**IMPACT OF CREDIT MANAGEMENT IN THE BANKING INDUSTRY**

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 **Abstract**

This study is on impact of credit management in the banking industry. The total population for the study is 200 staff of first banks in Akwa Ibom State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customers care officers and marketers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

 **CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Credit management in our banking sector today has taken a different dimension from what it used to be. The banking industry has adopted a lot of strategies in checking credit management in order to stay in business. Thu the banking industry in Nigeria has lost large amount of money as a result of the turning source of credit exposure and taken interest rate position. Nigerian banks are being required in the market because of their competence to provide transaction efficiency, market knowledge and funding capability. To perform these roles, the banks act as the most important participants in their transaction process of which they use their own balance sheet to make it easier and making sure that their associated risk is absorbed.  Credit extension is essential function of banks and the bank management strive to satisfy the legitimate credit needs of the community it tends to serve. This credit advances by banks as a debtor to the depositor requires exercising prudence in handling the funds of depositors. The Central Bank of Nigeria established a credit act in 1990 which empowered banks to render returns to the credit risk management system in respect to its entire customers with aggregate outstanding debit balance of one million naira and above (Ijaiya G.T and Abdulraheem A (2000). This made Nigerian banks to universally embark on upgrading their control system and risk management because this coincidental activity is recognized as the industry physiological weakness to financial risk. The researcher, a New yolk-based, said that 40% of Nigerian banks that made up exchange rate value in west Africa, has reduced the operating lending as a result of bad debts which hit more than $10 billion in 2009 and this has led to a tied-up questioning asset that is holding almost half of Nigerian banks. The central bank of Nigeria fired eight chief executive officers and set aside $ 4.1 billion in order to bail out almost 10 of the country‟s lenders. The reform which was introduced by Central Bank of Nigeria (CBN) in 2010 has made Nigerian banks resume lending supporting assets management companies and set up  the requirement which will allow Nigerian  banks make full provision for bad debts that will boost the market. The banks identify the existence of destructive debtors in the banking system whose method involved responding to their debt obligations in some banks and tried to have contract of new debts in other banks. Banks are trying to make the database of credit risk management system more open for them to be more functional and recognized as to enable banks to enquire or render statutory returns on borrowers. There are some banking practices which increase the risks in the bank and cannot be easily changed. This result still leads to the question: what are the possible ways that will help make Nigerian banks manage their credit risks? Credit risk management helps credit expert to know when to accept a credit applicant as to avoid destroying the banks reputation and making decision in order to explore unavoidable credit risk which gives more profit. Controlling a risk results in encouraging rewards that give internal audit more technical support service and customized training in banks or financial institutions. This research is presented to outline, find, investigate and report different state of techniques in risk management in the banking industry.

**1.2 STATEMENT OF THE PROBLEM**

In the history of development of the Nigerian banking industry, it can be seen that most of the failures experienced in the industry prior to the consolidation era were results of imprudent lending that finally led to bad loans and some other unethical factors (Job, A.A Ogundepo A and Olanirul (2008)). Also the problem of poor attention given to distribution of loans has its effect on the bank’s performance. Most of the people collected loan from the banks and diverted the money to unprofitable ventures. Some bankers are not actually considering the necessary criteria for disbursement of loans to the customer. This work therefore intends to outline, explain these problems identify the causes and suggests lasting solutions to the problems associated with credit management and consequently banks debts.

* 1. **OBJECTIVE OF THE STUDY**

The objectives of this study is as follows

1. To examine how feasibility study affect loan repayment in the banking industry.
2. To highlight the extent in which diversion of bank loans to unprofitable ventures affect loan repayment.
3. To examine how distribution of loans affect banks performance if banks give proper attention.
	1. **RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** Inadequate feasibility study does not affect loan repayment in banking industry.

**H1:** Inadequate feasibility study affects loan repayment in banking industry.

**H02:**  The diversion of bank loans to unprofitably ventures does not affect loan repayment.

**H2:** The diversion of bank loans to unprofitably ventures affects loan repayment.

* 1. **SIGNIFICANCE OF THE STUDY**

This study will be useful to the executive and managers in the banking industry and other financial institutions. This is because it provides guidance which will enhance effect and efficient credit management aimed at attaining and boosting maximum profitability and liquidity in their banks. The depositor (public) on the other hand will be more enlightened on the need to be honest and fulfil the responsibilities in credit transaction with the banks so that they can look up to improve service from the banks. Finally to the researcher, this is an eye opener because as a potential manager it will guide one in future on how to manage credit facilities.

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

This study is aimed at analysing the credit management in the banking industry in Nigeria with a particular reference to First Bank of Nigeria plc. The study intends to analyse the credit facilities in banking industry. It also reviews the various concepts procedures for efficient and effective credit management. It examines the success and failure (if any) as well as recommending corrective measure. The researcher encounters some constrain which limited the scope of the study;

 **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.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities

**1.7 DEFINITION OF THE STUDY**

**CREDIT MANAGEMENT:** Credit management is the process of granting credit, the terms it's granted on and recovering this credit when it's due. This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

**BANKING INDUSTRY:** A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern 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**

Financial institutions, which are composed of banks, micro finances, and insurances, have comprehensive roles in serving the needs of the society within the economy. The service is rendered through providing three major financial functions: intermediation, or allocation, operational and payment systems. Operational and allocation functions are the provisions of financial resources to meet borrowing needs of individuals and other economic agents. The main microeconomic function of banks is the provision of facilities to collect deposits and invest these deposits as credits. Provision of a sound payment mechanism is also the other expected service from banks. Hence, the performance of banks is measured in terms of the above major roles of the banking business and relies on the provision of these functions. As Hoff and Stiglitz in 1990 denoted, in the past decades there have been major advances in theoretical understanding of the workings of credit markets. These advances have evolved from a paradigm that emphasis the problems of imperfect information and imperfect enforcement. They pointed out that borrowers and lenders may have differential access to information concerning a business risk, they may form different appraisal of the risk. What is clearly observed in credit market is asymmetric information where the borrower knows the expected return and risk of his/her business, where as the lender such as bank knows only the expected return and risk of the average business in the economy.

**2.2** **PROCESS OF CREDIT MANAGEMENT**

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer’s current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner. When the process of credit management functions efficiently, everyone involved benefits from the effort. The financial institution such as banks has a reasonable amount of assurance that loans granted to a client will be paid back within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong rapport with the creditor and thus create a solid credit reference (http://www.wisegeek.com/what-is-creditmanagement.htm).

**2.3 TYPES OF CREDIT**

There are four basic types of credit. By understanding how each works, financial institutions will be able to get the most solution for their loan recovery and avoid paying unnecessary charges.

**Service credit** is monthly payments for utilities such as telephone, gas, electricity, and water. You often have to pay a deposit, and you may pay a late charge if your payment is not on time.

 **Loans**: Loans can be for small or large amounts and for short or long periods. Loans can be repaid in one lump sum or in several regular installment payments until the amount borrowed and the finance charges are paid in full. Moreover, loans can be secured or unsecured. **Installment credit**: is described as buying on time, financing through the store or the easy payment plan. The borrower takes the goods home in exchange for a promise to pay later. Cars, major appliances, and furniture are often purchased this way. You usually sign a contract, make a down payment, and agree to pay the balance with a specified number of equal payments called installments. The finance charges are included in the payments. The item you purchase may be used as security for the loan.

**Credit cards** are issued by individual retail stores, banks, or businesses. Using a credit card can be the equivalent of an interest-free loan--if you pay for the use of it in full at the end of each month (http://www.urbanext.illinois.edu/ww1/04-03.html).

**2.4 CREDIT POLICIES AND PROCEDURES**

A Credit Policy is not something that is only operated by the Credit and risk Department. All employees involved with customers, in any way, need to be aware of the credit policy and ensure that it is operated consistently (http://www.bwaresolutions.com/). In order to be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances. They should be applied, where appropriate, on a consolidated bank basis and at the level of individual affiliates. In addition, the policies should address equally the important functions of reviewing. Economic conditions and the firm’s credit policies are the chief influences on the level of a firm’s account receivable. Economic conditions, of course, are largely beyond the control of the financial manager. As with other current assets, however, the manager can vary the level of receivables in keeping with the tradeoff between profitability and risk. Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice related to the pricing of the product or service and must be viewed as part of the overall competitive process. The examination of certain policy variables implies that the competitive process is accounted for in the specification of the demand function as well as in the opportunity cost associated with taking on additional receivables. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses (Horne, 1995: 361).

**2.5 CREDIT ANALYSIS**

Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment (or judgmental assessment technique). Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank’s risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower’s ability and willingness to repay. Similarly Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions: 1) what risks are inherent in the operations of the business? 2) What have managers done or failed to do in mitigating those risks? 3) How can a lender structure and control its own risks in supplying funds? The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower’s ability to repay. The second recognizes that repayment is largely a function of decisions made by a borrower. Is management aware of the important risks, and has it responded? As Tomothy (1995:665) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement.

 **2.6 CREDIT INFORMATION**

Adequate and timely information that enables a satisfactory assessment of the creditworthiness of borrowers applying for a bank loan is crucial for making prudent lending decisions. Prudent lending decisions made on the basis of adequate information on the creditworthiness of borrowers are one of the principal factors in ensuring the financial soundness of banks. But, there has been serious difficulty in Ethiopia of getting accurate and timely information on prospective borrowers that facilitates the making of such prudent lending decisions. One of the means for alleviating this difficulty of getting accurate and timely information on prospective borrowers is the establishment of a Credit Information Center (CIC) where relevant information on borrowers is assumed to be pooled and made available to lending banks. According to article 36 of the Licensing and Supervision of Banking Business Proclamation No. 84/1994, the National Bank Ethiopia (NBE) has issued these directives to establish such a Credit Information Center (CIC). Though there is still serious limitations in the accuracy of the credit information extracted the summary of the directive is as follows:

* Banks shall provide, alter and update credit information on each and every one of their borrowers using online system.
* Upon written request by banks, the Supervision Department of the NBE shall provide to the requesting bank, in writing, all credit information available in the Central Database on a prospective borrower within three working days from the date of receipt of the request;
* Access to the Central Database shall be restricted to the user group;
* The role of the NBE shall be restricted to administering the Credit Information Sharing system, providing in writing credit information on borrowers available at Credit Information Center to banks, ensuring that access to online system to update or alter credit information is given only to authorized persons and ensuring that the system is operating smoothly and reliably;
* The NBE shall not be responsible for any damages, claims or liabilities that may arise as a result of inaccurate, misleading or incomplete credit information on borrowers supplied to the Credit Information Center by individual banks and shared, through the NBE, with other banks.
* Each bank shall provide, electronically, the initial credit and other related information to the Credit Information Center on each and every one of its borrower;
* Each bank shall be fully responsible for providing accurate, complete and timely credit information to the Credit Information Center. In cases where errors have been made, such errors shall be corrected promptly by the concerned bank;
* Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of providing inaccurate, misleading or incomplete credit information to the Credit Information Center or failure to provide, inadvertently or otherwise, information to the Center that should have been provided in line with these directives;
* Each bank shall use the credit information on borrowers obtained from the Central Database of the Credit Information Center only and only for making a lending decision. Such information shall be treated with utmost confidentiality and shall not be disclosed to any third party or used for any other purpose;
* Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of disclosure of credit information on borrowers obtained from the Credit Information Center to third parties or use of that information for purposes other than for making a lending decision.

**2.7 RELATIONSHIP BETWEEN CREDIT MANAGEMENT AND FINANCIAL PERFORMANCE**

There are of plethora studies on the relationship between credit management and financial performance of banks in developed and developing economies; however, their results are conflicting and inconclusive. For instance, examine the nexus between credit management and profitability of Deposit Money Banks (DMBs) in Nigeria context for the period of 2006 to 2015. Secondary data were sourced from the Central Bank of Nigeria Statistical Bulletins and the Annual Reports of all the existing DMBs studied. The study employed multiple regression technique in analyzing the data that was gathered, the analysis was done using ordinary least square method. The study found that loans and advances and loan loss provision have positive and insignificant effect on profitability, while non-performing loan has a negative and insignificant effect on profitability. Determine the effect of credit management on the financial performance of commercial banks in Rwanda. The target population of the study consisted of entire population was used as the sample giving a sample size of size of employees. A Purposive sampling technique was used from Equity Bank in the credit department. Structured questionnaires were used to collect data, while descriptive and inferential statistics were used to analyze data. Results revealed that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. Assess the effects of credit management on banks’ performance in Nigeria. Secondary data sourced from annual financial statement of selected ten listed banks covering the period 2007-2011. Both descriptive statistics and econometric analysis were used to analyze the data. Results revealed that ratio of nonperforming loans and bad debt do have a significant negative effect on the performance of banks in Nigeria, on the other hand, the relationship between secured and unsecured loan ratio and bank’s performance was not significant. Assess the credit risk management practices in the Banking Industry of Ghana. The result indicated that the bank has documented policy guidelines on credit risk management with a senior managers having oversight responsibility for implementation. Result also revealed that that there was some implementation challenges of the credit risk policies which have resulted to low quality of loan portfolio of the bank. In another study, examines the impact of credit risk management on financial performance of commercial banks of Bangladesh. Results showed that the relationship between credit risk management and banks profitability is positive. This implies that effective credit risk management contributes significantly to banks financial performance. Using time series data from 2001 – 2011, appraise the impact of the credit risk management in bank’s financial performance in Nepal. The results of the study indicate that credit risk management is an important predictor of banks’ profitability and financial performance. Also examine the credit management of commercial banks of Lianyungang City for the small scale and medium enterprises (SMEs). Result showed that the risk management plan and operation method that really suit for credit demand for the SMEs is still not mature and it caused that the bad debts and dead loan were overstocked in Lianyungang commercial bank. Result also revealed that credit management has negative impact on the performance of the commercial banks. In a similar study, examines the effect of credit management on Wogagen Banks. Results indicated that issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management negatively. Investigates the quantitative effect of credit risk on the performance of commercial banks in Nigeria for the period 2000-2010. Findings from his study showed that the effect of credit risk on bank performance measured by the return on assets of banks is cross sectional invariant. Also, examines the impact of credit risk on the profitability of Nigerian banks. Findings from the study revealed that credit risk management has a significant impact on the profitability of Nigerian banks. In the same vein, investigate the effect of credit risk management techniques on the banks’ performance of unsecured loans. They concluded that financial risk in a banking organization might result in imposition of constraints on bank’s ability to meet its business objectives. In another study, examines the effects of credit risk management on commercial banks profitability in Kenya. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of credit and nonperforming loans suggesting that other variables other than credit and non-performing loans impact on profits. Examine the relationship between credit risk and banks’ profitability. They found a linear relationship between credit risk and bank profitability. Also, examine the association between the performance of banks and credit risk management. Results show that credit risk management has inverse impact on the performance of studied banks.

**2.8 LOANS/CREDIT MANAGEMENT CONCEPT IN NIGERIA BANKS**

 Management has been defined as the process of coordinating, controlling, directing and planning of limited resources to achieve the corporate goal. In managing its loans portfolio, banks are guided by government economic and monetary policies, objectives and the cannons of lending. Foremost the bank’s lending is informed by government economic policy goals as spelt out in the annual budget and defined by CBN Monetary and Credit Guidelines and the Regulatory and Institutional Environment within which its operates. Banks lending ability is dependent on its deposits profile (demand, time and savings deposits) which Marshall and Swanson, (1980); pointed out constitute the largest portion of money supply to the economy. Generally, deposits of customer are repayable on demand except for time deposits which have specific maturity time for repayment. It implies, therefore that sufficient liquidity is required to absorb possible customers’ deposit withdrawals and some required to meet customers’ demand for loan. Loans and advances are the largest earning assets of banks but the objective of liquidity is to meet deposit withdrawals conflict with meeting customers’ demand for loan. Again, Marshall and Swanson, (1980); agrees with this when they opined that the liquidity objective conflict with the objective of profitability in the conduct of Commercial Bank Management “In explaining this conflict further, Nwankwo, (1980); contended that orthodox banker consider he owes two obligations in his daily banking operation; Maximum liquidity to depositor to repay the deposits on demand or as agreed; and maximum profitability to shareholders who has contributed to set up the business. Effective lending /credit in orthodox banking philosophy according to him (Nwankwo), is the successful reconciliation of these two obligations. This philosophy he dismissed is unacceptable in a developing economy and, therefore, advocated a philosophy of creative banking. Effective lending based on this philosophy implies that question of lending which maximizes the bank’s objectives of liquidity, and profitability with the economy’s objectives of maximum development. Over the years, the question of resolving these twin issues of liquidity and meeting customer’s demand for loan have been a great source of concern and this led to the development of various methods of meeting the objectives. The methods have evolved over the years with concepts like commercial loan theory (Real Bill doctrine), shift ability doctrine anticipated Income theory and liability management.

**Commercial loan theory (Real Bill Doctrine)**

 Prior to the World Economic Depression of 1930’s the widely held view about the liquidity question was the real bill doctrine. In this theory, the liquidity question of banks can be resolved by acquiring short- term liquidating loan asset. This implies that meeting customers demand for loans should only be based on granting of loans to customer for short - term financing of their working capital and loan secured by real goods in production, marketing and shipment. The sale of such goods invariably provides the means for liquidating the loans. According to Adewumi, (1980); the real bill doctrine dominates lending practices because there were no enough secondary reserve assets which could have served as alternative liquidity to the Banks. He opined that government bonds in existence as at that time were not really marketable as secondary market were undeveloped or even non- existents. Thus the bank’s source of liquidity a part from cash was their portfolio.

**Shiftabilty Doctrine**

This was developed during the 1920’s and 1930’s with increased holding by banks of marketable securities. To meet customers deposit withdrawals, the shiftability theory of asset management, advocates banks holding of marketable securities so that liquidity could be met by shifting or selling the securities held to other buyers. The theory presupposes a well-developed secondary securities market, Kreps (1972:18), pointed out that the doctrine was viewed by bankers as an improvement of the real bill doctrine. He argued, however, that liquidity can only be generated based on this doctrine in normal times’ as marketable securities may fail to yield the desired liquidity in times of liquidity squeeze. For the doctrine to be fully operationalised, he contended that there must be a lender of last resort, willing and able to lend to banks during the time of liquidity squeeze.

**Liability Management:**

 With the emergence of commercial deposits in 1961, a new approach to the liquidity question in loan management developed. Commercial deposit is an alternative means of raising deposits to meet customer deposits withdrawals. It was thus possible for banks to lend most of their deposit liabilities without being constrained by the size and maturity patterns of such loans. According to Woodworth, (1971); a proper liquidity management entails the generation of enough liquid resources as and when desired, thus eliminating the constraints of earlier concepts. In his speech recently, Ede, (2003), said “according to the contingency plan of the CBN that came into effect 31st July, 2002, a bank that records a liquidity ratio greater than 20% but less than or equal to 25% or a bank whose account with CBN was overdrawn and not covered on the next working day consecutively for five working days within a month, shall have its management invited for discussion on its plan to improve liquidity or request the bank to realize assets that do not qualify for inclusion in the liquidity ratio compilation. Also a bank that records liquidity ratio equal to or less then 10% and is unable to meet its maturity obligation, suffers clearing operation losses for 15 continuous days or up to 20 days during a calendar month shall have its management in or board charged. Also such bank stands suspended from clearing until it makes good its clearing position”. The above measures by CBN is to ensure adequate liquidity to meet up with customers deposit withdrawals as well as demands for loans. The interest earned from loans granted help for the growth of the banks. The various concepts explained above seek to reconcile the bankers’ Trion objectives of liquidity and profitability. According to Marshall and Swanson, (1980); the real bill doctrine emphasizes the need to balance the maturity structure of assets against deposit liabilities. The other concept provided an alternative ways of resolving the liquidity question without being unduly constrained by the maturity patterns of loans.

**Profitability**

 Profit maximization is the primary objective of all business organizations banks as one of the profit oriented organizations tries to maximize profit by minimizing costs, risks and bank loan losses which eventually turns bad. Profits enhance the growth and expansion of any bank and it does constitute retained earnings and dividends. Dividend is the proportion of profit given to share- holders usually at the end of accounting period as returns on their investment. What makes up this profit in lending or credit facilities offered is the rate of interest charged by the banks. So if the banks are able to recover the principal plus the interest charged, then profit is declared as a result of the loan recovered.

**Bad and Doubtful Debt in Banks**

 Bad debts are those credits/loans granted to customers by banks in which the customers are unable to repay. In other words, they are debts owed the banks by customers which are not only uncollectible but also unpayable. Bad debts have over the years brought colossal losses to banks and it has been identified as one factor that is responsible for the recent spate of distress in the banking sector. In spite of all the efforts by the monitoring authorities at observing lending principles and putting in appropriate lending or credit policies, bad debt remain a serious problem of the banking sector.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to impact of credit management in the banking industry

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information impact of credit management in the banking industry. 200 staff of first banks in Akwa Ibom State was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | HRMs | 37 | 27.8 | 27.8 | 27.8 |
| Accountants  | 50 | 37.6 | 37.6 | 65.4 |
| Customers care officers  | 23 | 17.3 | 17.3 | 82.7 |
| Marketers  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 The above tables shown that 37 respondents which represents27.8% of the respondents are human resource managers 50 respondents which represents 37.6 % are accountants 23 respondents which represents 17.3% of the respondents are customers care officers, while 23 respondents which represent 17.3% of the respondents are marketers

**TEST OF HYPOTHESES**

Inadequate feasibility study does not affect loan repayment in banking industry.

 **Table III**

|  |
| --- |
| **Inadequate feasibility study does not affect loan repayment in banking industry.** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Inadequate feasibility study does not affect loan repayment in banking industry. |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis Inadequate feasibility study does not affect loan repayment in banking industry as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that inadequate feasibility study affects loan repayment in banking industry.

**TEST OF HYPOTHESIS TWO**

The diversion of bank loans to unprofitably ventures does not affect loan repayment

Table V

|  |
| --- |
| **The diversion of bank loans to unprofitably ventures does not affect loan repayment**  |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | The diversion of bank loans to unprofitably ventures does not affect loan repayment  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore reject the null hypothesis the diversion of bank loans to unprofitably ventures does not affect loan repayment as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state the diversion of bank loans to unprofitably ventures affect loan repayment

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain impact of credit management in the banking industry

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 addressing the challenges of credit management in the banking industry

 **5.2 Summary**

This study was on impact of credit management in the banking industry. Three objectives were raised which included: To examine how feasibility study affect loan repayment in the banking industry, to highlight the extent in which diversion of bank loans to unprofitable ventures affect loan repayment, to examine how distribution of loans affect banks performance if banks give proper attention. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of first banks in Akwa Ibom State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customers care officers and marketers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

 **5.3 Conclusion**

The researcher concludes that the credit control department has the least personnel and experience across all departments. Given that this area is an essential component to maintain the performance and stability of a financial institution (Finlay, 2006); it appears inefficient of credit unions to not place more emphasis in this area. Even though credit control personnel in the sample credit unions are the most qualified, the findings (Respondent C) and the literature (Posner, 1990) state that experience and training are essential for this area to work effectively and seamlessly. Therefore this research deduces that there are deficiencies in the credit control area of credit unions regarding the level of personnel and their experience

**5.4 Recommendation**

The following recommendations have been made based on the findings of the study: There is the need for a strong policy on the management of banks’ credit facility. This involves the need for control at the various stages of collecting loans and advances in the banks. Furthermore, banks must ensure strict tradeoff between the liquidity and the profitability of the banks. This will ensure strict compliance with the money being kept by the bank and the amount granted for loans and advances. There is the need for an immediate change in the banks’ management style and internal control system of the banks. This will help to enhance the debt recovery method in operation. There should also be close watch of the laonable funds portfolio by the regulatory authorities (CBN, NDIC etc). Furthermore, the formulation and implementation of appropriate economic policies by the government as well as maintaining a stable economic environment will enhance the development of a secured loan and advances portfolio to both the customers and the banks. There is also the need for a proper and well articulated analyses over all collaterals presented for loans and advances. This will help the banks in ensuring that the assets serving as collaterals have the economic value that will cover the loans and advances collected. It will further help the recovery effort in case of any default.

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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 distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been first bank
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in first bank
7. HRM { }
8. Accountant { }
9. Customer care officer { }
10. Marketer { }

(7) How long have you been in first bank?

1. 0-2 years { }
2. 3-5 years { }
3. 6-11 years { }
4. 11 years and above……….

SECTION B

1. There is nothing like credit management in first bank?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is no bad debt in first bank

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. There is no relationship between credit management and bad debt in first bank
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Has inadequate collateral security provision by borrowers caused bad debt in first bank of Nigeria plc?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. There is no impact of credit management in the banking industry
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Government intervention in lending policies of Commercial Banks bank influenced bad debt in first bank of Nigeria Plc?
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Improper project evaluation influenced bad debt of first bank of Nigeria plc?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Fund diversion does not affect bad debt in first Bank of Nigeria Plc.?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. First bank is one of the best banks in Nigeria?
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }