



**Saint Mary's University**

**School of Graduate Studies**

**MBA Program**

**ASSESSMENT OF LOAN RECOVERY  
PERFORMANCE IN CONSTRUCTION AND  
BUSINESS BANK (CBB)**

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**Saint Mary's University**  
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**BY**

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The Researcher



## ABBREVIATIONS

ACP	Average collection Period
CBB	Construction and Business Bank
CRM	Customer relationship Manager
CRM	Customer relationship Manager
CRO	Customer relationship Officer
<i>HSB</i>	Housing and Savings Bank
IMF	<i>International Monetary Fund</i>
KYC	Know your customers
NPA	Nonperforming Asset
NBE	National Bank of Ethiopia
NPLs	Nonperforming Loans
NRL	Non Repayment Loan

## ABSTRACT

*The objective of the study was to analyze the progress and achievement of Loan recovery and how loans were recovered in CBB. And establish the relationship between loan recovery and Bank performance. The research methodology adopted both descriptive and analytical research design based on both open ended and close ended-structured questionnaires to gain an in-depth understanding of loan recovery performance. A sample size of 136 respondents was used and Simple random sampling method was adopted for the study. Data was collected from both primary with the help of questionnaires and secondary data from different published and unpublished reports and CBB rules and regulations as well. The result of the study revealed, that varies types of collateral that used to serve credit applicants, the credit follow up support with technology on the other hand ridged credit police, complicated loan process, lack closed follow up, lack of loan advisory service before and after the loan and pure loan recovery performance were among the identified factors .The researcher recommends that the bank should provide Loan advisory service before and after the loan, diversified loan types and the Bank developed strong credit assessment and follow up to reduce the amount of NPL and the Bank should have to ensure that collateral is continues to be enforceable and realizable.*

**Key Terms:** *Credit, Default Nonperforming loan, Borrower, Lending and NBE*

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background of the study

Financial exclusion is considered as one of the major constraints in poverty reduction. In recent Years, most of the nations, especially; developing and underdeveloped counters have been working to achieve the goal of poverty reduction through a number of contextual policies. Credit among others has been taken as an important tool by most of developing and underdeveloped countries including Ethiopia to tackle poverty. Loan is an indispensable lubricant and a tool of convenience for the economic progress of a country. (M. Zeller, R.L. Meyer, 2002)

Credit has been recognized as one of the important financial services that contribute to the success of a business venture. This success enters to contribute the major economic development of the country. However, the existence of credit facility alone does not necessarily result in supporting economic development unless otherwise, it is accompanied by efficient and effective utilization as well as timely repayment of credit funds. According to Oyatoya, 1983, a loan has to be repaid on time if the objective of making loan able funds available to those who want them for productive proposes on continues base is to be met.

Repayment performance is a critical feature of credit. When repayment was not made at the proper time schedule, it affects the effort of lending performance. In any lending institution, the consequence of this failure contributes to the increasing of provision for bad and doubtful debt expense that reduces profits for the period in which it was made. If the period result is a loss, the capital of the lender will reduce by the amount of loss. Reduction of capital may affect the institution's new fund mobilization activities for fresh lending due to doubt on the capability of the institution to stay in the market.

Ability to recycle funds constitutes the corner stone of banking sector, if loans are not repaid over the schedule time, chronic over dues become irrecoverable in course of time. The net worth of lending institution will be eroded and will have serious impact on the volume of lending. The high incidence of over dues affects the overall liquidity

and solvency of credit institution and impairs their capacity to undertake fresh lending. (Kumarigita, 1988)

Banks have to recover the principal amount in order to ensure safety of depositors' fund and avoid capital erosion. Bank lending therefore has to consider interest income, cost of funds, statutory requirements, depositor's needs and risks associated with loan proposals. For these reasons banks have overtime developed credit policies and procedures which stipulate the lending process. This process includes among others the credit appraisals, documentations, disbursement, monitoring and recovery processes. Bank lending is also based on established international standards. However, banks have continued to face on average between term loan (short, medium and long term loan): granted for working capital and or project finance and construction of residential or commercial that to be repaid within a specific period of time with interest.

Lending represents the heart of the banking industry and one of the core processes in the construction and business bank (CBB) too. Loan are the dominate asset of most banks and represent 50-75 percent of the total amount at most share of operating income and represent the banks greater risk exposure (MacDonald and Koch, 2006).The loans granted to various sector and individual borrower must be recovered in full at various repayment period (schedule) based on their monthly income, age, type and nature of business that the loans are taken. Depending on their duration loans could be generally classified as short- term, medium-term and long-term.

According to the International Monetary Fund (IMF,2009),a none performing loan is any loan in which interest and principal payment are more than 90 days overdue, or more than 90 days' worth of interest has been refinanced. On the other hand, the Basel committee<sup>1</sup> (2001) puts nonperforming loans as loans left unpaid for a period of 90 days.

Under the Ethiopian banking business directive, nonperforming loans are defined as “loan or advance whose credit quality has deteriorated such that full collection of

principal and/or interest in accordance with the contractual repayment terms of the loan or advance is question” National Bank of Ethiopia ( NBE,2008).

### **1.2.Establishment and Development of the Bank**

Construction and Business Bank S.C. (CBB) is a wholly government–owned public enterprise and successor of the Housing and Savings Bank (HSB) which was formed in 1975 through the merger of two financial institutions namely, Imperial Savings and Home Ownership Association and Savings and Mortgage Corporation of Ethiopia which were nationalized at the on-set of the socialist era of Ethiopia.

HSB started operation with Birr 6.0 million paid up capital and its main declared objectives were granting long-term loans for residential housing and commercial building construction, purchase and renovation. Its financial resource basis was deposits mobilized through ordinary savings and time deposits and long-term borrowings. HSB’s lending focused on known government preferences mainly lending for housing to individuals and housing co-operative societies.

For about twenty years since 1975, HSB has made important contribution to the development of housing in the country in which it hitherto enjoyed the reputation as a household name. However, the specialization in housing finance restricted the Bank to rely on limited resources and lend to limited sectors which in turn limited its ability to distribute credit risks, maximize profit and gain expertise in other banking operations.

Following the market-based economic policy of the country and the ensuing economic reform programs initiated by the government in 1992, HSB was reconstituted as Construction and Business Bank (CBB) in September 1994 by regulation No. 203/94 with an authorized capital of Birr 71.8 million of which Birr 63.9 million was paid-up. The regulation gave CBB the mandate to provide full-fledged banking services in general and specialized in construction financing.

CBB has repositioned itself to engage in commercial banking operation since 1995 taking the advantage of the emerging privet sector as a new market under the emerging competitive business environment. Since then CBB is in the business of providing

universal banking service and is contributing its fair share for the national development objectives of the country. The bank's current paid up capital is Birr 500 million.

The underlying objective of Construction and Business Bank (CBB) lies on the provision of consultancy services in Construction and Business activities. In addition to provide the bank has to be sustainable by generating sufficient profit from its operation and create customer satisfaction.

### **1.3.Statement of the problem**

Credit is one of the core services that the Construction and Business Bank of Ethiopia (CBB) renders to its customers. The bank offer a wide-range of credit products in terms of facilities and loans supposed to fit with the existing or future demands of the economy. Though the underlying objective of the bank is on the provision of consultancy service to its clients in the area of construction and business sector, the bank provides loan to clients so as to maximize its profit and to contribute its share to the growth of national economy (CBB credit procedure, 2012).

It is obvious that the loan given to various sectors and clients should be recovered in full as per contractual agreement between CBB (the lender) and the barrower in order to meet the objective of circulating more and more financial resources to increase demand for credit and to keep the bank in sound financial health. Thus, the principal and interest of the loan should be recovered to meet the operation cost of the bank timely.

To achieve this CBB collects the principal and the interest from the client during the due date. However, the bank faces defaults on the side of the client due to unforeseen reasons. If the incidence in the deficit client repayment of the loan is very high, the bank will be insolvent and weaken in its financial position. More ever this situation will paralyze the investment program as well as the economy of the country as a whole.

Even though the objective of circulating more financial resources gathered from various term loans able to increase potential demand for credit and keep the CBB in sound financial resource to be achieved, the bank faces challenges to loan recovery from time to time.

In Ethiopian contexts, according to NBE (2008:24) the bank in the country are required to maintain ratio of the nonperforming Loan below 5% but the unpublished data from CBB show that the industry average is below the stated threshold. Despite this, average ratio of nonperforming loan for CBB for the past nine quarter period (30 September 2012 up to 30 September 2014) was 6.42% of its total outstanding loans from the above deviation give attention of the study to assess the loan recovery performance of the bank (Construction and Business Bank quarterly Report 2012 up to 2014).

Therefore, the study is to assess the loan recovery performance and investigate the major factors affecting loan recovery performance of the bank. Factors such as associated with project appraisal, lack of obtaining potential creditors, estimating and checking appropriate values of collateral and loan documentation of creditors, preparing customer's disbursement instruction and follow up their periodic loan repayments was assessed in depth.

There is no research done on Loan recovery performance in CBB and other commercial bank so far to my knowledge is concerned, Girma (2011) conducted a research credit risk management and focusing on credit risk management techniques and practices.

This study fills this gap by taking the case of CBB. Thus, the study is to assess the loan recovery performance of Construction and Business Bank (CBB).

#### **1.4 Research Questions**

This study attempts to answer the following questions.

1. What does the bank loan recovery performance look like?
2. How does the credit policy of CBB'S look like?
3. What type of techniques is used by the bank to collect repayments from its individual borrower and different sectors?
4. On average from total outstanding loan of the bank how much percentage will be outstanding to the next period?
5. What are the main problems or cause of borrower fails to pay back loan on maturity date?

## **1.5 Research Objectives**

### *1.5.1 The general objective of the study*

The general objective of this study is to assess the loan recovery performance of Construction and Business Bank (CBB).

### *1.5.2 Specific Objectives of the study*

In line with the general objective the study has the following specific objectives:

- To analyze the progress and achievement of loan recovery trends of CBB for the last 3 years.
- To examine credit policies of CBB.
- To assess the techniques used by the bank to collect repayments from its individual borrower.
- To assess the percentage of collected loan the maturity date outstanding to the next period.
- To investigate the possible cause of borrower why they are not interested to repay the loan at maturity date.

## **1.6 Significance of The study**

This research has the following Significance aspect:

- The outcome of this study will have significance to the management of CBB; especially it will help to diagnose the existing loan recovery performance practices of the bank. Particularly with respect to credit processing, appraisal disbursement, follow-up and recovery practices.

The study may be of great importance to the bank to applicability of procedures and techniques of loan recovery performance that fit to the realities of Construction and Business Bank; it may be used as a spring board for further study.



- Findings and recommendations of the study will help to provide an opportunity and establishes data bases relating to loan recovery performance for banks, researches, practitioners and consultants to conduct further researchers in future.
- It will create an opportunity for researchers and consultants with cross disciplinary interests related to loan recovery performance to meet and interact with the contemporary loan recovery and challenging issues concerning the theoretical and practical aspects of loan recovery performance procedures.

Finally the study will also contribute to existing body of knowledge regarding the loan recovery performance and it will provide new insight fulfilling the gap in the knowledge pertaining to the loan recovery procedure.

### 1.7 Scope of the study

The study deals with general analysis of loan recovery performance of CBB that data to be analyzed is gather from selected employees of CBB's that nears to credit process. The purpose of making general analysis is that, the study assesses the performance of loan recovery in short period of time so it can not possible to cover all activity of loan recovery and the study will focus only from period of 2012-2014, and focuses only approved CBB central credit process.

### 1.8 Limitation of the Study

The study was expected to face some problems will conducting the study such as time constraint, shortage of resources financial and information or data.

### 1.9. Definition of Terms and Concepts

**Credit:** Investopedia dictionary defines credit as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. It further states credit as an accounting entry that either decreases assets or increases liability and equity on the company's balance sheet. Apparently the oxford dictionary defines credit as the ability of a customer to obtain

goods or services before payment, based on the trust that payment will be made in the future.

**Default:** There is no single definition of default. There have been different arguments about the definition of default. It has been defined as liquidation, bankruptcy filing, loan loss or charge off, nonperforming loan, or loan delayed in payment obligation are used at many bank as proxies of loan default. In this study, default is considered to have occurred with regard to a particular obligor when either the Bank considers that obligor is unlikely to pay its credit obligation to the banking group in full, without recourse by the bank to actions such as realizing security or the obligor is past due more than 90 days on any material credit obligation to the banking group.

**Nonperforming loans:** Loans or advance whose credit quality has deteriorated. Such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advance are in equation; or when principal and/or interest is due and uncollected for 90 consecutive days or more beyond the scheduled payment date or maturity (NBE Directive, SSB/45/008).

**Borrower:** Is the one who borrows money from the lender (Bank).

**Lending:** Is the provision of resources (granting loan) by one party to another party where the second party doesn't reimburse the first party immediately there by generating a debt and instead arranges either to repay or return those resources a later date.

**National Bank of Ethiopia (NBE):-** It is the reserve or central bank of Ethiopia. Besides licensing and supervising banks, insurers and other financial institutions, NBE fosters a healthy financial system and undertakes other related activities that are conducive to rapid economic development of Ethiopia. (Proclamation No.592/2008, FDRE, 2008)

#### **1.10. Organization of the Paper**

The paper has five chapters. The first chapter deals with the introductory parts, which have back ground of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study and definition of terms and concepts. The second chapter contains the related theoretical and empirical literature

review. The third chapter deals with research design and methodology, sample and sampling techniques, data collection techniques. The fourth chapter deals with the data presentation, analysis and interpretation of the study finally, the fifth chapter contains the conclusion and recommendations of the research study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2. Theoretical Literature

##### 2.1. The concept of credit

Credit is borrowed money that you can use to purchase goods and services when you need them. You get credit from a credit grantor, whom you agree to pay back the amount you spent, plus applicable finance charges, at an agreed-upon time. Credit can therefore be defined as transaction between two parties in which the creditor or lender supplies money, goods and service or securities in return for promised future payment by the debtor or borrower according to (Onyeagocha, 2001), there are four types of credit: revolving credit, Charge credit, and Service Credit and Installment credit.

**Revolving credit**, with revolving credit, you are given a maximum credit limit, and you can make charges up to that limit. Each month, you carry a balance (or revolve the debt) and make a payment. Most credit cards are a form of revolving credit.

**Charge credit**, while they often look like revolving credit cards and are used in the same way, charge accounts differ in that you must pay the total balance every month.

**Service credit**, your agreements with service providers are all credit arrangements. You receive electricity, cellular phone service, gym membership, etc., with the agreement that you will pay for them each month. Not all service accounts are reported in your credit history.

**Installment credit**, with installment credit, a creditor loans you a specific amount of money, and you agree to repay the money and interest in regular installments of a fixed amount over a set period of time. Car loans and mortgages are two examples of installment credit (Onyeagocha, 2001)

The functions of credits are (1) facilitating the transfer of capital or money to where it will most effectively and efficiently used. (2) Credit economizes the use of currency or coin money as granting of credit has a multiplier effect of the volume currency or coin in circulation. (Onyeagocha, 2001)

## 2.2 Evaluation of credit

According to (Mather 1962), evaluation of credit was described three basic principles.

**Safety**:-in the first instance, safety of any advance or loans is utmost important. Banks must emphasize among other things, the characters (honesty, integrity and reliability) of borrowers. The probability that amount granted would be repaid from the cash flows generated from the operation of the company must as matter of requirement be high. The borrower must be able to provide acceptable security, which will serve as something to fall back on if the expected source of repayment fails.

**Suitability**: - the bank should be satisfied with the suitability of the loan/advance. The purpose of the loan must be legal and non-conflicting with the economic and monetary policies of the government. Banks and other Financial Institutions certain ventures such as gambling, pool betting and speculative investment should be avoided while giving credit facilities to customers.

**Profitability**: - is a guiding force to any operation of the bank, including credit extension. As profit oriented institutions, banks necessarily expect their facilities to yield certain level of profits with which they can declare dividends to make shareholders happy. The interest charged on loans and advances constitutes a major source of income to the banks among other.

However, the enumerated principles of lending identified by Mather (1962) discovered to be inadequate. There are some other factors which must be considered when granting loans and advances. The factors are usually described as ‘the canons of lending’ and according to Adekanye (1983) are presented in question forms as follows:-

- ❖ How much does the customer want to borrow?
- ❖ Why does the customer want bank finance or what does he want it for?
- ❖ How long does he want it?
- ❖ How does he intend to repay?
- ❖ Is the customer’s business financially strong enough to keep going if there is a setback?
- ❖ What security can he offer?

❖ What is your assessment of the customer?

Adekanye(1983) emphasized that the Manager must obtain satisfactory answers to those questions before agreeing to a loan request. This proposition also has its flaws as comprehensive credit ratings and credit management and recovery procedures which are the essential requirements of modern lending were not emphasized.

According to Dufuye(2007) every bank has to develop and implement comprehensive procedures and information systems to follow up the condition of individual credits. An effective loan monitoring system will include measures to monitor compliance with established covenants, Assess, where applicable, collateral coverage, relative to creditor's current condition, identify contractual payment delinquencies and classify potential credits on a timely basis, and direct actions at solving problems promptly for remedial management.

### **2.3 Credit policy**

Credit policies are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit, while maximizing the benefit from it. The main objective of credit policy is to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions (Ahimbishwe, 2002).

The credit policy of an organization may be stringent or lenient depending on the manager's regulation of variables that come with credit policy; there are three main variables (elements of credit policy) namely; Credit terms, credit standards and credit procedures. Managers use these variables to evaluate client's credit worthiness, repayment period and interest and loan, collection methods and procedures to take in case of loan default. A stringent credit policy gives credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base are given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal cost (pandey, 1998).

## **2.4 Need for credit policy**

The essence of credit policy is to maximize the value of a firm. An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts. These are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable. Credit policy is a guide to successful credit administration and benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses according to Pandey,(1995).Credit policy is aimed at having an optimal investment, this is the level of investment where there is a tradeoff between the benefits and costs associated with it, that point where the objective of liquidity, security and profitability are harmonized. Bad debt, underperforming loans and untimely payments can be minimized through proper administration of the credit policy. This can be done by obtaining collateral, third party guarantors, proper assessment of credit worthiness, optimum interest rate and credit period and setting time limits before which the credit is to be repaid and fines for late payment credit policy provides a framework for the entire credit management process. Policies are a cornerstone of sound credit management for them, to set the criterion and parameters that guide in granting of loans and management of the loan portfolio. This ensures operational consistency and adherence to uniform and sound practices.

## **2.5 Credit Information**

Before extending credit to any of its operators, sufficient information should be collected about the customers. This is done in a bid to minimize losses, reliable and timely information which is critical to managing the credit process. If timely and useful information is available, management is much better equipped to direct and control prudent credit processes (Pandey 1998).

## **2.6 Credit Customer Analysis**

This is basic stage in the lending process. Anjichi (1994) describes it as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as way of discerning the client's creditworthiness and reducing the incentive problems between the Lenders as principals and the borrowers as agents. And according to pandey (1998), this involves establishing the willingness and ability of the beneficiary to meet obligations as they fall due. It should ensure loans meet credit standards and the policy guidelines for credit analysis to be effective, it should follow a typical domestic process flow beginning with data collecting and moving to action observing. Credit analysis is an important aspect in designing a credit policy since it culminates into the seasons regarding the amount of loan granted to the applicants.

## **2.7. Average Collection Period (ACP)**

After the credit assessment and disbursement is done, the credit customer is expected to payback the installment as per agreed schedule. Each bank has a different repayment mechanism. Based on the specifics of the bank, customers can pay weekly, bi-weekly or monthly installments (Odongo, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions.

## **2.8 Credit Documentation**

Credit documentation and disbursement is another aspect of credit assessment process. It encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy. It also includes the maintenance of orderly up dated credit files and the imposition of relevant fees, updating of records and prompt notification of credit reviews and renewal dates (McNaughton et al, 1996). Loan documentation involves the legal drafting, document review, collateral checks and the waiver of terms. While the disbursement function involves checking the validity of notes as well as ensuring that the documentation for the credit facilities are properly executed. Loan documentation defines the necessary security and covenant before the loan is made. It provides risk protection by providing grounds for the bank to take legal action when borrowers fail to honor their obligations (Day etal, 1996).Credit



documentations clearly states the credit terms which are the conditions attached to the loan after the borrower's loan application has been favorably appraised. These include among collateral, Interest rate, size of loan, purpose of loan and loan period. These include among collateral, Interest rate, size of loan, purpose of loan and loan period.

### **2.8.1. Collateral**

This is the borrower's asset pledged in exchange for the receipt of a loan Banks request for collateral before extending loans to customers. The collateral is always higher value than the loan taken to ensure that the loan is paid back. The use of groups as collateral is accepted by some banks (Yunus, 1996). When one member fails to pay, the other group members pay on their behalf. Thus, this system makes it possible for group members to monitor one another. Thus, leading to improved loan repayment, some studies have found out that group members don't want paying for others and they also don't like others paying for them (Antonio, 2000)

### **2.8.2 Interest Rate**

It is the price of the loan able funds and serves to allocate credit and moderate the level of investment (Ross, 1991). Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed (Martin, 1998). A borrower evaluates all costs including interest rates and expected returns before deciding to take a loan or not. To the lender, interest rate is determined by factoring in costs such as costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth (Kasibante, 2001). The rate charged should be able to cover costs and make a contribution for the financial institution. Financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4% per month (Brochures, 2001)

### **2.8.3 Size of Loan**

Loan size is the amount of loan advanced to the client. It can be small, medium or big. Banks prefer bigger loans largely because their transaction costs are lower. Efficient

loan size should fit the borrower's repayment capacity and stimulate enterprise performance. Pische (1991) argues that, poor loan sizing is illustrated by extensive credit rationing, which issues too little credit to too many borrowers. However, according to Chirwa (1997), relatively large loans may tempt the borrowers to divert a portion for non-business purposes.

#### **2.8.4 Purpose of Loan**

The purpose for which credit is sought is an important consideration to the bank, because of the risks in the lending activities. Banks being profit driven seek to maximize returns while minimizing risks. This seemingly paradox constrain banks to examine not only viability of a project but also loan repayment prospects. Vittas and Chao (1996) observed that in many countries, Banks favor lending for low-risk activities, such as self-liquidating, short-term working capital and trade finance. They are generally less willing to finance high risk projects with long payback periods, and small forms that lack adequate collateral even though such firms may be more innovative and promising than others.

#### **2.8.5 Loan Period**

The World Bank (1996) reported that, Banks have little capacity and interest to provide long-term capital. This is attributed partly to the high composition of short term liabilities in their portfolio and also their concern for risks associated with lending activities.

### **2.9 Disbursement**

Disbursement on the other hand ensures that, money is not availed until all approvals and documentation requirements are met. It also ensures that security and other required documentations are obtained before funds are disbursed. If disbursement control is weak, the whole integrity of the credit process can be weakened and abused Nsereko(1995). Thus, documentations and disbursement are important in the management of credit, because they ensure that the bank has proper documentation, collateral and guarantees. These are important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt

## 2.10 Monitoring and Follow up

After disbursement, the account officer frequently visits the borrowers business to ensure that the credit facility (loan) is being used for the specific purpose(s) for which the loan was granted, and to remind borrowers of their next repayment date. According to Rouse (1989) this is one area many lenders pay little attention but if it is properly followed, the incidence of unsettled loans can be reduced considerably. He identified internal records, visits and interviews, audited and management accounts as some of the things that help in the monitoring and control process. Monitoring can help minimize the incidence of unsettled loans in the following ways:-

- ❖ Ensuring the utilization of the loan for the intended purpose.
- ❖ Identifying early warning signals of any problem relating to the operations of the business that are likely to affect the performance of the loan.
- ❖ Affording the lender the opportunity to discuss the problems and prospects of the borrowers business. Borrowers who miss repayments are pressured at this stage; if the arrears continue to pile up, legal action is initiated against the borrower and guarantor(s) to recover any amounts owed, but usually after the designated collateral has been seized and offset against the indebtedness.

According to Harrison, D (1962) and Anjichi (1994), many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods. The general business policy and advice is considered, if a bank is sanitizing to business development. It can revise its own credit and loan polices as well as advising its customers, again keeping track of deposits and balances gives clue to the affairs of the borrowers.

### **2.11 Default Rate**

This is the measure of the portion of the uncontrollable receivables that is bad debts loss ratio. This ratio indicates the default risk that is the unlikelihood that customers will fail to pay their credit obligation; Basing on experience, the financial manager should be able to make a reasonable judgment regarding the chance of default. (McNaughton, 1996)

### **2.12 Credit Investigation and Analysis**

This involves analyzing the credit information collected to determine the applicant's credit worthiness. Such analysis is based on previous records. This helps the analysis to draw conclusions on the applicant's financial strengths, quality of management and the nature of customers. This is an important aspect of designing a credit policy since it results into decisions about a credit limit to be granted to an individual applicant.

### **2.13 Empirical Literature Review**

The following section reviewed empirical studies till now conducted loan recovery performance and possible cause of loan default. More specifically, studies touching loan recovery performance and possible causes or default risk were reviewed. The review was done from global perspective which narrowed down to regional and local (Ethiopia).

Epure and Lafuente (2012) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks' profitability is inversely influenced by the levels of loans and

advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

Girma (2011), examined credit risk management and its impact on performance in Ethiopia Commercial Banks' and his finding revealed that is a significant impact on the profitability of the bank performance and he concluded that the bank with good or sound credit risk management police have lower loan default rate (bad debt loan) and higher interest income (profitability)

### **2.13.1 Possible Causes of Loan Defaults**

Many people only realize they have a Credit Default when they are declined for some form of credit there has been a credit default. Some people, however, are completely aware they are facing credit defaults, but they are facing financial hardship and struggling to make their commitments. People do not simply decide to not pay their credit commitment; it is a result of some other circumstance that puts them into this situation. The various situations that may put you at risk are:-

- ❖ Fund Diversion
- ❖ Sickness or inability to work
- ❖ Loss of a job
- ❖ Failed of Business
- ❖ Over committed by high interest debts

Pearson and Greeff (2006) defined default as a risk threshold that describes the point in the borrower's repayment history where he or she missed at least 3 installments within a 24 month period. This represents a point in time and indicator of behavior, wherein there is a demonstrable increase in the risk that the borrower eventually will truly default, by ceasing all repayments many factors have been identified as major determinants of loan defaults.

Okorie (1986) shows that, the nature of time disbursement, supervision and profitability of enterprises which benefited from small holder loan scheme in Ondo State in Nigeria, contributed to the repayment ability and consequently high default rates. Other critical factors associated with loan delinquencies are; type of the loan, term of the loan,

interest rate on the loan, poor credit history, borrowers' income and transaction cost of the loans.

Berger and DeYoung (1995) indicated that, one major problem which the banks in India are facing is the problem of recovery and overdue of loans. The reasons behind this may vary for different financial institutions as it depends upon the respective nature of loans. Here an attempt is made to find out some of the causes of default of loans due to which financial institutions are facing the problems of overdue of loans. These reasons may be useful for the Banks for the better recovery of loans in future. After surveying different banks, the following were identified to be the main causes of default of loans from industrial sector, improper selection of an entrepreneur, deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and schedule of repayment, lack of follow up measures and default due to natural calamities.

Ahmad, (1997), mentioned some important factors that cause loan defaults which include; lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by Credit Officers.

### **2.13.2 Poor Loan Follow-up as Cause of default**

Regular monitoring of loan quality, possibly with an early warning system capable of alerting regulatory authorities of potential bank stress, which is essential to ensure a sound financial system and prevent systemic crises. Agresti et al.,(2008). The need to give due attention to borrower, thus need not be overemphasized in order to ensure loan performance. There is a tendency by borrowers to give better attention to their loans when they perceive they got better attention. Some of the loans defaults ascribe to lower level of attention given to borrowers. It is advised that banks keep up with their loans timely.

It is clear that effective credit monitoring involves looking into various operations of the company including operations of the loan, checking whether the company is properly managed, and the environment in which the company is carrying out its business is satisfactory.

### **2.13.3 Poor credit Assessment as Cause of default**

No loan is entirely without risk. Every loan, no matter how well it is secured, and no matter who is the borrower, has the potential to generate loss for the lender. It is the degree of risk to which a loan is susceptible and the probability of loss that vary; these should normally be reflected in the interest margin and other terms set at the inception of the loan. Brown, (1993) A bank, in considering whether to lend or not, takes into account the quality of a borrower which is reflected in, its past, present and projected profit performance, the strength of its balance sheet and the nature of product. Basically, the non-performing loans are a result of the compromise of the objectivity of credit appraisal and assessment. The problem is aggravated by the weakness in the accounting, disclosure and grant of additional loans. In the assessment of the status of current loans, the borrower's credit worthiness and the market value of collateral are not taken into account thereby rendering it difficult to spot bad loans Patersson, (2004). Compromise in quality of risk assessment thus leads to occurrence of nonperforming loans.

All previous empirical studies are directly related to this study. Most of the reviewed studies made in Ethiopia including the above were focusing on credit risk management in the whole commercial banks in Ethiopia. And it assessed how the financial sectors managed credit risk and impacts of their performance.

Therefore this study tries to fill the gap by focus on loan recovery performance. It helps to investigate the major factor that affecting loan recovery performance of the bank, which indicate factors such as, lack of obtain potential creditor that is like character of the borrower capacity of the borrower, estimating and checking appropriate value of collateral (safety) the purpose of the loan (from legal aspect of the country), the cash flow of the business (profitable) and follow-up of their periodic payment. In addition to this, the credit policy of the organization is essential because, a good credit policy should involve effective initiation, analysis, credit monitoring and evaluation. A credit policy is one of the essential tools in an organization. It is a primary tool as well as a procedure established to provide management with reasonable assurance that the credit system is functioning as it should.





## CHAPTER THREE

### METHODOLOGY

#### **3. Introduction**

This chapter presents the methods used for the study. It explains the research design and also gives details about the population, sample and sampling techniques as well as the research instruments used in collecting the data for the study. It also discusses the data collection methods and data analysis plan.

#### **3.1 Research Design and methodology**

##### ***3.1.1 Data Collection method***

The data is gathering from both primary and secondary sources, the primary data sources are the employees of CBB's. Primary data was collected using structured questionnaires, open-ended and closed ended questions. In addition to primary data, different published and unpublished reports, CBB manuals and internal rules and regulations were reviewed as a source of secondary data.

##### ***3.1.2 Target population***

In this study, the target population is employees of CBB's at different level of credit process (credit appraisal & portfolio management, customer relation manager, customer relation officer, loan recovery & rehabilitation team). The population taken as a reference in this study work. There are 206 total employees in selected department.

##### ***3.1.3 Sampling Method***

The sampling technique that is used in this study is simple random sampling, which gives every eligible respondent in each enumeration area of employees an equal chance of being selected.

It also laid down the number of items to be included the sample size. The sample size governs by the target population. The credit process total employee of CBB's is 206 from which 136 employees take as sample. The reason for choosing this method is that CBB's has different branches in the country, in that it becomes difficult for me to address the entire place to distribute and collect my questioners. Hence study's

attempted to minimize cost, increasing accuracy of the study and speed of data collection and availability of population element.

Hence the total population would be 206 (two hundred six) and by using Taro Yamane (1967) statistical formula, the total sample size became 136 (one hundred thirty six) by the same proportion the study classifies for each department.

Taro Yamane (1967), statistical formula

$$n = \frac{N}{1+N(e)^2}$$

N = the total target population

e = the level of precision (sampling error)

n = the sample size

**Table 3.1 Population Data and Sample**

No.	Sections	Total Population	Sample Size Selected
1	Customer Relation Manager Process	80	53
2	Credit Analysis and Portfolio Management	35	23
3	Customer Relation Officers	64	42
4	Loan Recovery and Rehabilitation team	27	18
	Total	206	136

Source: Internal Data

### **3.2 Research Methodology**

The study is descriptive type. The major purpose of descriptive research is to describe the state of affairs as it exists. It gives a brief description of the statistical units under the investigation. To present a profile of group of people and relevant events and to identify the event, characteristics of the phenomenon and this type of study is an appropriate and measure the attitudes of employees and department management towards loan recovery performance and also for collecting original data from target population.

#### **3.2.1. Data analysis and presentation**

Depending on the types of research method involved in the study and the level of measurements that were used to measure the variables is used to analyze the data and to come up with the findings and conclusions. In this case, the study used statistical methods for data analysis percentages and tabulation. In addition to this, after collecting a questionnaire, the process of tabulation will be carried out. The answers will be classified in to different tables according to nature of issues raised in questionnaires. All the data collected was calculated in percentage to get quantitative summary. The summarized data was presented in the form of tables. Implications was drawn based on the summary of the findings and quantitative data are processed and analyzed through Microsoft Excel 2007, which is used to draw tables and percentage so as to clearly present the findings.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1. Introduction**

This chapter presents an overview of the study and discussion the results of the empirical data collected and analyzed from which conclusion are made and recommendation proffered for improvement in Loan Recovery performance of CBB.

The results are described to reflect the objective of the study; the analysis is done in relation to the two main source of data used for this study that is, primary and secondary data sources. The primary data are analyzed using statistical methods for data analysis percentages and tabulation whereas the secondary data are descriptively analyzed.

#### **4.2. Overview of the study**

The questionnaire was distributed to 136 employees of CBB. That is in credit department that includes customer relationship manager, customer relationship officer, credit analyses and Loan recovery and rehabilitations officers. Out of 136 questionnaires, 129 were completed and collected. As the result of response rate was 95 percent.

#### **4.3. Reliability and Validity test**

In order to reduce the possibility of getting the answer wrong, attention was on two particular research design; reliability and validity of the research measurements influence, first the extent that one can learn from the phenomena of the study. Second the probability that one will obtain statistical significance in data analysis. And third the extent to which one can bring meaningful conclusion from the collected data.

According to Leedy et., at (2005), validity is the ability of an instrument used to measure or validity is about the honest nature of the research conclusion and applicability (Ghauri & Gronhaug 2010), while reliability is concerned with the result consistency. (proctor, 2005): (Saunders, Lewis & Thornhill 2009) to ensure content validity 10 selected officers, those who know better about the issue being investigated, from sample were taken as a pilot test. Besides, the researcher also believes that this study is

reliable since the respondents were selected based on their past experience on credit related area and their answer were expected to be credible. Given the credibility of selected respondents the same answer would probably be given to another independent researcher. Moreover, the research analysis taken into consideration not only findings from the primary data, but also a lot of secondary data have also been gathered and interpreted. Thus, the researcher believes that other observer will have the same conclusions after conducting the research on this study organization at the same time.

#### 4.4. Ethical Consideration

In relation to the research work, the Construction and business bank was asked its consent with a supporting letter issued by Saint Merry University and the bank became voluntary for the research work. Respondents were informed the purpose of the research and then asked them to give their opinion voluntarily with a privilege not to write their name. The gathered information from respondents kept confidentially.

#### 4.5. Demographic Information

##### 4.5.1 Frequency distribution of respondents by Sex:

The respondents were asked to indicate their sex in order to make the study gender sensitive. Their response is indicated in table below.

**Table 4.1** Frequency distribution of respondents by Sex

Sex	Frequency	Percentage
Male	78	57%
Female	51	38%
Total	129	95%

Source: primary Data

According to the above table 57% of the respondents are male and the remaining 38% are females. This data of sex composition indicates there is good proportionate employee's participation on female in this research that helps the researcher to collect opinion from both sexes.

#### 4.5.2. Frequency distribution of respondents by Education qualification

In order to be sure of the quality of the information given, the respondent were requested to give their level of education and the response is presented below.

**Table 4.2** Frequency distribution of respondents by Education qualification

Qualification	Frequency	Percentage
Postgraduate Degree	3	2%
Degree	121	86%
Diploma	12	7%
Total	129	95%

Source: primary Data

Finding in the table indicate that a small number of respondents were highly educated. This is shown by the 2% of respondents who had postgraduate Degrees, however the majority 86% of the respondents were Degree holders and the remaining 7% of the respondents were Diploma holders. By the virtue of their education structures, the studies might assume that they know the organization performance and the hindrance to effective performance. This shows that the majority of respondent were graduates and the responses given are relevant.

#### 4.5.3. Respondents with period of work for credit related

As a precondition to assess the reliability of the data collected, the respondents were requested to indicate the period they worked with credit related. Their response was as given below.

**Table 2.3** Respondents with period of work for credit related

Year of work Experience	Frequency	Percentage
Less than 1 Year	2	1%
1-5 Years	24	18%
6-10 Years	45	33%
More than 10 Years	58	43%
Total	129	95%

Source: primary Data

From the analysis in the table above, 43% of the respondents have served more than ten years in credit area and also 33% of the respondents have served between 6-10 years,

23% of respondent have served between 1-5 years experienced and only 1% have served for less than 1 year. This is a confirmation that most of the respondents have been in this sector for long period, hence have more experience in credit area. This means the study could obtain pertinent information which can lead correct conclusion.

#### 4.6. Respondents with value of the Credit Policy of CBB

The first objective of the study was to examine the credit police of CBB. Banks have their own policy and procedure that govern the employee to provide service according to the policy. CBB may have policy and procedure. In the way of answering the first objective the respondents were asked to confirm whether the credit police of CBB is flexible or not. The respondents' replies were as given below.

**Table 4.4** Respondents with value of the credit policies of the Bank.

Answer	Frequency	Percentage
Rigid	78	57%
Somehow Rigid	42	31%
Somehow Flexible	9	7%
Total	129	95%

Source: primary Data

From the analysis of the above table, 57% of respondents are reply on the policy of CBB is rigid. 31% reply that the CBB policy is "Somehow rigid", 7% of respondents give answer CBB policy is "Somehow flexible". As the collected data shows, a total of 93 % respondents choose the policy of CBB is under rigid and somehow rigid category.

The credit policy of an organization may be strict or lenient depending on the manager's regulation of variables that come with credit policy. There are three main variables (elements of credit policy) namely; Credit terms, credit standards and credit procedures (Hulmes, 1992). Managers use these variables to evaluate client's credit worthiness, repayment period and interest of loan collection methods and procedures to take in case of loan default. A strict credit policy gives credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base are given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs (Pandey, 2001). A lenient credit

policy on the other hand gives credit to customers on very liberal, lax terms and standards. The main purpose of a lenient credit policy is to increase gains through extending more credits to customers (Kakuru1998 and Pandey 2001).Therefore; a firm must try to balance between these two extremes in order to maximize Recovery performance. According to Johansson and Terry (1995), credit policy means procedures aimed at checking and controlling the granting of credit facilities to follow up procedures used to obtain collection of debts outstanding.

Therefore, the study’s observed and support with theories that the credit police of CBB are rigid. This affects the performance of the Bank, so the management of the Bank with balances the credit policies.

#### 4.7. Types of Collaterals frequently used in CBB to Give Term Loans.

There are various types of collateral that CBB used to give a loan for the applicants. The following collateral is those that the study identified as summarized below.

**Table 4.5** Respondents showing Types of Collateral used by CBB

List of collateral	Frequency	Percentage
Building	105	95%
Vehicles	53	48%
Machinery	48	44%
Personal Guaranty	38	35%
Cash Guaranty	38	35%

Source: primary Data

As part of its Loan police, CBB demands collateral to serve as security against loan extended to its clients. The form of collateral usually demanded by the bank most respondents (95%) of respondents are reply on the building collateral used in CBB, and 48% of the respondents are reply for the Bank used vehicles as collateral on the other hand 44% of the respondents are answer the Bank used Machineries, in addition to this 35% of respondents also are reply the bank also used personal and cash guarantee as collaterals the Bank used personal Guaranty collateral for the requirements to give export facility Loan.

In addition to the above data that collect from primary source, the study also take secondary data. CBB use different kind of collateral from that collateral they frequently use as follows:



- ❖ Buildings/houses
- ❖ Motor vehicles
- ❖ Merchandise
- ❖ Deposits in CBB’s Branches (procedural manual,2012)

CBB is one of government owned bank and this affects the company to participate on “clean loan” type because

- ❖ There is no data available to forecast customer loan settlement behavior, customer business accomplishment and business running strength.
- ❖ Building is the only promising secured collateral in Ethiopia as the government holds a well-organized data on Sub cities and this organs work with the bank if the bank has a claim on collateral
- ❖ Building market values are continuously increasing with the increasing land value
- ❖ People may vanish from one place to the other or to another country without conforming the bank and the bank could not trace the customer
- ❖ In addition to the above mentioned reason, most of the time the customer also offer building as collateral for their loan.

The reasons forced the bank to stick on “Building” type collateral to mitigate the risk of default loans. This indicate that the bank has save from risk because most of the time the bank use building as collateral. In addition to the above reason other assets like vehicles, machinery and cash are liquid and easily deprecation and exposed to risk compared to building.

#### 4.8. Respondents that the process of loan from Application to Approval

The process of loan from application to approval is the normal and routine activities of the bank. The following table shows the process which CBB used.

**Table 4.6** Respondents that the *process of loan followed*

Answer	Frequency	Percentage
Very good	2	2%
Good	7	8%
Satisfactory	13	14%
Need improvement	65	72%
Total	87	97%

*Source: primary Data*

The above table indicates most of the respondents (72%) responded that the process of loan in CBB as Need improvement. And the other 14% and 8% of respondents give Process of Loan from Application to Approval is “Satisfactory” and “Good”, respectively. The remaining 2% of responds CBB loan process Looks Very Good. The study’s observe that the bank have a lot of problem from application to approval as most of the respondent responded the loan process needs improvement.

The researched strongly agreed with the respondent who answers the loan process needs improvement because the bank has “Rigid” loan policy which may have a long loan process. when the loan type is new or faces different scenario with the defined loan process policy and also the bank mainly focused on “Building” collateral which is a difficult problem with the current situation that many business man did not have building collateral. This affect loan recovery and collection performance of the bank and the bank only focus on collateral rather than financial performance of the creditor, and personal character of the borrower, the bank did not give response on time when the borrower defaults to pay the loan, this affect the loan not to be recovered partially or fully.

#### **4.9. Respondents level of satisfaction with the Bank provides Training**

Employees training on internal employees assigned on new job or new employees recruited to be an employee of the institution should take on the job or off the job training to be effective and efficient on the jobs and responsibilities. Then, the respondents provide their opinion on CBB’s training and the following table summarize whether employees are satisfier or not in training provision of the bank.

**Table 4.7** Satisfaction level with *the Bank* provides Training to Employees

<b>Answer</b>	<b>Frequency</b>	<b>Percentage</b>
Yes and satisfactory	42	31%
Yes but not satisfactory	87	64%
Total	129	95%

*Source: primary Data*

According to the table above, the respondents 64% response on the provision of training given in the bank but it is not satisfactory, and 31% of the respondents are satisfied in

the Bank provision of training to employees. So the researcher observed that, the bank provide training to improve the loan collection performance but it is not enough to improve service performance, so it needs additional improvement to capable the employees to give better service for the customer

#### 4.10. Respondents that the types of Training to Employees

CBB may provide different types of training for their employees to improve their service performance. The following shows the different types of training as identified by respondents.

**Table 4.8** Respondents that the types of Training to Employees

Type of training	Frequency	Percentage
On-work training	32	24%
Off-working training	76	56%
Both training	20	15%
TOTAL	129	95%

*Source: primary Data*

From the above table result show that,56% of respondents are received off-working training, while only 24% of respondents took On-work training and the remaining 15% respondents reply both. According to table 9, it can conclude that the organization more focuses on off working training. Employee’s training is important to understand the Loan recovery performance of the Bank and to put better effort on behalf of the organization benefit.

#### 4.11. The Major Requirements for the Lending at CBB

The bank may have the requirements for borrowing. The following is the major requirements identified and summarized below.

**Table 3** Respondents that the Major Requirements for *Lending*

Answer	Frequency	Percentage
Collateral	42	47%
Financial worthiness	42	47%
Years of relation with the bank	15	17%
Sectors of the customer engaged	25	28%

*Source: Primary Data*

According to the above table, from the total respondents (47%) are given responses on requirement of borrowing at CBB the major requirements are collateral and financial worthiness, on the other hand 28% of respondents say sectors of the customer engaged business are the major factors and 17% of the respondents year of relation with the bank are the major factor requirement of CBB used.

Though collateral is important as a last resort/fallback, it should not be the prime concern for granting loan. In addition, banks need to be mindful that the value of collateral may well be impaired by the same factors that have led to the lose recovery of the credit. Bank must place emphasis on the force sale values rather than the market values of collateralized assets (Ferguson, 2001).

#### 4.12. Respondents that the Customer is willingness to disclose every information

The information disclose of customer for loan processing is the major needs of banks. The following table indicates the summary of respondent's ideas.

**Table 4.10** Respondents *that the Customer is willingness to disclose every information the Bank need.*

Answer	Frequency	Percentage
Yes	32	36%
No	55	61%
Total	87	97%

Source: primary Data

Before granting the credit the bank assessed the customer information that is (KYC principles) that means the credit officers investigate the client's characters, financial and non-financial history and capacity of the customer to granting loan. The above table indicates that, most customers are not willing to disclose every information to the bank needs for loan processing, (61%) replied this and on the other hand, the customers of the bank are willing to disclose every information according to 36% respondents.

Most employees reply that, most of the time the customers are not willing to disclose the information because of the purpose of loan granted different from they use, lack of awareness, they may have no sufficient capacity to take the loan, and also most customers are not organized well. So, most documents are prepared when they start the process of loan. The researcher find out that, the bank not obtains enough information

about their customer. So the bank should be screen out the borrowers before granting the loan properly by following other mechanisms. In addition to this also the bank must provide enough advisory service and create awareness in the mind of the prospective borrowers and also follow up the borrower after granting the loan, whether they use the fund properly or not.

#### 4.13. The Bank Give Loan Advisory Service to Credit Customers

The bank may provide advisory service to credit customer. The following table summarize whether the bank provide these services or not.

**Table 4** *Respondents that the Bank Give Loan Advisory Service to Credit Customers*

Answer	Frequency	Percentage
Yes	17	19%
Yes but not enough	67	74%
NO	3	3%
Totals	87	97%

Source: primary Data

According to the table above, it was used a yes/no or not enough question to ask the respondents if they whether provide any advisory service to their Loan customers or not. The result show that 74% of respondents reply the existence of loan advisory service but not satisfied and 19% of respondents are satisfied with the advisory service of the bank, on the other hand 3% or respondents are replay that the Bank is not given advisory service at all in CBB.

From the result the study's concludes that there is no full-fledged and well organized provisioning of advisory service to loan customer at the Bank Providing proper advisory service to credit customer before and after granting credit has significant importance in the effectiveness of Loan recovery performance of the Bank.

#### 4.14. The Major causes for repayment failures of Borrowers

The non-repayment loan (NRL) is the major problem of many financial or Credit institutions. The CBB may also have different problems relating to NRL. The following table summarizes the responses of the employee in CBB.

**Table 4.12** Respondent that Major causes for repayment failures of Borrowers

Potential Causes	Frequency	Percentage
No Adequate Application Screening criteria	59	66%
Diversion of Loan	68	76%
Business Fail	31	34%
Borrower Death	2	2%

Source: primary Data

From the above table, one of the major causes in CBB is no adequate applicant screening criteria according to the respondents of (66%) responses reply and also 76% of respondents agree on the diversion of Loan for other purposes and other causes while 34% of respondents replied as business failed, 2% of the respondents reply borrower death as cause of repayment failures. So the researcher observed that there is problem before and after lending the fund, since there is problem in the time of screening the prospective borrowers before granting the loan and follow-up after lending the fund.

#### 4.15. The Bank have used Modern Technology to credit follow-up

The bank have modern Technology (software) support in credit follow up is the one instrument that the bank used. The following table summarized the ideas of respondents.

**Table 5.13** Respondent that the Bank has used Modern Technology (Software) Support Credit Follow Up

Answer	Frequency	Percentage
Yes	71	79%
No	16	18%
Total	87	97%

Source: primary Data

From the above table most of the respondents (79%) are reply the Bank used technology for supporting of credit follow up and also 18% of respondents reply the banks not used technology for supporting credit follow up the researcher observed that there is no problem related to modern technology support so this is important for the bank for loan recovery performance improvements.

#### 4.16. Mechanism for the Bank use to Decrease NPLS

Most banks may have a mechanism to minimize un-collectability of loan, so CBB also may have mechanism to decrease the NPL rate. The following table contains the respondent opinion concerning that CBBs mechanism to minimize the NPLS

**Table 4.14** Respondents that mechanism for the Bank use to Decrease NPLS

Answer	Frequency	Percentage
Making high follow up	72	61%
Making deep analysis Before Loan is approved	62	53%

Source: primary Data

From the above table 61% of the respondents are given responses mechanism to minimize non-performing loan by making high follow up, the remaining respondent (53%) agrees by making deep analysis before the loan is approved. The researcher observed that, the follow-up & making deep analysis is made by CBB according to the respondent opinion.

#### 4.17. The Bank use Modern Technology (Software) to Credit Analysis

The bank software is the one instrument that the bank used to support credit analysis from the result understand that total of the respondents (100%) are given responses on the bank software not support credit analysis. So the researcher find out that the bank software is not supported credit analysis and it affects the performance of the bank, so the bank should take remedial action to improve their service and to increase loan recovery performance. Because the most advantage of the software is speedy and sharing of information with customer and other stack holders Easley.

#### 4.18. Respondents with Strong collateral secures Loan repayment

The bank procedures believed that strong collateral secures Loan repayment. The following table summarized the ideas of respondents

**Table 4.15** Respondents with Strong collateral secures Loan repayment

Answer	Frequency	Percentage
Yes	13	72%
No	5	28%
Total	18	100%

Source: primary Data

From the above table, 72% of respondent reply believed that strong collateral secures Loan repayment and the rest 28% of respondent reply not believed that strong collateral secures Loan repayment.

Security is taken to mitigate the banks risk in the event of default and is considered a secondary source of repayment (Koch & MacDonald, 2003). According to De Lucia and Peters (1998), in the banking environment, security is required among others to ensure the full commitment of the borrower to provide protection should the borrower deviate from the planned course of action outlined at the time credit is extended and to provide insurance should the borrower default.

From the above table of respondents', the studs understand the banks are more emphasized on collateral in addition to financial worseness.

#### **4.19. Procedure allow debit customers account to recover the Loan repayment**

Respondent were also asked for the bank procedure that allows to debits the customer deposit account to recover the monthly Loan repayment. From result of respondent, 100% replies the Bank procedure allows to debits the customer deposit account. The researchers observe that the Bank procedure allowed to debits customer account that is positive effaces on the Loan recovery performance of the Bank.

#### **4.20. The problem faced during recovering of nonperforming loan.**

The Bank faced different type of problem related to recovering of nonperforming Loan from those problem CBBs faced the indicated below.



**Table 4.16** problems faced during recovering of nonperforming loan.

Answer	Frequency	Percentage
Unavailability of additional Collateral	6	33%
Collateral value depreciation	3	17%
Complicated Legal procedure	3	17%
Complicated Bank procedure	6	33%
Total	18	100%

Source: primary data

According to the above table, most of the respondents (33%) are given responses on the unavailability of additional attachable borrower property or collateral and complicated Bank procedure and (17%) of respondents are given response on the collateral value depreciation and complicated Legal procedure are the major problem to recover the nonperforming loan. The studies observed that in addition to internal factor, the external factor also affect the loan recovery performance of the bank.

#### 4.21. Credit monitoring and follow-up the occurrence of Loan recovery.

The table show that the respondents response on credit monitoring and follow up on the performance of Loan recovery in CBB.

**Table 6 Credit monitoring and follow-up the occurrence of Loan recovery.**

**SA:** strongly agree    **A:** Agree    **N:** Neutral    **D:** Disagree    **SD:** Strongly disagree

Answer	SA	A	N	D	SD	Total
Strict monitoring and follow-ups ensures loan performance	33%	50%	6%	11%	0%	100%
Poorly assessed and advanced loans may perform well if properly monitored	0%	6%	22%	33%	39%	100%
Loan follow up is directly related to occurrence of nonperforming loans	17%	44%	6%	28%	6%	100%
Banks with higher budget for loan Monitoring have lower nonperforming loans	11%	39%	28%	17%	6%	100%

Source: Primary Data

From the above table, 50% of respondents reply are Agree that strict monitoring and follow-ups ensures Loan performance, 33% of respondents are reply are strongly agree, 11% of respondents are reply Disagree and 6% of respondents are reply neutral. On the other hand, 39% of respondent reply strongly disagree,33% of respondents reply disagree,22% of respondent reply neutral and 6% of respondents are reply agree for

poorly assessed and advanced loans may perform well if properly monitored and also 44% of respondents are reply agree, 28% of respondents are replay disagree, 17% of respondents are reply strongly agree and 6% of respondents are reply neutral and disagree for Loan follow-up is directly related to occurrence of nonperforming Loans in addition to this 39% of respondents reply agree, 28% of respondents are replay neutral, 17% of respondents are reply disagree, 11% of respondents are reply strongly agree and 6% of respondents are reply strongly disagree. For Banks with higher budget for Loan monitoring have lower nonperforming Loans. From the foregoing discussions the study's concluded that credit monitoring is directly related to Loan recovery and performance despite this the respondents didn't support the argument that loan would perform well only by proper monitoring if proper assessment is not carried out while advancing the credit. This indicates that follow up would never substitute credit analysis or assessment. On the other hand, through loan monitoring requires budget allocation higher budget might not ensure loan recovery performance.

#### **4.22. The cause of Loan Recovery performance.**

In the case of CBB the studs observe some additional problem from the given open ended questionnaires which are associated with to Loan uncollectable.

##### **Economic problem of the country**

According to the qualitative assessment of the result, 65% of respondents agreed on the economic problem of the country are the main reason for uncollectible of Loan. As the respondent states, borrowers are exposed to inflation due to the alarming price increased this price rise creates the customers not to finish their project and lead them not to relay their obligation on a specific period of time.

##### **Lack of customers Awareness**

According to the researcher collected, data reply 35% of respondent agreed on that some customer divert the money they borrowed for specified purpose to other business like to their personal conception setting loan to other financial institution that associated with lack of efficient consultancy service before the loan occurs.

## **Failure of the Business**

Failure of the project, which the Loan is proposed sometimes as problem of Loan for nonperforming that is associated with inefficient business plan study.

### **4.23. Type of Credit that CBB Provide**

In order to further assess the Loan recovery performance of the Bank, the study referred the service of the Bank that avail to Customer. Credit is one of the core services that the Construction and Business Bank of Ethiopia (CBB) renders to its customers. The bank offer a wide-range of credit products in terms of facilities and loans supposed to fit with the existing or future demands of the economy. Though the underlying objective of the bank is on the provision of consultancy service to its clients in the area of construction and business and also provides loan to clients so as to maximize its profit and to contribute its share to the growth of national economy. The type and nature of loan that the bank provides to its clients and various sectors are:

Short term loan, Medium term loan, Long term loan, Motor Vehicle Loan, Construction Machinery Loan, Fertilizer Loan, Other Agricultural Input Loan, Agricultural Investment Term Loan ,Channel Financing, Urban Utilities Financing, Inter-Bank Lending, Idea Financing, Housing Development Loan, Personal Loan, Consumer Durables loan, Automobile Loan and Purchase and Construction of Residential and commercial Building Loan. (CBB landing strategy 2014)

- ❖ A Term Loan: is a loan granted for working capital and project finance to be repaid within a specific period of time. The loan is repaid in periodic installments (i.e. monthly, quarterly, semi-annually, or annually). The Bank extends Short-Term Loan, Medium-Term Loan and Long-Term Loan depending on the purpose loan that the borrowers needs
- ❖ Short term loan: is a loan extended by the Bank to finance the working capital needs and to address other short term financing constraints of the borrower's business. Short term loan could be granted to a maximum of three years.
- ❖ A Medium-Term Loan: is a loan which has a maturity period longer than three years, not exceeding a maximum period of Five years, on the other hand, Long-Term Loan is a loan which has a maturity period longer than

seven years but not exceeding a maximum period of 10years, with periodic installments.

- ❖ Overdraft facility : a facility that allowed to draw beyond the deposit of its current account up to maximum approved limit;
- ❖ Merchandise loan facility: is a short term credit facility provided by the bank against which the merchandises or documentary evidences;
- ❖ The Import Letter of Credit facility: is a credit product that the CBB extends to applicants engaged in the import business, or other applicants who import for various purposes on payment of a certain percentage of the value of the document while opening a Letter of Credit
- ❖ Pre-shipment export credit facility: is the facility that availed to exporters
- ❖ Syndicate loan: a loan that financed jointly with other financial institution. This are some credit products of the bank
- ❖ A Letter of Guarantee Facility: issued by a bank is a written promise by the bank to compensate (pay a sum of money) to the beneficiary local or foreign in the event that the obligor fails to honor his/her obligations in accordance with the terms and conditions of the contract. . (CBB landing strategy 2014).

The above mentioned data indicate that CBB offered different kind of term loan and give credit facilities for their customer, however most of the time in real circumstances CBB loan outstanding and loan Disbursement is more of Construction and Purchase of Residential and Commercial Building loan. The researcher observe that CBB have different kind of loan that provide but the customer is not awareness about the main product of the loan, therefore CBB work in advertisement& promotion to create awareness about the main product of the Loan that CBB offered.

#### **4.24. Loan Recovery Performance of the Bank.**

Recovery is a key to the stability of the banking sector there should be no hesitation in stating that banks have done a remarkable job in containment of Non-Performing Assets (NPA) considering the overall difficult environment.

Recovery management is also linked to the bank's interest margin's we must recognize that cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the banks the below table shows the performance of the Loan recovery of CBB

**Table 4.18** Loan Recovery Performance of the Bank for the years 2012-2014

Year	Total Loan (In Billions )	Loan Not Recovered (In millions)	% of Loan Not Recovered
2012	2,059.1	205,315.6	10%
2013	2,699.3	285,409.0	11%
2014	2,408.00	348,026.1	14%

Source: Secondary Data

From the above table observed for the year 2012, the Bank not recovered 10% of the Loan that the Bank disbursed and also in the year 2013 11% of Loans are not Recovered in addition to this in the year 2014,14% of the Loan are not Recovered the trend shows the recovery performance decline year to year even if the volume of the Loan increases but does not increases in Loan recovery performance and also in 2014 the volume of the Loan are decreased but the unrecovered Loan performance reversely increases Therefore, the studs observed the performance of the Bank indicate that there is a slight reduction in the proportion of Loan Recovery Performance this is their Own effects on Loan disbursement and approvals and also the Bank performance.

#### **4.25. Loan Disbursement Performance of the Bank.**

The studs also referred some documents that is the performance of Loan disbursement of the bank for the last three years and discussed as below.

**Table 4.19** Disbursements performance of the Bank for the years 2012-2014

Year	Building and Construction (in millions)	Business loan (in millions)	Total (in millions)
2012	152.3 Millions	448.10 Millions	600.40 Millions
2013	630.9 Millions	1,200.1 Billions	1,831.0 Billions
2014	636.1 Millions	1,015.0 Billions	1,651.1 Billions

Source: Secondary Data

The above table indicates that the disbursement to loans of CBB it shows a significant increase in 2013. This main accountable factor for this performance in loan disbursement is mainly because of the improvement exhibited in Loan processing an activity of the bank following BPR implementation and the government free market policy which encourages the private sectors plays significant role for the increment of the Loan Disbursed.

However starting in the year 2014, the loan disbursement shows a decline because of the main reason for this low achievement is low performance exhibited in loan approval during the year under consideration the main reason behind this low Performance is due to uncollectable of due Loan and limitation of Loan able fund particularly in deposit sources. The researcher observed that the loan disbursement in 2014 is declines because of deposit mobilization; it indicates the bank performance in relation to deposit needs improvement.

#### **4.26. Loan collection performance of the Bank by economic sector.**

The studs also refer some documents that are the performance of Loan collection of the bank for the last three years and discussed as below.

**Table 4.20.** Collection performance by economic sector for the years 2012-2014 (in millions)

Year	Building and Construction	Business loan	others	Total
2012	331.4	229.5	6.2	567.1
2013	387.8	232.3	11.1	631.2
2014	415.8	653.1	20.7	1,089.6 billion

Source: Scudery data

From the above table indicate that, the collected amount of loan by the bank showed continuous increase from 567.1million 2012to 631.2 million 2013 and 1,089.6 Billion to 2014 but this performance is compared with the plan of the bank for the year 2014 birr 1,361.2 Billions, it has showed a decline from the bank plan by birr 271.6 million even if the collection is increased that is not directly related the normal repayment status of the Loan or status due Loan. So it needs serious attention to Loan collection. The study's observe that the major reason is decreased that associated with the Loan follow up effort of the bank so the Bank give attention the Loan follow up.

#### 4.27. Loan outstanding by economic sector.

The studies also refer the total outstanding balance of the Loan and that is presented below

**Table 4.21** Loan outstanding by economic sector for the years 2012-2014

Year	Building and Construction	Business loan	others	Total
2012	1,202.2 Billions	462.4Millions	394.5 Millions	2,059.1 Billions
2013	1,122.40 Billions	517.80 Millions	418.80 Millions	2,059.00 Billions
2014	1,445.80 Billions	753.10 Millions	543.00 Millions	2,741.90 Billions

Source: Scudery Data

The above table indicate that, the outstanding balance of the bank showing 2,059.1 in 2012, however in 2013 decreased because of mainly the decreased in loan disbursement and increased loan collection. In 2013, increased because the disbursement was offered and the collection performance is too low down. The study's observes that the collection performance in 2014 even if increased in amount that is not shows the actual status of the collection of the Loan status in addition to this, the Loan approval and disbursement performance of the Bank also affected due to unrecovered of status to nonperforming. Loan the studies observe that the performance of the Bank lower compared to the previous year.

#### **4.28. Outstanding Loan Vs States of Nonperforming Loans (NPLs)**

In 2014 the total amount of nonperforming loans of the bank has 131,704.8 million which is unfavorably higher than they plan amounting birr 61.9 million. So the researcher observed that there is a problem in relation of collection performance of the loan.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS OF FINDINGS**

#### **5.1. Introduction**

This Chapter presents summary, conclusion and recommendations of the major finding of the study's and provide recommendation and areas of further study and revelation of both theoretical and empirical issues that underline the Loan Recovery performance of Loan present condition and trend in the Case of CBB.

#### **5.2. Summary of Major Findings**

The study which was conducted to assess the Loan Recovery Performance in the case of CBB shows that there are internal and external factors contributing to NPLs. From those internal factors ridged credit police, no clear credit approval procedure and proper as well as week follow up to gate back the loan given to the customers by the bank has negative influence on the Loan recovery performance of the Bank. From the study it was discovered that the unrecovered Loan amount increased year to year during the past there year which is from 2012 up to 2014. In addition to this the Bank plan to NPL amount at June 2014 was Birr 61.9 million however, the bank has reversely recoded Birr 131,704.8 million of NPLs which implies the bank has high volume of loan to be collated as per the scheduled of the bank. This therefore lead the Bank to problem of cash flow which increased provision held. This also reduced the profitability of the Bank. Moreover, it affected the capital adequacy and liquidity which could lead to situation where the Bank would not be in a position of granting of new facility, and also increasing of non recovery of Loans that incur other costs of the Bank that are associated with debit Recovery.

#### **5.3. Conclusion**

There are various types of collateral that CBB used to serve term loan applicants. Building, vehicles, cash and machineries are the major types of collateral in Construction and Business Bank (CBB)

The process of loan from application to approval is the normal and routine activity of the bank. But CBB process of loan is needs improvement because credit is the core activity of the bank.

CBB provide training to improve the collection performance. These types of training are on working training and off working training. But more participants include on working training.

CBB used the collateral, financial worthiness, sectors of customer engaged Business and customers years of relation with the bank as the major requirements to give the loan for the borrowers. It is good requirement to extend the loan because it fulfilling partial major prerequisite of 5Cs principle.

Most customer does not willing to disclose information to the bank needs for loan processing. It affects loan recovery performance of the bank.

CBB used techniques to collect repayment from individual and different sectors of borrower are making high follow up after the loan approval and making deep analysis before loan approved.

CBB provide advisory service for their customer. The results of present study indicate that 74% of the respondents are replied yes but not enough and 3% of respondents replied they didn't provided advisory service to their Loan customer both before and after granting of Loan. This could lead to default of repayment. Providing advisory service to credit customer before and after granting credit is an important aspect since it comes borrower to be knowledgeable and awareness other obligations.

The result of present study indicated that the major cause of repayment failures are Diversion of Loan fund, no adequate applicant screening criteria, Business Filer and borrower Death are the major problems that CBB encountered for NRL.

Modern Software is the important instrument to improve the loan process performance in the bank like speed, information and resource sharing. In CBB credit follow up are supported with software.

The present study result indicate that the major mechanisms that CBB used to decrees NPL are making high follow-up after the Loan approved and making deep analysis before the loan is approved.

Modern Software is the important instrument to improve the loan process performance in the bank like speed, information and resource sharing. But CBB software does not support credit analysis performance of the bank.

The present study result indicate that strong collateral are secured loan repayment this may lead the Bank to wrong decision though collateral is important as a last resort/fallback it should not be the primary concern for Loan repayment

The present study result indicate that, the Bank procedure allowed that to debit customers account to recover the Loan repayment that important to Loan recovery performance of the Bank.

The result of study show that, the Bank faced during recovery of nonperformance Loan are unavailability of additional collateral, complicated Bank procedure, complicated Legal procedure and deprecation of collateral are the major problem for recovering non-performing loan.

The result of the study shows that, 50% of respondents replayed agree and 33% of the respondents strongly agree to strict monitoring and follow-ups ensure loan performance.

The result of the study show that 39% and 33% of respondents replayed strongly disagree and disagree poorly assessed and advanced loans may perform well if properly monitored or follow up are not substituted analysis.

The result of the study show that 44% of respondents replayed that Loan follow up is directly related to occurrence of nonperforming loans

The results of the study show that 39% of respondents replayed Banks with higher budget for loan monitoring have lower nonperforming Loans.

Lack of customer awareness is the cause of NPL by the customer side based on the analysis some customer divert the borrowed money to other than un proposed project especially lack of customer awareness arises with inadequate consultancy service before and after the Loan approval.

The result of the study show that, failure of the business also the customer problem to pay back the due date of the Loan.

The surveyed document shows that in CBB many types of loan are granted. Those are commercial loan, housing development loan, term loans, equipment loans, educational loans, agricultural loans, consumer loans etc.

The surveyed document shows that the Bank Loan recovery performances are decreased year to year this is a negative impact for the Bank performance

The surveyed document shows that, after BPR implementation, the disbursement amount in different economic sector of the bank increased from Br. 600.40 million in 2012 Br. 1,831.0 in 2013. however in 2014 loan disbursement decline the main reason for these is shortage of loan able fund particularly deposit source and un collectability of due Loan.

The surveyed document shows that on the other hand the collection amount of the bank increased from Br. 631.2 in 2013 to Br. 1,089.6 in 2014. but this performance is decreased compared to the bank plan by Br. 271.6 million The major reason for the decline of collection is decreased the follow-up effort of the bank.

The surveyed document shows that the outstanding balance of the bank amounting Br. 2,059.1 in 2012 however in 2013 decreased by amount 0.1 million the main reason for this is decreased disbursement of Loan.

The surveyed document shows that, from the total outstanding Loan balance of June 30 2014, fourth quartered unpublished reporter of the Bank the total Loan of status nonperforming Loans are Birr 131,704.8 million that is unfavorably higher than the plan Birr 61.9 million.

#### **5.4. Recommendation**

After analyzing result obtained for responses to questioners gathered from the Bank employees and comparing with the theoretical framework in various literatures and sound international practices, the following recommendations are made the view to improving the Loan Recovery performance of CBB.

- ❖ The bank should provide loan advisory service before and after the Loan to the borrowers to create awareness in the mind of the borrower and also after

extending the loan the bank should be follows the borrower how they use their fund? And give advice about the work and consult them how to use their fund properly to improve the loan collection performance.

- ❖ The bank must try to diversify its Loan types, since most of the outstanding balance of the Loan is building construction Loan or long term Loans long term loan by nature exposed to default risk. Due to this, the bank must give emphasis on the increased of the outstanding balance of business Loans to minimize risk of un collectability Long term Loan.
- ❖ To solve the problem of shortage of Loan able funds, the bank should make strong effort to reinforce the ongoing Loan collection activity to achieve the objective of the bank and strong follow up by the Bank officers can help the Bank as to where the customer business status and the collateral position are, which in turn helps the management for sound decisions.
- ❖ The bank must have to develop a strong credit assessment and follow up to facilitate the control of NPL status of Loans and improve its service delivery.
- ❖ The bank software is not support the credit analysis, so the bank should work hard to modernize its service and support the credit analysis with ICT.
- ❖ Bank should have policies covering the acceptability of various form of collateral, procedures for the ongoing valuation of such collateral, and process to ensure that collateral is continues to be enforceable and realizable.

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# **APPENDICIES**

### DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under guidance of Zenegnaw Abiy (PHD). All source of materials used for the thesis have been duly acknowledged. I further conform that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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Signature & Date

**ENDORSEMENT**

This thesis has been submitted to St.Mary's University School of graduate Studies for examination with my approval as a University advisor.

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Advisor

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Signature & Date

St. Marry University  
School of Graduate Studies (SGS)

Dear Sir/Madam

This questionnaire is prepared to gather data for the study's to be conducted on the topic "Assessment of Loan Recovery performance in CBB" which will be used as an input for theses in a partial fulfillment of MBA in Finance.

I kindly request you to spare some minutes of your time and respond to the questions below either by ticking or filling where applicable your answers and also I assure you that the data will not be used for other purposes and treated with utmost confidentiality.

Thank you for your cooperation in advance!!

**Part I. Demographic information (credit analyses)**

(Please put a tick (✓) in the appropriate box).

1. Gender

Male  Female

2. Level of Education

Diploma  Degree  Postgraduate Degree

Certificate other (specify) \_\_\_\_\_

3. The level of position in the organization?

Customer relationship manager  Loan recovery office   
Credit Analyses and Portfolio manager  Loan recovery and rehabilitation

4. How long have you worked for credit related?

Less than 1 year  1-5 years  6 – 10 years  More than 10 years

**Part II. Study's related question**

1. How did you rate the credit police and procedure of the banks giving loan service to the customer?

Ridged  Somehow Ridged  Somehow Flexible  Flexible

2. Which types of collaterals frequently used in CBB to give term Loans?

Type of collateral	
Building	
Vehicles	
Machinery	
Personal Guarantor	
Cash	
Please specify it other	

3. Do you believe that having strong collateral secures loan repayment?

Yes  No

4. Is the bank provides training to employees that are working in credit?

Yes  Yes but not satisfactory  No

5. If your answer is yes what type of training CBB gives?

On-work  Off-work

6. Does the bank have modern technology (software) support credit analysis?

Yes  No

7. What mechanism bank use to decrease its NPL?

Making high follow up  giving high attention to collaterals

Making deep analysis before the loan is approved

If any others please specify. \_\_\_\_\_

\_\_\_\_\_

8. Each of the following statement, please tick (√) where applicable the extent to which you agree scale.

**SA** = Strongly Agree

**A** = Agree

**N** = Neutral

**D** = Disagree

**SD** = Strongly Disagree

Please indicate your degree of agreement or disagreement to the statements pertaining to credit monitoring and follow-up the occurrence of loan recovery

No	Statement	SA	A	N	D	SD
1	Strict monitoring and follow-ups ensures loan performance					
2	Poorly assessed and advanced loans may perform well if properly monitored					
3	Loan follow up is directly related to occurrence of nonperforming loans					
4	Banks with higher budget for loan Monitoring have lower non performing loans					

St. Marry University  
School of Graduate Studies (SGS)

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**Thank you for your cooperation in advance!!**

**Part I. Demographic information (CRM & CRO)**

(Please put a tick (√) in the appropriate box).

1. Gender

Male

Female

2. Level of Education

Diploma

Degree

Postgraduate Degree

Certificate other (specify) \_\_\_\_\_

3. The level of position in the organization?

Customer relationship manager

Loan recovery office

Credit Analyses and Portfolio manager

Loan recovery and rehabilitation

4. How long have you worked for credit related?



Less than 1 year  1-5 years  6 – 10 years  More than 10 years

## Part II. Study's related question

1. How did you rate the credit police and procedure of the banks giving loan service to the customer?

Ridged  Somehow Ridged  Somehow Flexible  Flexible

2. Which types of collaterals frequently used in CBB to give term Loans?

Type of collateral	✓
Building	
Vehicles	
Machinery	
Personal Guarantor	
Cash	
Please specify it other	

3. How the process of loan looks like from application to approval?

Very good  Good   
Satisfactory  Need improvement

4. Is the bank provides training to employees that are working in credit?

Yes  Yes but not satisfactory  No

5. If your answer is yes what type of training CBB gives?

On-work  Off-work

6. What are the major requirements that CBB used for lending?

Collateral  Financial worthiness   
Years of relation with the bank  Sectors of the customer engaged

If other, please specify . \_\_\_\_\_

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7. Customers' are willing to disclose every information the bank needs for loan processing

Yes

No

8. If your answer is NO for question (8) what are their major reason?

The purpose of the loan granted different from they use

Lack of awareness about the main products that the bank provide

They have no sufficient capacity to take the loan

If other, please specify. \_\_\_\_\_

\_\_\_\_\_

---

9. Is the bank give advisory service to the prospective borrowers?

Yes

Yes but not enough

No

10. What are the major causes for repayment failures of borrowers?

<b>Potential causes</b>	<b>yes</b>	<b>No</b>
No adequate applicant screening criteria		
Diversion of loan		
Business filer		
Borrower death		
Please specify if other		

11. Does the bank have modern technology (software) support credit follow up?

Yes

No

12. What mechanism bank use to decrease its NPL?

Making high follow up

Giving high attention to collaterals

Making deep analysis before the loan is approved

If any others please specify. \_\_\_\_\_

\_\_\_\_\_

St. Marry University  
School of Graduate Studies (SGS)

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**Thank you for your cooperation.**

**Section A: Demographic information (loan recovery)**

(Please put a tick (√) in the appropriate box).

1. Gender

Male

Female

2. Level of Education

Diploma

Degree

Postgraduate Degree

Certificate other (specify).....

3. The level of position in the organization.

Customer relationship manager  
manager

Credit Analyses and Portfolio

Customer relationship officer

Loan recovery and rehabilitation

4. How long have you worked for credit related?

Less than 1 year  1-5 years  6-10 years  More than 10 years

**Part II. Study's related question**

1. How did you rate the credit police and procedure of the banks giving loan service to the customer?

Ridged  Somehow flexible  Somehow ridged  Flexible

2. Is the bank provides training to employees that are working in credit?

Yes  Yes but not satisfactory  NO

3. If your answer is yes what type of training CBB gives?

Off work training  on work training

4. Is there a procedure that allows the bank normally debits customer's deposit account to recover the loan monthly repayment whether there is credit or not?

Yes  No

5. What is the problem faced during recovering non performing loans?

Unavailability additional collateral  Collateral value depreciation   
Complicated legal procedure  Complicated bank procedure

If any others please. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. What mechanism bank use to decrease its NPL?

Making high follow up  giving high attention to collaterals   
Making deep analysis before the loan is approved

If any others please specify. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**For each of the following statement, please tick(✓) where applicable the extent to which you agree scale.**

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