**IMPACT OF BAD DEBT IN COMMERCIAL BANK LENDING IN NIGERIA**

**ABSTRACT**

In carry out this research, Attempts was made to evaluate the causes and the effect of bad bests in banks’ lending. To fulfill this task, we established the objectives of this study which included the identification of the causes of bad debt or the banks and the economy at large recommendation of possible solutions. In conclusion on the objectives, primarily data was collected through field survey of the study population of 30 respondents of which 20 respondents where successfully covered representing 66.7 percent of the total population extensive literature review was also carried out in libraries in Nigeria. The data obtained were presented in tabulation and percentage for analysis.

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **BACKGROUND OF THE STUDY**

Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout the world. The services rendered by commercial banks in Nigerian cannot be over-emphasized. The banks basically in any economy are financial intermediaries that perform two main traditional functions which include deposit collection and lending. These banks offer different products and services to public, and because of their high liquidity, these intermediary operations are quite risky. Therefore the banks are faced with diverse risks in the course of carrying out their operations. In view of the risks inherent in bank lending and the need to minimize or contain the risk (since they cannot be avoided entirely), and in view of the need for liquidity and profitability consistence with safety and regulatory constraints, the central issue in managing the lending portfolio is balancing the potential risk with returns. This involves credit management and credit analysis. The borrower‟s ability to repay the loan has to be determined, the borrower capacity and capital have to be assessed (Nwankwo, 1991).

Credit creation is the main income generating activity of banks (Kargi, 2011) Due to the increasing spate of non-performing loans; the Basel II Accord emphasized credit risk management practices. Compliance with the Accord means a sound approach to tackling credit risk has been taken and this ultimately improves bank performance Deposit money banks are exposed to a variety of risks among them; interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk and credit risk; and what banks does is to manage these challenges especially the credit aspect. In some instances, deposit money banks and other financial institutions have approved decisions that are not vetted; there have been cases of loan defaults and non-performing loans, massive extension of credit and directed lending. Policies to minimize on the negative effects have focused on mergers in banks, better banking practices but stringent lending, review of laws to be in line with the global standards, well capitalized banks which are expected to be profitable, liquid banks that are able to meet the demands of their depositors, and maintenance of required cash levels with the central bank which means less cash is available for lending. This has led to reduced interest income for the commercial banks and other financial institutions and by extension reduction in profits. Credit risk is the possibility that the actual return on an investment or loan extended will deviate from that, which was expected. Agu, & Ogbuagu,. (2015). defines credit risk as losses from the refusal or inability of credit customers to pay what is owed in full and on time. The main sources of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels, directed lending, massive licensing of banks, poor loan underwriting, reckless lending, poor credit assessment, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank. To minimize these risks, it is necessary for the financial system to have; well-capitalized banks, exposure within acceptable limit in order to provide a framework of the understanding the impact of credit risk management on banks profitability. One of the regulations is the minimum capital commercial banks must keep absorbing loss if unexpected things happen. It strengthened the framework and made some innovations, including tightened definition of capital, requirements for leverage ratio and a countercyclical buffer, the capital for liquidity risk and counterparty credit risk as the derivatives had gained their population in 20th century. Credit risk is one of significant risks of banks by the nature of their activities. Through effective management of credit risk exposure banks not only support the viability and profitability of their own business but also contribute to systemic stability and to an efficient allocation of capital in the economy (Psillaki, Tsolas, & Margaritis, 2010). The relationship between private sector lending and growth is one that can have strong consequences for the growth of a country and the viability of many private sector businesses. Lending being the primary function of commercial banks can have strong implication for private sector growth and will probably be impeded in times of crisis by the riskiness of the business environment that often accompany economic contraction. Growth and business cycles fluctuations are a norm in the global economy, economic crises such as the 2007 sub-prime mortgage crisis have the capability of affecting lots of lives that depend on earnings from production capabilities in the private business sector for 4 a living. The relationship between commercial lending and economic growth will be one in which the private sector which is the primary driver of a nation’s economy will be affected by increased cost of access to capital dueto the riskiness of the business environment leading to the high probability of loan default. This high probability to default is likely to make many private sector businesses to be averse to borrowing forcing them to downsize on their production output which will finally be accompanied by laying-off production staffs. The question if commercial bank lending incites growth in Nigeria is one that has not been previously addressed in a sufficient manner. It is well known that commercial bank lending in Nigeria is at an all time low and has not returned to the pre 1990s lending levels, (CBN 2012 statistics) making most Nigerian banks to be failing in their role of primary responsibility which is to lend to private sector businesses. While most of the blame lies at the doorstep of commercial banks the Nigerian government also has a joint responsibility since it has failed to create enabling environment for productive commercial activities that have the capability to reduce the transaction cost associated with production making the business environment to be risky. A host of macroeconomic variables are identified in the study to be responsible for driving growth in the Nigeria economy this include the cost of access to capital, institutional quality, the country’s monetary policy, aggregate savings and finally aggregate loss of capital due to default or mismanagement in the Nigerian Banking system. Due to the shortcomings in the management of the lending portfolio of commercial banks and the inability of the decision makers, in this case, the banker to make perfect and accurate predictions and forecast of loan repayment, bad and doubtful debts become inevitable. This arises based on the fact that lending involves a certain degree of risks and there is no standard measure of a customer whose loan will go bad or whether payment will be made at the agreed period with the price of the loan. The paper is therefore set to evaluate the effects of bad debts on the investment generation among Nigerian banks

**1.2 STATEMENT OF THE PROBLEM**

It is a well-known fact that there has been a public concern on the impact of bad debt on commercial bank lending on Nigeria economy. The various management positions has been accessed of giving loans to applicants without a good or reasonable security as collateral. This has immensely given room to economic problems/crises. Some customers even when given a reasonable collateral tends not to meet up with the demand of the agreement

This is as a result of borrower inconsistencies in responds to the demand made by the various banking institutions (commercial banks) for repayment of loans and advances made to them. This also in turn reduces the asset base of the bank as a result causing inflation in the economy, by devaluation of our naira in foreign exchange market, hence discouraging international/foreign investors from investing in the country.However, the major issues are:

1. How exactly does a commercial bank cope with the effect of bad debt?
2. What really are the impacts of bad debts on commercial banks in Nigeria economy?
3. What length does this bad debt go in causing inflation which leads to devaluation?
4. What roles do management play in ensuring that agreements stipulator is strictly followed?
5. The role of foreign exchange market in investment in our country.
   1. **OBJECTIVE OF THE STUDY**

This study was conducted with the following objectives:

1. To evaluate the impact of bad debts on commercial banks leading on Nigeria economy.
2. To identify the problems aimed from bad debts. To identify its immediate remote causes, to determine its effect: on the economy in general.
3. To make positive recommendations on how to possibly profound solutions and conclusions to it.
4. To establish the level and impact of risk to an acceptable rate, and then suggest on how to improve the existing control method programme.
   1. **RESEARCH HYPOTHESES**

The following hypotheses were formulated from the objectives which will be verified in the course of this research work and will guide us in finding the solution to the problem that is induced in this research work**.**

**Hypothesis One**

**Ho:** There is no significant relationship between bad loan debt and Nigerian commercial Banks profitability

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* 1. **SIGNIFICANCE OF THE STUDY**

It is hoped that the finding of this project work will not only add to the vast knowledge about the impact of social media on the students of The significance of this study is that, it will enable banks to appreciate the appraisal of their lending mechanism which will assist the management and other regulatory authorities in ensuring a safe banking system. It is therefore pertinent to investigate the effect of bad debts and recommend possible measures to address them and make banks’ balance sheet free of bad debt.

* 1. **SCOPE AND LIMITATION OF THE STUDY**

The scope of this study is intended to be more encompassing but was hampered by certain unavailable constraints; nevertheless, it is limited to commercial banks as well as their staff. Some of the constraints are our poor financial position which compelled us to restrict this volume due to the high cost of stationeries. The reluctance of some commercial banks to give out information concerning some factors were discussed in the literature review and the theoretical rationale.

The scope tries to find out the impact of bad debts on commercial bank leading on Nigeria economy; and as such, its findings cannot be generalized to other types of banks. The researcher encountered some constraints, which limited the scope of the study. These constraints include but are not limited to the following.

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**1.7 DEFINITION OF TERMS**

**Credit/debt:** Is a means of obtaining resources or fund at a certain period of time with an obligation to repay at a subsequent period in accordance with the terms and condition of the credit obtained. In other words, credit encompasses any form of deferred payment.

**Credit control**: Any system used by an organization to ensure that its outstanding debts are received within a reasonable period of time.. It is concerned with the efficiency in ranking customers status which has the objectives of minimizing risk inherent in credit extended to customers.

**Credit Risk:** Is the exposure to loss arising from the variation between the expected and actual outcomes of investment activities.

**Credit Policy:** Is the standard set to determine the amount and nature of lending money to customers. Interest: The charge made for borrowing a sum of money. Cost of borrowing fund.

**Bank:** An institution for receiving, lending, exchanging, and safeguarding money and other valuables and, in some cases, issuing notes and transacting other financial business.

**Central Bank**: The central Bank is the principal bank usually named by the government, with primary responsibilities of initiating, regulating and enforcing monetary policies while 6 working closely and controlling the operational perspectives of other banks and financial institution.

**Default:** Is a fundamental breach in transaction underlying the contractual relationship between a creditor and a debtor when the debtor fails or is unable to meet repayment obligations on either principal sum, interest element or both.

* 1. **ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows Chapter one is concerned with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 INTRODUCTION**

This chapter reviews the literature on the impact of bad debt in commercial bank lending in Nigeria. It discusses issues arising from the topic of interest as viewed from different perspectives, with a view of giving a theoretical and empirical foundation to the study.

**2.2 LITERATURE REVIEW**

Chigozie and Okolie in 2013 examined the causes of bad and doubtful debt in Nigeria commercial banks. It presents a framework to x-ray the risk and to validate the checks and balances to prevent or rather reduce the risk. The study uses both primary and secondary tools for data collection to determine causes of bad debts. Lending is one of the major functions of banks though the most risky. Yet any bank that wants to remain in business must lend. Due to the fact that bank’s primary function is to act as intermediary between savers and borrowers, the barometer for measuring their earnings is interest from lending. Lending is a risk. Granting of credit is risk that can be viewed as the most important risk which Nigerian banks face bearing in mind the staggering size of their non-performing assets. Credit risk therefore is the risk which could occasion a loss for a bank due to a default by a customer in meeting its obligation. It is observed that incessant increase in interest rate is a strong and statistically important factor that causes bad debt in Nigeria commercial banks. Banks Management should establish sound lending policies, adequate credit administration procedure and an effective and efficient machinery to monitor lending function with established guidelines, reduce interest rates on lending. They should study the character and financial statement of the borrower before granting them loans

**2.3 CONCEPT OF CREDIT ADMINISTRATION IN COMMERCIAL BANKS**

All commercial banks engage in lending as a way of investing their deposit liabilities, in order to generate revenue and make profit to meet the interest obligation on their liabilities, fund their own expenses, pay dividend to their shareholders and plough back to their capital base. The credits so created constitute the income leader for all banks and a risk asset in their financial statements. Thus, in order to ensure adequate protection for their loans, enable prompt detection of warning signals and prevent a high rate of non-performing loans, a sound credit administration system must be in place to ensure deployment of appropriate credit policy and strict enforcement of policy compliance to minimize credit breaches, regulatory infractions and administration of sanction against credit abuse. According to Abdulrasheed and Etudaiye-Muhtar (2010), the process of credit administration takes the form of a back office activity that lends supports and controls to the booking and management of credit. A typical  opinion that every bank has the responsibility to develop and implement comprehensive loan administration processes and information management systems with capacity to follow up the conditions of underlying individual credits. Aremu et al (2010) concluded that an effective loan administration and monitoring system must embody measures to track compliance with approved loan covenants, access collateral, where applicable, review loan performance relative to borrower’s current condition, identify delinquencies in contractual payments, classify credits appropriately on a timely basis and take remedial actions to solve problems promptly whenever they arise during the course of loan tenure. Research study shows that credit administration functions include loan disbursement, management reporting, Board reporting, credit bureau activities, loan monitoring, loan classification and provisioning. Loan disbursement: After compliance with terms and conditions precedent, including acceptance of offer, collateral documentation, vaulting and perfection, equity contribution, opening of collection/debt service reserve account, execution of agreements among others. Management and Board reporting: Rendition of credit-related information to management and the Board of Directors which could be daily, monthly, quarterly, half-yearly, yearly as the case may be. Regulatory reporting: rendition of regulatory reports consistently and promptly within deadline in order to avoid regulatory sanctions which are usually in huge financial terms. Credit bureau functions: administration of the bank’s relationship with credit bureau. Regulatory requirements mandate all banks to have reporting relationship with at least two of the private credit bureau in addition to the CRMS. Apart from the CBN’s Credit Risk Management System (CRMS), currently there are three private credit bureaus in Nigeria that is, credit registry, credit reference, xds credit bureaux, and general administration of the loan portfolio. Loan monitoring: The credit administration unit of commercial banks has the responsibility to monitor the loan portfolio consistently in order to quickly identify warning signals and promptly deploy appropriate measures to prevent or minimize incidents of non-performing loans. Examining the concept of non-performing loans, Ahmad and Arif (2007) observed that non-performing loan is the proportion of loan values that is not serviced for three months and above. Increasing amount of non-performing loans in the credit portfolio is inimical to banks in achieving their portfolio and business objectives. The body of knowledge is of the opinion that loan monitoring is crucial to the success of credit administration system. Aremu et al (2010) believed that credit relationship managers have responsibility for loan monitoring. Aluko and Arowolo (2010) noted that, the grand cause of debt crisis is that, in most cases, loans are nut used for development purposes. This is a major cause of loan defaults and bad loan crisis in banking. Credit administration to monitor loan disbursement closely and ensure strict utilization for the approved purpose. The process, in all instances, is not a choice but an imperative for efficient and effective credit administration deliverable in the banking sector. The experience of the banker, his knowledge of the customer’s business and above all, believe in the customer’s capacity and character can be a guide in taking a decision as to how far the customer can be supported before declaring a challenged loan as bad. The work concluded that in some instances, the loan management system may conclude that the customer may be in need of more support, in that case, any or a combination of the following strategies can then be employed; deferral, adjustment or waiver of some of the terms and conditions of the loan in a way not to compromise the bank’s interest, collection of additional collateral, where available, granting of additional loans for bail out, if borrower’s circumstances and current position evaluation so requires, extension of loan repayment period supported by fresh cash flow statement, showing the reality of future business prospects and cash flow capacity. Loan classification and provisioning: Research study shows that, loan classification as either performing or non-performing is another responsibility of credit administration unit of commercial banks and this must be done in accordance with the regulatory measures and provisions of the Central Bank of Nigeria’s Prudential Guidelines, which is examined in details under the conceptual framework for supervisory and regulatory roles. The role of technology in credit risk management and credit administration cannot be over emphasized. Kithinji (2010) observed that to add value to their risk management practices, banks have great opportunities to benefit immensely from readily available sophisticated measuring techniques. The information technology systems, particularly the increasing availability of low 63  cost computing power and communications have played an important supporting role in facilitating the adoption of more rigorous credit risk management processes, however, some of the banks still have a long way to go in implementation of these new approaches. Kithinji (2010) concluded that the peculiarity, nature and relative sizes of the implicit internal features of the risk asset management system will become more dynamic and robust as banks improve their ability to deploy technology for the assessment of risk and returns associated with their various activities. 2.1.5 Credit Control Process Examining the concept of risk control, Ikpefan (2013) observed that risk control covers all the measures aimed at avoiding, eliminating or preventing losses from occurring. He asserted further that avoidance of risk is often not feasible, especially for a business enterprise, therefore, means are sought to reduce the dimension of the risk through pre-loss measures that enable prevention of error, fraud and unauthorized lending. He also viewed credit control from a broader perspective, explaining that, businesses deploy credit control systems to ensure that they sell on credit only to customers who have the capacity to pay as at when due and to also ensure that customers actually pay on time. The study expatiated further that credit control is a dynamic preventive tool that prevents the business from suffering illiquidity due to improper and reckless issuance of credit to customers. The study also noted that credit control operates with a number of benchmarks including, credit approval, credit approval limit, disbursement approvals as well as collection process. According to Flannery and Ragan (2002) and Kithinji (2010), setting the credit policy is a control function. In their work, they carried out an in-depth review of credit policy setting up and implementation, the study pointed out the objectives of a sound credit policy which include, establishment of a minimum set of standards, improvement in prudential oversight of loan quality adoption of a common methodology and language. Other objectives identified include, setting procedures for risk assessment, loan pricing, loan documentation, collateral documentation, authorization levels and professional ethics. These procedures are expected to result in standard workflow for identification, measurement and reporting of non-performing loans, as well as loan classification and provisioning. Other authors like Ikpefan (2013), Ugoani  (2016) also concurred that the credit policy should set out the bank’s lending objectives, philosophy, approach, specific procedures and strategies for monitoring the lending process. The board and management have responsibilities to put the credit policy in place and in line with regulatory requirements, the policy must be subjected to periodical review to ensure that it is in tune with economic developments, emerging risk and market realities. This position was corroborated by Kithinji (2010), who asserted that the board and management have responsibilities to set up the bank’s strategies and procedures for loan portfolio management, lending limits, the loan monitoring and review process, the credit approval process, the loan classification and provisioning process as well as remedial asset management process, all in a well-documented set of credit procedures and policies, while policy implementation must also be enforced consistently and policy breach reduced to the barest possible. For credit control or any internal control frameworks to work effectively, the control environment must be suitable. According to Deshmukh (2004), the control environment has a lot to do with the people, it therefore constitutes a foundation for the fundamentals of a solid internal control system. The author posits further that control environment impacts the attitudes of the people in charge of the organization towards the controls. There is a tendency that the tone set at the top would quickly permeate the entire organization. To this effect, for any system of internal control to be effective, it must have the active support of top management. The study identified the different components of a sound control environment as including, commitment of management to ethics and integrity, the operating style and philosophy of management, complexity of the organizational structure, the quality and scope of board oversight functions, impact of audit committee and internal auditors, procedures for delegating responsibility and authority, human capital policies and procedures as well as external influences This research work shows that credit control functions as performed by Nigerian commercial banks involve, setting up of credit policy, communicating terms and conditions of credit approval via a formal offer letter, ensuring compliance with all terms and conditions of loan offer before disbursement and enforcement of loan approval limits. The formal credit offer letter usually addresses issues such as; name of borrower , name of lender, amount of credit approved otherwise known as approved credit limit, loan purpose, loan tenor, borrower’s business sector, loan pricing comprising of interest and fee rates which must be in line with the Bankers Rate Guide (or Guide 65  to Bank Charges), terms of loan repayment, security or collateral offered, moratorium period (if any), transaction dynamics, conditions preceding loan disbursement, conditions after loan disbursement, other loan covenants and pledges, definition of default, credit breach and terms of debt recovery, loan acceptance deadline, loan validity period and memorandum of acceptance among others. The loan offer letter is usually signed by two authorized signatories of the bank while the memorandum of acceptance must be executed by the loan obligor and returned to the bank within the stipulated deadline, otherwise, the customer is deemed to have rejected the offer

**2.4 SUPERVISORY AND REGULATORY ROLES**

Supervisory and Regulatory Roles The Nigerian banking system is regulated by two main structures namely the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) under the instrumentality of the CBN Act of 1999, the NDIC Act of 1988 and the Bank and Other Financial Institutions Act (BOFIA) of 1951, the Prudential Guidelines, the Bankers Guide and various Circulars issued from time to time on need basis. The focus of this study is on the CBN, NDIC, the Prudential Guide and relevant circulars; According to Chiejine (2010), the Central Bank of Nigeria is at the helm of the supervisory and regulatory system in Nigeria. This implies that, in order to ensure a safe and stable economy, they have the responsibility to deploy appropriate monetary mechanisms to efficiently regulate activities in the financial system and these responsibilities are shared between the CBN and NDIC for the regulation and supervision of all insured banks. The study found out that the two regulatory agencies have successfully fostered mutually convenient working relationship that promotes remarkable cooperation on the job, facilitates efficient deployment of supervisory and surveillance strategies. Supervisory overlap has also been successfully prevented and a highly credible data sharing and information management system has also been put in place. The study is however silent on occasions where the two agencies have cause to conduct joint risk based examination of insured banks, this study found out that this takes place via the constitution of joint teams, team leadership is shared on rotational basis between the two agencies and the supervisory exercise, the reporting and follow up activities are always conducted seamlessly, on the strength of the mutual work relationship that has been put in place. Differentiating between supervision and regulation, Chiejine (2010) submitted that bank supervision entails the on-site examination of the records and off-site surveillance of the activities, 66  analysis of periodically rendered prudential returns and affairs of the banks, from which exceptions are escalated and recommendations are made on steps to take to rectify the identified lapses. Bank regulation on the other hand refers to the process of providing inputs into development and interpretation of legislations and regulations, issuance of guidelines and approval of requests from regulated financial institutions. Routine site and off-site examinations or risk-based supervisions are conducted at intervals to ensure strict implementation of regulatory measures emanating from the corridors of the regulatory authorities The Nigerian Deposit Insurance Corporation (NDIC) The primary function of the Nigerian Deposit Insurance Corporation (NDIC) which came into existence in 1988, is mainly to provide insurance cover for all deposit liabilities and assist monetary authorities to ensure sound and healthy banking practice. According to Iganiga (2010), the main purpose of establishing deposit insurance systems is to provide protection for the banking industry against possible bank run, that is, unrestricted withdrawal of cash by savers that is capable of crippling the financial intermediation process, disrupting the payment system and causing severe macro-economic adversities. These systems of implicit formal and explicit informal deposit insurance schemes also protect small depositors from losses in the event of bank failure and give the nation a formal and consistent mechanism for resolving failing bank situations. Iganiga (2010) asserted that the establishment of NDIC was informed by economic circumstance under the Structural Adjustment Programme (SAP), especially policies relating to banks shareholders support and because of the bitter experience of previous bank failures in Nigeria and the lesson of other countries with bank deposit insurance scheme. Commenting on the functions of NDIC Iganiga (2010) observed that the NDIC was established by Decree No 22 of 1988 and charged with the following responsibilities: Deposit insurance: NDIC has the responsibility to insure all licensed banks’ deposit liabilities as well as those of such other financial institutions operating in Nigeria. The aim is to engender confidence in the Nigerian banking system. However, certain types of deposit liabilities are exempted from deposit insurance, these include, deposit of staff, otherwise known as insider deposit. The second is counter claims, that is, where a customer collateralizes one account with another. 67  Giving assistance : Another duty of NDJC is to render assistance to protect depositors’ interest, especially, in the event that actual or imminent difficulties befall banks, particularly where there is need to prevent damage to public confidence in the banking system, as a result of payment capacity becoming threatened Such assistance could take the form of, NDIC having to take over the management of a distressed bank, implement specific changes in the management of distressed bank or carry out a merger with another bank. Guaranteeing payments: The NDIC also has the responsibility to guaranteeing payments to depositors up to an insured sum of N50,000 of assessable deposit. This will happen in the event of actual or imminent suspension of payment by insured banks or financial institutions. Assisting monetary authorities: In order to ensure sound banking practice and fair competition among banks in the country, NDIC is also required to assist monetary authorities in the formulation and implementation of banking policies. NDIC has been doing well thus far, it generates annual premium of 1% of total deposit from all insured banks to run its affairs. In years 1994 and 2006, the positive impact of NDIC was brought to focus, when more than half of the nation’s banks and other financial institutions were submerged in distress. NDIC also played prominent roles during the bank consolidation exercise of 2004 – 2005 respectively. (Iganiga 2010) The Central Bank of Nigeria (CBN) The Central Bank of Nigeria (CBN) is the apex bank in Nigeria. The bank was incorporated via the CBN Act of 1958. The Act was repealed, thirty two years after, by the CBN Act No 24 of 1991. According to Iganiga (2010), the CBN Act of 1991 was further amended in 1998 and 1999. The amendments granted further autonomy to CBN in the formulation and implementation of monetary and financial policies. The powers of CBN were also significantly enlarged with respect to the maintenance of monetary stability and a sound financial system. Contributing to the statutory status of the CBN, Adewoyin (2006) and Chiejine (2010) identified the prominent role of CBN in the Nigerian financial landscape, stressing that, as the apex regulatory authority of the Nigerian financial system, CBN was established by the CBN Act of 1958 (amended in 1991, 1993, 1997, 1998 1999 and 2007) and commenced operations on July 1st 1959. The study further revealed that the promulgation of the CBN Decree 24 and Banks and 68  Other Financial Institutions (BOFI) Decree 25, both in 1991 enable the bank to operate with greater flexibility in the functions of supervising and regulating the banking industry as well as licensing finance companies which previously operated outside any regulatory system. The study further noted that the statutory mandates or principal functions of the CBN as laid down by the Federal Government of Nigeria are four and these include, issuance of legal tender currency in Nigeria, maintenance of external reserves to protect the global value of the domestic currency, promoting a sound financial system and monetary stability in Nigeria and acting as financial adviser and banker to the Federal Government. The CBN has a number of other functions such as; administration of the Banks and Other Financial Institutions (BOFI) Act (1991), which involves; facilitating a dynamic payment system, ensuring that banking operations meet global standard and promoting financial stability through its supervision mechanisms. Chude and Chude (2014) noted that the Bank and Other Financial Institutions Act 1991 (as amended), empowers the CBN as the apex regulatory agency in the financial system to carry out regulatory supervision of licensed banks in order to stimulate a strong economic system. He also referred to Section 2c of the CBN Act 1991, as amended. Bank supervision can be off-site, that is, reviewing regulatory returns rendered by banks to the apex bank or on-site which involves visiting the banks to conduct a test of the accuracy and completeness of their records, adequacy of asset valuation, compliance with prudential guide and corporate governance codes as well as quality of internal control and management. The Basel Capital Accord prescribes that, as part of measures to achieve convergence in examination strategy, modern day supervisory approach has changed from compliance-based (ie; compliance with laws, policies and procedures) to risk-based (which involves focusing on risk profiling of a bank’s operations on a holistic basis to identify and prioritize exposures). This is in view of the enormous responsibilities placed on supervisors to protect the banking system at the macro level to deploy appropriate measures to detect vulnerabilities at the micro level and recommend remedial actions to nip bank crisis in the bud. Commenting further on supervisory role, Adedipe (2010) asserted that, a risk-based supervision will require a lot of technical capabilities on the part of bank examiners in the area of risk management. These involve the ability to identify high risk areas in an examination and determining the method of risk assessment to use which could be the scoring system, judgmental 69  system (principle of risk assessment), the ability to identify reportable risk level and vulnerability and reach conclusion (principles of risk analysis), the ability to ensure that risk strategies of a bank and objectives are achieved (principle of risk mitigation), the ability to develop a collaborative process for judging and monitoring the effectiveness of existing internal controls as control professionals and assessment facilitators and ability to recommend risk management and control practices to bank managers. There is an element of mutual reinforcement in the two-pronged on-site examination and off-site surveillance activities of the CBN. According to Chiejine (2010) the two functions are mutually reinforcing and are designed to timely identify and diagnose emerging problems in individual banks, the aim is to prescribe the most efficient resolution option: On-site examination: this could be by way of routine examination, involving regular physical examination of bank books and affairs with the aim of ascertaining the financial condition as well as level of compliance with prescribed rules and regulations. It could also take the form of target or special examination conducted to examine specific aspects of a bank’s operations. On-site examinations are intense and are conducted on a cycle of once a year for every bank and shorter interval for problem banks. The study also identified three types of supervision namely; transaction-based, consolidated and risk-based supervision. Off-site examination: this involves monitoring trends and developments in the banking sector as a whole and generating industry reports on monthly and quarterly basis. It also has to do with the use of prudential reports, statutory returns and other relevant information to carry out a review and analysis of the financial condition of banks. According to Pyle (1997), in view of the ability of a sophisticated manager to window dress a bank’s position at short notice, regulators are also advised to monitor the intraday total risk and deploy appropriate technology and other resources to enable them accomplish this. The Regulatory Instruments The regulatory instruments comprise mostly of the Prudential Guidelines, the Banks and Other Financial Institutions Act (BOFIA) and various regulatory circulars issued from time to time to keep the system abreast of economic trend, global developments and macreo-economic changes

**2.5 THE BANKS AND OTHER FINANCIAL INSTITUTIONS ACT**:

The banking system is regulated and legally administered via the BOFIA which was promulgated as the Banking Decree of 1969 and later repealed by the BOFIA Act No 25 of 1991. The Prudential Guidelines for Deposit Money Banks: According to Iganiga (2010), the first prudential guidelines were issued by CBN in November 1990 and the aim was to ensure a sound, safe and stable banking system in Nigeria. It is also meant to serve as a guide to banks in ensuring a more prudent approach in their loan classification, provisioning for non-performing loans, and credit portfolio disclosure and interest accrual on non-performing assets. Secondly, it is meant to ensure uniformity of the banks’ approaches in the functions listed above and ensure the reliability of published accounting information and operation. The Prudential Guideline was amended on July 01, 2010. The aim of the revised prudential guidelines is to address various aspects of bank operations, such as risk management, corporate governance, KYC, anti-money laundering/counter financing of terrorism and loan loss provisioning. The guidelines also aim to address the peculiarities of certain different loan types, that is the specialized loans and financing of different sectors of the economy (CBN Prudential Guidelines 2010). The 2010 prudential guide categorized some loans as specialized loans and gave special parameters for non-performing classification and loss provisioning on such loans.

**2.4 CONCEPT OF BAD DEBT IN COMMERCIAL BANKS**

The health of a bank’s loan portfolio can be affected by the variation in the credit risk affecting the overall performance of the bank (Sufian, 2009). This argument was further supported by Duca and Mclaughlin (1990) as cited in Owojori, Akintoye and Adidu (2011)that a large scale variation in bank’s profitability can be ascribed to variations in credit risk  management. Banks that are largely exposed to credit risk resulting to reduction in their profitability. Miller and Noulas (1997) are of the view that so long as the banks has exposure in a debt is said to be bad when there is no hope of recovering the amount from the debtor. As soon as a debt is recognized to de bad, it should be transferred from the debtor’s account to the debit of an account called Bad Debts Account (Inanga et al, 2001). In banks, a bad debt is normally written off as a loss and classified as an expense because the debt owed the bank is unable to be collected and all reasonable efforts have been exhausted to collect the amount owed. Before a debt can become bad it will be doubted by the bank of recovery. After the bank is sure that the debt is irrecoverable, then it becomes a bad debt. Kent (1960) agreed that an account does not becomes bad overnight at it must have shown some red signs for some time. He pointed out that it is the banker’s duty to show considerable interest in such accounts because large volume of credit is likely going to give rise to a large account of bad debts if the credit is not well analyzed and managed. Therefore a credit manager should focus on desirable loan.

According Holden (1995), a loan is desirable when it falls within the operation area of the bank. A profitable loan or lending is the one that will be repaid and would not be detrimental to the growth and development of the bank in particular but which would also promote the economic growth and development of the community in general. Generally, loan is desirable and suitable only if it is in accordance with the government directive and bank policy. This was buttressed by Nwankwo (1991) who stated that effective lending is that which maximizes profitability, liquidity and security requirements of the banker and the development of the economy.

**2.5 OVERVIEW OF COMMERCIAL BANKS CREDIT MANAGEMENT**

One of the primary functions of commercial banks is the extension of credit to worthy customers. Credit management covers the process of monitoring the uses of credit funds until they are fully repaid to the lending bank. According to (Attah ,1998), credit is the right to receive payment on demand or the obligation to make payment on demand or at a future time on account of the immediate transfer of goods or money. This is generally based upon the confidence which the creditor reposes on the ability to pay, the right to receive payment and the obligation to make payment originate simultaneously in credit transaction. Attah, further stated that granting credit to customers is a noble objective since both parties stand to benefit from such transaction. However, the issues of faithfulness and unassessed investment risk have made the otherwise good relationship to become something worrisome. 10 (Abole, 1998), equally states that lending is the primary function of banks and customer benefit from lending since the major purpose of lending is to improve the socio-economic advancement of the country. (Ohikhumen,1996), states that credit management focuses on the formulation of the company’s overall objectives, approval or otherwise of credit request, granting of credits, recording the transactions, collection of debts and accounting for those that have become bad debt. (Adekanye ,1986), views lending administration as a major control measure that the bank uses to regulate lending. Banks liquidity and profitability are based on its ability to effectively and efficiently administer its lending policy. This is why credit administration should not be limited to position of loan. Advances and overdrafts to customers is one of the most essential and lucrative aspects of banking (Umole ,1985). These facilities are granted to deserving subjects due to availability of funds, provision of adequate security and compliance to credit policy. Risk management is very significant to the operation of any business entity due to the serious consequence that occurrence of risk portends. It implies that for a business organization to be rest assured of the achievement of its management based on survival and growth, risk management becomes imperative (Nwankwo, 1991). Risk management does not mean minimizing risk totally rather the goal of risk management is to optimize risk reward.

This has evolved from being a pure accounting function into a front-end customer facing function (Henry, 2003). It involves screening of customers and only those who are worthy are allowed to do business. A sound review of accounting position of the customers and understanding of their businesses is the first step in ensuring that a customer does not default in paying back. Corley (2000) stated that credit is a crucial factor in the growth process of any economy and that by lending, banks provide a valuable service to the community as they serve as a medium through which those who have idle money can transfer it to those who can put it to constructive use without any fear. Through this action, commercial banks render great service not only to the borrowers, but the economy at large because production is increased, capital investments are expanded and higher standard of living is realized, hence, the monetary authorities pay greater attention to the level of banks’ loan and advances. It is on this basis that bankers should not be left uncovered but must ask for adequate collateral securities as a manifestation of the customers’ confidence in his/her project and as something upon which the banker can fall upon if things go wrong and expected results are not achieved. In this connection, it must be emphasized that the banker is lending other peoples’ money and therefore must have something in return to show for it. Nevertheless, the bank should not rely only on security while making decisions as to lend or not but an effective credit analysis or investigation must be carried out. Nwankwo (1991) therefore outlined the factors to be considered in credit investigation and management. They are character, capital, capacity, collateral, conditions and management. Security therefore should not be used as a substitute to prudent and thorough credit analysis. Securities for bank lending are based principally on trust and faith in the customer and his/her business, the subject matter for which the loan is been sought.

Orji (1989) also asserted that the type of security to be obtained by a bank depends on the amount of the credit, the duration of repayment and the nature of transaction. It is also worthy to note that it is the type of security that determines the type of legal documentation for the credit given. The common types of securities for bank credit include: lien, pledge and hypothecation, mortgage, landed property, shares certificates and life policy.

* 1. **CREDIT RISK MANAGEMENT STRATEGIES**

The credit risk management strategies are procedures banks adopted in the mitigation or reducing the negative effect of credit risk. A comprehensive credit risk management structure is vital because it helps increase the revenue and survival. The main ideologies in credit risk management strategies take the following form. They include formation of a clear structure, delegation of powers, discipline, and communication at all level and holding people accountable. (Kolapo et al., 2012) The credit risk management strategies are measures employed by banks to avoid or minimize the adverse effect of credit risk. A sound credit risk management framework as stated above is crucial for banks so as to enhance profitability guarantee survival. The key principles in credit risk management process are sequenced as follows:

1. Selection According to Gestel et al. (2009), a sound credit risk management begins with a proper choosing of borrowers and the products that suit them. For this to be possible, a competent loan officers and Operative models of estimating risk should be in place. This is a very crucial stage because decisions are taken by the entire committee member. Here, borrowers that are likely to default are either denied or asked to secure the loan with more collateral to limit the effect of default.
2. Limitation Gestel et al. (2009) stated that this method aids the bank by reducing the amount of loss suffered from a borrower. It prevents the event where the failure of counterparty to meet his or her obligation will heavily affect the financial performance of the bank. The number of riskier transactions is brought to the bearer minimal.
3. Diversification Here, banks should deal with different counterparties ranging from individuals, industries. This helps to spread the risk across various borrowers so that banks can reduce the impact of loss; it is much workable for large and international banks. That is, managing credit risk through risk diversification or spread.
4. Credit Enhancement According to (Gestel et al., 2009) when a bank realizes it is exposed to too much risk when dealing with a particular kind of borrower; it solves this by acquiring an insurance policy to cover for the any future losses. Through this, the quality of the loan facility is improved. It is called credit risk mitigation.
5. Compliance to Basel Accord Basel committee on Banking Supervision enlarges the procedures through which a bank can manage its exposure to credit risk.

One of the principles is constantly changing and reviewing their credit risk policies to suit the prevailing economic trend in the country. This can be done by the introduction of new products and services. Secondly, banks should investigate their borrowers properly. This will lead to a better understanding of the customer they are dealing with. These strategies do not prevent credit risk totally; however they can reduce the level of credit risk the banks are exposure to. And this will increase the profitability performance of the banks. This, to some extent, could enable market participants to assess the bank’s risk profile and level of capitalization.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 INTRODUCTION**

This chapter deals with the methods the researchers used in gathering and analyzing data collected. As to achieve a good result of this research work, the data collected must be reliable, credible and relevant. Therefore, techniques or methods which will be convenient to use were employed under specific situations to give an accurate, valid, logical and satisfactory analyses of the data. This chapter includes the following;

* Area of Study
* Sampling Size and Techniques Used
* Types of Data
* Techniques or Methods of Data Collection
* Order or Tools of Data Presentation

**3.2 RESEARCH DESIGN**

According to kinnear (1989:133), research design is the basic plan which guides the data collection and analysis phases of a research project. It is the framework which specifies the type of information to be collected and source of data collection procedure.

**3.3 AREA OF STUDY**

The researchers chose the Zenith Bank, one of Nigeria’s Apex Banks as the area of study. This enabled the researchers to seek relevant information to be able to come out with relevant findings, conclusions and recommendations.

**3.3 POPULATION OF THE STUDY**

The population of this research work consists of 160 workers of Zenith Bank.

**3.4 SAMPLE SIZE/SAMPLING TECHNIQUES**

The sample size comprise of 50 workers was drown from the population. For this research work, purposive sampling method was used to collect information. This method was used since the researchers worked with small samples in the case study and thus selected cases that are particularly informative.

Purposive or judgmental sampling enables you to select case that will best enable you to answer your research questions and to meet your objectives. Here, the researchers purposely choose respondents who in their opinion are thought to be relevant to the research topic. They selected employees that are judged to be best in expressing of views of the group (Azila-Gbettor, 2008: 79).

**3.4 SOURCE/METHOD OF DATA COLLECTION**

With regards to the data collection procedure, the researchers relied on both primary and secondary data collection.

**PRIMARY DATA**

This refers to data collected expressly for a specific purpose. It is the first recording of information and contains complete and accurate data collected by the researchers themselves. Thus, data is collected through questionnaires, observation and case studies.

**SECONDARY DATA**

This method involves both raw data and published summaries or qualitative and quantitative data and they can be used in both descriptive and explanatory research. These include documentary, survey based secondary data.

**INTERVIEWS**

This is a purposeful discussion between two or more people or it is a form of questioning characterized by the fact that verbal questioning is used as its principal technique of data collection. It can be either through telephone or by face-to-face.

**QUESTIONNAIRES**

According to the oxford advanced learners dictionary (seventh edition), “a questionnaire is a written list of questions that are answered by a number of people so that information can be collected from the answers”. Thus, a questionnaire is a technique of data collection where different people are asked to respond to the same set of questions in a predetermined order. It includes structured interviews and the telephone questions as well as those in which the questions are answered without an interviewer being present.

To have a good presentation to ensure easy understanding and clarification of information collected or gathered, pie charts, percentages and tables were used.

**3.5 VALIDITY AND RELIABILITY OF THE INSTRUMENT**

In science and statistics, validity is the extent to which a concept, conclusion or measurement is well-founded and corresponds accurately to the real world. Reliability is the "consistency" or "repeatability" of research measures. The questionnaires were well designed and the reliability and validity of the information was done by the project supervisor before 100 copies of produced and distributed to the organization under study. Out of the total questionnaire distributed, 50 was duly completed and returned for further findings for the research work.

**3.6 INSTRUMENT FOR DATA ANALYSIS**

The data collected will be presented in tables where necessary percentages will also be computed. The hypothesis will be tested using Chi- square and contingency table.

The formula for chi-square is stated below.

X2 = N

∑ (fo-fe)

Fe

Level of significance = 0.05

Where,

Fo = Observed frequency

Fe = expected frequency

∑ = summation

X2 = computed value of chi-Square

Degree of freedom = K-1

Where K = number of rows

However, if the result of the above formula is greater than the table value of the chi-square at a chosen level of significance and one degree of freedom, it means the value is above the value required for significance, in which case, the null hypothesis will be rejected. But if the reverse is the case, i.e the calculated result less than the table value of chi-square, all other things being equal, and the null hypothesis will be accepted.

**DECISION RULE**

Accept the Null hypothesis (Ho) if the calculated chi-square (X2) value is lesser than the critical chi-square (X2) value (that is, calculated X2 value <critical X2t-value). If on the other hand, the calculated chi-square (X2) is greater than the critical chi-square (X2t-value), the null hypothesis (Ho) will be rejected while the alternative hypothesis (Hi) will be accepted.

**CHAPTER FOUR**

**DATA ANALYSIS AND PRESENTATION**

**4.1 INTRODUCTION**

This chapter aims at presenting the data gathered from the questionnaires administered for the people and personal contacts in relation to the various objectives advanced in the various parts of the study. The data collected on the study is clearly presented and analyzed.

**4.2 PRESENTATION OF DATA**

**PERSONAL DATA**

**Table 4.1 Sex/Gender of Respondent**

|  |  |  |
| --- | --- | --- |
| **GENDER** | **FREQUENCY** | **PERCENTAGE (%)** |
| MALE | 30 | 70 |
| FEMALE | 20 | 30 |
| **TOTAL** | **50** | **100** |

**Source: *Field survey, 2019.***

The table above shows the number of male(s) and female(s) interviewed and those who answered the questionnaires. In all 50 employees were consulted, 70% were male and 30% were female.

**Table 4.2 Age Limit of Respondents**

|  |  |  |
| --- | --- | --- |
| **AGE RANGE** | **FREQUENCY** | **PERCENTAGES (%)** |
| 20-29 | 8 | 16 |
| 30-39 | 13 | 26 |
| 40-49 | 18 | 36 |
| 50-ABOVE | 11 | 22 |
| **TOTAL** | **50** | **100** |

**Source: *Field survey, 2019***

The table above indicates the age range of employees interviewed and consulted with questionnaire. From the table, employees ranging from the ages of 40-49 are majority.

**Table 4.3 Educational Level of Respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| **EDUCATIONAL LEVEL** | **FREQUENCY** | **PERCENTAGE (%)** | **DEGREE** |
| UNIVERSITY/POLYTECHNIC | 25 | 50 | 180 |
| PROFESSIONAL | 15 | 30 | 108 |
| OTHERS | 10 | 20 | 72 |
| **TOTAL** | **50** | **100** | **360** |

**Source: *Field survey, 2019***

Table 4.3 above indicates the educational level of employees who responded to the interview and questionnaires.

**4.3 TESTING OF HYPOTHESES**

This section deals with the testing of the hypothesis associated with the research work. Hypotheses can either be Null hypotheses (Ho) or the Alternative hypotheses (Ha).

The hypothesis shall be based on 5% level of significance where the table value of 1 from degree of freedom= (n-1) is 3.841.

**TEST OF HYPOTHESES I**

**Ho:** There is no significant relationship between bad loan debt and Nigerian commercial Banks profitability

**Hi:** There is significant relationship between bad loan debt and Nigerian commercial Banks profitability

To test this hypothesis, the researcher employed the statistical (x²) chi-square test as follows

X2 = N

∑ (fo-fe)

Fe

Level of significance = 0.05

Where,

Fo = Observed frequency

Fe = expected frequency

∑ = summation

X2 = computed value of chi-Square

Degree of freedom = K-1

Where K = number of rows

**A Response to Hypothesis One**

Table 4.2.1

Do you think that bad loan debt has a significant effect on the profitability of banks?

|  |  |  |
| --- | --- | --- |
| **RESPONDENTS** | **NO. OF RESPONDENTS** | **PERCENTAGE (%)** |
| Yes | 40 | 80 |
| No | 10 | 20 |
| Total | 50 | 100 |

**Source: Data from field survey (2019)**

Using x²

Σ = 50 = 25

2

x² = Σ(o-e)²

e

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **O** | **E** | **O-E** | **(O-E)²** | **(O-E)²**  **E** |
| 40 | 25 | 15 | 225 | 9 |
| 10 | 25 | -15 | 225 | 9 |
|  |  |  |  | 18 |

X² calculated = 18

Level of significance = 5%

Degree of freedom = n-1 = 2-1 = 1

x² = 3.841 at 1 degree of freedom (0.05) level of significance.

**DECISION RULE:**

Since x² calculated value is greater than tabulated value 3.841 required for 5% of significance for one degree.

**CONCLUSION**

Based on the above analysis, the researcher rejects the null hypothesis (Ho) and accepts the alternative hypothesis (Ha) we therefore conclude that there is significant relationship between bad loan debt and Nigerian commercial Banks profitability.

**HYPOTHESIS TWO**

**Ho:** There is no significant relationship between bad debt and performance of banks in Nigeria.

**Ho:** There is significant relationship between bad debt and performance of banks in Nigeria.

**Do you think that when rating the performance of banks, bad debts loan can contribute to its low performance?**

|  |  |  |
| --- | --- | --- |
| **RESPONDENTS** | **NO. OF RESPONDENTS** | **PERCENTAGE (%)** |
| Yes | 45 | 90 |
| No | 5 | 10 |
| Total | 50 | 100 |

**Source: Data from field survey (2019)**

Using x² = Σ (o-e)²

E

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **O** | **E** | **O-E** | **(O-E)2** | **(O-E)²**  **E** |
| 45 | 25 | 20 | 400 | 16 |
| 5 | 25 | -20 | 400 | 16 |
|  |  |  |  | 32 |

X² calculated value = 32

Level of significance = 5%

Degree of freedom = n-1 = 2-1 = 1

**DECISION RULE**

The calculated value of x² 32 is greater than the tabulated critical value 3.841 required for 5% level of significance of 1 degree.

**CONCLUSION**

Based on the above analysis, the researcher rejects the null hypothesis (Ho) and accepts the alternative (Ha) we therefore conclude that there is significant relationship between bad debt and performance of banks in Nigeria.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to reiterate that the objective of this study was to examine the Impact of Bad Debt in Commercial Bank Lending in Nigeria.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in examining the Impact of Bad Debt in Commercial Bank Lending in Nigeria.

* 1. **Summary**

This study was undertaken to examine the Impact of Bad Debt in Commercial Bank Lending in Nigeria. The study opened with chapter one where the statement of the problem was clearly defined. The study objectives and research hypotheses were defined and formulated respectively. The study reviewed related and relevant literatures. The chapter two gave the conceptual framework, empirical and theoretical studies. The third chapter described the methodology employed by the researcher in collecting both the primary and the secondary data. The research method employed here is the descriptive survey method. The study analyzed and presented the data collected in tables and tested the hypotheses using chi-square statistical tool. While the fifth chapter gives the study summary and conclusion.

**5.3 CONCLUSIONS**

The study identified some of the most significant causes of bank debt through the use of annual reports of banks. This is summarized as follows:

The findings revealed that bad loan debt has a significant effect on the profitability of Nigerian banks. It concluded that banks’ profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Therefore, a significant relationship exists between bad loan debt and banks’ profitability. Bad debts destroy loan which are the essential determinants of the liquidity and ultimate solvency of the bank. They are the source of earning as well and it is these earnings that translate into cash for banks primary motive which is profitability.

**5.4 RECOMMENDATION**

This study has investigated many issues both empirically and in literature and based on the findings, certain conclusion has been drawn. This section further extends frontiers of the study by putting up some recommendations generally intended towards improving the efficacy of bad loan debt in Nigerian banks. The following specific recommendations are deemed appropriate:

* 1. Banks should ensure that loans given out to customers should be adequately reviewed from time to time to assess the level of its risk and such loan should be backed by collateral security.
  2. The regulatory authority should pay more attention to banks’ compliance to relevant provisions of the Bank and other Financial Institutions Act (1999) and prudential guidelines.
  3. Reduction of interest rates on lending.
  4. Banks should enhance their capacity in credit analysis, policies and loan administration.

e. Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

f. Assessment and the continuous monitoring of counterparty and portfolio to know when loan is becoming non-performing.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age of Respondent
2. 21-30 { }
3. 31-40 { }
4. 41-50 { }
5. Educational Status
6. None [ ]
7. FSLC [ ]
8. BSC [ ]

Others……………………………….

**SECTION B**

1. There are impacts created by bad debts on commercial banks leading on Nigeria economy.
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Banks really are aware of the positive and negative effect/impact of bad debts.

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. There are problems posed by bad debts on the commercial banking sector and on the economy in general as regards bank leading.
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is a significant relationship between peer group and the attitude towards abortion among female university students.
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. There is no significant relationship between bad debt provision and profit, hence the effect on individual and on investment growth in the economy.
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. There are policies governing issues on bad debts on commercial leading on Nigeria economy.
16. Agreed { }
17. Strongly agreed { }
18. Disagreed { }
19. Strongly disagreed { }
20. These policies governing issues on bad debts do they vary from one commercial bank to the other.
21. Agreed { }
22. Strongly agreed { }
23. Disagreed { }
24. Strongly disagreed { }
25. These policies governing issues on bad debts are constant.
26. Agreed { }
27. Strongly agreed { }
28. Disagreed { }
29. Strongly disagreed { }
30. There is a significant relationship between bad debt and performance of banks in Nigeria.
31. Agreed { }
32. Strongly agreed { }
33. Disagreed { }
34. Strongly disagreed { }