AN ASSESSMENT OF CREDIT RISK MANAGEMENT AMONG SAVINGS AND LOAN INSTITUTIONS IN GHANA: A CASE STUDY OF SINAPI ABA SAVINGS AND LOANS

By

EMMANUEL ADUBOFFOUR (B.A Economics)

A Thesis submitted to the Department of Accounting and Finance, school of business. Kwame Nkrumah University of Science and Technology in Partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

(FINANCE)

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCES

KNUST, SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

NOVEMBER, 2015

DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration 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 my other degree of the University, except where due acknowledgment has been made in the text.

EMMANUEL ADUBOFFOUR	…………………….	....……………..
(PG 9619113)	Signature	Date
KWASI POKU	…………………….	....……………..
(SUPERVISOR)	Signature	Date
DR. KINGSLEY O. APPIAH	…………………….	....……………..
(HEAD OF DEPARTMENT)	Signature	Date

ABSTRACT

Savings and Loan institutions are not exempted from the challenges that come with credit exposure. Given their importance to the economy every effort should be made to help the sector deal with the problem of credit risk. This study therefore examined the credit risk management among savings and loan institutions with the aim of helping the sector address this problem. The study was purposive using both primary and secondary source of data. Data was analyzed with the help of the SPSS. It was found that the bank has recorded an annual increase in its credit supply of more than 18%. The study found a rising trend in loan default from 2010 -2012 but fell sharply in 2013. Default rate was found to have increased from 7.83% in 2010 to15.39% in 2012 but fell again to 7.56% in 2013. It shows therefore that the bank is gradually reducing the rate of default. It was revealed that the most significant contribution is from the SME and Group loan which stood at 25%. It was found that the bank manages risk in its credit supply through its credit policy. Consequently, the bank has maintained significant adherence to formal laid down policies and principles that have been put in places by the board of directors on how to manage credits, including the process of credit granting. Generally, the bank's credit standards specify the profile of the minimally acceptable creditworthy customer to be considered for credit. Again, the bank considered collaterals to be very important in the credit granting process. In risk management consequently, the bank exercises the necessary due diligence in assessing collaterals that have been provided by prospective clients or even existing ones. It was found that the bank's management of credit risk is confronted by a number of challenges identified to include: the credit complexity, monitoring and reporting as well as managing the credit origination of process. Key recommendations included the need for savings and loan institutions to strengthen and stick to their laid down policies and principles that have been put in place. Again, the necessary due diligence should be undertaken by credit officers to ensure that collateral properties are not the subject of intense litigation. This will help the bank in the event that it has to dispose it off to offset default. Further, there is the need for savings and loans to invest in risk management system that has good capability to maintain and archive the customer static data.

ACKNOWLEDGEMENT

I would like to thank the almighty God, who gave me the commitment, strength and patience to pass through every thick and thin, to accomplish this thesis. I would also like to express my appreciation to my supervisor, Mr. Kwasi Poku for his supervision and the entire role he played towards the improvement of this dissertation. I would also like to express my appreciation to all the financial institutions and individuals who contributed directly or indirectly to this dissertation and provided the required materials and support for the realization of this thesis.

Special thanks go to staff and customers of Sinapi Aba Savings and Loans (Ahodwo branch), head office, Ahodwo Nhyiaeso, for answering the questionnaires on time. Finally, my greatest thanks go to my good friend Enoch Kofi Abenney, who was always by my side to give all kinds of support and encouragement during this study. To any other persons who assisted me in diverse ways, I say thank you.

DEDICATION

I would like to dedicate this research work to the Lord Almighty who has protected, guided and sustained my life in making it possible for me to reach this height on the educational ladder. Secondly my family, Mr and Mrs Philip Adu, Priscilla Adu Prempeh, Sylvia Pokuah Adu, Abigail Adu Afriyie, Genevive Adu Serwaa and Getrude Aduboffour cannot be left out.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of study

Financial institutions and their customers tend to have different perceptions of bank credit and lending. Financial institutions are companies that provide financial and non-financial services to assist individuals in monetary and non-monetary issues. Financial institutions have been categorized into three primary groups which consist of savers (surplus unit), borrowers (deficit unit) and lenders (financial institutions).

The role played by financial institutions is paramount in the management of the economy. To most bankers, credit is not a capital–market activity, yet to many corporate customers' particularly small and medium-sized companies, bank loans or credit facilities are their most important source of capital. The demand for medium-term or long-term lending comes mainly from commercial and industrial companies and from private individuals. However, amongst all the services provided by financial institutions, credit creation is the main income generating activity for the banks. But this activity involves extremely high risks to both the lender (financial institution) and the borrower (client). The risk of a trading partner not fulfilling his or her obligation as per the contract can greatly hinder the smooth functioning of a bank's operation. On the other hand, financial institutions with high credit risk faces potential insolvency and this does not give depositors confidence to place deposits with it.

Some financial institutions have collapsed or experienced financial problems due to inefficient credit risk management systems typified by high levels of insider loans, speculative lending, and high concentration of credit in certain sectors among other issues. Credit risk management practices and poor credit quality continue to be a dominant cause of bank failures and banking crises worldwide. Again, Financial Institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties (Gil Diaz, 1994). Credit scoring procedures, assessment of negative events probabilities, and the consequent losses given these negative migrations or default events, are all important factors involved in credit risk management systems (Altman, Caouette, & Narayanan, 1998).

To implement effective credit risk management practice, private banks are more serious than state owned banks. In recent decades credit risk has become pervasive. Companies borrow to make acquisitions and to grow, small business borrow to expand their capacity and individuals use credit for other purpose. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. Since exposure to credit risk continues to be the leading source of problems in banks world-wide, Credit Risk Management Policy of the bank dictates the Credit Risk Strategy. These policies spell out the target markets, risk acceptance/avoidance levels, risk tolerance limits, prefer levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms.

The ever-improving risk management practices in the Bank will result in Bank emerging stronger, which in turn would confer competitive advantage in the market. The Savings & Loans companies in Ghana generally use loan products regardless of the perennial challenges facing the banking industry, such as high cost of borrowing and increases in bad loans in making gains and as well as profitability. In the past, the banking system in Ghana was characterized by short-term perspective among both savers and lending institutions due to limited access by small and medium-sized enterprises to credit, debt-interest rate and price dynamics. These limitations in the banking system resulted in an unsustainable portfolio of non-performing assets on the books of many commercial banks. The ever-improving risk management practices in the savings and loans companies will make them stronger, which in turn would confer competitive advantage in the market.

The points above tend to support the fact that credit risk management is paramount to the survival of a bank as well as its customers. If the risk associated with lending is greatly reduced, the banks will be relieved of the burden of carrying and using part of their profits to pay off bad debts and the interest of banks in granting credit will rise thereby bringing down the interest on loans and other forms of credit.

In the case of savings and loans institutions, the issue of credit risk is even of a greater concern because of the higher levels of perceived risk resulting from the behavior of clients and the type of business activities they finance. It is thus the purpose of this study to evaluate the credit risk management practices of savings and loans institutions using Sinapi Aba as a case study.

1.2 Problem Statement

Financial institution is an establishment that focuses on dealing with financial transactions (Collection and distribution of money) such as investments, loans and deposits and also the offering of other products and non-financial services to its clients. The finance industry encompasses a broad range of organizations that deal with the management of money. Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

Financial institutions have the primary motive of enhancing the financial welfare of their clients by granting them several types and forms of loans that are available on their desks. However, financial institutions are faced with the problem of employees' turnover in attempt to redeeming their loans granted to their clients. Many clients do migrate and change their jobs without informing these financial institutions, which makes it very difficult for the financial institution in question to trace them when they default in the payment of their loans.

This situation of job insecurity gives a headache to financial institutions after granting loans to their clients. One of the most difficult situations and exercises for financial institutions is the cost of monitoring their clients after providing them with their requested loans. It falls on the shoulders of some financial institutions to do a follow-up monitoring whether the loans granted to their clients are used for their intended purposes.

It also costs financial institutions to trace loan defaulters especially when they are difficult to be traced because of the informal settlements and difficult contacts of these clients. This results in high operational expenses by financial institutions. The bank has specific conditions with which they give out loans to their clients for the intended use. However a number of these clients veer off from the particular reason why they were given the facility.

Some go to extend of using it for their personal benefit and not what the loan was acquired for. A typical example is when an individual secures a credit facility for a vacation. Taking a vacation is not a business venture when one expects proceeds, hence repayment tend to become extremely difficult. The above paragraphs give the importance and problems of financial institutions respectively and due to these problems; the institutions have devise ways and means of redeeming themselves from the headache they go through. Most of them have designed credit management strategies to cater for this headache but how well this strategy works is another problem.

Sinapi Aba Savings and Loans like other financial institutions sees to make profit out of savings mobilization and credit granting function. Being a Savings and Loans company the cost incurred in mobilizing deposits from the widely dispersed customers is very high. As a result of the above problems, the researchers thought it necessary to research into Credit Risk Management in financial institutions using Sinapi Aba Savings and Loans a case study.

1.3 Research Objectives

Main Objective

The main objective is to assess how savings and loan institutions manage their credit risk.

Specific Objectives

- To examine the credit granting process of Sinapi Aba Savings and Loans.
- To examine the credit risk management system of Sinapi Aba Savings and Loans.

- To identify the challenges of credit risk management system Sinapi Aba Savings and Loans.
- Identify the success factors for effective credit risk management system in savings and loan institutions.

1.4 Research Questions

- What constitute the granting process of Sinapi Aba Savings and Loans?
- What is the credit risk management system of Sinapi Aba Savings and Loans?
- What are the challenges of the credit risk management system of Sinapi Aba Savings and Loans?
- What are the success factors for effective credit risk management system in savings and loan institutions?

1.5 Scope of the Study

The research focused on the operations and activities of Sinapi Aba Savings and Loans Credit department. Findings are however intended for all savings and loan institutions in the country. The study did not cover every aspect of the bank's operations due to lack of adequate time to conduct a thorough research.

1.6 Significance of the Study

This study seeks to enhance the knowledge on credit risk management of savings and loans. It also seeks to outline the need for adequate credit risk mitigating factors. Moreover the research findings would generate more interest to be subjected to more scrutiny by other researchers. The study provides the limitations of credit risk management and ways of mitigating the challenges facing the adoption and implementation of major frameworks. Importantly, researchers on similar studies will find this a reference material.

1.7 Limitations of the Study

The researcher encountered the following problems in undertaking this study:

- The time frame given to complete the study did not allow an in-depth investigation into the study.

- The problem of inadequate funds limited the extent to which the researcher was able to move around to collect data.
- The trustworthiness of some respondents may lead to inaccurate conclusion if false information was provided. Some respondents were scared to give information.

1.8 Organization of the Study

The research work is organized into five distinct chapters. Chapter one presents the general introduction, background of the study, problem statement, objectives and research questions, scope of the study, significance of the study, and limitation of the study. The second chapter reviews existing literature that primarily deals with discussions and review of literature related to the concept of this study. Chapter three discusses methodology of the study and background of Sinapi Aba Savings and Loans and is structured under; research design, population, sample, data collection methods, data analysis procedures, and the organization's profile. Chapter four presents findings, analysis, and discussions of collected data. Chapter five presents summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERTURE REVIEW

2.1 Introduction

This chapter is devoted to the review of extant literature that relate to the topic. Saunders et al (2007) define literature review as a detailed and justified analysis and commentary of the merits and faults of literature in a chosen area which demonstrates familiarity with what is already known about a research topic.

2.2 Historical framework on lending

Lending has been the most principal business transaction by Savings and Credit cooperatives societies, commercial banks and other financial institutions, the loan portfolio has become the predominate source of revenue and largest asset by financial institutions, but also the greatest source of risk to financial institutions (Amos et al, 2014). Historically gaps created due to poor portfolio risk management, lax credit standards, weakness in the economy and poor risk management makes loan portfolio a major cause of banks and SACCOs (Savings And Credit Co- operatives) losses and failures (Amos et al, 2014). For a bank to be profitable given an interest margin of 2%, the default of a loan has to be less than 1 % (Sheppard, 1991).

The idea of bank lending is link far back in history and was well acknowledge after the Second World War in Europe and later in Africa (Kiiru, 2004). Before the Economic boom in USA IN 1885 most borrowers were discourage in borrowing due to it high lending rate by banks , this continued until the banks had adequate liquidity and were ready to lend the excess cash at a lower rate (Ditcher, 2003). The concept of credit in AFRICA was largely appreciated in the 50’s at a period when financial institutions created a credit section and department in bid to lend to white settlers. In the 1990s there was an intervention in loans being given to customers due to non-performance as loan defaults continued (Modurch, 1999).

This drills to the concept of credit management as the ability to efficiently and intelligently managing a customer credit line, in order to curb bad debt, bankruptcies and over-reserving with banks having a greater insight to customers’ financial strength, changing payment patterns and credit score (Haron et al, 2012). The failure of 162 banks in USA reported by office of the controller of currency in the 1979's, revealed 98% of such financial institution failure was due to asset quality issues and poorly followed loan policy (Spadaford, 1988). Brice (1992) stipulated that, successful banks in the 1990's were built on innovative structure, systems and process that could manage risk in a more pro-active way.

2.3 Overview of Savings and loans institutions in Ghana

Within the mid period of the 1990s saw the operations' of saving and loans institutions in Ghana. Before then such category of financial intuitions were classified as rural banks in the 1970s which was how the Bank of Ghana stipulated the lances of such bankers. They are sectored to serve the rural populates (Kwasi et al 2011). Due to the perceived high risk of loans default and lack of appetite for savings as a result of low earning capacity there is a reduction in appetite for the operation of savings and loan in Ghana (Kwateng, A. 2009).

At the early stages the licensing of saving and loan (S & L) where faced with some challenges which were attributed to it delay, as the bank of Ghana was grappled in the execution of the new law. The minimum required capital for the operation of (S&L) was pegged at 100million or US$150,000) this trigged some few challenges in the set of (S&L) industries, but eventually saw a wrinkle in the value due to inflation (William & David 2003). Within such period of 1995 the number of (S&L) saw an increase from three to seven by 1998, on record as at the year 2002 there were eight (S&L) with a deposited capital of 160,000 cedis and 10,000 borrowers.

The increase in the minimum capital to 2000 restored the dollar value this affect the new entry rate. but within the period of 1999, the five outstanding applicant of (S&L) did not have enough accumulated capital to meet the required licensing criteria which stood US$2 million by 2001. Initial licensing of the new S&L category was (William & David 2003). In 1994 the women's world bank Ghana was the first to be license as an S&L, but due to its inability to adhered to the minimum capital in meeting the 2001 prudential requirement and also not meeting up to a good loan portfolio of a significant performance with Board and management setbacks approach on its mission attributed a decline in its success (William & David 2003).

Most promoters or shareholders among S&Ls where figured out to be entrepreneurs little experience in the financial services with little funds but of a high expectation of success. With a 51,049 depositors with ¢25.5 billion (US$3.4 million) and 2,820 borrowers with a total loan Portfolio of ¢10.3 billion (US$1.4 million) in 2001 first allied become one of Ghana's rural and micro finance institutions (RMFIs) (William & David 2003). Mobilization of savings as a supplementary source of funds was an agenda of some S&LS with agitation wish of entering the formal financial system and being described as Potential moneylenders.

2.4 Economic impact of lending by saving and loans

A significant impact on an economy boils down to the function of capital, human capital and technological innovations (Solow and Swan, 2002). The financial sector through it saving and loan distribution has contributed in many significant role in ensuring a high economic performance being indicated by higher Gross Domestic Product. Jung (1986). Savings, loans, foreign direct investment, domestic direct investment are very important factors in production. Saving and loans (investment, working capital, and consumption) regardless of its negative or positive effect, plays a significant role to economic growth. These among others factors was establishing the impact of saving and loans to the economic growth as (S&Ls) institutions mostly extend financial assistance to small and medium enterprises and such enterprises are the key promoters to economic growth as they serve as the source of livelihood to the poor with employment creating opportunities breeding income which contribute enormously to the economic growth (Isaac et al, 2014).

According to (hallberg, 2001) SME serves as the engine to economical development in most developing countries such as America and Japan. (GAB, 2013) within the year of 2013 and 2014 projected to grow 8% and 8.7% respectively, an indicators' of such is through the vibrant Small and Medium Enterprises (SME) Currently as the data stand 90% of institutions registered are micro and small medium enterprises, becoming providers of the key suppliers and service to large multinational companies and in 2012 the SME contributed 49% of Ghana GDP. This establishes the impact to employment, income and economic growth. Levine, Loayza, and Beck (1999) establish that economic growth in less develop countries is as a result of financial development while in develop countries financial develop is attained by economic growth. To ensure inadequate investment for social and physical infrastructure will be made successful through sufficient national savings of adequate long term funding in real economic activities.

2.5 Risk associated to lending by saving and loans

In reference to the bank of Ghana law under the non-Bank Financial Institution (NBFI) Law

1993 savings and loans companies are identified as deposit taking financial institutions under a minimum capital requirement which is quite lower as compared to the universal banks, but higher than that of rural and community banks (Darkwah et al 2013). Savings and loans companies is increasingly becoming the central source of financial support for the poor in many countries (Rosenberg, 1999), but the adverse effect of it is the inability of borrowers not fulfilling their contractual agreement of avoiding default payment, in the long term such default practices of borrowers affect the operational capital reducing their scope of lending.

Lack of willingness to pay loans in addition to wrongly disbursement of funds, wayward negligence and wrongly evaluation by credit officials are factors that can be attributed to loan default Ahmad, (1997). Certain key pressing issues which are factors in loan default are shortages in loan, delay in loan delivery to customers, Balogun and Alimi (1988). According to Evans et al (2014), in order to bridge this gap of loan default there should be proper management practices and culture of loans to customers or client, there should be a significant coordination between recovery on overdue of loans, proper project viability of borrower should be of a great concern. In the view of those key studies on credit, credit risk, credit process practices and credit management is very significant in helping (S&L) institutions to be more effective and efficient in lending to minimize the rate of default in lending.

2.6 Credit

Credit has been one essential facility that plays important roles in our live on a daily basis. In every aspect of life either being a student, working professional, a widower or parent ensuring a good credit is very important. As a good credit history could ensure the ability of acquiring a house or a car and even opportunity in employment (Experian Group 2015).

A Latine word ‘Credo’ meaning,” I believe “was a generating seed in deriving The word "Credit"(Sumon and Shilpi 2007). On a wider basis credit is a fund allocated to one party (lender, seller, or shareholder/owner) liable to be paid by (borrower, customer, company or non- corporate firm) (Woelfel 1994). According to (Investopedia, 2015), a borrower receives something of significant value now and when he/she agrees to repay the lender with interest on an agreed future that can be acknowledge as credit. In the field of accounting is identified as an entry that could increase liabilities or decrease asset and equity on the balance sheet of a company. The opposite of debt finance is credit. The obligation to make future payment is categorized as debt, but the claim to receive this payment is credit. According to (Johan and John 1994) credit is “The right to receive payment or an obligation to make payment on demand or at some future time on account of the immediate transfer of goods (securities)”.Credit on the contrary stipulate a loan capital in the purchase of goods and services as to when is needed (Experian Group 2015)

2.7 Types of Credit lending

According to (Experian Group 2015) credit can be categories into four different types namely:

- Revolving credit. In such credit scheme the borrower is given a maximum limit of credit and charges are applicable to that limit. As for each month hold a balance (or rotate the debt) and ensure a payment. A typical example of such is the use of most credit cards.
- Charge cards. This is similar to the revolving credit but in this instant there is a different in the charge account as total payment are made every month which involve the capital and the interest.
- Service credit. These are credit endured through the provision of services such as electricity, cellar phone service or gym membership with the agreement for paying for them each month.

- Instalment credit. Such is taken place when a borrower takes an agreed amount payable on a monthly instalment of a fixed amount with interest over a set period of time. Mortgages and car loans are typical example of instalment credit.

2.8 Factors Affecting Lending

According to Albert 2011 the provision of credit have become very important essential in the Socio-economic activity of individuals and organization as enormous benefit such as the following are derived:

- Credit enables "the exploit of produce or services without instant payment".
- Credit enables a manufacturer "to overpass the space between the production and sale of goods".
- Credit enables a real estate company "to build a project before the units are sold"
- In short, credit drives the economy.
- Without banks providing credit ("willing and able"), the economy will not develop. As credit is a potent tool for economic development. (Albert 2011)

2.9 Loan Process guidelines among saving and loans

For effective credit management (Spring, 2005) have in practice a proactive approach in lending loan approval process, with that certain cultural policies are to be observed to avoid failure to loan recovery:

- Loans decisions are completed and permitted by suitable staff, with the proper endorsement and responsibility;
- Lenders should be delegated formal lending limits in accordance with their lender

Recommendation/experience

- Loans pursue a pre-established loan processing flow, which sets out the accurate movement of loan applications within the credit union;
- Loan information and credit analysis are properly documented on standardized forms;
- Loan applications are analyzed against established credit criteria;
- Loan funds are disbursed through proper channels, with proper safeguards against theft or Fraud;
- Generally, loan renewals are subject to the same criteria and credit evaluation process as when first approved.

While the scope for these processes and controls must be documented in policy, the actual detail or content do not. Due to the level of detail, and the need for flexibility, this detail can be documented in operational procedures.

2.10 Effective Credit Culture Practices For Saving and Loans

The current paradigm shifts in the banking field has led to the setup and maintenance criteria that administrate the management of credit creating laid down principles and benchmark for staffs to work within to ensure a high quality loan portfolios. With a professional and informed credit policies banks are elevated at all staff level, in a bid to create a practical " credit culture'' which serve as a road map in ensuring accountability to any recommendation being made (Omega 2015). According to McKinley and Brickman 1994 credit culture is how things are done within an outfit or set-up which is the incarnation of the bank's approach to underwrite, administration, and monitoring credit risk. Credit culture is the bond that binds the credit procedure and forms the groundwork for credit discipline. Credit culture could be formally assigned by top management or could be created through a period of evaluation and experimented period (Strischek, 2002)

Basically rampant training do not associate to better training but a well return in training investment is achieved when is bench mark to the right people at the right time.

- **Enterprise E-learning Access**

An effective learning must provide learners with information that is linked to their professional development. An enterprise E-learning base on a cultural foundation of the said outfit creates interactive know how, ensuring a learning base on understanding and application of the material. Enterprise E-learning create s convenient platform of training across organization reducing the time spent in the class room, with uninteractive static books and work shop (omega 2015)

- **Skills Application Labs**

This approach in learning is very dynamic where student are engage in a brain storming. Approach involving group of peers where each other learns from their background, knowledge and experience and become partners in learning. This is elevated from traditional lecture base workshop into an environment of shared accelerate and intensive studies in less time (omega, 2015)

- **Credit Coaching & Mentoring**

This level of coaching is designed for experts and involves that which enhances knowledge transfer and ensures credit skills sustenance. This involves a supportive tool, guide and script designed to authorize administrators and trainers with required principles which will ensure sustainment road map. (Omega, 2015)

2.11 Credit Risk Associated With Saving and Loans

According to (Brown et al, 2012) Credit risk involve the failure of a borrower not meeting its obligations in its contractual agreement to repay a debt which record a lost to its lender. Credit risk which is also termed as the primary financial risk within the banking system is identified in all income producing activities (Comptroller, 2001). The approach used by banks to critically manage its credits risk is a critical success factor of its performance over a period of time; indeed loan losses through capital depletion ascertain causes of most institution failures. Credit risk identification and rating is an essential first step in effective management of credit risk. In (Comptroller's, 2001), credit risk which also referred to as performance risk, counterparty risk, default risk can be characterize into three:

- Exposure to party possible of defaulting
- The default probability on its obligation
- The recovery rate of how much can be retrieve

Base on the above statement an equation can be derive to formulate an equation on credit risk

Credit Risk = Exposure x Probability of default x (1lessRecoveryrate). (Brown et al, 2012).

The possibility of a contractual agreement not reaching it said agreement signal a possibility risk of non-performance. Hence credit risk and credit risk management are key issues for most institutions. (Brown et al, 2012). This goes a long way in affecting firm's objective. As lenders lose their capital when borrowers fail to pay or institution where money is deposited goes bankrupt. (Brown et al, 2012). The sub-prime mortgages in the United States which begun in

2006 had a link to the world credit crunch which started within the same period of year. The setback in the said mortgages revealed unrealizable credit decisions being made gave an enlighten on ignored or never learned effective management in credit risk.(Brown et al 2011).

These gave a significant fact of most losses by financial being attributed to poor decision lending. According to (Brown et al 2011) the losses by financial institution caught in the credit crunch has enlighten lenders the need of effective credit risk management ensuring profitability of financial institutions therefore being able to manage risk has become a prerequisite in making lending decision. In making a lending decision factor such as experience, range of analytic and evaluative techniques and prior judgment as such becomes a determine factor that the money will be repaid or will be lost by the credit not being paid (Brown et al 2011).

2.12 Risk Associated With Lending by Saving and Loans

Risk in lending can be link to a default threshold that signified the point in the borrowers repayment records where 3 installment payment plan within 24 month have been missed Pearson and Greeff (2006), this indicate a behavioural character at a point in time demonstrating increase risk of borrower suddenly ceasing all repayment. Default by borrowers has become a primary concern for financial institution as such precisely assessing associated risk to loans contributes a positive impact in their market efficiency (Lee and Liu, 2002).

Savings and loans institutions are set up with the idea of collecting savings and making advance loans to small and medium enterprises which goes in accordance to (Bank of Ghana ACT, 1970). In addition to that savings and loan institutions are task to carry out social services such as (i) time deposit, checking and savings, (ii) intermediary to other financial institutions in the country (iii) recognize discounted bill of exchange and rediscount its papers, (iv) being implementers and trustees of wills of small scale enterprises (vi) practice other related activities,(Bank of Ghana Act, 1970). The impact to the socio-economic life's to citizenry have been extremely tremendous through the role of savings and loans institutions in the supply of financial assistance over the past decades, especially to small medium enterprise.

The outcome to banks has not worth much, due to the default in loans even though its impact has been positive to the economy of a country. (Samuel et al., 2012). In the effect of this risk to savings and loans institutions there have been a continuous growth of expansion in their area of bank services, with the employment of services sale personnel who are employed on full time in selling bank loans. In ensuring the credit worthiness there are various approaches to the valuation process to access customer's worthiness to credit (Antwi, et al 2012). This in a bid, an important role in recovering loans when time is due (Antwi, et al 2012), as most bank setup a credit department that are task to such important functions of credit management. But above all such approach by savings and loans institutions the record of large number of defaulted customer in the payment of the principal and interest on their loan is very alarming (Samuel, et al 2012). This leads to banks with alternative approach in retrieving these loans. According to (Ameyaw, 2011) a report of Okomfo Anokye rural bank Limited (OARB) in 2009 indicated an income earned value of GHS925, 821.00 for that year, in which GHS792, 755.00 came from interest on loans and overdraft, representing 80% of the total income. This signified that the healthy the portfolio the higher the profit being earned.

The same report also recorded a decorating portfolio of the bank as a total allocation for bad and doubtfully debt rose from GHS50, 621.00 to GHS114, 137.00 respectively in 2008 and 2009. Such is a real concern to stake holders for the need to address issues of loan default with seriousness. According to Myjoyonlinebusines (2011) a report by the Monetary Policy Committee (MPC) of the Bank of Ghana on the economy indicates deterioration from 16.2 percent in December 2009 to 17.6 as at December 2010 on the Non- Performing Loans (NPL). This situation could lead to financially intermediaries not lending to both individuals and enterprises. As loan portfolio is usually the largest asset and the principal source of income for banks, According to Aballey (2009) this huge portion of bank loans goes bad affecting the financial performance of these institutions. In all Savings and loans institutions are set up with the idea of collecting savings and making advance loans to small and medium enterprises which goes in accordance to (Bank of Ghana ACT, 1970).

In addition to that savings and loan institutions are task to carry out social services such as (i) time deposit, checking and savings, (ii) intermediary to other financial institutions in the country (iii) recognize discounted bill of exchange and rediscount its papers, (iv) being implementers and trustees of wills of small scale enterprises (vi) practice other related activities,(Bank of Ghana Act, 1970). The impact to the socio-economic life's to citizenry have been extremely tremendous through the role of microfinance institutions in the supply of financial assistance over the past decades, especial to small medium enterprise. The outcomes to banks have not worth much, due to the default in loans even though its impact has been positive to the economy of a country.(Samuel, et al 2012). In the effect of this risk to microfinance institutions there have been a continuous growth of expansion in their area of bank services, with the employment of services sale personnel's who are employed on full time in selling bank loans.

In ensuring the credit worthiness there are various approaches to the valuation process to access customers' worthiness to credit (Antwi, et al 2012). This in a bid, an important role in recovering loans when time is due (Antwi, et al 2012), as most bank setup a credit department that are tasked to do such important functions of credit management. But above all such approach by savings and loans institutions the record of large number of defaulted customer in the payment of the principal and interest on their loan is very alarming (Antwi, et al 2012). This leads to banks using alternative approaches in retrieving these loans. Pandy and Muralidharan (1979) in reference to data from the Uttar Pradesh State in India made a significant approach in developing criteria as to the willingness to repay their loans. By using data from the Uttar Pradesh State in India, they attempted to develop a criterion for classifying borrowers as to their willingness to repay their loans on the foundation on differences in their socio-economic characteristics. In accordance to Quercia et al., (1995), lower Loan-to-value ratio at originated time (i.e higher down payment) result to lower default rates for lower income borrowers.

A discovery by Oni O.A et al., (2005) on conditions attributing to default payment of loans among poultry famers in Ijebu Ode Local Government Area of Ogun State Nigeria, Stated that the flock size of famers affect default in loan payment at ($P < 0.10$) level in reference to age its default in loan at ($P <0.01$) level and income and educational level of farmers in affecting in default in loan payment at ($P < 0.05$). Defaulted loans are always a worry to lender when there is too much of it in the balance sheet as its affect operations in terms of Profitability, liquidity, debt servicing capacity, lending capacity and ability to raise additional capital (Evans, et al 2014).

2.12.1 Various types of risk in the field of lending

The types of risk in lending are operational risk, tactical risk, funding risk, political risk, legal risk, financial risk, non-financial risk, interest rate risk, liquidity risk, currency forex risk, hedging risk, counterparty or borrower risk, intrinsic or industry risk, portfolio or concentration risk, credit risk, market risk.

The concern of every lender should be the safety of his money, usually every loan application by customers are to be repaid with a stipulated interest within a given frame of period. But always there is the risk of financial loss if default in payment of a customer failing to meet its contractual obligation. An approach which could avoid the exposure to bad debts is through the implementation of effective credit management.

2.13 Credit Risk Management within the Savings and Loans Industry

The risk that money owed not paid has been rampant in the banking history contemporarily referred to as credit risk. Principally it is the most delicate risk currently identified in finance, commerce and trade transaction from ancient cultures till present (Bart and Tony, 2009). The desire for the practice of credit risk management was as a result of frequent small and large failures associated with economic and social impact derived the need for management of credit risk. In definition credit risk management is the stages around the identification of potential risks, the measurement, required treatment and implementation of the risk models (Bart and Tony,2009).

This has become a vital tool to the exceptional expansion in consumer credit during the last 50 years; thriving credit risk management must then poise priorities for: 1. productivity, 2. Asset quality, 3. Growth and market share (Strischek 2002). A requirement for financial institutions in ensuring continue stability and profitability is based on a sound credit management as worsening credit quality is attributed to a poor financial performance and conditions.

2.14 Framework for Credit Risk Management

Credit risk management collective base and component is always significant as it signifies top management of a cultural approach in managing risk and as such encompasses certain factors in it process. Singh (2013) in a collective approach outline critical factors that encompass credit risk management to involve:

- The ascertaining of risk through credit rating / scoring
- Using a scientific bases to price risk
- Using effective loan review mechanism and portfolio management to control the risk
- Using estimated loan losses in quantifying the risk i.e. the sum of loan Losses that bank would experience over a selected time horizon

Therefore to minimize operational risk and securing rational returns a prudent credit management is of a necessity (Spring 2005). Organizations including banks require adequate allocated capital to mitigate and absorb credit and other losses (Bart and Tony, 2009). Singh (2013) in a bid of eliminating risk through the effective application in the use of credit risk management stipulated certain key areas as a set objective to be achieved in managing risk:

- There is the need to categorize various type of loans advanced by establishing implications on quality of credit and risk.
- Establishment of corporate level strategies to attain the required level /quality of exposure and issue guidelines to Strategic Business Units (SBUs).
- Performance and exposure performance must be periodically reviewed
- Ensuring a measure of suitable mechanism for review and control
- Develop and improve logical tools to assess risk profiles, for ensuring healthy portfolios and guarding against sickness.

The foot print of credit management starts with sale and continues till full recovery of any capital lend have been fully received. As a fact, sale is not closed or completed until money has been collected (Heron et al 2012). The successful credit lending relies upon the applied methodology in evaluation and awarding of the credit (Ditcher, 2003), which implies that credit decision should be based on adequate evaluation of the lenders risk condition and the borrower's characteristics. According to (Heron et al 2012) most savings and loans institution lending decisions are base on thought about the risk in relation to the borrowers expected repayment plan, this approaches are adopted by savings and loans institutions due to its simplicity and inexpensiveness.

But (Edward, 1997) laid the infancies that for most occasions the following client assessment concept are necessary for decisive decisions, and as such can be term as the 5C Character, Capacity, Collateral, Capital and Condition. According to (Amadi, 2012) attitude adjustment can be the resolution to credit crisis and high indebtedness of consumers, there should be paradigm shift from the giving out of easy credit. As debt and credit it should be investment driven not consumption. Therefore in other to critically evaluate a risk in credit certain characteristic of the borrower must be observed which include its economic, legal as well as the relevant environmental factors such as e.g industry, economic growth.

Two factors are also observed during the credit approval process which is transparent and comprehensive presentation of the risks in one face and adequate evaluations of those risks (Oesterreichische2004). Managing credit risk is a complex multi-dimensional issue and as such involves numerous approach in dealing with that, while some will be quantitative others drive on quantitative judgment (ken and peter, 2011). In any of the approach the key factor is to get the behavioural understanding in determining the likelihood particular difficultness' in credit on their obligations.

2.15 Credit Decision Process for Lenders

For a decisive decision by managers this among others are very important in managerial decisions, according to Rouse (2002), on bank lending he suggests the following bank lending principles to a professional credit risk manager.

- Do not rash in making a decision
- Do not be overconfidence to ask for a second option
- Require adequate information from customer and do not use assumptions
- Do not take a customer's statements and representations at face value and ask
- You should have full understanding of any business you lend to
- Always make a clear distinction between facts, estimates and opinions when forming a judgment
- Think again when the 'gut reaction' suggests caution, even though the factual.

Rouse further stated that the above principles facilitate well-informed, thoroughly analyzed and documentary supported credit decisions. It also takes in consideration the avoidance of bureaucracy and unnecessary delays.

2.15.1 Credit evaluation process

The schematic above shows the credit risk management process. The initial stage is defining the problem where the risk that money owed and liability of not being paid has been identified after identification of the problem. The next stage is to analyze, (Brown and Moles 2011). In analyzing the diverse method given on the chart above acknowledge the need of data and information from the business environment (e.g company report, news report, financial statement, market prices of the firm's Securities, payment history, and so on). With the diverse diagnostic or analytical approaches can be loosely grouped into (1) knowledge models, where a degree of subjectivity is required through the use of expert judgment by an analyst. (2) Effect models: this combine element of subjective and systemic analysis which will involve the use of ratio analysis. (3) Statistical models: this is more systematic in approach involving the use of credit scoring models.

The outcomes of the analysis are then used in the conclusion space, where a decision of granting or not granting a credit is determine. In which a decision whether to grant, or not grant credit is establish. In the credit approval process there is always the need to segment each stage of the process in other to critically assess each stage in identifying and dealing with risk. (Oesterreichische, 2004) took into account key risk in the segmentation of credit approval process. These approaches acknowledge four key areas in the process:

- Category of borrower
- Source of cash flows
- Worth and category of collateral
- Amount and type of claim

2.16 Connection between Credit risk Management Systems and Loan Performance

- **Credit Terms**

These identify the situation under which savings and loans institutions will advance credit to a customer, which basically stipulate the credit period and the interest attached. Credit period give a definite period within which the credit is will be granted. Mostly such period is prejudiced by security value, Credit risk, in addition to the account and market competition (Ross, Westerfield & Jordan, 2008). The interest rate being a cost on the lend fund which affect the performance of the loan

- **Credit Risk Control**

This is a control measure pipeline to avoid a loan default which could arise from non-payment of loan from a borrower, where the lender loses it principal and interest. This is mitigated through the use of risk based pricing, covenants, acclaim insurance, tightening and diversification (Ross et al, 2008).

- **Collection Policy**

Due to the diverse characteristics nature in loan payment of customers who could be either a slow payer or non-payers as most will not pay their bills in time, therefore in such approach there should be accelerating approach to eliminate bad debt losses (Kariuki, 2010).

- **Economic Cycles**

These are the fluctuations in production or economic activities over a period of months or years. According to Pandey (2008) approximately a long-term expansion development, typically occurs over time in relatively rapid economic growth, periods of relative stagnation or decline (a contraction or recession). The choice by a MFI to issue or not issuing loans has a significant deciding factor on the economic cycles.

In a more collaborative manner to gain the full outcome through effective credit risk management, most corporate / commercial banker must observe these key critical factors (Albert2011):

- Be acquainted with the customer;
- Be familiar with the industry;
- Be an efficient cross seller;
- Be a good team player;
- Acquire investigative aptitude;
- Encompass uprightness;
- Be keen to take risk; also know when to say “no”;
- Identify problem before it surfaces.

2.17 Transfer of credit Risk From The Lender To A Third Party Through Credit Derivatives

In a study by Gunter and Florian (2009), credit derivative is a contract between two financial market participants, called "counterparties," the essence of which involves the transfer of credit or default risk from one party to another. Credit risk represents the possibility of the debtor's default on financial claims, regardless of whether s/he is unable or unwilling to pay. The credit derivative enables the transfer of this risk from the lender to a third party, thus providing the lender with the opportunity to hedge against a debtor's default. Historically, credit derivatives are one of a number of financial innovations first introduced in the 1990s. They were developed as a means for banks to extend additional credit to their most profitable and important clients, despite having reached the limits of credit exposure to these entities as dictated by principles of prudent diversification. By selling the credit risk to a third party, banks were now able to continue to extend credit volume to such clients while simultaneously hedging away the embedded credit risk, typically without the involvement or even the knowledge of the client. Credit derivatives were originally comparable to credit risk insurance. To clearly define "credit events" is not simple. The main problem is to measure and legally define "credit risk" per se. At this time, there exists no common pricing model for credit risk, nor is there an index for credit risk equivalent to LIBOR for interest rates, for example. With credit derivatives, the value price of loans or bonds is usually used as "the underlying." The problem with loans is that they are rarely traded. Hence, there is no market price for such an instrument that could be unbundled. Nevertheless, the best indicator for credit risk is the credit spread between a default-free yield—i.e., yields of government bonds issued by major industrialized countries—and the yield of credit risky bonds, bonds exposed to default risk—for example, emerging market sovereign debt or corporate bonds.

Using this market data enables one to calculate the "embedded" or "implied" pure credit risk and through pricing make it tradable.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIOAL PROFILE

3.1 Introduction

Bryman (2008) says that research methodology is concerned with uncovering the practices and assumptions of those who use methods of different kinds. He defines it as the study of the methods that are employed. This chapter presents the research philosophy and choice of methods used for this thesis.

3.2 Research Design

This study employs both the qualitative and quantitative research strategy as the researcher sought to address the research problem to satisfy the objectives of the research. Research design, according to Bryman & Bell (2007) is the term used to refer to the general orientation to the conduct of social research. They present the qualitative and quantitative research strategies as two research strategies when it comes to the collection and analysis of data.

According to Bryman & Bell quantitative research is objective and measurable. On the other hand, the qualitative method is collecting, analyzing, and interpreting data by observing what people do and say. Sedmak & Longhurst (2010) argue that, the advantages of qualitative research are that it requires in-depth data which gives descriptions and explanations placed in a particular context, and as such can help in generation or revision of conceptual frameworks. One of the major advantages is that, apart from answering the initial research questions, qualitative research can provide answers to research questions not originally asked (Sedmak & Longhurst, 2010). On the other hand, quantitative research usually emphasizes quantification in the collection and analysis of data (Bryman & Bell, 2007).

Both were selected based on the need to employ the two to help address the various research questions in the study.

3.3 Sources of Data

3.3.1 Primary data

Yin (2003) defines primary data as original data collected by the researcher for the research problem at hand. In this thesis, the researcher collected primary data through questionnaires.

3.3.2 Secondary data

Ghauri & Gronhaug (2002) define secondary data as information collected by others for purposes which can be different from the researcher's purpose. The researcher used secondary data sources gathered from institutional documents and other relevant data. According to Ghauri & Gronhaug (2002), the advantages for using secondary data may include; (a) enormous saving in time and money because the researcher needs only to go to the library and locate and utilize the sources, (b) it can suggest suitable methods or data to handle a particular research problem and also provides a comparison instrument with which we can easily interpret and understand our primary data.

3.4 Study Population

According to Jacobsen (2002), population is the whole group that the research focuses on. In the current study the researcher's population constitutes the entire staff and management of Sinapi Aba savings and loans bank under study.

3.5 Sampling Method

Sample is the segment of the population that is selected for investigation (Bryman and Bell, 2003). Sampling constitutes a key step in the research process in social survey research. The purposive sampling techniques were used.

The study employed the purposive sampling technique in sampling these respondents. Purposive sampling represents a group of different non-probability sampling techniques. Also known as judgmental, selective or subjective sampling, purposive sampling relies on the judgment of the researcher when it comes to selecting the units (e.g., people, cases/organizations, events, pieces of data) that are to be studied.

Usually, the sample being investigated is quite small, especially when compared with probability sampling techniques.

The justification for employing this sampling technique is that unlike the various sampling techniques that can be used under probability sampling (e.g., simple random sampling, stratified random sampling, etc.), the goal of purposive sampling is not to randomly select units from a population to create a sample with the intention of making generalizations (i.e. statistical inferences) from that sample to the population of interest.

3.6 Sample Size

The study used a sample size of 35. The selected respondents were both management members and staff, making the total sample size 35. As indicated earlier these respondents were selected using the purposive sampling technique. A breakdown of this is indicated in the table below:

Table 3.1 Sample size

Category of respondents	Sample size	percentage
Credit officers	5	14
Customers	30	86
Total	35	100

3.7 Methods of Collecting Data

Robson (2002) argues that collecting data is about using the selected methods of investigation and doing it properly means using these methods in a systematic and professional fashion. There is no general or best method so; the selection of methods should be driven by the kind of research questions one is seeking to answer (Robson, 2002). How the data will be collected is determined by the research question, objective and what is being examined (Saunders *et al.*, 2009). The researcher used questionnaire and interview as a method of collecting primary data; in addition the secondary data was collected from already published literature and unpublished documents related to the study. This was done with the aim of strengthening the content of the entire research work.

3.7.1 Questionnaire

The researcher used questionnaire which he personally administered as data collection method. The questionnaire was designed in a concise and precise language to avoid ambiguity, and also to arouse the respondent's interest. The questionnaire consisted of well structured (close ended) multiple choice questions, which just required ticking the right answers by the respondent. It also consisted of unstructured (open ended) questions, which allowed respondents to answer to the questions in their own words and freedom. The researcher decided to use questionnaire to allow responses to be gathered in a standard way, bringing out objectivity, and reducing bias.

Also, the use of questionnaire, allows information to be presented in numerical and graphical backgrounds. The use of questionnaire is not without its limitations. Since questionnaires are issued after the event being researched has taken place, there is the likelihood that many respondents would have forgotten major parts in the events being researched.

3.7.2 Interviews

The respondents chosen for the interview were management members. As a supplement to the questionnaire, the interview method was adopted to ascertain some of the information that could not be accessed using the questionnaire. The researcher personally conducted all interviews which were at the convenience of the respondents.

3.7.3 Validity and Reliability

Saunders et al.(2009) describe validity and reliability as referring to how collection of the data or how the conduction of the analysis will bring reliable findings. The researcher believes that data collection method and the findings are in line with what was intended to measure. To a large extent subject or participant error, subject or participant bias, observer error and observer bias were minimized.

3.8 Methods of Data Analysis

According to Saunders et al. (2007), analysis is the ability to break down data and to clarify the nature of the component parts and the relationship between them. The researcher analyzed and interpreted his data by linking them to the theory, problem, purpose and research questions and he made sure that there is coherence throughout the entire thesis. Data was analyzed with SPSS to obtain frequencies and percentages of closed end responses. This was to identify trends that appeared from responses (Maxwell, 1996). Open-ended qualitative responses were analyzed through data reduction and subsequently creating a conclusion based on the trend.

3.9 Organizational Profile (Sinapi Aba Savings and Loans)

3.9.1 Brief History of Sinapi Aba Savings and Loans

Sinapi Aba Savings and Loans Company Limited (SASL) was incorporated on December 1, 2011 as a company limited by Shares and is headquartered in Kumasi. SASL evolved from Sinapi Aba Trust which currently has 80% shares in the company. Sinapi Aba Trust was established in 1994 as a local Christian Non-profit, Non-Governmental Organization to provide micro-credit to micro- entrepreneurs with the first branch in Kumasi. It is a member of Opportunity International Network (OI).

SAT, in 2004, went into an agreement with Opportunity International together with other investors to transform the organization's operations to a regulated non-bank financial institution under the name Opportunity International Sinapi Aba Savings and Loans Ltd. Kumasi branch, located at Kejetia, was first to be converted. By August 2005, three branches namely, Kumasi, Accra and Techiman had been converted. The remaining 12 branches were under management contract with OI-SASL. In July 2005 SAT Board withdrew from the management contract. A new management team was put in place to manage the remaining 12 branches with effect from September 1, 2005.

SASL and has taken over all SAT branches and thus has representation in all 10 administrative regions of Ghana and their surroundings. SASL was formed to primarily provide microfinance services to viable small and micro enterprises, which lack these services from the formal banking institutions due to obvious reasons.Over a period of time, SASL has achieved significant growth to become a leader in the microfinance industry in Ghana through the provision of financial and business advisory services to small and micro entrepreneurs. This has been built on the development of “triple bottom line” initiatives focusing on Social, Economic and Spiritual transformation in the lives of its clients.

The economic transformation is achieved through the provision of microfinance services through a range of products and services that are targeted at the low-income clients. It includes micro-credit, micro-savings, micro-insurance and other financial products. Credit and Savings are the major critical products of SAT that has culminated into its rapid growth.

3.10 Organizational Products and Services

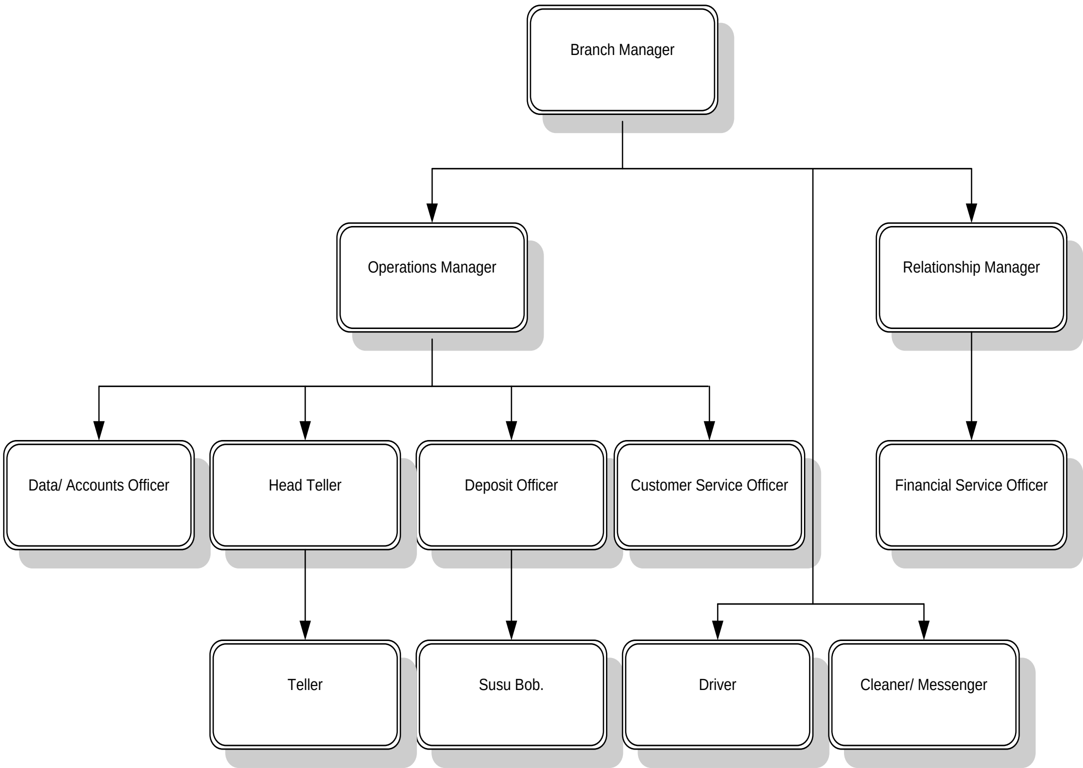
3.10.1 Organizational Products

PRODUCTS	DEFINITION
Business loan	General loan given to businesses to enhance productivity
Employee salary loan	Loans given to employer’s salary workers with special offers
Employee salary accounts	Accounts opened for employer’s salaried staff with special offers
Overdraft/cashflow assistance	Clients with this facility will have access to overdraw their account.
Business inputs assistance	Providing vital raw materials for clients
Project finance	Assisting clients to undertake projects over short/medium/long term periods
Working capital finance	Assisting clients with cash to help as capital injection
Business assets finance	Assisting clients to acquire business assets such as shop, car, machine etc.

3.10.2 Organizational Services

Business advisory	Offer advice on business operations to clients
Cash pick	Periodic on-site collection of cash/sales of clients to the bank
Business delivery services	Delivering cheque books/bank statements etc to the premises of clients
Business clinics	Have periodic meetings with clients to assess the state of their businesses and offer practical advice/solutions while linking them to relevant quarters/contacts for help if need be
SMS alert on transactions	The clients is informed of all happenings on his/her accounts
Negotiable interest rates	Clients are offered the chance to negotiate their interest rates based on specific factors
Customized cheque books	Client have the prerogative to own customized cheque books
Competitive charges on accounts	Clients may not be required to pay the standing charges pertaining to specific accounts
Payroll support services	Provides help for clients regarding their staff salary processing and payment

3.11 Organizational Structure of Sinapi Aba Savings and Loans (branch level)



The organogram above represents the branch organizational structure of Sinapi aba savings and loans (Ahodwo branch). The hierarchy is such that, the branch manager is regarded as the head of the branch who delegates to the line managers; Operations manager and Relationship manager. The account/data officer, head teller, deposit officer and customer service officer all report to the operations manager. Only the financial service officer reports to the relationship managers. Both the teller and the Susu coordinator report to the head teller and deposit officer respectively. However, the driver, the cleaner and all the messengers report to both the operations and relationship managers.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF DATA

4.1 Introduction

This chapter comprises of the findings, analysis and interpretations of data collected in relation to the study. The information ascertained was based on the responses from the questionnaires distributed to the employees of the credit department of Sinapi Aba Savings and Loans (Ahodwo branch) and customers. The findings were centered on the employee and customer information as well as company practices on credit risk management that makes CRM effective.

4.2 Demographic Classification of Respondents

The study used two categories of respondents, staff and clients. It included 5 staff and 30 customers. The demographic characteristics of respondents are discussed under gender and age of respondents. This was analyzed to ascertain the demographic characteristics of the respondents used for the current study. The various findings relative to the respondents' demographic characteristics are presented and discussed with the aid of diagrams shown below:

4.2.1Gender of Respondents

Findings relative to the gender of respondents were analyzed and discussed. The study found that 3 of the staff respondents were males while the remaining 2 were females. On the part of the customer respondents, 18 of them were males with remaining 12 being females. This depicted on the table below:

Table 4.1 Gender Distribution of Loan Customers

Gender	Frequency	Percentage
Male	21	60
Female	14	40
Total	35	100

Source: Field data 2014

From the table above, it is evident that the bank probably has more male loan customers than females. This is considering that about 60% of those sampled were males with only 40% being females.

4.2.2 Age of Respondents

The study also analyzed the age of respondents used in the study. The results found that all 5 of the staff respondents were above 40 years. These were experienced credit officers with a minimum of 10 years in credit administration. The loan customers on the other hand varied. This is depicted by table 4.2 below.

Table 4.2 Age Distribution of Loan Customers

Age	Frequency	Percentage
25 and below	5	17
26-35 years	7	23
36-45 years	12	40
46 years and above	6	20
Total	30	100

Source: Field data (2014)

It is seen in the table above that majority were in the age group 36-45 years. They constituted about 40% of the total respondents. It was followed by the age group 26-35, who were also about 23%. It suggests that about 63% of the bank's loan clients are between the ages of 25 and 45 years.

4.3 Credit Supply

To be able to assess the credit risk management approach of the savings and loans under study (Sinapi Aba Savings & Loans) there was the need to first look at the credit supply trend for the study period 2010 -2014. This was aimed at understanding the bank's credit exposure in terms of the default rate and how this can be situated in the context of the current study. Findings obtained from this analysis are depicted on the table below:

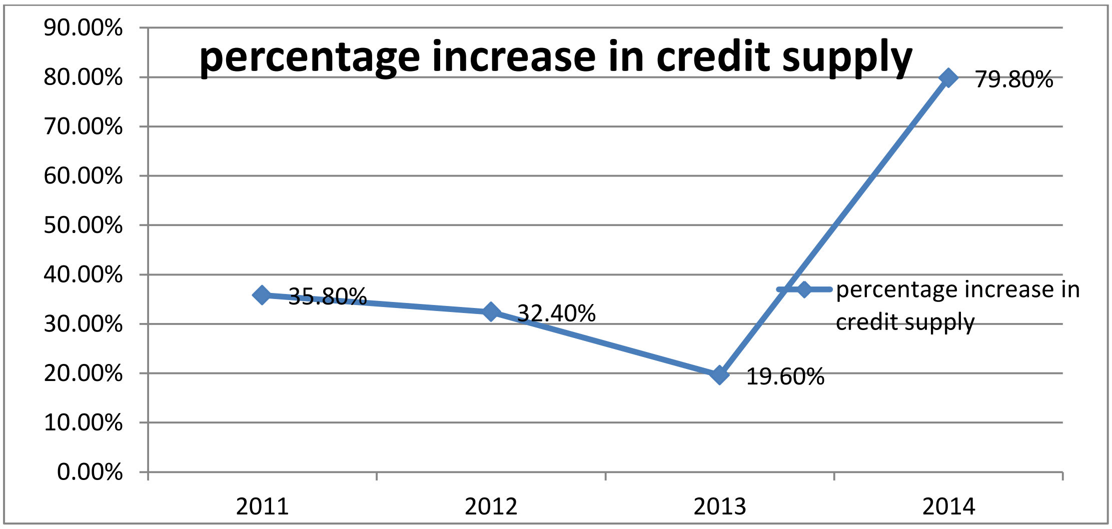
Table 4.3 Credit Supply for the Period 2010-2014

Year	Total deposit	Total loan	% increase/decrease in credit supply
2014	203,669,231.43	165,781,164.65	79.8%
2013	143,569,699.00	92,222,292.00	19.6%
2012	102,333,299.39	77,133,397.43	32.4%
2011	75,339,265.21	58,276,005.00	35.8%
2010	64,932,444.00	42,905,923.00	-

Source: Credit Department of Sinapi Aba Savings & Loans

From the table we find a consistent rise in the bank's annual credit supply over the period 2010-2014. The bank has recorded an annual increase in its credit supply of more than 18%. The minimum increase recorded as per the data provided in the table above was 19.6% recorded in 2013. This compares to the highest increase recorded in 2014 of 79.8%. It shows that from 20010 the bank has intensified its credit supply to its clients through the various products and services it offers.

Figure 4.1Percentage Increase in Credit Supply over the Study Period 2010-2014

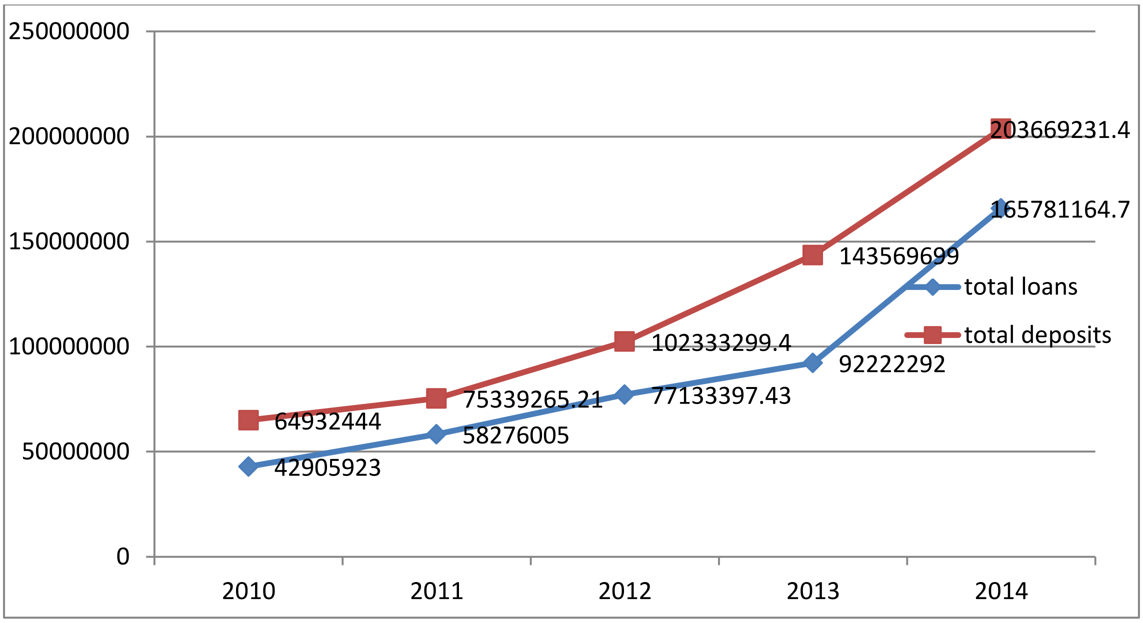


Source: Credit Department of Sinapi Aba Savings and Loans

In comparison with the annual deposit however, it is evident that deposit mobilized annually is about half of what it supplies as credit. For example in 2010 whilst it supplied 42,905,923, it was able to mobilize 64,932,444. Again, in 2011 it was able mobilize 75,339,265.21 while credit supplied stood at 58,276,005. It is also seen that in 2012 total deposits stood at 102,333,299.39 whilst total loans amounted to 77,133,397.43.

A similar trend was recorded in 2013 and 2014 with deposits standing at about twice the amount of loans supplied. The trend, as depicted in the figure below shows that the bank maintains an adequate liquidity to withstand any unforeseen shocks.

Figure 4.2 Trend of Annual Deposit and Loans



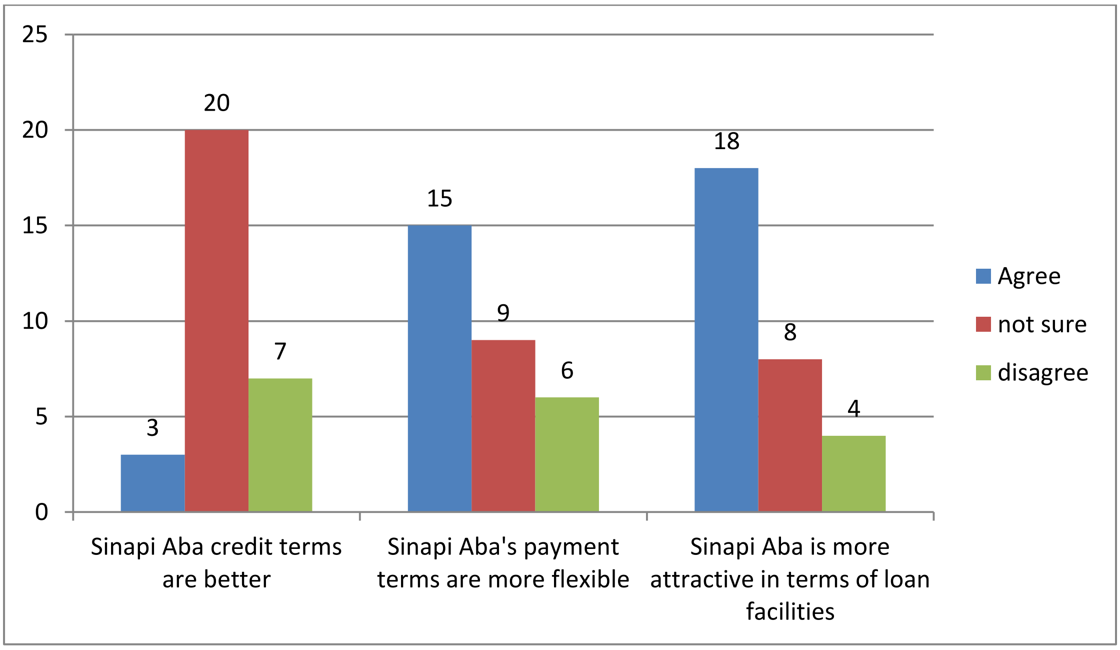
Source: Credit Department of Sinapi Aba Savings and Loans

4.3.1 Customers' perception of Credit Supply

Customers' perception of the bank's credit supply was analysed. The study found that about 20 of the 30 customers interviewed had taken loans from the bank in the last six months. Half (1/2) of this number had successfully complied with the payment schedule. More than 1/4 of this number had taken loans from the bank before. Further, it was observed in the study that more than 1/4 of the customers had taken loans more than twice.

About 20 out of the 30 customers disagreed that the bank's credit terms were better compared to that of other financial institutions. About 15 out of the 30 customers believed that payment terms were relatively more flexible compared to that of other financial institutions. For these customers this made the bank more attractive in terms of loans facilities.

Figure 4.3 Customers' Perception of Sinapi Aba Savings and Loan Facilities



Source: Field Data (2014)

4.4 Managing Risk in Credit Supply

The bank manages risk in its credit supply through its credit policy. The bank has formal laid down policies and principles that have been put in places by the board of directors on how to manage credits, including the process of credit granting. Findings generally revealed that the bank has a credit policy which has four major components which include; credit standards, credit terms, credit limits and collection procedures. The bank grants or refuses credit based on clients' ability to satisfy conditions spelt out in the bank's policies.

It was revealed that generally the bank receives applications from the applicant (individual clients, SMEs and other client categories) which is appraised by the credit officer in connection with the clients' business to ascertain his ability and willingness to repay the loan (and subject also to the clients' ability to provide a collateral). The appraised application is handed to the credit committee for verification and recommendation for approval by the general manager for onward ratification by the Board. For workers credit if a client's salary passes through the bank for three consecutive times. The client can therefore fill a loan form, endorsed by the client's employer. If the amount requested is more than Gh3000 it has to be ratified by the loan committee. However if the amount requested is less Gh3000 than the branch manager may approve and disburse it. For commercial loans irrespective of the amount requested it has to be ratified by the loan committee.

Generally, the bank's credit standards specify the profile of the minimally acceptable creditworthy customer to be considered for credit. With regards to its credit terms, it was found that it particularly describes the credit period, thus stipulating how long a customer should take to pay a certain level of credit and associated cash discounts. Apart from the single obligor limits imposed by the Bank of Ghana, the bank also spells out its credit limit in its credit policy. Basically, this aspect spells out the size of credit that can be given to any particular client on the basis of his characteristics. In the policy, collection procedures specify time frames within which the bank will carry out collection of past due accounts and the methods to be engaged relative to each particular account.

4.4.1 The Use of Collateral

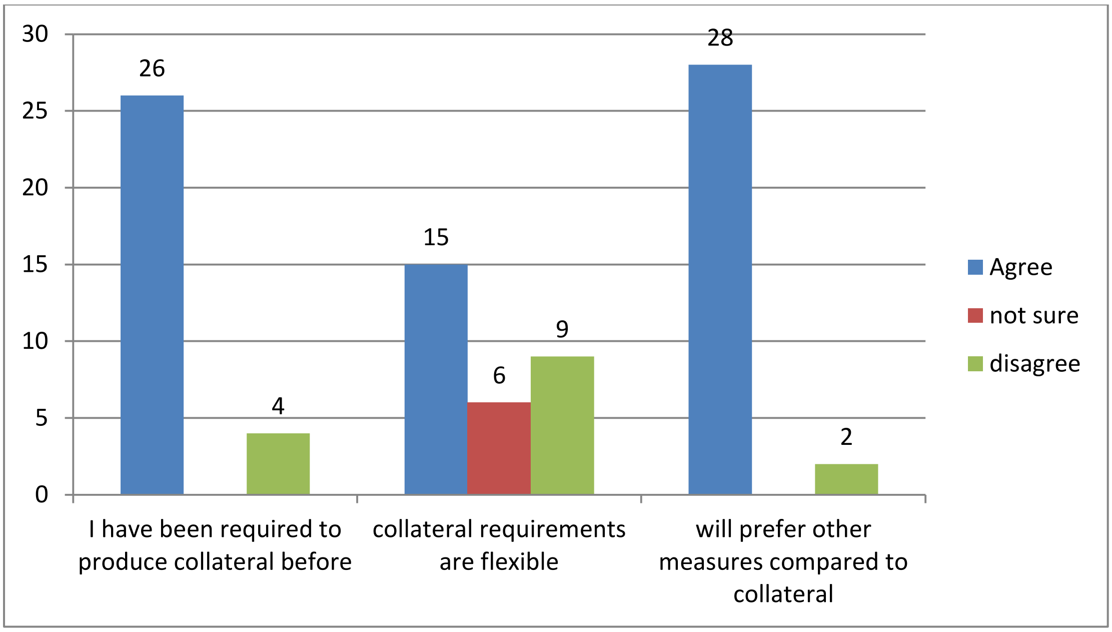
Information gathered showed that collateral was one of the requirements that a client must meet to be granted a credit facility by the bank. Generally, the bank considered collaterals to be very important in the credit granting process. Consequently, the bank exercises the necessary due diligence in assessing collaterals that have been provided by prospective clients or even existing ones.

Generally, the bank's requirement regarding the use of collaterals included evidence of registration, nature of collateral, location of collateral, and the value of the collateral. The bank independently assesses these collaterals through the use of value reports, size of the asset and exercise of discretion. As part of the condition for the use of collaterals it was found that in the case of commercial loans there should be a cash collateral of 1/3. In the case of Susu it should be ½.

4.4.1.1 Customers' Perception of the bank's collateral policy

Most customers interviewed (about 26) indicated having had to produce collateral in contracting their loans from the bank. The remaining 4 customers were not asked to produce collaterals because of the type of loan they applied for. This was linked to products such as susu loans and group credit which usually did not require the client to produce a collateral.

Figure 4.4 Customers' Perception of the bank's collateral policy



Source: Field Data (2015)

For customers who had to produce collaterals, majority of them (about 15) were of the opinion that the collateral requirements were flexible. They also indicated that this sometimes made it difficult securing loans that required the provision of collaterals. About 9 of them indicated they had failed to secure some loans in the past because they could not raise the required collateral.

About 28 of the 30 customers would prefer some other means or measures compared to providing collaterals all the time. For this group of clients, this would make it relatively easier to raise the needed funds for their businesses and also help them remain more loyal to the bank.

4.4.2 Challenges in the Use of Collateral

The study identified a number of challenges confronting the bank in their use of collateral. This section presents and analyses these challenges as reported.

Findings revealed that the bank faces four key challenges in their use of collateral in the credit granting process. One of the challenges may be due to the fact that there might be other claimants to the same properties used by the customer as collateral. Again, the collateral in question could be a subject of other existing litigation (inter or intra families). Further, there is the potential of destruction to the property in question, as well as the location of the property. Although, these were identified as challenges, the most significant challenge as depicted by the table is the potential for destruction, which recorded the highest response compared to the other challenges identified.

4.5 Loan/Default Trend Analysis by Sinapi Aba Savings & Loans

Before Sinapi Aba Trust metamorphosed into savings and loans, it rarely adopted an effective tool in curbing the risk associated with giving out a credit facility. Recent data from the bank were used to support the study.

Table 4.4 Loan repayment analysis from 2010 to 2014 (Sinapi Aba Savings & Loans)

Financial Year	Loans Disbursed GH¢	Amount Recovered GH¢	Unrecovered Loans GHC	%Not Recovered
2010	42,905,923.00	39,545,153.00	3,360,770.00	7.83
2011	58,276,005.00	51,388,795.00	6,887,210.00	11.82
2012	77,133,397.43	65,262,317.43	11,871,080.00	15.39
2013	92,222,292.00	85,247,357.00	6,974,935.00	7.56
2014	165,781,164.65	142,878,759.98	22,902,404.67	13.81
Total	436,318,782.08	384,322,382.41	51,996,399.67	11.92

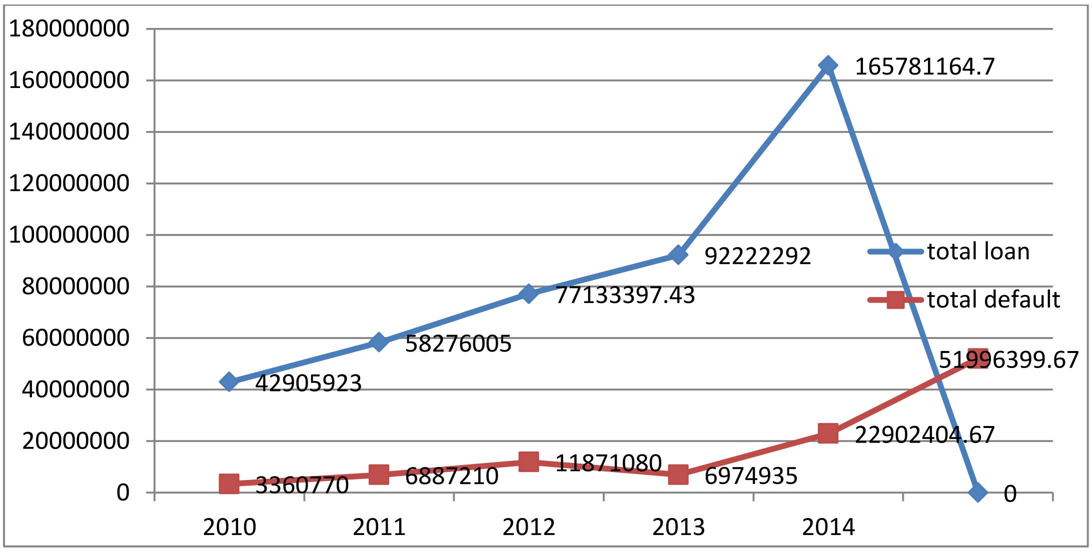
Source: Credit department of Sinapi Aba Savings and Loans

It can be inferred from the table above that when credit risk management was not intensified between 2010 and 2012, the loan portfolio which was unrecovered during those period higher. Hence, it rose from 7.83% in 2010 to 15.39% in 2012. However, when credit officers and management as a whole intensified the risk assessment associated with credit during that period, the unrecovered loans declined from 15.39% to 7.56% in 2013 which implies there was an improvement. It must be added that, in 2014 when the migration had finally taken place, unrecovered loans again rose to 13.81% after credit officers and management had loosen their grip on managing credit risk.

The effectiveness of Credit Risk Management is very essential to financial institutions. This enables the financial institutions to know whether they are achieving good financial performances in relation to Credit Risk Management. From the table above, it could be deduced that credit risk management helps to reduce Non-Performing Loans, increases portfolio growth, increases profitability performance, reduces credit default rate and increases cash flows at the end of working period.

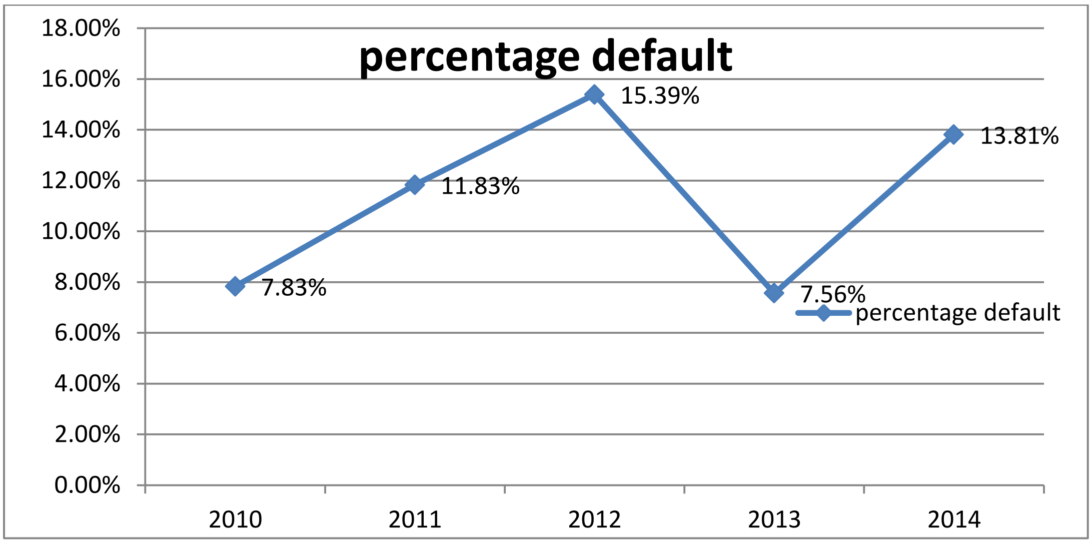
Also, the number of times risk management trainings are conducted and the content of these trainings and workshops contribute to the effectiveness of Credit Risk Management. From the survey conducted, almost all of the respondents said trainings and workshops were organized every six months. However, trainings and workshops were centered on risk management procedures and assessment, financial statement analysis, and monitoring of risk.

Figure 4.5 Loan/Default Trend



Source: Credit Department of Sinapi Aba Savings and Loans

Figure 4.6 Percentage Default Trend



Source: Credit Department of Sinapi Aba Savings and Loans

4.6 Analysis of Product Contribution to Loan Disbursement

Using an extract of the 2012 data on the outstanding default, the study analysed the extent to which the various products of the bank contribute to the annual default. The table below contains findings relative to this objective:

Table 4.5 Types of Loans and Their Associated Loans Disbursement

Product	Loan Per Product	Percentage
SME LOAN	19,915,407.86	25
GROUP LOAN	19,915,407.86	25
AGRIC LOAN	11,152,628.40	14
SUSU LOAN	1,593,232.63	2
MICRO SCHOOL	5,576,314.20	7
INDIVIDUAL LOAN	17,525,558.92	22
OTHERS	3,983,081.58	5

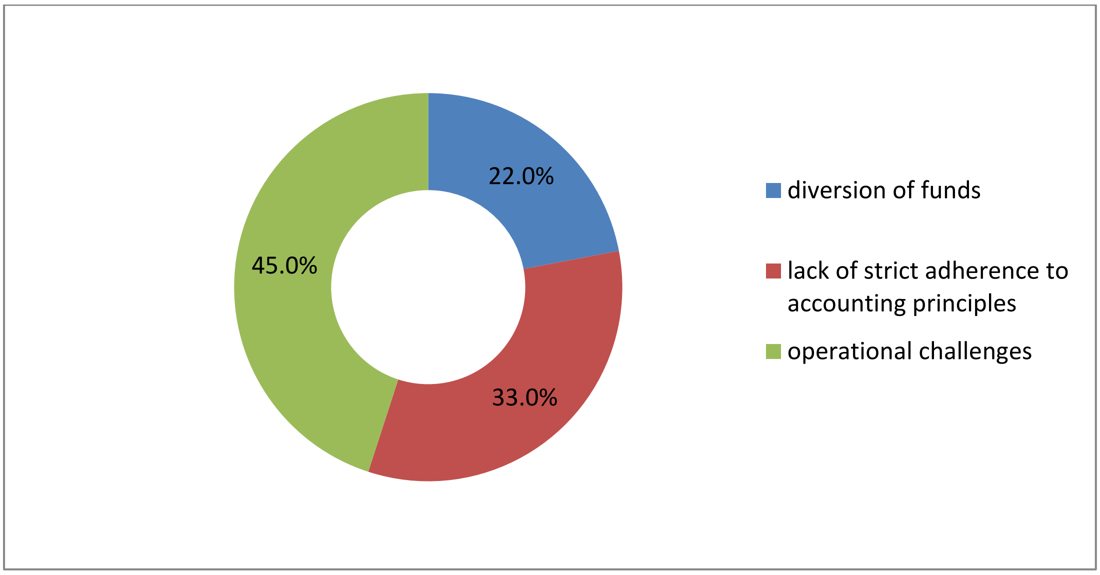
Source: Credit Department of Sinapi Aba Savings and Loans

From the table we find that the most significant contribution is from SME and Group loan which stood at 25%. This was followed by the Individual loan which recorded a 22% contribution to the total disbursed. Agric loan was next to individual loan which contributed about 14% of the entire loan quantum. The least contributors were Susu, Other loans and micro school loans which recorded 2%, 5% and 7% contribution respectively.

4.6.1 Reasons for the Default Rate

As part of the process of identifying solutions to the default rate, the study investigated reason for the high default rate in sector such the SME. Out of the total number of defaulters in 2013 the bank identified various reasons accounting for the default through its own investigation. Findings revealed three key factors responsible for the default rate. This is depicted by Figure 4.8.

Figure 4.7 Reasons for Loan Default



Source: Credit records

From the figure, it is seen that 22% of the default occurred as a result of diversion of funds to other usually non-productive activities. It implies that there has to be a mechanism to prevent beneficiaries from diverting funds. Again 45% also defaulted because of operational challenges. In these instances the respective clients involved could do very little about the problem. A third factor was attributed to the challenges most SMEs face through lack of strict adherence to accounting principles. It therefore is an urgent necessity of stakeholders to provide ways of helping SME operators in keeping proper accounts.

4.7 Effect of the Default Rate on the Bank / Shareholder

Talking on the effect of the default on the bank / shareholders, respondents generally believed that it could be a tough time for the bank (because they will have to go into the reserves to meet up with expenses) and the company too. Again, the effect comes in terms of credit loss. Credit loss is something they expect even though they don't want it. When this loss goes up, the bank pulls back and then it is hard to loan money. They also revealed that the default causes a reduction in their business and thus have an effect on the shareholders.

What was found inconsistent with the theory is that some respondents talked of calling the customer on phone to ask what the problem was or getting closer to them to advise them on how to solve the problem. If they had a good relationship of always being in contact with their customers earlier, it would be possible in some cases not to arrive at this stage. The researcher believes that the bank should go the extra mile apart from using the phones to know how the company is doing. They can use spies of even ask some customers of the company about its situation.

An important observation was that the bank had its way of handling the default at the early stage but at a later stage, they involved legal proceedings or collection agencies. The question however is that in the course of doing so, how do they treat their customers? This is an important question considering that researchers such as Maness & Zietlow's (2001) point that no matter what efforts banks might use for credit collection, they must always try to maintain or preserve customers' goodwill when doing so. This is because the fact that some customers encounter problems of default does not mean they are bad. Some circumstances might have led to that. If they succeed in coming out of the situation, they may turn out to be the best customers in the long run. But, if the good will had been destroyed because of a previous problem, this customer could be lost to another bank given the competitive environment in which banks operate. This position was largely shared by staff of the bank.

4.8 Recovery strategies

The study also examined the recovery strategies of the bank. It was found that the bank has a loan recovery team usually made up of the head of credit and a recovery officer. The team draws a regular itinerary that involves the various branch credit officers in the recovery exercise. List of all defaulters and non-defaulters whose repayment periods are due is made available to the recovery officer who in turn prepares the weekly recovery schedule for the team to follow. Responses revealed that the bank has adopted several strategies as their loan recovery strategies. These methods are used for the various groups of clients. Among the strategies reported were issuance of monthly statements, polite reminder phone calls, first issuance of demand notice, second issuance of demand notice and finally legal action.

4.8.1 Monthly statements

Explaining this method, management revealed that the bank sends professionally and carefully worded account statements monthly to every customer. The bank believes that the constant reminder serves as means to get clients to work at paying the loans. Essentially, they believe this has the potential of reducing late payments or non-payments.

4.8.2 Polite reminder phone calls

Another strategy they reported is the use of polite reminder phone calls. The study observed that most often the bank makes phone contacts with the customer in question several times before repayment date is due. When repayment has even elapsed, they cautiously make phone contact with the clients as a way of creating the necessary opportunity for clients to respond positively with minimum force.

4.8.3 First and Second Demand Notice

The respondents indicated that if the customer continues to ignore reminder emails and phone calls, a formal demand letter will be sent out by mail, email and fax. A follow up phone call will be made to arrange a payment date. The bank believes that this puts the necessary pressure for the client to make payments. The head of credit revealed that usually most clients make payment at this point. Usually, if the first demand fails and no payment is received from the customer within stated days ranging from 10 to 30, a second formal demand letter will be sent out. In this letter, the bank makes the customer aware of the possibility of a legal action. The HOC suggested that customers who are given second demand notices are usually those would have exceeded the payment date for up to three months.

4.8.4 Legal Actions

The final strategy used is the option of legal action. At this point the bank would have exhausted all other strategies. Therefore the bank usually uses it as the last option. The HOC revealed that less than 3% of defaulters are subjected to this action annually.

4.9 Challenges of Credit Risk Management

A key objective was to identify the challenges to effective credit risk management. To do this, respondents' perceptions were measured against notable challenges identified in the literature to form the basis of conclusions in this section. Responses were measured using the Relative Importance Index (RII) technique to analyze the various responses. Table below presents the various findings relative to this objective:

Table 4.6 Challenges of Effective Credit Risk Management

key: SA-strongly agree, A-agree, NS-not sure, D-disagree, SD-strongly disagree						
Statement	Frequency					RII
	SA =5	A =4	NS= 3	D = 2	SD = 1	
Customer relationship definition	9	6	10	-	-	0.79
Credit complexity	11	4	-	-	-	0.87
Managing the credit origination process	10	5	-	-	-	0.84
Monitoring and reporting	13	2	-	-	-	0.95

Source: Field Data (2015)

The table above presents responses to what are perceived to be challenges to effective credit risk management. In respect of each item, the average of their mean scores of all responses is determined as a measure of the strength of the item as a potential challenge. From the table, it is seen that the first factor ‘Customer relationship definition’ recorded an RII of 0.79. An RII of 079 is a strong perception. The strength of the RII is an indication that most staff and management of the bank see the ability to effectively define customer relationship is itself a challenge effective credit risk management

Again, the factor ‘Credit complexity’ also recorded an average of 0.84 whilst the third factor on the table ‘Managing the credit origination processes recorded 0.84. It can be inferred from this that staff and management see the complexity involved in advancing credit as well as managing the credit origination process constitute challenges to managing credit risk. This is justified by the strength of their relative importance index. A further explanation on this point provided by management is that sometimes the need to maintain clients leads to the creation of this challenge.

The remaining factors on the table, i.e., ‘Monitoring and reporting’, recorded relative importance index of 0.95. Based on the analysis, it can be concluded that the bank’s management of credit risk is confronted by a number of challenges identified to include: the credit complexity, monitoring and reporting as well as managing the credit origination of process. Analysis of the various RII however reveals that the strongest risks are associated with the issue of monitoring and reporting. There is the need therefore for management to address this area of their credit risk management effectively.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the various research results which emerged from the study. The results obtained are pegged with the respective objectives set out in chapter one of the dissertation. Conclusions are drawn and necessary recommendations are made based on the research findings.

5.2 Summary of findings

Credit Supply

The study found that the bank has recorded an annual increase in its credit supply of more than 18%. It was established therefore that from 2010 the bank has intensified its credit supply to its clients through the various products and services it offers. In comparison with the annual deposit however, it is evident that deposit mobilized annually is about twice what it supplies as credit.

Loan/Default Trend Analysis

The study found a rising trend in loan default from 2010 -2012 but fell steadily in 2013 and rose again in 2014. Default rate was found to have increased from 7.83% in 2010 to 15.39% in 2012. It however fell from 15.39% in 2012 to 7.56% in 2013 and rose again to 13.81% in 2014. This fluctuation in default trend has had a negative impact on the bank. It shows therefore that the bank is gradually reducing the rate of default.

Using an extract depicted in figure 4.8, it was found that that 22% of the default occurred as a result of diversion of funds to other usually non-productive activities. Again 45% also defaulted because of operational challenges. A third factor was attributed to the challenges most SMEs face through lack of strict adherence to accounting principles.

Effect of the Default Rate on the Bank / Shareholder

The study found that default represents a tough time for the bank (because they will have to go into the reserves to meet up with expenses) and the company too. Again, the effect comes in terms of credit loss. Credit loss is something they expect even though they don't want it. When this loss goes up, the bank pulls back and then it is hard to loan money. Findings also showed that the default causes a reduction in their business and thus have an effect on the shareholders.

Managing Risk in Credit Supply

It was found that the bank manages risk in its credit supply through its credit policy. The bank has formal laid down policies and principles that have been put in places by the board of directors on how to manage credits, including the process of credit granting. The bank grants or refuses credit based on clients' ability to satisfy conditions spelt out in the bank's policies. Generally, the bank's credit standards specify the profile of the minimally acceptable creditworthy customer to be considered for credit.

Again, the bank considered collaterals to be very important in the credit granting process and risk management. Consequently, the bank exercises the necessary due diligence in assessing collaterals that have been provided by prospective clients or even existing ones. The bank's requirement regarding the use of collaterals included evidence of registration, nature of collateral, location of collateral, and the value of the collateral. The bank independently assesses these collaterals through the use of value reports, size of the asset and exercise of discretion. As part of the condition for the use of collaterals it was found that in the case of commercial loans there should be a cash collateral of 1/3. In the case of susu it should be ½

Challenges in the Use of the Collateral

The study found that the bank faces four key challenges in their use of collateral in the credit granting process. One of the challenges may be due to the fact that there might be other claimants to the same properties used by the customer as collateral. Again, the collateral in question could be a subject of other existing litigation (inter or intra families). Further, there is the potential of destruction to the property in question, as well as the location of the property.

Challenges of Credit Risk Management

It was found that the bank's management of credit risk is confronted by a number of challenges identified to include: the credit complexity, monitoring and reporting as well as managing the credit origination of process. Analysis of the various RII however reveals that the strongest risks are associated with the issue of monitoring and reporting.

5.3 Conclusion

The study has looked that credit risk in savings and loans and its management. Several findings were made and discussed. Key findings included the fact the credit risk to most savings and loans arise out of the numerous challenges including the complexity of credit. As stated in defining the problem of this study, savings and loans are not exempted from the phenomenon of credit risk; rather that they are more exposed given the characteristics of most clients they mostly deal with. This has resulted from the fact that most of the products of savings and loans are designed for people in the lower income bracket. For that matter the need to have effective credit risk management systems in savings and loan institutions are even more critical.

5.4 Recommendations

Based on findings and discussions, the study makes the following recommendations to address some of the challenges raised.

Savings and loan institutions should strengthen and stick to their laid down policies and principles that have been put in places by the board of directors on how to manage credits and this have to be carefully implemented by management. This restricts supervisors or managers on how to take action. This must be done by examining the policies to see if it is in sync with the time as suggested by Maness & Zietlow, (2005).

Again, the necessary due diligence should be undertaken by credit officers to ensure that collateral properties are not the subject of intense litigation. This will help the bank in the event that it has to dispose it off to offset default.

Further, there is the need for savings and loan institutions to invest in risk management system that has good capability to maintain and archive the customer static data.

There is also the need for Continuous Monitoring and Reporting Continuous monitoring of the credit exposures taken poses a considerable amount of challenge since the exposures emanates from different transactional systems and the limits are taken by different business lines within the bank.

REFERENCES

Aballey, F.B. (2009). Bad Loans Portfolio: The Case Of Agricultural Development Bank,

Ahmad, S.A. (1997).Natural Hazards And Hazard Management In The Greater Caribbean And Latin America, Publication No. 3

Amos M. Tayari, Kalundu Kimanzi, And Evans Mwiti , , (2014), Factors Affecting Credit Risk Management On Loans Portfolio Of Savings And Credit Cooperative Societies (Saccos) In Nairobi County

Antwi Et Al (2012), “Risk Factors Of Loan Default Payment In Ghana” International Journal Of Academic Research In Accounting, Finance And Management Sciences,Volume 2, Issue 4.

Baku, E.& Smith, M. (1998), “Loan Delinquency In Community Lending Organisations: Case Studies Of Neighbour Works Organisations” Housing Policy Debate, Vol. 9(1), Pp. 151-175.

Balogun, E.D. And Alimi, A. (1988).Loan Delinquency Among Small Farmers In Developing Countries: ACase Study Of Small-Farmers Credit Programme In Lagos State Of Nigeria, Cbn Economic And Financial Review.

Bart Baesens And Tony Van Gestel, (2009), “Credit Risk Management Basic Concepts, 2009”, Financial Risk Component Rating Analysis, Models Economic And Regulatory Capital” Oxford University Press Inc., New York, Bart

Beckmann Et All, (2013). “Determinants Of Households’ Savings In Central, Eastern, And Southeastern Europe.” European Economic Integration Q3/13.

Brice,R., "Improving Credit Quality (1992)"Australian Institute Of Bankers Scholarship Report”Pp.L-102.

Confidence W. Amadi, 2012" An Examination Of The Adverse Effects Of Consumer Loan "School Of Business & Economics, Elizabeth City State University

Darkwah Et Al, (2013), A Study Of Finance Options For Sme's In Ghana: The Case Of Savings And Loans Companies In The Ashanti Region Of Ghana

Dev Strischek, (2002)," Types Of Credit Cultures" Corporate And Commercial Credit Policy, Asset Quality/Credit Policy Division, SunTrust Banks, Inc., Atlanta, Georgia

Dr. Isaac Owusu - Dankwa & Allotey Nancy Adoley,(2001)," The Impact Of Money Lending Institutions On Small And Medium Enterprises": A Case Study Of Shalom Lending Enterprise, Volume 14 Issue 5 Version

Experian Group, (2015) ,"Manages Credit Risk, Prevent Fraud, Target Marketing Offers And Automate Decision Making" Http://Economics.Experian.Co.Uk/ Www.Experian.Com/Credit-Education.

Ghana Association Of Bankers (2013) Ghana Banking Survey Harnessing The Sme Potential

Godwin Mensah, Collins Opoku, Timothy Appiah & Akua Akyaa,(2011), ''Credit Management Practices Of Micro Financial: (Case Study Of Multi Credit Savings And Loans)

Hallberg, K. (2001). A Market-Oriented Strategy For Small And Medium-Scale Enterprises.

Haron Et Al, 2012, "Effectiveness Of Credit Management System On Loan Performance': Empirical Evidence From Micro Finance Sector In Kenya.

Haron O. Moti, Justo Simiyu Masinde & Nebat Galo Mugenda, (2012), "Effectiveness Of Credit Management System On Loan Performance":Empirical Evidence From Micro Finance Sector In Kenya, International Journal Of Business, Humanities And Technology Vol. 2 No. 6, Investopedia © 2015, Llc. Dictionary Http://Www.Investopedia.Com/

John Mckinley And John Barrickman, 2002 “Strategic Credit Risk Management” Robert Morris Associates”: Philadelphia, 1994, Pp. 20-21.

Kariuki, J.N. (2010),”Effective Collection Policy.”Kasneb Publishers, Nairobi.

Kariuki, J.N. (2010),”Effective Collection Policy.”Kasneb Publishers, Nairobi.

Ken Brown & Peter Moles (2008, 2011), “ Credit Risk Management ” Heriot-Watt University Business School

Lee, S. And Liu, D (2002), “The Determinants Of Defaults In Residential Mortgage Payments: A Statistical Analysis”, International Journal Of Management.Vol. 19(2). Pp.377-390

Levine, R. Loayza, N. & Beck, T. (2000) “Financial Intermediation And Economic Growth: Causes And Causality” Journal Of Monetary Economics No 46, Pp31-77

Long, M. S., Malitz, I. B. And Ravid, S. A. (1993). Trade Credit, Quality Guarantees, And Product Marketability. Financial Management, 22(4), 117–127.

Morduch, J. & Argion B.A. (2005),” The Economics Of Micro Finance, ”The Mti Press Cambridge, Massachusetts London, England

Morduch, J. (1999),”The Microfinance Promise,”Journal Of Economic Literature, Priceton University.

Myjoyonline.Com, (2011), “Loan Default Rate Surges”, [Http://News.Myjoyonline. Com/Business/201102/61645.Asp] (Accessed 27th March, 2015)

Ntiamoah Et Al, 2014, “Loan Default Rate And Its Impact On Profitability In Financial Institutions”,Research Journal Of Finance And Accounting Issn 2222-1697 (Paper), Vol.5, No.14www.Iiste.Org. Kwamebrako@ Yahoo.Com.

Ntiamoah Et Al,(2014), “Loan Default Rate And Its Impact On Profitability In Financial Institutions” Research Journal Of Finance And Accounting Economics, University Of Electronic Science And Technology Of China, North Jainshe Road, Chengdu, Sichuan. China Issn 2222-1697 (Paper) Vol.5, No.14 Www.Iiste.Org

Oesterreichische 2004, “Credit Approval Process And Credit Risk Management” Guidelines On Credit Risk Management

Oesterreichische 2004,”Credit Approval Process And Credit Risk Management” Guidelines On Credit Risk Management

Omega Performance, 2015,”Eequips Lending Organizations With The Credit Skills To Source And Structure High-Quality, Profitable Loans” case on Helping Grow A Profitable, Low-Risk Loan Portfolio” O. , Glebe Rd, Suite 200 Arlington, Va, Usa 22203

Oni O.A, Oladele, O.I And Oyewole, I.K (2005),“Analysis Of Factors Influencing Farmers In Ogumstate Nigeria”. Dept Of Agricultural Economics, University Of Ibadan Nigeria

Pandey, I. M. (2008),” Financial Management .” Vikas Publishing House (Pvt) Ltd, New Delhi.

Pandy, U.K. And M.A. Muralidharan, (1979). "An Application Of Discriminant Function InAgricultural Finance" Indian Journal Of Agricultural Economics

Peel, M. J., Wilson, N. And Howorth, C. (2000). Late Payment And Credit Management In The Small Firm Sector: Some Empirical Evidence. International Small Business Journal, 8, 17.

Prof. Albert Ip, (2011), “Risk Management and Credit Lending” Eagle Asset Management Company And Hopewell Highway Infrastructure, Washington University In St. Louis

Quercia, R.G, Macarthy, G.W And Stegman M.A (1995), “Mortgage Default Among Rural, Lowincomeborrowers”, Journal Of Housing Research 6 (2), 349-369

Rosenberg, R. (1999), Measuring Microcredit Delinquency: Ratios Can Be Harmful To Your Health," Occasional Paper No. 03, Cgap

Ross, A. Westerfield & Jordan (2008),”Essentials Of Corporate Finance” Hill International Edition

Rouse, C.N. (2002) Bankers’ Lending Techniques, 2e, Chartered Institute Of Bankers: Financial World Publishing, P.26.

Saunders, A. and Marcia C. (2003). Financial Institutions Management: A Risk Management Approach. 4th ed. Irwin/McGraw-Hill.

Sheppard, R., 1991 “Approaches To Loan Management Issues For Australian Banks” - The Practice,The Australian Banker, Pp.178-18.

Shibata T. and Tian Y. (2010). Reorganization Strategies and securities Valuation under Asymmetric information. International Review of Economics and Finance, Vol 19, no 3, 412-426.

Sinkey, J.C. (1992). Commercial bank Financial Management, Macmillan Publishing Company, New York.

Solow, R.M. (1956) “A Contribution To The Theory Of Economic Growth,” Quarterly Journal Of Economics, 70, 65-94.

Spadaford, J.F., Credit Quality: Ceo's Set The Tone, Magazine Of Bank Administration, (June 1988), Pp.20-22.

Sumon Das & Shilpi Das, (2007), “Credit Risk Management Practices” : An Evaluation Of Commercial Banks In Bangladesh, Stamford University Bangladesh.

Swan, T. W. (1956). “Economic Growth And Capital Accumulation.” Economic Record 32: 334-361.

Thirupathi Kanchu*; M. Manoj Kumar, (2013) Financial Services & Management Research Risk Management In Banking Sector, Journal Of Marketing

Wall, L. D., and Timothy W. K. (2000). Bank loan loss accounting: A review of theoretical and empirical evidence. Federal Reserve Bank of Atlanta Economic Review 85, no. 2:1–19.

William F. Steel & David O. Andah (2003), “Rural And Micro Finance Regulation In Ghana” Implications For Development And Performance Of The Industry, Africa Region Working Paper Series No. 49,

Woelfel, Charles J. (1994), Encyclopedia Of Banking And Finance – 10th Edition, New Delhi: S. Chand & Company Limited.

Yaron (1994). What makes Rural Financial Institutions Successful? The world Bank Research observer, Vol. 9,No 1,P 49-70.

Zarruk, Emilio, and Jeff Madura. (1992).Optimal Bank Interest Margin under Capital Regulation and Deposit Insurance. Journal of Financial and Quantitative Analysis 27, no. 1:143–49.

APPENDIX

Topic: An Assessment of Credit Risk Management of Savings and Loans Institutions In Ghana: A Case Study Of Sinapi Aba Savings and Loans

---

This is part of a study that is assessing credit risk management in savings and loans. Kindly assist by answering the questions stated. Respondents are assured that this is just for an academic exercise and will therefore be kept confidential.

Profile of Respondent

Position……………………………………………………………………………………

1. Credit Granting / Customers

Briefly explain the process of lending in your institution

…………………………………………………………………………………………………..

…………………………………………………………………………………………….….…

What information do you need when making a lending decision to know whether to grant credit to a customer or not?	**Tick**
Size of the business	
Credit history	
Size of collateral	
Financials	
Others	

Kindly provide the types of loan granted by your institution and indicate their composition as to short term medium and long term.

Types of Loan	**Short Term**	**Medium Term**	**Long Term**

Please provide the composition of loan granted and their percentages to total loan portfolio

Year	2010	2011	2012	2013	2014
Total loan granted					
Total deposit					
Composition of loans to total loans granted(in percentages)					
Types of loans					

2. Collaterals

Do you use collaterals in your institution? YES [ ] NO [ ]

If yes please give guidelines in the use of collaterals in your institution

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

What is your opinion of the use of collateral in lending decisions?	**Tick**
Very important	
important	
Not sure	
important	
Not important	
Is due process used in assessing collaterals	**Tick**
Yes	
No	

What is your basic requirement regarding the use of collateral	**Tick**
Evidence of registration	
Size of collateral	
Nature of collateral	
Location of collateral	
currency	
How do you assess whether the collateral offered is enough?	**Tick**
Use of third party	
Use of trained staff	
Use of discretion	

Is there any situation where the collateral is the determining factor whether the credit should be granted or not? If so, what situation?

……………………………………………………………………………………………..
……………………………………………………………………………………….….

3. Challenges in the Use of Collateral

What challenges do you face in the use of collateral in the credit granting process

Composition of loan?

……………………………………………………………………………………………..
……………………………………………………………………………………….….

What factors give rise to these challenges?

……………………………………………………………………………………………..
……………………………………………………………………………………….….

3. Loan recovery

Briefly explain your loans recovery strategies in your institution

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

Kindly provide evidence of default in terms of figures over the period stated below

Year	**Total default**	**percentage**
2014		
2013		
2012		
2011		
2010		

Which products contributed to most default?

Product	**Total default**	**percentage**
SME loans		
Group loans		
Agric loans		
Susu loans		
Micro School loan		
Individual loan		
Others		

How do you handle defaulters?	**Tick**
Court actions	
Use of third party debt collectors	
Rescheduling of payments	
Write off long outstanding debts	
Bank recovery team	

Any other comment

…………………………………………………………………………………………………..

……………………………………………………………………………………………...…

…………………………………………………………………………………………….…..

…………………………………………………………………………………………..….