UNIVERSITY OF EDUCATION, WINNEBA

AN ANALYSIS OF RISK ASSOCIATED WITH BANK LENDING

(A CASE STUDY OF ECOBANK, GHANA)

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DECLARATION

CANDIDATE'S DECLARATION

I hereby declare that this project work is the result of my own effort and that no part of it has been presented for another certificate in this university or elsewhere.

SIGNATURE.. DATE....................................

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SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of this project work was supervised in accordance with the guidelines on supervision of the project work laid down by the University of Education, Winneba-Kumasi

SIGNATURE.. DATE.................................

NAME: DR. JOSEPH MBAWUNI

DEDICATION

I dedicate this project work to the Almighty God who in His abundant grace and protection has given me the courage, strength and wisdom through this work, and all those who supported me in diverse ways for the success of this project work.

Special dedication to my son"s - Louis and Eugene who brought me more blessings that I never taught of.

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ABSTRACT

This study examines the credit appraisal process and repayment of Bank loans at Ecobank. Specifically, the study investigates the appropriateness of the credit appraisal process of Ecobank, the relationship between loan officers and customers and the effect of loan officer – customer relationship on the credit appraisal process. The study also identifies strategies to help improve the credit appraisal process of the Bank. A face-to-face household-level survey of 142 respondents is conducted in Ashanti Region, Ghana in 2017 with a structured questionnaire. The subjects for the study are formal and informal sector workers. On the appropriateness of the credit appraisal process, the factors are loan processing time, nature of collateral, loan diversion, credit scoring and evaluation, loan amount disbursement, loan repayment and loan default. The study also finds out the loans department offers excellent reception to all customers irrespective of the loans officer‟s relationship with the customer. Loan officers provide assistance to most customers in completing the loan form and also advise them on how to invest the loan amount in the intended business or project. The relationship between loan officers and customers has almost no effect on loan repayment. Majority of customers who defaults loan repayment has no relationship with loan officers. Also, there should be a thorough screening of the borrowers before loans are disbursed. Further, there should be supervisory visits by credit officers after loans have been disbursed to ensure proper use of the borrowed funds thereby enhancing the chances for higher profitability of enterprises and loan repayment. Also, loan repayment period should be set in accordance with the financial viability of the project, loan size and market situation.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The activities of bank in granting loans to their customers have increased overtime in Ghana and this tend to offer a very significant advantage to their financial performance and development.

Bank lending practices offers benefit to the banking sector in Ghana and also increases financial resources to the creditors for increased capital base for promotion of investment, for economic growth among others. Therefore, if loans are not effectively managed in the banking sector it will have negative effect on banking institutions and the macro economy in general.

It is evident that the major causes of serious banking problems continue to be ineffective credit risk management, the provision of credit still remain the main business of every bank in the World. For this reason, the credit quality in the banking sector of Ghana is considered a primary indicator of financial soundness and health of banks. From the Ghana experience it is believed that default of loans and advances poses serious setbacks not only for customers and the banking sector but also to the entire economy of Ghana.

According to Stuart (2005), the spate of bad loans that is non-performing loans was as high as 35% in most Commercial Banks in Africa between 1999 and 2009.

Umoh (1994) also pointed out that increasing level of non-performing loan rates in bank books, poor loan processing, undue interference in the loan granting process, inadequate or absences of loan collaterals among other things, are linked with poor and ineffective credit risk management that negatively impact on banks profitability. As a result of the likely huge and widespread of economic impact in connection with banks failure, the management of credit risk is a topic of great importance since the core activity of every bank is credit financing.

It is obvious that the subject matter of "risk" assume considerable importance to determine business success and failures, especially in banking of course, the conventional approach to appreciating that fact in financial management is often linked to inverse between the plausible business outcomes, a high risk heads to more profit value and vice versa.

In banking strictly speaking, we can extend this argument to imply that the more a bank achieves and retains liquidity (less risk) the less it gains in profitability (less returns).

Unfortunately, Uncertainty-another variable also affects business outcomes is not easily understood as in the case of „risk" yet we must reckon with the decisive dicey and irrational subjective chances, what do we exactly mean by the term "risk" and "uncertainty"? The answer to these questions forms the basis for the discussion of the overview, which comprise of impact and implications of the term for bank management. The study in this regard wishes to carry out an overview of risk associated with bank lending using Econ bank Ghana as the case study.

1.2 Statement of the Problem

The risks associated with bank lending in Ghana continue to increase. The financial institutions in Ghana have played significant role in the control of risk associated with bank lending. Another problem is the inability of the financial analyst to identify in his credit report that a particular loan request can be associated with certain risks.

Banks are scared of extending loans to customers due to the risk involved. Bank lending even, while considered important is regarded as a risk because of the problems it is associated with. The problem of unpaid loan is a criticism of bank‟s judgment thus; every bank has to employ an analysis financial statement of the borrower at a given period. Most banks are characterized by poor lending which may arise in poor appraising of borrower‟s financial statement. The banks in most cases, share the common belief of customer that, the fact that he is making profit is an open scheme to the heart of the treasury and thus the bank fails to see that there is no simple way of assessing the borrower‟s financial position before lending. In lending activities, it is necessary to see that money for repayment will be available at the appropriate time. The basic problem therefore is the inability of banks to recover their potential borrowers.

The bank‟s ability to lend is sometimes marred by default in repayment of previous loans. If, for instance, a customer borrowed short-term promising to repay the advance after twelve(12) months and at the end of the twelfth (12^{th}) month, he cannot liquid date of the debt, in case of subsequent request for further facilities, the bank (lender) will definitely reflect or delay the proposal. That may even affect other borrowers in the sense that the lender will carry out thorough survey of the proposer‟s credibility before granting the request. This will not only take time but will also affect the project for which the advance is sought.

Finally, certain things can make borrower not to meet up his financial obligations. Example for a corporate customer, poor financial planning or assessment of his business is a sign of bad operations and a signal of default. A customer who runs into more costs than his forecasted profit is bound to fail. It is therefore, the duty of the lender (banker) as a business adviser to let his customer know this in advance. Lack of cash to meet other financial obligations is another cause of business failures. There are many other causes of business failure which might frustrate the borrower"s effort to replace, but we are not dwelling much on such factors as they are not the point in mind.

For personal customers, extravagant spending may affect their loan repayment. Example, if a loan is for raising a building and the borrower diverts it for chieftaincy matters, this means that the purpose of the loan has been defeated and to repay such advance will be difficult for the borrower. This is why the banker (lender) should monitor the project to make sure that the advance is directed to the purpose for which it was granted. It must be stated that a prudent banker always looks into the memorandum and articles of association (if borrow is a limited company) to know the company"s powers to borrow since borrowing outside its powers ultra vires the company and the lender cannot claim.

The lender (banker) must acquaint himself with these factors because they are facts pointing towards default in repayment. If a customer borrows N10m for a period of two years and at the end of the two years he could not repay fully, then the bank will not be able to expand credits and this will eventually affect prospective borrowers,Osayemeh(1986).

1.3 Objectives of the Study

The main objective of the research work is to carry out an overview of risk associated with bank lending. Other specific objectives of the study include:To investigate the appropriateness of credit appraisal process of Ecobank; To investigate the relationship between loan officers and persons applying for loans; To investigate the effect of loan officers" relationship with customers on credit appraisal process and loan repayment; To design strategies on how credit appraisal and repayment of loans in Ecobank can be improved.

1.4 Research Questions

The study came up with research questions so as to ascertain the above stated objectives. The specific research questions for the study are stated below as follows: What were the procedures used by Ecobank in credit appraisal; what is the relationship between loan officers and persons applying for loans; what is the effect of the loan officers" relationship with customers on loan repayment; what strategies can help improve the credit appraisal system of Ecobank?

1.5 Relevance of the Study

Having identified the problems to which the study logically relates, the significance of the research therefore is to bring into focus these problems and its impact on the analysis of the borrower"s financial position by the lender. As an institutional arrangement designed to promote economic and individual growth through loan advancement, efforts will be made in this study to look into the problem areas where managerial and other deficiencies have contributed to the ever increasing default in the steady loan repayment schedule by the peasant borrowers.

The research work is highly important for it is essentially an empirical enquiry into the deficient lending functions of the banks. The study when completed will expose the methods employed by banks lenders in assessing customers before extending credit advances. The study will also suggest an active and efficient lending means by employment of an analysis, interpretation and use of financial statements to aid the lending process which will be useful to banks and other institutional lenders. It is also significant for its will enable the lenders (Banks) to reconsider their lending assessment, the poor assessment will lead to poor lending.

Furthermore, the research work will seek to expose the malignant problems associated with the peasant defaults in repayment of loans granted to customers. And it will also examine its impact on economic environment in Ghana. The contention of the author is that if the candid recommendation from the thorough study is religiously adopted, it will help to restore normalcy and sanity in the manner which financial position of the borrower should be assessed by the financial lender before extending credit advances.

1.6 Scope of the Study

The study on an overview of risk associated with bank lending is limited to Ecobank Ghana. The study will cover all the factors associated with bank lending. The study will also cover the relationship between bank lending and the financial performance of most commercial banks in Ghana because it is a common knowledge that sound lending by lenders rest on information provided to the lender concerning the borrower"s financial condition and performance before extending credit advances as discussed. The research work is also designed to cover all the basic principles behind sound lending. The constraints of bank lending which lead to default in repayment of the advances extended are not left behind in this research work. Again, the researcher went further to find out the purposes of this financial Analysis (if any) and the parts it plays in decision making concerning advances extension by the lenders in order to achieve a sound lending.

1.7 Limitation of the Study

The main limitation of the study was financial constraint. Insufficient funds tended to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection.

Time was also one of the forms of constraint that interfered with the research work. The researcher simultaneously engaged in this study with other academic work. This consequently affected the time which was devoted for the research work.

1.8 Organisation of the Study

The study on an overview of risk associated with bank lending has been organized as follows; The chapter one is the introductory aspect of the research work, the chapter two will cover the various literature used for the research work. The chapter three of the research work will cover the materials and method used for the data analysis of the chapter four. The chapter four of the research will consist of the data analysis of the research work while the chapter five will consist of the summary of findings, the conclusion and recommendation for the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter gives an insight into various studies conducted by outstanding researchers, as well as explained terminologies with regards to an overview of risk associated with bank lending.

The chapter also gives a resume of the history and present status of the problem delineated by a concise review of previous studies into closely related problems. This chapter gives an overview of the definition of risk, the nature and dimensions of risk, risk management, rational for bank wide risk management.

2.1 Definition of Risk

According to Okon (2004) stated that the simplest and possibly best definition of risk is the possibility of loss, injury, disadvantages or destruction. It is possible, of course, to gain some insight by considering the types of risks such as programmatic, technical, cost, schedule and sometimes supportability.

There is also the consideration that acquisition risk are a part and often mingled with risks such as encounter in other venues such as health, safety, insurance or underwriting, finance, business, environment and politics. However, what happens very often with deliberate definitions is that much time and energy is wasted trying to characterize a risk as opposed to managing it. Risks are so often interview as to type as to be Gordian knots, and "cut the knot" attitude is best, Amaonwu (1990). The leftmost column of this risk definition matrices will be the risks, and across the top will be the categories: programmatic, technical, cost, schedule supportability and others as appropriate. Each risk has the applicable items of the categories checked. This approach is easy to implement and it avoids needless discussions that will not contribute in proportion to time spent. Columns for ownership, critical, priority and relative ranking can be added as the understanding of the risks evolve, producing a useful graphic for risk management briefing.

Smith (1999) defines risk as a decision expressed by a range or possible outcomes with attached probabilities. When there are a range of possible outcomes but no assumed probabilities, there is only uncertainty. Hertz & Thomas (1984) have suggested that "risk means uncertainty and the results of uncertainty… risk refers to a lack of predictability about problem structure, outcomes or consequences in a decision or planning situation."Risk can be considered as a "systematic way of dealing with hazards". According to Beck (1986). "Risk might be defined simply as the probability of the occurrence of an undesired event [but] be better described as the probability of a hazard contributing to a potential disaster…importantly, it involves consideration of vulnerability to the hazard", Stenchion (1997).

2.1.1 Functional Definition of Risk

Papas and Brigham (1997) contend that risk is a hazard or peril, exposure to harm, and, in commerce, a chance of loss, lending to their conclusion that risk is „the possibility that some unfavorable event will occur". Bases on these meanings, risk may be explained in terms of an event or situation that is hazardous, susceptible to harm, or presents a chanceof loss, with the possibility that any of these unfavorable events will occur, Onyiriuba, (1990). These definitions are based on characterization of risk. However, they represent a broader conceptualization of the meaning of risk in a more practical sense. Yet a more generalizing functional definition is needed, this need is served when we define „risk" as any circumstance, event, or occurrence that:creates doubt because possible outcomes of an action may not fulfill expectation; threatens the interest of the actor through exposure to harm, because it is a peril, or because it potentially leads to a loss by the actor; and, can be anticipated, observed, and assessed (for value) objectively. This definition clarifies the concept of risk for many purposes. According to Wilson & Crouch (1982) risk equals the product of probability and severity. Risk is a situation or event where something of human value (including humans themselves) has been put at stake and where the outcome is uncertain,Rosa (1998). Also, Risk equals expected damage according to Campbell, (2005). According to Aven and Renn (2009) risk refers to uncertainty about and severity of the events and consequences (or outcomes) of an activity with respect to something that humans value. It accommodates most of the diverse views of risk, commonly found in the literature. It sees risk simply in terms of any situation where there is imperfect knowledge or uncertainty concerning possible outcomes of an event. Such an event (risk) must be a course of some loss if it occurs to someone. But unlike uncertainty, every risk lends for object analysis.

2.2 Nature and Dimensions of Risk

The term risk at a first glance may appear easily understood, yet it becomes intractable to define. How can on define "risk" to adequately representing ever one"s opinion or understanding of it considering the diversity of life endeavors and their peculiar risk situations? Indeed, depending on the standpoint from which it is viewed and the orientation of the writer, the term "risk" can be defined in various ways. However, as on insurance pundit points out what appears to be the consensus is that "there can be authoritative definition of risk in the sense that it will find universal acceptance,Amaouwu(1999). In fact, some authors hasten to point out the non-existence of a universally accepted definition of risk.

We all are exposed to various hazards in the conduct of our daily activities. We could be involved in road accident. Our wares could be solvent, or we might fail an examination even the possibility of sudden death cannot be ruled out. These are examples of circumstances we often think about but whose occurrence, unfortunately, cannot be exactly predicted. Consider the investment decision, which you make. Are you convinced your expected returns will be realized? Do you think the possible returns justify the investment decision(s)? These questions may the answered in the affirmative, especially where the investor pains taxingly analysis the investment opportunities. But such answer (s) would be true only to some extent as one may suppose the „dreams" of the investor would fall through. As a result, we talk of risk. There is risk of life, and risk in business. Indeed, as Field(1987) observes, „the human condition is one of living with risk. Risk is pervasive, almost always a part of everyday life. Every aspect of human endeavour is inherently associated with risk. Risk indeed, is endemic to nature-manifesting in every conceivable human activity, from marriage or eating, to investment in equity stock or gambling, Aamaouwu (1999),Field (1987).

People often try to interpret most human attitude as behavior toward risk since, according to Irukwu (1974), risk in the sense of chance of loss has been the bane of human existence from time immemorial. Whilst many people appear indifferent to risk, most would pay a price to avoid it. Few others however, surprisingly display risk preference behaviour. In each case, the value of the outcome of risk taking is always an influencing consideration. Yet risk taking is justified as a relational behaviour as reflected doesnot be afraid to take,Laccoca (1987).

Some risk, but do not take the life or death risks. Do not take the risks that can kill you. If you cannot afford to take a risk, then you can"t afford to compete.

As employed in financial management, the term „risk" is usually associated with variability of expected returns. Every investment or project implementation is based on the expectation of, at least commensurate returns, or cash inflows, however, at the time of commitment of friends. It will generally not be certain if the expectation will be realized. One reason is that future events upon which the outcomes. Thus, risk is created because forecasts of future cash flows or returns cannot be made into certainty.

Risk arises because we cannot anticipate the occurrence of the possible future events with certainty and consequently, cannot make any correct prediction about the cash flow sequence, Pandey(1981). Thus, the risk associated with a project is the variability that is likely to occur in the future returns from the project, Pandy (1981). A project will be more or less risky depending on the degree of variability of its expected returns. A project with greater variability of expected returns would be riskier than the project with less variable returns in relation to expectation.

In bank lending, risk is assumed in expectation of repayment of credit facilities granted to customize on depositors finds from some cash flow projection, which may or not be realized at the time or before, the deposit matures for payment. Risk in this case, is the chance that the borrowers may default on the loans while the customers, deposits must be paid in due date. This situation often arises where there is mismatch between assist and liabilities as a result of which the bank could not pay much of the matured deposits from loan repayments. But it happens frequently when there is deficiency of inflows of deposits, unsustainable loan repayment defaults, or a situation of unusual cash withdrawals exists or persists for a long time.

2.3 Risk Management

According to Amaonwu (1989), Risk Management is imperative for the success of a bank. Risk must be emaciated, measured, and planned for at any point in time. He also opines that in measuring risk, value is placed on belief in the likelihood that some event may or will not occur. Risk Measurement thus defined is similar toAmaonwu"s idea of risk analysis in risk; a means was being sought for in terms ofmeasuring belief tothe likelihoodinparticular. In this content, the use of probabilities as a measure of the likelihood that things or events will happen finds expression.

Irukwu (1974), identifies the three methods for solving the risk problem as:The prevention of the loss; assumption of the risk; and by means of insurance.

In his view, „where the loss can be anticipated steps can be taken to prevent it from happening, he however regrets that unfortunately, experience has shown that many of these losses happen unexpectedly and no amount of precaution or carefulness can prevent them from occurring although reasonable precaution may reduce the chances of a loss occurring. As for risk assumption, his idea is that individuals exposed to the risk are aware of the existence of the risk and if a loss occurs, then it would be born to the best of their ability. Moreover,Amaonwuadvices that this method of solving the risk problem at risk is substantial. Hence, it would be unwise for the owner to assume the risk. The last of the methods that is insurance is considered to be easy and by far the most efficient method of solving the risk problem.

It is believed that banks make considerable use of the avoidance strategy in their operations as exemplified in their strong preference for self-liquidating short-term lending strategy, Nwankwo (2001). On the strategy of risk transfer, it becomes obvious that not all risk is transferable by means of insurance. In fact, most credit risks would not satisfy the characteristics of insurable risk. The view is held that where a bank decide to assume credit risks, it should be regarded as a form of self-insurance for which the insurance fund is the net worth and comes earned on current operation serve as the insurance premium required to keep the net worth at adequate level, Nwankwo (2001).

According to Amkpa (1999) in his Seminar paper„Overview of Risk Management". He asked a question that is risk management another FAD? The big answer is NO WAY? Banking is risk – intensive business; then Why Reconceptualize? Reconceptlization takes place because; supervisory concerns for safety and soundness;Need for "Comprehensive risk – capture so as not to overlook or underestimate any".

2.3.1 Rationale for Bank Wide Risk Management

Some of the rationales for risk management include;Failure of managing risk in „silos" Risks are interdependent, Facilities aggregated risk reporting,enhances building of integrated business models while managing multiple risks occurred business units.

2.3.2 Risk and Uncertainty

The reason for the many views on risk is not farfetched. As Amaonwu (1989) argues, risk is at the center of life itself and as a result many people from different walks of life are concerned with it. The widespread nature of the interest in risk is matched only by the many definitions of „risk which have been offered" before examining some of the definitions and the views of risk the they embody, it is necessary to understand the meaning of the „term" uncertainty, for it is common to find authors who equate risk to uncertainty and use the two terms interchangeable. It is also common place to find other writes who contrast between risk and uncertainty in order to bring out clearly, the meanings of the two terms. As for Irukwu(1998) in everyday life the only thing that is certain is uncertainty and one of the purposes of insurance has been to alter this summation by substituting certainty for uncertainty. This contenting refers to the omnipresence of uncertainty. But the importance of uncertainty consists in the creation of risk and the human incapacity to see beyond the realm of the present in making critical decisions that can lead to a loss.

In distinguishing between risk and uncertainty,Willett(1951) argues that risk is the objective correlative of the subjective uncertainty. It is the uncertainty considered as embodied in the course of events in the external world of which the subjective uncertainty is a less faithful interpretation, Houston (1968), analyses Willetts definition to comprise two major aspects. The first is the objective-subjective distinction, according to while risk is seen as an objective phenomenon, which can be measured empirically in the real world, and is independent of the individual observers the second aspect is that risk is a concept of variation and is not identified with the degree of probability. Uncertainty is portaged as subjective in nature, and as a concept firming the basis of risk, or upon which the interpretation of risk is embedded.

Pfeffer (1996), contends that „risk is a combination of hazards and is measured by probability; uncertainty is measured by a degree of belief. Risk is a state of the world whilst uncertainty is a state of the mind. In appraising,Pfeffers definitions, Houston (1999) note the emphasis on the objective-subjective characterization of risk and uncertainty. And, in contrasting between Pfeffer and Willett, he observes that, in contrast to Willet, Pfeffer explicitly states that „risk and uncertainty are each measured by a single probability value whether objectively or subjective determined‟.

The uncertainties in bank lending may be associated with occasional and untimely negative influences, which though not possibly quantifiable but yet determines in measurable terms expected business outcomes both for the bank and the industry in general. Such influences are usually subjective considerations, which in practical terms cause incidences of risk, and therefore loss to the bank. We can therefore conclude that uncertainty thrives in some firms of rational conjecture of events in the economic and financial environments with which the bank must contend. In simple terms, a somewhat prognostic thinking about what is likely to cause unexpected business upsets drives it. Such thoughts are desirable for as long as they cause anxiety that lends to taking positive or proactive actions capable of shielding the bank against the anticipated adverse consequences of the event if it occurs.

2.4 Banks and the Risk of Lending

According to Thygerson (1995), banks are in the business of making money through what is professionally called financial intermediation. By this he meant that banks provide a link between the surplus sectors and the deficit sectors of the economy. The surplus sectors are the firms, house or government institutions that have surplus find over and above their immediate requirements. On the other hand, the deficit sectors are the economic units whose immediate finding requirements cannot be met form their own resource.

The banker is both professional and a businessman. The business instinct in him requires that he goes out to look for business that maximize the shareholder"s wealth on the other hand his business in the most ethical manner, without infringing on the laws of the land or his banks internal policies and procedures. He should be seen to be fair to his employers (the bank) and his customers in all his dealings. The banker"s most prized possession should his integrity, which he must guard jealously. It is, therefore not surprising that most banks that changed their names recently added the word „trust" in order to reinforce the need to comply with the code of ethics of the profession: "Trust and Honesty".

In performing the intermediation role, the bank could be either a borrower or lender. When a bank collects deposit from a client, the banker becomes a debtor up to the tune of the amount of deposit accepted. The banker is obliged to return an equivalent amount plus the agreed interest whenever the depositor makes a demand on it or at the maturity of a term deposit. It is not the business of depositor to know whether the bank makes profit out of the money kept with it or not since the banker is not acting as agent in this instance.

On the other hand, when a bank lends, to a customer, it expects that the borrower will repay as agreed both the principal and accrued interest. The money that the banker lends is strictly speaking, not his except for the first few months of commencing banking, operation when all the banks paid-up capital has not been invested in physical assets, like plants and machinery, furniture and filtering, every banks relies mostly on the amount of money, it can mobilize from third parties or its customers. Therefore, the challenge facing the banker is to ensure that depositors lent to other customers are recovered and paid to the owners when the depositors make a demand on him. We need not over-emphasize that the immediate cause of the collapse of some fiancé companies and banks in the eighties and nineties is directly related to them in inability to discharge their obligations to their depositor when due,Thygerson (1995).

2.5 The Concept of Credit Risk

According to the Oxford advanced learner‟s dictionary (1998), credit is: "The permission to delay payment for goods or services until after they have been received"; "The status of being trusted to pay money back to somebody who lends to one".

Putting together the above definitions, we can now define credit risk as „the Lakewood that the borrower will be unable to repay the principle sum and interest, when due‟.

When a person is described as credit-worthy, it means the lender has put source measure of invest on the borrower‟s ability to repay the loan.

The Principle sum is the amount borrowed, while interest is the cost of the money borrowed. Interest rate will take account of the prevailing rates as well as the likely future change in the value of money. Once a customer‟s fails to pay back as agreed, there is a default. This may be because some of the risk, which was identified as the appraisal stage, has crystallized.

2.5.1 Credit Risk Identification

This is perhaps the easiest of the process the risk which is to be analyzed to with respect to a specific loan request, from a specific bank customer, operating in a given industry and economy. One possible way of addressing this aspect of the assignment is to look at the risk facing the prospective borrower from the point of view of possible events in;the various facts of the company‟s asset conversion cycle; orThe relationship between it and third parties. These events could make a major difference between what was expected and what would eventually happen,Nikunen,Aapo (2010).

2.5.2 Credit Risk Assessment

Credit risk assessment is an art as well as a science. It is a science, because the analyst would have to rely on some data and quantitative techniques. It is an art, because some gut feeling and facts behind the figures may be needed to exercise judgment. That is the reason why credit committee meetings in most banks are sometimes strong and interesting because of the divergence of opinions that could be held on a single credit application.

The credit officer presenting an application to a committee should not be fully armed with facts; he should not be persuasive and possess the noble skill of a salesman. However, mere „Sweet-talk" cannot change a bad credit into a good one. The credit officer"s persuasive skills are needed to ensure that the credit committee does not reject a good credit, when long-term benefits may not be immediately apparent,Sirajuddin (2001).

The decision to land will depend on the weight attached to each of the risk factors, the banks own internal policy on risk asset growth or risk acceptance criteria and monetary/credit policy of government. An otherwise good credit proposal could be rejected simply because the bank has exceeded its statutory landing limit. Your ability, as a lender, to take the right decisions lined on the available of information. Here then lice the task of credit risk assessment-ability to source all the relevant fact in a society where successful businessman guard their trade secrets jealously. As important as information is in credit decision-making, customers are usually touchy when it comes to volunteering information- The situation is ever made worse by some competing banks who might be liberal in their request for information before disbursing funds credit Assessment is an area, where a banker cannot afford to be presumption. The analyst needs to seek for and get the correct information,Nwankwo (2005).

2.5.3 Framework for Lending

Loans granted by banks are not gift and so they should be repaid as and when due. Hence banks usually take great pains to ensure that they ask some fundamental question whenever a loan request is presented to them in order to ascertain borrower‟s ability and willingness to repay. The following questions are generic irrespective of the type of facility being sought: How much is required;what is to be done with the money;what are the plans for repayment;what will the bank resort to, if the plans for repayment do not materialize? Olusemore (2004).

How much?

The bank customer is free to request for any amount of money his bank. However, the bank has the responsibility to approve the amount it deems fit.

To enable the bank, determine how much the customer requires, it will start from the customer point view. For example, the bank needs to understand how the customer arrives at the figure.

The banker‟s objective is to ascertain that the amount the customer has requested for is adequate, not inflated or under estimated.

In determining the adequacy of the amount needed by the customer, the banker breaks down the project into stages. He examines the various components of project and verifies the cost of each component. The bankers will like to verify that the customer has induced all the associated costs of the project. He will also like to be assured that the customers‟ costing has taken account of the time value of money, that is, inflation.

Inflation can affect the cost of a project negatively, necessitating the upward revision of the project cost. There should also be finds committed to contingencies, that is, unexpected expenses, which can further push the project cost upward.

Like inflation, exchange rate fluctuations can also affect a project cost negatively account variability of the exchange rate especially if the customer is to capital goods. The dollar amount should be ascertained before it is converted to the local currency. The conversion rate used should be ascertained,Feldstein (1991).

2.5.4 Purpose of the Loan Request

A good banker will always want to know the specific purpose of the loan request. Any loan request, which does not have a specific purpose, could be diverted to other uses and monitoring becomes difficult, Bonin et al. (2004).

The purpose of the loan request of a business organization should correspond with the purpose for which the company is set up. If the purpose of the loan differs markedly from the object of the business as stated in the memorandum and articles of Association, it is not advisable to lend, Memart (2000).

Banks are not expected to lend for purposes, which are not consistent with the laws of the land. For example, it is not advisable to extend credit facilities to someone to import goods, which are under the prohibitive import cost of the federal government of Nigeria. Also lending for the purpose of importing smuggled goods would be illegal. Bankers are not to be a party to fraud or illegality. Though a bank is a business concern with profit as the primary goal, the social responsibility or good corporate citizenship requires that banks co-operative with government to eliminate economic crime in the society. If a banker lends for illegal purpose, the view could be held that if the borrower refuses to pay, the bank may not be able to enforce repayment through the law court.

2.5.5 Repayment

If you do not know where your money is going, you are lonely, as a banker, to know where repayment will come from. Bankers would normally want to finance business, which are capable of generating cash flow for the repayment of loans. Lending to business without the source of repayment is like a jump in the dark.The banker is not likely to know when money comes and goes out of the borrowing company in order to demand for repayment.

Repayment of loans is made once or gradually A repayment made once, usually at the end of the loan period, is known as "bullion repayment",Olusemore (2004).

A cash flow forecast is a prerequisite to determine repayment capability, for term loans in banks. In reviewing the cash forecast, the banker would like to know the operating cycle of the business. The operating cycle will depend on the following factors;Nature of the business, terms of trade between the borrower and its supplier, availability of the raw materials and spare parts through the year round, availability of space for stocking raw materials and finished goods.

2.6 Credit Risk Management System of Banks

Numerous researchers had studied reasons behind bank problems and identified several factors Chijoriga, (1997), Santomera(1997), Brown, Bridge and Harvey(1998). Problems in respect of credit especially, weakness in credit risk management have been identified to be the main part of the major reasons behind banking difficulties. Loans forms huge proportion of credit as they normally accounted for 10 – 15 times the equity of a bank,Kitwa (1996). In this way, the business of banking is potentially faced with difficulties where there is small deterioration in the quality of loans. Poor loan quality starts from the information processing mechanism, Liuksila (1996) and then increase further at the loan approval, monitoring and controlling stages. This problem is magnified especially, when credit risk management guidelines in terms of policy and strategies and procedure regarding credit processing do not exist or are weak or incomplete. BrownBridge (1998) observed that these problems are at their acute stage in developing countries. In order to minimize loan losses as well as credit risk, it is crucial for banks to have an effective credit risk management system in place Santomera(1997), Basel (1999). As a result of asymmetric information that exists between banks and borrowers, banks must have a system in place to ensure that they can do analysis and evaluate default risk that is hidden from them. Information asymmetry may make it impossible to differentiate good borrowers from bad ones (which may culminate in adverse selection and moral hazards) have led to huge accumulation of non-performing accounts in banks, Baster (1994), Gobbi (2003). Credit risk management is very vital to measuring and optimizing the profitability of banks. The long term success of any banking institution depended on effective system that ensures repayments of loans by borrowers which were critical in dealing with asymmetric information problems, thus, reduced the level of loan losses, Basel (1999).

Effective credit risk management system involved establishing a suitable credit risk environment; operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring, processing as well as enough controls over credit risk, Greuning and Bratanovic (2003). Top management must ensure, in managing credit risk, that all guidelines are properly communicated throughout the organization and that everybody involved in credit risk management understands what is required of him/her. Sound credit risk management system (which include risk identification, measurement, assessment, monitoring and control) are policies and strategies (guidelines) which clearly outline the purview and allocation of a bank credit facilities and the way in which credit portfolio is managed; that is, how loans were originated, appraised, supervised and collected, Basel (1999); Greuning and Bratanovic (2003);Pricewaterhouse (1994). The activity of screening borrowers had widely been recommended by, among other, Derban et al. (2005). The theory of asymmetric information from prospective borrowers becomes critical in achieving effective screening. In screening loan applicants, both qualitative and quantitative techniques should be used with due consideration for their relative strength and weaknesses. It must be stressed that borrower‟s attributes, assessed through qualitative models can be assigned numbers with the sum of values compared to a threshold.

This technique is termed as "credit scoring", Heffernan (1996). The rating systems, if meaningful, should signal changes in expected level of loan loss, Santomero (1997). Chijoriga (1997) posited that quantitative models make it possible to among others, numerically establish which factors are important in explaining default risk, evaluate the relative degree of importance of the factors, improving the pricing of default risk, be more able to screen out bad loans application and be in a better position of calculate any reserve needed to meet anticipated future loan losses. Establishing a clear process for approving new credit and extending existing credit, Heffernan (1996) and monitoring credits granted to borrowers, Mwisho (2001) are considered important when managing credit risk, Heffernan (1996). Instruments such as covenants, collateral, credit rationing, loan securitization and syndication have been used by banks in developing countries in controlling credit losses. Benveniste and Bergar (1987). It has also been identified that high-quality credit risk management staff are critical to ensuring that the depth of knowledge and judgment needed is always available, thus ensuring the successfully management of credit risk in banks, Koford and Tschoegl (1997) and Wyman (1999).

2.7 Credit Portfolio Management

Supervisors of banks more often than not, place considerable importance on formal policies which are laid down by their boards and aggressively implemented by management. This is most critical with regard to banks" lending function, which stated that banks adopted sound systems for managing credit risk, Greuning and Bratanovic (1999). In order to appropriately analyse credit risk factors, banks" chief credit risk officers are required to have detail understanding of the principal economic factors that drive loan portfolio performance and the relationship between those factors. Most credit risk officers in the banking industry analyse factors such as; inflation, the level of interest rates, the GDP rate, market value of collaterals among others, for banks in mortgage financing. Also, traditional financial management texts posit that credit manager would take note of the five Cs of credit – character, capacity, capital, collateral and conditions to evaluate the probability of default, Casu et al (2006) and; Zech (2003). These factors are in line with the arbitrage pricing theory of Stephen Ross which is the most applicable to loan portfolio management. According to, Uyemura and Deventer (1993), many techniques in equity portfolio management were applicable in individual loans or loan category which can be measured by the dependence of the loan‟s return on the factors mentioned.

2.7.1 Value at – Risk (VaR) As a Tool for Portfolio Optimization

VaR measures portfolio risk by estimating the loss in line with a given small probability of occurrence. A higher risk means a higher loss at the given probability. It is intended to overcome the shortcomings of modern portfolio theory when standard deviation is used as a measure of risk in risk-return relationships VaR is a forecast of a given percentile usually in the lower tail (such as 99th percentile) of the distribution of returns (or losses) on a portfolio over some period. Again it is an estimate to be equaled or exceeded with a given, small probability such as 1%. However, when returns are normally distributed, VaR conveys exactly the same as the information as standard deviations. The VaR approach is the most preferred to be used when the market risk is measured, Schacter (1998); Zech (2003); Markowitz (1959); Hull (2007).

2.7.2 The Basel Capital Accord and Banking in Ghana

The introduction of the Basel Capital Accord in 1988 has offered for the implementation of a credit risk measurement framework with a minimum permanent capital ratio of 8% by the end of 1992. In 1995 the capital requirements for credit risk were modified to incorporate netting. In 1996 the Accord was modified to factor in a capital charge for market risk. Sophisticated banks could base their capital charge on a value-a-t risk (VaR) calculation, Hull (2007). The Basel committee suggested some changes which were intended to be operationalised in 2007. The new capital accord (Basel II) framework under Pillar 1 offers three (3) main approaches for the calculation of capital requirements. These are standardized approach, the foundation and internal Rating Basel (IRB) Approach and the Advanced IRB Approach. The Bank of Ghana (BoG) has done a number of consultations in the Ghanaian banking industry and has concluded to adopt the standardized Approach for computing the capital requirement for credit risk. This approach has two (2) main methods. These are internal credit ratings approach which is subject to the prior explicit approval of the supervisor and the other alternative is the use of the external credit assessment approach. The Capital Adequacy Framework for capital requirement directive issued by Bank of Ghana (BoG 2008) stipulated that locally incorporated licensed banks were to adopt the standardized approach with the credit ratings specified in calculating their capital requirements. BoG recognized both the simple and comprehensive approaches for credit mitigation. It also specified eligible final collateral, allowed as credit risk mitigants for the purpose of calculating capital requirements for credit risk. Consequently, the Basel II has been in operation since the beginning of 2012, representing the most significant change to the supervision of banks. The focus is on establishing the capital banks require, given their risk profiles and improve risk management. The new capital requirements may lead to an improved buffer for risk absorption in the industry.

2.7.2 Credit Risk and Bank Performance

Banks that have higher loan portfolio with lower credit risk improve on their profitability. Angbazo (1997) stressed that banks with larger loan portfolio appear to require higher net interest margin to compensate for higher risk of default. Cooper et al (2003) add that variations in credit risks would lead to variations in the health of banks‟ loan portfolio which in turn affect bank performance. Meanwhile, Ducas and McLaughlin (1990) had earlier argued that volatility of bank profitability is largely due to credit risk. Specifically, they claim that the change in bank performance or profitability are mainly due to changes in credit risk because increased exposure to credit risk leads to fall in bank performance and profitability. Heffernan (1996) stressed that credit risk is the risk that an asset or loan becomes irrecoverable, in the case of outright default or the risk of delay in servicing of loans and advances. Thus, when this occurs or becomes persistent, the performance, profitability, or net interest income of banks is affected. Consequently, this study seeks to find out the relationship between credit risk and bank performance of some selected banks in Ghana.

2.8 Theoretical Frame Work

2.8.0Decision Theory

Decision theory is the part of probability theory that is concerned with calculating the consequences of uncertain decisions. This can be applied to state the objectivity of a choice and to optimise decisions. In this paragraph several aspects of decision theory will be discussed, being risk appetite, risk attitude, expected value, expected utility, loss aversion and prospect theory.

2.8.1 Risk appetite and risk attitude

A clear description of risk appetite allows for a consistent approach to handling risks within an organisation. The definition of risk appetite is the amount of risk, on a broad level; an entity is willing to accept in pursuit of value (COSO 2004). Another term that is associated with this is risk attitude, which describes the tendency to risk averse, risk seeking or risk neutral behaviour. In other words, risk appetite relates to taking risks in a broad sense and risk attitude relates to making a risky decision. Risk attitude can be elicited from the upper echelon of an organisation and thus expressed in a quantitative manner by use of risk appetite, which reflects risk taking behaviour. This information can be formally published in a document such as a risk policy, which is an asset to an organisation by means of making it possible to handle risks in a reliable way.

An agent‟s risk attitude can be elicited in a relatively straightforward way. When an agent is offered a choice between a risky and a safe option, the agent chooses and their preference is found. Depending on the choice the agent made, the sure option is made more or less attractive, after which the agent makes their choice again. This process can be repeated several times to iterate towards a point where both options are equally attractive and thus a point of indifference are reached. Such methods of eliciting risk attitude have been successfully used in experiments, Keeney & Raiffa (1976); Pennings & Smidts (2000). Example 1 illustrates this method. This example forms a crux for explaining several necessary concepts to calculate risk appetite throughout this dissertation.

2.8.2 Expected Utility Theory

The theoretical economic framework for decision-making is the expected utility theory. The theory states that the decision alternative with highest expected utility is the best alternative. The expected utility approach is attractive as it provides recommendations based on a logical basis. If a person is coherent both in his preferences among consequences and in his opinions about uncertainty quantities, it can be proved that the only sensible way for him to proceed is by maximising expected utility. For a person to be coherent when speaking about the assessment of uncertainties of events, the requirement is that he follows the rules of probability. When it comes to consequences, coherence means adherence to a set of axioms including the transitive axiom: If b is preferred to c, which is in turn preferred to d, then b is preferred to d. What we are doing is making an inference according to a principle of logic, namely that implication should be transitive. Given the framework in which such maximisation is conducted, this approach provides a strong tool for guiding decision-makers. Starting from such "rational" conditions, it can be shown that this leads to the use of expected utility as the decision criterion, see Savage (1972), von Neumann and Morgenstern (1944), Lindley (1985) and Bedford and Cooke (2001).

2.9 Empirical Review

Credit risk originates from the possibility of an impairment resulting in economic loss to the financial institution. Specifically, bank credit risk arises from loans and advances to customers as well as off balance sheet activities including guarantees, undertakings and letters of credit. Although, credit risk management is complex, banks manage this risk through well-structured management systems and controls that ensure that appropriate credit delivery processes are implemented. However, prior studies investigating issues relating to bank credit risk provide inconclusive evidence see Hassan et al. (1994); Ariff and Marisetty(2001); Ahmad (2003); Ali and Daly (2010); Marfo-Yiadom and Agyei, (2011). Findings from these studies so far provide conflicting opinions on the approach and causes of credit risk in the banking industry. For instance, two schools of thought with varied views dominate the ideological underpinnings of credit risk management in the banking industry; the external and internal variable theories. Whilst the external variable theory is founded on the ideology that changes in operating environment including financial markets, regulations and economic conditions influence credit risk see Hassan et al. (1994); Corsetti et al.(1998); Ali and Daly(2010), the internal theory reveals that factors including asset quality, bank size, profitability and bank capital influence credit risk of financial institutions see Berger and DeYoung(1997); Angbazo(1997); Ahmad and Ariff(2007). Subsequently, Miller (2003) examines that the magnitude of risk taking depends on the level of market competition and structure. Contrary, to Miller (2003), Bikker and Metzemakers (2005) argue that risk taking arises when banks compete in an environment with limited deposit market. Adusei et al. (2014) find negative association between leverage and credit risk of universal banks in Ghana using panel data from 2006 – 2010. Also, their findings reveal positive relationship between credit risk and loan loss provision. Notwithstanding, Ahmad and Ariff (2007) also find significant positive association between capital and bank credit risk in Japan, Malaysia, and Mexico as banks operating within the study areas where required to raise their capital requirement in order to absorb potential losses from credit risk. Their finding reiterates the positive nexus evidence from Berger and DeYoung (1997) between bank capital and credit risk. Angbazo (1997) and Cheng (2008) establish that banks earning assets to total assets which reflect management efficiency is negatively correlated with bank credit banks credit risk, suggesting that effective credit risk management encompasses appropriate credit risk environment, sound credit granting process and maintaining appropriate credit administration see Greuning and Bratanovic, (2003); Derban et al (2005). In assessing credit risk management, Sandstorm (2009) concludes that bank credit risk is mostly caused by information asymmetry. Similarly, Liang and Reichert (2012) examines that inadequate institutional capacity, inefficient credit guidelines, low capital adequacy ratios, compulsory quota-lending as a result of government interference and lack of supervision on the side of the central bank aggravates credit risk in the banking sector. Salas and Saurina (2002) also conclude that GDP growth rate, firm and family indebtedness, rapid past credit expansion, inefficiency, portfolio composition, size, net interest margin, capital ratio and market power contributed to credit risk in Spanish commercial and savings banks between the period of 1985 – 1997. Mohamed et al., (2015) reveal that non-performing loans, loan loss provision and the quality of total loans were contributing factors for the poor performance of banks in Sierra Leone between the periods of 1997-2011, using Panel Least Square regression approach. However, their evidence further revealed that bank size and interest rates spread impact positively at a very small margin on profitability of commercial banks in Sierra Leone.

CHAPTER THREE

METHODOLOGY AND ORGANISATION PROFILE

3.0 Introduction

Leedy and Ormrod (2010) agree with Babbie and Mouton (2008) that research methodology refers to the researcher"s general approach in carrying out the research project. Mouton (2001) views research methodology as focusing on the research process and the kind of tools and procedures to be used. The point of departure would be the specific task (data collection) at hand, the individual steps in the research process, and the most "objective" procedures to be employed. In essence, as Carter and Little (2007) express, methodologies justify methods, which produces data and analyses, and methods produce knowledge, so methodologies have epistemic content. Put simply, the research methodology in this research thus refers to the approach adopted to follow in gathering and analysing data.

This part of the study or research has to do with the methods employed to undertake the study which include the research design, population of the study, the sample size and method of data collection, sampling technique, and the methods of data analysis. All these sub-points are considered as follows.

3.1 The Research Design

Burns and Grove (2003) define a research design as "a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings". Parahoo (1997) describes a research design as "a plan that describes how, when and where data are to be collected and analysed". Polit et al (2001) define a research design as "the researcher"s overall for answering the research question or testing the research hypothesis". Research design, according to Welman et al. (2009), is best described as the overall plan, according to which the respondents of a proposed study are selected, as well as the means of data collection or generation, while Babbie and Mouton (2008) describe research design as a plan or blueprint for conducting the research. The research design also entails a detailed plan, according to which research is undertaken. According to Mouton (1996), the main function of a research design is to enable the researcher to anticipate what the appropriate research decisions are likely to be, and to maximise the validity of the eventual results.

The research design should be seen as a mixed-bag approach that implies choosing from different alternatives and options to ensure that the research purpose and perspective are clarified and achieved. The research problem will determine the methods and procedures: the types of measurement, the sampling, the data collection and the data analysis to be employed for the proposed research, Zikmund et al. (2010).

According to Lewis, Saunders and Thornhill (2009), research design can be classified into three groups, namely descriptive, explanatory and exploratory studies.

Descriptive study; they are designed to collect data that describe the characteristics of the topic of interest, Arthur et al.(2011). The research problem is structured and well understood. The aim of descriptive study is to represent an accurate profile of persons, events or situations, Lewis et al.(2009).

Explanatory study; in this study, the problems are well structured as in descriptive studies but the researcher tries to explain the "causes-and-effects" of the situation, Lewis et al.(2009). The aim of such studies is to separate the causes and to state to what extent they lead to such effects. It explains the casual relationship between variables, Lewis et al.(2009).

Exploratory study; this study is considered when the researcher has insufficient information. It is especially useful if the researcher wishes to clarify their understanding of a problem, such as if they are unsure of the precise nature of the problem, Lewis et al.(2009). Consequently, exploratory research must be flexible and adaptable to change. The researcher should be willing to change their perspective when they encounter new data and new insights that occur, Lewis et al. (2009).

The researcher chose a survey research design because it best served to answer the questions and the purposes of the study. The survey research is one in which a group of people or items is studied by collecting and analyzing data from only a few people or items considered to be representative of the entire group. In other words, only a part of the population is studied, and findings from this are expected to be generalized to the entire population, Nworgu(1991). Similary, McBurney (1994) defines the survey assessing public opinion or individual characteristics by the use of questionnaire and sampling methods.

3.2 Population and Sample Size of the Study

Polit and Hungler (1999) refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. Kumar (2000) refers to the population as the set of all objects that possess some common set of characteristics with respect to some marketing research problem. Each individual member is referred to as a population element, Zikmund& Babin (2010). Churchill et al. (2010) define the target population as that part of the total population (universe) to which the study is directed. This is the group from which the sample will be drawn, Tustin et al. (2005). Parahoo (1997) defines population as "the total number of units from which data can be collected", such as individuals, artifacts, events or organisations. Burns and Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. Burns and Grove (2003) define eligibility criteria as "a list of characteristics that are required for the membership in the target population".

The idea behind sampling is that by selecting only certain elements of that population, a researcher may draw conclusions about the entire population, Cooper & Schindler (2003). Hair et al. (2010) concur that it is important that researchers should use a representative sample of the population if they wish to generalise the findings. It is, furthermore, imperative that the target population is properly and accurately defined in order to answer the correct research question and also to obtain adequate results, Aaker et al. (2011). Wiid and Diggines (2009) add that if the target population is too large for a comprehensive survey, a scientific sample must be taken of the population. Hair et al. (2010) concur that when the target population is large, sampling needs to be done.In this study the population was Ecobankwomen of all races, age groups, educational status, socio-economic status and residential areas,

The population of a study is the entire universe, objects which a researcher proposes to research on with a view to making findings. Every item in the population is a sampling frame. Thus, by the nature of this study, the population of the study will include data on the risk associated with bank lending from 2000- 2016.

Lipsey (1990) explained that statistical studies are the best means of making inference about the population and therefore should be carefully planned. Since it would be impossible to study the entire population, conclusions about the population by sample data are without a problem. The problem should be carefully defined and operationalized. Sample unit must be selected randomly from the appropriate population of interest. The study must be of adequate size relative to the goals of the study. That is, it must be „big enough" to detect statistical significance.

3.2.1 Sample

A sample is a subset of a population selected to participate in the study, it is a fraction of the whole, selected to participate in the research project, Brink (1996); Polit&Hungler (1999). Sampling refers to the selection of a subset of persons or things from a larger population, also known as a sampling frame, Scott & Morrison(2007), with the intention of representing the particular population, Gall et al. (2007); Neuman(2011).

3.2.2 Sample size

According to Shuster (1990), not all sample-size problems are the same, nor is sample size equally important in all studies. For example, the ethical issues in an opinion poll are very different from those in a medical experiment, and the consequences of an over- or undersized study also differ. Sample size issues are usually more important when it takes a lot of time to collect the data. An agricultural experiment may require a whole growing season, or even a decade, to complete. If its sample size is not adequate, the consequences are severe. It thus becomes much more important to plan carefully and to place greater emphasis on hedging for the possibility of under-estimating the error variance, since that would cause us to under-estimate the sample size. An under-size study exposes the subjects to potentially harmful treatment without having the capability to produce useful results, while an oversize study exposes subjects to potentially harmful treatments that use more resources than are necessary. Odeh and Fox (1991) argue that there are several approaches to sample size. There is sample size to achieve a specified standard error and sample size to achieve a specified probability of obtaining statistical significance. For example, one can specify the desired width of a confidence interval and determine the sample size that achieves that goal. But the most popular approaches to sample-size determination involve studying the power of a test of hypothesis.

3.2.3Sampling size

Holloway and Wheeler (2002) assert that sample size does not influence the importance or quality of the study and note that there are no guidelines in determining sample size in qualitative research. Qualitative researchers do not normally know the number of people in the research beforehand; the sample may change in size and type during research. Sampling goes on until saturation has been achieved, namely no new information is generated, Holloway (1997).

3.2.4Sampling Process

Burns and Grove (2003) refer to sampling as a process of selecting a group of people, events or behaviour with which to conduct a study. Polit et al (2001) confirm that in sampling a portion that represents the whole population is selected. Sampling is closely related to generalisability of the findings. In this study the sampling was non-probable and purposive. According to Parahoo (1997), in non-probability sampling researchers use their judgment to select the subjects to be included in the study based on their knowledge of the phenomenon.

Purposive sampling was used in this study. Parahoo (1997) describes purposive sampling as "a method of sampling where the researcher deliberately chooses who to include in the study based on their ability to provide necessary data". The rationale for choosing this approach was that the researcher was seeking knowledge about the nurses" opinion of pain in patients who suffer from dementia, which the participants would provide by virtue of their experience. In this study only nurses who were eligible were purposively chosen to participate in this study.

3.2.5Selecting the sample

Kumar (2000) defines a sample as a chosen subset of elements from the population. The sample is drawn from a list of population elements that often differ somewhat from the defined population; this list from which the sample is drawn is called a sample frame, Zikmund& Babin (2010). Churchill et al. (2010) explain that in designing the sample, researchers must specify the sampling frame, which is the list of the population elements from which the sample will be drawn.

Furthermore, the researcher must specify the type of sampling plan to be used and as well as the size of the sample. There are two basic types of sampling plans, namely probability and non-probability sampling, Churchill et al.(2010).

3.2.6 Probability Sampling

Kumar (2000) explains that for probability sampling, each member of the population has a known probability of being selected; however, the researcher needs to have a definite sampling frame of the sampling units. Zikmund and Babin (2010) state that a sampling frame is also called a working population because these units will eventually provide units involved in analysis. They state that a list of members of the target population is thus needed.

Probability sampling is considered to be more accurate than non-probability sampling, Zikmund and Babin (2010). The researcher also describes the different methods of probability sampling as simple random sampling, systematic random sampling and stratified random sampling and cluster sampling.

3.2.7Non-probability sampling

Non-probability sampling does not require a sample frame, and as a result, sampling efficiency and precision are absent in these methods, Kumar (2000). Hill et al. (1999) explain that non-probability samples tend to suffer from problems relating to bias; furthermore, there is no way of ensuring that the sample is representative of the total population. Non-probability sampling does not depend upon chance as a selection procedure, and thus the researcher cannot properly control the probability of a sampling unit being included in the sample. The representativeness of the sample and the quality of the parameters estimates must be determined subjectively, Hill et al. (1999).

The methods of non-probability sampling are convenience samples, judgment samples and quota samples and referral sampling, Zikmund&Babin (2010).

Non-probability, Convenience sampling will be used in this study. This type of sampling aims to obtain a sample of convenient elements in a quick and inexpensive manner, Malhotra (2010). This researcher further state when using convenience sampling, the sampling units are accessible, easy to measure and cooperative.

Reliability

Salkind (2012) refers to dependable, consistent, stable, trustworthy, predictable and faithful as synonyms for reliability. More specifically, Delport and Roestenburg (2011) concede that reliability deals with what is being measured. Muijs (2011) states that whenever researchers want to measure something, there is some element of error what he calls measurement error. Reliability then refers to the extent to which test scores are free of measurement error.

Although it is rare to have perfect reliability, Neuman and Kreuger (2003), as well as Salkind (2012), suggest procedures to increase the reliability of measures.

Reliability and validity

Reliability and validity and implications thereof will be described in detail in the quantitative section of this research report. Some qualitative researchers have begun to question the relevance of the term validity in qualitative research. Some suggest that terminology such as credibility, dependability, confirmability, trustworthiness, verification and transferability be used instead of validity.

Scholars like Huberman and Miles (2002) and Tobin and Begley (2004) are of the opinion that it is inappropriate to transfer terminology across paradigms. Inevitably, the authors suggest alternative ways to demonstrate reliability and validity outside the linguistic confines of a quantitative paradigm. The trend that rather emphasises the use of rigour to ensure reliability and validity in qualitative research was followed in this section of the research, Tobin & Begley, (2004); Twycross& Shields(2005); Onwuegbuzie&Leech(2007). Rigourrefers to the demonstration of integrity and competence in qualitative research by adherence to detail and accuracy to ensure the authenticity and trustworthiness of the research process.

The rigour of the qualitative section relates to the overall planning and implementation to ensure the authenticity and trustworthiness of procedures, according to the following criteria, Tobin & Begley(2004); Onwuegbuzie& Johnson(2006); Roberts et al.(2006); Freeman et al.(2007).

Credibility: Engagement with the data (recordings, notes and transcripts) was done intensively to demonstrate clear links between the data and the interpretations. Regular discussions were held and adjustments were made in accordance with suggestions and recommendations,); Roberts et al. (2006).

Dependability: According to Riege (2003), dependability is analogous to the notion of reliability in quantitative research. The purpose of this test was to show indications of stability and consistency in the process of inquiry. Care was taken to ensure that the research process was logical, traceable, and clearly documented in a reflexive manner by giving a detailed account of the research process.

Authenticity: The development of the question items was based on a substantial theoretical basis as described in Chapters Two, Three and Four. The interview schedule was first carried out during the pilot test to ensure the yielding of reasonable, unbiased and valid data,Riege (2003).

Confirmation: An audit process was implemented by working forward, as well as backward through the research process, to ensure that the data and interpretations of the findings were sound and confirmed findings. The intention during the interpretation process was not to generalize findings to a population, but to identify accepted principles and trends related to the research topic,Riege (2003).

3.3 Sources of Data

In order for research to provide information that helps to solve problems, researchers must identify types and sources of information they will use, Burns & Bush (2010). There are two methods that can be used towards collecting data, according to Malhotra and Peterson (2006): a secondary source involves information that already exists, and primary sources which involve collecting new information firsthand for the specific research problem at hand, Malhotra (2010).

3.3.1 Secondary Sources

Secondary information should always be sought first, since it is much cheaper and faster to collect than primary information, Burns & Bush, (2010). Wiid and Diggines (2009) define secondary data as historical data that has already been gathered, either by the business or by outsiders, for the purpose other than the study currently in question. If a problem or opportunity remains unsolved after collecting the secondary data, a formal marketing research investigation must be conducted, provided it is economical, Wiid&Diggines(2009).

Secondary data are data collected by someone other than the user. Common sources of secondary data for social science include censuses, organizational records and data collected through qualitative methodologies or qualitative research. Secondary data were gathered through a desk study on both published and unpublished materials. This includes internet web pages, government policies and conditions of service and records from the Ecobank Ghana Limited.

3.3.2 Primary sources

During the formal marketing research investigation, primary data is collected, Wiid& Diggines (2009). These authors define primary data as the data that is specifically intended to solve the problem or make use of the opportunity. Malhotra (2010) explains that primary data can be collected in either a qualitative or quantitative way.

Primary data collection was basically used which involved the use of interviews, discussions and structured questionnaires. Questionnaires were administered to staff and management of Ecobank Ghana Limited. These questionnaires contained questions with different themes specific to addressing the research objectives and questions. The researcher performed a pilot study to develop, adapt, or check the feasibility of techniques, to determine the reliability of measures, and/or to calculate how big the final sample needs can be. The pilot had the same sampling procedure and techniques as in the larger study. A pilot testing was conducted to streamline the questionnaire. Furthermore, the researcher also interviewed some personnel of Ecobank Ghana Limited to get additional information.

3.4 Profile of Ecobank Ghana Limited

Ecobank Ghana Limited (EGH) was incorporated on January 9, 1989 as a private limited liability company under the company‟s code to engage in the business of banking. EGH was initially licensed to operate as a merchant bank by the Bank of Ghana on November 10, 1989 and commence business on February 19, 1990. However, following the introduction of Universal Banking by the Bank of Ghana in 2003, EGH, through to its form as a pacesetter, became the first bank to be granted the Universal Banking license from the Bank of Ghana. The bank is a subsidiary of Ecobank Transnational Incorporated (ETI), a bank holding company which currently has fifty-two (52) subsidiaries across Middle Africa. The Ecobank Group is thus in more countries in Africa than any other bank, making it the leading Regional Banking Group in Middle Africa.

EGH has grown consistently over the years to become one of the leading banks in Ghanaian Banking industry. EGH acquired a Universal Banking 8 license in 2003 and got listed on the Ghana Stock Exchange (GSE) in July 2006. The bank has embarked on a medium term strategy shift from a predominantly Wholesale Bank to Retail Bank, and 2008 marked the third year of its strategic transformation.

Mission Statement

The EGH mission is to become a strategic part of a world-class African banking group.

Vision Statement

The EGH vision is to provide its customers convenient, accessible and reliable banking products and service.

In line with this EGH seeks to create a unique African institution characterized by a determined focus on customers, employees and shareholders and an absolute commitment to excellence in the in the financial service industry. The bank seeks to purse this mission and uphold its values by applying the following principles to its business decisions and conduct.

CHAPTER FOUR

DATA PRESENTATION, DATA ANALYSIS AND DATA INTERPRETATION

4.0 Introduction

This chapter presents the results and discusses the finding of the study. The areas covered under this chapter include socio-economic statistics, appropriateness of credit appraisal process of Ecobank, investigate the relationship between loan officers and persons applying for loans, effect of loan officers – client relationship on loan repayment and how to assess the creditworthiness of new clients.

4.1 Socio-Economic Statistics

The socio-economic characteristics of the respondents are shown in Table 4.1. From Table 4.1, the majority (61.18%) of the respondents are females. More than half of the respondents (51.32%) were self-employed with 23.03 percent being public/civil servant while 25.65 percent are in the private sector. Most of the respondents had attained some level of formal education. 15.79percent of the respondents have had no formal education. Some have completed primary education (12.50%), or junior high education (21.05%), or senior high education (14.47%), polytechnic/ diploma / university education (36.18%). The majority (48.03%) of the respondents are married. 81.58 percent of the respondents are Christians. The pie chart below shows the percentages of the socio economic statistics of respondents.

Table 4.1: Socio-economic statistics of respondents Gender

Variable	Frequency	Percentage
Male	59	39.00
Female	93	61.00

Source: Field Survey, 2017

According to the statistics from the above table, the value of frequency for the female respondents was far higher than that of the male. The females were 93 representing a total percentage of 61% whilst the males were 59 with a corresponding percentage of 39%. Furthermore, in terms of marital status, the bar chart below clearly indicates the status of each respondent.

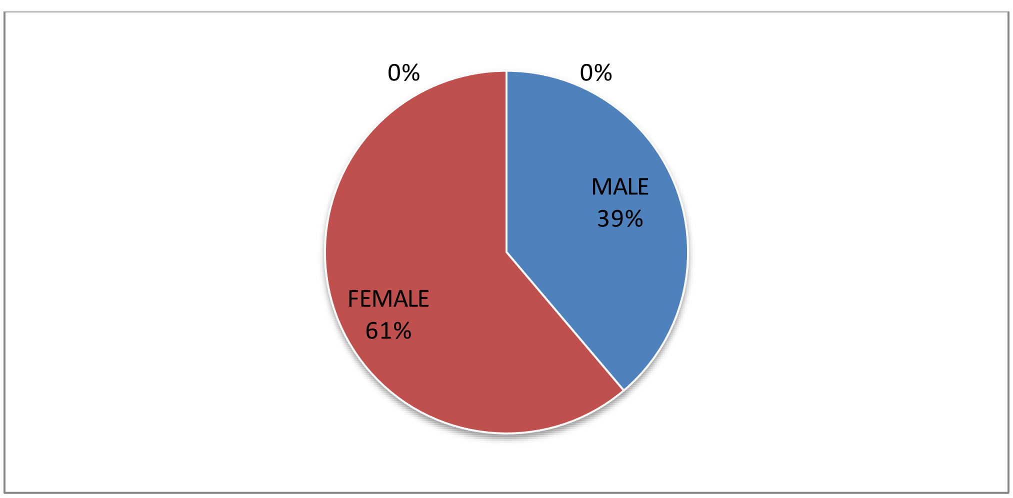

Figure 1: A percentage of Socio-economic statistics of respondents Gender

Source: field survey, 2017

From the chart above, it is clear that 39% of respondents are males whereas 61% are also females. This indicated majority of the respondents were females. The table below also shows the frequency of each gender against the percentage.

Table 4.2: Marital Status

Variable	Frequency	Percentage
Single	50	32.89
Married	73	48.03
Separated	18	11.84
Divorced	4	2.63
Widowed	7	4.61

Source: Field Survey, 2017

In terms of marital status frequency, the group with the highest frequency is the married with a mark of 73, followed by the singles with a mark of 50. The rest are separated with

18 and the divorced with a total frequency of 4. The last group is the widowed with only a value of 7.

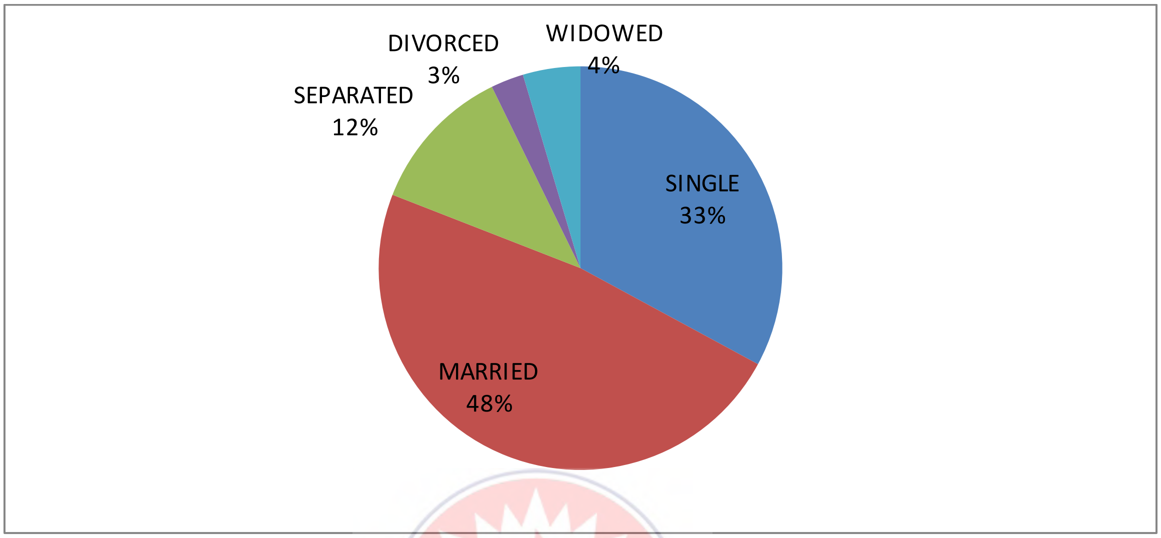

Figure 2: A Pie Chart of Marital Status

Source: Field Survey, 2017

From the above the respondents who are married are on top of all the others with a percentage of 48%. The closest is the singles whose total percentage amounts 33%. However, respondents who are separated are 12%. The two minority groups are the widowed with 4% and divorced with 3%.

Table 4.3: Educational Level

Variable	Frequency	Percentage
Non Formal Education		
	24	15.79

Primary School	19	12.50
Junior High/ Middle School	32	21.05
Senior High/ Technical	22	14.47
University/ Polytechnic	55	36.18

Source: Field Survey, 2017

The educational level of respondents from table- above indicates that respondents at the tertiary level had the highest frequency with a value of 55 with a percentage of 36.18%. However, the middle school leavers and Junior high school leavers were second with a frequency of 32 with a corresponding percentage of 21.05%. The respondents within the non- formal educational level were the third highest with a frequency of 24 and a percentage of 15.79%. The senior High and Technical School respondents had a frequency value 22 and it represented 14.47%. The class of respondents with the lowest frequency from the above is the primary level with a frequency of 19 and a percentage of 15.79%.

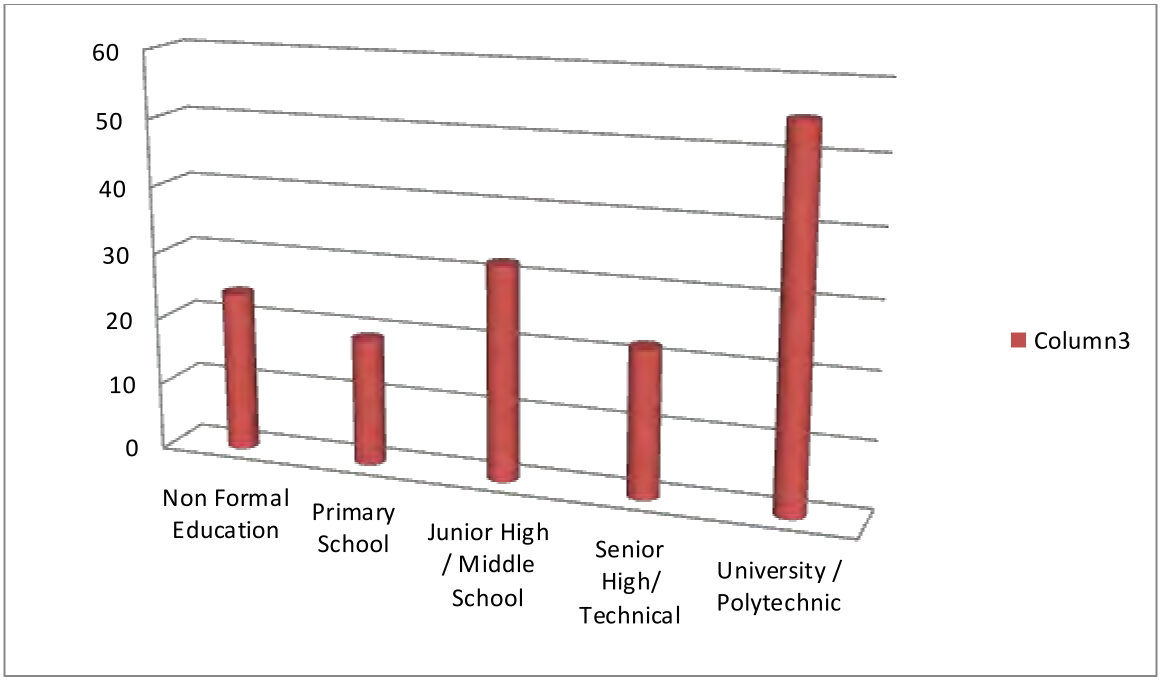

Figure 3: Educational Level of Respondents

Source: Field Survey, 2017

The bar chart above further portrays an avid picture and the various educational levels of respondents. The class of respondents with the lowest frequency from the above is the primary level with a frequency of only 19. This was closely followed by the senior High and Technical School respondents had a frequency value 22. The respondents within the non- formal educational level were the third highest with a frequency of 24 followed by the middle school leavers and Junior high school leavers who were second with a frequency of 32, the tertiary level had the highest frequency with a value of 55.

Table 4.4: Employment Category

Variable	Frequency	Percentage
Public/ Civil Servant	35	23.03
Private Sector	39	25.65
Self- Employment	78	51.32
Unemployed	-	-
Other	-	-

Source: Field Survey, 2017

The survey of the employment category of respondents indicated a higher level of self – employment. More than half of the respondents with a high frequency value of 78 and a percentage value of 51.32% were self-employed. Again private sector workers also were the second highest with a value of 39 that represented 25.65%. Also, the public and civil servants had a frequency of 35 representing 23.03%.

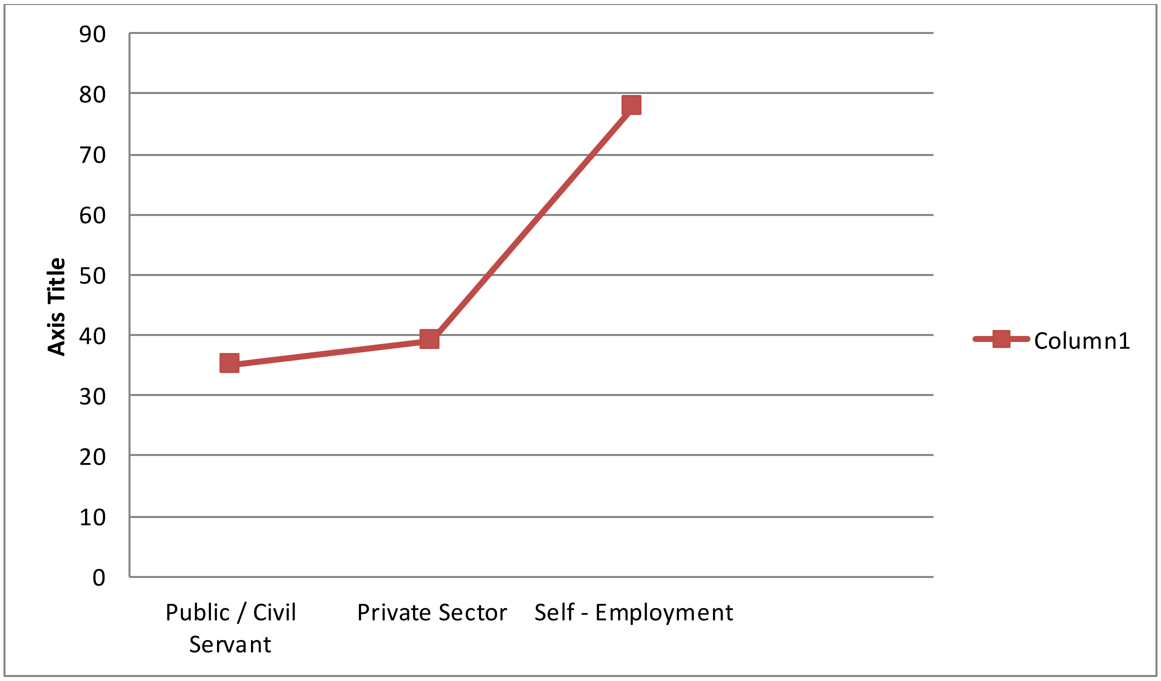

Figure 4: Employment category of respondents

Source: Field Survey, 2017

The line graph above gives a clear picture of the employment status of the respondents. The self-employment category tops the ladder with a value of 78% whereas the private sector follows with39. Finally, the public and civil servants had the lowest with a value of 35.

Table 4.5: Religious affiliation of respondents

Variable	Frequency	Percentage
Christianity	124	81.58
Islam	22	14.47
Traditional	6	3.95

Source: Field Survey, 2017

It was realized that all the three major religions in Ghana were fully represented. However, Christianity was the populous with a total value of 124 and a percentage of 81.58%. It was followed by Islam with a total frequency of 22 and a percentage of 14.47%. The Traditional Religion had an only 6 respondents representing 3.95%

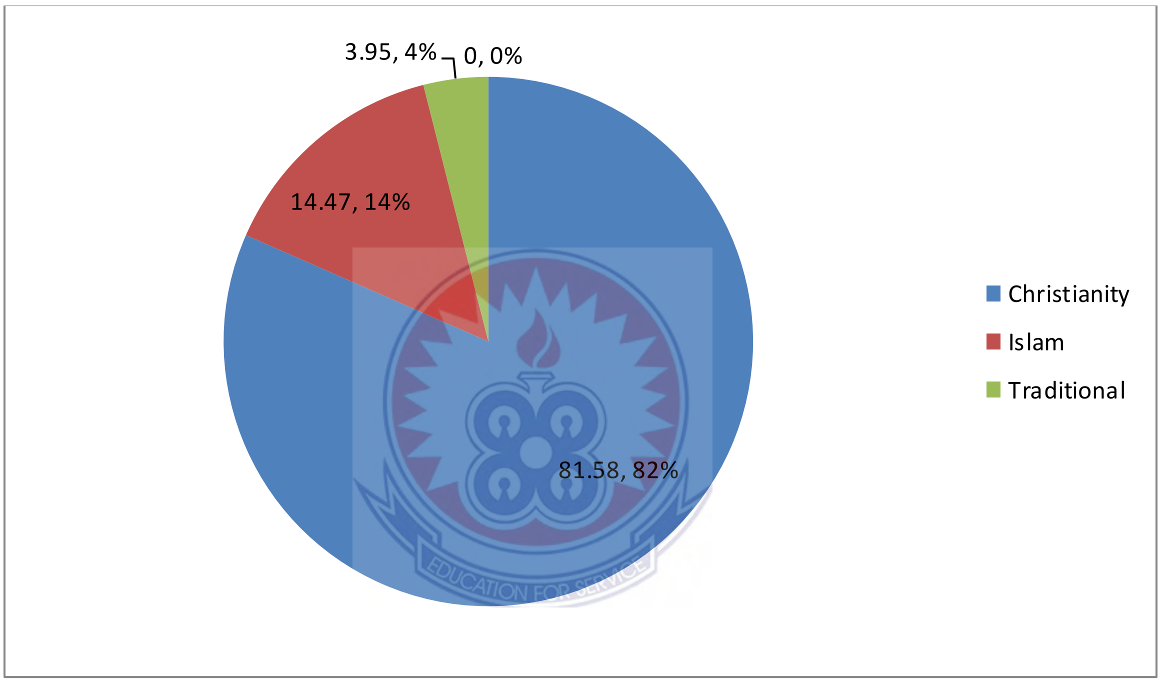

Figure 5: Religion of Respondents

Source: Field Survey, 2017

From the above the respondents who are Christians are on top of all the others with a percentage of 81.58%. The closest is the Islam"s whose total percentage amounts 14.47%. However, respondents who are traditional are 3.95% are the minority.

4.2 Appropriateness of credit appraisal process

This section presents findings on the first objective. The appropriateness of credit appraisal process was studied by examining the credit appraisal, collateral, credit scoring, evaluation and disbursement as discussed below:

Table 4.6: Response on customers who have taken loans more than once.

Response	Frequency	Percentage
Once	59	41.55
2 times	46	32.39
3 times	22	15.49
4 times	12	8.45
More than 5 times	3	2.11
Total	142	100

Source: Field Survey, 2017

As revealed in Table 4.2, out of the 142 respondents, 59 which constitute 41.55% of the total customers had taken loans once from the Bank. 46 respondents out of the remaining

88representing 32.39% had taken credit facility twice from the Bank, 22 representing 15.49% had taken loans thrice from the Bank, and 12 respondents representing 8.45% had taken credit facility four times from the Bank while 3 customers representing 2.11% had taken credit facility more than five times.

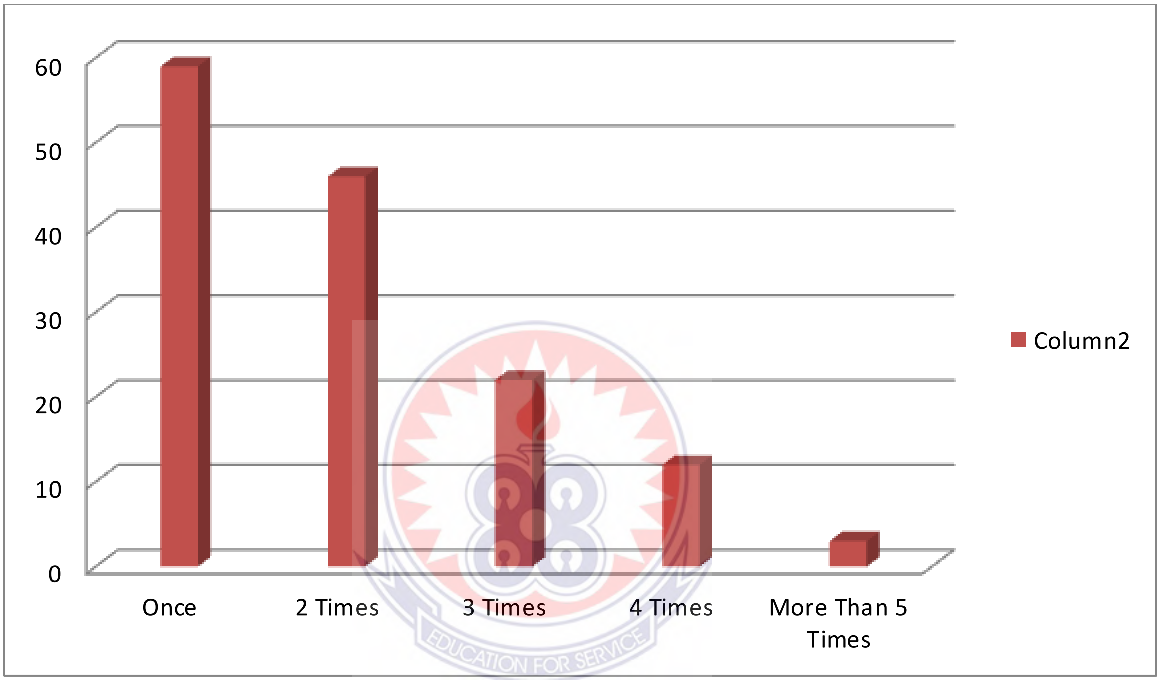

Figure 6: Respondents on Customers who have taken Loans more than once

Source: Field Survey, 2017

The bar chart above further portrays an avid picture and the number of times respondents have taken loans. Out of the 142 respondents, 59 which constitute 41.55% of the total customers had taken loans once from the Bank. 46 respondents out of the remaining 88representing 32.39% had taken credit facility twice from the Bank, 22 representing 15.49% had taken loans thrice from the Bank, and 12 respondents representing 8.45%

had taken credit facility four times from the Bank while 3 customers representing 2.11% had taken credit facility more than five times.

4.3 Collateral

Collateral refers to asset pledge in exchange for the receipt of a loan. Borrowers are required to pledge existing assets as security for the receipt of the loans. According to Bank executives interviewed, most of the loans extended to SMEs were primarily secured by two guarantors and 20% of the amount in the customer"s account as collateral.

Table 4.7: Response on the nature of collateral provided

Response	Frequency	Percentage
Mortgage	46	32.39
Hypothecation	59	41.55
Personal Guarantee	26	18.31
Guarantor	11	7.75
Total	142	100

Source: Field Survey, 2017

Table 4.7 disclosed that 32.39% of loans were secured by mortgages, 41.55% by hypothecation, 18.31% secured by personal guarantee and 7.75% were secured by guarantors. It was discovered that the bank maintained a safety margin on properties used to secure loans. The Bank lends between 50 – 60% of the values of the property presented. In respect of landed property, the bank requires a signed valuation report by a recognized values. Customers are required to save up to 20% of the amount required as collateral and also provide two guarantors. It was found out that most customers end up securingcredit in other financial institutions because they are not able to meet these conditions.

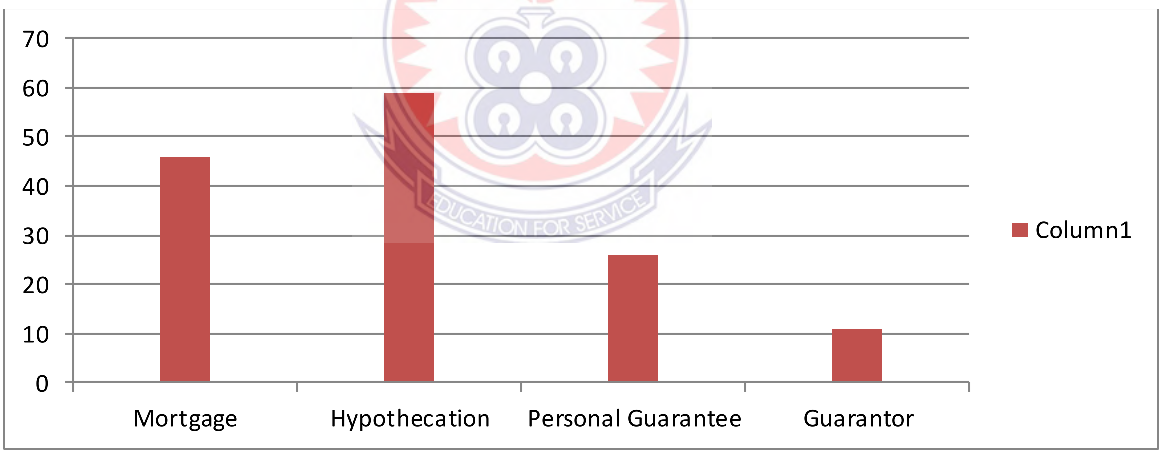

Figure 7: Response on the Nature of Collateral Provided

Source: Field Survey, 2017

The bar chart above gives a clear picture of the nature of collateral provided by respondents that have taken loans. Disclosed that 32.39% of loans were secured by mortgages, 41.55% by hypothecation, 18.31% secured by personal guarantee and 7.75%

were secured by guarantors. It was discovered that the bank maintained a safety margin on properties used to secure loans. The Bank lends between 50 – 60% of the values of the property presented. In respect of landed property, the bank requires a signed valuation report by a recognized valued. Customers are required to save up to 20% of the amount required as collateral and also provide two guarantors. It was found out that most customers end up securing credit in other financial institutions because they are not able to meet these conditions.

Table 4.8 Response on whether Loan was diverted

Response	Frequency	Percentage
Yes	____	____
No	136	95.77
No Response	6	4.23
Total	142	100

Source: Field Survey, 2017

Table 4.8 revealed that 95.77% majority of respondents confirmed that, the loans received were used for the purpose for which the loan was secured. 4.23% minority of the respondents ailed to answer as to whether part or the entire loan secured was diverted. It was revealed that majority of the loans are used for the intended purpose.

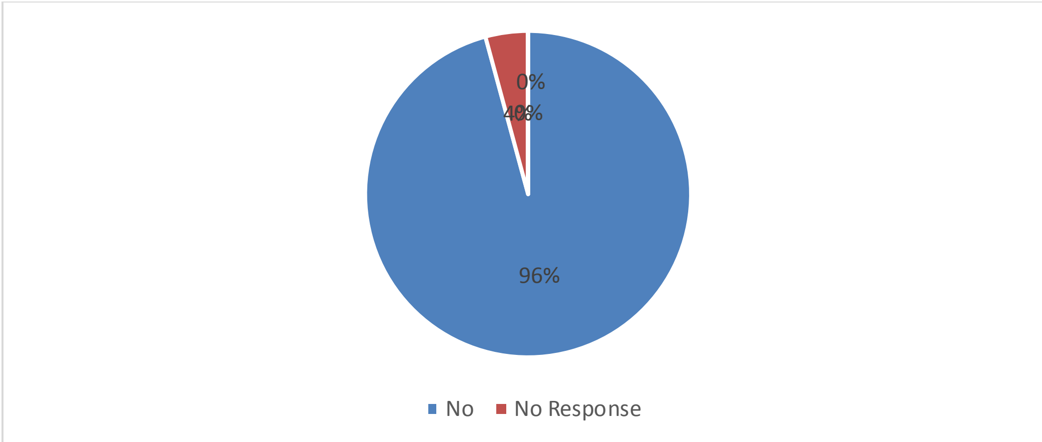

Figure 8: Respondents on whether Loan was diverted

Source: Field Survey, 2017

From the chart above, it is clear that 95.77% majority of respondents confirmed that, the loans received were used for the purpose for which the loan was secured. 4.23% minority of the respondents ailed to answer as to whether part or the entire loan secured was diverted. It was revealed that majority of the loans are used for the intended purpose as a result proper of monitoring and follow – up exercise undertaken by the Bank to monitor customers.

Table 4.9 Response on Credit Scoring and Evaluation

Response	Frequency	Percentage
Account Performance	31	21.83
Collateral	55	38.73
Credit Worthiness	41	28.87
Previous relationship with	15	10.56

the bank		
Total	142	100

Source: Field Survey, 2017

From Table 4.9 above, 38.73% of respondents agreed that the most important criteria for credit storing and evaluation were collateral. Creditworthiness of customers was the second most important criteria for credit scoring with 28.87%. The creditworthiness of a customer was determined by the ability and willingness of the customer to pay the loan. 21.83% considered account performance as the important criteria for credit scoring while 10.56% of respondents agreed that previous relationship with the Bank was the most important criteria for credit scoring and evaluation.

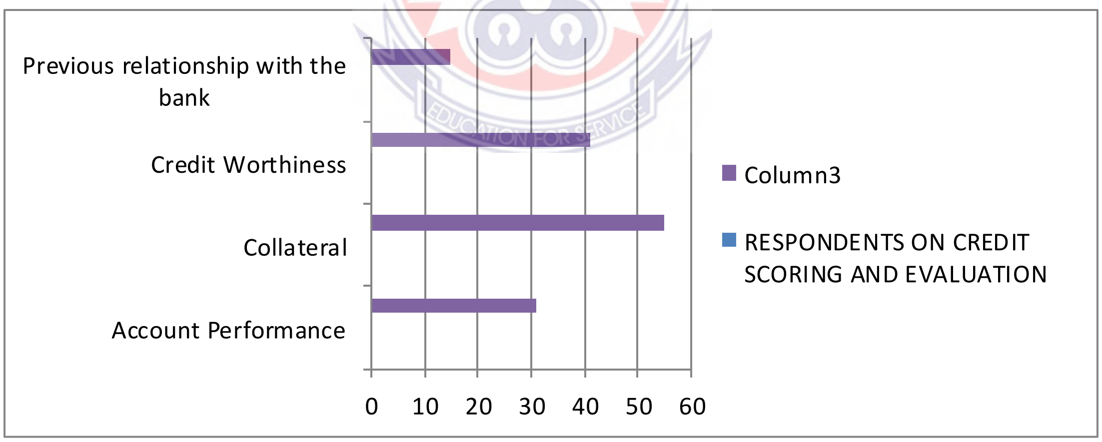

Figure 9: Response on Credit Scoring and Evaluation

Source: Field Survey, 2017

The bar chart above gives a clear picture of the credit scoring and evaluation provided by respondents. Disclosed that 38.73% of respondents agreed that the most important criteria for credit storing and evaluation were collateral. Creditworthiness of customers was the second most important criteria for credit scoring with 28.87%. 21.83% considered for credit scoring while 10.56% of respondents agreed that previous relationship with the Bank was the most important criteria for credit scoring and evaluation.

Table 4.10 Response on loan amount disbursement

Response	Frequency	Percentage
Approval as requested	75	52.82
Adjusted but adequate	38	26.76
Adjusted not adequate	29	20.42
Total	142	100

Source: Field Survey, 2017

Table 4.10 indicates that, more than half (52.82%) of the respondents confirmed that their loans were approved as requested. On the other hand, 26.76% had their loans adjusted but were still adequate for the purpose intended for. 20.42% of the respondents had their loans adjusted hence inadequate for the intended project or purpose. This contributed to loan default among customers. Majority of customers who defaulted were those who had the loan amount adjusted and was not adequate. They ended up securing another loan from other financial institutions making repayment of both facilities difficult.

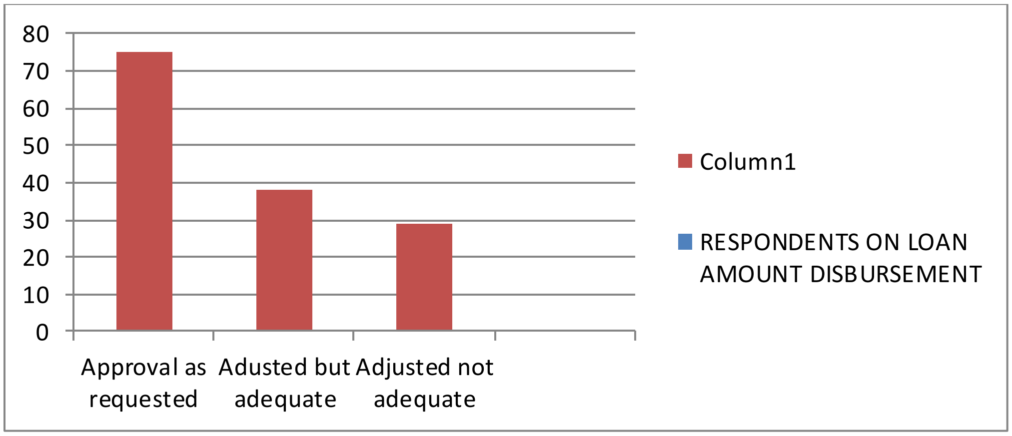

Figure 10: Response on Loan Amount Disbursement

Source: Field Survey, 2017

The bar chart above gives a clear picture of the loan amount disbursement provided by respondents. Disclosed that 52.82% of the respondents confirmed that their loans were approved as requested. Moreover, 26.76% had their loans adjusted but were still adequate for the purpose intended for. 20.42% of the respondents had their loans adjusted hence inadequate for the intended project or purpose.

Table 4.11 Response on how regular customers repay loans

Response	Frequency	Percentage
Loan Repayment on Time	98	69.01
Default Repayment	44	30.99

Total	142	100

Source: Field Survey, 2017

Table 4.11 shows the responses of respondents on loan repayment. 98 respondents representing 69.01% disclosed that, they service their loans on time while the remaining 44 representing 30.99% accepted that, they default repayment occasionally.

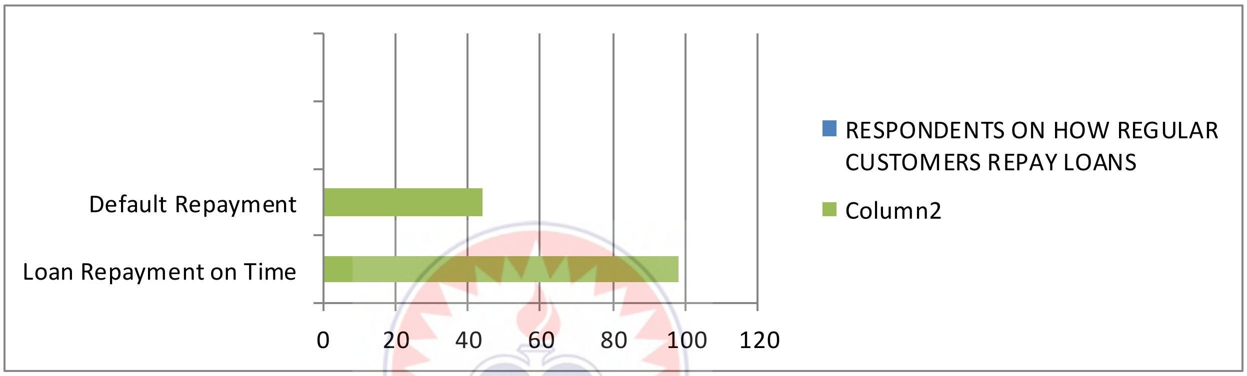

Figure 11: Response on how Regular Customers Repay Loans

Source: Field Survey, 2017

The bar chart above further portrays an avid picture on how regular customers repay their loans. 98 respondents representing 69.01% disclosed that, they service their loans on time while the remaining 44 representing 30.99% accepted that, they default repayment occasionally.

Table 4.12 Response on Loan Processing Time

Response	Frequency	Percentage
1 – 3 days	-----	------
4 – 5 days	12	8.45

6 – 7 days	31	21.83
More than 7 days	99	69.72
Total	142	100

Source: Field Survey, 2017

From Table 4.12, it took 69.72% of the respondents more than 7days to access their loans. Customers expressed their dissatisfaction with the time it takes them access loans from the Bank. They complained that delays that last for more than 7days sometimes make them take credit elsewhere. 21.83% of the respondents confirmed that it took 6 – 7days to access loans from the Bank while 8.45% responded that it took them 4 – 5days to access their loans.

Table 4.13 Response on the causes of Loan Default

Response	**Frequency**	**Percentage**
High Interest rate	4	6.82
Longer Loan Processing period	3	4.44
Adjustment of loan amount	15	31.82
Business Failure	22	56.82
Loan Diversion	--	----
Total	44	100

Source: Field Survey, 2017

As indicated in Table 4.13, the above factors contribute to the occasional default of loan repayment by the 48 customers who could not service their loans on time. 4 respondents representing 6.82% confirmed that high interest rate contributed to their default. 3 respondents (4.54%) said the loan process takes a longer time which affects the project they intend to use the facility for therefore the default. 15 (31.82%) expressed the concern that the full loan amount applied for are not granted, therefore the amount granted are not adequate to the intended purpose. Most (56.82%) of the respondents attributed their inability to service their loans regularly to business failure.

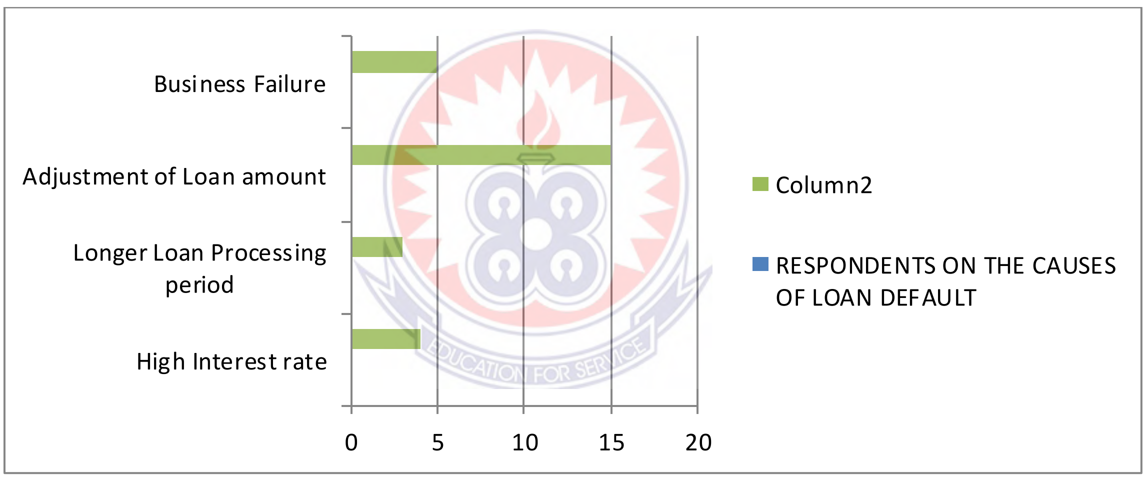

Figure 12: Response on the Causes of loan Default

Source: Field Survey, 2017

The bar chart shows responds on the cause of loan default.Four (4) respondents representing 6.82% confirmed that high interest rate contributed to their default. 3 respondents (4.54%) said the loan process takes a longer time which affects the project they intend to use the facility for therefore the default. 15 (31.82%) expressed the concern that the full loan amount applied for are not granted, therefore the amount granted are not adequate to the intended purpose. Most (56.82%) of the respondents attributed their inability to service their loans regularly to business failure.

Table 4.14 Response on the reception offered to customers at the Loans Department.

Response	Frequency	Percentage
Excellent	47	40.15
Very Good	29	20.42
Good	41	28.87
Normal	15	10.56
Bad	--	----
Total	142	100

Source: Field Survey, 2017

From Table 4.14, the researcher found out that 40.15% of the respondents were of the view that the Loans Department offers an excellent reception to its customer. 28.87% of the respondents classify the reception at the Loans Department as good, 20.42% sees the reception to be very good while 10.56% perceived the reception at the Loans department to be normal. No customer described the services provided by the Loans department as bad.

Table 4.15 Response on whether Loans Department Staff are approachable and cooperative.

Response	Frequency	Percentage
Strongly agree	92	64.79
Agree	43	30.28
Not Sure	7	4.93
Disagree	----	----
Strongly Disagree	-----	----
Total	142	100

Source: Field Survey, 2017

As revealed in Table 4.15, majority 64.7% of the customers strongly agreed that the Loans Department staff was approachable and cooperative. It was found out that Loan Officers treated all customers equally without any preferential treatment. None of the customers disagreed to the fact that Loan Officers were approachable and cooperative. Customers were able to open up and seek clarification before securing loans which was good for the Bank in building and excellent relationship with customers.

Table 4.16 Response on whether Loan officers provide special assistance to friends and family members to ensure they secure the loan.

Response	Frequency	Percentage
Strongly agree	2	1.49
Agree	25	17.60
Not Sure	37	26.06
Disagree	49	34.51
Strongly Disagree	29	20.42
Total	142	100

Source: Field Survey, 2017

From Table 4.16, minority 1.41% strongly agreed that loan officers provided special treatment to friends and family members to ensure they secure their loans. 17.60% of the respondents also agreed to this. It was found out that these customers constituted more than half of the customers who had their loan amounts adjusted and as a result was not adequate.

Table 4.17 Response on customer's relationship with Loan Officers

Response	Frequency	Percentage

Friend	35	24.65
Family Members	2	1.41
Class Mate	6	4.22
Neighbor	11	7.75
No Relation	88	61.97
Total	142	100

Source: Field Survey, 2017

Table 4.17 revealed that 88 respondents (61.97%) had no relationship with loan officers. This shows that less than half of the respondents had relations with loan officers in one way or the other. 24.65% of the respondents were friends to loan officers, 7.75% were neighbours to loan officers while family members of loan officers constituted only 1.41% of the respondents.

Table 4.18 Response on whether customers were granted their loans because of their relationship with Loan Officers.

Response	**Frequency**	**Percentage**

Yes	---	----
No	139	97.89
No Response	3	2. 11
Total	142	100

Source: Field Survey, 2017

As revealed in Table 4.18, majority (97.89%) disagree with the fact that they were granted their loans as a result of their relationship with the loan officers. This means that loan officers were no influenced by their relationship with customers in assessing their credit worthiness.

Table 4.19 Loan Officers provided any assistance to customers.

Response	Frequency	Percentage
Yes	117	82.39
No	25	17.61

Total	142	100

Source: Field Survey, 2017

As shown in table 4.19, most (82.39%) of the respondents agreed to the fact that loan officers assisted them in their loan processing. The provision of advisory service on how to invest loans when granted goes a long way to help the Bank in loan recovery. This is so because customer "loan repayment ability depends on the survival of their businesses".

Table 4.20 Response on whether customers were granted the loans as a result of the Loan Officers assistance.

Response	**Frequency**	**Percentage**
Yes	---	----
No	133	93.66
No Response	9	6.34
Total	142	100

Source: Field Survey, 2017

From Table 4.20, majority (93.66%) of the respondents disagreed that they were granted the loans as a result of the assistance the loan officers provided them. According to them they secured the loans because they were credit worthy and met all the requirements of the Bank. 6.34% of the respondents failed to respond to whether they were granted the loan as a result of the assistance provided by the loan officers.

Table 4.21 Loan Officers approve all loans applied for by their friends and/or family members.

Response	Frequency	Percentage
Strongly agree	3	2.11
Agree	5	3.52
Not Sure	35	24.65
Disagree	48	58.45
Strongly Disagree	16	11.27
Total	142	100

Source: Field Survey, 2017

As revealed in Table 4.21, the majority (58.45%) of the respondents disagree that loan officers approve all loans applied for by friends and family members. This is reaffirmed by the low (5.63%) of respondents on the opposing side. Loan officers confirmed that they approve loans for all customers who are able to meet all the requirements. If a friend or family member is not able to meet all the loan requirements that person is denied the loan as any other customer.

Table 4.22 Friends and family members of loan officers mostly default repayment.

Response	Frequency	Percentage
Strongly agree	-	----
Agree	2	1.41
Not Sure	11	7.74
Disagree	35	24.65
Strongly Disagree	94	66.20
Total	142	100

Source: Field Survey, 2017

From Table 4.22, the majority (66.20%) of the respondents disagree that, friends and family members of Loan Officers mostly default loan repayment. This is reiterated by the low (1.41%) of respondents on the opposing side.

Table 4.23 Loan repayment by customers who have relationship with loan officers.

Response	**Frequency**	**Percentage**

No Default	46	85.19
Default	8	14.81
Total	54	100

Source: Field Survey, 2017

As already indicated in Table 4.23, 44 respondents out of the total of 142 respondents defaulted loan repayment. From Table 4.19 above, only 8 (18.18%) respondents out of the 44 respondents who defaults repayment had relation with the loan officers. This clearly shows that majority of the respondents who defaulted payment had no relation with the loan officers. Moreover, the 8 respondents attributed their default to business failure and not because of their relationship with the loan officers.

Table 4.24 Loan officers do not take legal action against friends and/or family members who default payment.

Response	Frequency	Percentage
Strongly agree	9	6.34
Agree	21	14.79
Not Sure	32	22.53
Disagree	66	46.48
Strongly Disagree	14	9.86
Total	142	100

Source: Field Survey, 2017

Table 4.24 shows that 46.48% of the respondents disagreed that, loan officers do not take legal action against friends and family members who default payment. Loan officers issue letters of default to customers who default loan repayment followed by a final demand notice. A legal action is then taken against the customer if payment is not made. This policy affects all customers including friends and family members.

4.5 Strategies to Improve the Credit Appraisal Process

This section presents findings on strategies designed to improve the credit appraisal process and loan repayment of Ecobank. The borrowers were asked to give their free opinion on analysis of loan performance, incidental cost of borrowing, interest rate and the loan period.

Ecobank lack credible information on borrowers" previous records with other financial institutions. It relied on the information provided by the customers themselves about their previous borrowings. Such information is hard to validate because customers in their quest to secure the loan will not provide all the necessary information. Ecobank should pool together under the auspices of the Bank of Ghana and establish a credit information bureau to which reference can be made before any loan disbursement.

Respondents were asked whether incidental costs to borrowing affected the repayment of their loan facility. Findings showed that costs incurred in securing a loan influenced the attitudes of borrowers towards repayment. The findings of the study showed that these costs are high and sometimes discourage the customers from repaying the loan principal and interest. Ecobank needs to review this arrangement and revise the charges downwards. In addition, subsequent borrowings and top-up loans by customers which are currently charged full commitment needs to be revised downwards.

Findings of the study revealed that the credit appraisal process was long and tedious. A loan process could take up to a week. Most customers were unhappy with the number of days it takes to secure a loan; hence look for alternative source of credit. Ecobank needs to review its appraisal process with a view of shortening the loan period.

The credit department should be properly resourced to improve the monitoring exercise in order to reduce loan diversion. Reminders in the form of text messages to customer‟s mobile phone and reminder letters are encouraged.

Loan repayment period should be set in accordance with the financial viability of the project, loan size and market situation.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the entire study; the findings of the study, recommendations by the researcher, limitations encountered and directions for future research.

5.1 Summary of Findings

This study assesses the credit assessment process and loan repayment of Ecobank. The appropriateness of the credit appraisal process, the relationship between loan officers and customers and the effect of their relationship on loan repayment are investigated. Also, the factors of loan repayment performance of clients are examined. The descriptive findings reveal that most of the respondents have attained some level of formal education. A majority (48.03%) of the respondent is married.

With the appropriateness of the credit appraisal process, the results show that, a greater percentage of the respondents had the loans secured by hypothecation (41.55%). The bank lends between 50 -60% of the value of property presented as collateral. The findings revealed that customers who were not able to save up to 20% of the amount required were not granted the full amount applied for. As a result, 47.18% of the respondents had their loan amount adjusted. The adjustment of loan amount contributed to 31.25% of respondents who defaults loan repayment.

With the loan processing time, it took 69.72% of the respondents more than 7days to have their loans processed and disbursed. Customers expressed their dissatisfaction with the time it takes them access loans from the Bank. They complained that delays that last for more than 7dayssometimes make them resort to credit elsewhere since they might need the money quickly to transact business.

For the relationship between loan officers and customers, the results reveal that majority (61.97%) of the respondents had no relationship with loan officers. A greater percentage (64.39% strongly agree; 30.28% agree) of the respondents give an affirmative response that the Loans Department is approachable and cooperative. This practice is one of the hallmarks of a Bank and this helps build a better customer relation for the Bank. Around 54.93 % of the respondents disagree that loan officers provide special assistance to customers who are their friends and or family members. This means that the loan officers are not bias. This was strongly affirmed by a majority (82.39%) who were assisted in one way or the other by loan officers.

Majority (93.66%) or the respondents agree that, they were granted the loan because they met all the requirements and not because of the assistance provided by loan officers. It was found out that the assistance provided by loan officers to customers were mostly helping them to complete the loan forms educating them on injecting the full amount in the intended project.

The findings revealed that the relationship between loan officer"s and customers had almost no effect on loan repayment. A greater percentage (66.20% strongly disagree; 24.65% disagree) of the respondents strongly disagree that friends and family members of loan officers mostly default loan repayment. The study revealed that, out of the 44 respondents who defaults loan repayment, only 8 (representing 18.18%) had a relationship with loan officers. This 18.18%minority defaulted not because of their relationship with loan officers but due to business failure.

The study further revealed that majority (46.48% Disagree; 9.86% strongly Disagree) of the respondents disagree that loan officers do not take legal action against friends and or family members. Loan officers confirmed in the study that, after two demand notice shave been served on a customer who has defaulted loan repayment, a legal action is taken against the customer whether a friend or a family member.

5.2 Conclusion

Based on the objectives of the study in chapter one and findings of chapter four, the following conclusions can be drawn from the study:

In lieu of findings, this study concludes that majority (51.32%) of the respondents are self-employed. The study also concludes that people in the municipal had attained some level of formal education. From the findings, females constitute a higher percentage of respondents that could not repay loan on time. However females who are married and work in the public sector service their loans regularly. The study further revealed that females constitute over 70% of respondents who are friends to loan officers. Females who have no formal education and are friend‟s to loan officers mostly default loan repayment. With the appropriateness of the credit appraisal process, the study concludes that most customers are not able to meet the collateral requirements and therefore resort to take credit facility from rural banks and other credit unions. The findings reveal that most customers do not divert the loans they secure but rather use the facility for the intended purpose. The study concludes that customers did not divert loans because of the proper monitoring and follow-up exercise undertaken by the Bank. The results also reveal that, the adjustment of loan amounts contribute greatly to loan default. Customers are not able to undertake the intended project when the loan amount is adjusted. Customers also raised concern about the number of days it takes them to secure an SME loan. It took majority (69.72%) of the respondents more than 7days to secure loans.

The study also concludes that loan officers have an excellent relationship with all of their customers. The findings revealed that loan officers treat all customers equally irrespective of their relationship with some customers (friends and family members). The study further revealed that the loans department workers are approachable and cooperative providing assistance to all customers and not only friends and family members. The findings conclude that not all loans applied for by friends and family members of loan officers are approved. Friends and family members of loan officers are equally supposed to meet all loan requirements for approval.

The results also conclude that the relationship between loan officers and customers has no effect on loan repayment. The study accomplishes that some variables are responsible for loan repayment default, and these variables are loan diversion and adjustment of loan amount. The findings also concludes that loan defaulters (including friends and family members) are served first and second demand notice after which legal action is taken against customers who refuse to make payment.

5.3 Recommendations

Base on the findings of the study mentioned earlier, the following policy recommendations are made to improve the credit appraisal process of the Bank. Since the study findings concluded that it took majority of the respondents more than 7days to secure an SME loan, it is therefore recommended that the Bank review its credit appraisal process to reduce the number of days it takes to process SME loans. This is because many customers resorted to other financial institutions that could process their loans for them in less than 7days.

From the study, customers complained of high interest rate charged by Ecobank. To improve this, the study recommends that Ecobank review its interest rate regularly to tally with prevailing market conditions. Frequent benchmark of interest rate will improve loan performance.

The study also finds out that, loan officers provide advisory services to customers on how to invest the full loan amount in the intended project. It is recommended that loan officers intensify this as well as the follow-up and monitoring exercise they undertake. This is due to fact that the results show that the advice and follow-up exercise by loan offices reduced loan default of customers.

The study also revealed that loan officers who have spent more than a year at a particular branch had more friends applying for loans at those branches. Even though minority of such customers defaulted, it is recommended that loan officers are transferred frequently to reduce granting loans to friends and hence loan default.

5.4 Recommendation for Further Studies

The following suggestions are made for further study: Similar study may be conducted in Banks especially Rural Banks; Borrowers" characteristics and their capacity for credit management; Causes of loan failures – assess the behavioural and environmental aspects from both the Lenders' and borrowers' perspective.

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QUESTIONNAIRE

Your response to this Questionnaire will serve as a source of information for the thesis purpose.

Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.

SECTION A

SOCIO ECONOMIC CHARACTERISTICS

1. Gender

   male { } female { }

2. Marital status

   Single { } married { }separated{ } divorced{ }widowed{ }

3. Indicate the highest educational level attained

No formal education { } Primary School { } Junior High/Middle School { }

Senior High/Technical School { } University/Polytechnic/Diploma { }

4. Religion

Christianity { } Islam { } Traditional { } Others (specify)…………

SECTION B:

To investigate the appropriateness of credit appraisal process of Ecobank.

5. Ecobank has a credit policy for loan applicants.

Yes { } No { }

6. How long does it take a customer to secure a loan from Ecobank?

1 – 3 days { } 3 – 7 days { } 7 – 14 days { } 14 days or more { }

7. The Bank charge a reasonable interest rate on loans in the range of

10 - 20% { } 21 – 25% { } 26 – 30% { } Above 31% { }

8. The Bank has a proper way of accessing records of all applicants‟ previous borrowings in other financial institutions.

Yes { } No { }

9. Loan Officers make follow up to ensure loan facilities are used for the purposes for which they were granted.

Yes { } No { }

SECTION B

To investigate the relationship between loan officers and persons applying for loans.

10. How many years have you worked as a credit officer at Ecobank ?

6 months – 12 months { } 13 months – 24 months { } 25 months – 36 months { } 36 months and above { }

11. How do you treat your clients during the loan process?

Treat them equally { } Offer special treatment to family and friends { }

other. Specify ……………………………………..

12. Have you ever granted a loan to a friend or family member before?

Yes { } No { }

13. If Yes, how many? (a)

1 – 10 { } 11 – 20 { } 21 – 30 { } 31 and more { }

14. Did you ask of collateral security from the friend or family member?

Yes { } No { }

15. If No, why?

He was a family member { } I knew his house and workplace { } He had a good loan repayment record with the bank { } Other. Specify …………………………………

16. Did you provide your friend or family member with any special assistance during the process? Yes { } No { }

17. If Yes, what kind of assistance?

Filled the loan application form for the customer { }Told him the kind of document he should provide as collateral security { } Introduced the friend or family member to the Officer in charge { } Guaranteeing the loan for friends and family { } Other. Specify ………………………………………

18. Did your assistance help him/her to secure the loan?

Yes { } No { }

SECTION C.

To investigate the effect of loan officer"s relationship with customer"s on credit appraisal process.

19. Did all your friends and family fulfill their part of the loan obligation?

Yes { } No { }

20. Did any friend or family member default repayment?

Yes { }   No { }

21. If Yes, what measures were taken to ensure repayment?

Convinced him to pay { }   Asked family members to talk to him/her { }

Took a legal action { }   Other. Specify ……………………………….

22. What was the default rate for 2014? ………………………………………..

23. What percentage were your friends and family members?

1% - 5 %   6% - 10 %   11% – 20%   21% and above

24. What do you think should be done to make the loan assessment process more effective?

…………………………………………………………………………………………………

………………………………………………………………………………………………