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ASSESSING THE EFFECTIVENESS OF THE CREDIT APPRAISAL SYSTEM AT FIRST ALLIED SAVINGS AND LOANS LIMITED

BY

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DECLARATION

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

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DEDICATION

I dedicate this thesis to God almighty and my Son.

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I am most grateful to the Almighty God for his abundant grace he showered on me from the beginning of this course to the end of it culminating into the writing of this project work. My appreciation also goes to my supervisor, Mr. Kwasi Poku for all his support and guidance throughout this project work because his contributions to the development of this research, both in terms of intellectual insight and comments were essential for the success of this work.

ABSTRACT

This study assesses the Effectiveness of the Credit Appraisal System at First Allied Savings and Loans Limited. Questionnaires were administered to fifty clients of First Allied Savings and Loans Co. Ltd. The Loan Officer of First Allied Savings and Loans ltd was also interviewed. The findings from the research indicated that the credit appraisal system of First Allied savings and loans ltd has resulted in a healthy loan portfolio for First Allied savings and loans ltd in the sense that the credit appraisal system has help them to be fast in processing a loan application resulting in an average loan processing time of 24 hours. The findings also revealed that the credit appraisal system used by First Allied savings and loans ltd has help it to reduce the rate of nonrepayment of loans given out to customers. The research findings indicated that one of the challenges that First Allied savings and loans ltd usually face in implementing its credit appraisal system is lack of adequate information. The research findings showed that the credit facilities that are provided by First Allied savings and loans ltd to its customers are Term loans, Overdraft facilities and Personal loans. The analysis also indicated that First Allied savings and loans ltd usually demand for more collateral security from its clients during a loan application process compared to other savings and loans companies. The findings also showed that the interest rates and fees usually charge by First Allied savings and loans ltd is high when compared to other Savings and loans companies. It was also noted from the analysis that the credit period usually granted by First Allied savings and loans ltd to its customers to repay loans given to them is the same as that usually granted by other Savings and loans companies.

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CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

The sections that are discussed include background of the study, problem statement, objectives of the study, research questions, and scope of the study. It also provides the limitation and justification of the study and finally the organization of the study.

1.1 BACKGROUND OF THE STUDY

The main function of any commercial financial institution as well savings and loans companies is to serve as an intermediary between the users and sources/providers of funds. This intermediary role helps enhances the efficient allocation of resources in an economy. Despite the above mentioned importance of the financial institutions and the other relevant roles they play, the issue of risk usually encountered by all financial institutions cannot be avoided. Financial institutions usually assumes the risk (substantial credit and interest rate risk) involved in their activities in the quest of serving as conduit through which funds are efficiently allocated since financial institutions usually hold the loans given to their respective customers until the date of maturity. The basic role of any financial institution or savings and loan company is lending and a large proportion of their assets are usually made up of loans. The interest rates usually charged by financial institutions is not stable especially in an unstable economic environment like Ghana which is fast overtaken by major economic forces such as inflation, high exchange rates and constant rising of fuel pricings compelled with energy crisis making repayment of loans by borrowers excessively difficult. Also, due to the high interest rates being charged in unstable economic environments, insider loans usually increased and there is always too much concentration in some portfolios resulting in increases in credit risk.

Poor lending practices, inadequate experience, absence of organizational and information systems to effectively measure risk of credit in the falling economy has resulted in the recent financial institution failures in Africa (Gil Diaz, 1994). The same can be said about of financial institutions operations in Ghana today of which savings and loans companies are not an exception.

In order to be able to minimize the extent to which financial institutions are exposed to bad debt, over-reserving and financial bankruptcies, there is the need for financial institutions to have more insight into their customers credit score history, financial strength and changing patterns of payment. Therefore the essential requirement for proper management and appraisal of credit is the ability to efficiently and intelligently manage lines of credit of customers. Credit management and effective appraisal systems starts with the evaluation of the client and continues until complete payment of the loan is made. It is worth noting that the financial institution's credit policy usually depends on economic conditions (Pandey, 2008). There might be a change in the credit policy of the firm if there is a change in the underlying economic variables affecting the credit policy. Financial institutions always develops a credit policy to govern the operations of their credit management and appraisal system (Pandey, 2008); also there is always uncertainties with regards to the repayments of the loan since financial institutions always generate their revenue from low income individuals whom they have extended credit to in the form of interest charged on the funds granted (Central Financial institution Annual Report, 2010). Thorough evaluation of the conditions of risk of lending and the borrower's characteristics should be considered to determine what the credit decision should be based on. Different and unique approaches have been adopted by different financial institutions in client appraisal process based on the relative nature of the financial institutions. Simple methods, which includes the use of subjective (informal approaches) to complex methods which involves the use of computerized simulation models (Horne, 2007) and the combination of the above two methods are used by financial institutions in arriving at lending decisions.

1.2 STATEMENT OF THE PROBLEM

Since every financial institution usually generates most of their income from loan interest, their success largely depend on their credit management systems effectiveness.

Banking crisis in recent years is caused mainly by ineffective practices of managing credit risk characterized by speculative lending, rising levels of insider loans as well as concentration of credit in some areas. The failure to successfully manage credit risk has resulted in problems in most sub Saharan countries of which Ghana is not an exception. According to CFIAS Report, (2010) there is high incidence of credit risk as a result of the rising levels of non-performing loans by financial institutions over the past ten years, and this situation adversely affect the profitability of the financial institutions. This threatens the sustainability, viability and image and of the financial institutions as well as prevents the financial institutions from achieving their goals for which they were incorporated. Ghana Corporative Bank and the Bank for Housing and Construction (BHC) collapsed due to bad credit assessment and inefficient credit appraisal system that led to bankruptcy and it liquidation about two decades ago.

This situation is worsened by financial institutions failure to appropriately put in place an effective framework for credit risk management. Most financial institutions in Ghana have faced problems in the past for some many reasons. The major cause of most financial institutions problems (Gil Diaz, 1994) is directly related to absence of attention to changes in economic, slack credit standards for borrowers and other counterparties, poor portfolio risk management.

A lender (financial institutions) lends money (gives loans) but does not give it away (Rouse, 1989). Therefore financial institutions must put in the necessary effort to collect both the principal amount and the interest of the loans as they mature. There have however been little empirical studies on how the credit appraisal system affects customers' satisfaction and recognition of the challenges encountered by financial institutions in implementing the appraisal system and the effect of credit appraisal systems used on the financial institutions loan portfolios. This study does seek to bridge this gap and because of this it tries to assess the effectiveness of credit appraisal systems on loan portfolio at First Allied Savings and Loans Limited (FASL).

1.3 OBJECTIVES OF THE STUDY

The main objective of the study was to assess the effectiveness of credit appraisal systems at First Allied Savings and Loans Limited and as such it concentrated on appraisal system used by First Allied Savings and Loans Limited to enable it to remain competitive in the ever-changing and competitive Banking industry in Ghana.

1.3.1 Specific objectives

i. To examine the credit appraisal system of FASL.

ii. To assess the effect of the credit appraisal system used by FASL on the quality of its loan portfolio. iii. To identify challenges faced by FASL in implementing its credit appraisal

effectively.

iv. To examine how the credit appraisal system of FASL affect client satisfaction.

1.4 RESEARCH QUESTIONS

The questions of the research which have been developed from the research objectives above include the following.

i. What constitute the credit appraisal system of FASL?

ii. How effective has FASL credit appraisal system been over the past five years?

iii. What are some of the major challenges encountered by FASL with regard to its credit appraisal system over the past five years?

iv. How does the credit appraisal system of FASL influence customer service?

1.5 SCOPE OF THE STUDY

The scope of the study was limited to only First Allied Savings and Loans Limited within the Ashanti region. The study was conducted on the basis of identifying and evaluating the credit appraisal system employed by First Allied Savings and Loans Limited to gain competitive advantage in the Banking industry and its resulting effect on the clients. The study covers all the relevant reports on loans and the financial statements of First Allied Savings and Loans Limited over the past five years (from 2010-2014). The study was limited to only First Allied Savings and Loans Limited and findings of the study is relevant in the context of the above mentioned financial institution, hence findings and results of the study would not be generalized for the entire Ghanaian banking industry since it was a case study of only one financial institution.

1.6 JUSTIFICATION OF THE STUDY

This study is justifiable and very important since poor management of credit risk can results in financial institution failure. This means that proper management of credit risk is essential for financial institution survival and protection of its stakeholder's interest.

Many financial institutions have not been successful due to inappropriate management of credit risk even though such financial institutions have much more developed processes and system. The major role of a financial institution is to lend, and loans usually constitute the major part of their assets and also financial institutions serving as the intermediaries between the users and sources of funds have been necessary for the financial markets in achieving an efficient allocation of resources in the economy. Therefore, loans should be properly managed by incorporating more effective credit appraisal system.

The research is therefore reasonable and imperative since it deals with how effective the credit appraisal systems employed by financial institutions in Ghana are relevant to the overall success of the Banking industry.

The study again would serve as a source reference which would be beneficial to the individual practitioners and corporate bodies in the Banking industry especially First Allied Savings and Loans Limited and also could be adopted by other financial institutions. That is, it would enable them to critically and consistently review their credit appraisal systems and put in place the appropriate measures to reduce the risk of loan non-payment.

Lastly, the study is justifiable on the ground that it will provide recommendation for further studies and also add to the existing literature on the credit appraisal systems in the Banking industry. It will enable researchers to find out other research relevant to the credit appraisal systems since no research is comprehensive enough to cover everything relating to credit appraisal systems.

In all, this research will benefit various stakeholders and the Ghanaian economy as a whole in the long run

1.7 LIMITATIONS OF THE STUDY

The study was limited to only First Allied Savings and Loans Limited due to the difficulties in assessing other financial institutions credit appraisal systems. Also most financial institutions were unwilling to give out the required information on loans since they think it is confidential and hence other financial institutions were not included. There was also the difficulty of having access to relevant literature and also the time was limited. Therefore the researcher was limited in time and access to data and information. Also the subjective contribution made by the respondents might affect the accuracy of the study.

1.8 ORGANIZATION OF THE STUDY

The research thesis has been structured into five chapters as follows:

Chapter one includes the general introduction. It discussed the problem statement, the research objectives, the research question followed by the scope and justification of the study. Chapter two covers the literature review on the subject matter on previous works done from a global perspective. This was done in relation to what the objectives of the study tend to achieve.

Chapter three includes the methodology and the organizational profile of First Allied Savings and Loans Limited.

Chapter four entails presentation of data, data findings, analysis and discussion of the data collected under the study. It presents findings of the study based on the information gathered from the field.

Chapter five presents a summary of findings of the study. This chapter also presents conclusion drawn based on the findings of the study, and recommendations made by the researcher.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This section outlines and reviews the various research literatures associated with the research topic. These related literatures were obtained from journals, newspapers, published books and articles, the internet and other sources that provided other relevant information about the subject matter. It presents an entire overview of the Banking industry in Ghana and credit assessment.

2.2 AN OVERVIEW OF THE BANKING INDUSTRY IN GHANA

There has been considerable change in the Banking industry in Ghana since 1988 due to the steady and gradual financial services deregulation implementation, globalization and the advent of information and communication technologies. In 1987, the financial institutions in Ghana were in distress, especially the state-owned financial institutions. For instance, nonperforming loans reached 41% of the total credits (International Monetary Fund, 1999). The various reforms that have taken place in the financial sector in Ghana is due mainly to high operating costs due to inefficiencies, huge nonperforming loan portfolios, and insufficient provisions for losses relating to loans, banking system insolvency, shortage of capital, and overstated profits. The introduction of the Economic Recovery Programme (ERP) and implementation of the Structural Adjustment Programme (SAP) in 1986 enabled the government to remove some of the major structural bottleneck in the economy and provided a solid foundation for sustained growth and development in the financial sector which enhanced its role in the financial intermediation in the country. The change is still an on-going process and currently, the

Banking sector is regulated under the authority of the central Bank based on the following three main laws and Banking in Ghana now matured in terms of range of product, supply and reach even though reaching rural Ghanaian still remains a problem for both public and private financial institutions:

- The Banking Act 2007 (Act 738)
- The companies Code 1963 (Act 179) as amended and
- The Foreign Exchange Act 2006 (Act723)

These new acts as amended provide legal and regulatory framework based on which financial institutions operate in Ghana. The independence of the Bank of Ghana has being strengthened which enables it to effect any necessary changes in the monetary policies in the country. The new regulations also set out the minimum capital requirement and further define what is termed as prudential lending standards and capital adequacy. A report by Databank Ghana (2004) indicates that macroeconomic indicators including interest rate, inflation and exchange rate have being stabilized as a result of the implementation of the above mentioned regulations. Also the Credit Reporting Act 2007 (Act 726) was enacted to provide a structure for credit bureaus and establishment of conditions for credit reporting to further enhance the Ghana's debt market. The Act also was to facilitate the appropriate assignment of interest rate pricing and risk to client to ensure effective and efficient credit rating to individuals and institutions. The adoption of the International Financial Reporting Standards (IFRS) in January 2009, which was collaborative attempt by Bank of Ghana (BoG), the Institute of Chartered Accountants, Ghana (ICAG) and the Security and Stock Exchange Commission (SSEC) has also yield a positive result for the Banking industry in Ghana.

2.3. OPPORTUNITIES AND CHALLENGES FOR THE PLAYERS IN THE BANKING INDUSTRY IN GHANA

The bar for what it means to be a successful player in the Banking industry in Ghana has been raised. Four major challenges must be addressed by any financial institution before success can be achieved in the industry.

- With increased interest rate in the country, competition from foreign financial institutions will only intensify.
- Financial institutions will no longer enjoy windfall treasury gains that the decadelong secular decline in interest rates provided
- The market is seeing discontinuous growth driven by new products and services that include opportunities in credit cards, consumer finance and wealth management on the retail side, and in fee-based income and investment Bankingon the wholesale Banking side. These require new skills in sales and marketing, credit and operations.
- Given the demographic shifts resulting from changes in age profile and household income, consumers will increasingly demand enhanced institutional capabilities and service levels from financial institutions.

The interaction between management strategies policy and regulatory interventions will therefore determine the performance of financial institutions over the next few years. Financial institutions success will therefore be determined on three fronts: continually innovating to develop new business models to access untapped opportunities, fundamentally upgrading organizational capability to stay in tune with the changing market and last but not the least, adopting the concept of value-creating as an avenue for growth.

2.4 CREDIT ASSESSMENT

The presentation of the necessary documents needed by financial institution in granting loans (Nsereko, 1995) is usually the starting point of a lending process is and is usually term as Credit assessment. Credit assessment involves credit appraisal, credit documentation and collateral, size, purpose and period of loan, disbursement and repayment of loan, monitoring and follow-ups on clients and the overall management of the loan portfolio.

2.5 CREDIT APPRAISAL

Credit appraisal has been seen by Anjichi (1994) as the most important component of a proper portfolio. Credit appraisal is a holistic exercise which starts from the time a prospective borrower walks into the financial institution or bank and culminates in credit delivery and monitoring with the objective of ensuring and maintaining the quality of lending and managing credit risk within acceptable limits (International Multidisciplinary Research Journal 2012,). Credit appraisal means an assessment made or an investigation done by the financial institution prior to providing any sort of loans and advances, project finance and further checks the commercial, financial and technical viability of the proposed project, it's funding pattern and also checks the collateral security cover available for recovery of such loan (the process of appraising the credit worthiness of the loan applicant). Financial institutions therefore need to design a wellstructured credit appraisal criteria which can enable them to assess loan applicants that indeed are capable of fulfilling the loan payment when due. According to Ghosh et al (2000), modern approaches which are more statistical in nature and objective are used as an approach to credit appraisal of borrowers. The most common approach used is the credit scoring.

2.6 CREDIT SCORING

Credit scoring seeks to solve the problems with judgmental lending and over the past years; credit scoring is mainly used in all types of lending activities (Business Banking Board, 2000) and is usually used by financial institutions to evaluate loans given to their clients.

The applicant's personal data including income per month, debts outstanding, financial assets owned, the period of time the applicant has been working with the same company, the applicant credit history, and the type of account the applicant has opened with a financial institution are factors that are associated with loan performance and can therefore be used in a credit score model.

2.6.1 ADVANTAGES OF CREDIT SCORING

Credit scoring has obvious benefits that have led to its increasing use in loan evaluation financial institutions.

First, scoring greatly reduces the time needed in the loan approval process. A study by the Business Banking Board found that the traditional loan approval process averages about twelve and half hours per small-business loan and in the past, lenders have taken up to two weeks to process a loan (Allen 2008). Credit scoring can reduce this time to well under an hour, although the time savings will vary depending on whether the financial institution adheres strictly to the credit score cut-off.

This will be savings being made by the financial institutions with respect to time savings and this will also be of help to the customers of the financial institutions as a whole (Muolo 2008).

Moreover, credit scoring is good for the financial institutions in that costs of training personnel by the financial institutions is lower and delinquencies decline because credit scores are consistently able to more accurately predict performance than judgmental decisions. Also, fewer people are needed for the credit process, allowing lenders to branch out into other areas with new products and services

Another benefit of credit scoring is its ability to improve objectivity in the loan approval process. This objectivity helps lenders ensure they are applying the same underwriting criteria to all borrowers regardless of race, gender, or other factors prohibited by law from being used in credit decisions. Bank regulators (BoG) require that the factors in a scoring model must have some fundamental relationship with creditworthiness.

2.7 SYSTEMATIC APPROACH TO CREDIT APPRAISAL

There are five stages to any analysis of a new lending preposition. These are; the introduction of the client, client loan application, reviews of client loan application, evaluation and effective monitoring and control (Rouse, 1989).

2.7.1 INTRODUCTION OF THE CLIENT

References recently are not taken by financial institutions always when one needs to open an account with a financial institution but the due process for opening an account should be in a way such that, trustworthiness and honest of the customer are established. These two conditions are imperative to the financial institution when the account holder wishes to borrow from the financial institution most especially when the financial institution is not fully convinced about the information provided by the loan applicant.

2.7.2 THE LOAN APPLICATION

According to Rouse (1989), loan application may take different forms but more importantly should include a comprehensive business plan that outlines how the applicant will fulfil the repayment of the loan and critical assessment of contingencies that can occur.

2.7.3 REVIEW OF LOAN APPLICATION AND ASSESSING CREDIT

WORTHINESS OF LOAN APPLICANTS

Whilst a credit decision is relatively straight forward in principle (effectively two possibilities exist, yes or no), in practice it involves experience, judgment and the ability to carry out a range of financial and analytical techniques to determine the likelihood that the money will be repaid. In order to facilitate the lending analysis and to ensure that all key areas (information and data concerning the loan application) are addressed, such information and data are tested.

Rose (1999) the question that needs to be answered is whether loan customers can repay the loan when it is due with some small amount of interest. According to Rose (1999), the underlying factors for the assessment of pre-lending safeguards are; Character, Capacity, Cash, Collateral, Conditions and Control (6Cs). Numerous mnemonics have being compounded by various authors and researchers. Rouse (1989) referred to the use of checklist to assessment loan application as: CCCPPARTS (Capital, Character, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security) and the Five Cs which mostly used by both financial institutions and other lending institutions. The basic principle of assessing the potential of having loans repaid may determine the variation in the mnemonics used.

Even though financial institutions may use different methods, the basic principles are similar. The two most common mnemonics ingrained in the financial institution manager's mind and of credit officer's is the Five C's and CAMPARI.

2.7.3.1 THE 5CS OF CREDIT APPRAISAL

When clients apply for a loan, the financial institution evaluates the request in order to determine whether or not it is a good decision to lend the money to the applicant. A common evaluation framework or techniques used by numerous lending institutions as identified by Kay Associate Limited (2005) is the 5C's of Credit vetting which comprises capacity, collateral, capital, conditions and character.

- Capital is usually the seed money invested in the business or project and shows how much is at risk if the business or the project cannot succeed. Lenders usually assess the applicant (company's) debt-to-equity ratio to know how much money the lender is giving in relation to the amount the owners have invested into the business.
- Capacity refers to the applicant ability to repay the loan. Any potential lender will wants to know the means through which the borrowers will pass through to repay the loan. The lender considers the cash flow from the borrower's projected business, the timing of repayment, and the probability of successful repayment of the loan.
- Conditions refer to the purpose for which the loan is to be used. The size of loan to be given in relation to the specific use by the applicant helps the financial institution (lender) to evaluate the loan requested by the client. A volatile or unstable economic situation can adversely affect the loan evaluation process.

  However, positive expectations can boost the chance of the potential borrower getting the loan.
- Collateral is a form of security for the lender. Financial institutions usually require collateral as a type of insurance in case client refuses loan repayment. The lender

takes possession of the collateral in place of the debt. The loan agreement should carefully specify all items serving as collateral. Equipment, buildings, accounts receivable, and inventory are all potential forms of collateral.

- Character: there is no accurate way of judging character of a person and as such the lender will decide whether or not the applicant is trustworthy and can repay the loan. Financial institutions always inspect applicant credit payment history, evaluate a credit bureau report, and assess the applicant level of educational and knowledge and involvement in business operations.

2.7.3.2 THE CAMPARI MNEMONIC OF CREDIT APPRAISAL

- Character: financial institutions usually grant loans when they are certain that the principal and interest will be repaid and as such checking the trustworthiness and previous records of the customer is usually a necessary consideration. The financial institution will not continue with the lending process if they doubt the character of the customer.
- Ability: The potential borrower's experience and their determination to build a prosperous business are usually considered by financial institutions. Since the borrower alone cannot have all the skills required to run a business, the capabilities of the management team and key staff are usually considered by the financial institutions as well.

- Purpose: Financial institutions usually assess the main purpose of a loan application in order to ensure that the risk associated with it is within acceptable limits.
- Amount required: financial institutions usually assess the amount of loan required by the borrower in order to know whether there is the need to advance such an amount or not.

- Repayment: the borrower's ability to repay the loan is usually of much importance to financial institutions (Antonio, 2000) and they usually assess the ability of the borrower to repay by cross-checking the borrower's past business performances.
- Insurance/security: collateral security is usually demanded for by financial institutions before credit facility can be granted to a borrower (Antonio, 2000) so that in the event of non-repayment of the credit facility, they can sell those assets in order to recoup their money. But different researchers have different opinion with regard to collateral security. Dunkman (1996), Agyeman (1987) and Rouse (1989) stated the need of security while Stiglitz (1996) and Akakpo (1994) buttressed against the excessive demand for security.

2.7.4 EVALUATION OF THE LOAN

The lenders evaluation should concentrate on borrowers risk and assessing the ability of the borrower to deal with them (Rouse 1989). Financial institutions undertake an evaluation of loan and borrowers once the relevant information has been gathered. The main objectives of the evaluation is to enable the financial institution establish the risk involved in giving loans. The evaluation can be done in the following ways:

- Assessing whether the borrower's plan for repaying the loan is feasible. Viability of the borrower's plan is also imperative and hence financial institutions should discontinue further loan evaluation once the client's proposal is not viable.
- Critical assessment of any unforeseen contingencies and determining the probability of such event (s) and it adverse effect on the position of the financial institution/lender.

It is therefore relevant for the financial institutions to put emphasis on fact and concentrate on real evidence rather than mere opinions and projected estimates. Both the advantages and disadvantages of any proposition should be clearly stated and analysed.

2.7.5 MONITORING AND CONTROL OF LOANS

Loan supervision and effective control (Robinson, 1962; Anjichi, 1994) can help reduced the many frustrations associated with slow and distresses credits. Monitoring and control helps keeping a good loan portfolio. According to Rouse (1989), monitoring and control of loans is an area which many financial institution and lending institutions pay little attention but, if it is properly carried out, the occurrence of bad debts can be reduced considerably.

2.8 THE CONCEPT OF RISK

The meaning of the word "risk" has changed throughout history. Once a neutral term, risk has come to represent a combination of probability and something adverse or dangerous. Risks associated in financial institution lending may be seen as threats or opportunities. The latter means that taking a calculated risk may bring, for example, competitive advantage for the financial institution and increase in profitability. If there are benefits associated with an opportunity, then the financial institution can take certain degrees of risk for a loan extension to be successful.

According to the definition of the International Organization for Standardization developed by an international committee representing over 30 countries, ISO 31000 (2009) / ISO Guide 73:2002, risk is the 'effect of uncertainty on objectives'. With regard to the above definition, uncertainties include events (which may or may not happen) and uncertainties caused by ambiguity or a lack of information. It also includes both negative and positive impacts on objective.

When assigning a loan applicant to a particular grade (a credit score model), Crouhyet al. (2001) suggest that financial institutions should consistently analyse three different categories of variables; quantitative, qualitative and legal analysis. The quantitative analysis concentrates mainly on a firm's financial reports (financial analysis). Four main quantitative factors are used as assessment model in the quantitative (financial) analysis. These factors are net income, total income from operations, equity capital and asset values. These factors enables the financial institutions to compute various ratios such as return on assets (ROA), return on equity (ROE) and assets utilization (AU) and others. After the computation of the ratios, it subsequently compared with a benchmark (the industry standard). In addition to the information disclosed in the financial statements, the rating also includes information about the quality of collateral and the third party support. For the qualitative analysis, the principal concern is the quality of a borrower's management and it efficiency.

2.9 INFORMATION ASYMMETRY: ADVERSE SELECTION AND MORAL HAZARD.

The theoretical model on credit rationing and information asymmetry has been developed from Stiglitz and Weiss (1981) work. Information asymmetry is a situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge.

Asymmetric information typically predicts that information frictions will produce a positive correlation between loan default and the size or price of that loan (Dodd and Warner 1983). In a theory of adverse incentives, individual borrowers are more likely to default on larger or more expensive loans.

Theory does not rule out either advantageous selection; example (Bisin and Guaitoli 2004); (Parlour and Rajan 2001); (de Meza and Webb 2001)). Under nonexclusive contracting, for example, individuals borrowing from multiple sources may choose to pay down the largest loan obligation first. Or, borrowers may wish to maintain access to higher credit lines and choose not to default on those loans. There is evidence consistent with the presence of adverse selection in financial institution lending (Ausubel 1991), and both adverse selection and moral hazard, in consumer loan markets (Adams, Einav and Levin 2009) and (Edelberg 2004)- (Klonner and Rai 2006); (Karlan and Zinman 2009).

The two types of risks that are present when there is information asymmetry according to William C. Spaulding (1982-2014) include;

- Adverse selection is a risk exposure that exists before money is lent or invested and (immoral behavior that takes advantage of asymmetric information before a transaction).
- Moral hazard, which is a risk after the financial transaction (immoral behavior that takes advantage of asymmetric information after a transaction).

2.10 CREDIT RATIONING

Rational lender behaviour is examined in the market for secured loans with no moral hazard and with symmetric information between the lender (financial institution) and the borrower (contracting parties). The analysis presumes collateral value follows a diffusion process. The focus of credit rationing is on the option of the borrower to control the timing of default and prepayment. Analytical and numerical methods (Storey, 1993) are usually used to arrive at a result to illustrate optimal default policies and lender response.

Theoretically, the financial institution's credit rationing behaviour may be influenced by a numerous factors which include the borrower's observable characteristics (experience, credit history, age, gender, wealth) and loan characteristics (amount demanded, loan maturity, collateral offered, interest rate) and also the firm characteristics (business experience, risk profile, earnings). But several servable socio-economic characteristics of the borrower are usually seen as reducing the borrower's chance of being credit rationed (Okurut et al., 2005; Nuryartono et al., 2005).

2.11 CLASSIFICATION OF LOANS AND LOAN PROVISION

2.11.1 CLASSIFICATION OF LOANS

In order for financial institutions and other lending institutions to be in line with the Banking regulation, they classify their loan portfolios into different categories. Loan classification by the First Allied Savings And Loans Limited is based on regulation enacted by the Bank of Ghana (BoG). The fundamental basis for these classifications is based on the extent of duration of default and other unforeseen contingencies. In line with banking regulations, the classifications of loans into groups help to categorize loans into performing and non-performing to reflect the quality of their loan portfolio and further help financial institutions to know the structure of their loan portfolio and for that matter the quality of their assets.

2.11.2 LOAN PROVISION

The ability of a borrower to repay a loan is major factor usually considered in giving out loans in Ghana. In mitigating the risk of default, financial institutions usually ensure that there is adequate security on loans given out. In advancing loans to individuals, financial institutions must ensure that the loans are secured properly. Financial institutions usually give loans to individual's base on their ability to repay as well as their ability to provided adequate collateral security for the loans (Banking Act, 2004).

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 INTRODUCTION

This study assesses the Effectiveness of the Credit Appraisal System at First Allied Savings and Loans Limited. Qualitative and quantitative methods have been used in analyzing the data gathered.

3.1 RESEARCH DESIGN

This study employed a single type of research design known as the survey method. Data have been collected through the use of questionnaires and interview guide. The questionnaires were administered to the clients of FASL. The staffs of FASL however have been interviewed. Quantitative and qualitative analysis have been employed because questionnaire and interview guide have been used to collect the data and also data has been analyzed through the use of graphs and statistics such as frequencies and percentages.

3.2 POPULATION

The population refers to the complete set of items which the researcher is interested in studying. The population of the study is all staff and customers of First Allied savings and loans limited. It is out of this population that the sample is drawn.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

A sample is the sub-group of the entire population that is being studied. In view of the total population, time and resources available, First Allied Savings and Loans Co. Ltd has been selected for the study. Fifty clients of First Allied Savings and Loans Co. Ltd have been selected for the study. Also, the Loan Officer of FASL has been interviewed.

The researcher employed convenient sampling technique in selecting the clients of FASL for the study. This technique involves selecting those cases that the researcher can easily obtain data from for the purpose of the analysis. Purposive sampling however has been used in selecting the staff of First Allied to be interviewed for the study. This technique has been selected because it is not every staff of First Allied that can provide the kind of data needed for the study and as such the researcher has purposively selected only those respondents who can provide the required data needed for the study.

3.4 DATA COLLECTION

The research data has been collected mainly through the use of the questionnaire and interview guide.

3.4.1 SOURCE OF DATA

The study employed both the primary and secondary sources of data. The primary data were obtained from the field survey mainly through questionnaires which were administered to the clients of First Allied by the researcher as well as through an interview of some selected staff of First Allied. Secondary data have been obtained from books, journals and the World Wide Web. The use of questionnaire and interview as means of collecting primary data were considered because data are always near their original form and relatively free from editing, alteration or any form of modification. Therefore, it tends to be free from external influence, judgment and bias of others, which often lead to unsound interpretation by the researcher.

3.4.2 DATA COLLECTION INSTRUMENTS

The main instruments used for this study were the questionnaire and interview guide. The researcher opted for these instruments of data collection in order to obtain standard form of answers or responses that will give way to easy and accurate analyses.

Essentially, the questionnaires and interview techniques were used because of the numerous advantages offered to the researcher. Notable among them include the fact that it is less expensive and also helped in covering a wider area than otherwise. It also offered greater anonymity which permitted more candid and objective replies/answers to be obtained for the achievement of the research purpose.

3.5 DATA ANALYSES

Frequency tables Pie charts as well as Bar graphs were used to analyze the data. The researcher made use of the SPSS software and Microsoft Excel in analyzing the data.

3.6 PROFILE OF FASL

First Allied is a prominent Savings and Loans Company in Ghana which has the main aim of providing easy access to appropriate innovative and responsive financial services to the SMEs on a sustainable basis so that it can be beneficial to all stakeholders. First Allied within 16 years of operation has being providing excellent banking services.

3.6.3 PRODUCTS OFFERED BY FASL

3.6.3.1 Deposit Products

3.6.3.1.1 Allied Supersave Account

The Allied Supersave Account which is a savings product gives client convenience and great chance to plan for their future. This new product flexible, gives great reward, is transparent and also it gives good return on savings made.

- Supersave account is convenient to customers because cash collection can be done at the doorsteps of the customer.
- Flexibility: There are absolutely no restrictions on daily contribution, minimum balance and withdrawals.

- Greater Heights: Can be used as collateral security for loans.
- Transparency: Client's contributions are recorded in a passbook and this enables customer to watch their wealth grow.
- Rewarding: Allied Supersave account offers you a high interest rate. (1% above normal savings account).

3.6.3.1.2 Current Account

Customers who want to have unrestricted access to their money usually open the current account. It is operated with personalized cheque books which is available to all customers. The benefits which customers get include:

- Allied Current Account does not attract any Commission on Turnover (COT) – no service charge, no maintenance charge, and no ledger fees.
- Very low initial minimum deposit requirement of GH¢10.
- Instant access to your money.
- Outreach /Mobile banking service undertaken by well-trained officers.
- Withdrawal of money from your account at any of our networked branches.
- Provision of regular statement of transactions on your account.
- Easy access to Commercial loan, Salary loan, Consumer credit and Travel credit, SMS/ Mobile banking facilities.

3.6.3.1.3 Savings Account

The Savings Account is meant for customers who want to deposit money on regular basis so that they can plan for their future needs. Very low initial deposit of GH¢5 is required. The benefits which clients can get through the Savings account include:

- Unlimited number of Cash withdrawals.
- Quarterly payment of high interest on savings account.

- Easy access to loans
- Statement of Account upon request.

3.6.3.1.4 Fixed Deposit

Fixed Deposit is an investment account that is offered for a fixed term or on rollover basis. Fixed deposits may be placed for terms of 1 month, 2 months, 6 months or even 1 year. Benefits which accrue to customers through fixed deposit include:

- High and competitive interest rates are offered on maturity.
- Instant access to your money.
- Fixed Deposits can be used as collateral for a loan.

3.6.3.2 Susu Products

Super Golden Susu

- This is a specially designed savings and loans product for customers who go through two loan cycles of the Golden Susu programme and can contribute a daily minimum saving of one hundred Ghana cedis.
- Customers can access loans ranging between ten thousand Ghana cedis and forty thousand Ghana cedis with flexible repayment terms.

Allied Mpuntu Scheme / Micro Finance (Group Loan Scheme)

- This is a band group saving and Loans programme which aimed at meeting the banking needs of customers.
- Individual members of the group are required to make a minimum daily savings for eight weeks.
- Customers are granted flexible terms to pay off loans granted under this scheme.

Premium Golden Susu

- This is an individual loans programme designed for Allied Mputu group members who require large amounts of money to expand their businesses.
- The loan amounts for the programme are very attractive.
- Customers are granted flexible repayment terms to pay off their loans.

Fast Track Susu

- This facility which offers enhanced loan facility grant access to loans after only 20 days susu contribution.

Susu Overdraft

- The facility enables customers to overdraw from their susu accounts whenever they are in need of funds. The speed with which customer can access this facility is remarkable.

Susu Commercial Loan

- This offer enhanced loan amounts to customer who require huge sums of money to improve their businesses.

3.6.3.3 Loan Products

Travel Credit

- This facility enables FASL customers as well as its non-customers to obtain airtickets on credit from selected travel agents.
- It is granted for short term at a competitive interest rate.

Clearance Loan

- This is a short term facility which aimed at helping importers to clear their goods at port with ease. The facility is available to both customers and non-customers at a very competitive rate.
- It can be granted within 24hours.

Commercial Loan

- The facility is targeted at individual and business who wish to expand their businesses and may be utilized to meet cash flow needs.
- It is available to anybody with existing account relationship with First Allied.
- It offers substantial loan sizes at a very competitive interest rate.

Salary Credit

- The facility exists for employees who receive their salaries through First Allied.
- This facility also enables beneficiaries to access substantial loan amounts with monthly repayments, done through deductions from their salaries.
- Request from salary earners who are not customers of First Allied may be considered for this facility.

Gospel Loan

- Gospel loan is meant to aid churches in their development projects. This facility may be accessed by churches for the purpose of building, procuring equipment, furnishing, etc.
- The facility also carries a very attractive and flexible repayment terms.

Consumer Credit

- This is a hire purchase scheme run with selected shops.

- The facility is available to both customer and non- customers who desire to buy consumer durables form any of these shops.
- Beneficiaries of this facility are only required to make minimum deposit, with balance of the cost paid through flexible monthly instalment arrangements.

Equipment Lending

- The facility exists to meet medium range equipment needs of joineries, machinist, etc.
- Under this scheme customers are encourage to save up to an agreed minimum while FASL finances the cost of the equipment in question.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

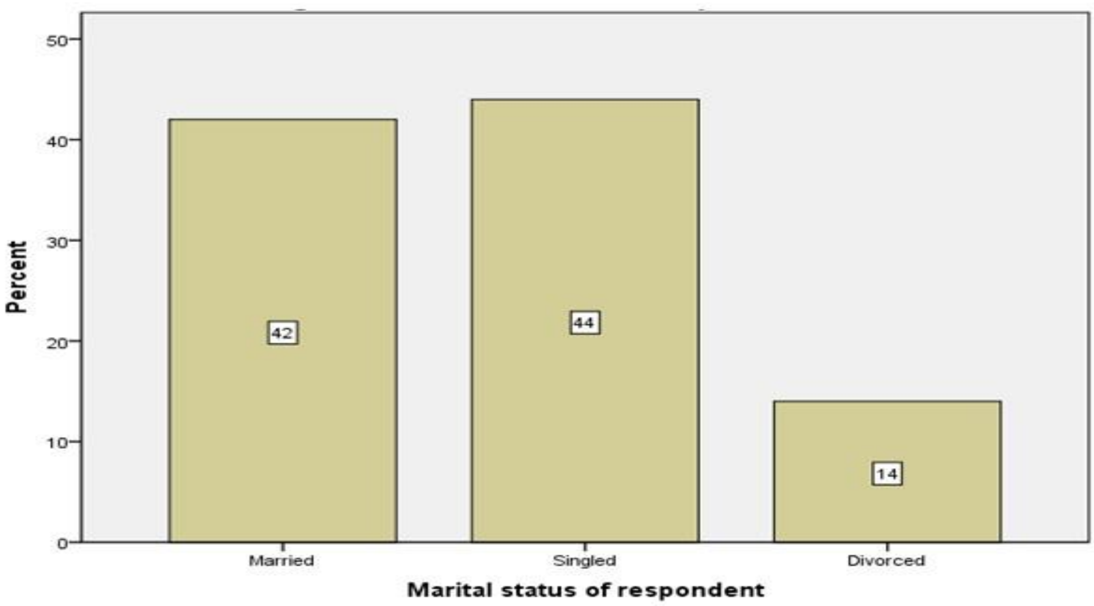
4.1 INTRODUCTION

This chapter deals with the analysis, discussions and presentation of data. The analysis will cover the descriptive statistics, what constitute the credit appraisal system of FASL and the effect of the credit appraisal system used by FASL on the loan portfolio quality. It also covers the challenges faced by Firs Allied savings and loans ltd in implementing its credit appraisal system effectively as well as how the credit appraisal system of FASL has affected its client satisfaction.

4.2 DEMOGRAPHIC CHARACTERISTICS

This section covers the gender, age and the marital status of the respondents. It also covers the educational background of the respondents.

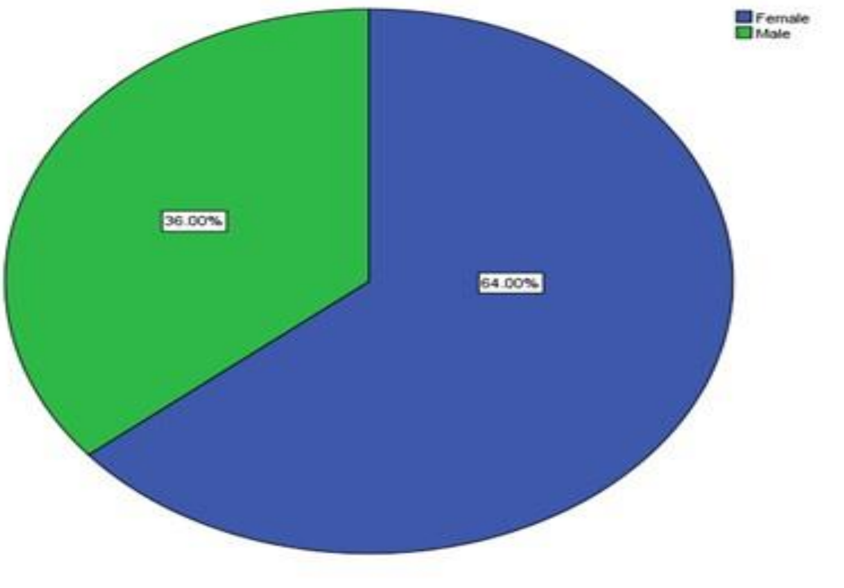
Figure 4.2.1 Marital Status of Respondent



Source: Field work: May, 2015

Figure 4.2.1 above shows the marital status of the respondents. As can be seen from the figure, 42% of the sample respondents indicated that they are married but 44% stated that they are not married. However, 14% of the sample respondents indicated that they have married but have divorced due to certain reasons.

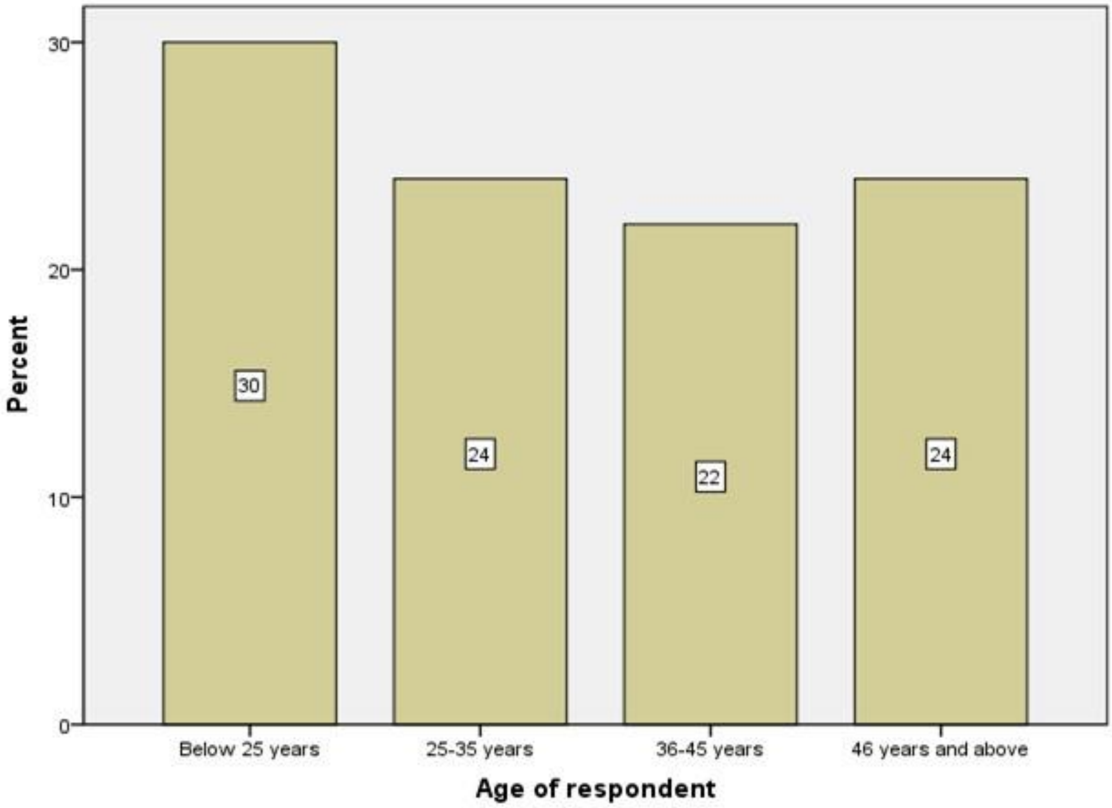
Figure 4.2.2 Gender of Respondent



Source: Field work: May, 2015

Figure 4.2.2 shows the respondents selected for the study gender of. Out of the total number respondents, 64% of the respondents were females while the remaining 18 respondents constituting 36% of the sample were males. The analysis shows that majority of the respondents are females confirming findings such as Ruben (2007) and Asiama and Osei, (2007) revealed that women are the best borrowers and repay their loans more faithfully than men and as such usually have easy access to microfinance from savings and loans companies than men.

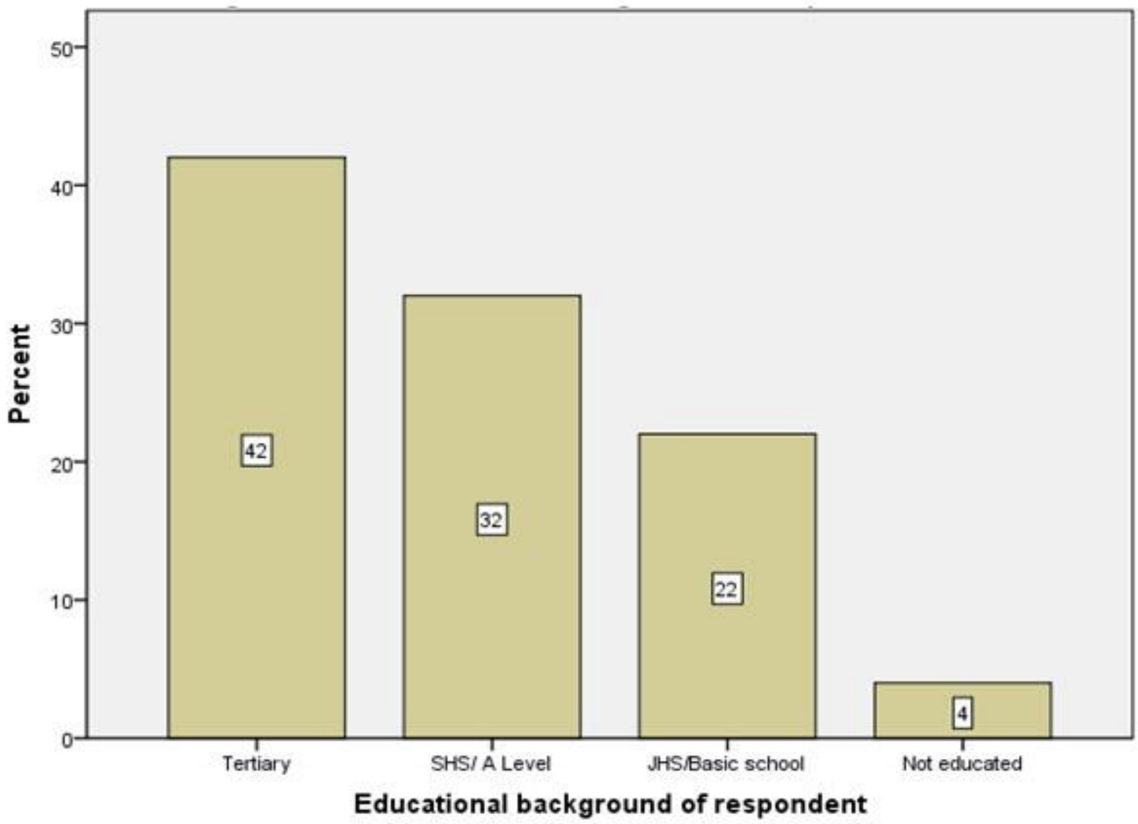
Figure 4.2.3 Age of Respondent



Source: Field work: May, 2015

Figure 4.2.3 above shows the age category of the respondents selected for the study. From the figure, 30% of the respondents were below the age of 25 years. 24% and 22% of the sample respondents were between the ages of 25-35 years and 36-45 years respectively. Furthermore, 24% of the sample respondents were 46 years and above. It can be seen from the above analysis that majority of the respondents are within the active working ages and can therefore effectively use the credit obtain from FASL. This finding confirms the findings of Asiama and Osei, (2007) who noted that the end users of microfinance services are the economically active poor who are clients of microfinance products and services.

Figure 4.2.4 Educational Background of Respondent



Source: Field work: May, 2015

Figure 4.2.4 above shows the educational background of the respondents. As can be seen from the figure, 22% and 32% of the respondents had their formal education up to the Junior high school and Senior high school level respectively. Furthermore, 42% of the respondents indicated that they had their formal education up to the Tertiary level. However, 4% of the sample respondents had no formal education. It can be seen from the above analysis that most of the respondents had their formal education up to the Tertiary level implying that they will have much better understanding of the need for credit appraisal by savings and loans companies.

4.3 ANALYSIS OF CLIENTS' OF FASL RESPONSES

This section of the study covers analysis of the responses that were obtained from the respondents regarding the effect FASL credit appraisal system has on their satisfaction.

4.3.1 EFFECT OF FASL CREDIT APPRAISAL SYSTEM ON CLIENT SATISFACTION

This section of the analysis covers the impact of FASL (FASL) credit appraisal system on its client's satisfaction. It will cover among others the credit facilities provided by FASL, the deposit facilities FASL customers usually enjoy, the waiting period involved in processing a loan application.

Table 4.3.1 Credit facilities which FASL customers usually enjoy

	Frequency	Percent
Term loan	14	28.0
Overdraft	13	26.0
Personal loan	23	46.0
Total	50	100.0

Source: Field work: May, 2015

Table 4.3.1 above show the credit facilities which are usually enjoyed by FASL customers. From the table, 28% of the sample respondents indicated that they usually get term loan form FASL. Also, 26% of the sample respondents stated that overdraft facility is one of the credit facilities they usually get from FASL. Furthermore, 46% of the sample respondents indicated that FASL usually provide them with personal loans. In summary, it can be seen from the above that, the credit facilities that are provided by FASL to its customers are Term loans, Overdraft facilities and Personal loans.

Table 4.3.2 Is the loan amount usually approved for you sufficient for the purpose?

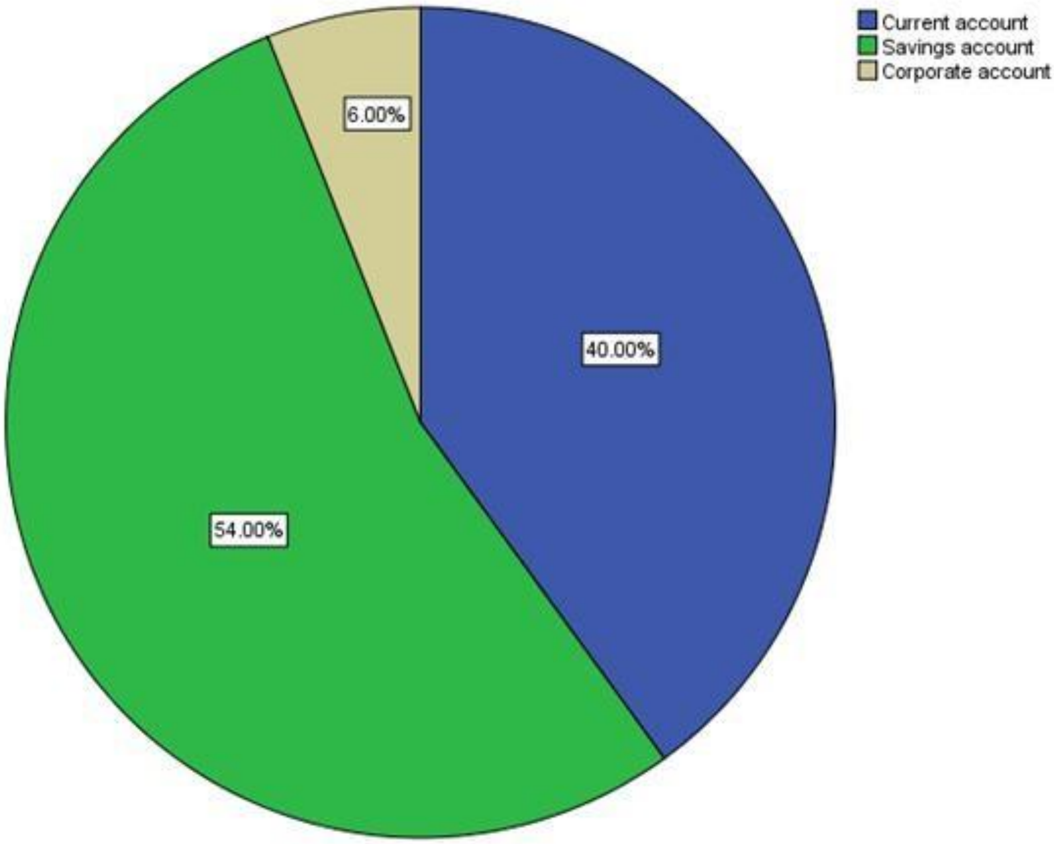
	Frequency	Percent
	32	64.0

Yes	18	36.0
No	50	100.0
Total		

Source: Field work: May, 2015

Table 4.3.2 above show responses from respondents regarding whether or not the loan amount they usually get from FASL is sufficient or not. From the table, 64% of the respondents indicated that they amount that is usually approved for them by FASL anytime they apply for loan is always sufficient to serve their purpose. However, 36% of the respondents stated that the amount that is usually given to them as loan by FASL is not usually enough to serve their financial needs. In can therefore be deduced from the above analysis that the amount that is usually approved as loan by FASL to its customers is usually enough to meet their financial needs.

Figure 4.3.1 Deposit Facilities First Allied Savings and Loan Customers Usually Enjoy



Source: Field work: May, 2015

Figure 4.3.1 above report responses from respondents concerning the deposit facilities they usually enjoy from FASL. As can be seen from the figure, 40% of the respondents indicated that they operate current accounts with FASL. Also, 54% of the respondents stated that they operate savings account with FASL. Furthermore, 6% of the sample said it is Corporate Account that they operate with FASL. From the above analysis, it can be concluded that the deposit facilities that are available at FASL are Current Accounts, Savings Accounts and Corporate Accounts.

Table 4.3.3 How is the waiting period to process a new loan or renew an old facility?

	Frequency	Percent

Very long	2	4.0
Long	16	32.0
Normal	17	34.0
Very short	7	14.0
Short	8	16.0
Total	50	100.0

Source: Field work: May, 2015

Table 4.3.3 above show responses from the respondents concerning the time period that is usually taken by FASL to process or renew a loan. As can be seen from the table, a total 36% (that is, 4% for very long plus 32% for long) of the respondents indicated that the waiting period for processing of a loan or renewal of an old loan by FASL is long on the average. Also, 34% of the respondents stated that the waiting period for processing of a loan or renewal of a loan by FASL is normal compared to other financial institutions. However, 30% (14% for very short plus 16% for short) of the respondents indicated that the waiting period usually taken by FASL in processing or renewing a loan is short on the average. In summary, the above analysis shows that the waiting period for processing of a loan or renewal of a loan by FASL is long as indicated by majority of the respondents.

Figure 4.3.2 How Is The Customer For Credit Renewed And Processing Of New Loans?

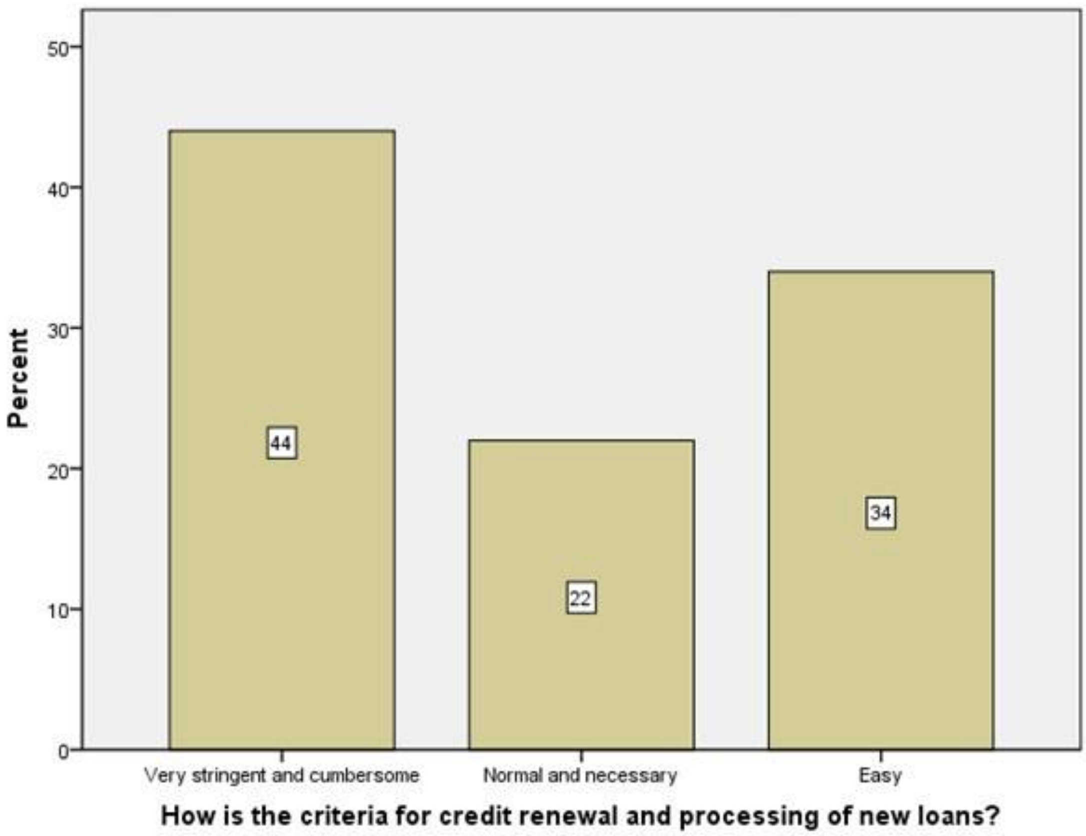


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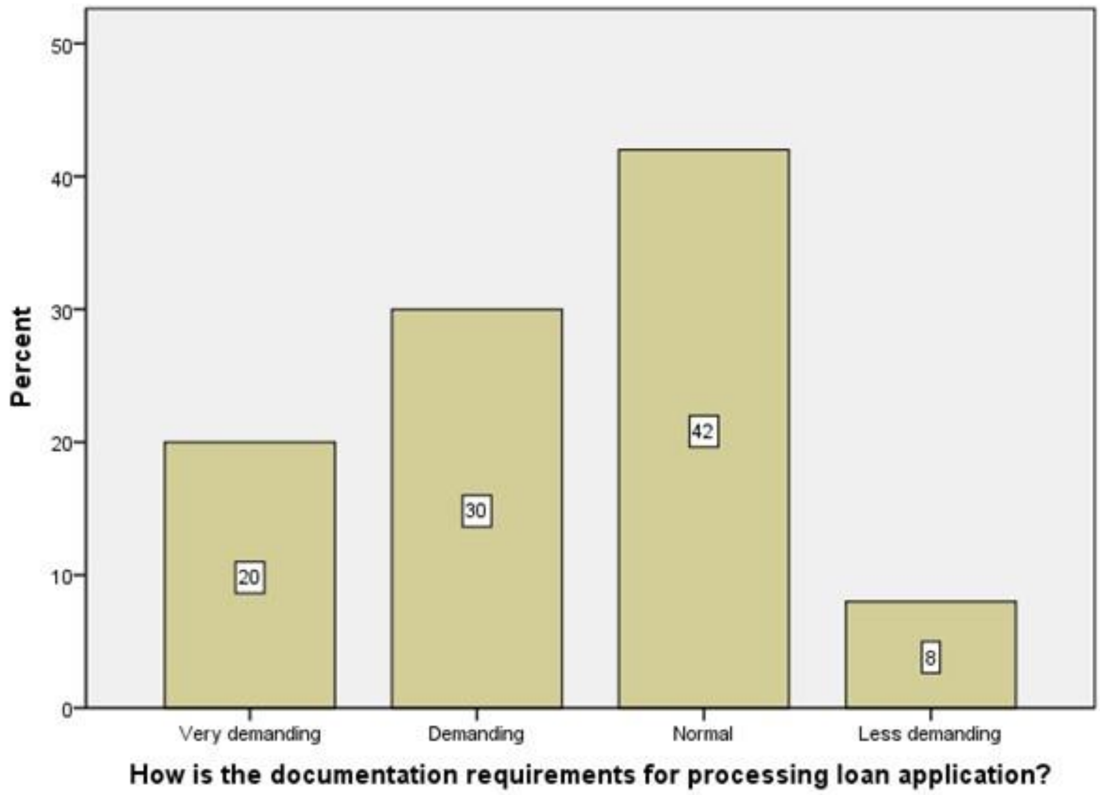
Figure 4.3.2 above shows responses from respondents regarding the nature of the criteria that are usually use by FASL during credit renewal or processing of a new loan. From the figure, 44% of the sample respondents indicated that the criteria that FASL usually use for credit renewal or processing of a loan is very stringent and cumbersome. Also, 22% of the respondents stated that the criterion is normal and necessary as far as processing or renewal of a loan is concerned. However, 34% of the respondents indicated that the criterion used by FASL in processing or renewing a loan is easy. In summary, it can be concluded that the criterion usually used by FASL in processing or renewing a loan is very stringent and cumbersome.

Figure 4.3.3 How Is The Documentation Requirements For Processing Loan Application?



Source: Field work: May, 2015

Figure 4.3.3 above shows responses concerning the documentation requirement usually involved in processing of a loan application by FASL. As shown in the figure, 50% (that is, 20% for very demanding and 30% for demanding) of the respondents indicated that the documentation requirements usually involved in processing a loan application by FASL is demanding on average. Also, 42% of the sample respondents stated that the documentation requirements usually involved in processing a loan application by FASL is normal compared to other financial institutions. However, 8% of the respondents indicated that the documentation requirements usually involved in processing a loan application by FASL is less demanding. In summary, it can be deduced from the above analysis that the documentation requirements usually involved in processing a loan application by FASL is quite demanding.

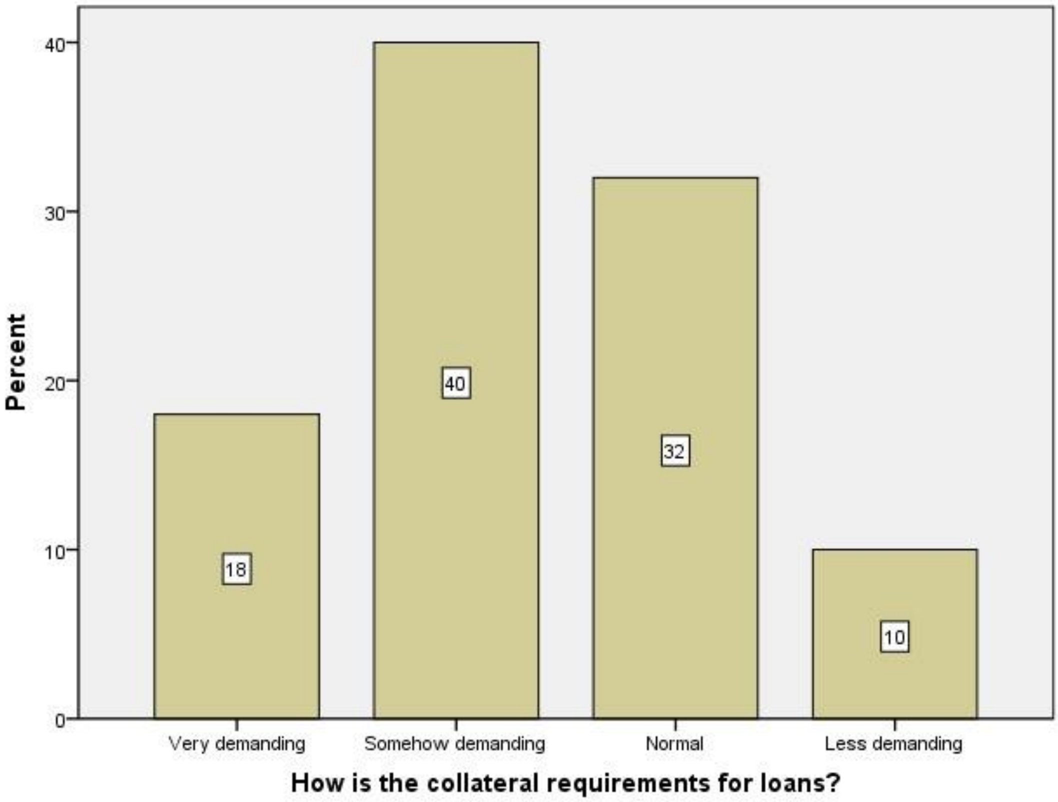
Table 4.3.4 How do you see the time for processing loan application?

	Frequency	Percent
Very fast	10	20.0
Fast	13	26.0
Normal	14	28.0
Slow	11	22.0
Very slow	2	4.0
Total	50	100.0

Source: Field work: May, 2015

Table 4.6.7 above report responses from respondents concerning the length of time it takes FASL in processing a loan application. As can be seen from the table, a total of 46% of the respondents indicated that on average FASL usually process a loan application fast. Also, 28% of the respondents stated that the speed of processing of a loan application by FASL is normal compared to other financial institutions. However, a total of 26% of the respondents indicated that on the average FASL is slow in processing a loan application. It can therefore be deduced from the above analysis that FASL is fast when it comes to processing a loan application for its clients.

Figure 4.3.4 How Is The Collateral Requirements Loans?



Source: Field work: May, 2015

Figure 4.3.4 above report findings regarding the collateral security usually required by FASL before advancing loans to its customers. As can be seen from the figure, 18% of the respondents indicated that FASL is very demanding when it comes to provision of collateral security by clients during loan application process. 20% of the respondents indicated that FASL is somehow demanding when it comes to provision of collateral security by clients during loan application process. Also, 32% of the respondents indicated that the collateral security usually demanded by FASL during a loan application process is normal compared to other savings and loans companies operating within the country. Furthermore, 10% of the respondents indicated that FASL is less demanding in terms of provision of collateral security by clients during loan application process. From the above analysis, it can be concluded that FASL usually demand a bit more of collateral security from its clients during a loan application process.

Table 4.3.5 How is the interest rate of loans and processing fees usually charged by FASL?

	Frequency	Percent
Very high	7	14.0
High	17	34.0
Normal	21	42.0
Low	5	10.0
Total	50	100.0

Source: Field work: May, 2015

Table 4.3.5 above report responses from the respondents concerning whether or not the fees and interest rates usually charge by FASL are high or low. As can be seen from the table, 14% and 34% of the respondents indicated that the fees and interest rates charge by FASL is very high and high respectively when compared to other Savings and loans companies. Also, 32% of the respondents indicated that the fees and interest rates charge by FASL is normal compared to other Savings and Loans institutions. Furthermore, 10% of the respondents stated that the fees and interest rates charge by FASL is low when compared to other Savings and loans companies. In summary, it can be deduced from the above analysis that the interest rates and fees usually charge by FASL is high when compared to other Savings and loans companies.

Table 4.3.6 How will you describe the repayment period of loans?

	Frequency	Percent
Very long	6	12.0
Long	2	4.0

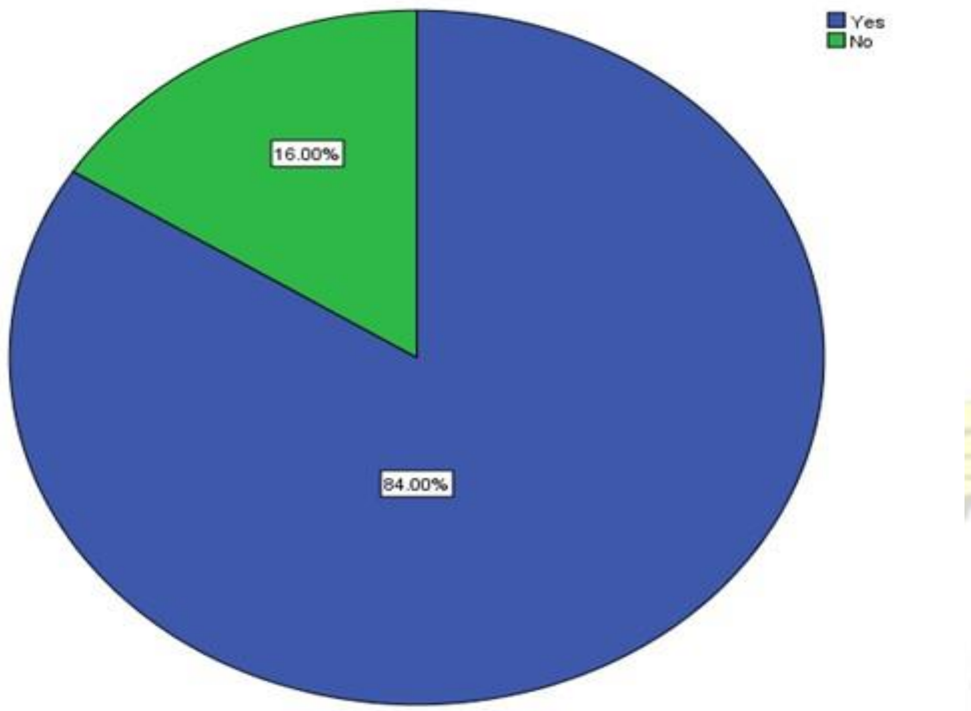
Normal	31	62.0
Very short	9	18.0
Short	2	4.0
Total	50	100.0

Source: Field work: May, 2015

Table 4.3.6 above shows responses from respondents concerning the length of time FASL usually give to its customers to repay loans advanced to them. As can be seen from the table, 12% and 4% of the respondents stated that on the average the length of time usually given to them by FASL to repay their loans is very long and long respectively compared to other savings and loans companies. 62% of the respondents however indicated that the time period given to them to repay their loans by FASL is normal compared to other savings and loans companies. Furthermore, 18% and 4% of the respondents stated that on the average the length of time usually given to them by FASL to repay their loans is very short and short respectively compared to other savings and loans companies. In summary, it can be concluded from the above analysis that the credit period usually granted by FASL to repay loans is the same as that given by other
Savings and loans companies.

Figure 4.3.5 below report the responses from respondents concerning whether or not people should continue to access for loans from FASL. As can be seen from the figure, 42 respondents representing about 84% of the sample stated that in their opinion people should continue to access for loans from FASL because they have flexible repayment plan, they have good customer service, they are convenient and easy to access and also they have attractive interest rates and different loan facilities to suit all needs. However, 16% of the sample indicated that people should stop accessing for loans from FASL because it is difficult accessing for loan from them. In summary, it can be concluded from the above analysis that the clients of FASL prefer to continue to access for loans from it due to the fact that FASL has flexible repayment plans, good customer service as well as attractive interest rates and different loan facilities to suit the needs of customers.

Figure 4.3.5 Should People Continue To Access Loan From FASL?



Source: Field work: May, 2015

4.4 ANALYSIS OF FASL STAFF RESPONSES

This section of the analysis covers responses from the staff of FASL regarding their credit appraisal system.

4.4.1 CONSTITUENTS OF THE CREDIT APPRAISAL SYSTEM OF FASL

This section of the study discusses the things which constitute the credit appraisal system of FASL.

An interview with the credit appraisal officers of FASL indicated that the credit appraisal system of FASL include On-site assessment of borrower's business, Off-site assessment of the borrower's business, checking the capacity of the borrower, checking the character of the borrower and checking of the financial strength of the borrower.

The interview with the credit appraisal officers at FASL also indicated that the features of a client that are usually taken into account during a loan facility appraisal are the age of the borrower, the capacity of the borrower, nature of the client business, ability of the client to repay and the cash flow of the client's business.

The credit appraisal officers during the interview also stated that in order to determine the amount of loan to be granted to a customer, they usually undertake an assessment of the client business which comprises both On-site assessment and Off-site assessment.

The credit appraisal officers further indicated during the interview that they usually verify the market viability of a loan proposal through assessment of the business of the clients as well as through checking of the sales from the business of the applicant. Furthermore, the credit appraisal officers said the basic parameters they usually consider in providing funding include age of loan applicant, capacity of the applicant and the legal state of the applicant's business as well as the reason for the application.

The interview with the credit appraisal officers further indicated in order for them to verify the purpose of a loan facility, they usually undertake post-disbursement monitoring of the client business in order to find out what exactly the loan is being used for. The interview further revealed that FASL can decline a loan application by a client due to information asymmetry on the part of the customer.

4.4.2 EFFECT OF THE CREDIT APPRAISAL SYSTEM USED BY FASL ON ITS LOAN PORTFOLIO QUALITY

This section reports the findings that were obtained through an interview with the credit appraisal officers of FASL concerning the effect of their credit appraisal system on the quality of FASL loan portfolio.

The interview with the credit officers indicated that the credit appraisal system of FASL has resulted in a healthy loan portfolio for FASL in the sense that the credit appraisal system has help them to be fast in processing a loan application resulting in an average loan processing time of 24 hours.

The credit appraisal officers during the interview further stated that the credit appraisal system used by FASL has help it to reduce the rate of non-repayment of loans given out to customers.

The credit officers further noted during the interview that the credit appraisal system used by FASL has help ensure speedy and quick recovery of loans given out to customers.

4.4.3 CHALLENGES FACED BY FIRST ALLIED SAVINGS AND LOANS LIMITED IN IMPLEMENTING ITS CREDIT APPRAISAL SYSTEM

This section report findings from an interview with the credit appraisal officers at FASL regarding the challenges Firs Allied savings and loans ltd usually encounter in implementing its credit appraisal system.

The credit appraisal officers during the interview stated that one of the challenges that FASL usually face in implementing its credit appraisal system is lack of adequate information. This is because clients do not usually provide them with all the information they need in processing a loan application and assessing the client's business.

The credit appraisal officers during the interview further stated that most of the clients do not usually have the requisite collateral security that is needed before a loan can be granted to them and this makes it difficult for them to appraise such customers as to whether to grant them the loan or not.

Another challenge that FASL encounter in implementing its credit appraisal system is lack of routine checks by the risk department to ensure compliance with laid down procedures by the staff of FASL.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 INTRODUCTION

This chapter summarises the main findings of the research. It will also cover the conclusion and the recommendations.

5.1 MAIN FINDINGS OF THE STUDY

This section covers the constituents of the credit appraisal system of FASL, the effect of the credit appraisal system on FASL Loan Portfolio, the challenges face by FASL in implementing its credit appraisal system and how the credit appraisal system of FASL has affected its loan portfolio.

5.1.1 CONSTITUENTS OF THE CREDIT APPRAISAL SYSTEM OF FASL

The findings from the research indicated that the credit appraisal system of FASL comprises of On-site assessment of borrower's business, Off-site assessment of the borrower's business, checking the capacity of the borrower, checking the character of the borrower and checking of the financial strength of the borrower.

The research findings further revealed that the features of a client that are usually taken into account during a loan facility appraisal by FASL are the age of the borrower, the capacity of the borrower, nature of the client business, ability of the client to repay and the cash flows from the client's business.

The analysis also showed that in order to determine the amount of loan to be granted to a customer, they usually undertake an assessment of the client business which comprises both On-site assessment and Off-site assessment.

The results from the analysis further indicated that FASL usually verify the market viability of a loan proposal through assessment of the business of the clients as well as through checking of the sales from the business of the applicant. Furthermore, the findings showed that the basic parameters usually consider by FASL in providing funding to its clients include age of loan applicant, capacity of the applicant and the legal status of the applicant's business as well as the reason for the application.

The results from the analysis further indicated that in order for FASL to verify the purpose of a loan facility, they usually undertake post-disbursement monitoring of the client business in order to find out what exactly the loan is being used for. The analysis further revealed that FASL can decline a loan application by a client due to information asymmetry on the part of the customer.

5.1.2 EFFECT OF THE CREDIT APPRAISAL SYSTEM USED BY FASL ON ITS LOAN PORTFOLIO QUALITY

The findings from the research indicated that the credit appraisal system of FASL has resulted in a healthy loan portfolio for FASL in the sense that the credit appraisal system has help them to be fast in processing a loan application resulting in an average loan processing time of 24 hours.

The findings also revealed that the credit appraisal system used by FASL has helped it to reduce the rate of non-repayment of loans given out to customers.

The research findings further showed that the credit appraisal system used by FASL has help ensure speedy and quick recovery of loans given out to customers.

5.1.3 CHALLENGES FACED BY FIRST ALLIED SAVINGS AND LOANS LIMITED IN IMPLEMENTING ITS CREDIT APPRAISAL SYSTEM

The research findings indicated that one of the challenges that FASL usually face in implementing its credit appraisal system is lack of adequate information. This is because clients do not usually provide them with all the information they need in processing a loan application and assessing the client's business.

The findings further revealed that most of the clients do not usually have the requisite collateral security that is needed before a loan can be granted to them and this makes it difficult for the credit officers of FASL to appraise such customers as to whether to grant them the loan or not.

Another challenge that FASL encounter in implementing its credit appraisal system from the analysis is lack of routine checks by the risk department to ensure compliance with laid down procedures by the staff of FASL.

5.1.4 EFFECT OF FASL CREDIT APPRAISAL SYSTEM ON CLIENT SATISFACTION

The research findings showed that the credit facilities that are provided by FASL to its customers are Term loans, Overdraft facilities and Personal loans. The findings also revealed that the amount that is usually approved as loan by FASL to its customers is usually enough to meet their financial needs.

The results from the analysis also showed that the deposit facilities that are available at FASL are Current Accounts, Savings Accounts and Corporate Accounts. The results further revealed that the criterion usually used by FASL in processing or renewing a loan is very stringent and cumbersome.

The research findings further showed that the documentation requirements usually involved in processing a loan application by FASL is quite demanding compared to other savings and loans companies. The findings also showed that FASL is fast when it comes to processing of a loan application for its clients.

The analysis also indicated that FASL usually demand for more collateral security from its clients during a loan application process compared to other savings and loans companies. The findings also showed that the interest rates and fees usually charge by FASL is high when compared to other Savings and loans companies. It was also noted from the analysis that the credit period usually granted by FASL to its customers to repay loans given to them is the same as that usually granted by other Savings and loans companies.

The results further indicated that FASL has flexible repayment plans, good customer service as well as attractive interest rates and different loan facilities to suit the needs of customers and as such its client prefer to continue to access for loan facilities from it.

5.2 CONCLUSION

There is the need for every savings and loans company to have an effective credit appraisal system to guide it in appraising loan applications by its clients. This will help ensure that loans are given out to the right people who will be able to repay back both the principal and interest. The credit appraisal system of FASL has resulted in a healthy loan portfolio for FASL in the sense that the credit appraisal system has helped them to be fast in processing a loan application resulting in an average loan processing time of 24 hours. The credit appraisal system used by FASL has also helped it to reduce the rate of non-repayment of loans given out to customers as well as helping in speedy and quick recovery of loans given out to customers. FASL however encounters certain challenges in ensuring an effective implementation of its credit appraisal system which include lack of adequate information, lack of adequate collateral security by loan applicants, lack of routine checks by the risk department to ensure compliance with laid down procedures by the staff of FASL.

The findings also revealed that the amount that is usually approved as loan by FASL to its customers is usually enough to meet their financial needs. The research findings also revealed that the waiting period for processing of a loan or renewal of a loan by FASL is usually long. The results further revealed that the criterion usually used by FASL in processing or renewing a loan is very stringent and cumbersome. The research findings further showed that the documentation requirements usually involved in processing a loan application by FASL is quite demanding compared to other savings and loans companies. However, FASL is fast when it comes to processing of a loan application for its clients. The interest rates and fees usually charge by FASL is high when compared to other Savings and loans companies. The results further indicated that FASL has flexible repayment plans, good customer service as well as attractive interest rates and different loan facilities to suit the needs of customers and as such its client prefer to continue to access for loan facilities from it.

5.3 RECOMMENDATIONS

FASL management should organize training programmes on effective credit appraisals for its credit appraisal officers. The training should cover financial analysis of businesses, market appraisal and technical appraisal of businesses in order to make them more knowledgeable in their field as well as increase their credit appraisal skills.

FASL should try to reduce their interest rates and other charges imposed on borrowers. If reasonable interest rates are not charged it might collapse newly established business and small businesses.

FASL should also try to reduce the level of collateral security that is usually demanded from clients before a loan facility is granted to them. This is because most start-up businesses usually find it difficult to meet its collateral security requirements and as such it is usually difficult for such businesses to access for loans from FASL.

FASL should try to reduce its documentation requirements during loan application in order to make is criterion for loan appraisal flexible. FASL should also try to reduce the waiting time that is usually involved in processing a loan application. There should also be routine checks by the risk department to ensure compliance with laid down procedures by the staff of FASL.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

TOPIC: ASSESSING THE EFFECTIVENESS OF THE CREDIT APPRAISAL SYSTEM AT FIRST ALLIED SAVINGS AND LOANS LIMITED.

QUESTIONNAIRE FOR CLIENTS OF FIRST ALLIED SAVINGS AND LOANS LTD

INTRODUCTION

This research is being undertaken as part of the requirement for the award of an MBA in Finance. The study seeks to assess the effectiveness of the credit appraisal system using First Allied Savings and Loans ltd as a case study. The research is strictly for academic purposes, hence information provided would be held in high confidentiality. I shall be grateful if you could take a few minutes of your time to answer the following questions.

Please tick (√) the appropriate response that best answers each question. Ticking more than one answer is allowed

SECTION ONE

1. Sex Male [ ] Female [ ]
2. Age: Below 25 years [ ] 25-35 years [ ] 36-45 years [ ] 46 years and above [ ]
3. Marital status: Married [ ] Single [ ] Divorced [ ] Other...........
4. Occupation..

5. Educational background: Tertiary [ ] SHS/A Level [ ] JHS/Basic School [ ]
   other..

SECTION TWO

6. How long have you had a relationship with First Allied Savings and Loans Ltd?
   Less than a year [ ] 1 – 5 years [ ] More than 5 years [ ]
7. How many times have you accessed loans from First Allied Savings and Loans Ltd? Once [ ] 2 times [ ] 3 times [ ] 4 times [ ] More than 4 times [ ]
8. What credit facilities do you enjoy with First Allied Savings and Loans Ltd?
   Term loan [ ] Overdraft [ ] personal loan [ ]
9. Is the loan amount usually approved for you sufficient for the purpose?
   Yes [ ] No [ ]
10. What are the deposit facilities you also enjoy with First Allied Savings and Loans Ltd? Current Account [ ] Savings Account [ ] Corporate Account [ ]
11. What do you think about the waiting period taken to process a new loan or renew an old facility? Very long [ ] Long [ ] Normal [ ] Very short [ ] Short [ ]
12. What do you think about the criteria for credit renewal and processing of new loans? Very stringent and cumbersome [ ] Normal and necessary [ ] Easy [ ]
13. How do you see the documentation requirements for processing loan applications? Very demanding [ ] Demanding [ ] Normal [ ] Less demanding [ ]
14. How do you see the time taken for processing of loan applications?
    Very fast [ ] Fast [ ] Normal [ ] Slow [ ] very slow [ ]
15. How do you see the collateral requirements for loans given?
    Very demanding [ ] Somehow demanding [ ] Normal [ ] Less demanding [ ]
16. How will you judge about the interest rate and processing fees charged?
    Very High [ ] High [ ] Normal [ ] Low [ ]

17. How will you describe the repayment period of First Allied Savings and Loans Ltd loans? Very long [ ] Long [ ] Normal [ ] Very short [ ] Short [ ]

18. Will you recommend that any individual or organization access a loan from First Allied Savings and Loans Ltd? Yes [ ] No [ ]

    Please give reasons for your answer

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    ....

19. Do you have any suggestions/criticisms about First Allied Savings and Loans Ltd loan appraisal system?

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SCHOOL OF BUSINESS

EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

TOPIC: ASSESSING THE EFFECTIVENESS OF THE CREDIT APPRAISAL SYSTEM AT FIRST ALLIED SAVINGS AND LOANS LIMITED.

INTERVIEW GUIDE FOR CREDIT APPRAISAL OFFICERS OF FIRST ALLIED SAVINGS AND LOANS LTD

1. Do First Allied Savings and Loans Ltd have a credit policy for lending?

    …………………………………………………………………………………………

2. What checks are put in place to ensure that credit staff follows all the guidelines laid down by the institution for lending?

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3. What are the loan products First Allied Savings and Loans Ltd offers?

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4. What constitute the credit appraisal system of First Allied savings and loans ltd?

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5. What is the effect of First Allied credit appraisal system on the quality of its loan portfolio?

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6. Who is responsible for credit appraisal at First Allied Savings and Loans Ltd?

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7. Are all the credit staffs given adequate training to carry out their functions?

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8. What features of a client are taken into consideration during a facility appraisal?

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9. How do you determine the loan amount to grant a customer?

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10. How do you verify the market viability of a loan proposal?

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11. What basic parameters do you consider in providing funding?

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12. How do you verify the purpose of a loan facility?

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13. What is the average processing time of a particular loan?

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14. What could make First Allied Savings and Loans Ltd decline a loan facility?

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15. What challenges do First Allied Savings and Loans Ltd face in employing its credit appraisal system?

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