Assessment of customer business characteristics on loan defaults in financial institutions

(A CASE STUDY OF FIRST ALLIED SAVINGS AND LOANS LIMITED)

A thesis submitted to the Department of Marketing & Corporate Strategy,KNUST School of Business, Kwame Nkrumah University of Science & Technology in partial fulfillment of the requirements for the award of the degree of Master of Business Admininistration

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DECLARATION

I hereby declare that this submission is my own work towards the award of the degree of 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 any other degree of the university, except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this study to the glory of God Almighty for His infinite mercies, kindness and blessings bestowed upon me throughout my years of study at Kwame Nkrumah University of Science & Technology Business School, the Lecturers and Security men who took absolute care of me during my stay at their premises.

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ABSTRACT

The main objective of this thesis is to identify the customer business characteristics in relation to loan defaults at First Allied Savings & Loans Limited. Other purposes meant for the study include factors contributing to loan defaults, measures put in place by First Allied Savings and Loans Limited in reducing loan defaults and the trend of loan defaults in the last six years. The objectives were achieved through field survey using questionnaires and interviews by convenient and purposive sampling method to elicit information. The research had certain findings of which these are prominent. It was observed that high interest rate and fees accounted for the default of loans by customers. Loan officers also reneged on their ability to do due diligence on the facilities as stipulated in the credit manual. Some customers also divert the loan amount to acquire assets rather than what the amount is intended for. In conclusion, loan default is caused by the customers themselves, the financial institution which is lending and also external factors such as delay in release of contractor's funds for government projects, fire outbreak, decongestion etc. This affects the institution as it decreases its profit margin and impinges on its operational sustainability and viability. It is recommended that when screening clients for loans, Customer's character, capacity, capital, collateral and conditions under which loans are given should be thoroughly examined and also loan amount should not be diverted by customers to acquire assets and also interest rates which are normally high should be reduced.

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Introduction

The study seeks to assess the relationship between borrower and business characteristics as well as loan effectiveness and defaults. The aim of this study is to analyse the impact that certain customer business characteristics have on loan defaults. Loans form a major part of the resources of banks. In Ghana capital markets are not really developed as the country is an emerging economy. Capital is mostly obtained from the various activities held with the banks. In spite of the huge income generated from loan portfolio, available literature shows that huge portions of bank loans usually go bad and therefore affect the financial performance of these institutions. (Comptroller 1998).

The loan portfolio is typically the largest asset and the predominant source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness.
Collateral acts as an indicator empowering the bank to alleviate the adverse problem caused by the existence of given excuses to the bank by the borrower.
According to Freixas and Rochet (1997), the collateral pledged helps align the interests of both lenders and borrowers, avoiding a situation in which the borrower makes less effort to ensure the success of the project for which finance was given. Thus, collateral makes it possible to limit the problem of the moral hazard faced by all banks when they lend money. Collateral can therefore be seen as an instrument ensuring good behaviour on the part of borrowers, given the existence of a credible threat.

1.1 Statement of the Problem

Lending can expose a bank's earnings and capital to all of the risks. For most banks, loans are the largest and most obvious source of credit risk.

However, credit risks also occur when investment portfolio, overdrafts, and letters of credit are not properly managed.

A bank’s credit risk management practices increases or decreases depending on how an individual will fail to perform as agreed.

According to the International Monetary Fund’s global financial stability report, nonperforming loans to total gross loans in Ghana was 17.20% as of 2011. The 2010 annual report of Bank of Ghana also indicated that the Non-Performing Loans ratio deteriorated from 16.2 per cent in December 2009 to 17.6 per cent as at December 2010.

According to Terkper (2011), the problem of high interest rates will persist so long as private individuals who also default their loans are not dealt with. I think that there is a lot that needs to be done also to make sure that the private sector that borrows from the banks meets their commitment.

As at June 2013, the NPL ratio was 12.8 percent down from 13.2 percent in June 2012. Although the rates are on the downward trend, they are still high .Others include the build-up of unclaimed deposit balances or dormant accounts on banks' books, concentration risk on both sides of the balance sheet. There should be transparent regulatory issuances on mergers and acquisitions, internal controls, external auditors and updating manual of accounts and reposting requirements. Base rates have declined by about three percent, adding that the credit bureau system and the collateral registry should help improve the environment and further lower NPLs in the banking industry'. (Millison Narh, 2013)

Loan default can lead to the collapse of a financial institution. Berger and De Young (1997), cited in Aballey (2009), indicated that failing banks have huge proportions of bad loans prior to failure and that asset quality is a statistically significant predictor of insolvency. A report by Caprio and Klingebiel (2003) indicates that the over sixty Indonesian banks that collapsed in 1997 were as a result of nonperforming loans which represented about 75% of the total loan portfolio of these banks. This implies that if the financial institutions holding huge bad loans in their portfolios in Ghana are not able to recover, they can become bankrupt.

The 2010 annual report of Bank of Ghana indicates that, Non-Performing Loans ratio, which measures the ratio of loan losses to gross advances, deteriorated from 16.2 percent in December 2009 to 17.6 per cent as at December 2010. Several reasons have been assigned generally to this high rate of non-repayments but little efforts have been made to ascertain the real causes of loan defaults especially in the Ghanaian business context.

Small & Medium Financial Institutions (SMFI) make available financial assistance to market men and women who basically do small scale trade. This amount of money comes a long way to support their working capital whilst it boosts their trading, enabling them to increase their purchases resulting in profitability of their various businesses.

SMFI help people who are on government pay roll to get financial aid through salary loans which are repaid on monthly basis by being deducted from their salary. They can also benefit from the purchase of goods and services through a scheme known as Hire-Purchase whereby items are given to them and the amount collected on monthly basis.

Credit-scoring models allow financial institutions to enumerate risk, which promote better lending practices, and then appreciate that more credit could be given out in the small business community.

The financial performance of borrowers may be poor or marginal. Their repayment ability can also be dependent upon untested forecasts which can affect them greatly. This could lead borrowers to become impaired by personal or external economic stress. Management of credit risk, however, must continue after a loan has been given out, for sound initial credit decisions can be undermined by improper loan structuring or inadequate monitoring.

Effective management of the loan portfolio's credit risk requires that the board and management understand and control the bank's risk profile and its credit culture. To accomplish this, they must have a thorough knowledge of the portfolio's structure and its characteristic risks. They must understand the portfolio's product mix, industry and geographic concentrations, average risk ratings, and other aggregate characteristics. They must be certain that the strategies, procedures, and practices instigated to control the risks of individual loans and portfolio segments are sound and that lending personnel stand by them.

A loan is nonperforming when payments of interest and principal are past due by 90days or more. A nonperforming loan could result from the borrower diverting the funds to do new business instead of the main line of business. Borrowers should appreciate the importance of working capital management in ensuring the profitability and liquidity of businesses.

For some time now customers default in their loan repayments which is a problem to the institution as portion of the loan portfolio is written off as bad debt at the end of the year. The researcher wants to investigate why customers default in their loan repayments.

1.2 Objectives of the Study

The primary objective of the research is to identify the causes of loan defaults in the portfolios of financial institutions in Ghana. The specific objectives of the research are;

1. To identify major factors contributing to loan defaults at First Allied Savings and Loans Limited

2. To identify the essential customer business characteristics that lead to loan defaults at First Allied Savings & Loans Limited

3. To examine measures put in place by First Allied Savings and Loans Limited in reducing loan defaults

4. To identify the trend of loan defaults in the last six years (2009 – 2014) at First Allied Savings and Loans Limited.

1.1 Research Questions

1. What are the factors contributing to loan defaults in First Allied Savings and Loans Limited

2. What are the measures and policies put in place by First Allied Savings and Loans Limited to reduce loan defaults?

3. What customer business characteristics makes it difficult for the customers to meet their loan repayment at First Allied Savings and Loans Limited

1.4 Scope of the Study

This study lays emphasis on First Allied Savings and Loans Limited, one of the prominent savings and loans companies established in Ghana. The focus on this institution is that it has been in existence for a longer period as compared with the others such as Sinapi Aba Savings & Loans and also Multi Credit Savings & Loans. More than 60% of market traders of the Ghanaian economy have benefited from this institution through lending as this institution is ultimate to give a helping hand to traders and workers when necessary. A representative data on the causes of loan defaults in the context of the Ghanaian economy would be viewed at Customers and Staff of Five Branches of the Institution in Kumasi.

Conceptually, the study seeks to identify the causes of defaults, measures put in place by First Allied Savings and Loans Limited in reducing loan defaults, the customer business characteristics in relation to loan defaults and the trend of loan defaults at First Allied Savings and Loans Limited between the years 2009 through to 2014.

1.5 Significance of the Study

Bank loans are consistently becoming more and more expensive, inaccessible and unattractive in recent times. This is as a result of the increasing volume of bad loans in the portfolios of the financial institutions which has led to Banks writing off huge sums of Ghana cedis in the form of loss charges. It is for this reason that the research is being conducted to make known the causes of loan defaults in financial institutions so as to identify ways of reducing the increasing rate of default these institutions are saddled with and thereby reduce cost and increase access to credit.

1.6 Limitations of the Study

To get a better understanding of the problem, a number of financial institutions should have been involved in the study. However, due to time and financial constraints, the sample size would be limited to only five branches of First Allied Savings and Loans Limited located in Kumasi. The Kumasi branches were chosen because of proximity.

Financial Institutions are usually reluctant to disclose information of their customers as a result of the complex rules and regulations governing the bank-customer relationships. Getting access to customers' information on delicate subjects like credit worthiness is challenging and therefore the results and analysis of this study would be based on the primary data gathered during the study with little emphasis on secondary data.

Default has been used by different authors to refer to different situations of borrower's inability to meet their obligations. Balogun and Alimi, (1990) for instance defined loan default as the inability of a borrower to fulfil his or her loan obligation as and when it is due. However, default in this work is used by the researcher to mean a borrower's inability to repay his debt after the maturity date of the facility.

1.7 Organization of the Study

The study is in five chapters.

Chapter one consists of the introduction and background of the study, problem statement, research objectives, research questions, scope of the study, significance of the study, limitations of the study as well as organization of the study.

Chapter two contains the literature review on articles, publications and other research work on the broader concept of loan default.

Chapter three is made up of the research methodology which comprises research design, population, sample technique, sample size, source of data and data collection procedures.

Chapter four includes findings and discussions of the data collected from the study. It also includes presentation, analysis and discussion of findings.

Chapter five brings the study to a close. It summaries the findings, conclusion, the recommendations of the research and appendixes like the questionnaires that were administered to solicit views from respondents.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section presents an in-depth background on financial institutions, the role they play as intermediaries between the surplus earning and deficit spending individuals and the procedures they have adopted in reducing the increasing trend of bad loans in their Portfolios.

It also explains how customer business characteristics affect rates in Ghana. Some business characteristics which are exhibited by the customers when they collect facilities or loans also prevail upon their powers and render them unable to pay their loans.

2.1 Financial Institutions as Financial Intermediaries

Financial institutions are a group of companies that provide financial services for its clients. They act as financial intermediaries and are largely the most regulated class of companies. They include deposit-taking institutions that accept and manage deposits and make loans, insurance companies and pension funds, brokers, underwriters and investment funds.

Gaurav (2010) advises that banks would not lend as far as possible except against security. Security is considered as insurance or a cushion to fall back upon in case there is a default. The banker carefully scrutinizes all the different aspects of an advance before granting it. However, as much as security is important, a lending proposition should not be security led. An advance should be granted on its own merits, that is to say with due regard to its safety, purpose, character, capacity and capital of the borrower and not only because the security is good.

According to Peter and Hudgins (2008), liquidity risk refers to the danger of running out of cash when cash is needed to cover deposit withdrawals and to meet credit request from good customers. They also explained Credit risk as; when financial intermediaries make loans and take on securities, those securities are nothing more than promises to pay when such loans fall due.

2.2 Credit Analysis & Policies

Credit analysis is simply calculating the creditworthiness of a borrower. In other words, it is the evaluation of the ability of a borrower to honor his financial obligations. This involves a variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projections and detailed analysis of cash flows. It includes to a large extent, an examination of collateral and other sources of repayment as well as credit history and management ability.

Coyle (2008) explained that the prime focus of credit analysis should be an assessment of customer's liquidity. According to him, a borrower that has sufficient money is likely to pay what he owes when the payment falls due. Ability to repay a loan is straight forward he says and it refers to a borrower having the financial resources to make a scheduled loan payments. It is most often measured by a borrower's income and financial obligations.

In many cases Coyle (2008) explained that different items of information about a company could seem to conflict and point to a different conclusion. Credit analysis, particularly in financial institutions, has evolved as a structured process to improve credit decisions. However not all decisions would necessarily be good ones but an organized and systematic approach can help to raise the quality of credit assessment.

The impact of social ties, group sanctions and peer monitoring has a great effect on repayment behaviour among borrowers.

Peter and Hudgins (2008) explain that Banks and other financial institutions are financial intermediaries that interact with two types of individuals in the economy; deficit spending individuals and institutions whose current expenditures for consumption and investment exceed their current receipts of income and who, therefore need to raise funds externally through borrowing or issuing stock; and surplus spending individuals and institutions whose current receipt of income exceed their current expenditures on goods and services so they have surplus funds that can be saved and invested.

Financial institutions act as a bridge between surplus spending and deficit spending individuals by offering convenient financial services to the surplus spending units in order to attract funds and then allocating those funds to the deficit spenders. By this act, they accelerate economic growth by expanding the available pool of savings, lowering the risk of investment through diversification, and increasing the productivity of savings and investment.

One of the principal tasks of financial institutions is the provision of loans or credit to their clients. A loan according to Peter and Hudgins (2008) is a debt instrument that entails the distribution of financial assets over time, between the lender and the borrower where the borrower initially receives or borrows an amount of money called the principal from the lender. The borrower is obligated to repay an equal amount of money to the lender at a later time. A loan is generally provided at a cost referred to as interest, which acts as an incentive for the lender.

Financial institutions as intermediaries receive deposits from their customers and give these deposits out in the form of loans in anticipation that the principal and all accrued interest would be repaid when they fall due. However, because of the probability of non-repayment of either all or part of the amount borrowed, what Peter and Hudgins (2008) referred to as credit risk, financial institutions usually seek for ways and means by which they can reduce the level of default in their portfolios.

There are various policies that lenders put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not pay their loans on time. The collection effort should, therefore aim at accelerating collections from slow payers and hence reducing bad debt losses.

A collection policy ensures prompt and regular collection for fast turnover of working capital and also keeping collection costs and bad debts within limits. This ensures collection efficiency. The collection policy specifies clear-cut collection procedures and hence advises against conflicts arising from loan repayment periods, amounts and loan structure as explained by Pandey (2004). The policy analyses business viability position and business management by appraising the financial strength of the applicant, the firm`s quality of management and nature of customers businesses.

Weston (1982) asserts that the lender also conducts management audit to identify weakness of the customer’s business management. If the nature of the customers business is highly fluctuating or has financially weak buyers or the business depends on a few buyers, then it is risky to extend credit to such borrower

In addition, credit policies also considers credit limit (maximum amount of credit which the firm will extend at a point in time). It indicates the extent of risk to the firm by extending credit to a customer.

Credit limit is also a function of the character of a customer (customer's willingness to pay and the moral factor). There are various methods employed to analyze Credit Worthiness. The debt capacity of the applicant is reflected in cash flow projection, forming the basis for the decision on the loan conditions and the payment plan.

2.3 Customer Business Characteristics

According to Mpunga (2004), the level of business income is an important factor that would determine the credit worthiness of a client. At low levels of income, business have little money to save while at higher levels much can be saved and even used to purchase collaterals which can be used as loan securities. The size of business relates to the amount of income obtained from it.

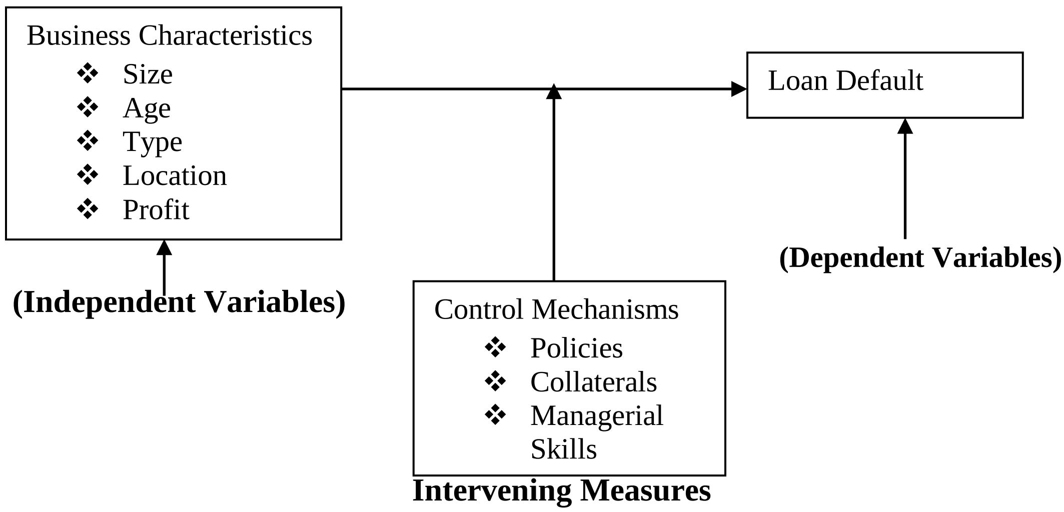

Fig 2.3 Conceptual Framework

Source: International Journal of Applied Science and Technology Vol. 3 No. 3; March 2013

Mpunga (2004) asserts that business characteristics which include the size, age, type, location of businesses and profits generated from the business may influence the loan repayment default by clients. Consequently, these are operations that ensure security of the loan such as the loan policies, proper area market analysis and proper business screening and follow-up. Without effective mechanisms in place loan defaults are inevitable and loan recovery might be a great challenge for financial institutions.

A loan is in default when the principal and interest repayments are past due date. Customer's age determines the maturity prowess when making loan repayments. Young individuals who start doing business have the feel that their business would grow when they acquire loans and invest in their businesses. This they do by assessing large amounts of money from the various institutions. When their working capital increases, they tend to involve themselves in other businesses other than their main line of business thus diverting the funds and not using it for the purpose intended for. This makes them default in their loan repayments.

As suggested by Kohansal and Mansoori (2009), the type of customer business also determines how a loan can be in default. Micro scale businesses are prone to default as a result of large sums of money they collect from the banks as loans. Loans should be contracted to micro scale enterprises based on their credit turnover and their working capital management. The sales or revenue the collect at a particular point in time should be a guiding principle to the amount giving to them as loans. Some take credits from banks which they know in actual fact that their turnover cannot meet the repayment. But because certain individuals are taking the facility, they would also take the amount and this will then lead to loan default.

According to Mpunga (2004), location of customer business is very essential when it comes to loan repayment and default. Customer business located at a vantage point where various people from all works of life pas and do business determine sales or revenue that one can make. In such circumstances, low customer turnout can lead to loan default.

According to Olomola (2001), the profit margin of a business determines how a business can assess loan or credit and make repayments to suit the contracted amount. Small profit margin for a business which takes care of a large family means that if that business entity acquires a loan, then it should be within 40% of the business profit. If more than 40% of the profit margin is being used to repay a loan, then if care is not taken, that business might end up in loan default.

As suggested by Okpugie (2009), control mechanisms that can check these characteristics are Policies of the institution, Collaterals sent to the banks by the customers as well as the managerial skills exhibited by the customers. Policies from the financial institutions should be adhered to in order to check the rate of default. As a condition to acquire a facility, customers have to send an individual to the institution to guarantee the loan amount for them. It is the duty of the officer in charge of loan delivery to visit the house of the guarantor and to ascertain the true status of the guarantor in case of default. This is however not done by the loan officers and it becomes to trace the guarantor in case of default and the customer absconds.

As suggested by Gorter & Bloem (2002), collaterals are not properly examined when they are tendered in as security for loans. Some might have different names on the allocation papers and the site plan. Some might not have been properly transferred in case there should be an indenture.

Loan officers are therefore expected to do due diligence in their quest to do valuable, quality and efficient credit delivery.

If these business characteristics are not properly managed, then they result in loan default.

2.4 Credit Risk and Loan Defaults

Graham (2000) explains credit risk as the potential losses from the refusal or inability of a borrower to repay what is owed in full and on time. Default can also be defined as any violation of a loan contract including failure to pay interest and the principal that is due and payable. Thus a loan is considered to be in default or delinquent if it is overdue in installment payment or if any of the principal and interest payment as per the loan duration is not met or an amount is used when it becomes legally matured.

The basic components of credit risk are a borrower's willingness and ability to repay a loan. Ability to repay a loan is when a borrower has the financial resources to make a scheduled loan payment. It is most often measured by a borrower's income and financial obligations. Overspending is a primary contributor to a borrower's ability to repay a loan. When it is reduced, it becomes easier to service one’s loan and avoids defaults.

Balogun and Alimi (1990) also define loan default as the inability of a borrower to fulfil his or her loan obligation as and when it is due.

Loan default has been classified by researchers in various ways. These are Sovereign Defaults, Strategic Defaults, Technical Defaults and Debt Service Defaults. A sovereign default is the failure or refusal of the government of a sovereign state to pay back its debt in full. Strategic default on the other hand is when a debtor chooses to default on a loan, despite being able to service it. A debt service default is missing a scheduled payment on a loan. A borrower's inability to pay a loan will not keep it from going into default status. Technical default is the result of not meeting a condition of the loan, and has nothing to do with missing a scheduled loan payment.

2.5 Causes of Loan Defaults and their Remedies

The capability of borrowers to repay their loans is very essential to a financial institution and needs attention. Borrower defaults may be voluntary or involuntary. According to Brehanu and Fufa (2008), involuntary defaults of borrowed funds could be caused by unexpected circumstances occurring in the borrower's business that affect their ability to repay the loan. Unexpected circumstances include lower business revenue generated, natural disasters and borrowers' illness. In contrast, voluntary default is related to morally hazardous behaviour by the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses to because of the low level of enforcement mechanisms used by the institution.

Baku and Smith (1998) explained that default can result from the servicing and collection practices of a lending organization, the assistance available from the lenders or others to help avoid delinquencies, and the resulting assumptions made by borrowers concerning the lenders and the consequences of delinquencies. In spite of these challenges, the identification of the clear-cut reasons for default is very important as it will determine the solution that must be found.

Some reasons may be due to inefficiencies of the lender, the borrower's inappropriateness and or the economic conditions pertaining at a particular point in time. Balogun and Alimi (1988) identified the major causes of loan defaults as loan shortages, delays in the time of loan delivery, poor supervision, non-profitability and undue government intervention with the operations of government-sponsored programmes.

According to Okorie (1986), the nature, time of disbursement, supervision and profitability of enterprises which benefit from small holder loan schemes, contribute to the repayment ability and consequently high default rates. Other critical factors he identified to be associated with loan delinquencies are the type of the loan; term of the loan; interest rate on the loan; poor credit history; borrowers' income and transaction cost of the loans.

Unfavourable repayment terms can also be a cause of loan default. Shorter grace period was identified by Lasort and Clavier (1989) as a factor that can lead to loan default. To him, when the period between the disbursement of loan and start of repayment is short, funds borrowed fails to serve the intended purpose leading to the inability of the borrower to ensure repayment. Loan default can also be as a result of not giving the customer the right type of loan.

Lenders misjudgments or inefficiencies as well as the borrower's inappropriateness and or the economic conditions pertaining at a particular point in time as elaborated by various scholars and writers may be a factor of loan default.

The following are some ways that defaults can be reduced, and or brought about as suggested by

- As suggested by Okorie (1986), the inability of the lending institution to do due diligence on any loan appraisal may result in the borrower defaulting in the repayment of the facility. The lender must therefore do the right appraisals to ascertain the risk inherent in any loan proposal so as to design the appropriate measures to curb or reduce the risk.

- Lenders must provide positive incentives for the payment of loans. Borrowers respond well to positive incentives for good payment history. Incentives like payment rebates, small appliances to borrowers who make timely payments help achieve very high level of repayments.

- According to Akinwumi and Ajayi (1990), financial institutions must be proactive in dealing with delinquencies. Rather than wait until a loan goes into default, finance institutions must investigate a loan within weeks of it first becoming delinquent. Delinquency if caught early enough would enable the lender work out an equitable repayment plan or give assistance to the borrower.

- Borrowers must avoid to the extent possible, the taking of multiple loans from different financial institutions at the same time. This usually increases the borrower’s obligations and hence increases the risk of default. Borrowers must however be loyal and trustworthy and always stick to contractual agreements made between them and their lenders to foster good working relations with their finance providers.

2.6 Principles of Good Lending

According to Coyle (2008), every item of information used in corporate credit analysis must be of practical relevance; otherwise it would not be worth collecting. This is because, the overall aim of the credit analyst is to decide whether to give credit to a customer or not. The main aim of granting credit is to earn interest and make profit and therefore lending should be done in such a way that the borrower would be able to make the scheduled repayment with interest, in full and within the required time period, Graham and Coyle (2008) iterated.

In his article, principles of good lending, Gaurav (2010) stated that safety is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe and the money will definitely come back. The lender at all times should ensure that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout the duration of the loan, and after serving a useful purpose in the trade or industry where it is employed.

Coyle (2008) explained that the ability to repay is vital and should ideally be demonstrated through projected cash flow rather than on future profit generation.

It is not enough that the money given out will come back but it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by the borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way.

The purpose of an advance should be productive so that the money not only remains safe but also provides a definite source of repayment according to Gaurav (2010). The purpose should also be short termed so that it ensures liquidity. Banks discourage advances for hoarding stocks or for speculative activities. There are obvious risks involved therein apart from the anti-social nature of such transactions. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the money borrowed for a particular purpose is applied by the borrower accordingly, Gaurav (2010) advises. Purpose has assumed a special significance in the present day concept of banking.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

The methodology adopted and used for the study include the research design, sample size, sampling procedures, sources of data collection, instruments of data collection and data analysis techniques among others. The profile of First Allied Savings and Loans Limited focusing on a brief history of the institution, its loan products, credit policies, credit authorities among others is also taking into consideration.

3.1 Research Design

A good number of research works depend on some techniques such as observation, survey research, experimental, explorative, descriptive or cross-sectional techniques. In this research, the researcher used descriptive design type.

Quality research commonly refers to the scientific process encompassing all aspects of study design; in particular, it pertains to the judgment regarding the match between the methods and questions, selection of subjects, measurement of outcomes, and protection against systematic bias, non systematic bias, and inferential error.

As suggested by Boaz & Ashby (2003), quality research is a precursor to statements about evidence consensus standards on quality research and consistent reporting are needed.

Thus, the researcher adhered to the following specific measures: Posing of a significant, important question that can be investigated empirically and that contributes to the knowledge base was adopted. The questionnaires used were linked to relevant theory. Practical methods that best address the research questions of interest were used. Research was based on clear chains of inferential reasoning supported and justified by a complete coverage of the relevant literature.

The study design, methods, and procedures are sufficiently transparent and an independent objective approach was applied to the research. Appropriate conceptualization and measurement of variables were assessed. Each chapter of the research was submitted to my supervisor for review process and I adhered to quality standards for reporting (clear, cogent, and complete).

3.2 Population

First Allied Savings and Loans Limited had twenty two branches spread across six regions of Ghana as at December 2014. The institution had a total of fourteen thousand, three hundred and sixty four loan customers handled by sixty-seven loan officers. However, because of time and proximity, the research was limited to only five branches located in Kumasi out of the total of twenty two (22) branches across the country. The five branches had a total of 21 loan officers and a little over five thousand one hundred loan clients in Kumasi.

The data available in the financial institution from 2009 and 2014 was used for sampling. The analysis was obtained from data on loan repayments and business characteristics made available by customers of First Allied Savings and Loans Limited, a local financial institution which drives on the basis of individual liability lending.

3.3 Sampling Techniques

The sampling techniques used were convenience and purposive sampling. Convenience sampling is a statistical method of drawing representative data by selecting people because of the ease of their volunteering or selecting units because of their availability or easy access. First Allied Savings and Loans has its Head office in Kumasi and the availability and the quickness with which data can be gathered can be assured.

On the other hand a purposive sampling technique is often used when the researcher wishes to select cases that are particularly informative. Purposive sampling represents a group of different non-probability sampling techniques. The main goal of the researcher for using purposive sampling is to focus on particular characteristics of a population that are of interest, which will best enable you to answer your research questions.

Out of the total of over five thousand customers of FASL in Kumasi Metropolis, 221 questionnaires were sent out comprising 120 non-defaulters and 80 defaulters. Convenience sampling was used in selecting customers due to their availability and quickness with which data could be gathered. Purposive sampling was also used to focus on the loan officers.

3.4 Sample Size

The researcher used a sample size of two hundred and twenty two. This includes The Head of Credit, twenty one loan officers and two hundred customers who would be reached at the various shops and business locations.

3.5 Sources of Data

The data collected for the study consists of secondary and primary data. The type of data, their sources and instrument used are discussed below:

3.5.1 Primary Data

The primary data was gathered through questionnaires and a one to one interview. Three separate questionnaires were used; questionnaire for loan officers, one for customers without default, and another for defaulters. An interview guide was also prepared for the Head of Credits. The questionnaire for the loan officers was intended to implore their opinions on why some of their clients are not able to pay their loans and the measures put in place by FASL to curb the phenomenon.

The second set of questionnaires designed for loan defaulters was used to ascertain from the defaulters why they are not able to repay their loans and measures they believe if put in place by the Bank can help them repay their loans. The other set of questionnaires designed for non- defaulters was also developed to solicit their views on default. There was also a one-to-one interview with the Head of Credit to know his views on the causes of loan defaults, measures they have put in place in reducing bad loans in their loan portfolio and the effects of bad loans on the institution.

3.5.2 Secondary Data

Secondary data was also collected from the records of First Allied Savings and Loans Limited (FASL). The credit report for the year ending December 2014 was provided by the Head of Credits and from this report, relevant information like, the number of loan customers, recovery rates, total loan balance outstanding, loans in default, and the number of loan officers of FASL were obtained for the study. A copy of the Credit Policy Manual of the institution which was last updated in June 2006 was also provided.

3.6 Data Collection Procedures

A questionnaire is defined as a progression of organized questions which are related to a research topic, and focused to a respondent with the aim of achieving first-hand knowledge on the topic posed. In this study, the questionnaires were categorized to collect data specifically from loan officers, loan defaulters and non-defaulters, and the one from customers on their business characteristics. Another set of questionnaires was designed and used as an interview guide for a one-to one interview with the Head of Credit. In designing the questionnaires, the researcher used a combination of open ended and closed ended questions.

3. 6.1 Data Analysis

The researcher employed both descriptive and inferential tools in analyzing the data (which include: percentages, bar and pie charts, scatter and line diagrams). Responses from respondents were coded and presented in a simplified form using Microsoft Excel. These statistical techniques were considered in analyzing the data because they are user friendly and easy to use, simple and easy to understand.

3.7 Profile of First Allied Savings and Loans Limited

First Allied Savings and Loans Limited, is a non-bank financial institution incorporated as a Limited Liability Company in June 1995. It started operations on 25th September 1996 at its head office at Asomfo Road, Adum, around the central business district of Kumasi.

Its Mission is to provide convenient access to efficient, innovative and responsive financial services to micro and small scale entrepreneurs on sustainable basis for the mutual benefits of all its stakeholders. Its website address is (www.firstalliedghana.com).

First Allied Savings and loans is licensed by the Bank of Ghana under the PNDCL 328 (14993), to accept deposits from the public and to provide credit services to businesses and consumers. First Allied Savings and Loans Limited has been dependable in building a distinguishing brand through its superior services and irresistible customer support. As a customer-centered institution, FASL appreciates the service of providing comprehensive variety of available financial solutions to its customers in a judicious routine and at optimal expediency.

Through its network of 22 branches across the country, First Allied Savings and Loans Limited provides well- modified products and services targeted at meeting personal financial needs and growth of businesses.

3.7.1 Credit Authorities of First Allied Savings and Loans Limited

The overall authority for approving credits is vested in the Board of Directors. All credits are therefore approved and ratified by the Board of Directors. However, credit approval limits have been delegated to the Board's Special Committee for Credits, the Management Advances Committee, the Loans Committee and the Branch Level Committee.

3.7.2 Credit Policy of First Allied Savings and Loans Limited

First Allied Savings and Loans Limited (FASL's) lending approach and strategy is defined by taking into consideration the particular environment in which the institution operates. The credit procedures and policies of the company are at all times guided by the highest professional standards, and the institution's policies as directed by the Board of Directors and Shareholders. FASL's credit policies can be summarized as follows;

- FASL shall be prudent in taking Risk. Asset quality will not be sacrificed for the sake of high or short-term returns. Credit shall be extended on the basis of credit worthiness of the borrower and sound banking practices.

- FASL shall concentrate primarily on short-term, self-liquidating credits, and particular emphasis is placed on ensuring that credits are appropriately reviewed and structured to minimize unnecessary risk to the institution.
- In addition to maintaining high credit standards, it will also strive for optimal portfolio balance, diversifying its risk assets by industry and geographic spread within its operational area.
- Under normal circumstances the size of the institution's loan portfolio shall not exceed seventy percent (70%) of total deposits, of which up to ten percent (10%) may be medium term exposure. In addition to its own deposits, the company shall be encouraged to source and contract appropriate credit lines or borrowings for on-lending to various programme groups.
- In extending credit, First Allied Savings and Loans Limited will observe and adhere to all relevant Bank of Ghana regulations and directives.
- Where it may be necessary either for political and /or remunerative reasons to lend on grounds of improving local Government policies or helping to reduce poverty within the locality, the company must obtain the necessary letter of comfort and /or security in the form of a Government guarantee or undertaking issued by the relevant sector Ministry or Agency.

3.7.3 Credit Principles of First Allied Savings and Loans Limited

FASL's basic principles for granting credit to its customers according to the credit policy manual are based on the following;

- Impose a minimum savings period before customers can access a loan. Such period shall be long enough to observe the customer's financial patterns through the operation of their account.

- Require customers to constitute a guarantee fund as prime security against their facility. The guarantee fund shall represent at least 25% of the loan amount for first time borrower. However, customers who pledge adequate properties as collateral shall provide a minimum of 5% of the loan as a guarantee.
- Ensure prompt processing and disbursement of loan applications, so that customers get their money at the time they need it.
- Start first time borrowers with small loan amounts in order to test their ability to manage credit and meet repayment schedules.
- Ensure that loan installments represent a reasonable percentage of the customer's monthly income or turnover.
- Access the credibility of repeat loan customers based on their performance of their previous loan facility.
- Augment loan amounts to repeat borrowers progressively so as not pushing them, beyond their financial capacities. As a rule, graduation between two cycles shall not exceed 100% on case by case basis.

3.7.4 Loan Products of First Allied Savings and Loans Limited

First Allied Savings and Loans Limited offer a variety of carefully designed loan products to meet specific needs of its customers. Loan products offered include:

Salary Credit-This is a facility that is given to employees who receive their salaries through the Bank. The customers or employees bring to the institution an undertaking from their employer ensuring the bank of full repayment of loan in case of default by the employees.

Travel Credit- A facility that allows customers and non-customers to purchase air tickets on credit from selected travel agents and pay the amount over a period of up to six months. **Clearance Loan**-A short term facility, specially designed to enable importers clear their goods from the port.

Commercial Loan- A facility targeted at individuals and businesses whose aspirations are to expand their businesses and may be utilized to meet cash flow needs.

Consumer Credit - A hire purchase scheme operated with selected shops which aid customers and non-customers to acquire household goods and appliances from these shops and pay the amount spread over a period of up to twelve months.

Susu Loan- An outreach programme intended to reach out to potential customers who are prepared to contribute daily or weekly savings equivalent of 25% of the amount they need as loans within a period of two months.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

This chapter presents the analysis and interpretation of data collected. For the purpose of ascertaining and assessing customer business characteristics on loan defaults, three sets of questionnaires; questionnaire for loan officers, one for loan defaulters and another for loan customers with no defaults were designed and administered. The researcher ensured that all customers who were involved in the study had their own businesses and operated an account with FASL in their own capacity. A one-to-one interview was also held between the Head of Credits of FASL and the researcher.

Out of the total of 221 questionnaires sent, a total of 201 responses were received. These comprise responses from 65 defaulters, 115 non-defaulters, and 21 loan officers. The results obtained from these questionnaires, and the information obtained through the interview with the Head of Credits are presented below.

4.1 Demographic Information of Respondents

Demography is the scientific and statistical study of any kind of dynamic population with respect to size, growth, density, distribution and other vital statistics. It emphasizes on the quantitative study of human populations. Demographics are the statistical component of marketing used to identify population segments by specific characteristics such as age, sex, race, gender, income, education level, habits, geographical area, marital status etc.

The demographic information of the respondents comprises the following:

4.1.1 Age Distribution of Respondents

From table 4.1.1, it can be realized that out of the total number of 180 responses received, 49 of them representing 27.22% were within the age group 30-34, making it the group which is most represented on the table followed by group 35-40 and over 40 with 45 respondents each representing 25%. The least represented group on the table was group 20-24 with only 11 respondents representing 6.11%. However, as many as 25 respondents representing 13.89% of the total number of defaulters who responded were within the age group over 40's.

Group 30-34 which is the second most represented group had only 8 defaulters. Of the total of 11 respondents within group 20-24, four were defaulters whilst the other 7 were non-defaulters. The low number of respondents in group 20-24 can be understood on the fact that the minimum age required for one to be able to access a loan in Ghana is 21 years.

Table 4.1.1: Age Distribution of Respondents

Age Group	non-defaulters	Defaulters	Staff of FASL	Total
20-24	7	4	2	13
25-29	22	8	6	36
30-34	39	10	6	55
35-40	27	18	3	48
over 40	20	25	4	49
TOTAL	115	65	21	201

Source: Field Data, June 2015

4.1.2 Sex Distribution of Respondents

Out of the total number of 201respondents whose views were obtained, a total of 98 representing 48.76% were males. 103 representing 51.24% were females. 9 of them were staff who were credit officers. However, only 24 of these females being 11.94% were defaulters compared to the 41 of their male counterparts representing 20.40% who are also defaulters of a total of 65. This indicate that there were 12 male staff who were credit officers.

Table 4.1.2: Sex Distribution of Respondents

Respondents	Gender		Total
	Male	Female	
Staff	12	9	21
Defaulters	41	24	65
Non-defaulters	45	70	115
Total	98	103	201

Source: Field Data, June 2015

4.1.3 Type of Customer Businesses

Businesses of customers were grouped under three main categories; micro, small-scale and medium-scale enterprise sectors. Of these categories, 42% of the customers indicated they operate medium scale enterprises whilst 41% of them indicated they operate small-scale businesses. Only 18% of the customers stated that they operate micro enterprises. Of these categories, medium scale enterprises group recorded the most number of customers who were defaulters followed by the medium scale enterprises group. Medium scale enterprises recorded 21 defaulters and Small scale enterprises recorded 30 defaulters.

Table 4.1.3: Type of Customer Business

Business Type	Defaulters	Non-defaulters	Total	Percentages
Micro	14	18	32	18%
Small Scale	30	43	73	41%
Medium	21	54	75	42%
Total	65	115	180	100%

Source: Field Data, June 2015

4.1.4 Period of Account Operation

According to the credit policy of FASL, customers are required to operate an account for a minimum period of two months and a maximum period of six months in order to qualify for a loan facility. There are exceptions when the account operation is excellently satisfactory and in this regard one month operation could be considered. A range of periods were therefore presented to customers to indicate the number of months they operated account with FASL before they were granted a facility. Out of the total of 180 customers who responded to the questionnaire, 48 of them representing 27% indicated they operated their account between 2- 6 months before they were granted a facility. 38 of them being 21% stated they operated their account between 1-2 months before being granted a facility whilst 87 also representing 48% indicated they operated their account for more than 6 months before they were granted their facility. Only 7 respondents being 4% of the total respondents stated they were granted their facility after some few days of account operation with FASL.

However, most of the defaulters that is 57% indicated that they were granted their facility after a maximum period of 6months of operation with FASL. Moreover, only 6%

of these defaulters indicated they operated their account for up to a month before they were granted their facility.

Table 4.1.4: Account Operation of Customers with FASL

Period	Defaulters	%	Non-defaulters	%	Total	Percentages
0-1 month	4	6%	3	3%	7	4%
1-2months	10	15%	28	24%	38	21%
2-6months	14	22%	34	30%	48	27%
Over 6months	37	57%	50	43%	87	48%
Total	65	100%	115	100.00%	180	100%

Source: Field Data, June 2015

4.1.5 Responses by Customers on whether Amount Requested was Approved or not

In the researcher's quest to find out whether a reduction in an amount requested affects one's ability to repay his or her loan, a question was presented to respondents to state whether the full amount they requested was approved or not. Of the 65 responses received from defaulters, 25 of them representing 38.46% stated they were given the full amount they requested whilst 40 being 61.54% stated that the amount they requested were reduced. Moreso, of the 115 non defaulters, 74 of them indicated that the total amount they requested was approved whilst the remaining 41 said their requested amounts were slashed.

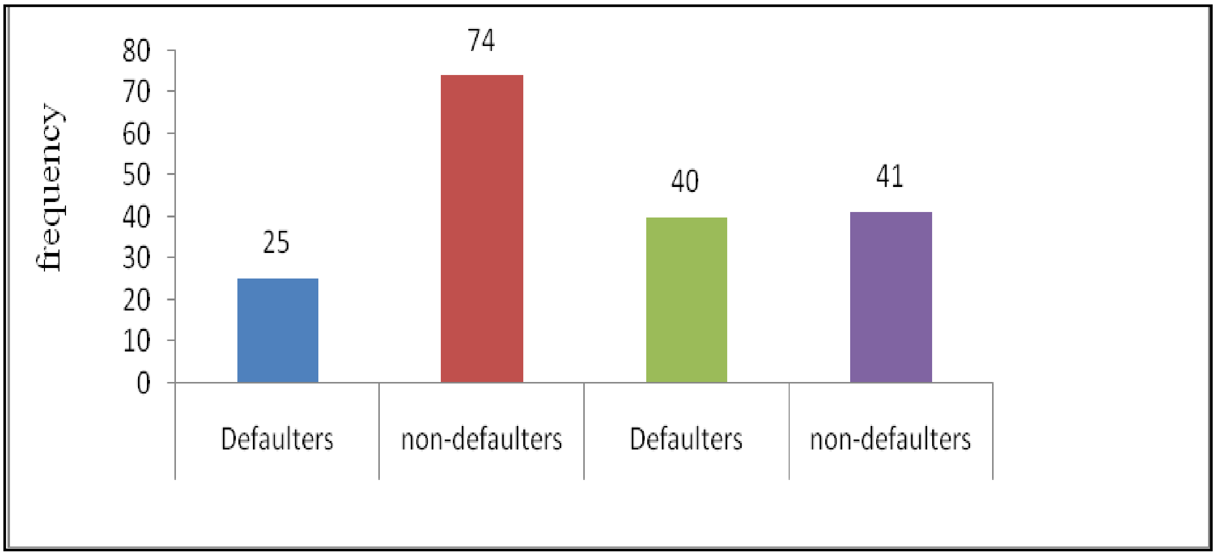

Figure 4.1.5: Responses by Customers on whether amount requested was approved or not
Source: Field Data, June 2015

4.1.6 Responses by Customers on whether Amount Approved was sufficeint for the purpose or not

Amount insufficiency for the purpose for which they were collected has been given as one of the main causes of loan default. A question was however presented to the respondents to indicate whether the amount they were granted was sufficient for the purposes for which they were granted the facility. 36 of the 65 Customers representing 55.38% who were defaulters indicated that the amount approved was not enough for the purpose. 29 out of 65 Customers representing 44.62% indicated that the amount they were granted was not sufficient for the purposes for which they were granted the facility. However, as many as 80 out of 115 representing 69.57% of the non-defaulters also stated that amount approved was sufficient. 35 out of 115 representing 30.43% stated that amount approved was sufficient not sufficient. But looking at this data, it could be revealed that most of the customers default based on others factors rather than the amount granted since customers could work within the amount granted and also for the purpose of the amount.

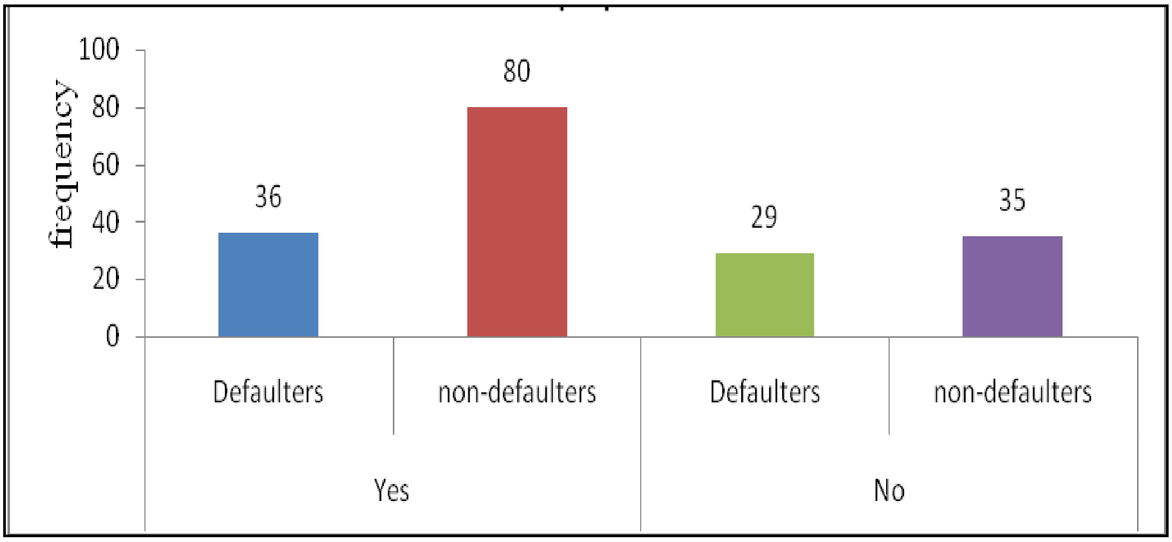

Figure 4.1.6: Responses by Customers on whether amount approved was sufficient for the purpose or not

Source: Field Data, June 2015

4.1.7 Responses by Customers on whether the Amount was Approved at the time it was needed

From figure 4.1.7, it can be seen that, of the total 65 defaulters who responded, as many as 42 of them representing 64.62% indicated the facility was given to them at the time they needed it. 23 of them representing 35.38% indicated the facility was not given to them at the time they needed it. However, for the non- defaulters, 90 of them representing 78.26% indicated they got the facility at the time they needed it. Only 25 customers representing 21.74% indicated they did not get the facility at the time they needed it.

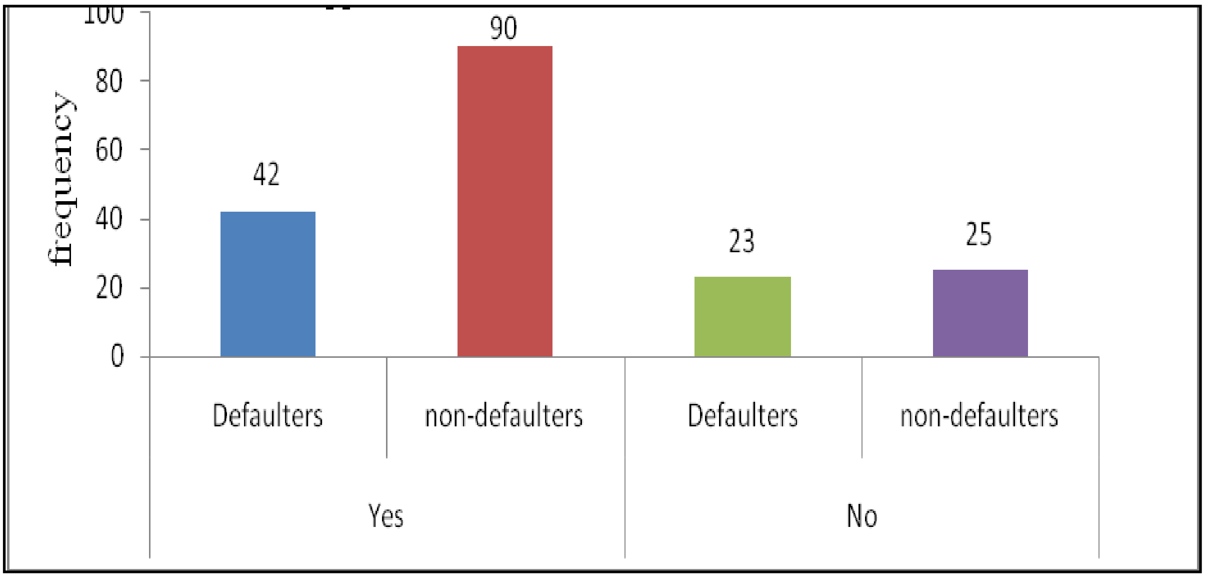

Figure 4.1.7: Responses by Customers on whether the amount was approved at the time it was needed
Source: Field Data, June 2015

4.1.8 Responses by Customers on whether the fee and interest rates paid affected their ability to pay.

From figure 4.1.8, as many as 46 customers representing 70.77% of the defaulters indicated that the interest and fees they paid on their loans affected their ability to repay. 19 Customers indicating 29.23% said that the interest and fees they paid on their loans did not affect their ability to repay. Moreover, 62 customers indicating 53.91% of the non-defaulters stated the fees they paid had little or no effect on their ability to repay the loan. Nonetheless, 53 customers indicating 46.09% stated the fees they paid had effect on their ability to repay the loan.

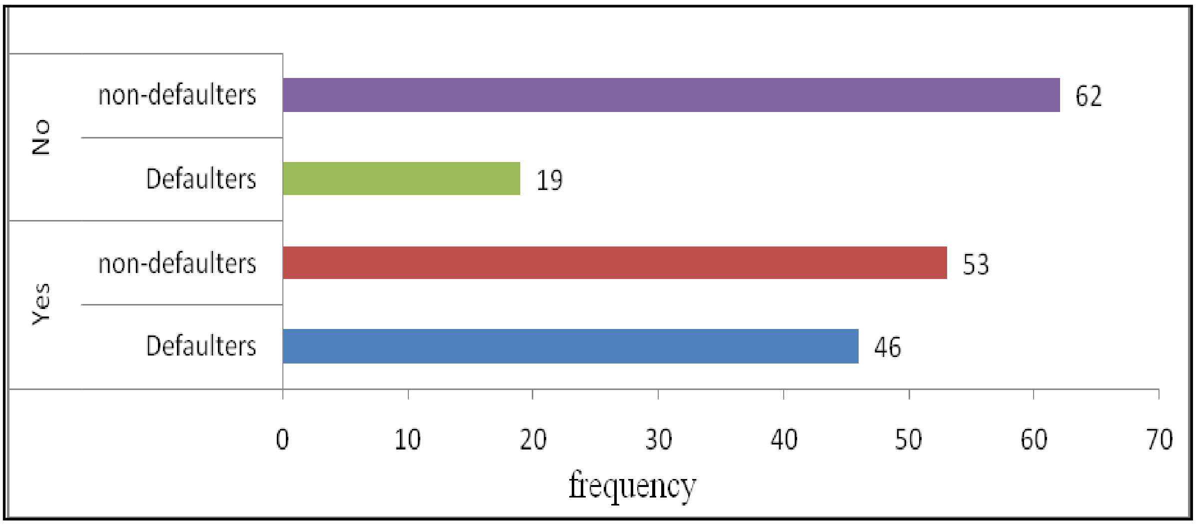

Figure 4.1.8: Responses by Customers on wheher the fee and interest rates paid affected their ability to pay

Source: Field Data, June 2015

4.1.9 Defaults and Purposes for which loans are contracted

Usually when loans are not used for the purposes for which they are contracted, it becomes difficult for the borrowers to repay since the terms of the loans may not be ideal for this new purpose. To confirm this, the researcher presented to the respondents three categories of purposes for which Customers usually use their facilities for. These categories include; working capital, acquisition of fixed assets and household requirements. Of these categories, 60 out of 180 customers representing 33% indicated that they contracted the facility for house household needs, 45 out of 180 customers indicating 25% stated they used it to buy an asset and 75 out of 180 customers indicating 42% indicated they used it for working capital management.

Table 4.1.9: Number of defaulters and the purpose for which the loan was contracted

Amount Approved	Defaulters	%	Non-Defaulters	%
Working Capital	24	37%	51	44%
Buy Fixed Asset	18	28%	27	23%
Househould need	23	35%	37	32%
Total	65	100%	115	100%

Source: Field Data, June 2015

4.1.10 Default and the Size of Amount Contracted

From table 4.1.10, it could be seen that defaulters were customers who were granted higher amounts which were very difficult to pay. 22 out of 65 customers representing 33.85% of the total respondents were most defaulters who were given an amount between GH¢10,000 and GH¢25,000. These customers basically did not use the amount for the intended purposes and more often than not, diverted these funds to do things other than buying stock for their businesses. Other category of amounts did show similar trends.

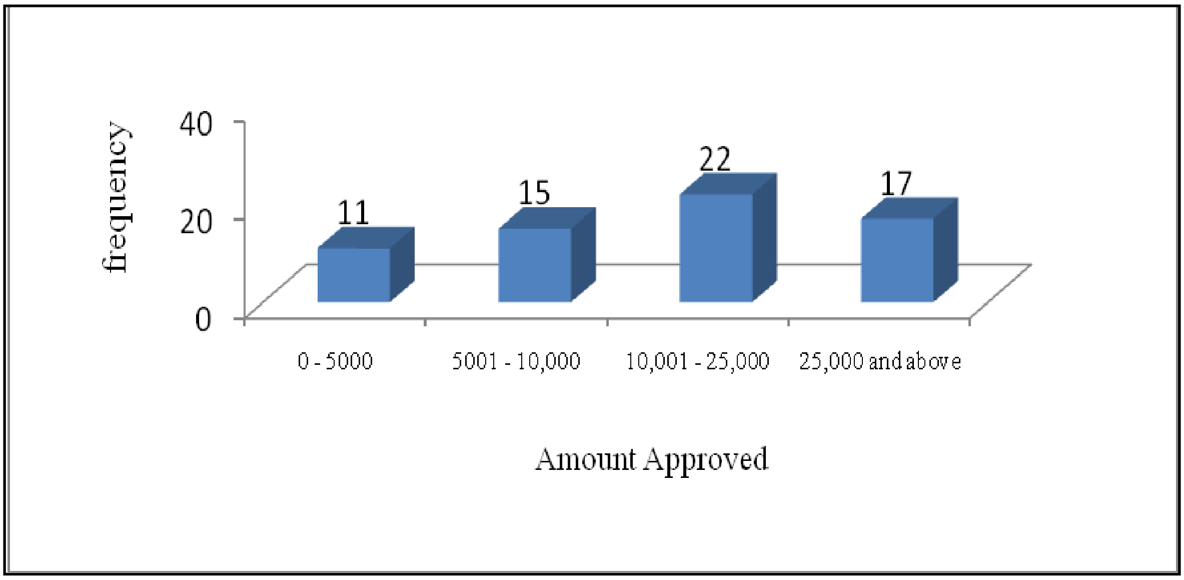

Figure 4.1.10: Number of defeaulters and the amount they contracted

Source: Field Data, June 2015

4.2 Trend of loan defaults at First Allied Savings and Loans Limited

In order to assess the impact of the measures put in place by First Allied Savings and Loans in controlling the default in their portfolios as stipulated in the credit policy manual which was developed in June 2006, the researcher decided to study the trend of default in the institutions loan portfolio for a period of six years.

In December 2009, the loan amount in default was GH¢2,738,068.64. This represented 9.91% of the amount expected to be collected (without G. Fund). Guarantee Fund (G. Fund) is an amount (prime security) which is collected by the institution from the customer as cash collateral before a loan facility is given out. It ranges between 5% and 25% equivalent of the loan amount depending on the amount to be granted. After the G. Fund had been added to the amount collected, the loan amount in default reduced to GH¢1,737,033.37. This represented 6.29% of the total amount to be collected by December, 2009.

In December 2010, loan amount in default was GH¢2,070,598.94. This was 8.22% of the expected amount to be collected. After the G. Fund had been added to the amount collected, the loan amount in default reduced to GH¢1,589,985.74 and it represented 6.31%.

In December 2011, amount in default was GH¢1,927,127.27. This denoted 7.17% of the expected amount to be collected. After the G. Fund had been added to the amount collected, the loan amount in default reduced to GH¢1,494,166.81 and it signified 5.56%.

In December 2012, loan amount in default was GH¢1,941,849.23 and it denoted 6.26% of the expected amount to be collected. However, after the G. Fund had been added to the amount collected, the loan amount in default decreased to GH¢1,385,237.16 and it denoted 4.47%.

In December 2013, loan amount in default was GH¢7,178,574.37 and it denoted 10.80%. However, after the G. Fund had been added to the amount collected, the loan amount in default decreased to GH¢4,459,832.04 and it denoted 6.71%.

In December 2014, loan amount in default was GH¢5,482,881.24 and it represented 7.85%. After the G. Fund had been added to the amount collected, the loan amount in default reduced to GH¢4,668,371.70 and it represented 6.68%.

From the following analysis, it could be deduced that customers defaulted mostly in 2013 with a default percentage of 6.71%. It was followed by 2014 with a default percentage of 6.68%. In 2009, it came to 6.29% and in 2010, it went to 6.31%. In 2011, the default percentage reduced to 5.56% and the lowest for the period was recorded in 2012 with a percentage of 4.47%.

Table 4.2 Trend of loan defaults at First Allied Savings and Loans Limited

Year	Expected repayment	Actual paid	Amount in Default	Recovery Rate(%)	Actual paid + G. fund	Amount in Default	Recovery Rate(%)
Dec-09	27,629,818.38	24,891,749.74	2,738,068.64	90.09%	25,892,785.01	1,737,033.37	93.71%
Dec-10	25,191,625.24	23,121,026.30	2,070,598.94	91.78%	23,601,639.50	1,589,985.74	93.69%
Dec-11	26,862,063.73	24,934,936.46	1,927,127.27	92.83%	25,367,896.92	1,494,166.81	94.44%
Dec-12	30,999,846.71	29,057,997.48	1,941,849.23	93.74%	29,614,609.55	1,385,237.16	95.53%
Dec-13	66,490,690.72	59,312,116.35	7,178,574.37	89.20%	62,030,858.68	4,459,832.04	93.29%
Dec-14	69,877,356.17	64,394,474.93	5,482,881.24	92.15%	65,208,984.47	4,668,371.70	93.32%

Source: First Allied Savings and Loans Limited, June 2015

4.2.1 Recovery Rate at First Allied Savings and Loans Limited

FASL uses a rating system known as Recovery Rate in assessing the well-being of their portfolio. Recovery Rate according to the Head of Credits is a percentage measure of the actual amount of loans that are paid by customers over the total amount that were expected to be repaid by the customers. Over the period under study, it could be seen from table 4.11.1 that there has been a steady improvement in the recovery rate of the institution.

In 2009, FASL's recovery rate stood at 90.09% without G. Fund. It therefore went up to 93.71% with the inclusion of G. Fund. However, as at the end of December 2010, FASL's recovery rate has risen to 91.78% without G. Fund. It went to 93.69%. The recovery rate moved up again in December 2011 to 92.83% without G. Fund. It reached 94.44% when G. Fund was added. In 2012, it satisfactorily increased to 93.74% without G. Fund. After the inclusion of G. Fund, it went to 95.53%, a pleasing rate in the annals of the institution's history. In December, 2013, it came down to 89.20% without G. Fund, but the inclusion of G. Fund took it up to 93.29%. It was 92.15 without G. Fund in

December 2014. It increased to 93.32% with the inclusion of G. Fund. The Head of Credits hinted that the actual target of the institution is to achieve a recovery rate of 97%. This performance according to the Head of Credits is achievable due to the measures put in place by the institution.

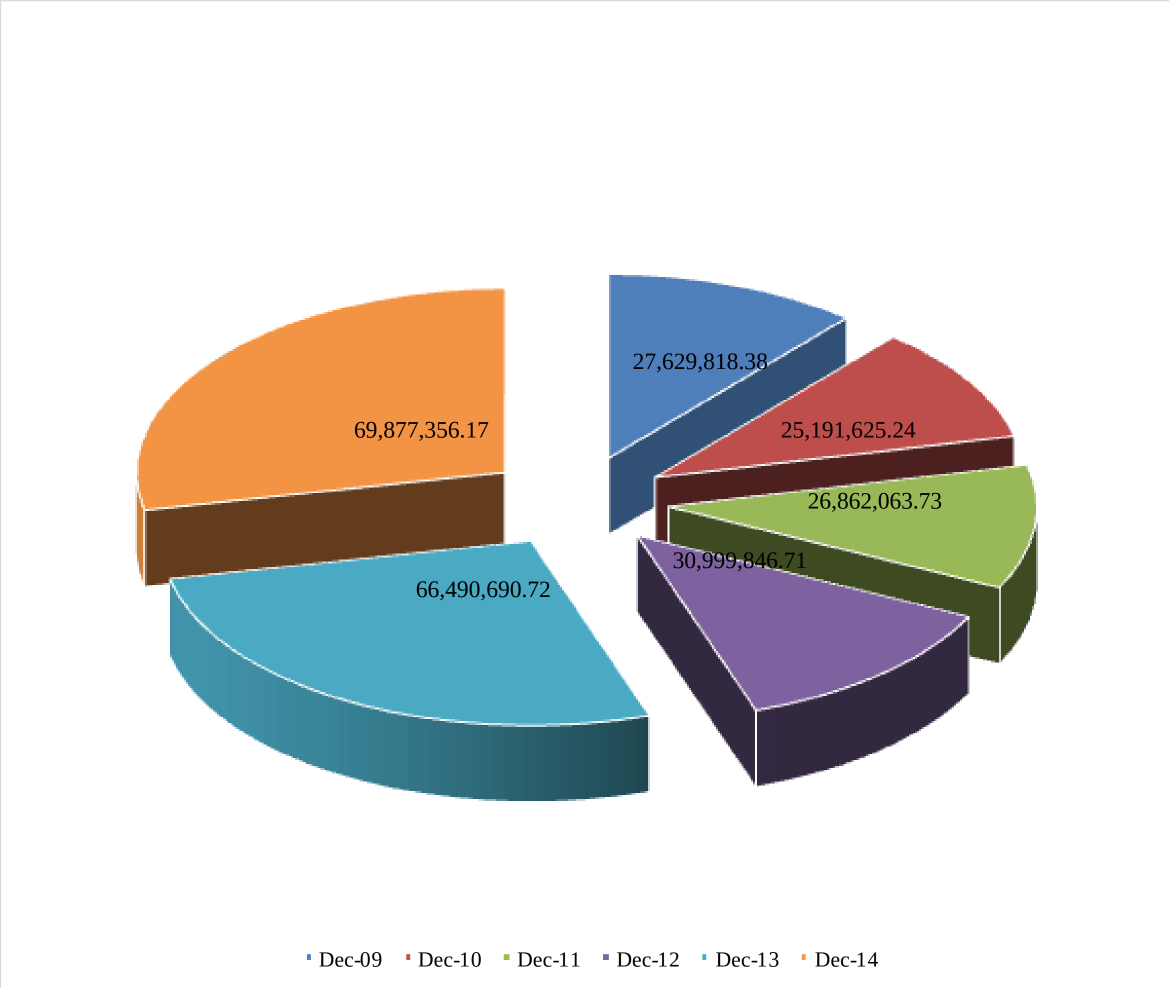

Figure 4.2.1: Trend of Loan Repayment at First Allied Savings and Loans Limited

Source: First Allied Savings and Loans Limited, June 2015

4.2.2 Trend of Disbursement at First Allied Savings and Loans Limited

In 2009, an amount of GH¢30,216,401 was disbursed. This represented 10.52% of the total amount of GH¢287,278,035.48 disbursed for the six years. GH¢30,067,073 was also disbursed at the end of December 2010 representing 10.47%. In 2011, GH¢45,227,819 was disbursed indicating 15.74% of the total amount disbursed for the period. An amount of GH¢61,375,545 was disbursed in 2012 representing 21.36%. An amount of GH¢60,123,581.45 was also disbursed in 2013 representing 20.93%. Finally, an amount of GH¢60,267,616.03 was disbursed in 2014 representing 20.98%.

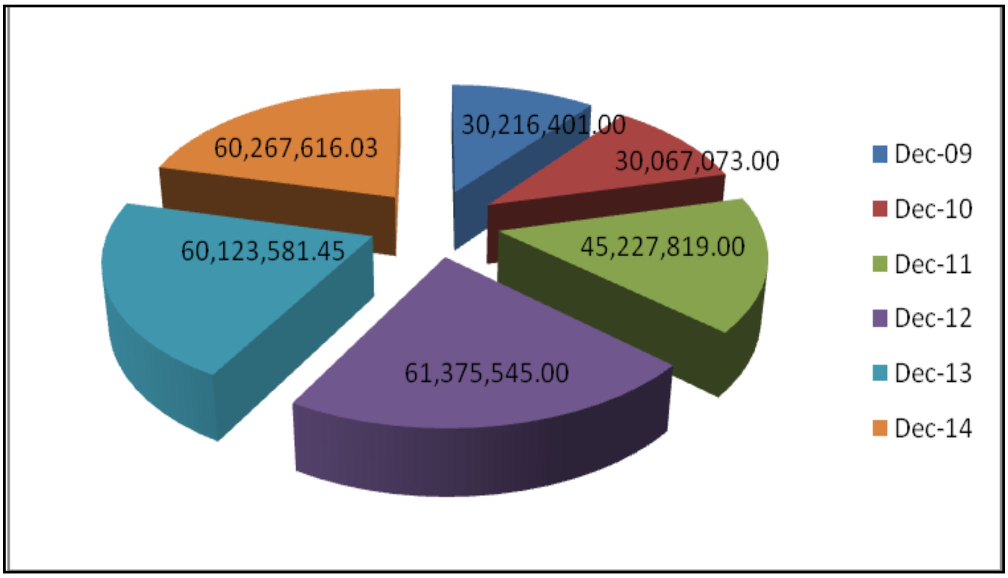

Figure 4.2.2: Amount Disbursed

Source: First Allied Savings and Loans Limited, June 2015

4.3 Causes of Loan Default from the Perspective of Loan Officers

Loan officers are Staff of FASL who are responsible for appraising, disbursing, monitoring and recovering of loans. They do weekly and monthly reports on the loans they have granted to the customers. In this research, the views of twenty one loan officers were obtained through the administration of questionnaires. The results obtained from these officers are presented below:

4.3.1 Size of Loan Portfolio and Monitoring

The size of a portfolio with respect to numbers can affect a loan officer's effectiveness. If the number of customers in an officer's portfolio is too high, the officer would not be able to manage these customers effectively as would be expected. For all the twenty one officers whose views were obtained, each one handles not less than 300 loan customers. According to them this makes it difficult for them to visit all these customers on daily basis. They indicated they visit each and every one customer within their portfolio at most once in a month. The officer also gave lack of logistics such as vehicle for prompt response to customers as one of the factors that hinder effective monitoring of loans at FASL.

4.3.2 Assessment of Loan Requests

Loan officers indicated that customers'requests for loans are assessed based on the analysis of customer's financial statement, account operation, loan history with FASL and other finance institutions, and the customer's character within the society. The Head of Credits did indicate that, collaterals are relevant in the loan assesment procedure but this is only used as a last resort in case of default and therefore not much attention is usually given to collaterals. Most of the loans granted are transaction based. It depends on how you operate the account with the institution. The account operation is viewed and analysed on weekly, monthly and annually basis to know the amount of working capital management that goes on in that account.

Irrespective of the collateral presented, a borrower must qualify in all the other indicators before he can be considered for a loan. However, loan officers are sometimes times pressured by their superior managers to disburse loans to clients who do not qualify in any of the factors enumerated above. Some of these loans normally become problem loans for the institution.

The officers indicated because of rigid approval procedures, most of their customers are not able to meet some of the the requirements on time and hence the loan assesment procedures are usually stalled.

4.3.3 Causes of Loan Default from the Perspective of the Head of Credits of First Allied Savings and Loans Limited.

According to the Head of Credits, causes of defaults are in three folds; default caused by the Bank's own practices, default caused by the borrowers characteristics and default caused by the policies of the Government. He stated that, poor credit appraisals, lack of proper monitoring after the loans have been disbursed, and stringent application of the Bank's credit policies without recourse to the borrower's nature of business are some of the fundamental causes of default that Banks go through. For the borrowers he said diversion of funds for purposes other than the ones they were meant for, lack of business management skills, multiple loans, poor financial discipline and very heavy family and societal demands account for their inability to repay loans they have contracted. He cited the poor addressing system in the country and lack of proper identification system as some of the major causes of loan default.

The central government as indicated by the Head of Credits is one of the major contributors of non-performing loans in the books of financial institutions. He said, Government contractors usually pre-finance projects by going for bank loans and later reimburse the banks when they are paid by the Government. However, funds from the government usually do not come as expected making it difficult for these contractors to finance their obligations with these Banks. He said, there is the need for the government to create an enabling environment for both the Banks and its customers.

4.3.4. Measures put in place by First Allied Savings and Loans to Reduce Loan Default

According to the Head of Credits, several measures have been put in place by the Management of First Allied Savings and Loans Limited which have helped reduce the number of defaulted loans in their portfolio.

Several measures including reducing the loan amount granted to customers who are defaulters as punitive measure for not paying loan amounts on time and on schedule, regular visits to the premises of loan customers to monitor their activities, registration of collaterals with Bank of Ghana Collateral Registry whilst ensuring that the value of these collaterals are readily ascertainable , judiciously stable and also could easily be liquidated, as well as realized are all measures put in place to ensure that default is reduced greatly.

FASL only accepts guarantors who are totally able to fulfill the obligations of the borrower. Full details of a guarantor's assets and liabilities are always obtained.

The Head of Credit explained that loans are classified as being in default seven days after it passes the due date. Various mechanisms including visits to the customers' projects sites or residence, telephone and others are carried out as a first step for prompting the Borrower. A total of three reminder letters should be sent to the defaulter before a demand letter can be issued. Demand letters are written to customers and copies sent to guarantors as a way of letting them know of the institution's actions.

One of the measures that FASL uses to recover defaulted loans is through rescheduling. Rescheduling according to the Head of Credits refers to a change in the terms of an existing loan which has matured or which the customer is finding difficult to repay. This option is very delicate and is always handled with the greatest care. The option is only chosen if the value generated by maintaining the client relationship and recovering the outstanding loan exceeds the costs incurred by the loan process.

The Head of Credits also said natural disasters also do affect the performance of loans in their portfolios. He cited the recent fire outbreak in the markets in the country as a major contributing factor to the non-performing loans phenomenon in their portfolio.

4.3.5 End use of Funds

All twenty one loan officers indicated they ensure that loans are used for the purposes for which they are granted. They explained they have a standardized check list they refer to as end use certificate. According to them they are required to visit the premises of the borrower during appraisal to verify the true purpose of the facility and again visit the premises after disbursement depending on the purpose to ascertain whether the amount is being used for the purpose for which it was contracted.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary of Findings

The researcher after collating the responses obtained through the questionnaires from all the 201 respondents whose views were gathered, coupled with the analysis of the information from the one-to-one interview with the Head of Credits makes the following findings and recommendations.

5.1 Customer Business Characteristic in Relation to Loan Default

The researcher observed the following attributes in relation to loan default.

5.1.1 Gender and Loan Default

From the study it was evident that most of the defaulters at First Allied Savings & Loans were males. Although the percentage of respondents who were females were more than that of males in the research, the margin was not too big. From the analysis, 41 males which constitute 20.40% of the defaulters were males whereas 24 females which constitute 11.94% of the defaulters were also females. It can therefore be concluded that females tend to pay their loans more and better than their male counterparts.

5.1.2 Type of Customer Business more likely to Default

Businesses of customers were grouped under three main categories; micro, small-scale and medium-scale enterprise sectors. It can be inferred from the study that the type of a business one operations whether it's a micro, small or medium scale can have an impact on the person's ability to repay his or her loan. In the research however, small scale enterprise owners tend to default most followed by micro-scale enterprises. Medium scale enterprise owners according to the research tend to repay their loans than their other two counterparts.

5.1.3 Reduction in Amount Requested

81 customers said that the amount they requested was reduced. 99 customers said they were given the full amount they requested. Customers sometimes calculate the amount of money they will request from a financial institution to suit the items they will buy in order to deduce their profit. When loan facilities are reduced, it affects the customer and his/her calculated expenditure which then results in some defaults created by some customers. The amount that would be approved would not be adequate for the intended purpose.

5.1.4 Fees and Interest Rates Affect the Ability to Repay Loans

From the analysis, 46 customers out of the total of 65 defaulters were of the view that the high interest rates and commitment fees charged on the loan amounts also contribute to the default of the loan. Although only 19 customers of the non-defaulters said interest rates were too high, the general impression here was that Financial Institutions should do well to reduce their rates and charges. They also said that the amount which is fixed (Guarantee Fund) as a requirement of the loan could also be used to do business to earn profit.

5.2 Factors Contributing to Loan Defaults at First Allied Savings and Loans Limited

These subsequent factors were established by the researcher to contribute to the numerous loan defaults in the institution.

5.2.1 Financial institutions contribute to Loan Defaults in their Portfolios

It was recognized that financial institutions have the tendency to contribute to their clients' inabilities to repay their loans either by granting loans to unqualified persons or by giving loan amounts that are above clients' capacities. Some other clients were also under financed. In some instances, loans were granted to customers at the time these customers no longer needed it whilst stringent terms/requirements also made it impossible for other customers to access loans. In most of the default cases, it was discovered that loan terms were too short making installment amounts too large for the customers to repay.

5.2.2 Customers Contribute to their Inability to Repay Loans

It has been confirmed in the study that customers also contribute to their inability to repay their loans. Some of these causes of defaults attributed to borrowers include; diversion of funds other than the purposes for which they were intended, taking several loans from different or the same institution running concurrently (that is multiple loans), inexperience and or customers having little or no knowledge in their area of trade and excessive family and societal responsibilities.

5.2.3 External Factors that contribute to the inability of Borrowers to repay their loans

The policies of the central government were also identified as some of the factors that affect customers' inability to repay their loans. Government projects are usually prefinanced by contractors through the use of Bank loans. These contractors are not paid by the central government on time due to economic conditions and policies, and as a result the contractors find it extremely difficult to meet their short and long term obligations with these financial institutions.

Ghana’s internal topographical arrangements and address systems lack structured organized mechanisms and these make it very difficult for banks to track borrowers’ identification and credit history. Customers move from their residence and relocate at different places making it difficult to verify the legitimacy of transactions, minimize fraud and track down customers who have defaulted on payments. Most customers take advantage of this loop hole in the system and go for loans only to relocate just miles away from their previous locations.

Competition was also noted to be one of the main causes of default. The influx of foreign banks in the country has resulted in the struggle for the few creditworthy businesses. Customers take advantage of the situation and go for loans from different institutions and these loans usually run concurrently. When customers have multiple loans, they become overstrained and are usually unable to repay their obligations.

Natural Disasters were also identified as one of the major causes of loan defaults in Ghana. For instance, the recent fire outbreak which happened at the Kumasi Central Market has been attributed as one of the major causes of the non-performing loans. In a country where the concept of loan insurance is not well developed, natural disasters greatly affect the portfolios of financial institutions as victims of such disaster usually are not able to repay.

5.3 Trends of Loan Default

It has been confirmed in the study that the default on loan has no specific trend. The default rate reduced from December 2009 to December 2012 but went up during December 2013 and December 2014. The Head of Credit said this increase in default rate was also as a result of fire outbreaks that occurred during that season to customers wares. This brought about putting in measures and reviewing the measures that were in place at the institution.

Conclusion

From the above findings it can be concluded that, the main causes of loan defaults in the portfolios of First Allied Savings & Loans financial institutions can be grouped under three main categories;

- ✓ defaults triggered by borrowers
- ✓ defaults triggered by the financial institutions themselves
- ✓ defaults caused by external factors

Several causes of defaults have also been identified to have been triggered by Borrowers. These causes include; diversion of funds for activities other than the ones for which they were approved for, lack of business experience and strategic innovations, poor financial discipline, multiple loans, fixed asset acquisition as well as very heavy family and societal demands.

Poor assessment of clients in respect of their credit worthiness, strict loan requirements and inappropriate loan terms and conditions were identified as causes of defaults triggered by the financial institutions themselves. Furthermore, excessive workload on loan officers making it difficult for them to properly disburse, monitor and recover loans from their clients after loan approvals to ensure that loans are used for the specific purposes for which they were contracted for and to also pick up early threatening indications on potential bad loans were identified as major causes of loan defaults.

From the study, financial institutions have well stipulated policies and procedures that are supposed to guide them in delivering quality loans. However, these policies and procedures are in some occasions not complied with by the financial institutions in the granting of credit due to friends and cronies who apply for loans and this result in credits being advanced to unqualified borrowers.

High interest rates being charged by financial institutions was also identified as one of the causes of loan default. Almost 90% of the defaulters whose views were taken indicated that the high interest and charges they paid on their loans affected their inability to repay their loans.

From the study, it was also identified that, default can also be caused by external factors. Macroeconomic instability in a country, natural disasters (i.e. flood, fire outbreak, earthquake) and government regulations (i.e. change in tax laws, decongestion etc.) were all identified as being causes of loan defaults.

The intense competition triggered by the influx of numerous microfinance institutions and Nigerian intruded Banks in the country also contributed to defaults in the portfolios of financial institutions according to the study. It has been revealed that because of competition, financial institutions are not paying attention to their policy manuals and reducing the lending requirements in order to attract customers.

5.5 Recommendations

From the observations and results of this research, the following recommendations are made. It is hoped that if these recommendations are implemented by the respective stakeholders, these characteristics of customer businesses on loan defaults in the portfolios of financial institutions would be reduced.

5.5.1 Innovative and Tailor-made Loan Products

Finance institutions must design loan products to address the specific purpose for which the loans are intended for. They should find more innovative means of safeguarding loans and thereby reduce the unfavorable high rates of interest and fees they are currently charging in order to curb the increasing rate of defaults.

5.5.2 Due Diligence

When screening clients for loans, financial institutions should dynamically analyze all the five Cs (character, capacity, capital, collateral and conditions) and assign relevant weights to each of these components depending on the lending methodology and loan size. Customers taking loans for the first time should be thoroughly interrogated to know their true status, their character and capacity to repay the loan. They must also be examined to know whether they are not multiple loans takers and have good credit history. For repeat customers, client performance ratings should be conducted to see how well they were able to conduct themselves during the period of the repayment of the loans and the magnitude of increment of the amount to be given to them. There should be up to 50% increment to good standing customers who showed virtuous repayment record after their ratings.

Collaterals from customers should be properly examined to know the true owners of the properties. Customers in their quest to secure loans may bring property documents which have been forged. Enforceability of these documents in times of default could only be ascertained when due diligence is made on the true owners of these documents.

In order to prevent diversion of funds, it is recommended that the financial institutions speed up the loan delivery process without compromising on due diligence. This is because when loans are not disbursed on time, clients normally invest the funds in other ventures which are normally non-profitable. Some customers get the loan when the intended purpose had elapsed, and so use the money for other things rather than what was initially intended for. Most often, customers resort to asset acquisition which does not bring any income or profit to the business which will enable them to repay the amount with ease. Loans should be granted to customers on time so as to be used to do the intended purpose for which it was requested for.

5.5.3 Interest Rates

Higher interest rate was seen as one of the major factors of default from the customer's point of view. It is therefore recommended that financial institutions reduce their interest rates. This will in turn reduce the cost of production for their customers thereby enabling them meet their repayment obligations.

5.5.4 Cautious Management of Funds by Customers

Customers should ensure that they use funds solely for the purposes for which they are contracted and desist from taking multiple loans since this has been identified as one of the major causes of loan default. There should be frequent visits to the customer's shops to really observe to see if indeed they have bought goods with the loan and not acquired other things like vehicles and buildings.

5.3.5 Suitable Training for Staff and Loan Customers.

Financial Institutions should also organize training programs for their credit staff on modern methods of managing loans and the credit delivery process. This can both be internal and external. Similarly, they must offer training programs to their customers as well. Customers can be invited to a workshop with credit officers and in such situations advisory services such as business management, book keeping and working capital management training discussed with them. Contents of the offer letters and contracts of agreements as well as their consequences of loan defaults should be well explained in detail to the clients for them to know what happens to them in case of default.

5.5.6 Strict Adherence to the Credit Policy Manuals

There should be a laid down credit policy manual for every financial institution stating clearly the objectives of credit delivery. This policy manual should be made available to credit officers and penal measures put in place for staff who do not go strictly by the rules and regulations of the policy manual to achieve sound credit delivery.

5.5.7 Provision of Sound Economic Environment by the Government

The government should provide comprehensive environment for loan customers and ensure that macroeconomic stability is achieved. Certain decongestion activities are not planned and customers suffer to their fate. Removal of these customers from where they ply their trade to unknown places where conditions to trade are not found and their customers find it reluctant to go and buy from them causes loan default. The government should endeavor to provide proper identification of the citizenry either through the house numbering system or area coding in order to aid smooth transaction of business and also reduce the level of loan default in the country.

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APPENDICES

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCE

SCHOOL OF BUSINESS

The questionnaire is designed for academic purposes. Your participation is highly necessary for the success of this work. You are assured of utmost confidentiality with respect to any information you shall provide.

Questionnaire to be completed by the loan officers of First Allied Savings and Loans Limited

INSTRUCTION: Please tick (√) the appropriate box where necessary and write where necessary

1. Sex: Male ☐ Female ☐
2. Age: ☐
3. What was your area of Study in your College education……….………………………………
4. For how long have you worked in the bank? ……………………..……………………………
5. For how long have you been a loan officer? ……………………..…………………………...
6. Have you received any training on loan delivery? Yes ☐ No ☐
7. How many loan customers are in your portfolio?
    a. 0 – 50 ☐
    b. 50 – 150 ☐
    c. 150 – 300 ☐
    d. Over 300 ☐
8. What is the size of your portfolio (volume in Ghana cedis)?
    a. 0 – 50,000 ☐
    b. 50,000 – 100,000 ☐
    c. 100,000 – 500,000 ☐

d. Over 500,000. ☐

9. Do you have a copy of the Credit Policy Manual?

Yes ☐ No ☐

10. Do you think non-compliance with credit policy leads to loan defaults?

(a) Yes [ ] (b) No [ ]

11. On what basis do you access a client's loan request? Select as many as you use.

I. Highly based on financial Statement Analysis ☐
II. Based on customer account turnover ☐
III. Highly based on clients past record ☐
IV. Highly based on collateral security ☐

12. Have you ever disbursed a loan to an unqualified Client? Yes ☐o ☐

13. If your answer to question (12) is Yes, Why did you advance that loan?

I. Pressure from a Superior Officer ☐
II. Sympathy for the Client ☐
III. Because of Personal relation with Client ☐
IV. Because of Client's Status in the society ☐

14. How frequent do you visit loan customers?

I. Daily ☐
II. weekly ☐
III. Monthly ☐
IV. Yearly ☐

15. Do you ensure loans are used for the purposes for which they are requested for?

Yes ☐ No ☐

16. Through which means do you ensure end use of funds?...………………………………………

…………………………………………………………………………………………

………………

17. Please rank the following on a scale of 1-5(1 being least and 5 the most) the effectiveness of the following means of recovering defaulted loans in FASL(where applicable)

1 2 3 4 5

i. Use of Cash collateral [ ] [ ] [ ] [ ] [ ]
ii. Holding guarantors to pay [ ] [ ] [ ] [ ] [ ]
iii. Use of seized collateral [ ] [ ] [ ] [ ] [ ]
iv. Debt collection agency [ ] [ ] [ ] [ ] [ ]

18. How long does it take to appraise a loan?

a. Three days [ ]
b. four days [ ]
c. one week [ ]
d. other [ ] please specify…………….........................

19. On what basis do you determine customer’s loan duration?

a. Depends on Customer’s ability to repay [ ]
b. Depends on amount approved [ ]
c. Strictly based on policy manual [ ]
d. As requested by the customer [ ]

20. Do you give clients training/education before you give out loans?

Yes [ ] No [ ]

21. If yes to above, what kind of training do you give to them?

a. Business Management [ ]
b. Records Keeping [ ]
c. Risk Prevention [ ]
d. other [ ] please specify…………………

22. Which of the following factors hinder effective monitoring of loans in FASL?

a. lack of vehicles [ ]
b. under staffing [ ]
c. ineffective supervision by management [ ]
d. other [ ]

23. What are the causes of delayed loan approval?

a. Rigid approval procedures [ ]
b. Customers’ inability to meet approval requirements [ ]
c. Liquidity problems [ ]
d. Poor credit appraisal [ ]

24. Which of the following reasons account for loan diversion by customers in FASL?

a. Lack of proper monitoring [ ]
b. Anticipation of high gains in other business ventures [ ]

c. Inadequate financing [ ]
d. Delay in loan approval [ ]

25. What are the reasons for the reduction of requested amounts?

a. Customer's capacity [ ]
b. Inadequate collateral [ ]
c. Few funds available for disbursements [ ]
d. Diversion of funds [ ]

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCE

SCHOOL OF BUSINESS

Please Sir, your participation is highly necessary for the success of this work. You are assured of utmost confidentiality with respect to any information you provide.

Interview guide for a one-to-one interaction with the H.O.C. of First Allied Savings and Loans Limited

1. What is your level of education?

2. How long have you worked at the Credits department of FASL?

3. What was your previous position?

4. Do you give clients training/education before you give out loans?

5. Do you send credits officers to training on modern ways of credit delivery?

6. How long does it take to appraise a loan?

7. Do you think non-compliance with credit policy lead to loan default in FASL?

8. Please how do you recover defaulted loans

9. How does the following help in recovering defaulted loans

   a. Use of Cash collateral [ ]
   b. Holding guarantors to pay [ ]
   c. Use of seized collateral [ ]
   d. Court action [ ]

10. On what basis do you determine customers' loan durations?

11. Does any of the following affect the determination of loan duration?

    a. Customer's ability to pay [ ]
    b. Approved amount [ ]
    c. Policy manual [ ]
    d. Customer's desired request [ ]

12. Do you give clients training/education before you give out loans?

13. What are some of the factors that hinder effective monitoring of loans in FASL?

14. Does any of the following factors affect the monitoring of loan

a. lack of vehicles [ ]
b. under staffing [ ]
c. ineffective supervision by management [ ]
d. all the above [ ]

15. What are the causes of delayed loan approvals?

16. Do you think any of the following factors causes delays in loan approval?

a. Rigid approval procedures [ ]
b. Customers inability to meet approval requirements [ ]
c. Liquidity problems [ ]
d. Poor credit appraisal [ ]

17. What do you think are the major reasons for loan diversion by customers in FASL

a. Lack of proper monitoring [ ]
b. Anticipation of high gains in other business ventures [ ]
c. Inadequate financing [ ]
d. Delay in loan approval [ ]

18. . Why do you reduce Amounts requested by customers?

a. Customer's capacity [ ]
b. inadequate collateral [ ]
c. avoid diversion of funds [ ]
d. Few funds available for disbursements [ ]

19. What are some of the costs associated with managing loan defaults in FASL

20. What measures has management put in place to reduce loan defaults?

21. Do you register your collaterals with BOG collateral registry?
    If not, why?

22. Which Credit Reference Bureau has FASL subscribed to?

23. How has this Bureau help in credit delivery in FASL?

24. At what stage is a court action taken against a loan defaulter in FASL?

25. Do you have a policy of rescheduling a defaulted loan?

26. How does rescheduled loans perform in FASL

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCE

SCHOOL OF BUSINESS

The questionnaire is designed for academic purposes. Your participation is highly necessary for the success of this work. You are assured of utmost confidentiality with respect to any information you shall provide.

Questionnaire to be completed by customers of First Allied Savings and Loans Limited

INSTRUCTION: Please tick (√) the appropriate box where necessary and write where necessary

Sex: Male ☐ Female ☐

Age: ☐

1. What type of business are you into?

   a. Micro [ ]
   b. Small scale [ ]
   c. Medium scale [ ]
   d. Firm [ ]

2. How many employees do you have?

   a. one [ ]
   b. two [ ]
   c. three [ ]
   d. more than four [ ]

3. In your last loan facility, did you have visits from loan officials?

   Yes (…………………..) No (…………….)

3. If Yes, was it

a. Once [ ]
b. Twice [ ]
c. Three times [ ]
d. Others [ ] Please specify:…………...

5. Were you satisfied with the terms of the loan? No(…) Yes(…) No Idea (…..)

Reasons:…………………………………………………………………………………
……

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

6. What amount and percentage of loan have you paid back?

Amount:……………………….

Percentage:………………………….

Number of months:…………………………………………..

7. From above, have you ever defaulted (delayed repayments/monthly installment) for more than

Seven days? Yes (………………) No (………………)

8. If Yes, what are the number of months you have defaulted?...

9. What was the reasons for default:……………………………………………………......

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

10. In your opinion, do you think the interest rate is too high? Yes/No

11. Do you think Interest rate affected your loan repayment ability? Yes/No

12. Are you located at a vantage point to display your wares easily? Yes/No

13. Is the size of your business enough to showcase all your goods? Yes/No

14. Do your clients have easy access and patronize your goods? Yes/No

15. How much capital have you invested in your business?

a. Up to GH¢5,000 [ ]
b. Between GH¢5,000 and GH¢10,000 [ ]
c. Between GH¢10,000 and GH¢25,000 [ ]
d. More than GH¢25,000 [ ]

16. What do you think of owing/debt in general?

a. Good [ ]
b. Bad [ ]
c. Indifferent [ ]
d. normal [ ]

17. Do you compete with other traders on the same lane/line you sell your goods? Yes/No

18. What do you think of borrowing from banks in general, if credit is available?

a. Economically Sound option [ ]
b. Not Economically Sound option [ ]
c. high risk if not used for purpose [ ]
d. amount should be given at the needed time [ ]

19. Do they poach/call your customers when they come to buy goods from you? Yes/No

20. Do you get the expected profit in line with your business? Yes/No