CREDIT ADMINISTRATION IN COMMERCIAL BANK (A CASE STUDY OF UNITY BANK NIGERIA PLC)

BY

KASIMU ABUBAKAR

ADM: NO.: 1011204021

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, FACULTY OF SOCIAL SCIENCES, USMANU DANFODIO UNIVERSITY, SOKOTO. IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE (B.Sc. HONS) IN ECONOMICS

OCTOBER, 2015.

APPROVAL PAGE

This is to certify that this project work is well research by KASIMU ABUBAKAR (ADM: NO: 1011204021) and well supervised and approved by Malam Abdullahi I. Gatawa as part of partial fulfillment of the award of B.Sc. Degree in Economics, Faculty of Social Sciences, Usmanu Danfodio University Sokoto.

………………………………. ……………………
Malam Abdullahi I. Gatawa Date
(Project supervisor)

………………………………. ……………………
Prof. Tukur Garba Date
(Head of Department)

………………………………. ……………………
External Examiner Date

DEDICATION

This research work is dedicated to my beloved parents Malam Abubakar Bako and Malama Hauwau.

ACKNOWLEDGEMENT

In the name of Allah, the beneficial, the merciful, Glory to be Almighty God, whose praise should proceed every writing and speech, may the blessing of God rest on prophet Muhammad (S.A.W.) the prophet and apostle Muhammad (S.A.W) by whose guidance errors escaped.

First and foremost my sincere grateful goes to Almighty Allah who has spared my life from the beginning to the end of my degree programme.

My special gratitude and appreciation goes to my project supervisor Malam Abdullahi I. Gatawa for his effort and immeasurable work of knowledge. Thanks and may God bless and reward you abundantly, Ameen and also wish to sincerely thank my H.O.D Prof. Tukur Garba, and my entire lecturers in the department of Economics, faculty of social sciences.

I also appreciate my project co-ordinator Prof. Y.U. Dantama for his advise towards the accomplishment for this work.

My special thanks also goes to my parents Mal. Abubakar Bako and Hajiya Hauwau and my wife Safiya A. Faru and my children for their moral upbringing, financial support and care toward me, may Almighty Allah reward them and give them more effort to assist others.

My appreciation also goes to my friends and my course mate in person of Dalhatu Bello, Ahmed Gulumbe, Zikirullahi, Tukur Bello, Isah Umar, Almustapha Aliyu, Aliyu Garba too numerous to mention but a few. May Allah reward them Ameen.

TABLE OF CONTENT

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

ABSTRACT

This research work was undertaken to assess the CREDIT ADMINISTRATION IN COMMERCIAL BANK (A CASE STUDY OF UNITY BANK NIGERIA PLC). This work was intended to achieve the following objectives: to appraise and determine the lending procedure of banks, to highlight the extent to which improper project evaluation influence bad debt of Money-Deposit Banks. Relevant data were collected from both primary and secondary sources. Questionnaire was the main primary data collected instrument employed while data from various relevant publications constituted the sources of secondary data. Upon the analysis of data, the following conclusions were drawn; that sound lending requires a clear-well articulated and easy accessible policy document which spells out the philosophy of lending. On the basis of the above findings, it was recommended that banks should ensure that loans given out to customers should be backed by adequate collateral security. Finally, it is the opinion of the researcher that the management of the Money-Deposit Banks should prevent the incidence of bad debts in Nigerian Banks.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

In a modern economy,there is distinction between the surplus economic units and the deficit economic units and inconsequence a separation of the savings investment mechanism.This has necessitated the existence of financial institution whose jobs include the transfer of funds from savers to investors.one of such institution is the money deposits banks,the intermediating roles of the money-deposit banks places them in a position of ``trustees´´ of the saving of the widely dispersed surplus economic units as well as the determinant of the rate and shape of the economic development.The techniques employed by bankers in this intermediary function should provide them with perfect knowledge of the outcomes of lending such that funds will be allocated to investments in which the probability of full payment is certain.However,in practise no such tool can be found in the decision of the lending banker.Virtually all lending decisions are made under creditors on uncertainty.The risk and uncertainty associated with lending decision, situation are so great that the concepts of risk and risk analysis need to be employed by lending bankers in order to facilitate sound decision-making and judgement.This statement implies that if risks are to be objectively assessed,lending decisions by the money-deposit banks should be based less on quantitative data and more on principles too subjective to provide sound and unbiased judgement.Furthermore,the banks depend heavily on historical information as a basis for decision making.

Apparently aware of the inadequacies of his decisions base,the lending banker has often sought solace in tangible and marketable assets as security giving the impression that lending against such securities is an insurance against bad debts.this makes the banker complacent with his loan portfolio.The increasing trend of provisions for bad and doubtful debts in most money-deposit banks is a major source of concern not only to management but also to the shareholders who are becoming more aware of the dangers posed by these debts.Bad debts destroy part of the earning assets of banks such as loans and advances which have been described as the main source of earning and also determines the liquidity and solvency which generate two major problems, That is profitability and liquidity, has to earn sufficient income to meet its operating costs and to have adequate return on its investments.

1.2 STATEMENT OF THE PROBLEM

The problem for this study is to appraise the lending and credit management policies of a typical Money-deposit bank(the Unity bank of Nigeria Plc) with a view of finding the causes,consequences of bad debts in banks.Year after year,banks suffer much from the part of full loan extended which has for one reason or the other proved unrecoverable.Banks lose millions of Naira in various bad debts yearly and despite efforts by bank management, committee of chief inspectors and the bankers committee on the other hand,the wave of bad debts in banks is still on alarming proportion.This is gathered from a combination of literature reviews on the topic.

On the other hand,many banks experienced a lot of bad debts when the new government abandoned the project awarded to the contractors by civilian government.These contractors borrowed to execute the project awarded to them but could not repay the loan,due to government action on reramping the economy thereby abandoning the project.Other experiences were during the time of draught or poor rainfall and pest.These however led to low harvest which did not give the farmers enough time to repay their debt.

Again, experience may arise in respect of lapses on the part of the banks credit officers.For instance, there may be excesses over approved facility, unformatted facilities and expired facilities not renewed on time. In each of these cases the customer may easily deny even owing the bank all or part of the amount.Money.deposit banks have always borne the burden alone,but this may not continue in future as the banks may be unable to take the risk of lending more but when eventually they do,they would seek the best way they come out of the risk with a realistic reward which they are clearly failing to achieve at present.

1.3 RESEARCH QUESTIONS

In view of the consequences of bad debt in Nigerian money deposit banks,it is neccessary to formulate some research question which will enable the researcher formulate statistical tables for testing hypothesis.

1. Has inadequate collateral security provision by borrowers caused bad debt in Unity bank of Nigeria plc?

2. Does fund diversion have any effect on bad debt of Unity bank of Nigeria Plc?

3. To what extent has government intervention in lending policies of money deposit bank influenced bad debt in Unity bank of Nigeria Plc?

4. To what extent does improper project evaluation influenced bad debt of Unity bank of Nigeria plc?

1.4 OBJECTIVE OF THE STUDY

(i) To determine and appraise the lending procedure of banks using Unity bank of Nigerian plc as a case study-with a view to highlighting the effectiveness and adequacy or otherwise the credit management policy of Nigerian banks in reducing the occurrence and consequences of bad debts.

(ii) To highlight the rate at which inadequate collateral security provision by borrowers increases the incidences of bad debt in Nigerian.

(iii) To determine whether fund diversion has any effect on bad debt of money deposit banks in Nigerian.

(iv) To ascertain the extent to which government intervention in lending policies of money deposit banks has influenced bad debts in Nigerian money deposit banks.

(v) To highlight the extent to which improper project evaluation influence bad debt of money deposit banks in Nigerian.

1.5 RESEARCH HYPOTHESES

The following hypothesis were drawn as follows.

1. Ho: inadequate collateral provisions by borrowers does not increase the incidence of bad debt in Unity bank of Nigeria plc.

   Hi: Inadequate collateral provisions by borrowers increases the incidence of bad debt in Unity Bank of Nigeria.

2. Ho: Fund diversion does not affect bad debt in Unity Bank of Nigeria

   Plc.

Hi: Fund diversion affects bad debts in Unity Bank of Nigeria Plc.

3. Ho: Government intervention in lending policies of money-deposit has no influence on Unity Bank of Nigeria Plc bad debt.

Hi: Government intervention in lending policies of money-deposit banks have direct influence on Unity Bank of Nigeria Plc,bad debt.

4. Ho: improper project evaluation has no significant relationship with bad debt in Unity Bank of Nigeria plc.

Hi: improper project evaluation has direct relationship with bad debt in Unity Bank of Nigeria plc.

1.6 SIGNIFICANCE OF THE STUDY

It is hardly an exaggeration that the difference between the success and the failure in the banking industry is in the effective management of the banks loans and advance.Efficient loan management is vital to the protection of assets and the achievements of adequate returns to investment.Though much work abound in the literature of the techique of lending,the methods of securing such lending and the pitfalls that await the unwary banker.By comparison it appears to be very little in point on the subject of loan management and recovery.

A study of this subject will therefore be a welcome addition to the existing volume of banking literature.

Effective loan management recognized that beyond the application of sound banking principles whenever a loan is made,there is need for urgency in appreciating the point when a loan begins to look doubtful,in arriving at a decision as to the appropriate action and in taking that action.This will enable the bank to at least obtain full payment including accrued interest or at worst to mitigate the capital loss in the face of increased competition among banks,future profits are likely to be harder to come by and since bad debts are a charge against profits,it is appropriate that we review the methods,proportions and margins of lending to bad and doubtful debts.

Hence the significance of this study to bankers will enable them to appreciate an appraisal of their lending and control mechanism now that they are expected to lend under tight monetary conditions.The economy as a whole will benefit from the study because if the level of bad debts is reduced,banks will be left with more profits to enable them make the expected contributions to the development of the economy.

1.7 THE SCOPE OF THE STUDY

In the study of credit management in Nigeria,Unity Bank of Nigeria Plc was used for my analysis.All references therefore relate to Unity Bank of Nigeria plc.

A Six-year period covering 1988-1993 will be studied.

1.8 THE LIMITATIONS OF THE STUDY

The limitations of this study include some of unavoidable constraints and problems encountered in the process.They are as follows:

i) FINANCE: The problem of finance was not left out in the course of research to this study. This type of study required adequate money and time to enable the researcher visit the necesssary places for collection of data.Insufficient fund hindered an in-depth study of this research since it was financed from meager pocket money of the researcher.

ii) NON-AVAILABILITY OF RECORDS: This is one of the most important limiting factors in the course of the study.This includes the problems of easily getting the appropriate data due to bureaucracy which hinders the information flow in the country.

iii) NON-CHALLANT ATTITUDE OF BANK OFFICIALS: The reluctance of bank officials to reveal information on the need for this study,for fear of breach of duty of secrecy to customers exposure of banks administrative short-comings.

iv) IGNORANCE OF RESPONDENT /BORROWERS: Most bank customers were semi-illiterates and most often it was very difficult to collect adequate data required from them.

v) TIME: Since this study is one of the many courses offered by the researcher,the researcher was constrained by time to carry out an indent research on the study.

1.9 DEFINITION OF TERMS

DEBT: This is what one owes to another person.

LOAN: A Loan is a credit arrangement,a security is pledged and must be repaid with interest over a stipulated period of time.

OVERDRAFT: This is a credit arrangement by banks to their customer to withdraw money over and above that what he has in the account.

DEFAULT: This means failure to pay one´s debt for credit extended which has fallen due.

HYPOTHESIS: This is a tentative statement of conclusion.It is a statement of claim which is to be proved right or wrong having been confirmed with facts.

Ho: Null Hypothesis: the hypothesis that is being tested.

Hi: Alternative Hypothesis: the hypothesis that will be accepted if the null hypothesis is rejected.

1.10 SCHEME OF THE CHAPTERS

The research is divided into five chapters, the chapter one consist of general introduction or overview of the study which will include the introduction, background of the study, statement of the problems, objectives of the study, research question, research hypothesis, significance of the study, scope of the study, limitation of the study, and the definition of terms.

Chapter two comprises of literature review which essentially is a review of previous work on the subject under study. It assist in understanding the theoretical basis and as well as the conceptual framework of the study.

Chapter three comprises the research methodology, which are the research design area of study.

Chapter four is all about data presentation, analysis and also the findings.

Chapter five consists of the summary of findings, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 THEORETICAL FRAME WORK

The need and criteria for lending have been extensively discussed in the literature review.

U.B.S Dictionary of Banking and finance(1981) defined bank credit as the ability to borrow money on the promise of future repayment.The prudential guidelines(1990) succintly convey a more comprehensive definition of credit,it defines credit facility as the aggregate of all loans,advances,overdrafts,commercial papers,bankers acceptances,bill discounted,leases, guarantees and other loss contingencies connected with a bank´s credit risks.Also,the definition of credit proposed by the CBN Monetary policy circular(1992) agrees with the view above.Generally,we could conclude that credit includes all commitments by a bank that has risk exposure and that may result in financial loss to the bank.Mandel (1974) described credit simply as the right of a lender to receive money in the future in return for his obligation to transfer the use of funds to another party in the interim. The facility is as old as man, though in the primitive society it was known as “mutual aid”, because it was based on ancient customer of ensuring substance of all members of the community. Credit therefore arises out of the need to bridge the gap between the surplus and deficit economic units such that the highest level of satisfactory function is performed by the financial institutions notable among which are the Money-deposit banks.

In agreeing with this view, Corley (1970) and Adeniyi (1985) stated that credit is a crucial factor in growth process of any economy and that by lending banks provide a valuable services to the community as they serve to channel money from those who have idle fund to those who put the money in to constructive use.

Furthermore, Acher and O.Ambrose opined that Money-Deposit banks are in business to make loans. They however, added that the loan should work out in such a way that it will not seriously endanger the loan portfolio and solvency of the bank . This view that appreciates that though some dangers may arise , lending is, and should be a major activity of Money-deposit banks. The techniques and complexities of lending have been changing with growth in the society.

Perhaps that is why Mather (1955) describes banking as an art as well as a science. He went further to say that in addition to the wealth of technical and legal knowledge, a bank manager should develop the aptitudes to assess every request for an advance according to innumerable factor pertaining to the political borrower. He then identified three basic principles that should guide all bank lending viz, safety ,profitability and suitability. In addition to the principle enunciated by matter, other important guiding factors include the character and integrity, management accounting and technical skill of the borrower as well as his capacity for hard work and his experience in the particular field for which the finance is required and the possibility of the proposed investment generally sufficient profits. To ensure repayment of the advance.

The importance of these traditional cannons of lending not withstanding ,Pitcher (1970) criticized undue radiance emphasis on them by the lending banker. He argued that the character of the borrower must be a prime factor in any lending decision. He also said that the integrity of the borrower must be undoubted especially where the security is inadequate to cover the maximum amount to be advanced. He however, wondered whether honesty is simply enough to ensure the success of an enterprise,in this difficult demanding conditions of our time. The answer is obviously "No" for instance all the integrity in the world will be little helpful to the managers of a company that are rapidly sinking into oblivion perhaps,because they did not adopt their products to meet the needs of a changing market or take appropriate corrective action to counter a disproportionate risk in over head costs and fall in trade. Therefore we could not but agree with him(pitcher) when he advocated that the banker should also consider the capital and capability of the customer and also enlist the aid of management accounting and other newer technique of credit analysis to improve their lending decision.

Bad debts are emotive words of bankers because they present losses to the banks. However,for the purpose of this study,there are various reasons for the occurrence of bad debt in money-deposit banks.Experience of bad debt has its impact on the banking operations.

CAUSES OF BAD DEBT

The causes of bad debt could be based on four main classified causative agents.They are as follows´´

i. Borrowers or customers

ii. Banks

iii. Government

iv. Nature related factors

BORROWERS OR CUSTOMER

i) Ignorance: Customers are ignorant of the fact that bank like other commerical ventures, are out to make profit by selling their products(loan) instead,they understood it to be a place where government and other well-to-do people store their money.Consequently,they regard amount borrowed to be`` National cake´´rather than as an article purchased which must be paid for.On the part of our elite in white,they regard money borrowed as part of their gratuity which should not be paid.Furthermore, it is the improper evaluation of projects for meeting borrowers needs.

ii) Some customers because of inadequate preparation or technicalities inherent in the purpose for which the loan is taken,do not properly assess their loan requirements and as a result,loans approved fall short of actual needs.Consequently,the customer cannot operate on a level profitable enough to enable repayment occasioning at time in bad debt on a serious note.

iii) Some customers or borrowers over-invest the loans approved on infrastrures to the detriment of actual purpose.This creates a situation where little or none would remain to other factors thereby occasioning bad debts.

BANKS: This concerns efficient disbursement and amortization schedule by banks.This relates to:

1) Poor evaluation of customer: the first point which readily comes to mind for the bad debts is poor before giving out loan to them.The pre-requisite for giving out loan to the customer is the consideration of the following:

CHARACTER: The likelihood that a customer will try to honour his obligation.

CAPACITY: The subjective appraisal of the customer´s ability to pay.

CAPITAL: The general position of the customer.

COLLATERAL: Assets that customers may offer as security to obtain credit in case of bad debt.

iv) Improper evaluation of profits by banks,a situation whereby funds become inadequate for projects.This affects the loans resulting to bad debts.

GOVERNMENT(POLITICAL INSTABILITY)

Political instability contributes indirectly to bad debts in banking industry by the government refusing to pay contractors in some projects awarded but there abandoned by a new government of many projects in an attempt to revamp our economy,incapacitate the contractors and affects repayment of the loan borrowed.

NATURE RELATED FACTOR:(NATURAL HAZARD)

Nature contributes in creating bad debt in our banking industry. Natural hazards include something like fire engulfing the factory where the loan is invented,in the case of agriculture,poor rainfall and pest may cause low harvest which will not give the farmer enough to repay the debt.

For these purpose the research shall appraise lending procedure and loan management of Unity bank.

CONDITION: Impact on general or specific economic trend.

i. High interest chargeable by banks,sometime occasioned a situation of bad debts because the interest increases the amount to be paid.

ii. Absence of forum by banks for enlightenment education of customers resulting to lack of procedure on report judgement for joint solution.

iii. Poor supervision of loan extended: loan diverted to a non-income yielding venture results to delay of payment or default totally.Therefore loan given should be traced to the extent of seeing where it is invested by the bank.

iv. Late and inconvenient disbursement on loans by banks either because of the risk factor inherent or due to inadequate staff or other bureaucratic and administrative delay. Convenient amortization schedule also contribute in credit management policy of the bank.The researcher shall proffer suggestions on his findings.The work is divded into five chapters.Chapter one contains the introduction,chapter two contains the literature review on the product topic discussing the history of Unity bank as well as the management of loan and credit including the policy and procedure in Unity bank of Nigeria plc,Research design and methodology are discussed in chapter three,Data analysis/discussion of findings and test hypothesis are contained in chapter four and chapter five comprise summary of findings,recommendation and conclusion.

Both loan complication and risk of loss are hardly divorced from the lending operations. Proportion of the total loans and advances made by the banker would usually become sticky. That is why even the best managed banks provide for bad and doubtful debts in their normal course of business. The best option for a banker wishing to avoid bad debts would not lead.

However, this is not so, since interest carried on lending constitute a great proportion of banks earnings. Agreeing that bad debts are emotive. Words to bankers , Dandy (1975) enumerates some factors that may cause bad and doubtful debts to arise. These factors include:

A. Excessive lending or security values

B. Bad management of borrowers bank account

C. Incomplete knowledge of customers activities

D. Bad judgment.

E. Extraneous factors such as over trading, over- reliance on trade customers, optimistic balance sheet, misrepresentation and dishonesty of customers.

Nwankwo (1980) agreed with the above factors, but went further to state that in the Nigerian situation most borrowers regard bank loans and overdrafts as their own share of the national cake and therefore do not bother to repay them. The customer absconds with the loans to another banks to repeat the same process with success due to bank secrecy, fluid society and absence of a central intelligence agency. Another possible cause of bad debts in Nigeria is the diversion of loans to purpose other than the one for which they were granted. Bad debts incurred have adverse effect on the fortunes of the affected bank. It is believed that the indigenous Nigerian banks and their shareholders have not been comparing favorable well with their foreign counterparts in terms of profitability because of bad debts. Since banks cannot stop lending because of bad debts, they have to do something to reduce the frequency and minimize their effects.

The traditional approaches has been to obtain good security with reasonable realizable value, Matter (1979). This approach is supported by Olashore (1985) who added that the security must be rapidly perfected before a facility is made available to the customer. but pitcher (1979) described this apparently undue emphasis on security. In his view, the undue emphasis on security inhibits an attempt to develop more sophisticated methods of examining how the bank money is being used in a business and how and when repayment will be achieved. It also restricts unfairly the flow of bank credit to soundly managed enterprise which could borrow funds successfully if only they possess good collateral. The researcher cannot but agree with Pitcher. This is because our experience in the modern society has shown that security cannot substitute good lending judgment since it will not make a bad loan good but can make a good loan better.

In his own contribution, Richardson (1976) noted that beyond need to observe the basic bank lending principles lies on the need for effective loan management which he said is paramount. Effective loan management is multifaceted and Richardson opined that one major aspect of it is the need for urgency in appreciating when a lending begins to look doubtful in arriving at a decision is to the appropriate action and in taking such action. This view was supported by Dyer (1980) when he states deposited that once a lending proposition has been agreed upon, one may assume that if it is necessary to review the facility annually .This according to him is because a Varity of unexpected events can combine to modify the protected trend of the borrowing, make it necessary for the branch manager to have frequent discussion with the customer when their overdraft limit have been exceeded or when trading conditions have changed. Yet another support for this view was expressed by Osayameh (1989) when he opined that accounts do not just go bad overnight. Usually some danger signals may be shown for sometime during which it is the duty of the banker to show considerable interest in managing the account. As Dandy (1975) puts it,many sickly accounts can be nursed back to health by careful handling at the right time. The banks should not wait until a panic and crisis situation is reached. This view which has been expressed earlier in this chapter call for continuous review of the accounts and business of the customer. An analysis of the financial statement of the customer is always helpful, financial statement constitute an important source of information for appraising the financial health of a business venture. For purpose of compassion, the audited figures are expressed as ratios computed from audited figures of two consolidated years immediately preceding the request for loan will help to determine the credit worthiness of the customer and his ability to repay the loan.In short the ratio helps the banker to assess the degree of risk being taken-emphasis being placed on earning capacity and operating efficiency.

Mather (1979) grouped financial ratios into five categories are as follows:-

1. Liquidity ratio, which provide a measure of times ability to meet its short-term obligation as they fall due.

2. Leverage ratios, which are measures of the extent to which a firm’s operations are financed with debt capacity.

3. Efficiency ratios, which are used to measure the capabilities of the management to utilize the firm’s assets.

4. Profitably ratios, which indicate the overall profitability of the enterprise.

5. Equity related ratios, which are of primary concern to common stockholders.

LIQUIDITY RATIOS:

This is a measure of short term solvency.It indicates the extent to which claims of the creditors are covered by assets that are expected to be converted to cash in a period roughly equal to the maturity of the claims. The two commonly used liquidity ratios are the current ratio and the quick ratio.

$$\text{Current ratio} = \frac{\text{Total current Asset}}{\text{Total current liability}}$$

$$\text{Quick Ratio} = \frac{\text{Total liquid Asset}}{\text{Total current liability}} \quad \text{OR} \quad \frac{\text{Total current asset less inventory}}{\text{Total current liability}}$$

Some creditors argue that under adverse conditions, stocks may not have sufficient liquidity. Therefore the quick ratio is a modified version of the current ratio which measures the firm's ability to pay off current liabilities without relying on the sale of stock. Obviously an important factor to watch closely here is the underlying quality of the debtors.

Leverage Ratios

The debt/equity ratio is the most important of the leverage ratios. It measures total claim on a business of all forms of creditors in relation to owners equity.

$$\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Network (shareholders equity)}}$$

All other debt ratios are complementary to this one and are designed to measure the appriateness of the capital structure.

Efficiency Ratios: As indicators of managerial efficiency in the use of the firms assets, efficiency ratios are very useful in judging the performance of the firm. They help in explaining any improvement or decline in the solvency of a business and may also help to explain underlying changes in profitability. Some of the ratio include:

A. Average period of credit taken = $\frac{\text{Average creditors}}{\text{Purchases}} \times \frac{\text{52 weeks}}{1}$

B. Average period of credit granted = $\frac{\text{Average debtors}}{\text{Sales}} \times \frac{\text{52 weeks}}{1}$

C. Fixed asset turnover = $\frac{\text{Net Sale}}{\text{Net fixed Asset}}$

D. Stock Turnover = $\frac{\text{Net sales}}{\text{Stock}}$

PROFITABLITY RATIO: The profitability ratios are important to the banker, the creditors and the shareholders of a business. This is because if sufficient profit are not made, it would be difficult to meet operating expenses, pay interest charges or loans and pay dividend to shareholders. Profitability ratios include:

A. Gross profit margin = $\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$

B. Return on Total Assets = $\frac{\text{Net profit}}{\text{Sales}} \quad \frac{100}{1}$

C. Net profit Margin = $\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$

D. Return on equity = $\frac{\text{Net profit after tax}}{\text{Equity}}$

EQUITY RATIO: these measure the values and earning of the firms common stock. They include

A. Dividend yield = $\frac{\text{Dividend paid}}{\text{Price}}$

B. Price Earning Ratio = $\frac{\text{Market Price}}{\text{Earnings}}$

Audited financial statements are input data for bank credit analysis which may be fraught with some dangers. Commenting on this view, Oseyameh(1986) pointed out the ratios computed therefore are like the bikinis which reveal important features and at the same time inessential features. Chazen (1985) appear to have agreed with this view when he warned the lending bankers “Beware of the hidden facts” in audited financial statements.

Some of the problems associated with financial statements include the facts that they are historical and by the time the banker sees them they are already assets and liabilities items are not presented. There might be some elements of “window dressing” on the accounts to impress the banker and the tax man. Even when there is not window dressing the accout show a snapshot of the business at a point in time. Besides, the normal financial measures used at the moment is the one which relates assets to their original cost and not their resale value or replacement cost. In all these reasons, audited financial accounts are inferior to management accounts for the purpose of credit analysis.

Pauline weetman(2006) defined Management accounting as the process of identifying,measuring and communcating financial information about an entity to permit informed judgements and decisions by users of the information.This definition is in line with the definition formulated by the American accounting association.Size (1974) defined management account as the application of accounting techniques to the provision of information designed to assist all levels of management in planning and controlling the activities of the firm. Unlike financial accounts management accounting is a primarily concerned with supplying people inside the company with up-to-date relevant information on immediate past and projections for the future. The accounts which are prepared as frequently as circumstances demand are not doctored. Since they are not for external consumption, Pitcher (1979) believe that if the banker is sufficiently in good terms with his customer in order to be able to request and be given such information, his ability to monitor commitments with a view to ensuring repayment from cash flows would be greatly improved.

Credit scoring is another technique of credit analysis which is considered potentially useful in reducing the incidence of bad debts on personal accounts. This technique has been described by Adeniyi (1985) as a satisfactory based management tool for forecasting the outcome for extending credit to individual.It gives a measure of the probability of bad credit risk. This technique assigns numeric weight to customers characteristic. The total score of an application is an indication to usually a cut-off score fixed by the bank beyond which application is considered risky. Score cut-off can be reviewed upward or downward as circumstances demand.

2.2 GOVERNMENT CONTROL OVER CREDIT

Lending by Money-Deposit Bank and Investment bank is controlled by the government through the central bank of Nigeria, therefore the Central Bank of Nigerian has the primary responsibility for formulating monetary policy in the country. In this view ,the central bank’s proposal are made as an integral part of federal government annual budget which combines approved monetary and fiscal value measures.

The instruments are many and varies because of the institutional limitation on the effectiveness of the traditional instruments of monetary management, the central bank of Nigeria has devised other instrument on line its development objectives. These instrument package as credit guidelines are issued annually under the popular monetary policy circular to all licensed banks. These instruments are comprised of :-

A. Aggregate credit ceiling

Every year the government prescribes the rate of expansion of credit in the economy. Banks are not allowed to increase their aggregate loans and advances beyond a certain percentage of the previous years aggregate figure. Where a bank exceeds the prescribed limit, the bank shall pay to the central bank of Nigeria stipulated penalties on the excess.

B. Reserve Requirement

This is an obligation under which Money-Deposit banks are required to meet cash demands of their customers.

These are two variants of the requirements viz

1. Cash reserve requirements:

This instrument requires each bank to maintain with the central bank of Nigeria,A reserve of certain ratio varies according to certain classification of banks.

The classification and relevant ratios were as follows:-

Class of bank	Demand deposit liability	Cash ratio	Reserve

A	N300 million or more		5%
B	N100 million or more but less than N300 million		4%
C	N30 million or more but less than N100 million		3%
D	Less than N30 million		3%

Source: central bank of Nigeria Monetary policy circular on credit Guideline No.27: 1993

2. Liquidity Ratio: These instruments require each Money-Deposit bank to keep a certain percentage of its assets in liquid form. This ratio of specified current liabilities has remained at 50% over the years.

3. Interest rate Structure: Economist described interest rate as the rate at which the Central Bank of Nigerian discount the future. It is the cost of money to the borrower and a return on money to the saver or lender.Very recently the interest rate structure in Nigeria has been managed by the central bank of Nigeria which fixed the ranges within which both lending and deposit rates could be in maintenance. It has been argued that interest rate in Nigeria have been relatively low and discriminatory particularly in the favour of the preferred sectors.

SECTORAL ALLOCATION OF BANKS LOAN AND ADVANCES.

This requires the Money-deposit bank to direct prescribed proportion of their loan portfolio to the various sectors of the economy,for this reason the economy is divided into two broad sectors the preferred and less preferred sectors. In addition to sectoral allocation, banks are specially directed to ensure that a given percentage of their loans and advances go to indigenous borrower . Banks are also directed to ensure that a given percentage of deposit generated by their branches opened under the rural banking Scheme is given as loan and advances to the rural area where the branches are located.

Any shortfall on the monthly prescribed minimum (particularly) those to agriculture, residential housing and small scale industries shall be required to be deposited with the central bank of Nigeria and shall neither count as part of the specified liquid assests nor attract any interest yield. In event of a defaulting bank eventually meeting deposit shortfall shall not be automatic because the Nigeria banks for commerce and industry for – lending to sectors in agriculture. Housing Development and small scale industries respectively.

2.3 CREDIT ADMINISTRATION IN UNITY BANKS OF NIGERIA PLC.

The unity Bank of Nigeria Plc started operation in Nigeria in 1917 as the Colonial Bank with an initial capital of N10, 000.00 at its first branch in Lagos. In that same year, branches were opened at Jos and Port-Harcourt. The following year 1981, more branches were opened at Ebute-Melta, Ibadan, Kano, Onitsha and Zaria. In 1925, Barclays Bank (Dominion, colonial and overseas) was incorporated to take over the activities of colonial Bank along with other two British banks. The Barclays bank (Dominion, Colonial and Overseas) in 1954 had a total of nine branches in operation in Nigeria. In the next twenty-five years, only three branches at Aba, Gusau and Ijebu-Ode were added to the existing nine branches.

However, during the depression of the late 1930's and early 1940 are several branches including Aba (1934). Burutu (1942), Ebute-metta (1940) Gusau (1942) and Onitsha (1942) were closed down. At the dawn of the 1950's the bank name was changed to Barclays Bank (Doc), during the period also, 1957 to be precise, a local head office of the bank was established in Lagos headed by a director. A spate of uninterrupted expansion which saw the opening of all the closed down office except Burutu was noticed. In 1960, another structural changes took place. This time, regional managers were appointed for the administration of branches in the eastern , western and northern Nigeria. The regional managers were responsible to the general manager at Lagos who was the Chief executive of the local Administration of the bank in Nigeria.

In 1960, the bank was legally incorporated in Nigeria as Barclays bank of Nigeria limited being a wholly named subsidiary at number 40 marina street Lagos. The ownership of the bank became listed on the Nigeria citizens and associations. In compliance with the Nigerian Enterprise promotion Decree 1972 as amended up to 1977 the federal government of Nigeria through the federal ministry of finance incorporated acquired by Barclays Bank international. To reflect the new ownership structure, the bank in 1979 changed its name to unity bank of Nigerian with its Board of directors elected/appointed by share holders. The chief of the bank's staff is the managing director who sees to the daily operation of the bank. The bank is divided into four divisions for administrative purpose. The divisions are:

1. Finance and planning
2. Management services
3. Operations-up-country
4. Lagos operations and corporate finance.

Each division is headed by an executive director who reports to the management directors. The executive directors are assisted by Assistant General Managers. The operation division oversee the area offices which in turn oversee the branches in their respective areas. Unity Bank Of Nigeria limited is today of the top three largest banks in Nigeria within authorized share capital of 100,000 shares of N1 each out of which 54,432,000were issued and held by over 24,946 persons and organizations. As at September 1986, it had total assets about N5.4billion and a net worth of N300 million. In that year also a profit before taxation of N3,777,000 was made out of the N2143 loans and advances in that year N259 million loans and advances in that year N259million loans were classified bad. Since then Unity Bank of Nigeria has been performing well in all aspect until in 2009,Unity Bank of Nigeria was short listened as one of the Banks that could not meet up with the depositor's demand for deposit. As a result of that the Manager Director was among one of the Managers been sack from the office and been replace with a new Managing Director.

Unity Bank of Nigeria is been facing many problems with the management of the Bank credits and deposit.

2.4 LENDING AND CREDIT ANALYSIS.

Most commercial activities of the bank are originated at the branch level with the area offices, and head office acting mainly as authorizing and control centers. Branch offices are the contact points with the public,it is at the branch offices that the accounts are dominated.All credit application small or big are therefore submitted to the branch manager except where special credit services are to be offered to corporate customer, in which case the request could go straight and originate at the corporate banking group. The bank recognized that a well made loan is half collected. Therefore a customer´s request for a bank facility is critically and systematically analyzed before the facility is granted. The judgment of the lending officer and his confidence in the ability of the borrower cannot be over-emphasized.

Certain criteria are fixed and what the borrower must meet in order to qualify the advance. These criteria are called guides or cannons of Lending are in banking parlance known as the five c’s of credit. These are character, capacity, capital, condition and collateral. A lot of information is needed by the lending officers to properly address the cannons of lending vis -a -vis the prospective borrower. An initial interview therefore is the first basic step and very crucial in the analysis of credit by unity Bank of Nigeria limited. Each application for loan carries its own peculiar problems and may require slightly different mode of investigation. Therefore the lending officers are expected to conduct the initial interview with high degree of fact. Having said that, we lost the basic steps in obtaining a loan from Unity Bank of Nigeria Limited.

STEP ONE

The customer submits his application to his branch manager who conducts the initial interview.Sound lending questions must be asked because the applicant may innocently or deliberately omit pertinent facts about the proposal.Some of the question which should guide the manager (analyst) at the interview including the following:

1. Who is the applicant
2. How long is he known to the bank
3. If a fresh customer who were his previous bankers and why has he come to this bank.
4. How much credit is required
5. What is the purpose of the loan
6. How long is the loan required
7. What is the sources and method of repayment
8. Will the loan be helpful to the borrower and at the same time be profitable to the bank?
9. How covered will the default be by the security offered?

10. What is the financial position of the business for this purpose, he obtains and appraises the relevant supporting document, including the historical financial statement the project cash flow statement, the performa invoice and of a new project, feasibility studies report, etc.

STEP TWO

Having obtained satisfactory answers to the issues raised in step one the manager approves the facility within his discretionary limits, otherwise he prepares and submits to area office a formal credit application of the banks special proposal form. The proposed form is so designed to carry information obtained through personal interview, visits, local reports and bank records.All these will be attached to all other relevant documents as required by the controlling office for proper analysis of the proposal.

The manager should also include his recommendation letter on the proposal form to that effect he has infact adopted the customer's application and is committed to ensure proper utilization and eventual recovery of the loan if granted.

STEP THREE

At the Area office, the Area advances analyst cross checks the proposal with the supporting documents and passes with his own comments for the area manager's. Area manager then approves or declines the proposal and advises the branch manager accordingly. Note that where the amount requested is beyond the area manager's discretionary limit, the breach manager will prepare the proposal forms in the number of copies called for, depending on the amount involved. These proposal forms and the relevant document are forwarded direct to the appropriate head office authority with a copy to the area manager. The area manager scrutinizes his copy of the proposal and if he finds it lacking in any material respect ,he calls for such from the branch. Having reached a decision on the proposal,he sends it to head office with appropriate comments.

STEP FOUR

At the head office, the advances analyst appraises the proposal and makes his comments. This is forwarded to the Assistant General Manager (AGM) or his Assistant takes decision to approve or decline the proposal.If however the amount is beyond the discretionary limit of the Assistant General Manager ,He adds his own comments and recommendations which agree or disagree with those of the credit analyst and the Area manager present the proposal to the general management or executive committee as the case may be for final decision. Note that the board has the final decision on amount beyond the limit of the general management request for N5 million and above are forwarded through the five executive director for presentation to the board.

STEP FIVE

The final decision is communicated direct to the originating branch by the line Assistant General Manager with a copy to its area office

STEP SIX

The board manager adopts the decision and communicates same to the applicant customer if the decision is for such approval including drawn-down procedures, the interest chargeable, the financial and other relevant information to be supplied on a regular basis the requirements etc.

STEP SEVEN

If the customer accepts the offer, he complies with the banks requirements and obtain loan.

LENDING CONTROL: Banks have their own internal procedure for management and control of credit with a view to minimizing the incidence of bad debts. Managements interpretation of these rules and procedures are issued as circulars to branches with appropriate warning against the violation of any of the rules.

In Unity Bank of Nigeria plc discretionary limits are agreed for branches, corporate managers, general managers/executive committee and board of directors, it has been stated earlier in this chapter that loan request are usually limited at the branches expect in corporate banking level for specific needs of corporate customers.Any request beyond the discretionary powers of a particular officer are passed onto the appropriate higher officer.

The banks inspection division, among others monitors the activities of the lending officers/managers. As a further check the books of the bank are examined at least once a year to ensure that the lending officers do not deviate from the laid down principles.

All borrowing accounts are examined periodically and loans/over-drafts registers checked on a daily basics. The essence is to ensure that the accounts are working as normal and operate within their agreed limits. In addition, the checks gurantee accurate calculation of interest charges since the debit balances are recorded daily. In order to dectect crossing-firing or any unusual transaction on borrowing account, cheque paid in and out of the account are examined on a daily basis by the branch manager.

Information cards are also updated regularly.For this purpose, the bank calls for status report from other banks on borrowing customers.Some of the information obtained could be very useful especially when the next review of the account is due.Generally, the bank attaches great importance to the statistics derived from the customer´ s account as well as the value of the available security.

As a control measure,branches are expected to form periodically to the head office and / or controlling area office as the case may be, reports popularly called returns on borrowing accounts.Some of the regular return include:-

1. Excess Return
2. Classified debt return
3. Advances control return

4. Central Bank advances combined 2nd schedule return.

LOAN RECOVERY PROCESS: the loan recovery process of the bank became more prominent with the noticing of the alarming increase in the trend of the yearly balance of bad and doubtful debts and the provisions thereof. The bank was so alarmed that it setup in 1992 a special unit which was charged with the responsibility of managing well classified debts and recovering them Essentially the following four stages are involved in the recovering process.

1. Classification of account
2. Sending demand notices
3. Realization of security
4. Legal or court action

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 INTRODUCTION

Research methodology according to Orjih (1996) is a systematic process of collecting,presenting,analysing and interpreting data for the purpose of arriving at dependable Solutions to human problems.

Methodology is therefore concerned with the study of the resarch methods in a research of this nature,it is necessary to define the research design,area of the study,population of the study,sample size and sample size determination instrument for data collection,validation of instrument,reliability of research instrument.

3.1 RESEARCH DESIGN

The design of this project is a case study design on a particular case study which is credit management and the incidence of Bad debt in Nigeria Money-Deposit Banks with Unity Bank Of Nigeria as a case study.

3.2 AREA OF STUDY

The area of the study covers all the credit management and the incidence of Bad debts in Nigeria Money-Deposit banks(Unity Bank)

3.3 INSTRUMENT FOR DATA COLLECTION

There are many sources or instrument of data but in my study which is purely analytical two instruments for data collection which is primary and secondary data or sources were used.

A) Primary Source: These are raw data collected from people directly involved.These comprised the data collected from the followings:

i) Questionnaire

The researcher designed well structured and multiple choice questionnaires for the bank officials.they were personally administrered by the researcher.

The questionnaires were distributed and collected immediately to avoid loss in transit and close-ended questions were asked for simple and direct responses which the respondents could not easily avoid.

ii) ORAL INTERVIEW

This method served as a follow-up to the questionnaire which gave the respondents the opportunity to explain certain questions in detail.

The researcher met the respondents face to face and necessary questions were asked and the researcher filed the prepared questionnaires himself.

B) Secondary Sources: The secondary sources of information used were in the area of literature review.This means making use of Articles from various newspapers written by financial experts,magazines and textbooks.They were collected from the following places.

i) State Central Library Sokoto

ii) The Central Bank of Nigeria, Sokoto branch

3.4 RELIABILITY OF RESEARCH INSTRUMENT

From the responses obtained,the test techniques applied in the research was the x2 (Chi-Square) test.

FORMULA

$$X^2 = \sum \frac{(0i-ei)^2}{ei}$$

where $x^2 =$ chi-square

Oi= Observed frequency

Ei= expected frequency

This was used by the researcher in order to determine whether the incidences were by chance or statistically significant.

This made it possible for the researcher either to accept the null hypothesis or reject.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

In this chapter we will discuss the data presentation an d analysis, and also the findings.

4.1 DATA PRESENTATION AND SUMMARY OF FINDINGS

TABLE 4.1.1: ANALYSIS OF TREND IN TOTAL LENDING AND TOTAL DEPOSITS OF UNITY BANK(N´000)

Year	Secured loan	Unsecured loan	Total loan	% charge in loan	Total depreciation	% charge in depreciation	% of loan to depreciation
1988	2505931	34400	2849931	-	4876544	-	58.44
1989	2833281	415239	3248520	113.99	5782832	118.58	56.18
1990	2833281	415239	324852	110.89	9879730	110.32	56.47
1991	3295412	1082520	4377932	121.53	9739954	152.67	44.02
1992	4801392	1486484	6287876	143.63	15712902	161.32	40.02
1993	614435	1566283	7710718	122.63	2014764	128.0 1	38.33

SOURCE: Unity Bank of Nigerian Plc Annual Report and Account for the various years.

Table 4.1.1 above contains an analysis of the trend in bank lending as well as deposit base. As shown in the table, aggregate loans and advances increases from N2,849,931 million in 1988 to N7.710,718 million in 1993.

With 1988 as the base year, the figure shows N4,860,787 million increase during the six period. The table also shows that the total deposits of the bank increase from N4,876,544 million in 1988 to N20,144,764 million in 1993 representing in increases of N15,238,220 million. The table further shows that the banks have maintained an average loan-deposit ration of 38%.This gives enough liquidity position.

TABLE 4.1.2: TREND IN UNITY BANK LENDING, CLASSIFIED DEBTS AND PROVISION FOR BAD DEBTS.

Year	Total Lending	Total classified Debt	Pro-Charge	% charge in Loan Lending	% charge in Classified	% charge in provision
1988	2849931	379436	99896	-	-	-
1989	3249931	471321	99062	113.99	124.22	99.17
1990	3602320	610653	152710	110.89	129.56	154.16
1991	4377932	819206	367620	121.53	134.15	240.72
1992	6287876	1250039	731828	143.63	152.59	199.08
1993	7710718	1459174	352168	122.63	116.73	48.12

SOURCE: Unity Bank of Nigeria Plc Annual report for the various years.

Table 4.1.2 above shows that despite the declining percentage rate of change in total lending except 1991 and 1992,the percentage change in classified debt has been consistently high and positive

and in each year higher than the percentage change in lending except for 1993 when percentage in total lending was marginally higher than percentage change in total lending between 1988 and 1993 increased by N4860787 million while total classified debts increased by N1079738 million. The trend is quite deeming and calls for serious attention. This could be stemmed with good loan management.

TABLE 4.1.3: RELATIONSHIP BETWEEN PROVISIONS FOR BAD DEBTS CHARGED AND TOTAL CLASSIFIED DEBTS IN UNITY BANK OF NIGERIA PLC.

Year	Classified debts N.000	Provision	% of Provision To Classified debt
1988	379436	99896	26.33
1989	471321	99062	21.02
1990	610653	152710	25.02
1991	819206	367610	44.87
1992	1250039	731828	58.54
1993	1459174	352168	24.13

Source: Unity Bank of Nigeria Plc-Annual Report and Accounts.

Table 4.1.3 above shows that 26.33% of the classified debt were charged to profit and loss as provision for classified debts in 1988-1993,the provision for classified debts were 24.13%.On the average about 30% of the classified debts were charged to gross earnings. Annually as provisions for doubtful debts. This is rather on the high side and may suggest a week recovery efforts on the part of the bank.

But as a result of the establishment of a debt recovery unit charged with the responsibility of managing and recovery classified debts, the percentage provision of classified debts, fell from 58.54% in 1992 to 24.13% in 1993.

TABLE 4.1.4: RELATIONSHIP BETWEEN PROVISION FOR BAD DEBTS GROSS EARNINGS OF UNITY BANK OF NIGERIA PLC.

Year	Gross Earning	Provision On Charged N.000	% of Provision Gross Earning
1988	773728	99896	12.91
1989	1059418	99062	9.35
1990	142077.8	152710	10.75
1991	1824117	367610	20.15
1992	269987	731828	27.10
1993	3937714	352168	8.94

Source: Unity Bank of Nigeria Plc annual Report and Accounts.

Table 4.1.4 above shows that a reasonable proportion of Unity Bank's gross earnings are taken by provision for bad debts. To recover the debts, the costs are always high and of course effects profitability.

4.2 PROVISION AND ANALYSIS OF DATA QUESTION

Table 4.2.1: Does your bank provide financial assistance to both the public and the private sectors?

RESPONSE	NUMBER	PERCENTAGE
Short term	20	40%
Medium term	30	60%
Long term	00	00
TOTAL	50	100%

Source: Field Survey 2015

Table 4 2.1 shows that 20 or 40% of the responses received believed that Unity Bank provides short term financial assistance to both public and private sectors while 30 or 60% of the responses accepted that their banks provide medium term financial assistance to customers.

Table 4.2.2: Does your bank encounter cases of Bad debts?

RESPONSE	NUMBER	PERCENTAGE
Yes	50	100%
No	00	00
TOTAL	50	100%

Source: Field Survey, 2010

Table 4.2.2, shows that 50 or 100% of the responses received believed that banks encounter cases of bad debt from 1988-1993.

Table 4.2.3: If yes, was the amount involved in such case startling?

RESPONSE	NUMBER	PERCENTAGE
Yes	41	82%
No	9	18%
TOTAL	50	100%

Source: Field Survey, 2015

Table 4.2.3 shows that 41 or 82% of the response received accepted that the amount involved in cases of bad debt were staggering/startling while 9 or 18% of the responses opined that the amounts were not startling.

Table 4.2.4: To what extent has inadequate collateral security provision affected the incidences of bad debts in your bank?

RESPONSE	NUMBER	PERCENTAGE
Great extent	40	80%
An extent	10	20%
No extent	00	00
TOTAL	50	100%

Source: Field Survey,2015

Table 4.2.4 shows that 40 or 80% of the response received were of the opinion that inadequate collateral security provisions by customers affects the incidence of bad debts in Money-Deposit banks (Unity Bank) to a great extent for the stated period. Whereas 10 or 20% of the responses accepted that it affects the incidence of bad debt in Unity Bank to an extent for the stated period.

Table 4.2.5: Does fund diversion have any effect on bad debt in your bank from the period 1988-1993?

RESPONSE	NUMBER	PERCENTAGE
Yes	47	94%
No	3	6%
TOTAL	50	100%

Source: Field Survey, 2015

Table 4.2.5 above shows that 47 or 94% of the response received accepted that fund diversion has some effect on bad debt in Unity Bank while 3 or 6% of the responses believed that it has no effect on bad debt in Unity Bank.

Table 4.2.6: Does your bank encounter any problem in the recovery of these loans?

RESPONSE	NUMBER	PERCENTAGE
Yes	50	100%
No	-	-
TOTAL	50	100%

Source: Field Survey, 2015

Table 4.2.5 shows that 50 or 100% of responses received opined that Unity Bank encounters problems in recovery of the loan given to customers during the stated period.

Table 4.2.6: Does the Central Bank interest rate ceiling pose a problem to your bank in granting these loans?

RESPONSE	NUMBER	PERCENTAGE
Yes	48	96%
No	2	4%
TOTAL	50	100%

Source: Field Survey, 2015

The above table shows that 48 or 96% of the responses received believe that Central Bank interest rate ceiling poses a problem to the bank in granting loan to borrowers.

Table 4.2.7: Does improper project evaluation have any significant relationship with bad debt in Unity Bank from the period?

RESPONSE	NUMBER	PERCENTAGE
Yes	50	100%
No	00	00
TOTAL	50	100%

Source: Field Survey, 2015

Table 4.2.7 shows that 50 or 100% of the responses received were of the opinion that improper project evaluation has a significant relationship with bad debt in Unity Bank of Nigeria plc from the period.

4.3 HYPOTHESIS TESTING

4.3.1 H0 fund diversion does not affect bad debt in Unity Bank of Nigeria Plc

Table 4.3.1

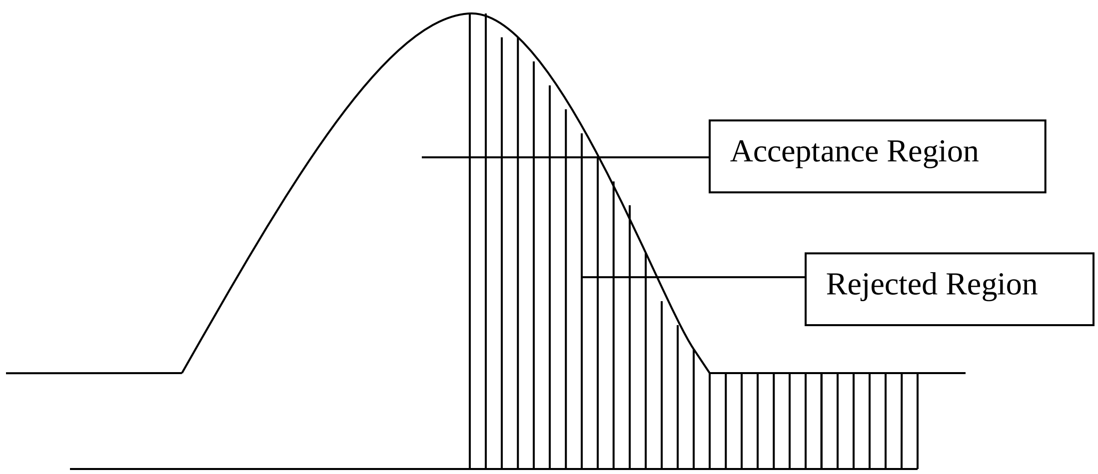
RESPONSE	Oi	Ei	Oi-ei	(oi-ei)	$(oi-ei)^2$
Yes	47	25	22	484	19.36
NO	3	25	-22	484	19.36
					38.72

Calculated value x^2 .05 = 38.72

Total value x^2 05=3.841

DECISION

Since computed value is greater than table value, 38.77>3.841 reject Ho which means that fund diversion affects bad debts in Unity Bank of Nigeria.



4.3.2: STATEMENT FOR HYPOTHESIS THREE

Ho: Government intervention has no influence on Unity Bank of Nigeria plc bad debts.

TEST TECHNIQUE

Chi-square=X^2 test

Where

X^2 = Chi-square

Oi = Observed frequency

F = Degree of freedom=1°

Level of significance=5%

DECISION RULE

Reject Ho, if calculated value is greater than table value, otherwise accept Ho.

Source of test of question 3.

Table 4.3.2

RESPONSE	0I	Ei	0i-ei	(oi-ei)	$(oi-ei)^2$
Yes	48	25	23	529	21.16
No	2	25	-23	529	21.16
					43.32

Calculated value $X^2.05$=42.32

Total value X^3= 3.841

DECISION

Since computed value is greater than table value, 42.32> 3.841, reject Ho which means that Government intervention has direct influence on Unity Bank of Nigeria plc bad debts.

4.3.3 STATEMENT OF HYPOTHESIS

Ho: Inadequate collateral provision by borrowers does not increase the incidence of bad debts in Unity Bank of Nigeria plc.

Test technique

Chi-square-x^2 test

Formula for test technique

$$X^2 = \frac{\sum(oi-ei)}{ev}$$

Where

X^2 = Chi-square

Oi = Observed frequency

Ei = Expected frequency

F = Degree of freedom =(C-1) (R-1)

(3-1) (2-1)

(2) (1) = 2

Level of significance 5%

DECISION RULE

Reject Ho,if calculated is greater than table value, otherwise accept Ho.

Source of test for question 1

TABLE 4.3.3

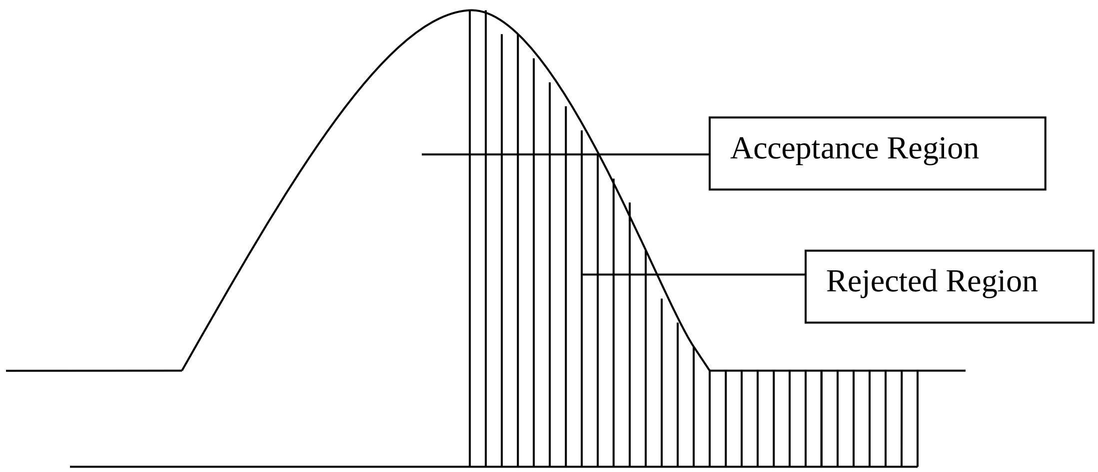
RESPONSE	OI	Ei	Oi-ei	(oi-ei)	$(oi-ei)^2$
Great extent	40	16.67	23.33	544	32.63
An extent	10	16.67	-6.67	44	2.64
No effect	-	16.67	-16.67	278	16.68

Calculated value X^2 .05=51.95

Total value X^2 .05= 5.991

DECISION

Since computed value is greater than table value,51.944 >5.001,reject Ho which means that inadequate collateral provisions by borrowers increases the incidence of bad debts in Unity Bank Of Nigeria plc.



4.3.4 STATEMENT OF HYPOTHESIS TWO

Ho: Fund diversion does not affect bad debt in Unity Bank of Nigeria plc.

TEST TECHNIQUE

Chi-square =X^2 test

Where

Chi-square-X^2 test

Formula for test technique

$X^2 = (oi-ei)^2$

Where

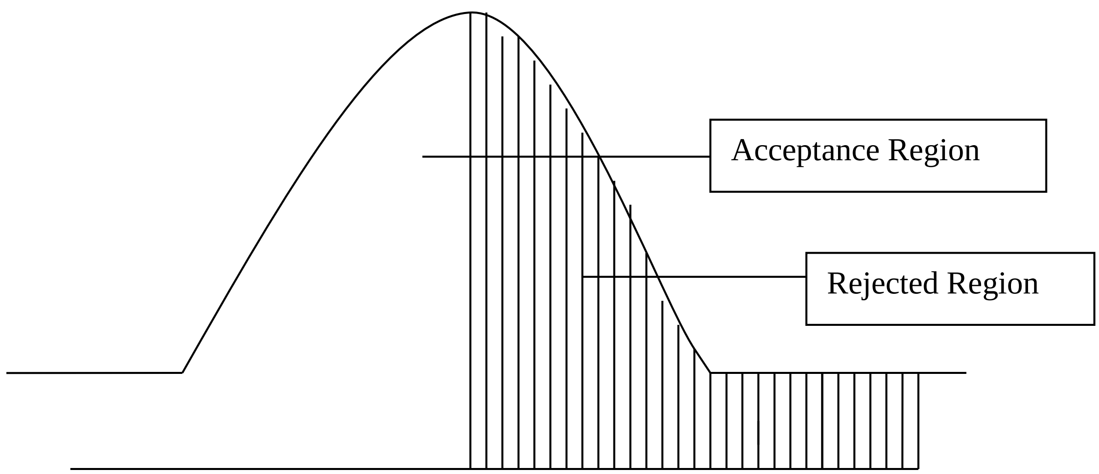
X^2= Chi-square

Oi = Observed frequency

ei = Expected frequency

F = Degree of freedom = 1º

Level of significance = 5%



4.3.5 STATEMENT OF HYPOTHESIS THREE

Ho: improper project evaluation has no significant relationship with bad debt in Unity Bank of Nigeria plc.

TEST TECHNIQUE

Chi-square=X^2 test

$$X^2 = \frac{(oi-ei)^2}{ei}$$

Where

X^2= Chi-square

Oi =Observed frequency

Ei = Expected frequency

F = Degree of freedom = 1°

Level of significance = 5%

Decision Rule

Reject Ho, if calculated value is greater than table value, otherwise accept Ho.

Source of test for question 2

RESPONSE	Oi	Ei	Oi-ei	(oi-ei)	$(oi-ei)^2$
Yes	50	25	25	625	25
No	-	25	-25	625	25
					50

Calculated value $X^2.05$= 50

Total value $X^2.05$ = 3.841

DECISION

Since computed value is greater than table value,50 > 3.841,reject Ho which means that improper project evaluation has significant influence on the bad debt of Unity Bank of Nigeria plc.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

In the course of the topic, credit management and the incidence of bad debt in Nigeria Deposit-Money banks (A case study of Unity Bank of Nigeria plc) the researcher had the following findings.

1. In the test for the first hypothesis, which was aimed at determining whether inadequate collateral provision by borrowers increases incidence 5 in chapter 4 was posed and the responses received showed that 40 or 80% of the responses received were of the opinion that inadequate collateral security provisions by the customers affects the incidences of bad debt in Unity Bank to a great extent where as 10 or 20% believed that it affects the incidences of bad debt to an extent. The researcher states as his findings that inadequate collateral security provisions by borrowers increases the incidence of bad debts in Unity Bank.

2. In the test for the second hypothesis which was aimed at determining whether fund diversion affects bad debts in Unity Bank. Question 6 in chapter 4 was posed and the responses received showed that 47 or 94% of the responses received accepted that fund diversion has a contrary view. The researcher states as his findings that fund diversion affects bad debts in Unity Bank of Nigeria plc.

3. In the test for the third hypothesis which was aimed at determining the extent of which government intervention in lending policies of Money-Deposit Banks. Question 8 in chapter 4 was posed and the responses ceiling posses a problem to Unity Bank in granting loans while 2 or 4% had a contrary view. The researcher states as his findings that government intervention has direct influences on Unity Bank of Nigeria plc bad debt.

4. In the test for the fourth hypothesis which was aimed at determining the effects of the incidences of bad debts in Money-Deposit Banks with regards to improper evaluation of projects, question 9 in chapter 4 was posed and the responses received showed that 50 or 100% of the responses received were of the opinion that improper project evaluation has significant relationship with bad debts in Unity Bank. The researcher states as his findings that improper project evaluation has significant influence on the bad debt of Unity Bank of Nigeria plc.

5.2 CONCLUSION

To manage loan and credit effectively, efforts have to be made to obey and respect the cannons of good lending and ensure adequate control and supervision on the facility extended within the frame work of government regulation and guidelines. Sound lending requires a clear, well articulated and easily accessible policy document which spells out the philosophy of lending. This will ensure that loan losses are kept at a minimum via a programmed which permits constant supervision on the projects being financed, easy identification of delinquent loans and instituting effective corrective measures.

It is instructive to note that no one can have complete control of his environment, which is Banking is dominated by external factors such as economic and political situations and unpredictable behavior of human beings.

All these factors are subject to change and therefore increase the risk of bank lending, losses are normal in the business of lending money but they must not be disproportionately high lending. Officers are therefore expected to continuously evaluate their loan portfolios and make adequate provisions for losses. The issue of bad debts cannot be ruled out in banking business but the incidence can be minimized with prudent lending philosophy and proper grasp of economic and political environment factors.

5.3 RECOMMENDATIONS

Based on the findings by the researcher in course of this research study, the researcher therefore made the following recommendations.

In the first findings, which states that inadequate collateral security provisions by borrowers increases the incidence of bad debts in Unity Bank, banks should ensure that loans given out to customers are backed by adequate collateral security. This means that loans should be given to individuals and corporations with adequate collateral security.

In the second finding which states that fund diversion affects bad debt in Unity Bank, there should be close and proper monitoring of loans before and after disbursement. Infact, the monitoring should continue for the entire life of the loan.

In the third findings which stipulates that government intervention has a direct influence on Unity Bank bad debt in Nigeria, government should as much as possible reduce the incidence of conflicting policy pronouncements which have adverse effect on business projection. Again, much as interest earnings constitute a great proportion of the gross earning of banks, the bank should be caution in increasing the rates charged on a loan.

In the fourth finding which states that improper project evaluation has significant influence on the bad debt of Unity Bank, the bankers should lay relatively more emphasis on the integrity of the borrower, the ability of the project to pay itself and previous experience with the customers also advances department should be staffed with qualified and resourceful officers capable of making seasonal decisions based on credit analysis. These staff should benefit from regular training and re-training programmed in landing appraisals. The services of quantitative analysis who will appropriate data and can predict the provision for bad debts to be necessary.

BIBLIOGRAPHY

BOOKS

Egginton, O.A. (1982). *Accounting for the Lending Banker:* London. Longman Group Ltd.

Fumes, E.L. (1975) . *Money and Banking in Developing* Countries: London. Heinemenn.

Holden, D.M. (1978). *The law and Practice of Banking*: London. Pitman Publishers.

Hundeyin, A.W. (1985).*Debt Management in Money-Deposit Banks in Nigeria*, Lagos. First Bank of Nigeria Ltd.

Hutchinson, H.U. (1981). *Interpretation of Balance Sheets:* London. Institute of Bankers.

Mandel, E.(1979). *Marxist Economics Theory:* London. Merline press.

Mather, I. (1979). *Introduction of Financial Management*: New York. Macmillan.

Mather, L.C. (1979). *The Lending Banker: London.* Waterloo and Sons.

Nwankwo,W.(1980).*The Nigerian Financial System*: London. Macmillan.

Ojo, A.J. $ Adewumi, W.(1982) *Banking and Finance in Nigerian:* Bradford Shiva: Graham Burm.

Okogbo,P.N.C.(1981). *Nigerian's Financial System:* Essex. Longman Group Ltd.

Oseymala,R.K.O.(1984). *Practice of Banking:* London. Macmillan.

Pitcher, M.A. (1991). *Management Accounting for the Lending Banker*: London. Macmillan.

Robinson,R.I. (1962). *The Management of Bank Funds:* New York. McGraw Hill.

Ugwu. C.C.(2010). *Management Accounting*: Enugu.Dikasinma Publishers.

JOURNALS ARTICLES

Adewurumi, W. (1984). A Survey of Lending Concepts principle and their Implications for Banker in Nigerian. *Journals of the Nigerian Institute of Bankers* Vol. 3.No.2.

Case Study of Money-Deposit Banks´´ *Nigerian Journal of Economic and Social Studies* Vol.27, No1.

Donaldson, T.H. (1977). Banking for a going concern principles of sound Lending. *Journal of Nigerian Institute of Bankers* Vol.4, No 5.

Lambo, E. (1983). Prediction of Customers Loan Repayment Behaviour-A