ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE APPLICATION OF CAMPARI MODEL IN LENDING DECISION IN THE CASE OF ETHIOPIAN PRIVATE BANKS

BY

GENENE SEYOUM W/MARIAM

JUNE, 2017

ADDIS ABABA, ETHIOPIA

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List of acronyms

CAMPARI	Character, ability, margin, purpose, amount, repayment & insurance
CBE	Commercial Bank of Ethiopia
EPRDF	Ethiopian People Republic Democratic Front
GDP	Gross Domestic Product
NBE	National Bank of Ethiopia
OLS	Ordinary least square
PARTLAMPS	Purpose, amount, repayment, time, laws, account, management, profitability, & security
PARSER	Person, amount, repayment, security, expediency, & remuneration

Abstract

The objective of the study is to assess the application of CAMPARI Model in lending decisions in the Ethiopian Private Banks. Data was collected from four banks of the loan officer and customers. A questionnaire was designed and filled by the 30 bank loan officers and 28 bank customers. The collected data was analyzed using descriptive statistics. It was found that all these four banks use CAMPARI model in lending decisions. The study analyzed each factor that has impact on bank lending. These factors are character of loan applicants, ability to repay loan, margin to repay loan, purpose of loan, amount of loan, repayment of loan and insurance for the loan. It was found that the banks concentrate more on character, ability to pay, and the purpose of loan. They concentrate less on margin of profit and terms of repayment. The study also showed that there is a direct relationship between CAMPARI model and lending decision. In practice the lending process of private banks uses CAMPARI model were utilized and followed as procedure for making a lending decision.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The history of banking begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. Later, in ancient and during the Roman Empire, lenders based in temples made loans and added two important innovations: they accepted deposits and changed money. Archaeology from this period in ancient China and India also shows evidence of money lending activity.

Many histories position the crucial historical development of a banking system to medieval and Renaissance of Italy and particularly the affluent cities of Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. The most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397. The oldest bank still in existence is Beanca Monte Banca Monte deiPaschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.(Wikipedia.org)

The development of banking spread from northern Italy throughout the Holy Roman Empire, and in the 15th and 16th century to northern Europe. This was followed by a number of important innovations that took place in Amsterdam during the Dutch Republic in the 17th century and in London in the 18th century. During the 20th century, developments in telecommunications and computing caused major changes to banks' operations and let banks dramatically increase in size and geographic spread. The financial crisis of 2007–2008 caused many bank failures, including some of the world's largest banks, and provoked much debate about bank regulations.

The history of Ethiopian banks back dated to 1905; the foreign-owned Bank of Abyssinia was established and the Ethiopian banking sector started to develop. The bank was purchased by the government in 1931 and renamed Bank of Ethiopia, the first nationally owned bank in the African continent. After a period of Italian and British bank ownership in the 40's and 50's, the Monetary and Banking Proclamation No 206 of 1963 stipulated that a banking license was granted only to partnerships with Ethiopian ownership of at least 51% of the capital. Accordingly, foreign banks, which had already started their operations in the country re-applied for a license. In the meantime, the State Bank of Ethiopia was established as the Central Bank of Ethiopia. As an agent of the Ministry of Finance and as the principal commercial bank in the country, the Central Bank also engaged in all banking activities. The banking law of 1963 then determined the separation of commercial and central banking and created two separate entities, the National Bank of Ethiopia (NBE) as the Central Bank and the Commercial Bank of Ethiopia (CBE). In 1974 during the Durg regime all foreign banks operating in the country were nationalized. The financial sector the so called socialist government left behind constituted only of four banks, each enjoying a monopoly in its respective market, namely the NBE, the CBE, the Construction and Business Bank and the Agricultural and Industrial Development Bank. But later on when the new government Ethiopian People Republic Democratic Front (EPRDF) came to power, the economic reform process started in 1992; these financial institutions were reorganized to operate based on a market-oriented policy framework. The Monetary and Banking Proclamation of 1994 established the NBE as a judicial entity separated from the government and outlined its main functions. Monetary and Banking proclamation No 83/1994 and the Licensing and Supervision of Banking Business No 84/1994 laid down the legal basis for investment in the banking sector. Consequently, shortly after the proclamation, the first private bank Awash International Bank was established. According to NBE, 2015/16 Annual report, the numbers of banks established were 18 of which 16 were private and the remaining three state-owned.

Banks play an important function in the economy of any country. They are the main intermediaries between those with excess money (depositors) and those individuals and businesses with viable projects but requiring money for their investment (creditors).

Banks have at least the following functions: lending money, depositing others' money, transferring money locally or globally and working as paying agent. Today's banks seek to earn income by lending money out at a higher interest rate than they pay depositors for use of their money. Banks usually make loans up to the point where they can no longer do so because of the reserve requirement restriction. The banks required amount of reserves is equal to the required reserve ratio times the total deposits in the bank (Case and Fair, 2007). The banking industry considers lending as their most important function for utilization of funds. Since the major portion of gross profit of the industry is earned from loans; the administration of loan portfolios seriously affects the profitability of banks (Wei-shong and Kuo-chung, 2006). Loan is equally important for borrowers (the private sector in particular) as it remains to be the most important external financing source. Hence the availability or constraint as well as restriction on free access to loan affect both banks and borrowers. Banks, insurance companies and micro-finance institutions are the major financial institutions in Ethiopia. Banks restrict or limit their loan rendering because of many reasons. These create problem to investors and business people in accomplishing their business plans. On the other hand, from the banks side, loan is one of the principal sources of income. If banks give limited or reduced loans to their customers, their income will be reduced and the overall performance may be negatively affected. Theoretically, there are many reasons why banks reduce or limit lending. Some of these include liquidity problem, capital position, government fiscal and monetary policies, and bank health (non performing loans). This study attempts to look into the CAMPARI model which is one of the bank's credit evolution models in order to approve or reject the credit that is requested by the business man from their limited resources.

Credit evaluation models are not based on a single factor but upon how an applicant matches up to a set of lending criteria laid down by the lender. These lending criteria inherently reflect the risk attitudes and risk tolerance levels of the credit grantor concerned. These criteria reflect how the lenders want to do business, their business policies, strategies, their risks propensity, etc. The risk attitudes, tolerance, business philosophy, policies and strategies however vary from one financier to the next. What one financier finds unacceptable may well be within another's tolerable limits.

Ultimately, lenders will only assume risks that they find comfortable and acceptable within the limits set by their organizations.

To assist the financier in evaluating and coming to a decision the banker uses different models to evaluate lending. One of these models is CAMPARI model. It is one of the oldest models used by banks to evaluate lending propositions. It is the model looks at a range of aspects associated with lending which covers not just the finance that is being sought but the people who are seeking it. The model provides the banker with a tried and trusted model for credit analysis (Philip,2003). It assesses the borrower on the basis of character, ability to pay, margin of profit, purpose of the loan, amount being requested, the terms of repayment and the insurance in case of default.

1.2 Statement of the Problem

In Ethiopia most banks are reluctant to give loan. As a result of which, investors and the business community as a whole could not have adequate access to loan. Owner, managers of private business and executives of public enterprises complain about constraints of loan facilities for investment in construction of factory and business buildings, purchasing machineries, meeting working capital requirements and expansion of their businesses. In addition, restrictions on bank lending may have impact on banks performance which in turn would have its own bearing on the growth of banks and their contribution to the poverty reduction efforts of the Ethiopian government.

The restriction had significant impact on the overall performances of the banks. Lending is the most important function of commercial banks. Its contribution to asset and income portfolio is very high in the banking industry. Therefore, any problem in lending like restricting or reducing loan is likely to have great impact on the performance of banks. According to MacDonald and Koch (2006) lending represents the heart of the banking industry. Loans are the dominant asset and represent 50-75 percent of the total amount at most banks assets. Loans also generate the largest share of operating income. According to NBE, loan accounted for about 4.3 percent in the fiscal year 2015/16. The lack of stock market to raise finance makes business community dependent on bank lending. Therefore, bank loan appears to be the most important source of finance for the business community and major revenue or operating income generating asset of banks. Hence, reduction of loan by banks affects not only their clients' performance but also their own performance. Impacts on their performance, in turn, imply that the problem is restraining their growth and potential for helping the government's efforts in poverty alleviation strategy.

According to the NBE annual report of 2015/16, the new loan disbursement of commercial banks is only 16.6% during the review of the fiscal year.

This shows that the development of the financial sector is influenced by conditions within the sector. The specific factors include bank regulation and supervision; the development of institutions that help to increase the level of information available to lenders; and the unknown decision making process made by banks in lending out money. These problems call for extensive research that aims at assessing the impacts of restricting lending on banks' performance. This study aims at assessing the implementation of CAMPARI model on lending in private owned banks.

1.3 Research Questions

Banks are one of the contributors of the growth through lending money for business, investors and households. Restricting or limiting bank lending may cause difficulty to those who need loan to accomplish their plans. Therefore, reducing or restricting lending by banks may have negative impact on both banks and borrowers in particular as well as growth of the country in general. The broad objective of this research was to show the application of CAMPARI model by banks in lending decisions in order to identify factors that limit lending and assess the impacts of reducing or limiting loan by banks on their own performance.

The following research questions were developed:

RQ1: What does the practice of lending decisions of private banks look like?

RQ2: How do the Ethiopian private banks prioritize the application of CAMPRI model which affects lending?

1.4 Objectives of the Study

1.4.1 General Objective

The major objective of the study is to assess the application of CAMPARI Model in lending decisions in the Ethiopian Private Banks.

1.4.2 Specific Objectives

In order to achieve the major objective, the researcher set the following specific objectives:

- To assess the knowledge and practice of banks in the use of CAMPARI Model as a tool for lending decision.
- To identify the factors that affect the banks' lending decision.
- To identify the specific problems associated with the application of CAMPARI model.
- To forward possible recommendations for the concerned bodies.

1.5 Significance of the Study

The study provides useful information to the following beneficiaries:

1. Bank customers: The findings will be helpful to customers in providing information on standardized loan application procedures& how to get loans so as to avoid delays/rejection in securing the required loans.
2. The bank itself: Recommend the standard methods that are widely applied in the banking industry in processing loan applications & show them the possible constraints in providing loans.
3. Government bodies: It helps to the national Bank of Ethiopia as a regulatory body to control money supply in the economy thereby minimizing inflation.
4. To point out some research gaps to consultants, scholars and academicians making further studies in the area.

1.6 Scope and Limitations of the Study

This study centers on achieving the broad objective of assessing the application of CAMPARI model in lending decision in the Ethiopian Private Banks. There are other models which would not be covered in this study & still applied in bank lending decisions.

This study was also involved only 4 private banks in order to show the actual bank lending practices due to the shortage of time, fiancé & manpower resources. Since the study focused on four private banks, the findings may not be applied in other private banks.

In addition to this, absence of related studies & reference materials in the field is expected to create a major problem to the researcher in conducting detail study on the topic.

1.7 Organization of the Study

This study was organized in five chapters. Chapter one provides background information and gives a general picture about objective of the study. Chapter two presented review of related literature and the study area description. Chapter three deal with the methodology part. It addresses the approach used, data collection methods and models that are employed for the purpose of the study. Chapter four devoted to result and discussion of the study. In this chapter, data was collected from the bank customers who got loan and data from banks which show the lending decision of each banks. The last chapter showed the summary of the findings and conclusion of the study and provides recommendation in line with the findings.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter reviews some of the studies that have been carried out to date. It begins with definition of terms used in the study and then an explanation about the CAMPARI model. The chapter also continues with an overview of the bank selection criteria that were investigated, based on selection criteria used in previous studies, followed by a discussion of some influences on bank selection criteria. It further looks at similar studies conducted in this area and tries to relate them and adopt it to prevailing circumstance in Ethiopian banking industry.

According to the Business dictionary, bank is an establishment authorized by a government to accept deposits, pay interests, clear checks, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers. Banks typically offer a variety of services to assist individuals in managing their finances, including: checking accounts, savings accounts, debit and credit cards, insurance and wealth management services. In the case of business banking, most banks offer financial services for business owners who need to differentiate professional and personal finances which include business loans, checking accounts, savings accounts, saving and credit cards, merchant services and cash management services. Banks also give digital banking services which used to manage their finances online from computer, tablet, or smart phone. In the digital banking banks will typically offer digital banking services that include online, mobile, and tablet banking, mobile check deposit, text alerts, e Statements, and online bill pay. The other services of banks are providing loans to their customers. Loans are a common banking service offered, and they come in all shapes and sizes. Some common types of loans that banks provide include: personal loans, home equity loans, home equity lines of credit, home loans and business loans.

2.1 Theory of Lending

Lending (also known as "financing") in its most general sense is the temporary giving of money or property to another person with the expectation that it will be repaid. In a business and financial context, lending includes many different types of commercial loans. Lending is an important activity in the operation of banks and is identified as one of the pillars of the financial intermediation. It is the provision of resources (granting loan) by one party to another. 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 at a later date.(Teshome Dulla, 2010)

Banks collect money from those who have excess money and lend it to others who need money for different purposes. Therefore, banks intermediary function play vital role in the economic activity. Athavale et al. (undated) in their study in the U.S using firm growth model classified different theories related to banks roles. The first theory assigns banks a unique role in the resolution of information asymmetry means banks help financial market to overcome asymmetric information by screening, contracting with and monitoring borrowers. The second theory, monetary theory, assigns banks a unique role in money creation and the transmission of monetary policy.

In addition, they showed banks willingness and ability to lend. According to Athavale et al. (undated) banks willingness depends on the project's payoffs and a moral rectitude of borrowers, while bank ability to lend depends on the adequacy of banks capital and monetary policy. Banks accept customer deposits and use those funds to give loans to other customers or invest in other assets that will yield a return higher than the amount bank pays the depositor (McCarthy et al., 2010). It follows that customers' deposit is the primary source of bank loan and hence, increasing or guaranteeing deposits directly has a positive effect on lending.

The principal profit- making activity of commercial banks is making loans to its customers. In the allocation of funds to earn the loan portfolio, the primary objective of bank management is to earn income while serving the credit needs of its community (Reed and Gill, 1989). Lending represents the heart of the industry. Loans are the dominant asset and represent 50-75 percent to total amount at most banks, generate the largest share of operating income and represent the banks greater risk exposure (Mac Donald and Koch, 2006). Banks collect funds for lending and other purposes from different sources. These funds need to be allocated to different banks' assets.

According to Reed and Gill (1989) there are several approaches to allocate funds to banks assets:

- Pool of fund approach: in this approach all funds pool together and funds then allocated from the pool to whatever asset investment.

- The asset allocation approach: this approach recognizes that the amount of liquidity needed by a bank is related to the sources from which its fund is obtained.

- The linear programming model: it combines the asset management problem with the liability management problem and can incorporate both profitability and liquidity constraints. The linear programming model requires an explicit statement of an objective to be optimized. Optimization, for example, may consist of maximization of profit or minimization of costs.

- Asset-liability management model: it is the approach to the overall balance sheet management. The model considered an approach designed to control interest rate risk, but more precisely it is a method of designing the makeup of assets and liabilities to ensure that their composition provides the risk-return tradeoff deemed appropriate by management.(Teshome Dulla, 2010)

2.2 Types of Lending

Commercial banks collect money from different sources and allocate the money in different ways such as reserve, securities and lending. Borrowers request banks for granting of loan for different purposes.

According to Read and Gill (1989) bank loans can be classified in a variety of ways, including;

- Purpose- use of the borrowing funds such as real estate, agriculture, industry, and individual,

- Type of Security- secured loans involve the pledge of specific collateral such as plant and equipment, real estate and warehouses,
  Maturity- classified according to the maturity of the loan such as short, medium and long periods,

- Method of repayment- loans may be repaid in one go on lump sum basis or on installments, and

- Origin loan portfolios of commercial banks are derived principally from sources such as directly from borrowers, purchase of notes from dealers of consumer goods, loans originated by other banks and purchasing notes from commercial paper dealers.

Banking industry classifies loans according to purpose or use of proceeds. Some authors who wrote in banking such as Mac Donald and Koch (2006),
Campbell et al. (1988) and Black and Daniel (1981) grouped loans into the following categories based on the use of proceeds:

- Real estate loans: are loans secured by the real estate sector and generally consist either of property loans secured by first mortgages or interim construction loans.

- Commercial loans: consist of commercial and industrial loans, loans to financial institutions, and obligations (other than securities) to states and political sub-divisions. Commercial loans appear in many forms but typically finance firms' working capital needs, equipment purchases and plant expansions.

- Individual loans: include those negotiated directly with individuals for household, family and other personal expenditures, and those obtained indirectly through the purchase of retail paper.

- Agricultural loans: appear in many forms but typically finance agricultural production and include other loans to farmers.

- Other loans in domestic offices: include all other loans and all lease – financing receivables in domestic offices.

- International loans: are essentially business loans and lease receivables made to foreign enterprises or loans guaranteed by foreign governments.

- State and political subdivisions: loans given to state and political divisions for budget deficit and projects.

- Foreign banks: include individuals and business firms located abroad and borrowed just like in local borrowers.

- Security loans: many firms hold substantial amount of securities that can be pledged to secure business loans. The amount that bank will loan on securities also depends largely on credit risk and marketability.

- Farmer's loan: Loan for current expenses include loans made by commercial banks for financing recurring seasonal expenses of crop and feeder livestock production, such as seed, fertilizer, labor and fuel. The purpose of farmer intermediate term loan is to purchase asset that will last several years such as livestock, machinery and property improvement.

2.3 Factors affecting bank lending

The sources of fund for lending are reserve, deposits and capital. All these sources may be affected by different factors and would have direct influence on lending. Since lending is the principal function of banking industry, the management of banks should give due attention, analyze and take the necessary measures on time on internal and external factors that affect or limit lending. Without lending banks' incomes especially interest income would highly deteriorate and affect the overall performance of banks.

According to Reed and Gill (1989) there are seven factors that influence banks' loan policies, which in turn may have impact on the profitability of banks.

1. Capital position - The capital of banks serves as a custom for protection of depositors' funds. The size of capital in relation to deposits influences the amount of risk that a bank can afford. Relatively large capital structure can make loans of longer maturities and greater credit risk.
2. Risk and profitability of varies types of loans – Some banks may emphasize earning more than others. Banks with greater need of earning might adapt more aggressive lending policies. An aggressive policy might call consumer loans, which normally are made at higher rates of interest than short-term loans.
3. Stability of deposits- The fluctuation and type of deposit must be considered. After adequate provisions have been made for the primary and secondary reserves, bank can then engage in lending. Even though, these two reserves designed to take care of predictable deposit fluctuations and loan demands, unpredictable demand force banks to give consideration to the stability of deposits in formulating loan policy.
4. Economic conditions- Stable economy is more conducive to a liberal loan policy than the one that is subject to seasonal and cyclical movements. Deposit of famine economies fluctuate more violently than deposit in an economy noted for its stability. Consideration must be given to the national economy. Factors adversely affect the nation as a whole may, if they are of serious magnitude, eventually affect local conditions.

5. Influence of monetary and fiscal policies - If monetary and fiscal policies are expansive and additional, reserves are made available to the commercial banking system, the lending ability of banks is increased. Under these policies banks can have a more liberal loan policy than opposite situation exists.
6. Ability and experience of bank personnel -The expertise of lending personnel is not insignificant in the establishment of bank loan policy. One of the probable reasons that banks were slow in entering the consumer lending field was the lack of skilled personnel.
7. Credit needs of the area served- banks specialized experience on different types of loans e.g. Mortgage real-estate. The major reasons banks are chartered is to serve the credit needs of their communities. Banks are morally bound to extend credit to borrowers who present logical and economically sound loan requests.

According to Black and Daniel (1989) there are also other factors that affect bank lending and investing activities. These factors include:

- The interest rate or returns available from the various alternative lending and investing activities. Fundamental problem of bank management is achieving the proper balance between return and risk.

- The risk of loss associated with the various potential lending and investing activities and the willingness of bank management to take risks. Interest rate risk occurs because of the inverse relation between interest rate and the market price of marketable securities.
- The liquidity of fund tied up in varies lending and investing activities. To maintain adequate liquidity, bank must constantly guard against excessive losses from lending and investing activities. If bank made too many bad loans, the value of its asset could fall below the amount of its liabilities. A situation known as insolvency.
- Legal constraints regarding what are acceptable loans and investments. State and federal banking laws also influence bank loan and investment

activities. Most of regulations are designated to ensure that banks do not take undue risks in the use of their depositors' funds.

- Characteristics of the banks overall liability structure -in this case, the greater the proportion of a banks' deposits that is made up of demand deposits, the more volatile and uncertain will be the banks' need for cash to meet deposits withdrawals.

Theoretically, factors that limit bank lending can be classified into internal and external factors. Based on the categories identified in Reed and Gill (1989) and Black and Daniel (1989) the internal factors may include ability and experience of bank personnel, liquidity and characteristics of liability structure while the rest may be considered as external factors. All the above factors that limit or affect bank lending may have their own impact on bank performance. The discussion in the subsequent section focuses on bank performance measurement.

2.4 LENDING MODELS

A lending model describes the various structures of policies and procedures for granting financial assistance that ought to be followed before loans are granted to customers. Lending models tend to be very specific in terms of what they will consider and how deals can be structured. They are also rather inflexible so as to maintain a certain amount of integrity in the lending policies that have been established in the first place (Brent, 2010).

According to Korwa and Richard (2008), banks attach considerable importance to screening loans through stringent lending principles requirement for the following reasons:

To screen out borrowers that is likely to default;

- to add an incentive for the borrower to repay the loan;
- to offset the cost to the lender of a loan default; and,
- to reduce the lending risk.

Some of the commonly used lending models are discussed below:

a. The CAMPARI Model

One of the oldest models used by banks to evaluate lending propositions is the CAMPARI. This model looks at a range of aspects associated with lending which covers not just the finance that is being sought but the people who are seeking it. The model provides the banker with a tried and trusted model for credit analysis (Philip, 2003). It assesses the borrower on the basis of character, ability to pay, margin of profit, purpose of the loan, amount being requested, the terms of repayment and the insurance in case of default.

b. The Credit Scoring Model

A credit score is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness of that person. A credit score is primarily based on credit report information typically sourced from credit bureaus (www.wikipedia.org). Credit scoring models are developed by analyzing statistics and picking out characteristics that are believed to relate to creditworthiness. Credit Reporting Agencies (CRA) use different scoring models for different purposes. Auto financing, for example, could employ a different model than installment loans. Lenders, such as banks and credit card companies, use credit scores to evaluate the loan application in addition to the potential risk posed by lending money to the applicant. This goes a long way to mitigate losses that may arise from non-payment of the loan Lenders thus use credit scores to determine who qualifies for a loan, at what interest rate, and what credit limits (Thomas et al, 2002).

c. The 5 C’s Model

This is a model used by lenders to determine the credit worthiness of potential borrowers and it is based solely on the information declared by the applicant to the bank. The system weighs five characteristics of the borrower in an attempt to gauge the chance of default. The 5 c’s model emphasizes on the character, capacity, capital, collateral and conditions of the applicant who requires the financial assistance. The concept if correctly applied seeks to evaluate the key criteria of repayment ability, by analyzing the stream of cash flows, the character of financial discipline, the financial health of the borrower and other qualitative factors (Pride, et al, 2008).

d. Other Models

There are other models that have been equally used in lending besides the above mentioned ones. One such model uses the acronym PARTLAMPS which emphasizes on the purpose, amount, repayment, time, laws, accounts, management, profitability, and security. PARSER is another model that analysis the person, amount, repayment, security, expediency and remuneration. These other models “deal more or less with the same elements and principles, and it is up to the individual bank to decide which ones are most useful for its own circumstances or to devise a lending acronym of its own” (The Hong Kong Institute of Bankers, 2012, p. 5).

2.5 A philosophy of lending

A lender does lend money and does not give it away. There is a judgment, therefore, that at some future date repayment will take place. The lender needs to look into the future and ask:” will the customer repay by the agreed date?” There will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment.(Birhanu Abebie, 2016)

The lender’s objective will be to assess the extent of the risk and to try to reduce the amount of uncertainty that will exist over the prospect of repayment. While there are guidelines to follow, there is no ‘Magic formula’. The lender must gather together all the relevant information and then apply his or her skills to making a judgment. Number crunching will never be enough, and this is why many experienced lenders describe lending as an art rather than a science.

Lending must seek to arrive at an objective decision. This is not as easy as it sounds as there will always be pressures from customers and elsewhere, for example, the need to meet profit targets that may sway the lender’s judgment. A customer may press for a quick answer when the lender does not feel there is adequate information. The approach of the true professional is to resist outside pressures and to insist on sufficient time and information to understand and evaluate the proposition. It is the lender who is taking the risk and it is not professional to reach the wrong decision.

The professional lender who is confident in his or her ability will always apply the following principles:

- Take time to reach decision-detailed financial information takes time to absorb. If possible, it is preferable to get the ‘paperwork’ before the interview, so that it can be assessed and any queries indentified;
- Do not be too proud to ask for a second opinion- some of the smallest lending decisions can be the hardest;
- Get full information from the customer and not make unnecessary assumptions or ‘fill in’ missing detail;
- Do not take a customer’s statements at face value and ask for evidence that will provide independent corroboration;
- Distinguish between facts, estimates and opinions when forming a judgment;
- Think again when the ‘gut reaction’ suggests caution, even though the factual assessment looks satisfactory.

2.6 A methodical approach to appraisal of lending

There are five stages to any analysis of a new lending proposition:

I. Introduction of the customer
II. the application by the customer
III. review of the application
IV. evaluation
V. monitoring and control.

2.6.1 Introduction

Lenders do not have to do business with people they do not feel comfortable with. The account opening procedures should be such as to establish, as far as possible, that the customer is honest and trustworthy. This is especially important when the customer wishes to borrow at a later stage.

Approaches for borrowing from customers of other banks merit special caution. Why is the approach being made at all? Has the proposal already been rejected by the other bank? If the potential customer ought to have a financial track record, but does not appear to have one, a degree of suspicion is in order.

An important source of new business for most lenders is introductions from professional advisers such as accountants and solicitors. This is not to say that a bank is obliged to lend to customers introduced in this way. Indeed, there is no evidence to suggest that such customers are generally of better quality than others. The bank should treat each case on its merits and subject each proposition to an objective assessment.

Some introducers try to put pressure on the lender by, for example, suggesting that further introductions may be dependent on agreement to specific propositions. The lender must not succumb to such pressure and needs to avoid relying too heavily on any individual source of new business. A good introducer will respect a lender who shows objectivity, while caving in under pressure will only result in being considered a ‘soft touch’ and generate the introduction of other less attractive prospects.

2.6.2 The application

This can take many forms but should include a plan for repaying the borrowing and an assessment of the contingencies that might reasonably arise and how the borrower would intend to deal with them.

It might be in detailed written form or merely verbal. There are many instances when the lender will have to draw out sufficient further information to enable the risks in the proposition to be fully assessed.

2.6.3 Review of the application

At this stage all the relevant information that is required needs to be tested and other data sought if necessary. Either formally or informally the lender applies what are generally known as the canons of good lending. The main areas common to all lending propositions are examined in some detail.

It is sometime difficult to remember all the points to be covered during an interview and many lenders use a mnemonic as a check list. There are a number of mnemonics in common use, but the most prevalent is CAMPARI. CAMPARI which is used by two of the major clearing banks is probably the most popular of the mnemonics and is the one described in detail here.

2.6.3.1 Character

Although some might claim otherwise, it is virtually impossible to assess on individual's character after just one meeting. It is an extremely difficult area but a vital one to get right. Facts, not opinion, are crucial, eg:

- how reliable is the customer's word as regards the details of the proposition and the promise of repayment?
- does the customer make exaggerated claims that are far too optimistic or is a more modest and reasonable approach adopted? Is the customer's track record good? Was there any previous borrowing, and if so, was it repaid without trouble?
- if the customer is new, why are we being approached? Can bank statements be seen to assess the conduct of the account?

2.6.3.2 Ability

This aspect relates to the borrower's ability in managing financial affairs and is similar to character as far as personal customers are concerned.

Further points in respect of business customers would include:

- Is there a good spread of skill and experience among the management team in, for example, production, marketing and finance?
- does the management team hold relevant professional qualifications?
- are they committed to making the company successful?
- where the finance is earmarked for a specific area of activity, do they have the necessary experience in that area?

2.6.3.3 Margin

Agreement should be reached at the outset with the borrower in respect of interest margin, commission and other relevant fees. The interest margin will be a reflection of the risk involved in the lending. While commission and other fees will be determined by the amount and complexity of the work involved.

It should never be forgotten that banks are in business to make profits and to give shareholders a fair return on their capital.

2.6.3.4 Purpose

The lender will want to verify that the purpose is acceptable.

Perhaps the facility would not be in the customer's best interests. Customers do tend to overlook problems in their optimism and, if the bank can bring a degree of realism to the proposition at the outset, it may be more beneficial to the customer than agreeing to the requested advance.

2.6.3.5 Amount

Is the customer asking for either too much or too little? There are dangers in both and it is important, therefore, to establish that the amount requested is correct and that all incidental expenses have been considered. The good borrower will have allowed for contingencies.

The amount requested should be in proportion to the customer's own resources and contribution. A reasonable contribution from the borrower shows commitment and a buffer is provided by the customer's stake should problems arise.

2.6.3.6 Repayment

The real risk in lending is to be found in the assessment of the repayment proposals. It is important that the source of repayment is made clear from the outset and the lender must establish the degree of certainty that the promised funds will be received.

Where the source of repayment is income/cash flow, the lender will need projections to ensure that there are surplus funds to cover repayment after meeting other commitments.

2.6.3.7 Insurance/Security

Ideally, the canons of lending should be satisfied irrespective of available security, but security is often considered necessary in case the repayment proposals fail to materialize.

It is vital that the provider of security, especially third party security, understand fully the consequences of charging it to the bank. It is equally important that no advance is made until security procedures have been completed, or are at least at a stage where completion can take place without the need to involve the borrower any further.

2.6.4 Evaluation

Once the available information has been assembled, an evaluator of the proposition can be made. This should be done in two stages:

1. an assessment of the feasibility of the borrower's plan for repayment. If the proposal is not viable, it is pointless to continue;

2. a critical appraisal of what might realistically go wrong-the likelihood of such events occurring and the effect on the bank's position.

The aim of this evaluation is to establish the risk involved. Listing the pros and cons of a proposition is often helpful. More reliance should be placed on facts and evidence than on estimates and opinions.

Once the lending has been made, the risk lies in the way the customer handles any problems that might arise. The lender's evaluation should concentrate on understanding the borrower's risks and assessing the ability of the borrower to deal with them.

The realization of security may provide a source of repayment in the last resort. However, the sale of security is rarely as straight forward in practice as it appears in theory and security valuations often do not stand up to the ultimate test of realization.

There will be many cases where the lender feels the risk in a proposition is not tenable. A lender will wish to help a good customer and, if a proposition can be re-engineered into a more acceptable form, this should be done.

2.6.5 Monitoring and control

It is highly unlikely that a customer's expectations will go exactly to plan and it is necessary for the lender to review progress regularly. The earlier that problems can be identified, the better will be the chances of controlling them and of providing practical advice to the customer, which in turn will protect the lender's position.

Regular monitoring of corporate accounts can also enhance the lender's image in the eyes of the customer. It provides evidence to the customer of a wish to understand the underlying business and to be involved in helping solve future problems.

A plan for monitoring should be established at the beginning and, where the provision of regular information from the customer is necessary, suitable arrangements should be made and followed up. (Abirheha Geze, 2015)

2.7 Principles of good lending

There are few general principles of good lending which every banker follows when appraising and advance loan proposal. These general principles of good lending are the following:

2.7.1 Safety

“Safety first” is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe: that is, the money will definitely come back. The banker ensures that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industry where it is employed, is repaid with interest.

2.7.2 Liquidity

It is not enough that the money will come back; it is also necessary that it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by the borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to “liquidity” as to safety of their funds is that a bulk of their deposits is repayable on demand or at short notice.

2.7.3 Purpose

The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment. The purpose should also be short termed so that it ensures liquidity. Banks discourage advances for hoarding stocks or for speculative activities. There are obvious risks involved therein apart from the anti-social nature of such transactions. The banker must closely scrutinize the purpose, for which the money is required, and ensure, as far as he can, that the money borrowed for a particular purpose for which the money is required, and ensure, as far as he can, that the money borrowed for a particular purpose is applied by the borrower accordingly. Purpose has assumed a special significance in the present day concept of banking.

2.7.4 Profitability

The principle of profitability is equally important in bank advance like other commercial institutions, banks must make profits in order to pay interest on the deposits received by them and expenses on establishment and other running costs. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve or pay dividend to the shareholders. It is after considering all these factors that a bank decides upon its lending rate. It is sometimes possible that a particular transaction may not appear profitable in itself, but there may be some ancillary business available, such as deposits from the borrower's other concerns or his foreign exchange business, which may be highly remunerative. In this way, the transaction may on the whole be profitable for the bank. It should, however, be noted that lending rates are affected by the bank rate, inter-bank competition and the Central bank directives. The rates may also differ depending on the borrower's credit, nature of security, mode of charge, and form and type of advance, whether it is a cash credit, loan per shipment finance or a consumer loan.

2.7.5 Security

Security is considered as insurance or a cushion to fall back upon in case of an emergency. The banker carefully scrutinizes all the different aspects of advance before granting it. At the same time, the banker provides for an unexpected change in circumstances which may affect the safety and liquidity of the advance. It is only to provide against such contingencies that he/she takes security so that the banker may realize it and reimburse himself if the well-calculated and almost certain source of repayment unexpectedly fails. It is incorrect to consider an advance proposal from the point of view of security alone. An advance is granted by a good banker on its own merits, that is to say with due regards to its safety, likely purpose etc., and after looking into the character, capacity and capital of the borrower and not only because the security is good. Apart from the fact that taking of security reserves as a safety value for an unexpected emergency it also renders very difficult, if not impossible, for the borrower to raise a secured advance from another source against the very security.

2.7.6 Spread

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and a successful banker is an expert in assessing such risks. The banker is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different types of securities.

2.7.7 National Interest, suitability, etc.

Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. The Central Bank may have issued a directive prohibiting banks to allow the particular type of advance. The law and order situation at the place where the borrower carries on his business may not be satisfactory. There may be other reasons of a like nature for which it may not be suitable for the bank to grant the advance. In the changing concept of banking, factors such as purpose of the advance, viability of the proposal and national interest are assuming a greater importance than security, especially in advances to agriculture, small industries, small borrowers, and export-oriented industries. (Journal of Contemporary Integrative Ideas Volume 1(2), p. 9-21)

2.8 Empirical Studies in World

Suleiman M. Abbadi & Sharif M. Abu Karsh (2013) studied about the different credit evaluation models. This paper tries to find the methods that banks operating in Palestine use in evaluating customers' application for credit using the 5C's, LAPP, 5P's, CAMPARI and FAPE methods, and which element in each method they concentrate on most. It also tries to find whether banks differ in their use of these methods; and whether they differentiate among customers in using these methods. The average percentages were used to find out the elements the banks concentrate most in each method, and it was found that banks in Palestine concentrate more on collateral, credit records, and ability to pay including liquidity and cash flow. They concentrate less on conditions, purpose and product. It was also found through hypothesis testing that there is no difference between banks in using the LAPP and 5P's methods but they differ in using the 5C's and FAPE method. Another test was conducted found that banks operating in Palestine treat natural persons and NGO's in the same way in evaluating their credit application; but differ in treating business organizations and artificial persons. A new model was developed by the authors called PACT: representing Person, Activity, Collateral and Terms. Each variable contains several elements and a weight (score) for these elements were estimated to make them easy to use by the banks credit managers (These scores can be adjusted by the bank management based on the bank's credit policy). Then the banks adds the score for the customer and evaluates each customer based on a scale of 100.

Lopez and Seidenberg (2000) found that commercial banks have devoted many resources to developing internal models to better quantify their financial risks and assign economic capital. These efforts have been recognized and encouraged by bank regulators. Recently, banks have extended these efforts into the field of credit risk modeling. However, an important question for both banks and their regulators is how to evaluate the accuracy of a model's forecasts of credit losses, especially given the small number of available forecasts due to their typically long planning horizons. Using a panel data approach, they proposed evaluation methods for credit risk models based on cross-sectional simulation. Specifically, models are evaluated not only on their forecasts over time but also on their forecasts at a given point in time for simulated credit portfolios. Once the forecasts corresponding to these portfolios are generated, they can be evaluated using various statistical methods.

2.9 Empirical Studies in Ethiopia

In case of Ethiopia, the researcher didn't get similar researches work, but he got very limited work on the determinants of commercial banks‟ lending decision and a few works on the impact of reducing or restricting loan disbursement on the performance of commercial banks. Thus, this particular section provides a detailed review of the related studies conducted in the context of Ethiopia.

Amano (2014) in his study examined the determinants of commercial banks' lending behavior in Ethiopian. The study applied the balanced fixed effect panel data of eight commercial banks in Ethiopian that covers the period 2001- 2013.

The study used Ordinary Least Square (OLS) technique to investigate some internal as well as external variables that determine the lending decision of commercial banks' in Ethiopia and use loans and advances as dependent variable. The estimation results showed that volume of deposit and bank size had positive and significant impact on loan and advance. Liquidity ratio and interest rate had negative and significant impact on loan and advance. Cash reserve requirement, and inflation rate had positive and significant impact on loan and advance but the coefficient sign was not as expected. Finally, real GDP growth rate had statistically insignificant impact on bank's loan and advance.

The other is almost similar with Amano (2014), Mitku (2014), examined the main determinants of commercial banks lending in Ethiopia by using panel data of eight commercial banks in the period from 2005 to 2011. He tested the relationship between commercial banks lending and its some determinants (bank size, credit risk, gross domestic product, investment, deposit, interest rate, liquidity ratio and cash reserve required). Seven years financial data of eight purposively chosen commercial banks were used for analysis purpose. Ordinary least square (OLS) was applied to determine the impact of those predictor variables on commercial banks lending. The result suggests that, there is positive and statistically significant relationship between commercial bank lending and its size, liquidity ratio, credit risk, and gross domestic product. But, there is a positive but insignificant relationship between commercial bank lending and deposit, investment, cash reserve required and interest rate for the study period.

2.10 Conclusion and Knowledge Gap

As per the above theory and empirical review, a strong banking system is the backbone for economic growth as well as financial stability and development process of any country. Because, as an important component of the financial system, banks channel scarce resources from the surplus economic units to the deficit economic units in the form of credit as such this activities form part of their existence. That is why many researchers revealed that lending is the principal business activity for most commercial banks, the loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a financial institutions safety and soundness. Therefore, without understanding the model that helps for lending decision good bank performance or profit would be unthinkable.

Most of the related empirical studies show that the supply of bank loans is usually expressed as a function of internal and external determinants. The internal factors are termed as micro or bank-specific determinants of bank lending, whereas the external factors are macroeconomic variables that are not related to bank management but reflect the monetary, economic and legal environment that affect the operation and performance of financial institutions. While there are many empirical studies on the determinants of lending decision of commercial banks in advanced economies, there have been only a few studies on the model that helps banker for lending decision of commercial banks in developing economies like Ethiopia.

The researcher only got empirical studies on this area are the research under taken by Mitku (2014) and Amano (2014) which focuses only on the determinants of lending behavior of commercial banks in the country. In Ethiopia, since the banking industry is in the growth stage with opening of new banks and the absence of active secondary stock exchange in the country, banks are the dominant providers of funds, and their stability is of paramount important to the financial system. As stated by Adedoyin and Sobodun (1991) lending is undoubtedly the heart of banking business. Therefore, its administration requires considerable skill and dexterity on the part of the bank management. While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loan able avenues where deposit funds could be placed to generate reasonable income maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application. Consequently, for banks to achieve the objectives of liquidity, profitability and solvency simultaneously, lending must be handled effectively and managed properly.

Indeed, this can be realized through understanding of the application of CAMPARI model in bank lending decision and their impacts on the banks profitability, which is essential and crucial to the profitability of the banks as well as the stability of the economy. However, to the knowledge of the researcher except the research undertaken by Mitku (2014) and Amano (2014), there is no other direct empirical study on this area. In their study both are emphasized only on determinants of lending behavior of commercial banks in Ethiopia. But, none of them investigates the impact of CAMPARI model in lending on financial performance through the significant factors that affects the lending decision. Furthermore, there are inconsistent results between these two previous researches which need a detailed investigation on this area. Therefore, the lack of sufficient research on the issue in the context of Ethiopia leads the researcher for the study. Hence the objective of this study is to fill the knowledge gap for the application of CAMPARI model in lending decision in the case of Ethiopian private banks.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the research design, study population and sampling techniques, methods of data collection and techniques of data analysis

3.1 Research Design

According to the Seth Ginsburg, a research design is the heart and soul of a research. It outlines how the research conducted and guides data collection, analysis and report preparation. The research design refers to the overall strategy that the researcher chooses to integrate the different components of the study in a coherent and logical way thereby ensuring effectively address the research problem. It constitutes the blueprint for the collection, measurement and analysis of data. The design is used for various purposes one of which is to determine relationships between the CAMPARI model and the lending decision of private banks. This research study adopted quantitative instruments for data collection and analysis. As it can be seen from the research problem it is more explanatory type and tries to answer relationship between the application of CAMPRI model and bank lending decision. Therefore, categorizing this research in quantitative design is more appropriate & the researcher prefers co relational research method.

In addition to quantitative (co relational) methods, the researcher designs questions used to gather the opinions & suggestions of bank customers, mangers & even loan officers.

3.2 Sampling Techniques and Sample Size

According to the annual report of NBE, 2015/16, in Ethiopia there are a total of 18 Banks. Of these two are public owned while the rest 16 are private banks operating during this fiscal year. The National bank of Ethiopia is the regulatory body that sets the monetary policy of all banks.

Therefore, the researcher’s target populations were the 16 private banks registered by NBE operating in the same year. Even if the validity & reliability of data is directly related with the sample size & the sampling technique to be employed, the sample size is determined by considering the available time, labor & financial resources.

It is recognized that there are probabilistic & non probabilistic sampling techniques. Probabilistic sampling techniques include simple random sampling, systematic random sampling, stratified sampling, cluster sampling & area sampling whereas non probabilistic sampling techniques cover convenience (accidental) sampling, snowball (referral) sampling, judgment (purposive) sampling & quota sampling.

Of these sampling techniques, due to the reasons mentioned above, the researcher applies non probabilistic sampling techniques preferably convenience (accidental) & judgmental (purposive) sampling as the case requires.

Accordingly, the sample size is determined to be four private banks. It should be also noted that the number of the clients of the four banks are expected to be very large. Thus, it is necessary to limit the number of respondents in terms of amount of loan requirement & the time period that the loan is offered by the bank.

Therefore, the researcher believed to consider 32 borrowers and 32 bank loan officers from 4 banks which are 2 borrowers and 2 bank loan officers from each bank. The researcher also limits data from those borrowers since last year business type loans & borrowed 1 million & above only. In the case of bank official, the researcher collected data from branch managers and loan officers of each banks by using questioners.

3.3 Data Collection Techniques and procedures

The researcher used two sources of data: Primary & secondary sources to be gathered by using questioners and interview.

The potential sources of primary data were customers, bank employees mainly working as loan officers, loan supervisors, management bodies & if possible the attitudes of the general public & the regulatory body (like NBE), documentary reviews (unpublished reports). The secondary sources of data that were used mainly revolve around annual reports, bulletins, internet sources, books, articles & journals.

The study research method also streamlines the various procedures, schemes and numerical data that will be used in the analysis. The researcher employs various statistical approaches in data presentation & analysis. Depending on the situation, the researcher applies simple statistical tools such as methods of central location (mean & median), measures of data dispersion (frequency, percentage & standard deviation). Research methods help us collect samples, data and find a solution to a problem. Particularly, scientific research methods call for explanations based on collected facts, measurements and observations and not on reasoning alone. Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research.

The two basic research approaches were also applied: quantitative and qualitative research.

3.3.1 Quantitative Research Approach

According to Wikipedia, quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques. The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena.

This approach is used to answer questions about relationships between banks lending decision & the application of CAMPARI model with the purpose of explaining their decisions. Variables and methods of measurement tend to be defined before the study begins. In this approach the researcher identifies one or few variables that they intend to study and collect data related to those variables.

Quantitative research approach has two strategies of inquiry. The first is survey design which provides a quantitative or numeric description of trends, attitude or opinion of a population by studying a sample of that population. From the sample the researcher generalizes about the population.

The second type of design is experimental design used to test the effect of intervention on an outcome, controlling all other factors which may influence that outcome. In experimental design, the researcher may also identify a sample and generalize to a population (Cresweell, 2009).The analysis is made based on deductive reasoning, beginning with certain theory or hypotheses and drawing logical conclusions from it.

3.3.2 Qualitative Research Approach

Qualitative research is a type of scientific research that consists of an investigation & seeking answers to a question. It systematically uses a predefined set of procedures to answer the question, collects evidence, produces findings that were not determined in advance and produces findings that are applicable beyond the immediate boundaries of the study.

Additionally, qualitative research seeks to understand a given research problem or topic from the perspectives of the local population it involves. It is especially effective in obtaining specific information about the customer's values, opinions, behaviors and social contexts of particular populations.

3.4 Data Analysis Method

As it can be seen from the research problem it is more explanatory type and tries to answer relationship between the application of CAMPRI model and bank lending decision. Therefore, categorizing this research in quantitative design is more appropriate & the researcher prefers co relational research method.

In addition to quantitative (co relational) methods, the researcher designs questions used to gather the opinions & suggestions of bank customers, mangers & even loan officers. This implies that the researcher will also apply qualitative research techniques as necessary.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

In the preceding chapter, the methodology of the study that aims at the examining the application of CAMPRI model in lending decision of some private banks was discussed. As discussed in the preceding chapter, this study aimed at examining the application of CAMPRI model in lending decision of private banks. This chapter tries to present the results of the survey and organized into two sections. The first section discusses survey results and the second section summarizes the results.

4.1 Background Characteristics of the respondents

The questionnaire was distributed to four privately owned banks; data were collected from four branches of these banks. From each branch two employees and two customers was taken. The questionnaire was physically distributed to 32 employees (whose positions related to bank lending) and 32 bank customers (those who borrowed money that amounts more than one million). From the distributed questionnaires, 58 were completed and collected (29 from each employees and customers). As the result the response rate was 90.7 percent. According to Fowler (1986) researchers or survey organizations differ considerably in the extent to which they devote time and money to improve response rate.

Table 4.1 Survey response rate

Sample size	64
Completed and returned questionnaires	58
Response rate	90.6%

Source: Survey outcome

4.2 Factors affecting bank lending

Table 4.2 shows descriptive statistics in respect to the factors that affect bank lending in a CAMPARI model. As shown in the table, the seven factors have a mean value that ranges from 0.71 to 0.94. This shows respondents' beliefs that almost all the listed factors were the most likely factors that affect bank lending in private banks. The two factors with the highest and lowest mean values are Characters and Margin respectively. The variability of factors measured in terms of standard deviation also showed that 5 out of 7 factors standard deviations fall between 0.22- 0.32 which showed the absence of much variation among these factors in affecting bank lending decision. Of the seven factors, the ones with the highest and the lowest standard deviation values are Characters and Margin which show the presence of the highest and lowest variability.

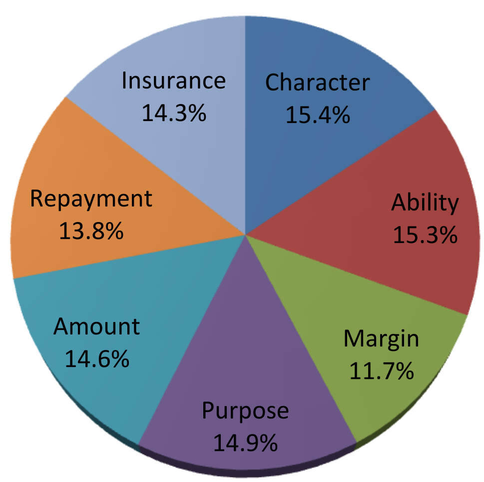
Table 4.2 also shows Kurtosis which explains about the flatness or peakness of distribution of factors. The result showed that leptokurtic (more peaked) distribution of factors. Skewness which reflects the symmetry in distribution showed that the distributions of factors that affect bank lending were negatively skewed.

Table 4.2 Descriptive statistics – factors that affect bank lending

Factor	Mean	Medium	Standard deviation	Kurtosis	Skewness	count
Character	0.94	1	0.22	17.09	-4.01	58
Ability	0.93	1	0.26	12.36	-3.37	58
Margin	0.71	1	0.46	1.79	-0.97	58
Purpose	0.91	1	0.28	9.5	-2.92	58
Amount	0.89	1	0.30	7.65	-2.58	58
Repayment	0.84	1	0.36	4.55	-2.05	58
Insurance	0.87	1	0.32	6.3	-2.31	58

Source: Survey outcome and own computation

Figure 4.1 Distribution of Factors



The following discussions reveal the results in respect to factors affecting bank lending. The descriptive statistics on the various factors and the perception of respondents on the importance of each factor are summarized and presented in tables 4.2.

- Character- This factor is with mean value of 0.94 which is highest compared to that of other factors. Its standard deviation value (=0.22) showed that there was low variability of rating scores. The highest rating of the factor indicated by the respondents' was important.

- Ability- The average rating of this factor was 0.93, which is second highest of all average rating of factors that affect lending decision. The standard deviation of this factor which was 0.26 showed that the presence of low variability of rating score. The highest rating on the factor indicated by the respondents' was very important.

- Margin- This factor's mean was 0.71 and this mean value is the lowest of all the mean values of the factors but its standard deviation is the highest of all factors that showed the presence of high variability of scoring. The highest rating of the factor by the respondents' was very important.

- Purpose- The factor mean was 0.93 and ranked the third highest average score. The standard deviation (0.26) indicated the third low variability in scores. The highest rating on the factor by the respondents' was very important.

- Amount- The mean value of this factor was 0.89 which was ranked as the fourth highest score that affect bank lending. Its standard deviation was 0.30 and indicated the presence of moderate variability of scoring. The highest rating on the factor by the respondents' was important.

- Repayment- The mean values of Repayment was found to be 0.84 which was the second lowest mean value. The standard deviation of 0.36 indicated second high variability on scores. The highest rating on the factor by respondents' was important.

- Insurance- The mean value of this factor was 0.87and it was moderate average score. Its standard deviation value (0.32) showed moderate variability in rating scores.

Dashen Bank, Buna Bank, Awash Bank and Nib Bank were the private banks on which the study conducted. Two employees and two customers were selected from four branches of each bank and the implementation of CAMPARI model was assessed for applicants who have requested for loans.

This study observed most of these banks used a variety of lending models that commonly used model was the CAMPARI model. The majority of the respondents (87%) reported that the use of CAMPARI model for the lending model had significant benefits to the organization.

Some of the benefits mentioned by the respondents include:

(i) it helped to secure adequate collateral and assurance of the customer's ability to repay the loan,

(ii) it helped to determine the character of the client,

(iii) it helped to determine the purpose of the loan, the profit to be made, and also the credit worthiness of the client, and

(iv) it helped the bank to reclaim the loaned money.

The remaining 13% of the respondents indicated that the selected model was not beneficial to the bank as the model used had no bearing in retrieving the loan if the beneficiary defaulted. In addition, they expressed the non-existence of insurance policy cover against non-payment of loans granted. From the findings it was found that banks used different models that they were conversant with. This did correspond to what Philip (2003) observed that any model used by a bank was deemed to be tried and trusted and that it could enable the firm conduct the required credit analysis. Hence the usage of the CAMPARI model which is common among the targeted population was found to be beneficial.

Table 4.3 The bank employees' views on the importance of checking the character of the customer

Response	Frequency	Percent
Yes	28	93.3%
No	2	6.7%
Total	30	100%

Source: Survey outcome

The majority of the respondents from the banks (93.3%) confirmed that a loan application should be checked in terms of character of the customer before granting loan to him/her. Some of the reasons given by the respondents for their affirmative answer were that such a process enabled the bank to establish the readiness of the applicant and the desire to seek for the loan. In addition, the loan application gave an idea about who the applicant was and the background information. The remaining respondents (6.7%) who dissented reported that a mere loan application did not give a fair idea whether to grant a loan or not but more analysis and review was still needed.

Table 4.4 The bank employees' views on the importance of checking the ability to pay loan

Response	Frequency	Percent
Yes	29	96.6%
No	1	3.4%
Total	30	100%

Source: Survey outcome

Table 4.4 indicated that 96.6% and 3.4% of the respondents agreed and did not agree respectively that a thorough checking the ability to pay loan of the customer should be conducted before approving and granting the loan application.

Table 4.5 The bank employees' views on the importance of checking the margin of risk to pay loan

Response	Frequency	Percent
Yes	22	73.3%
No	8	26.7%
Total	30	100%

Source: Survey outcome

Respondents view on the essential of checking the margin of risk to pay loan that 73.3% agreed to this principle that there should be a mechanism to check the margin of risk of a loan before granting a loan, and 26.7% did not agree.

Table 4.6 The bank employees' views on the importance of checking the purpose of loan

Response	Frequency	Percent
Yes	27	90%
No	3	10%
Total	30	100%

Source: Survey outcome

Out of the thirty respondents, 27respondents 90% agreed that there should be checking the purpose of loan before releasing the approved loan to a customer, three respondent representing 10% did not agree that there should be a mechanism for checking the purpose in granting loan to a customer.

Table 4.7 The bank employees' views on the importance of checking the amount of loan

Response	Frequency	Percent
Yes	26	86.6%
No	4	13.4%
Total	30	100%

Source: Survey outcome

From Table 4.7, 26 respondents, representing 86.6%, strongly agreed that loan application and submitted document should be reviewed in terms of whether the amount requested is fair and only for the stated project, whilst 4 respondents, representing 13.4%, did not agree with this procedure.

Table 4.8 The bank employees' views on the importance of checking the repayment of loan

Response	Frequency	Percent
Yes	28	93.3%
No	2	6.7%
Total	30	100%

Source: Survey outcome

The result in Table 4.8 indicated that 93.3% of the respondents had a positive response to checking the repayment of loan could help the bank to collect the funds loaned out. Some of the reasons given to support the respondents' response were as follows: (i) the signed agreement and its terms could be implemented should the beneficiary default in repaying the loan; (ii) the agreement made it difficult for beneficiaries to default; (iii) some also said the customer cannot default based on the agreement as the consequences of default is deemed too grievous; (iv) fear of banks implementing actions on default would force applicants not to default; (v) the bank can embark on a court action in case of default to retrieve it. The remaining respondents (6.7%) did not agree on the checking of the repayment of loan.

Table 4.9 The bank employees' views on the importance of checking the insurance of loan

Response	Frequency	Percent
Yes	29	96.6%
No	1	3.4%
Total	30	100%

Source: Survey outcome

Table 4.9 illustrated the views on the relevance of checking the insurance for the loan of the customer, 96.6% agreed that there should be a preparation for checking the insurance of the customer before granting loan to customer, 3.4% of the respondents not agreed that there should be a loan insurance agreement before granting loan to a customer.

Table 4.10 Customers' views on the importance of checking the character of the business

Response	Frequency	Percent
Yes	26	92.8%
No	2	7.2%
Total	28	100%

Source: Survey outcome

The majority of the respondents (92.8%) confirmed that loan application should be checked in terms of character of the business before granting loan to customers. Some of the reasons given by the respondents that such a process avoid the uncertainty of capacity of the loan seeker in the first stage of screening. However, 7.2 percent of the respondents thought that checking the character of the business was not important since it raised the subjectivity issue.

Table 4.11 Customers' views on the importance of checking the ability to pay of the company

Response	Frequency	Percent
Yes	25	89.3%
No	3	10.7%
Total	28	100%

Source: Survey outcome

Table 4.11 indicated that 89.3% and 10.7% of the respondents agreed and did not agree respectively that a thorough checking the ability to pay loan of the company should be conducted before approving and granting the loan application.

Table 4.12 Customers' views on the importance of checking the margin of risk to pay loan

Response	Frequency	Percent
Yes	19	67.8%
No	9	32.2%
Total	28	100%

Source: Survey outcome

Respondents view on how essential of checking the margin of risk to pay loan was in the assessment of a loan application showed that 67.8% agreed to this principle that there should be a margin of risk checking before granting loan, and 32.2% did not agree.

Table 4.13 Customers' views on the importance of checking the purpose of loan

Response	Frequency	Percent
Yes	26	92.8%
No	2	7.2%
Total	28	100%

Source: Survey outcome

Out of the 28 respondents of the customer of banks, 26 respondents representing 92.8% agreed that there should be a mechanism of checking the purpose of loan before releasing the approved loan, 2respondent representing 7.2% did not agree that there should be a mechanism for checking the purpose in granting loan to a customer.

Table 4.14 Customers' views on the importance of checking the amount of loan

Response	Frequency	Percent
Yes	26	92.8%
No	2	7.2%
Total	28	100%

Source: Survey outcome

From Table 4.14, 26 respondents, representing 92.8%, agreed that loan application and submitted document should be reviewed in terms of whether the amount requested is fair and only for the stated project, whilst 2 respondents, representing 7.2%, did not agree with this procedure.

Table 4.15 Customers' views on the importance of checking the repayment of loan

Response	Frequency	Percent
Yes	21	75%
No	7	25%
Total	28	100%

Source: Survey outcome

The result in Table 4.15 indicated that 75% of the respondents were of the view that checking the repayment of loan helped the borrower to pay on time. In other hands 25% do not agree on the issue.

Table 4.16 Customers' views on the importance of checking the insurance of loan

Response	Frequency	Percent
Yes	22	78.6%
No	6	21.4%.
Total	28	100%

Source: Survey outcome

Table 4.16 illustrated the views on the relevance of checking the insurance for the loan of the borrower, 78.6 % of them agreed that there should be a preparation for checking the insurance of the borrower before granting loan to loan seeker, 21.4% of the respondents did not agree that there should be a loan insurance agreement before granting loan to bank customer.

The study was conducted in order to survey banks' employees and bank customers' views about implementation of CAMPRI model to make decision on granting loans to customers using self- administered questionnaire. These entire study respondents were private banks’ employees and the bank customers. Fifty percent of respondents were loan officers and analysts.

All factors that were expected to affect lending decision were found to have relevance in the Ethiopian banking industry. Of all these factors, Characters, Ability, Purpose and Amount were perceived by respondents as very important factors that help to make decision on granting effective loans. The highest impacts on bank performance when they reduce lending according to the respondents perception were ration loan to better borrowers and decrease profit or increase losses.

Many lending decisions are based on experience and on the banker’s instinct that the customer will repay the loan promptly and in full. However, a structured approach should be used. One of these approach is CAMPARI model which the banks to consider each important factor in turn and assess whether the lending proposition satisfies certain criteria. The study shows that the private banks’ principles of good lending to customers can be reduced to a simplified frame work through CAMPARI model.

4.3 Problems in using the CAMPARI model

CAMPARI model is attended to the spirit of the matter being one of not occurring bad debts. As the model is not treated as laying out a process to be accomplished in order to avoid occurring bad debts, but as a general rule to be complied with compliance with the spirit of rule is key. Compliance should not be thought of as a matter of mindlessly applying the model to particular cases but, as the extract indicates, of applying the general spirit of the rule the model embodies through the exercise of skill and judgment. Notably, the exercise of skill and judgment relies on the decision-makers knowledge of the client, of the client’s financial circumstances, of their prospects, and a host of other local and contextual factors which are not covered by the model and all of which are constituted in the decision-maker’s daily work, which systems are directly towards supporting. Due to this the model is provides a subjective decision making in analysis of loan applicants and it also takes more time in process.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

The previous chapter presented the results of the study while this chapter presents conclusions and recommendations.

5.1 Conclusion

As stated in chapter one the main objective of this study was to assess the application of CAMPARI Model in lending decisions in the Ethiopian Private Banks.

The study analyzed each factor that has impact on bank lending. These factors are character of loan applicants, ability to repay loan, margin to repay loan, purpose of loan, amount of loan, repayment of loan and insurance for the loan. Survey results in Table 4.2 showed that all the factors listed above have relevance in the Ethiopian private banks. Average perception by respondents showed that, all factors have got either very important or important impact on bank lending decision making. However, factors that affect lending in private banking sector considered as very important were character, ability, purpose and amount.

The study shows that there is a direct relationship between the application of CAMPRI model and lending decision. In practice the lending process of private banks uses CAMPARI model were utilized and followed as procedure for making a lending decision. The model also characterize a decision making process. According to the study the character of the borrower always be a prime factor in any lending decision. This because, banks are often willing to lend on the assurance of a particular person, management team or company name, although if taken to an extreme, a name-lending policy can be dangerous and may result in bad debts. A lender must be wary of a borrower who could commit fraud.

Integrity and honesty are not the only aspects of character to consider however. Honest customers are not necessarily creditworthy. It is usually more important to assess character in terms of whether:

- the owners of directors have a financial interest in the business
- the departmental management is of good caliber
- the business premises give the impression of a well-run unit
- the company has well-regarded financial advisers and if so how established the relationship is between the company and those financial advisers.

The character is the major factor of the borrower can be judged by either by past record or personal interview or both of these two methods can be used. The banker can look at the history of the customer's account with the bank to establish whether he or she has kept good control over his or her money in the past. If the borrower does not have an account with the bank, the banker should pay particular attention to why the company has decided against asking its own bank for the advance. The customer's character can be assessed from a personal meeting, preferably reinforced by a visit to the customer's premises. However, it is not good enough for a banker to conclude on the basis of an interview and personal impression, that the borrower has good character or strong ability. There ought to be factual information on which to assess the customer's qualities in these responses.

The other major factor is the ability. This factor mean relates to whether the borrower has the ability to enter into a contract with the bank to borrow. Ability shows that when a company wishing to borrow is part of a larger group, it is essential to identify its status within the group, in order to assess the potential credit risk for the lender. A group of companies is not necessarily a legal entity. When one company in a group borrows money, the bank's transaction is not with the group as whole. In the event of default and non-payment of loan interest or principal, the lender cannot take action against entire group, nor the parent company, only the company that has borrowed.

The next important factor as per the study is purpose of the loan. This factor shows that a credit must be clear and acceptable to the lender. A bank should not lend money unless it knows what it is going be used for, nor for a purpose that it regards as too risky or that it is outside its normal course of business. The final major factor based on the study is amount of loan. The amount of loan should be consistent with the purpose for which the money is required. It should not exceed the capacity of the customer to repay in full and on time. The amount borrowed should not be excessive, given the size of the customer's business and the customer's equity stake. The lending proposition must state exactly how much the customer wants to borrow. It is not for a bank to suggest how much it would be willing to lend the customer. However, the bank will check that the customer isn't asking for more than is needed. This is especially important when an overdraft is requested. The bank also checks that the customer has not asked for too little; otherwise the bank will be in the position later of having to lend more simply to safeguard the original loan.

Lending is an important component of the operations of a bank and all efforts should be made to ensure that the procedures to be employed in lending are appropriately followed. This would ensure that default rate among beneficiaries are kept very low and banks would yield the needed profit to ensure sustainability of their operations. The study revealed that the CAMPARI lending model was commonly used among private banks. In addition, laid down principles and practices were adhered to by the banks in the granting of credit. It is recommended that CAMPARI lending model should be used by the banks for assessment of loan applications due to the dynamics in the business environment. To help reduce and minimize default risk, various banks should provide consultancy services to borrowers to ensure that funds are utilized effectively and also used for their intended purpose.

Private Banks total loans and advances, a major component of total credits to the private sector are still on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macro economic factors. However, both government and private banks should be mindful of the facts that the environments in which they operate are important factors in the bank performance and behavior. Where the environment is conducive and supportive, performance is enhanced and good lending behavior guaranteed. But where the environment is unstable and harsh, the bank's performances suffer. Private Banks should note that they need to do a lot in order to ensure good lending behavior even where a good measure of macroeconomic stability is achieved. It therefore follows that effort should be made by private banks to enforce the most easily realizable policies and good credit management in every situation.

Based on the findings in this study, the following suggestions are recommended:

- ✓ Private banks should develop lending model for the banking industry as well as the customers which is based on the credit procedures, policies and analytical capabilities and these efforts should be expanded into full credit management including origination, approval, monitoring and problem management tailored to the needs of each bank.

- ✓ Private Banks should strategize on how to attract and retain their customers by providing loan so as to further improve the economy of the country.
- ✓ There should be closer consultation and cooperation between private banks and the regulatory authorities so that the effect of regulatory measure on private banks will be taken into account at the stage of policy formulation.

- ✓ The cost associated with lending to priority sectors as a national goal, should be borne by the society as a whole through the government budget instead of burdening the private banks with such cost. This is necessary because the private banks cannot afford to overprice or under price their loans for efficient lending performance.

- ✓ It is essential for private banks to build system and skills in loan management by applying the CAMPARI model.

- ✓ Banks should try as much as possible use CAMPARI model in their loan decisions. This will help them to be able to cover cost associated with lending and at the same time, maintain good banking relationship with their borrowers.

- ✓ For many entrepreneurs and small businesses, bank loans are an important source of funding, whether to fulfill orders, employ staff or finance patent protection applications. This model is a clear guide that helps the borrower fully prepare for a loan application and maximize the chances of receiving capital.

- ✓ CAMPRI model gives the general guidance for lenders how they can deal with each loan application; it also help full to know the procedures, for handling each case are flexible and should help the borrower as much as possible in certain situations.

- ✓ CAMPRI model is used to understand the process for assessing lending proposition from customers and utilize that process to come to a logical decision to agree to the loan or to decline it with robust reasons.

- ✓ It also manage and control a lending portfolio to ensure, as far as possible, that all loans are repaid in full and build rapport with customers to show that all their loans are fully repaid.

5.2 Recommendation

As technology and data collection instruments improve, banks and credit unions are finding ways to use this information to improve their loan decision making and thus improve their asset quality in the long term. The best way to maintain asset quality is to make good loans and that involves validating that borrowers will be able to service debt, even if economic conditions change in the future. However, qualifying borrowers is always easier said than done, as bankers must understand what data needs to be collected from borrowers based on CAMPARI model.

The days of using a CAMPARI model for loan decision making of banks and credit unions have access to more data than they can use to help them identify potential customers, potential cross sales, understand relationship profitability and riskiness of borrowers in order to predicting future defaults and distinguishing good customers from bad.

The study shows that using CAMPARI model can help for credit risk management. Credit risk management is one of the biggest risks faced by private banks and is assuming even greater importance in a changing regulatory regime and volatile market conditions. The model is used to make credit analytics which requires to be compliant and to make sound loan decision making process. However, to successfully implement the model banks need to assess credit risks across the entire lending value chain and build an integrated model which needs to make loan decision making.

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Annex 1: **Questionnaire for bank employees**

St. Mary's University

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING & FINANCE

The Application of CAMPARI Model in Lending Decision in the case of Ethiopian Private Banks

Questionnaire for bank employees

Dear respondents,

The main objective of this research is to assess the implementation of CAMPARI Model in making lending decisions in the private banks. So would you recall of your practices of making decisions on lending money to customers and answer the following questions. To respond to each question, would you put a tick "√"in the corresponding column. In advance, thank you for participating in this survey.

S. No.	**Character**	
1	Do you check the trust worthiness of your customer?	Yes ☐ No ☐
2	Do you check the management capacity of your customer organization?	Yes ☐ No ☐
3	Do you check the culture of business of your customer?	Yes ☐ No ☐
4	Do you check the marketability of your customer business?	Yes ☐ No ☐
5	Do you check the capital base of the business of the customer?	Yes ☐ No ☐
6	Do you check track record of the customer?	Yes ☐ No ☐
	Ability	
1	Do you show the repayment period of the loan?	Yes ☐ No ☐
2	Do you check the debt service ratio of your customer?	Yes ☐ No ☐
3	Do you check your customer borrowing risk?	Yes ☐ No ☐
4	Do you check the ability of repayment of loan?	Yes ☐ No ☐
5	Do you check the customer business successes and failures?	Yes ☐ No ☐
	Margin	
1	Do you check the riskiness of the loan proposal of your customer?	Yes ☐ No ☐

2	Do you take stapes to minimize risk?	Yes ☐ No ☐
	Purpose	
1	Do you check propose of the loan?	Yes ☐ No ☐
2	Do you check the relevance of loan?	Yes ☐ No ☐
3	Do you check the viability of your customer business?	Yes ☐ No ☐
4	Does the demand for the product or service justify the investment?	Yes ☐ No ☐
5	Is the type of finance being requested suitable?	Yes ☐ No ☐
6	Is the purpose of the borrowing in the best interests of the business?	Yes ☐ No ☐
7	Is the borrowing within the bank’s policy guidelines?	Yes ☐ No ☐
	Amount	
1	Do you check the amount whether it is too little or too much?	Yes ☐ No ☐
2	Do you check how much is the proprietor putting in himself?	Yes ☐ No ☐
3	Do you check how the amount requested is calculated?	Yes ☐ No ☐
4	Do you check the term of the loan which cannot be longer than the life of the asset being acquired?	Yes ☐ No ☐
5	Do you check the ability of your customer to generate enough money to repay the loan and interest?	Yes ☐ No ☐

6	Do you check whether the capital repayment holiday required or not?	Yes ☐ No ☐
	Repayment	
1	Do you have the contingency plan for repaying if things don't work out as expected?	Yes ☐ No ☐
2	Is any security available against the loan in case things don't work out?	Yes ☐ No ☐
3	Do you check the nature of security?	Yes ☐ No ☐
4	Do you check the business is adequately insured?	Yes ☐ No ☐
5	Do you check whether the key staffs or the business owner insured?	Yes ☐ No ☐
6	Is the source of repayment clear?	Yes ☐ No ☐
	Insurance	
1	Do you show the interest rate on your agreement?	Yes ☐ No ☐
2	Do you show the penalties/charges for early repayment?	Yes ☐ No ☐
3	Do you show the fees which to be payable?	Yes ☐ No ☐
4	Do you know the customers nature, type and value of the security?	Yes ☐ No ☐
5	Is an up-to-date valuation of the asset available?	Yes ☐ No ☐

Annex 2: **Questionnaire for bank Customers**

St. Mary's University

SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF ACCOUNTING & FINANCE

The Application of CAMPARI Model in Lending Decision in the case of Ethiopian Private Banks

Questionnaire for bank Customers

Dear respondents,

The main objective of this research is to assess the implementation of CAMPARI Model in getting loan from the private banks. So would you recall of your practices of getting loan from banks and answer the following questions. To respond to each question, would you put a tick "√"in the corresponding column. In advance, thank you for participating in this survey.

S. No.	**Character**	
1	Did they check the trust worthiness of the business?	Yes ☐ No ☐
2	Did they check the management capacity of your company?	Yes ☐ No ☐
3	Did they check the culture of business of your company?	Yes ☐ No ☐
4	Did they check the marketability of the business?	Yes ☐ No ☐
5	Did they check the capital base of the business?	Yes ☐ No ☐
6	Did they check track record of the business?	Yes ☐ No ☐
	Ability	
1	Did they show the repayment period of the loan?	Yes ☐ No ☐
2	Did they check the debt service ratio of the business?	Yes ☐ No ☐
3	Did they check the company borrowing risk?	Yes ☐ No ☐
4	Did they check the ability of repayment of loan?	Yes ☐ No ☐
5	Did they check the business successes and failures?	Yes ☐ No ☐
	Margin	
1	Did they check the riskiness of the loan proposal of your company?	Yes ☐ No ☐

2	Did they take stapes to minimize risk?	Yes ☐ No ☐
	Purpose	
1	Did they check propose of the loan?	Yes ☐ No ☐
2	Did they check the relevance of loan?	Yes ☐ No ☐
3	Did they check the viability of your company business?	Yes ☐ No ☐
4	Did they justify the demand for the product or service of the investment?	Yes ☐ No ☐
5	Did they check whether the type of finance being requested suitable?	Yes ☐ No ☐
6	Did they check whether the purpose of the borrowing in the best interests of the business?	Yes ☐ No ☐
7	Did they check whether the borrowing within the bank's policy guidelines?	Yes ☐ No ☐
	Amount	
1	Did they check the amount whether it is too little or too much?	Yes ☐ No ☐
2	Did they check how much is the proprietor putting in himself?	Yes ☐ No ☐
3	Did they check how the amount requested is calculated?	Yes ☐ No ☐
4	Did they check the term of the loan which cannot be longer than the life of the asset being acquired?	Yes ☐ No ☐
5	Did they check the ability of your company to generate enough money to repay the loan and interest?	Yes ☐ No ☐

6	Did they check whether the capital repayment holiday required or not?	Yes ☐ No ☐
	Repayment	
1	Did they check the contingency plan for repaying if things don't work out as expected?	Yes ☐ No ☐
2	Did they check whether any security available against the loan in case things don't work out?	Yes ☐ No ☐
3	Did they check the nature of security?	Yes ☐ No ☐
4	Did they check whether the business is adequately insured?	Yes ☐ No ☐
5	Did they check whether the key staffs or the business owner insured?	Yes ☐ No ☐
6	Did they check whether the sources of repayment clear?	Yes ☐ No ☐
	Insurance	
1	Did they show the interest rate on your agreement?	Yes ☐ No ☐
2	Did they show the penalties/charges for early repayment?	Yes ☐ No ☐
3	Did they show the fees which to be payable?	Yes ☐ No ☐
4	Did they know the business nature, type and value of the security?	Yes ☐ No ☐
5	Did they check whether an up-to-date valuation of the asset available?	Yes ☐ No ☐

Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Chalachew Getahun. All sources of materials used for the thesis, have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full in to any other higher learning institution for the propose of earning any degree.

______________________	____________________
Name	**Signature**
St. Mary's University, Addis Ababa	**June, 2017**

ENDORSEMENT

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

______________________	____________________
Advisor	**Signature & Date**

St. Mary's University, Addis Ababa