unions in Obuasi Municipality.

In this work, the respondents' opinions and experiences gathered from the questionnaire and interviews provided the needed input to the data. These data are gathered from both primary and secondary sources. The data are evaluated and added to the findings of the survey. The survey is a quantitative one as a result of that the research questions are intended to suit the quantitative analysis. Due to that, a lot of the questions are close ended questions, however few of the questions are open ended questions. The questionnaires are served on the following group of people from the participating societies: the managers, the board of directors of the credit unions, loans officers, members of the loans committee and the general members of the credit unions.

## 3.2 SOURCES OF DATA

The data for this research is gathered from the primary source.

### 3.2.1 Primary Sources of Data

This source provides data which is original and might have not been used before. The questionnaire and interviews are used as the principal source of data gathering. The research relied on the use of qualitative and quantitative methods of collecting data. A writer puts together and controls the data needed for the survey according to Roche and Brannick (1997). The data which is put together and controlled by the researcher is mostly from the primary source. Assistance from the loans officers, the members of the various credit unions are interviewed. On their normal monitoring of loans, the loans officers distributed the questionnaire to the customers which made the work a little easy. The questionnaire were served on the following sampled group of people, credit committee members, the managers, members of the board of directors of the credit unions as well as members of the various credit union to provide their response. The reason for the use of these techniques is to give room for probing and discussion in order to assess the loan management processes of the societies.

### 3.3 Sample selection

The study is limited to the Manager, Board of Directors, Credit committee members, the credit department staff and members of the various societies. An absolute record of the populace has to be taken before the sample will be taken. According to Roche and Brannick (1997) it is important to the credit management process. All credit unions in the Ashanti Region are the population of interest for this research; however, resources constraints such as money and time prevented the distribution of the questionnaires to all of them. The use of convenient sampling technique is needed to collect the required data. For this reason five credit unions in Obuasi Municipality out of the twelve credit unions are selected for the survey. It is expected that the sample size will represent the whole population.

### 3.4 Data Collection Procedure

In collecting the data, interviews are conducted on the members of the Board of Directors, the managers, the credit department staff, the credit committee members and the credit union members. With regard to the members of the credit union, questionnaires are distributed to them at the credit union premises and the credit officers take some to field on their routine monitoring of their customers. In all, a total of 200 questionnaires are administered out of which over 90 percent responded.

TABLES 3.1: The breakdown of distribution of the questionnaire is as follows

| SOCIETIES | NUMBER OF QUESTINAIRE |
|---|---|
| **Society A** | 40 |
| **Society B** | 40 |
| **Society C** | 40 |
| **Society D** | 40 |
| **Society E** | 40 |
| **TOTAL** | 200 |

Each society is served with questionnaire and they respond accordingly which makes the work successful.

### 3.4.1 Questionnaire

Questionnaire constitutes a very important instrument of data collection. The difficulty with it is when respondent are scattered around a very large arrear and when a large number of your sample size is illiterate. With this study, the questionnaire contained close ended questions as well as questions which open ended in nature. The questions that are close ended offer the respondents the opportunity to choose from answers provided whereas the open ended questions allow the respondents to give their answers. This technique helps to maintain the focus of the work on its primary objectives.

### 3.4.2 Interview

This is a face to face encounter with a purpose. In undertaking this project, face-to-face was used to gather information from the board of directors, manager, staff, committee members and some members of the credit union. It centred on the objective of the study and the research questions. Interview affords a follow up questions to respondents for clarity.

### 3.5 Data Analysis Procedure

The quantitative aspect of the data is analyzed by the use of Statistical Programme for Social Scientist (S.P.S.S.). The questions are coded in the variable view of Statistical Programme for Social Scientist respondents' responses are captured at the data view of the programme. The analysis of the data is based on the stated objective of the research the SPSS programme for the percentages and the tables. The presentation of the results is done by the use of tools such as pie charts and columns graphs.

# CHAPTER FOUR

# PRESENTATION AND ANALYSIS OF DATA

## 4.0 INTRODUCTION

This section of the survey treats how data collected from the respondents are analysed and presented. The data are analysed by using the quantitative methodology. Tables, pie charts and bar charts are used to represent the data collected from respondents. The data collected are analysed based on the objectives of the research with inferences drawn from the analysis of the data. The reason is to present the results of the research from both semi structured interviews and questionnaire conducted in other to achieve the research objectives.

PREVIEW

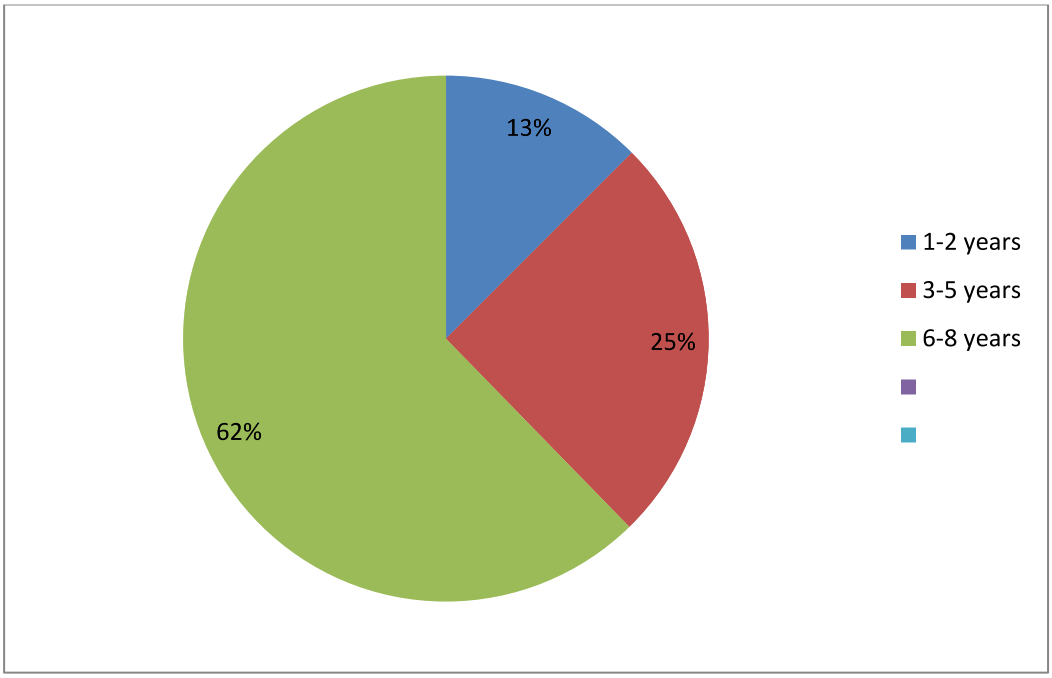
This chapter presents the data gathered as follows: The role of the respondents in their various credit unions, Qualification of Credit Administrators, Experience of Credit Administrators, Credit management process, Credit Control and Gaps in the credit management process.

## 4.1. THE ROLE OF THE RESPONDENTS

Out of the aggregate number of respondents, 38% of the respondents are members of th board of directors in the participating credit unions. 28% of the respondents are members of the credit committees of the credit unions,15% of the respondents are selected members of the various credit unions who are literate and understand the operations of the credit union. Credit unit staff and other staff of the credit unions represent 13% of the respondents to the questionnaire and 6% of the respondent are former managers of the participating credit unions.

This gives a more reliable data as respondents have wide range of knowledge in the credit management processes of the participating credit unions.

Figure 4.1 Positions of Respondents




**4.2. Qualifications of Credit Administrators**

Results from the survey as shown in GRAPH 4.1 suggest that an average of 25% of the participating credit unions credit officers have under graduate degree where majority of the credit officers amounting to 35.5% have Higher National Diploma (H.N.D) as their highest qualification. About 25% of the credit unions' credit officers have Ordinary level certificate however the lack of academic expertise in most cases counteracted by having long working experience in the various credit unions. Some participating societies have S.S.C.E. in their credit department who serve as field officers, this form 12.5 % of the total respondents. Assessing the loans committee of the unions, 37.5% of them ordinary level certificate whereas 25% of them have Teacher certificate A and most of the committee members under this group are retired teachers. The credit committee role is mainly volunteer base, thus, the members are not on salary but are on monthly allowance. The credit unions use the expertise and skills of the members of credit committee at a little or no cost. Out of the respondents 18.75% have Higher National Diploma (H.N.D) and the rest of the committee members have A level certificate. The credit unions are not able to maintain the best committee members because of the voluntary nature of the job mean while the committee members play a significant function in the operations of the credit unions especially when it comes to credit management process in the various credit unions.

TABLE 4.1 QUALIFICATIONS OF CREDIT ADMINISTRATORS

| | **DEGREE** | **H.N.D** | **O'LEVEL** | **S.S.C.E** | **'A' LEVEL** | **TEACH.CERT. 'A'** |
|---|---|---|---|---|---|---|
| **Credit Officers** | 25% | 37.5% | 25% | 12.5% | | |
| **Credit Committee members** | | 18.75% | 37.5% | | 18.75% | 25% |

The credit unions are changing in the current dynamic world therefore the unions require expertise and high level skills in order to be successful. It is essential that full time staff of credit unions are required to posses some level academic qualification. Supporting this view, some respondents state that it is a necessity for credit union staff to have an academic qualification. Credit unions are currently training their staff on regular bases which previously has not been the case. Contrary to this, other respondents state that the

Contrary to this however, other respondents maintain that the prominence given to academic qualification has been emphasised on the loans committee section of CUA's operation manual over the past years. As an alternative, the operation manual describes the procedure of making effective loan decisions by using a combination of team work, experience and initiative alongside the knowledge and credit record of the borrower. Nonetheless, according to the results, it seems in general academic qualification facilitates a more efficient workforce which guarantees effective credit management process.

### 4.2.1 Experience in credit management department

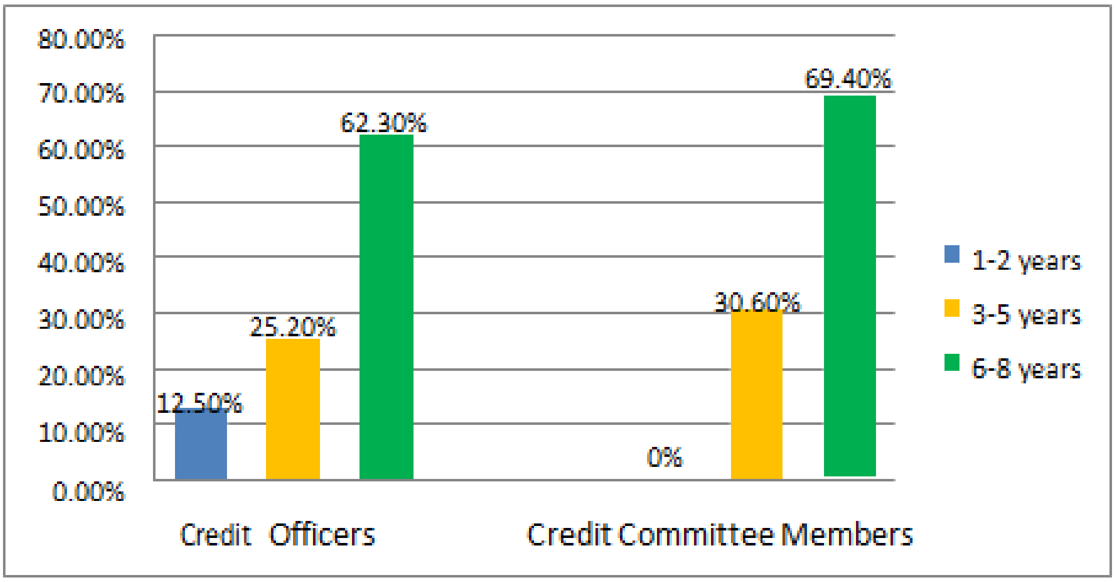
The subsequent issue in the survey has to do with the experience level of the staff managing loans which are the biggest assets of the credit unions. According to GRAPH 4.2, the longest serving credit officers on average have 6-8 years working experience across all the participating credit unions. This group constitute 62.5% of the total respondents. Most of the credit unions with the experience credit officers are the grade A credit unions. This fact support the believe that a high experience level of credit management staff is a key factor to the success of the credit unions in terms of credit management.

Out of the total respondents 25% of them have 3-5 years working experience with their various credit unions and 12.5% of the respondents have 1-2 years working experience. With regard to credit committee members, because they serve on term basis thus 4 years per each term on the average 69.4% of the credit committee members of participating credit unions are serving in their second term which between 6-8 years. According to the data presented in this chapter, it is obvious that the least number of working experience among the credit department staff are the officers who have two years or a year experience.

Experience of the loans management department staff.

### Experience of the loans management department staff.

Figure 4.2 Experience of the loans Management Administrator




Commenting on the relevance of experience of credit management staff, respondents acknowledge that experience brings efficiency whereas literature on the topic adds more knowledge to the credit management process. Some respondents state that for effective and efficient credit management, the credit unions need experience credit management staff. Rejecting these views, other respondents indicate that experience is not adequate enough in these days of financial crises. They argue that in order for the societies to survive in this economic crisis academic development is very relevant.

## 4.3 CREDIT MANAGEMENT PROCESS

### 4.3.1 Lending Limits

Lending limit refers to the period of time which is given to borrowers to repay the loan. To ascertain the lending limit of the credit unions, a question is designed in the questionnaire which is intended to determine the minimum and the maximum repayment period which given to the customers of the credit unions. Table 4.2 depicts the response of the respondents regarding the credit limit, it is clearly shown that about 60% of the credit unions have who participated in the survey have a maximum loan repayment of 2 years as prescribed by CUA's model operation rules and regulation for credit unions.

Table 4.2: Longest loan Repayment Period

| Loan Repayment Period | Percentage of the societies |
|---|---|
| 2 years | 60% |
| 4 years | 20% |
| 5 years | 20% |

With respect to this issue, some respondents contend that, if a credit granted out over a long period of time, the borrower's situation might change along the period and this might lead to the borrower defaulting. However, o t h e r respondents dispute that but rather share opinion t h a t , interest is calculated on the outstanding loan balance of borrowers, therefore, the longer a loan remains outstanding the higher interest is paid on it. This makes the credit union earn more in income. Furthermore, they contest that if the repayment period of a loan is reduced, this would be would necessitate the borrowers to make huge repayment instalment and this could be a big problem in the current economic difficulties. This can increase the probability of credit default which is dangerous to the credit unions.

### 4.3.2 Lending Tools

The respondents are given fourteen lending tools and they are required to arrange the lending tools in order of their importance as they are used in their various credit unions. The use of lending tools are very relevant in credit decision making by credit unions in their loan management. The outcome of using these tools is put into three categories. These are the history tools, affordability calculator and a guarantee by a third party. Respectively these categories‟ findings are presented in Table 4.3 Majority of the respondents ranked history tool as the most important tool in credit assessment in their various credit unions.

They constitute 75.7% of the total respondents, the history tools consist of credit history of the applicant, the savings pattern of the applicant, the share balance of the applicant, the current job of the applicant, the salary/wage of the applicant, the loan outstanding with other institutions and other things. The credit unions do their credit assessment taking the listed items into consideration. This is in accordance with prescribed credit assessment procedure by C.U.A., the governing body of credit unions in Ghana.

Some respondents who have knowledge about how the affordability calculator is used wants the credit unions to introduce it in their credit assessment process. This group constitute 14.3% and 10% of the respondents want the credit unions to allow applicants to provide guarantors as a form of security for a loan. They argue that once they provide a very prominent person in the society as a guarantor, it should be enough assurance that they will pay back the loan.

Table 4.3: Lending tools

| Lending Tools | Percentage of credit unions |
|---|---|
| History tools | 75.7% |
| Affordable calculator | 14.3% |
| Guarantee by third party | 20% |

The credit unions in general agree that the affordable calculator is a relevant tool needed when it comes to assessing a loan applicant. In spite of the relevance of the affordability calculator in credit assessment, the main problem is having the credit unions invest is such a helpful technology especially the credit unions that are small in size.

**4.3.3 CREDIT CONTROL**

The credit control systems of Credit Union include the following: Payment reminder process

Timely issuance of reminder letter to defaulters is one of the relevant steps that facilitate arrears collection in credit unions. This is detected in the research by demanding the time frame used by each of the participating credit unions in their credit management process. Thus, first reminder letter, second reminder letter and then it is transferred to a solicitor. From the survey, the least time for the first reminder is 3 months and the highest time is 4 months. Subsequently, the maximum time for the next reminder is 8 months and the minimum time is 6 months.

Upon exosting the above laid down processes and it proves unsuccessful, the loan becomes a difficult one and it is given to the solicitor for the usage of the legal process to retrieve the money. The transfer to the solicitor takes place after the loan has been in delinquent for 12 months. However, before the transfer to the solicitor, there will be a visit to the borrower to ascertain exactly what is preventing the borrower from repaying the loan. The one on one encounter with the borrower will enlighten the credit officer as to whether to transfer to a solicitor or not. The various credit unions have their individual reminder months, the listed above is the average months of the credit unions.

Some respondents share the view that, this type of intervention is very effective as it makes defaulters realise that, the credit unions have their eyes on them. Some respondents say that issuing first letter 1 month after missed payment result in loan outstanding of customers being addressed at an early period making the defaulters sit up. This strict reminder procedure causes problems to the customers as the credit unions find it hard to implement this policy because it causes upset amongst members and the philosophy of forming credit union might be affected.

However, most respondents are of the view that proactively contacting defaulters, their motivation to resolve their credit default with the credit union go up Rescheduling of Loans.

Loan rescheduling refers to the restructuring of a credit agreement in order to make longer the repayment period. This is one of the ways credit unions use to recover default and loans in arrears. In the research questions are put to respondents on the loan restructuring policy in their credit unions, what the number of credits have been rescheduled in the 2013/2014 financial year and the quantum of the credits rescheduled? From the answers provided by the respondents to the questionnaire, it is clear that most credit unions do not have a rescheduling policy set in place even though they are practicing it. However about 90% of the participating credit unions have a lot of rescheduled loans in their books.

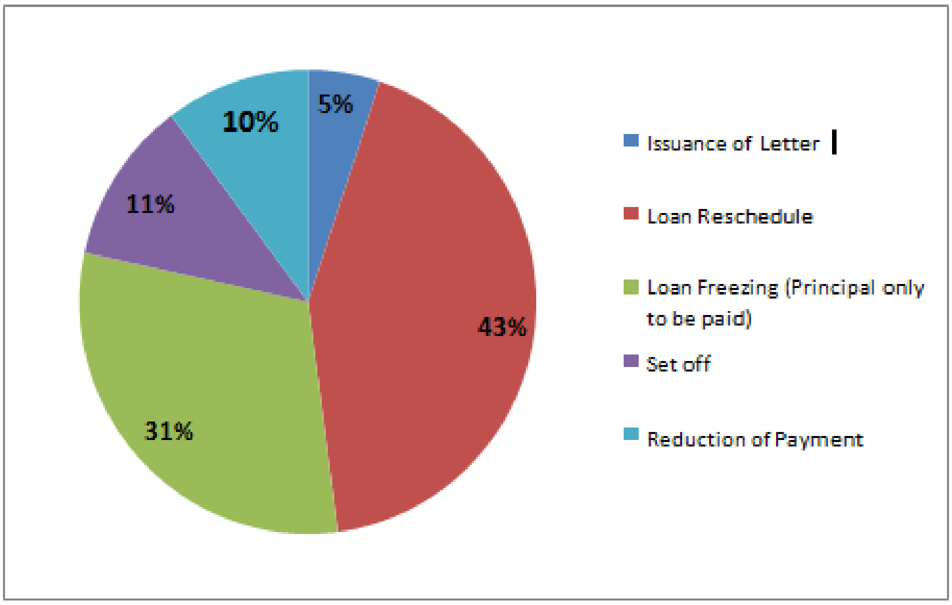
The difficulty is that, because there is no policy set on loan reschedule, no record is kept specifically on the number of loan rescheduled and the value. The common practise is that, when a borrower realises that he/she cannot meet the repayment agreement agreed with the credit union. The customer writes a letter to the credit union to ask for extension of the repayment period, when the credit union accepts it, new terms will be agreed and the customer then goes by the new terms. As a result of this even though all participating credit unions have similar instances in their society, there is no categorical record on the number of loans and the value of loans which has been reschedule.

Arrears Intervention

To critically evaluate the significance of arrears interventions in one piece respondents are required to rank the different variables of arrears intervention in their various credit unions in order of their importance. The loan rescheduling, issuance of letter, share transfer to repay loan transfer, reduction of payments and loan interest freezing.

**The results are shown in Graph 4.3**

Figure 4.3: Effectiveness of arrears interventions



Relating to this, Respondents state that it is essential for financial institutions especially credit unions to be aggressive in the retrieval of their loans in default. Some disclose that, societies should implement a more thorough and rigorous approach to recover loans in arrears and the following process were proposed.

Table 4.4 Reminder Letter Process

| STAGE | PROCESS |
|---|---|
| 2 weeks after payment in missed | Call 1 |
| 2 weeks after call 1 | Call 2 |
| 4 weeks after letter 1 | Letter 1 |
| 4 weeks after letter 1 | Call 3 |
| 8weeks after call 2 | Call 3 |
| 4 weeks after letter 2 | Letter 2 |
| If no payment after call 3 | Give to a solicitor or credit Collection Agency |

furthermore, some contend that this process is even more vigorous system than what some of the credit unions have in place. This system gives way for ownership and a superior responsibility of accounts in the credit unions.

## 4.4 GAPS IN CREDT MANAGEMENT PROCESS

### 4.4.1 Barriers

From the responds provided by those who answered the questionnaire, it can be seen that some respondents are not aware of the very difficulties the credit administrators in their credit unions are facing. The reason being that 78.9% of respondents to the questionnaire indicated that they are uncertain as to the problems affecting management of credit in their various credit unions. On the other hand about 5.7% of the respondents do not agree that those variables affect credit management process. The respondents disagree with some two variables which are poor communication across the organizational structure and inadequate credit representation at the level of the board of directors. The outcome might include some component of partiality as most of the respondents to the questionnaire are credit officers and credit committee members of their various credit unions. This to a large extent is a constraint to the work.

Table 4.5:

| The respondents' level of agreement to the barriers impeding the loans management process in credit unions(all variables summated together) | |
|---|---|
| Agree | 15.4 |
| Neutral | 78.9% |
| Disagree | 5.7% |
| Strongly disagree | 0 |
| Strongly agree | 0 |

Respondents stress that handling members or customers satisfaction has been the main difficulty the credit unions are battling with. They advocate for a balance between protecting the survival of the credit unions and being helpful to the members to quarantine cordial relationship.  Respondents conclude that the societies have resolved do their best to help the communities in which they operate and the communities must also be willing to support themselves.

### 4.4.2 The Gaps in the Credit Management Process

The findings depict the gaps that exist in the present loan management process in the various societies. The discussions so far show that societies do not use affordability calculator in assessing borrowers, this calculator reduces the margin of error in the credit assessment. Most credit unions do not put into use constant arrears interventions system. According to the survey, stress testing is one of the gaps that exist in the management of credit in the credit unions. From the data collected with the questionnaire, the respondents assert that their credit unions do not use the affordable calculators in loans assessment process in their various societies. Furthermore, all of the sampled respondents agree that the use of stress testing helps to reduce bad loans and loan default. The use of technology helps to reduce the risk of loan default. This has been confirmed by 95.2 percent of the respondents who participated in the survey. Concurrently the respondents state that it is a good technology that should be obtained by all the credit unions to improve their bad debt situation.

### 4.4.3 Areas of Focus

With respect to the present loans management process, 59.3% of the sample respondents assert that their societies have changed the total credit management process to the benefit of the credit unions. 26.8 percent of the respondents state that minor changes have been made in their loans management process. On the contrary, 13.9% of the respondents state that their societies are yet to change their loans administration procedure. Others want to observe the changes in the market to inform the kind of changes they will make in the credit management process. Some credit unions have not overhauled their loans administration process completely. With regards to the relevant area in discussion, 90%

of the respondent state that there is the need for the credit officers to furnish managers' on periodic basis with information the state of their loans, the improvement on credit control programmes and the need to develop expertise on credit risk at the level of management in the various societies. Additionally, 80% of the respondents state that it imperative for the loan default collection procedure to be changed in the credit unions in order to incorporate loans control decisions, experience as well as to strengthen the technology use in credit assessment.

## CHAPTER FIVE

## SUMMARY, CONCLUSION AND RECOMMENDATION

### 5.0 INTRODUCTION

The findings of the survey are discussed and briefly summarized in this section for the benefit of the credit unions. At some stages other writings are referred to support or refute the results of the survey. This research was done with direction from a set of guide lines which is known as research objectives. This part of the research looks at how the literature and the results of the work intertwine with one another and how the findings address the research questions posed. This chapter makes recommendations and conclusion for the whole research for the readers.

### SUMMARY OF FINDINGS

### SKILL SET AND EXPERIENCE OF CREDIT ADMINISTRATORS

#### 5.1.1 Qualifications

The results give ample indications to support the fact that for effective credit management process in the credit unions, the credit management staff must have experience and detailed understanding in the area of credit assessment and credit risk control in their societies. Nevertheless, Hobb (2010) asserts that the societies that have the needed skills and expertise to understand risk they are managing with respect to the loan process. Agreeing to this, the findings stress that only 25% of lending officers and 19.85% of members of the loans committee in the societies possess first degree and Higher National Diploma (H.N.D.) respectively as the highest qualification in the credit department. Moreover only 12.5% of personnel of credit department dealing with credit issues possess S.S.C.E as the highest qualification in this era of economic difficulties where some credit unions are confronted with severe liquidity difficulties (McManus, 2010), possibly the stress on academic qualifications requirement across the credit management department which includes loans officers and the loans committee members in the various credit unions must be enforced. This is to ensure that proper credit management processes are effectively implemented to protect the credit unions from folding up.

### 5.1.2 EXPERIENCE

It is noticeable that the societies put importance on the expertise as well as experience of the staff of the credit management department. From the results it is obvious that a significant number of the loan officers of the various credit unions have minimum of six years working experience in the same department. Some participant express opinions that, the integration of team work, initiative and experience of credit administrators help to make a good credit decision. Supporting this observation, ILCU (2O1O) indicate that credit management staff trading financial product should have an appreciable level of academic qualification and experience. From the survey, over 62.30% of credit officers have 6 years working experience and 69.4% have 8 years work experience. However is experience alone enough? Some respondents think that is not the case? With respect to the present economic situation, more rigorous measures on skills, academic qualification and experience must be the base for engaging credit management staff in order to minimise risk associated with lending.

## CREDIT MANAGEMENT PROCESS

### 5.2.1 Lending limits

Credit limit is one of the methods of overcoming risk associated with lending. This method of credit risk control is one of the tough methods of dealing with credit risk. Dekker (2004) and Bassis (2002) state that the relevance of instituting credit limit in a credit union is to reduce the effect of nonperforming loans on the credit unions. Evaluating the method of credit limit, the survey reveals that most of the societies have credit limit of 2 years. This revelation is in line with the findings of Dekker (2004). Dekker states that higher credit limit means, longer repayment period which has higher potential for loan default. Some respondents disagree with the assertions of Dekker (2004) but are in agreement with Bassis (2002). Bassis (2002) states that the rate of interest is determined by the repayment period, the longer the loan period the higher the interest rate. Even though provision for bad debt has gone up in some societies, the survey suggest the maximum repayment period given by the credit unions extended to three or four years to reduce the pressure that come to bear on borrowers. This is the fact that credit unions do not exist to make profit that is why they are formed under the cooperative laws in Ghana. This calls for additional survey into the credit management processes of the credit unions.

### 5.2.2 The Use of Affordability Calculator

The affordability method of credit assessment is an effective ways that credit unions can use in their credit assessment. This method of assessment helps to control nepotism and favouritism that characterise credit assessment of a relative or close friends. The use of affordable calculators in loans assessment has been given detailed attention in the literature review chapter. From the findings it is clear that deu to the fair nature of the affordable calculator some respondents wants the credit unions to introduce this tool into their assessment process. 14.2% of the respondents say should factor the this tool in their credit management process. The survey disagrees with Tingay (2004) but in line with Burton (2008)'s view point the affordable calculator helps to reduce loans default. On the other hand the survey agrees with middlemiss (2004)'s assertion but the difficulty is how to get the credit unions to put their investment into this important tool. The credit unions ability to acquire credit assessment technology is a gap that exists in the literature. This reason gives way for further survey to be undertaken.

## 5.3 CREDIT CONTROL

### 5.3.1 Payment Reminder Process

Credit unions see arrears interventions as very much efficient in credit recovery than the other arrears interventions according to the results of the survey. This is in support of the findings of Finlay (2008), Weaver (1994) as well as Raltson and Wright (2003), their findings show the relevance of early arrears intervention process when retrieving default in other to sustain the institutions and make them financially solid. In support of Finlay (2008), respondents state that it is necessary for the societies to implement more restrictive measures in their credit control processes.

This takes the form of a phone call, a second phone call, a letter to the defaulter to remind the defaulter of his/her commitment to the credit union and if all these fail then the loan is transfer to a solicitor for legal action. The effectiveness of the control measures are determined by how stringent the measures are and the results of its implementation in the credit union. When making a comparison of reminder procedures of different credit unions, it should be ensured that they are similar in their approach to each borrower of the credit union.

Respondents illustrates that the first contact commences two weeks after payment is missed. Agreeing to this assertion, Finlay (2008) indicates that the first call period is made upon day 1 of missed payment which is done either by letter or phones whichever is convenient and cost effective.

However, according to the findings of Finlay (2008), given it to a solicitor takes place roughly one and half months of default, this is quite different from the finding of this work. With regard to the basis of establishing a credit union which is a self help or cooperative financial institution with the aim of helping its members financially, Finlay (2008)'s suggestion will not be in the interest of the members who are the shareholders and owners of the credit unions. This survey agrees with the assertion of the respondents that the reminder procedure should be constant in all the credit unions for uniformity in operation.

Nonetheless, the survey disagrees with the reminder concept of Finlay (2008) that such intervention has a negative impact on the image of the credit union. Credit unions should not practise credit management regulations that seem to intimidate their members but they should give hearing to the problems and complaints of their loan defaulters. This is in agreement with Hinder (2004)'s findings which state that loan defaulters should be given hearing but they should not be abused this will help to know their problems.

Nonetheless, the aggressiveness of Finlay (2008)'s intervention process has the potential of reducing the rate of credit default. This survey recommends an effective and consistent way of dealing with loan default in the credit unions. The inflexibility and the rigidity of the recommended policy can be doubtful, the reason is that, the credit management of the credit union should be taken into accounts in applying it and the individual borrowers should be assessed differently. This means it should be used depending on the situation of the credit union.

### 5.3.2 Loan Rescheduling

With regard to loan rescheduling in accordance to the literature, most of the societies regard credit rearrangement as a better and efficient loan default recovery process. Conversely Hobbs (2010) share the opinion that this kind of loan default intercession can increase the credit default rate. On the other hand, the results of the interviews indicate that credit societies in general prefer loan rescheduling to court process to recover loans. However, the credit unions' opinions happen to be different from the literature. However about many of the participating credit unions have a lot of rescheduled loans in their books. The problem is that, because there is no policy set on loan reschedule, no record is kept specifically on the number of loans reschedule and the value.

The common practise is that, when a borrower realises that he/she cannot meet the repayment agreed with the credit union. The customer write a letter to the credit union to ask for extension of the repayment period, when the credit union accepts it, new terms will be agreed and the customer then goes by the new terms. Additional survey into the area of credit management is needed as a bigger sample size of data can give a varied results.

## 5.4 GAPS IN THE CREDIT MANAGEMENT PROCESS

### 5.4.1 Barriers

A large number of the credit unions are not much interested in reorganising their credit management processes, They are contend with the performance of their current loan portfolio. This position has been affirmed by the research. This is in disagreement with Hobbs (2010) assertion that credit management staff of credit unions do not have the requisite capabilities to reduce the risk associated with lending. Nonetheless, member satisfaction is one of the problems the credit unions are battling with.

Respondents believe that it is one of the factors impeding effective loan management in their various credit unions. This complement Fatemi and Fooladi (2006)'s findings that the present economic situation demand a new and more effective technology in the loan management process of credit unions. In agreement with Middlemiss (2004), the results indicate that, credit unions lend to its members with aim of maintaining the social duty they owe to their members as the foundation of cooperative credit union demand. Respondents argue that, societies are having problems with satisfying their members as per the cooperative society requirement and keeping the credit union financially strong such that it will be able to withstand the test of time.

The findings are in line with the results of Lenihan (2009). Accordingly this survey recommends that credit unions operate with strict procedures in other to sustain their financial situation and keep their social responsibility to their members. Moreover, it is imperative for credit unions to acquire advance technology capable of given them sufficient and efficient data on loan defaulters for effective credit management.

### 5.4.2 The Gaps

The findings of the survey have revealed the existing gaps in the present process of credit management in the operations of the credit unions. Extending the view point of the Financial Regulator (2006), the research evaluates the partiality of societies to integrate advance credit appraisal technology, for instance stress testing the loan portfolio. The result indicates that the loan portfolios of the societies are not stress test to detect the risk associated with it. It is recommended that the societies stress test their portfolios on regular basis to sustain their credit unions.

This is in line with Hilber and Joans (2004)‟s study which states that stress testing helps financial institutions in their credit risk management. Even though the research of Desai and others (1997), Financial Regulator (2006), Honohan (2009), as well as Bailey (2004) propose that financial institution employ such technologies in their operations, most of the societies the use of such technology for this reason it is not stated in the research objectives of this study. Conversely, respondents recommended the use of credit scoring models to be incorporated in the loan assessment process in order for the financial institutions to determine the financial capacity of a borrower.

Furthermore, other respondents suggested for the integration of at least one technology in the operation of credit unions that could provide them with all the information they will need on a customer for a firm decision making. Largely, the literature and results have shown that the introduction technology in the operations of credit unions will enable them generate more information on the borrower which will help in determining the risk associated with the borrower. Generally, there exist gaps in the literature regarding the questions: Have the credit unions got the capabilities to employ more advanced credit evaluation technology and should the credit unions integrate these technologies in their credit management process?

### 5.4.3 Areas of focus

With regard to areas of focus, most of respondents state that societies need to have credit risk experts among the board of directors. They should update managers on the performance of loans on regular basis to inform their credit control decisions to improve credit management. Some respondents lay emphasis on the need to vary the processes of handling credit defaulters for a more efficient and effective arrears intervention process. There is the need to strengthen the use of technology in the credit assessment process of credit unions.

The survey highlights the general operations of the credit unions concentrating much on the management of credit in the societies. Consistent with Bernanke (2009)'s findings which indicated that information sharing between credit department staff and management is necessary for effective credit management. Additionally, the results narrow the findings of Comptroller of the currency (1988), Thomas (2009) and Fatemi as well as Fooladi (2006). Whiles their research centre on the other financial institutions, this survey has shown that an up to date technology is necessary for the sustainability of the credit unions in the current economic down turn.

The survey further shows that the credit unions agree that they need to modernise their credit default process and increase the proficiency of frontline as well as management. Furthermore, these results are in line with the findings of Weaver (1994), Ralston and Wright (2003), Hinder (2004), Finlay (2008), MAPDEG (2010), Byrne et al (2002) as well as ILCU (2010). Finally, the societies have realised the credit management gaps associated with their operations and the need to effect changes to improve their credit portfolios.

## 5.5 CONCLUSION

From the summary of the analysis resulting from the findings above, a conclusion could be drawn. It is evident according to the results that the study concentrates on the management of loans by credit unions in Obuasi Municipality as a case study for the credit unions in Ghana as a whole. It is done from the opinions and viewpoint of some members and administrators of the participating credit unions. The first objective is to look into the skill set of the credit management staff to determine the presents of quality staff in all the departments especially the credit department in the various credit unions. According to the empirical evidence from the results, the conclusion is that the loans departments have the staff with the least academic qualification with 25% and 17.65% of the credit committee members holding Teacher certificate A and A level respectively.

Credit management is an important area which helps to sustain the stability and performance of the lending institutions (Finlay,2006), it seems the societies put not much relevance on the academic qualification of credit committee members even though credit committee members in the participating societies are part of the credit department. Some respondents indicate that training and experience are essential for the credit department to ensure effective work and profitability.

For this reason, this survey concludes that there are shortfalls in the area of academic qualification of credit committee members of the credit unions. Another reason behind the research is to assess the measures to deal with loan default and technologies that are engaged by societies so as to determine the existence of any weakness in the their credit management process. In relation to tools, the findings from the survey indicate that the credit unions consider them important and necessary for decisions concerning loans. However, the findings of research show that the credit unions do not apply the affordable calculator in their credit assessment. It is significant to notice existing literature (Hobbs,

2010) and some respondent to the survey deem the use of this tool to be a essential. This research subsequently states that the use of technology to assess loans applicants is lacking in the operations of the credit unions. This technology is essential for effective and efficient determination of the riskiness of a borrower.

An additional finding from this study indicates that the arrears intervention process of the societies are not consistent, it varies from one credit union to the other. Additionally, some technology could be used in this area loans management; some of the technologies include XRS system which is used by some institutions in their credit management. This technology helps to maintain consistency in credit decision making. These indicate that this department of the credit union is not resourceful as will be expected from a sector that manages the biggest assets of the societies. Finally, the gaps in the loans administration procedure of the societies are revealed from the results of this survey.

The gaps include arrears intervention and the luck of technology usage in credit assessment in all the participating credit unions. The study's conclusion is that, the societies must integrate stress testing in their societies' loans administration processes given the existing surveys on the other available technologies such as neutral networks, credit scoring models and decision tree have to be taken into consideration. However, additional research is essential to determine the capabilities of the credit unions to employ a more multifarious technologies in their credit administration.

## 5.6 RECOMMENDATIONS

The following are recommendations for the credit unions:

According to the survey, it has been established that the credit committee members have the least academic qualification with some of them holding teacher certificate A. It is recommended that, the credit unions will change the voluntary nature of the credit committee and get people with appreciable academic qualification who will be on salary, since the credit committee members are part of the team which is managing the greatest assets of the credit union. Most of the survey respondents are board of directors (38%) which may create an element of unfairness towards some particular questions. The reason is that, the responses are in the point of view of the board of directors. It is recommended that longitudinal survey could be undertaken to assess the credit administration processes of the various societies. From the survey it emerges that few of the interviewees are members of the credit unions. The members of the credit union are the owners and the majority group in the credit union therefore; further research could be made interviewing a larger size of the credit union members to see whether increasing the size of the members could produce different results. It will be prudent if another group such as C.U.A. representatives, financial journalist, financial regulator and other related bodies are interviewed from the beginning.

They would provide a varied point of view on the loans administration processes of their societies and this may revealed different facts with respect to what possibly might be used by societies to further improve their credit portfolio performance. Finally, given time constraints and cost only 5 credit unions were used as a case study. Consequently, there could be a bigger survey which would include all the societies operating within the Obuasi Municipality. The findings from such a survey will help to understand whether the generalization of the findings from this survey is correct. There should be a critical look at the variances that will occur in the both surveys to find out if they are significant enough.

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## APPENDIX 1

**SECTION A: Current stance of the credit union with regards to lending**
IN THIS SECTION WE WOULD LIKE TO GAIN A GREATER UNDERSTANDING OF THE NATURE OF THE ISSUES WITH REGARDS TO LENDING PRACTICES, PROCEDURES AND QUALIFICATIONS

**1.** Can you please state your position in the credit union?
General Manger ( ) Credit Officer( ) Credit Committee Chairperson Other ( )
If other please state your position___________________________________

**2.** How many credit officers are there in your credit union excluding credit committee members?
1( ) 2( ) 3( ) 3-4( ) 5-6( )

**3.** What qualification does each of the lending officers have?

| | L1 | L2 | L3 |
|---|---|---|---|
| O Level | ☐ | ☐ | ☐ |
| S.H.S.C.E | ☐ | ☐ | ☐ |
| A Level | ☐ | ☐ | ☐ |
| First Degree | ☐ | ☐ | ☐ |
| Professional | ☐ | ☐ | ☐ |
| Certificate | ☐ | ☐ | ☐ |

Other (Please Specify) _______________________________

**4.** How many years experience does each of the lending officers have?

| | L1 | L2 | L3 |
|---|---|---|---|
| 0-2 | ☐ | ☐ | ☐ |
| 3-5 | ☐ | ☐ | ☐ |
| 6-8 | ☐ | ☐ | ☐ |

**5.** Rate the importance of the following tools and factors used in your credit union to assess loans? (**Circle** the level of importance for each factor)

| | **Not Important** | **of Little Importance** | **Neutral** | **Important** | **Very Important** |
|---|---|---|---|---|---|
| Affordability Calculator | 1 | 2 | 3 | 4 | 5 |
| View loan history in CU | 1 | 2 | 3 | 4 | 5 |
| Any delinquency correspondence | 1 | 2 | 3 | 4 | 5 |
| The amount of loans held elsewhere | 1 | 2 | 3 | 4 | 5 |
| The loan outstanding with your c u. | 1 | 2 | 3 | 4 | 5 |
| The share to loan ratio | 1 | 2 | 3 | 4 | 5 |
| Savings pattern | 1 | 2 | 3 | 4 | 5 |
| Job Security | 1 | 2 | 3 | 4 | 5 |
| Wage/Salary Level | 1 | 2 | 3 | 4 | 5 |
| Savings balance | 1 | 2 | 3 | 4 | 5 |
| Guarantee by third Party | 1 | 2 | 3 | 4 | 5 |

**6.** Rank the top **three** type of loans which are mostly given out ?

| | **Type** |
|---|---|
| Car loans (Personal and commercial) | ☐ |
| Business Loans | ☐ |
| Housing loan | ☐ |
| Education Loans | ☐ |
| Personal loans | ☐ |
| Refinancing Loans | ☐ |

Other (Please State) _____________________________

**7.** What is the longest duration given for repayment on your loans?

6 – 12 months ( ) 13 – 24 months 25 – 36 months

37 – 48 months ( ) Other (Please State __________________________

**8.** What method of payment is mostly use to repay loans? (Rank 1 to 3), where 1 is the most used method and 3 is the least used method)

Cash over counter ( ) Standing Order ( ) Direct Debit ( )

## SECTION B: Current stance of the credit union with regards to credit control

IN THIS SECTION WE WOULD LIKE TO GAIN A GREATER UNDERSTANDING OF THE NATURE OF THE ISSUES WITH REGARDS TO CREDIT CONTROL PRACTICES, PROCEDURES AND QUALIFICATIONS

**9.** How many credit control officers are there in your credit union excluding credit committee members ?

1, ( ) 2, ( ) 3, ( )

**10.** What qualification does each of the credit control officers have?

| | L1 | L2 | L3 |
|---|---|---|---|
| O Level | ☐ | ☐ | ☐ |
| S.H.S.C.E | ☐ | ☐ | ☐ |
| A Level | ☐ | ☐ | ☐ |
| First Degree | ☐ | ☐ | ☐ |
| Professional | ☐ | ☐ | ☐ |
| Certificate | ☐ | ☐ | ☐ |

Other (Please Specify) _____________________________

**11.** How many years experience does each of the credit control officers have?

0-2 3-5 6-8

**12.** What is the time frame allocated for each of the stages of an unpaid loan before a procedure is implemented?

(Please **circle** the correct numbers which represent the number of months)

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| First Reminder | 1 | 2 | 3 | 4 | 5 | 6 | | | | |
| Second Reminder | 7 | 8 | 9 | 10 | 11 | 12 | | | | |
| Transfer to Solicitor | 24 | | | | | | | | | |

If longer than above please state the duration here:

**13.** What level of effectiveness are the following **interventions in recovering arrears** to your credit union? (**Circle** the level of importance for each factor)

| | **Not Important** | **Of little Importance** | **Neutral** | **Important** | **Very Important** |
|---|---|---|---|---|---|
| The issuance of letters | 1 | 2 | 3 | 4 | 5 |
| Loan Rescheduling | 1 | 2 | 3 | 4 | 5 |
| Loan Freezing (Interest only to be paid later) | 1 | 2 | 3 | 4 | 5 |
| Sett off | 1 | 2 | 3 | 4 | 5 |
| Reduction of payments (Temporarily) | 1 | 2 | 3 | 4 | 5 |

**14.** Is there a policy on rescheduling loans that has been implemented by the board?
Yes ( ) No ( )

**15.** In the year 2013 how **many loans** approximately have been rescheduled?

<100 ( ) 100-300 ( ) 301-500 ( ) 501-700 ( ) >700 ( )

**16.** In the year 2013 what was the **value of loans** approximately that had to be rescheduled?

GHC 0 – GHC10,000 ☐

GHC 10,001 – GHC20,000 ☐

GHC20,001 – GHC30,000 ☐

GHC30,001 – GHC40,000 ☐

GHC40,001 – GHC50,000 ☐

>5GHC 50,000,000 ☐

**SECTION C: Current stance of the credit union with regards to the credit committee and reporting procedures**

IN THIS SECTION WE WOULD LIKE TO GAIN A GREATER UNDERSTANDING OF THE NATURE OF THE ISSUES WITH REGARDS TO CREDIT COMMITTEE PRACTICES, PROCEDURES, QUALIFICATIONS AND REPORTING

**17.** How many people are on the credit committee?

**18.** What qualification does each of the credit committee members have?

| | L1 | L2 | L3 |
|---|---|---|---|
| O Level | ☐ | ☐ | ☐ |
| S.H.S.C.E | ☐ | ☐ | ☐ A |
| Level | ☐ | ☐ | ☐ First |
| Degree | ☐ | ☐ | ☐ |
| Professional | ☐ | ☐ | ☐ |
| Certificate | ☐ | ☐ | ☐ |

Other (Please Specify) ___________________________

**19.** How many years experience does each of the credit committee members (CC 1…) have?

0 – 1 (  )  2 – 3 (  )  4 – 5 (  )  6 – 7 (  )  8 (  )

**20.** How often does the credit committee meet?

Twice a week ☐

Once a week ☐

Once every fortnight ☐

Once every month ☐

Other (Please Specify) ☐

**21.** How frequently does the credit committee report to the Board?

| | | | |
|---|---|---|---|
| Monthly | ☐ | Half Yearly | ☐ |
| Quarterly | ☐ | Other (Please Specify) | ☐ |

**22.** Please rate the level of importance of the following information regarding the inclusion of same in your credit unions credit committee reports. (Please **circle** the level of importance of each factor)

| | Not Important | Of Little Important | Neutral | Important | Very Important |
|---|---|---|---|---|---|
| Aged analysis of arrears in money | 1 | 2 | 3 | 4 | 5 |
| Aged analysis of arrears by loan size | 1 | 2 | 3 | 4 | 5 |
| Aged analysis of arrears by loan purpose (e.g. car, education, etc.) Actions | 1 | 2 | 3 | 4 | 5 |
| taken since last report | 1 | 2 | 3 | 4 | 5 |
| Effect of actions since last report | 1 | 2 | 3 | 4 | 5 |
| Provisions made for bad debt Write | 1 | 2 | 3 | 4 | 5 |
| off/Charge offs | 1 | 2 | 3 | 4 | 5 |
| Number of accounts with solicitors | 1 | 2 | 3 | 4 | 5 |
| Number of accounts with debt collection agency | 1 | 2 | | | |
| Number and value of rescheduled loans | | | 3 | 4 | 5 |
| Recovery of arrears | 1 | 2 | 3 | 4 | 5 |
| Write off/Charge offs | 1 | 2 | 3 | 4 | 5 |
| Number of accounts with solicitors | 1 | 2 | 3 | 4 | 5 |
| Number of accounts with debt collection agency | 1 | 2 | 3 | 4 | 5 |
| Number and value of rescheduled loans | 1 | 2 | 3 | 4 | 5 |
| Recovery of arrears | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |

**SECTION D: Current stance of the credit union and future improvements on credit management**
IN THIS SECTION WE WOULD LIKE TO GAIN A GREATER UNDERSTANDING OF THE NATURE OF THE ISSUES WITH REGARDS TO CREDIT MANAGEMENT PRACTICES AND WHAT IMPROVEMENTS NEED TO BE MADE.

**23.** Which of the following statements best describes your organisation's current status with the review of its credit management processes in response to recent market events?

- ☐ We have already conducted a thorough overhaul of our credit management processes.
- ☐ We intend to conduct a thorough overhaul of our credit management processes, but have not yet completed it.
- ☐ We have made some minor changes to our credit management processes.
- ☐ We intend to make some minor changes to our credit management processes, but have not yet completed them.
- ☐ We do not intend to make any changes to our credit management processes.
- ☐ We are waiting to see how the market develops before deciding whether to review our credit management processes.

**24**. Do you think ***stress testing**** of a credit unions loan portfolio might help a credit union plan for unwelcome developments and respond to them accordingly? Yes ( ) No ( )

***Stress Testing*** *is a technique used on loan portfolios to determine their reactions to different financial situations. E.g. If a major employer locally were to close, what impact would it have on loan repayments?*

**25.** Does your credit union currently stress test its loan portfolio when budgeting or forecasting its fundamental results? Yes ( ) No ( )

**26.** Please indicate to what extent you agree or disagree with the following suggestions as being **the main barriers** to improving credit management in your Credit Union. (Please **circle** the appropriate number in each row)

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| **a.** Insufficient quality of data | **1** | **2** | **3** | **4** | **5** |
| **b.** Lack of expertise | **1** | **2** | **3** | **4** | **5** |
| **c.** Inadequate systems | **1** | **2** | **3** | **4** | **5** |
| **d.** Poor communication across organisational structure | **1** | **2** | **3** | **4** | **5** |
| **e.** Insufficient quantity of data | **1** | **2** | **3** | **4** | **5** |
| **f.** Lack of authority for credit management | **1** | **2** | **3** | **4** | **5** |
| **g.** Insufficient credit representation at the Board level | **1** | **2** | **3** | **4** | **5** |

Other (Please Specify) ____________________________

**27.** Please indicate to what extent you agree or disagree with the following statements regarding the **key areas of focus** in the management of credit in your credit union over the next year. (Please **circle** the appropriate number in each row)

| Strongly | Strongly Disagree | Disagree Agree | Neutral | Agree | |
|---|---|---|---|---|---|
| **a.** We will focus on improving managers information on the performance of the credit unions loans | 1 | 2 | 3 | 4 | 5 |
| **b.** We will focus on improving the credit control policy of the credit union | 1 | 2 | 3 | 4 | 5 |
| **c.** We will focus on building credit risk expertise at board/committee level | 1 | 2 | 3 | 4 | 5 |
| **d.** We will focus on changing the collection processor procedure for loan arrears | 1 | 2 | 3 | 4 | 5 |
| **e.** We will focus on integrating credit decisions with credit controlexperience | 1 | 2 | 3 | 4 | 5 |
| **f.** We will focus on strengthening on technology infrastructure | 1 | 2 | 3 | 4 | 5 |
| **g.** We will focus on regulatory compliance | 1 | 2 | 3 | 4 | 5 |
| **h.** We will focus on recruiting experienced credit professionals | 1 | 2 | 3 | 4 | 5 |

Any other suggestions (Please specify) ___________________________________

**28.** Any additional comments that you have regarding your credit management process will be appreciated:

_______________________________________________________________________________

## Interview Questions

What are the main barriers to lending in your credit union?

What are the current interventions used in your credit union to assist in the loan decision process?

Do you think that all lending officers should acquire a required skill set i.e. specific education qualifications and experience?

Which qualifications do you think is of greatest benefit to your credit union?

How does the level of training contribute to credit management?

What is your opinion on this statement: The longer the duration of a loan in your credit union the more likely the loan will default.

What are the current interventions used in the recovery of arrears?

Do you think your current credit management process needs revision?

What extra elements do you think could be incorporated into your credit management process to make it more robust?

What are the main challenges do you think your credit union will face in implementing any necessary changes to your current credit management process?