ST MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE – A STUDY ON UNITED BANK S.C

BY:

GENET BERHANU

July 2017

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN BUSINESS ADMINISTRATION (MBA)

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ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES FACULTY OF BUSINESS & ECONOMICS

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE – A STUDY ON SELECTED BRANCHES OF UNITED BANK S.C.

BY

By: GENET BERHANU LESSANU

APPROVED BY BOARD OF EXAMINERS

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ENDORSEMENT

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

Advisor _________________________ Signature __________________ Date ___________________

DECLARATION

I hereby declare that this submission is my own work prepared under the guidance of Arega Seyoum (PhD). It contains neither material previously published by another person nor material which has been accepted for the award of any other degree of the University, except were due acknowledgment has been made in the text.

___________________________	___________________	____________________
Student name and ID	Signature	Date

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List of Abbreviation/Acronyms

BCC-	Branch Credit Committee
BOD-	Board of Directors
CEO-	Chief Executive Officer
CIC-	Credit Information Centre
DLL-	Discretionary Lending Limit
EC-	Ethiopian Calendar
FIS-	Financial Institutions
GC-	Gregorian calendar
L/C-	Letter of Credit
LAF-	Loan Approval Form
MCC-	Management of Credit Committee
NBE-	National Bank of Ethiopia
NPLS-	Non Performing Loans
KYC -	Known Your Customer
SC-	Share Company
SPSS-	Statically package for Social Since
UB -	United Bank Share Company
VP-	Vice President

ABSTRACT

This study attempts to assess credit management practice in private commercial bank – A case Study of United Bank Share Company. Through analyzing the practices of credit management practice, the study attempts to indicate the importance of credit management in financial institutions such as commercial banks. Thus, the rationale behind for undertaking this study is to deeply investigate the causes of credit management problems and to suggest possible solutions that enable the bank to run its operation in a safest way as credit is known to be the main stay of all banks. The ability of banks to formulate and adhere to policies and procedures that promotes credit quality. Inability to create and build up quality loans and credit worthy customers leads to default risk and bankruptcy as well as hampers economic growth of a country. For the purpose of the study both primary and secondary data were used. Primary data was collected using semi structured questionnaires for this a sample size of all employees in related to credit management who are bank's managers, assistant branch managers, supervisor, credit officers, internal auditor and credit committee members of UB four branches totally 30 employees were selected purposively and 48 loan clients who was also selected by taking at least 40% of the target population from four sub groups (such as: - import, manufacturing, domestic service and building construction). The secondary data has been collected from annual reports, directives, and bulletins of the bank. Descriptive statistical tools were used in analyzing the data collected hence; the nature of the study is descriptive. The findings indicate that, the majority of the banks employees working in the loan area have first degree holder experienced and trained, almost all of the employee have agreed on the compliance of credit policy and credit procedure, to the regulation and directions of national bank of Ethiopian (NBE), and credit policy of the bank is moderate and updated up to 2015 Finally, based on the findings possible recommendations are given. These include the improvement of credit policy and procedure of the bank and updated of credit policy and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the credit management practice.

Keywords: *Credit, commercial bank, credit management, credit risk, loan processing*

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

According to Paul (2008), bank is one of the financial institution that are established for lending, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guide lines of a respective country. Among their activities, credit advancing is the main product which banks provide to potential business entrepreneurs as the main source of generating income.

While providing credit as a main source of generating income, banks take into account many considerations as a factor of credit management which helps them to minimize the risk of failure to pay those results in financial suffering and bankruptcy. This is due to the reason that while banks providing credit they are exposed to risk of failure to pay (risk of interest and principal repayment) which need to be managed effectively to acquire the required level of loan growth and performance (http://www.wisegeek.com/what-is-creditmanagement.htm). The types and degree of risks to which banks are exposed depends upon a number of factors such as its size, complexity of the business activities, volume etc. It is believed that generally banks face Credit, Market, Liquidity, Operational, Compliance /legal/ regulatory and reputation risks among which credit risk is known to have the adverse impact on profitability and growth (Fatemi & Fuoladi, 2007). Hence, the success of most private commercial banks lies on the achievements in credit management mitigating risk to the acceptable level.

Mensah, C. (2009) stressed the importance of credit management as follows: Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions especially banks. This indicates that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the banking industry from failure. Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. In the sense of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, recovery of non-performing loans, etc. (Shekhar, 2007).

Lang & Jagtiani (2010) aver that credit management is a system that is devised to prevent unwarranted damage to a firm or institution from unforeseen but probable events. In this fashion the aim of this research is to identify the problem related to the credit management system of the banks encountered.

United Bank Share company, like other commercial banks giving credit or advancing service to its customer in general and in the study area in particular and as means of generating income from its shareholders. Hence, to manage this properly the bank has prepared policy and procedure of useable for adequate credit management practice based on this the bank is creating short, medium and long term credit facility to its customers. To the best of the researcher's knowledge in Ethiopia specifically in private commercial banks there is little empirical study on credit management performance, thus the issue of banks credit management is crucial to the financial sector of developing country like Ethiopia. This study, therefore, enables banks to keep control on the issue of credit management which is very important to their operation as well as the economy as a whole in the country. Therefore, this study aims to identify the major problems associated with effective credit management with special reference to United Bank S.C Mehal Arada, Etege Taytu, Arat Killo and Megenagna branches.

1.2 Statement of the Problem

According to Shekhar (2007), credit is one of the major services of private commercial banks and plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Credit is mainly granted by banks including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service. Banks manage credit properly the bank has prepared policy and procedure of useable for adequate credit management practice. Based on this the bank is creating short term, medium and long term credit facility to its customer. Credit management has a profound implication both at the micro and macro level. When credit is allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities.

Moreover, the more the credit, the higher is the risk associated with it. The problem of loan default, which is resulted from poor credit management, reduces the lending capacity of a bank (Treacy & Carey, 2009).

From the finding of the researcher work by Emmanuel Yaw (2012), on assessment of credit management practice on development bank of Ghana, credit management should not rely on only client history and cash flows but should look at the variability of business plan and the past financial statement to take a decision on the variability of credit worthiness when granting credit.

Hagos Mirach (2010), an empirical study performance of credit management Wogagen bank in Tigray region on measure the credit performance based on only on liquidity measurement.

As mentioned above, studies on the study area of credit management impact on profitability and performance of credit management with the measurement of liquidity and profitability by taking sample only employee of the study area since the problem related with lack of effective credit management were not studied before in case of private commercial banks there is the research gap.

When we look at the united bank case some of its branches, time to time denies of new credit applicants credit creation process, documentation and disbursement and also the credit administration is not managed properly, this may exposes the banks to high default risk which might led to financial pain. The credit management system of the banks that would alleviate the problems encountered and contributes to the growth of market share and income generation of the bank.

To the knowledge of the researcher in Ethiopia specifically in private commercial banks there is little empirical evidence on credit management practice of commercial banks rarely available more outside the country and little work on the study topic by taking sample only employee of the study area but was not done properly at all, thus the issue of banks credit management is crucial to the financial sector of developing country like Ethiopia. Therefore, this study enables banks to keep control to the issue of credit management which is very important to their operation as well as the economy as a whole in the country.

Therefore this paper aims to identify the problem related to lack of effective credit management in the case of United Bank S.C with special reference to Mehal Arada, Etege Taytu, Arat Killo and Megenagna branches by taking samples from employees and loan clients to make the study different from the previous studies.

1.3 Objective of the Study

1.3.1 General Objective

The main objective of this research is to assess the credit management practice of private commercial banks in case of United Bank S.C with special reference to Mehal Arada, Etege Taytu, Arat Killo and Megenagna branches

1.3.2 Specific Objectives

In addition to the general objective stated above, the study addresses the following specific objectives.

1. To assess the nature of credit management practice of the bank.
2. To assess the credit processing practice of the bank.
3. To assess the credit control mechanisms of the bank.

1.4Research Questions

1. What does the credit management system/practice of United Bank Mehal Arada, Etege Taytu, Arat Killo and Megenagna branches look like (what is the nature of credit management practice of United Bank S.C)?
2. Does the bank every time observe with its policy and procedures in entertaining its loan applicants, loan processing, and collecting?
3. Which credit collection strategies are adopted in the credit management of the bank?

1.5Significant of the Study

- This research is expected to have special significance in providing alternative solutions to the various problems related to the bank's credit management system.
- Indicate the best practice and concept for all credit managers and policy makers of the bank as well as to all financial institution.
- This study is also expected to serve as a reference material for those who want to conduct further studies in similar area

1.6Scope of the study

One but the principal service rendered by private commercial banks is providing credit facility this function requires banks to have credit management system.

Hence the current research effort manly focused on the credit management system of private commercial banks and the other core functions of the bank were not considered. On the other hand, even though the topic is equally important to all private commercial banks; due to the shortage of time and more importantly to make the study manageable, it has been delimited to only united bank S.C.

1.7Limitation of the Study

As it is clearly stated in the scope of the study section, the study was going to beconducted only in United Bank Mehal Arada, Etege Taytu, Arat Killo and Megenagna branches, this shows that all data were gathered only from four branches of one private commercial bank which operates under United Bank Share Company and the study covered only credit policies, procedures and credit operation of the bank so the findings of this study is not generalized to all private commercial banks.

1.8Organization Of The Study

This study has been organized into five chapters. The first chapter introduces the background of the study, the research objectives and questions, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter presents theoretical and empirical review of the related literatures. The third chapter deals with methodology of the study. And the fourth chapter describes the analysis, results and discussions. The fifth chapter presents the conclusions and recommendations drawn from findings of the data.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Theoretical Framework of credit management

Financial institutions, which are composed of banks, micro finances, and insurances, have comprehensive roles in serving the needs of the society within the economy. The Service is rendered through providing three major financial functions: intermediation, or allocation, operational and payment systems. Operational and allocation functions are the provisions of financial resources to meet borrowing needs of individuals and other economic agents. The main microeconomic function of banks is the provision of facilities to collect deposits and invest these deposits as credits. Provision of a sound payment mechanism is also the other expected service from banks. Hence, the performance of banks is measured in terms of the above major roles of the banking business and relies on the provision of these functions.

2.1.1 Definition of Credit Management

There are many definitions given for credit management by different scholars, among these some are here cited as follows:

Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts. (http://www.smallbusiness.wa.gov.au/assets/Small- Business-Briefs/small-business-brief-credit-management.pdf).

Credit Management, from a debtor's point of view, is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Credit management is a responsibility that both the debtor and the creditor should seriously take (http://www.selfgrowth.com/articles/Tabije3.html). When it functions efficiently, credit management serves as an excellent instrument for the business to remain financially stable.

2.1.2 Types of Credit

According to, ENGENE F. BRIGHAM and GOEL F. HOUSTO's study, term loan can be defined as a loan granted for a specified period of time with a periodic term repayments or installments, or in lump-sum at maturity with interest.

The applicant of term loan should have a deposit account (saving or current account) or open a deposit account at the lending branch.

- **Short- Term Loan-** term loans are extended by the bank to finance working capital or other short- term financial constraints of the business. The maximum term of a single maturity loan is three years.
- **Medium- Term Loan-** A term loan which has a maturity period longer than three years but not exceeding a maximum period of seven years.
- **Long- Term Loan-** A term loan which has a maturity period longer than seven years but exceeding a maximum period of time of fifteen years. Source:- *Fundamental of Financial management, 2003)*

Depending up on the type of collateral held loans are classified as secured and unsecured, based on the time frame loans are categorized into short dated and long term (Katoh, 2008) also indicated in his book different types of loans include commercial, real estate, agricultural, and consumer loan

2.1.2.1 Commercial loan

There are as many types of commercial loans as business borrowers; banks lend large amounts to manufacturing companies service companies, farms, and securities dealers, as well to other financial institution. Because many commercial loans finance current assets, the commercial loans can be classified for working capital requirements, seasonal versus permanent working capital needs, short term commercial loans, seasonal working capital loans, open credit lines, asset based loans, term commercial loans and revolving credit.

2.1.2.2 Real estate loans

Real estate loans can be highly speculative however if banks lend against properties that do not generate predictable cash flows, real estate's can be classified as short term real estate loans and long term real estate loans.

The Uniform Bank Performance Report (UBPR) of federal deposit and insurance corporation (the regulatory organ of US banks), defines real estate loans as domestic office loans secured by real estate.

In particular, it is classified into seven subcategories; construction and development loan, commercial real estate, multifamily residential real estate, home equity, farm land and other real estate. The repayment is expected from underlying real estate it is evaluated in similar fashion to that of commercial loans. *Ibid*

2.1.2.3 Agricultural loans

Agricultural loans are similar to commercial and industrial loans in that short term credit finance seasonal operating expense, in this case those associated with planting and harvesting crops. Long term credit finance livestock equipment and land purchases, the fundamental sources of repayment are cash flow the sale of livestock and harvested crops in excess of operating expenses.

2.1.2.4 Consumer loans

Non mortgage consumer loans differ substantially from commercial loans. Their usual purpose is to finance education, medical care and other expenses; the average loan to each borrower is relatively small. Most loans have maturities from one to four years are repaid in installments and carry fixed interest rates credit analysis. Credit analysis refers to the process of deciding whether or not to extend credit to particular customer. It usually involves two steps gathering relevant information and determining credit worthiness *(Ross, 2005).* Once a customer request a loan, bank officers analyze all available information determine whether the loan meets the bank's risk-return.

Objectives of credit analysis is essentially default risk analysis in which a loan officers attempts to evaluate a borrower's ability & willingness to repay *(Katoh, 2008).*

Many author states in their book that the principal factors which may be taken in to consideration which extending or using credit. Among these authors have different number of credit evaluation, states three C's of credit i.e. character capacity, capital & sometimes also condition is added. But Katoh (2008) mentions five C's of credit character, capital, capacity, condition & collateral.

2.1.3 Credit Policies and Procedures

A credit policy is not something that is only operated by the credit and risk department. All employees involved with customers, in any way, need to be aware of the credit policy and ensure that it is operated consistently (http://www.bwaresolutions.com/).

In order to be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances. It should be applied, where appropriate, on a consolidated bank basis and at the level of individual affiliates.

In addition, the policies should address equally the important functions of reviewing. Together, these elements largely determine the average collection period and the proportion of bad debt losses (Horne, 1925).

2.1.4 Credit Analysis

Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment (or judgmental assessment technique).

Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. Similarly Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions:

1) What risks are inherent in the operations of the business?

2) What have managers done or failed to do in mitigating those risks?

3) How can a lender structure and control its own risks in supplying funds?

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower's ability to repay. The second recognizes that repayment is largely a function of decisions made by a borrower. Is management aware of the important risks, and has it responded? As Tomothy (1995) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement. A bank's credit analysts often use the five C's of credit to focus their analysis on the key dimensions of an applicant's creditworthiness.

Lawrence, (1997:776-777) identified five C's of credit and they include; character, capacity, capital, collateral and conditions.

1. **Character:** The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.
2. **Capacity:** The applicant's ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity.
3. **Capital:** The financial strength of the applicant as reflected by its ownership position. Analysis of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.
4. **Collateral**: The amount of assets the applicant has, available for securing the credit. The larger the amount of available assets, the greater the chance that a firm will recover its funds if the applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against the applicant's assets can be used to evaluate its collateral.
5. **Conditions:** The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. For example, if the firm has excess inventory of the items the applicant wishes to purchase on credit, the firm may be willing to sell on more favorable terms or to less creditworthy applicants.

According to Golden & Walker (1999), there are five C's of bad debt; which represent things to guard against in order to help prevent problems. They include: **Complacency, Carelessness, Communication breakdown, Contingency, and Competition. Complacency** refers to the tendency to assume that because things were good in the past they will be good in the future. Common examples are an over reliance on guarantors, reported net worth, or past loan repayment success because it's always worked out in the past.

Loan problems often arise when a bank's credit objectives and policies are not clearly communicated**.** This is **communication breakdown**. Management should articulate and enforce loan policies, and loan officers should make management aware of specific problems with the existing loans as soon as they appear.

A contingency refers to lenders' tendency to play down or ignore circumstances in which a loan might in default.

Competition involves following competitors' behavior rather than maintaining the bank's own credit standards.

2.1.5 Credit Process

The fundamental objective of commercial and consumer lending is to make profitable loans with minimal risk. Management should target specific industries or markets in which lending officers have expertise. The credit process relies on each bank's systems and controls to allow management and credit officers to evaluate risk and return tradeoffs. According to Timothy (1995), the credit process includes three functions: business development and credit analysis, credit execution and administration, and credit review.

2.1.5.1 Business Development and Credit Analysis

Business development is the process of marketing bank services to existing and potential customers. With lending it involves identifying new credit customers and soliciting their banking business, as well as maintaining relationships with current customers and cross-selling non-credit services. Every bank employee, from tellers handling drive-up facilities to members of the board of the directors, is responsible for business development. Each employee regularly comes in to contact with potential customers and can sell bank services. To encourage marketing efforts, many banks use cash bonuses or other incentive plans to reward employees who successfully cross-sell services or bring new business into a bank.

2.1.5.2 Credit Execution and Administration

The formal credit decision can be made individually or by committee depending on a bank's organizational structure. This structure varies with a bank's size, number of employees, and type of loans handled. A bank's board of directors normally has the final say on which loans are approved. Typically, each lending officer has independent authority to approve loans up to some fixed amount.

2.1.5.3 Credit Review

The loan review effort is directed at reducing credit risk as well as handling problem loans and liquidating assets of failed borrowers. Effective credit management separates loan review from credit analysis, execution and administration. The review process can be divided into two functions: monitoring the performance of existing loans and handling problem loans.

Many banks have a formal loan review committee, independent of loan officers that reports directly to the chief executive officer and directors' loan committee. Loan review personnel review current loan to verify that the borrower's financial condition is acceptable, loan documentation is in place and pricing meets return objectives.

2.1.6 Credit Approval and Implementation

The individual steps in the credit approval process and their implementation have a considerable impact on the risks associated with credit approval. The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to the considerable differences in the nature of various borrowers and the assets to be financed as well as the large number of products and their complexity, there cannot be a uniform process to assess credit risks. The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible exposure.

2.1.7 Credit Collection Techniques

Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks.

Therefore a number of collection techniques are employed. Under normal circumstances loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. The basic techniques are:

- **Telephone Calls:** If the loan client passes the due date, a telephone call may be made to the customer to request immediate repayment and up to date his or her account.
- **Personal visits: -** If the telephone call made is not resulted positive response vesting his/her business and discussing the issue with the customer can be a very effective collection procedure.

- **Letters: -** If the efforts made so far is unsuccessful and not results positive response, a polite letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence. Collection letters are the first step in the collection process for past due and overdue loan accounts.
- **Using Collection Agencies:** Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically quite high; the firm may receive less than fifty percent on accounts collected in this way.
- **Legal Action:** legal action is the most stringent step in the collection process. It is an alternative to the use of a collection agency not only is direct legal action expensive, but is may force the debtor in to bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount. http://www.articlesbase.com/finance-articles/3-top-credit-collection-techniquesthat-can-improve-cash-flow-to-your-business 900152.html.

2.1.8 Financial Analysis

Review, appraisal and follow-up are three basic elements in credit management and decision-making. At the time of considering fresh proposals or enhancement proposals, the banker reviews the past operations with to judge the health status of the client. Timothy (1995) identified three basic elements used in credit management to evaluate the creditworthiness of clients.

A) Review is for the past**.** It should enable the banker to find out whether it is safe to lend to a particular client. In order to arrive at this decision, the banker has to satisfy about the risk and viability of the unit. Review of any unit involves assessment of solvency, liquidity and profitability of that unit as revealed by its financial statements, i.e. profit and loss accounts and balance sheets. Review thus, involves classification of profit and loss account and the balance sheet according to bank's requirement and analysis of these statements.

B) Credit appraisal implies consideration of fresh or enhancement proposals on the basis of futuristic data. While appraising proposals, banker tries to find out: financial need of the client, end-use of funds, viability of operations and risk involved. In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuing period.

Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis.

C) Follow-up may be defined as a continuous activity aimed at ensuring observance of stipulations laid down by the bank, picking up signals on health status of client's position, remedial action and ensuring results of action on a continuous basis. Safety, need-based finance and end-use are the key assumptions of lending. A banker needs various types of data and information from the borrowers for taking the credit decisions.

Such information is general available in various financial statements such as income statement, balance sheet, cash flow statement, funds flow statement, etc. But mere collect of these financial data from the borrowers is of little help unless the banker is able to use these statements; arrange or classify them according to his/her needs and analyze them with a view to draw meaningful conclusions.

2.1.9 Basic Requirements for Credit Decisions

United Bank has uniform basic requirements which applicants are expected to present and become eligible for loan. Thus, credit decisions of the bank are based on the fulfillment of these requirements as mentioned below.

- Renewed Trade license existed for one year
- Marriage certificate for mortgagors or confirmation letter from authorized office
- Proof of tax payer certificate
- Loan application letter stating type, amount, purpose and term of repayment of loan requested and type of proposed collateral and others

So as to qualify for credit, every applicant should fulfill the aforesaid requirements. If there is match between the documents provided by the client with that of the requirements set by the bank on the check list, the client will be eligible for the loan. In the lending process, as per the interview conducted with the branch manager, and loan officers, the bank prefers the business type and applicant creditworthiness as first way out and collateral is the second way out as basis for lending.

2.1.10 Assessment of Applicants Creditworthiness

Once a customer requests a loan, bank officers analyze all available information to determine whether the loan request meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. The Bank assesses the creditworthiness of a loan applicant mostly by gathering detail information with regard to

A. The applicant

- Whether the applicant is customer of any other bank. This is done to check whether the applicant has any loan arrear with other banks. This will be checked by the help of national bank of Ethiopia (NBE) central database of the credit information center.
- The exposure of the applicant to credit and track record in meeting obligation.
- The educational level and experience of the applicant.
- The character, capacity of the applicant and social acceptance in trustworthiness.

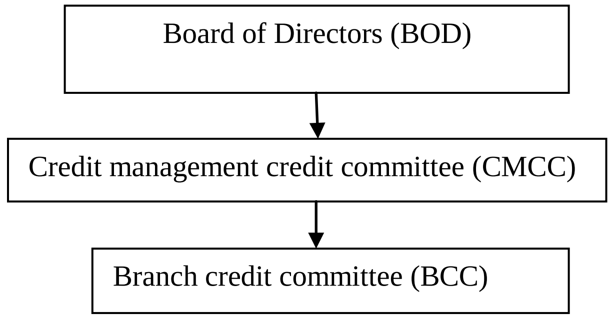
B. Collateral

- Credit policy of the bank lendable margin, for building collateral 85% of the estimated value, for vehicles and machinery 70% of the insurable value, for cash 100%, merchandise 70% if the value, leased land 30% less lease amount if construction not started, treasury bills and government bonds 100%, etc.
- Marketability and habitability
- Easily transferability

C. Business viability

Based on the basic financial measurements used to certify the credit worthiness of the business the Bank depends on liquidity rate, solvency, efficiency ratio, sales turnover and profit margin of the business. Once the Bank assessed the creditworthiness of the applicant, the credit decision flow is as depicted below.

D) Credit Decision Followed by the Bank



Source: Credit policy and procedure of the bank

2.1.11 Discretional Lending Limits (DLL)

The Bank follows lending discretion limit starting from the branch tier level up to the supreme decision making committee as indicated below.

No	Decision Level	D.L.L in Birr
1	Board of directors (BOD)	Over 15 million
2	Head office credit committee (HOCC)	Up to 15 million
3	Credit management credit Committee (CMCC)	Up to 8 million
4	Special branch	2,000,000.00
5	Grade A Branch (BCC)	1,500,000.00
6	Grade B Branch (BCC)	1,000,000.00
7	Grade C Branch (BCC)	600,000.00

Source: Credit policy and procedure of the bank

The board of directors and the executive management committee considers the following points in determining the discretionary limit

- Feedback on the quality of loans (NPLS recovery rate, etc)
- Strength and competence of the members of the credit committees
- Complexity and volume of credit cases handled by the various credit committees
- Change in demand for loan requests due to variations in the economic situations or localities.

The overall discretionary limit of the bank is used to be revised periodically by the core management or the board of directors under the following conditions

I. Change in the macroeconomic and marketing environment in certain; geographic areas

II. Competence of the credit committee

III. Change in the rate of recovery of loans

IV. Due to unchecked growth in non-performing loans.

2.1.12 Provisions

Loans and advances are financial instruments originated by the bank by providing money to the debtors. It is stated at costless impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The bank follows the national bank of Ethiopia supervision of banking business directives SBB/43/2008 in determining the extent of provisions for impairment losses. The directive classifies loans and advances into the following status.

A. Pass loans

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. It is fully secured, both as to principal or interest payments, by cash or cash substitutes are classified under this category regardless of past due or other adverse credit factors.

B) Special mention

Any loan or advance past due 30 days or more, but less than 90 days.

C) Substandard

Non- performing loans or advances past due 90 days or more but less than 180 days.

D) Doubtful

Non- performing loans past due 180 days or more but less than 360 days.

E) Loss

Non-performing loans or advances past due 360 days is classified as loss.

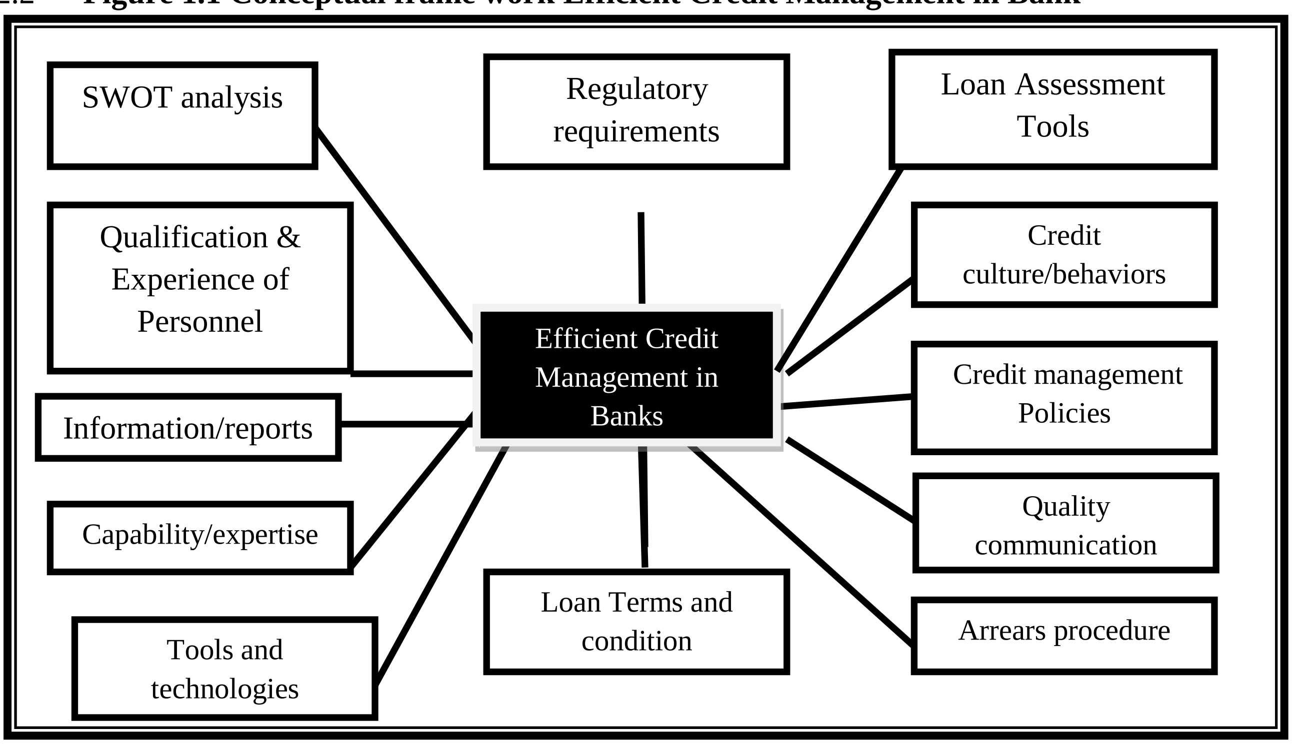
2.1.13 Barriers to effective credit management

Lang & Jagtiani (2010) conclude in their research on the failures of credit management that there is a prerequisite for an overhaul on competent internal control systems and a robust autonomous credit risk management function. Regarding credit unions two major barriers emerge from extant literature. These are credit culture and education.

2.1.13.1 Credit culture

Basu & Rolfes (1995) define credit culture as a structure of shared principles, viewpoints and credit related activities. They further inform that credit culture affects the practices of the financial institution concerning credit management; for example the ethos of a financial institution advocates the type of lending conducted. Therefore Middle miss (2004) states that financial institutions should have a more *"morally acceptable approach"* to assessing credit and should enact a certain level of social responsibility this is pivotal to credit union operations in where it complements the importance of its social duty (Ralston & Wright, 2003). However, Lenihan (2009) highlights that given the present economic climate, credit unions social role duty is being put under pressure.

2.2 **Figure 1.1 Conceptual frame work Efficient Credit Management in Bank**



(Source – Paul.vim (2006), credit management)

2.3 Empirical Studies as Credit Management

Rana-Al-Mosharrafa (2013) has examined credit assessment practice of commercial banks in Bangladesh the major credit risk is assessed by the bank while assessing a credit proposal through borrower analysis. The recommend on the basis of the analysis that the management of the bank should review their systems, policies, processes and product prices in line with the changing market reality, In order to reduce the classified loans and advances, banks should be more cautious regarding preparing credit proposal, approval, disbursement, monitoring and documentation formalities for a loan. Diversification of loan portfolio in different sectors is required to reduce large loan risk; bank should focus more on agricultural and industrial credit and discourage consumer durable finance.

John M. (2010) have tried to analyze the credit management practice of Ireland credit union, credit unions face customers who are under financial distress who wish to receive financial assistance. Consequently unprecedented pressure confronts credit unions as members seek new loans or re-scheduled existing loans credit management is a system that is devised to prevent unwarranted damage to a firm or institution from unforeseen but probable events. The recommend on the basis of the analysis that its first aim is to investigate the skill set and size of credit management administrator, in order to observe if there is an even distribution between all credit departments regarding same. From the empirical findings, the researcher concludes that the credit control department has the least personnel and experience across all departments. Given that this area is an essential component to maintain the performance and stability of a financial institution; it appears inefficient of credit unions to not place more emphasis in this area. Even though credit control personnel in the sample credit unions are the most qualified, therefore this research deduces that there are deficiencies in the credit control area of credit unions regarding the level of personnel and their experience. Emmanuel Yaw Amiable (2012) has tried to analyze eastern region of Ghana development banks' credit management practice which was reflected on their loan performance specially NPL and study was carried out by taking eight branches. The recommend on the basis of the analysis that the development bank of GANA found the main factors influencing access to credits are stringent policies, client history and cash flows of clients.

It is therefore recommended that the policy of access should be flexible so that customers can easily access credits. In addition, management should not rely on only client history and cash flows but should look at the variability of business plan and the past financial statement to take a decision on the variability of credit worthiness and who was put general recommendation carried out by analyzing the processes of accessing credit, credit control processes and credit collection strategies this was done against the background that there was huge debits as the result of non –performing loans affecting the financial status of the bank based on sample size of 50 members drawn from the 110 staff in all the six ADB branches.

Hagos M. (2010) have tried to analyze the credit management of Wegagen bank share company in Tigray region on the performance of credit management of the branches that would alleviate the problems encountered and contributes to the growth of market share and income generation of the bank. Hence the researcher is interested to the research area in particular and to the contribution and object of the bank in general in assessing the gaps in credit management performance which is crucial to be studied in the prevailing stiff competition in line of the modern financial measurements.

The recommend on the basis of the analysis that the credit policy and procedure of the bank should incorporate the ideas of the clients and employees to become more competitive in the banking industry and meet its vision. In other words, it is better for the bank to make its credit policy flexible to meet its potential loan clients and thereby putting a good administrative set up that improves credit lending and administration. The periodic repayment schedule of the bank should be flexible by considering the operation of the clients' business as repayment duration has its impact on the performance of loan collection, as it is disclosed in the analysis part of the study most of the loan clients and bank employees have complaints on the credit policy and guidelines regarding valuing property offered for collateral, loan discretion, length of loan processing time, repayment schedule, and excessive requirements for analysis. These are the major factors impeding client reputation and retarding to attract potential loan clients. Hence, the bank should made remarkable changes on its credit policy and procedure guidelines regarding the above aforesaid drawbacks in order to solve the current problems and achieve the client reputation. The current loan processing and approving direction of the bank is moderate inclined to be conservative especially regarding collateral and analysis.

This is highly retarding the loan growth of the branches in particular and the Bank in general. Hence, the bank should follow creative way of loan processing.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research Approaches

There are three types of research approaches namely, quantitative, qualitative and mixed methods research approach (Cheng-Few-Lee, 2005). Accordingly, to achieve the research objective, mixed methods approach has been employed to obtain understanding about the problem related to credit management and in order to benefit from the advantages of both quantitative and qualitative approaches.

3.2 Research Design

A research design should provide relevant information that will most efficiently and effectively address the research questions or hypotheses (Hair, 2007). As can be seen from the research problem and objectives, this study is more of descriptive in nature. Therefore, survey research design is appropriate for this study “To answer questions those have been raised, to solve problems that have been posed or observed, to assess needs and set goals”

3.3 Data and Data Collection Techniques

3.3.1 Data Type and Source

To achieve the objectives sought, both primary and secondary sources of data have been used. Primary source of data was collected mainly through questionnaire. Accordingly, both open-ended and close-ended questions were designed and included in the questionnaire. The open-ended questions have been included in the questionnaire to provide the respondents with the opportunity to freely express themselves on the issues under consideration; and the close-ended questions restrict the respondents on the options provided. In the case of secondary source of data reports and journal of the bank were analyzed those reports and journals contain best practice of risk management adopt by the bank.

3.3.2 Data Gathering Techniques

Primary data were collected from those selected employees and loans client of the organization through questionnaire as indicated earlier those questions where both open and closed ended based on nature of credit management, loan processing and mechanism of credit control.

Mainly as a secondary source of data, what were considered for this study is letters, documents, manuals and other secondary sources related to credit management in United Bank S.C.

3.4 Sampling and Sampling Design

3.4.1 Target Population

According to Diamantopoulos, A. & Schlegelmilch, B.B. (2006) a population is a group of items that a sample will be drawn. The target group of this study were the loan clients of the bank and the employees who are directly involved in credit processing and administering.

This means, senior bank professionals, department heads, branch managers, assistant branch managers, loan section heads, loan officers, loan clerk, and loan committee members of all branches were included in the target group.

Table 3.1 Total Population of employees of the study

S.No	Name of Branch	Number of Employees who are directly involve credit processing			
		Male	Female	Total	Percentage
1.	M/Arada	2	3	5	25%
2.	E/Taytu	3	2	5	25%
3.	Megenagna	3	2	5	25%
4.	Arat Killo	3	2	5	25%
	Total	**11**	**9**	**20**	**100%**

Source: *Human resource management of the bank.*

The study where include the following total population of loan clients as per the credit portfolio management report.

Table 3.2 Total Population of loan client of the study

S.No	Type of credit based on service	Population			
		Male	Female	Total	Percentage
1.	Import	60	10	70	58%
2.	Manufacturing	6	4	10	8%
3.	Domestic service	20	5	25	21%
4.	Building Construction	10	6	16	13%
	Total	**96**	**25**	**121**	**100%**

Source: credit portfolio management of the bank

3.4.2 Sampling Design

Sampling is the selection of a part of the population of a material to represent the whole population. The objective of sampling is to make correct inferences about the aggregate and is only justified if the selected sample population is a true representative of the main population. So the researcher stratified sampling and purposive sampling method where use for this study.

3.4.3 Sampling techniques

The study adopted stratified random sampling and purposive sampling methods to select the respondents. **Stratified sampling,** according to the bank's credit portfolio department of the bank report, loan clients are divided in to various sub-groups based on the propose of the loan such as manufacturing, domestic service, import, health and building construction and **Purposive Sampling** was used to select employees related only to credit management who performed day to day credit processing, screening and delivery; and thus the researcher believed that they have pertinent credit information. Finally, simple random sampling was applied to these sub-groups to obtain a representative sample selected from each loan client sub-group by using of lottery method.

3.4.4 Sample size

To investigate the points raised by this research it is necessary to select a representative sample. The determination of sample size is influenced by many factors that need to be taken into account simultaneously. The factors include the cost and time constraints, variability of elements in the target population, required estimation precision and whether the finding are to be generalized and, if so, to what degree of confidence (Hair, 2007.). Other guides include reference to consistent rules of thumb provided by statisticians to help in determining sample size. Proposed that sample sizes larger than 30 and less than 500 are appropriate for most research. This is supported by (cheng-few-lee, 2005) who advises a minimum number of 30 for statistical analyses. The minimum sample size arises because statisticians have proved that a sample size of 30 or more will usually result in a sampling distribution for the mean that is very close to a normal distribution; a position which is important to ensure that spurious results do not occur (Saunders Cornett, 2005).

Therefore, this study comprises a sample size of all employees whose work is related to credit management who are 4 bank's managers, 4 assistant branch managers, 2 supervisors, 4 credit officers, 4 internal auditors and 12 credit committee members of UB four branches totally 30 employees were selected purposively and 48 loan clients who was also selected by taking at least 40% of the target population from four sub groups (such as: - import, manufacturing, domestic service and building construction) as follows:-

Table 3.3 Total sample size of loan client of the study

Strata	Sub strata		Population Total	Sample		Total Sample size
	Male	Female		Male	Female	
Import	60	10	70	24	4	28
Manufacturing	6	4	10	2	2	4
Domestic service	20	5	25	8	2	10
Building construction	10	6	16	4	2	6
Total	**96**	**25**	**121**	**38**	**10**	**48**

Source: credit portfolio management of the bank

Generally, the study taking total of **30** employees and 48 loan client as sample size.

3.5 Data Analysis and presentation techniques

In order to evaluate the assessment of credit management practice of United Bank, in study area, more of quantitative method of analysis is employed in addition to qualitative method so as to address the aforementioned problems of the bank. Both methods of analysis used the data collected through the structured questionnaires and secondary sources. Findings, which reflect a high magnitude of problems, were selected from questionnaires; the raw data were analyzed, presented, and interpreted to give solutions for the research problem. Moreover, most of the data were summarized and presented in tables and figures, by the help of the Statistical Program for Social Sciences, version 20.0, (SPSS, 2016). Percentage and frequency for these data were calculated in order to facilitate the analysis and to make it presentable for the readers.

The data collected were more of qualitative in nature; thus, it was presented by using descriptive analysis. Hence, the nature of the study is descriptive.

Reliability test for the questionnaire was made using Crobach's Alpha, Table 3.3 indicates that the alpha coefficient of fifty items is 0.614, suggesting that the items have relatively high internal consociating (reliability coefficient of 0.5 or higher is considered acceptable in most social science research situation) the result indicates 0.614 this result shows the quality of the questionnaire.

Table 3.4 Crobach's Alpha Test

Case Processing Summary

	N	%
Valid	68	100
Excluded a	0	0
Total	68	100

Reliability Statistics

Crobach's Alpha	N of Items
.614	50

3.6 Operational Definitions

Borrower: - is the one who borrows money from the lender (Bank)

Credit Management: Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted.

Credit: The terms loan and credit are used interchangeably. The study adopts the credit definition of (Aryeetey E., 1995) who defined credit as an arrangement in which a lender gives money to a borrower, and the borrower agrees to repay the money, usually along with interest, at some future point(s) in time. He also adds that, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan.

Credit default: The study adopts the definition of (Abel A, Eberly JC., 2006) who defined credit default as the failure of the borrower to repay loan in accordance with the terms of the lender.

Non-performing loans: are loans on which principal and interest payments are not being made as agreed (NBE Provision Directive No. SBB /7/1996).

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter is concerned with the presentation, analysis, and interpretation of the data gathered via primary sources from questionnaires and secondary sources collected from the bank's annual reports, manuals and data bases.

4.1 Questionnaires Distributed and Collected

Table 4.1: Performance of Questionnaires Administered

Questionnaires	Respondent			
	Loan Clients		Employees	
	Number	Percent	Number	Percent
Distributed	48	100	30	100
Collected	48	100	30	100

Source: Researcher's Survey Result from Primary Data Sources

As it can be seen from Table 4.1 and table 4.14 indicate that the survey was conducted April 2017. Questioners were distributed to 48 loan client and 30 employees whose activity directly related to the credit activity from United Bank four branches a one-week return date was requested. Overall, 48 loan clients and 30 employees' responses were received, giving a response rate of 100 percent.

4.2 Responses from Loan Clients

4.2.1 Demographic Characteristics of Respondents

Demographic factors are assumed the most indicators of credit management system in the financial sector. Thus, in this research process the demographic characteristics of respondents like gender, age, marital status and educational level are assessed.

Table 4.2: Gender of loan clients

Gender	Frequency	Percent	Cumulative Percent
Male	38	79.2	79.2
Female	10	20.8	100.0
Total	48	100.0	

Source: Researcher's Survey result from Primary Data, 2017

As it can be clearly seen from table 4.2, majority of the respondents that is, 79.2 percent are male while 20.8 percent are female loan clients. Generally this reveals that the majority of loan clients of the bank were male.

From this it seems that the participation of females was low in borrowing from the bank as compared to males which further indicates their insignificant business participation in the study area which might be the character of most developing nations including Ethiopia.

Table 4.3: Age of loan client

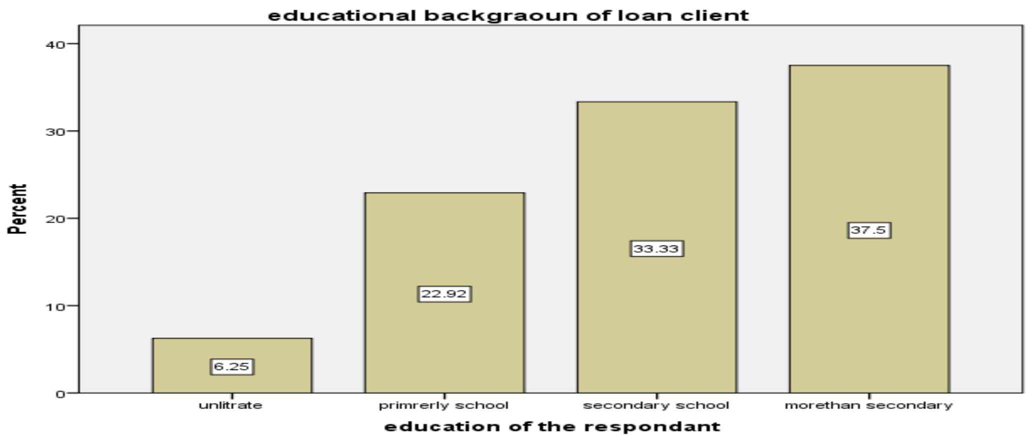
Age Group (Years)	Frequency	Percent	Cumulative Percent
18-25	2	4.2	4.2
26-35	29	60.4	64.6
36-45	15	31.3	95.8
above45	2	4.2	100.0
Total	48	100.0	

Source: Researcher's Survey result from Primary Data, 2017

Age is one of the socio economic variables that determine credit management. As table 4.3 visibly shows, out of the total respondents 4.2% were in the age interval from 18-25 years, 60.4% were in the interval from 26-35 years, 31.3% and 4.2% were in the age interval 36-45 years and above 45 years respectively. This indicates the interval where most of the business people lay 60.4% loan clients at the age interval of 26-35 years.

Bar chart 4.1: Education Background of loan clients

With reference to graph 4.1, 22.9% of loan clients reported that they have completed secondary school, 33.3% completed primary school, and 18.34% were above grade twelve. While 6.67% were illiterate. As educational level increases the skill to manage and understand the business also increases accelerating productivity and this protects loan clients from financial distress.



Source: Researcher's Survey result from Primary Data, 2017

4.2.2 Loan Application and Processing

Loan processing starts from loan application and gathering information from various sources confidentially and interviewing the applicants in order to screen their eligibility. This enables to mitigate risks that can face after the loan is granted. Nevertheless the manner of application denotes the integration of the bank towards potential loan applicants and the effort of the employee in mobilizing and treating loan applicants as loan is the main source of income to banks

Table 4.4: Manner of application of clients

Method of Application	Frequency	Percent	Cumulative Percent
By self initiation	32	66.7	66.7
By effort of former client of the bank	10	20.8	87.5
By Staff effort of the bank	6	12.5	100.0
Total	48	100.0	

Source: Researcher's Survey result from Primary Data, 2017

As it is denoted in table 4.4, 66.7% of the applicants approached the bank by own initiation and 20.8% of the new applicants were approached to the bank by former loan clients of the bank. In additions 12.5% of the new applicants approached the bank through the efforts of the bank's employees.

From the Table 4.5 below, 75% of the respondents disclosed the convenience and simplicity of the application requirement while 25% of them commented to further simplify it by excluding the criteria of marital status while legally the trade license is substituting it for personally owned businesses. However, for mortgagors the criteria regarding marital status is recognized as mandatory.

Table 4.5: Loan Processing and Client Relation

Loan Processing	YES		NO		Total	
	Freq	%	Freq	%	Freq	%
Have you met the bank service as expected	35	72.9	13	27.1	48	100
Employees visit during loan request	41	85.4	7	14.6	48	100
Simplicity of application requirement	36	75.0	12	25.0	48	100
Loan processing time convenience	22	45.8	26	54.2	48	100
Access to relevant information	44	91.7	4	8.3	48	100

Source: Researcher's Survey Result from Primary Data, 2017

As business visiting and assessment is part of the viability assessment for loan processing, 85.4% of the respondents replied positively regarding the importance of visiting of the employee such as branch manager/assistant branch manager, loan officer, and property assessor to their business and property. This confirms that as part of prudent credit management system whenever there is loan request the concerned bank employee uses to visit and supervise and gather some important information that helps for loan processing and decision making minimizing risk. Further, most of the respondents, 91.7% revealed that they get the required information and counseling/answers to their questions in whatever time from any of the branches. This indicates the level of competence of the staff in treating clients and promoting the vision of the bank.

Adequate and reliable information enhances prudent credit management and long lasting loan client – bank relationship and business reputation.

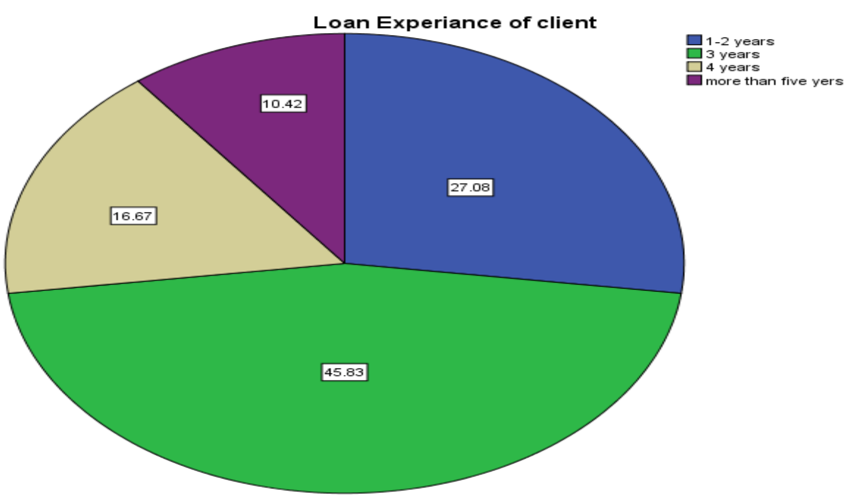
However as it is denoted in table 4.5, 27.1% of the applicants disclosed the deviation of the information from what they had before about the convenience of loan processing procedures and requirements. This is due to their reservation on property estimation, loan approving time, and amount of loan and repayment schedule of the bank while 72.9% stated what they found the bank service as they expected.

4.2.3 Loan Processing and Collection

Loan processing and lending function is the core product of all banks in general as it contributes the major shares of revenue to its profitability. In other words loans and advances are known to be the main stay of all banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share (almost more than 60%) and as such it is known as the backbone of banking sector. The strength and soundness of the banking system primarily depends upon health of the advances.

In Pie Chart 4.2, it is disclosed that 27.1% of the respondents of the bank have between one and two years experience, 43.8% of them have three years, 18.8% have four years, 10.4% have five years, and there is no loan client that have more than five years experience with the bank.

Pie Chart 4.2: Loan experience of client



Source: Researcher's Survey Result from Primary Data, 2017

In addition as the number of years increase, the number of experienced loan clients of the bank decreases disclosing the turnover of clients as they accumulate loan experience that enable to access other competing banks and decreases loan growth of the bank.

This means the bank is entertaining new applicants while the experienced loan clients are shifting to other banks due to the high competition in the sector.

In table 4.6, the loan client relationship with the bank is indicated. From loan clients the relation is rated as very good by the majority (50%), excellent (22.9%), good (20.8%) and fair (6.3%).

Table 4.6: Loan client relation with the bank

Opinion of client relation	Frequency	Percent	Cumulative Percent
Excellent	11	22.9	22.9
Very good	24	50.0	72.9
Good	10	20.8	93.8
Fair	3	6.3	100.0
Total	48	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

This result indicates that as loans and advances is the main product of the banking business, the client relation to the bank has to be improved to the excellent and very good level through improving the current credit issuing procedures.

Most of the respondents as indicated in table 4.7 below discloses that, 47.9% and 25.0% have complaining in the low estimation value of properties provided to the bank as collateral and long time loan processing and small loan approving practices relative to the current business competition and market situation.

Table 4.7: Credit Managing Procedures

Credit Management Procedures	Frequency	Percent	Cumulative
In accepting loan applicants	4	8.3	8.3
In credit Follow-up and collection	6	12.5	20.8
In collateral estimation	23	47.9	68.8
In loan processing and approving amount	12	25.0	93.8
Both in accepting and collateral estimation	3	6.3	100.0
Total	48	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

Moreover, 12.5%, 8.3% and 6.3% of the respondents exposed the need of improvement the prevailing procedures in follow up and collection, accepting loan applicants, and both in accepting application and collateral estimation procedures respectively.

With regard to the problems in collateral estimation and reduction of loans as well as long loan processing time as exposed in table 4.8, 85.41% of the respondents explained their complaining is at head office level, 4.16% at branch level and10.43% at all level. Thus, this reveals that the policy and guidance of collateral value estimation, the time of processing and decision at head office loan analyst and loan approving committee needs improvement in order to be in position to entertain potential loan clients and assure loan clients long lasting relationship.

Table 4.8: Client's complain in loan processing

Complaints in loan processing	Frequency	Percent	Cumulative Percent
At branch level	41	85.41	85.41
At head office level	2	4.16	89.57
At all levels	5	10.43	100.0
Total	48	100.0	

Source: Researcher's Survey Result Primary Data, 2017

4.2.4 Loan Collection and Supervision

In order to ensure the sound execution and operation of businesses, banks should carry out timely follow-up or supervision visits, because they have to ascertain the utilization loans granted is per the purposes for which they were intended to and to ensure timely repayments as planned. The purpose of supervision or follow-up in banks is, to enable loan clients improve their efficiency in business implementation and loan utilization that improves income and loan repayment status.

If there is continuous follow up and supervisions to evaluate the loan utilization and repayment, this makes borrowers to observe their obligation and improve the proper utilization of the loan there by improving repayment performance.

In table 4.9, 87.5% of the respondents reflected that the relevance of supervision and follow up to their business growth as it provides them encouragement while 12.5% reflects that its relevance is not to such emphasized level.

Table 4.9: Credit follow up status

Follow Up Status	YES		NO		Total	
	Freq	%	Freq	%	Freq	%
Sufficiency of loan granted	33	68.8	15	31.2	48	100
Convenience of repayment schedule	38	79.2	10	20.8	48	100
Relevance of business follow up	42	87.5	6	12.5	48	100

Source: Researcher's Survey Result from Primary Data, 2017

As Table 4.9 clearly shows, 20.8% of the respondents said that the repayment schedule of the bank is not convenient to discharge their obligation while 79.2% of them replied positively. Similarly, 31.2 % of the respondents complained that the loan granted is not sufficient for the intended purpose of business while 68.8% reflected positively.

Table 4.10: Factors motivating loan repayment

Motivational Factors for Loan Repayment	Frequency	Percent	Cumulative Percent
Not to lose collateral	20	41.7	41.7
To keep my name	1	2.1	43.8
Expectation of getting another loan	15	31.3	75.0
To be ethical and meet obligation	12	25.0	100.0
Total	48	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

If loans are not repaid as per the contract agreement and when due credit risk is involved, hence the value of the bank's business will be reduced.

In order to continue lending, the bank must be able to collect its outstanding loans on time. Hence, in order to minimize the occurrence of bad loans strict follow up must be carried to the utmost degree and take timely action when necessary.

As it is shown in table 4.10, 25 percent of the respondents revealed that they manage to pay their loan by convincing themselves that loan repayment being as an obligation and ethical while the rest 41.7 percent and 31.3 percent revealed that they repay their loan for the sake of protecting their property held as collateral and also to secure getting another loan from the bank. Table 4.10 shows most of the clients of the bank are not loyal in meeting their obligation and not accepted loan repayment as ethical and moral obligation. This is an indicator of still not same cultural change that has moved a step forward which was a problem to most banks and micro finances in the previous decades.

There are different reasons why customers of banks become unable to pay their periodic repayment. They include market problems, environmental problems, loan diversion, credit policy of the bank, lack of follow-up, and so on.

It is obvious that these factors are not similar from place to place. Thus, to find out the major causes for default in the study area, the researcher raised questions to the clients as well as the employees of the bank. Accordingly, the summaries of responses given are depicted in the subsequent tables 4.11. Some of these problems were from the bank's side while the others were from the clients' side. The remaining factors were from external factors, like environmental and market problems.

Table 4.11: Reasons for default of Loan

Reasons for default	Frequency	Percent	Cumulative Percent
Market problem	16	80	80
Environmental problem	2	10	90
Bank policy problem	1	5	95
Others	1	5	100.0
Total	20	100.0	

Source: Researcher's survey Result from Primary Data, 2017

According to Table 4.11, 80 percent of the respondents who are unable to pay their periodic repayment indicated that the major reasons for default were market problem, 1 percent used the loan for other purposes like consumption (loan diversion), and 5 percent are due to credit policy problem of the bank like repayment time schedule, loan granting period (season), and loan amount provided. The remaining 10 percent responded that environmental problem like shortage of rain was the main problem which affected the success of their business especially agricultural business.

In most commercial banks loan diversion is the most common problem of defaults which banks usually take care of and exert possible efforts to protect from it through proper business viability assessment analysis, supervisions, and loan reviewing made before and after the loan provision.

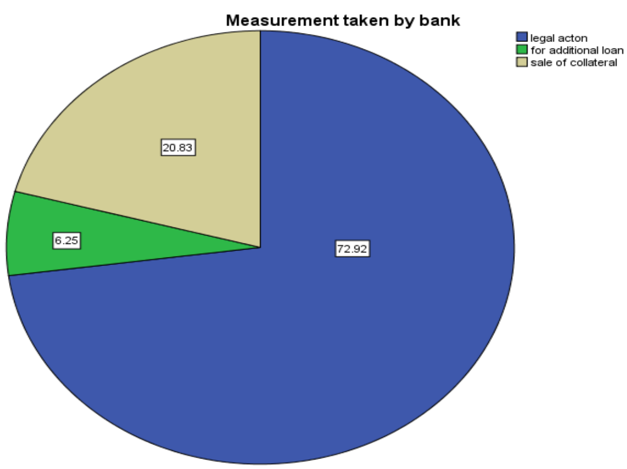
Table 4.12: Mechanisms designed by the loan clients to settle the NPLs

Mechanism to settle NPLS	Frequency	Percent	Valid Percent	Cumulative Percent
Change of business type	26	54.2	54.2	54.2
Sell of property	7	14.6	14.6	68.8
By taking loan from the other financial institutions	5	10.4	10.4	79.2
Borrowing from relatives, friends and money lenders	10	20.9	18.8	100.0

Source: Researcher's Survey result from Primary Data, 2017

As a common practice loan clients exercises various efforts to settle the loan in time of default and bankruptcy to settle their debt using various mechanisms like changing business type, selling property which are marketable, used to borrow from friends, relatives, and money lenders etc. As disclosed in table 4.12, 54.2 percent manages to settle their debt by changing business type, 14.6 percent sells own property, 20.9 percent borrows from relatives, friends, and family the rest 10.4 percent borrows from taking loan from other financial institution.

Pie chart 4.3: Measures taken by the bank to recover the NPLs



Source: Researcher's Survey Result from Primary Data, 2017

When loans failed to non-performing status, the bank uses various mechanisms. Out of the mechanisms rescheduling is advisable if the causes of non-performing is reasonable as well as if the background, experience, and track record of the loan client in his/her previous record was trustworthy. Additional loan is not recommended unless the case is very justifiable.

If there is no promising ground for rescheduling a forcing measure issued such as strict follow up and counseling followed by reminding and warning letters. These are the efforts that help to settle amicably. If these all are exhausted foreclosing and court proceeding are to be taken as a last solution of recovery. In the pie chart indicate, 72.9 percent of the loan clients are served warning for legal action, 6.3 percent are refused from entertaining for additional loan, and the rest 28.8 percent are under foreclosure.

4.3 Responses from the Bank's Employees

4.3.1 Demographic factors of the Employee

The demographic nature of the employee has a great contribution in the credit management of loans and advance in understanding the credit policies and procedures as well as exercising and improving it when demanded

Table 4.13: Gender of the Respondent

Gender	Frequency	Percent	Cumulative Percent
Male	18	60.0	60.0
Female	12	40.0	100.0
Total	30	100.0	

Source: Researcher's survey Result from Primary Data, 2017

The mix of gender of the employee in the loan area is, 60 percent dominated by the male parts and 40 percent is female as it is shown in table 4.13. This is due to the education and experiences required to work in the loan area as loan officers or analysts and this indicates the existence of female fulfilling the requirement in the market is yet insignificant in number relative to male.

Employees with high experience and qualification are needed to work in the loan area as they have to understand the responsibility and accountability for prudent credit management and minimizing credit risks to the required level.

Table 4.14: Age of the Respondent

Age Group (Years)	Frequency	Percent	Cumulative Percent
18-25	6	20.0	20.0
26-35	16	53.0	73.0
36-45	8	27.0	100.0
Total	30	100.0	

Source*: Researcher's Survey result from Primary Data, 2017*

The age of the employee shows as indicated in table 4.14, 20 percent are in the range of age between 18 to 25, 53 percent are in the range of age between 26 to 35, and 27 percent are also between the ranges 36 up to 45. This implies the bank has the human resource that can work energetically and competitively understanding the mission and goals of the bank.

Table 4.15: Marital status of the Respondents

Marital status	Frequency	Percent	Cumulative Percent
Single	12	40.0	40.0
Married	16	53.0	93.0
Divorce	2	7.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

By its nature the financial industry is very sensitive and risk exposed requiring human resources who are responsible, trust full, and accountable for the prudent management of the finance. Hence if the employee working in such risk exposed area is tied up with such social responsibilities it adds value. In the table 4.15, 53 percent of the bank employees are married while 40 percent are yet single and 7 percent are Divorce.

Table 4.16: Educational Qualifications of Respondents

Educational	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma Holder	8	27.0	27.0	27.0
Degree Holder	22	73.0	73.0	100.0
Total	30	100.0	100.0	

Source: Researcher's Survey Result from Primary Data, 2017 Sources

Educational background of employee is an important factor to be considered with regard to making business decision. Education improves the skill, capacity, communication and access to development endeavors.

As it can be reviewed from table 4.16, 73 percent of the respondents are degree holders and 27 percent are diploma holder. This denotes that the majority of the bank's employees working in the loan area are well experienced and trained. This enables the bank to perform more and become competitive in the study area in particular and at national level in general.

Bar chart 4.4: Experience of Respondents

The study found that, 40 percent of the respondents served the organization for over 6 years, staffs who served the organization for less than 6 year represents 60 percent. The details are presented in the bar chart 4.4.

Source: Researcher's Survey Result from Primary Data, 2017

4.3.2 Credit Policy and Procedure

Table 4.17: Credit policy, processing, and collection procedures

Understanding of Credit policy, processing and collection	Yes		No		Total	
	Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**
The bank have credit policy	30	100	0	0	30	100
Is the credit policy up to date	27	90	3	10	30	100
Is the credit policy compliance to NBE	30	100	0	0	30	100
Is loan growth as required	8	27	22	73	30	100
Is lending and overriding limit convenient	18	60	12	40	30	100
Is the collection technique effective	28	93	2	7	30	100

Source: Researcher's Survey Result from Primary Data Sources

Producing and developing credit policy and procedures as well as other pertinent manuals and guidelines help to create common understanding and uniformity among all employees. Lending is the core product line which contributes the biggest share to the profitability of a banking organization. In the table 4.17, 100 percent of the bank employee replied positively for having credit policy and procedure manuals 10 percent of the employees have comment on the existing credit manuals which was revised in July 2015 G.C needs to be up to date as so many amendment was made over it while 90 percent of them are yet recognizing it as up to date.

Moreover, 100 percent of the employees have agreed on the compliance of the credit policy and credit procedures to the regulation and directions of the National bank of Ethiopia (NBE), which is the regulatory body of the financial sector in the nation.

Though loan provision is the main product of the bank as it is the main source of income its growth is not as expected almost in all branches in the study area. This is disclosed in the table 4.17, 73 percent of the employees are not satisfied of the prevailing growth of loans while 27 percent accepted the current status of growth as satisfactory. 60 percent of the bank employee have agreed on the impediment for the loan growth being the branch lending and overriding limit, as well as 40 percent of them have recognized the devotion of the loan service provided with the preference and expectation of the potential loan clients.

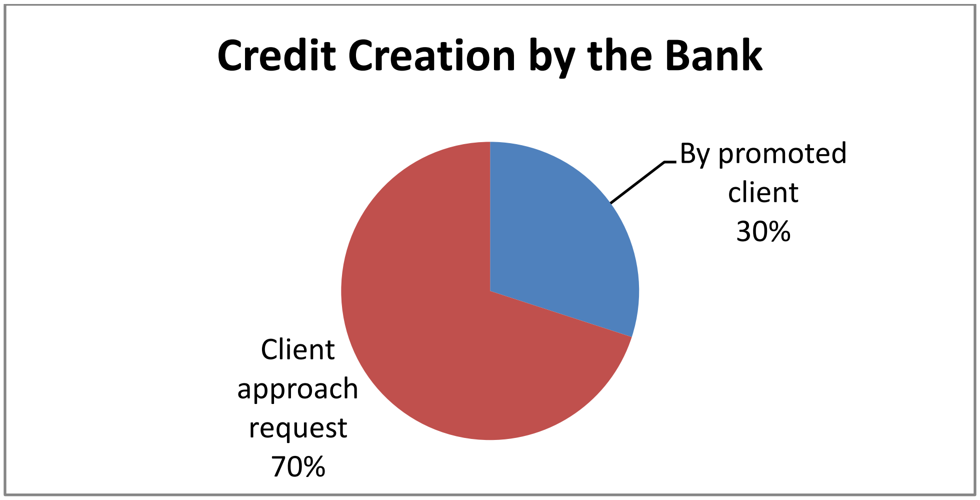
Table 4.18: Collection techniques of the bank

Loan Collection Methods	Frequency	Percent	Cumulative Percent
Cash/ cheque payment	1	3.0	3.0
both cash and personal visit	1	3.0	6.0
All of the above	1	3.0	9.0
Both by cash and debited to account	4	13.0	22.0
Debiting client account	23	78.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

The collection technique so far adopted by the Bank is cash/check payment, debiting own account per the given authorization. As it is shown in table 4.17, 93 percent of the bank employees have agreed on the convenience of the collection technique. Moreover, in table 4.18 also indicate 78 percent adopts debiting the clients account, 3 percent uses cash collection system, and 13 percent uses either cash or debiting account system of collection technique. While 3 percent uses all the listed collection techniques. Hence, the most common collection techniques used by the bank is cash payment and debiting clients account.

Pie chart 4.5: Credit Creation by the bank



Source: Researcher's Survey Result from Primary Data, 2017

As it is shown in the Chat 4.5, 70 percent of the loan is created by new applicants approaching the bank with credit request while 30 percent is created by the employees approaching potential loan clients. These shows the Bank employees should further exert efforts to approach potential loan clients as it is the best way of creating quality loans as well as to win the prevailing so stiff competition

Table 4.19: Credit policy and procedure of the Bank

Opinion	Frequency	Percent	Cumulative Percent
Flexible	17	57.0	57.0
Rigid	8	27.0	84.0
Average	5	16.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

As the above Table 4.19, 16 percent of the respondents said that the credit policy and procedure of the bank is on average in its workability and 27 percent claimed as it is rigid. While, 57 percent of them said that the credit policy of the bank is flexible.

Table 4.20: Credit Offering procedure

Policy of credit offer	Frequency	Percent	Cumulative Percent
Based on creativity	7	23.0	23.0
Conservative	10	33.0	56.0
Moderate	13	44.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data Sources

In table 4.20, 44 percent of the respondent revealed the credit providing procedure of the bank is moderate and 33 percent acknowledged it as conservative. While 23% of the respondents stated the credit delivery is based on creativity. All of them have significant impacts on the performance of the credit management and growth.

4.3.3 Credit Analysis

Loan requests should be carefully analyzed and appraised in accordance with the prevailing credit policy and procedures. Financial statements should be analyzed to determine the financial soundness of the applicants. All type of risks such as ownership, management, business, financial, collateral and legal should be assessed with utmost care

Table 4.21: Opinion about credit analysis and processing

Opinion of CRP	Frequency	Percent	Cumulative Percent
Excellent	5	16.0	16.0
very good	8	27.0	43.0
Good	12	40.0	83.0
Fair	2	7.0	90.0
Poor	3	10.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

In relation to credit analysis, as indicated in table 4.21, 16 percent of the bank employees have rated excellent, 40 percent of the bank employees have rated the credit analysis of the bank good, 27 percent rated very good, 5 percent rated fair while 10 percent rated poor.

Hence, there is a gap needed to improve the quality of credit analysis and loan processing both at head office and branches level to the status of excellent level that enables to create quality loans arresting non-performing loans.

Table 4.22: Loan recommending/approving

Loan recommending/ approving procedure	Freq.	%
By loan committee at all level	65	65
By president and credit department manager	15	15
By branch manager and loan officer	20	20

Source: Researcher's Survey Result from Primary Data, 2017

All loans and advances of the bank is recommended or approved by the loan committee both at branches and at head office as per their discretions level provided. As it is shown in table 4.22, 65 percent of the bank's employees have confirmed by loan committee at all levels, 15 percent of the respondent the problem is credit department and 20 percent says by branch manager and loan officer. The branch loan committee includes branch manager, assistant branch manager, and loan officers while the credit approving management at head office level includes the president, vice-president operation, vice president support service, credit manager, finance manager, domestic banking manager (Credit policy: July, 2015).

4.3.4 Credit Recovery

The credit recovery method, used by the bank is treated in the same fashion as of credit collection methods. The measures that are used include strict follow up and insisting the client, debt rescheduling, court proceeding, and foreclosure. In the bank, credit is transferred to the legal service when it fails to regularize or settle the loans in default and when all efforts to amicably settle the loans fail and it is ascertained that legal action is to be the last alternative.

Table 4.23: Methods used to improve repayment,

Repayment Methods	Frequency	Percent	Cumulative Percent
Loan rescheduling	15	50.0	50.0
By granted additional loan	5	17.0	67.0
Frequently insisting the client	9	30.0	97.0
All	1	3.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

As it is indicated in table, 4.23, 30 percent used to settle the non-performing loan through frequent follow up and insisting the loan client. Moreover, 50 percent of the bank employees have replied the bank reschedules loans when the cause of default occurs justifiable and 17 percent of the respondents claimed that the non- performing loan is settled by giving additional loan to the client.

Table 4.24: Enforcement Measure

Efforts on Loan Default Settle	Frequency	Percent	Cumulative Percent
Legal Processing	9	30.0	30.0
Foreclosure	21	70.0	100.0
Total	30	100.0	

Source: Researcher's Survey Result from Primary Data, 2017

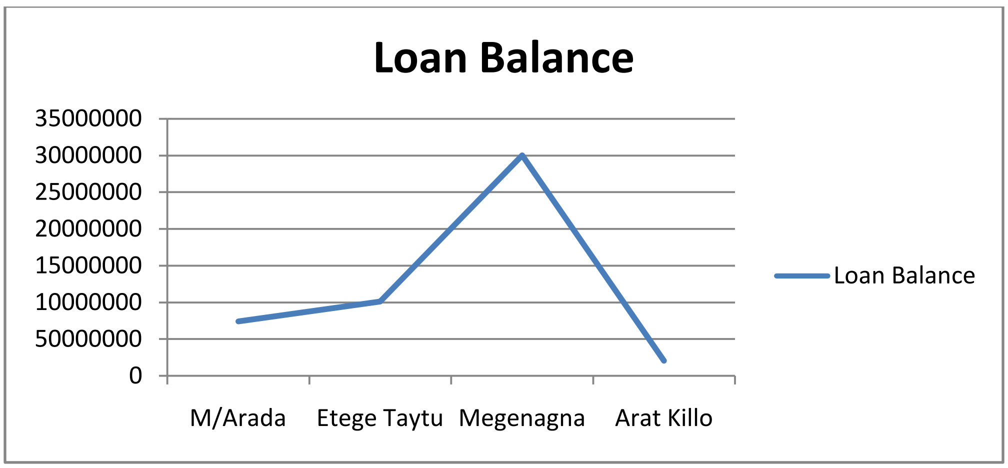
If the efforts made to settle loans in default is exhausted the legal proceeding is taken as enforcing measurement. In the table 4.24 above, 70 percent of the respondents replied that foreclosure is used while 30 percent indicated that court proceeding is used.

4.4 Credit Operations of United Bank Four branches

The credit operation of the bank shows how much the bank are performing in terms of disbursing, loans from period to period and the compliance of the credit management to the requirement of national banks regulation.

In figure 1.2 the loans and advances granted by the four branches was reached only Birr 300 million as of March, 2017 the highest amount is granted by Megenagna branch which was Birr 170 million but as per their establishment the aged one were Mehal Arada branch and the latest branch ahead of the oldest, this shows the loan growth of all branches relative to their years of establishment and the deposit balance is not to the required level.

Figure 1.2 Summary of Loans granted by branches



Source: The Bank's 3rd Quarter Progress Report of branch (March 2017)

As most of the branch managers and loan officers disclosed in the questioners administered the reason behind is not due to lack of potential loan clients or due to competition but due to lack of common understanding for the same mission between the branch loan officers, loan committee and head office loan analysts and credit approving management committee. As most of the respondents from loan clients and bank employees commented, the lack of up to date credit policy and guidelines regarding property estimation, branch loan discretion, loan processing time, and loan repayment duration are the main factors impaired the loan growth.

4.5. Loan performance

Loan performance measures the bank efficiency and effectiveness by recording several years of loan collection, disbursement, and annual performance of the four branches. The review performed by referencing to journal, the result of this review is indicated in the following table.

Table 4.25 Loan performance of Branches

Branch	March 31, 2017		Variation		March 31, 2016	Variation	
	Actual (A)	Budget (B)	Absolute (A-B)	% age	Actual (C)	Absolute (A-C)	% age
Arat Killo	20,430,059	17,497,168	2,932,891	16.76	7,083,361	13,346,698	188.42
Etege Taytu	101,068,598	112,351,933	(11,283,335)	(10.04)	92,560,707	8,507,891	9.19
Megenagna	300,329,595	267,107,127	33,222,468	12.44	266,210,133	34,119,461	12.82
M/Arada	74,081,928	54,797,231	19,284,697	35.19	50,829,305	23,252,622	45.75
	495,910,180	451,753,459	44,156,721	10	416,683,506	79,226,672	19

Source: - Quarter progress report (March 2017)

In reference to the quarter progress report as of March 2017, the actual loan performance was 496 million the plan was to achieve total loan balance of Birr 452 million which was increased by 10% as we can see from the above table the 2017 loan balance increased from last year same period in terms of amount by 79 million but in terms of percentage it decreased from 19% to 10%. This decrement occurred as per the bank policy and procedure 40% of any loan collection made within the current year and the reaming 60% collected for the following two years. Information gathered from the questioners of the loan clients and bank employees have complaints on the short term periodic repayment schedule. Most of the loans delivered are for the purpose of working capital and lays in the range of short term and medium term period that is for one year and to some extent below three years respectively.

This leads to say the amount of loan used to be granted in the study area as well as in general is not meeting the demand of clients and difficult to repay the loan within one year. Moreover, the periodic repayment schedule of the bank is very short and not convenient to discharge their responsibility.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

In this chapter, a conclusion of the research findings that has been discussed and analyzed in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly related with the research objective of this paper are offered. Furthermore, possible recommendations based on the findings are made.

5.1 Conclusions

The following same findings were made the previous chapter in line with the conclusion drawn.

1. The majority of the loan clients were male and the participation of females is low in borrowing from the bank as compared to males and there were more male workers involved in credits management process in the bank than females..
2. The age of most the bank loan client is lay 60.4 percent age interval 26-35 and the side of employee the age of most of the bank officials involved in credits management were between 26 - 35 years with a small percentage aged between 18-25 years
3. The majority of the banks employees working in the loan area have first degree holder experienced and trained and on the loan client side 33.3% completed primary school.
4. The nature of credit management of the bank 100% percent of the employee have agreed on the compliance of credit policy and credit procedure, to the regulation and directions of national bank of Ethiopian (NBE), which is regulatory body of the nation and 44% and

90% of the bank employee credit policy of the bank is moderate and updated up to 2015 respectively.

5. In credit processing 66.7 percent of the loan applicants approached the bank by own initiation, and 75% the respondents disclosed the convenience and simplicity of the application requirement, 85.4 percent loan client at the time of loan processing the bank employee visiting of the employee business, and
6. Minor credit collection strategies adopted by the bank including incentive for prompt payment and consideration of payment in the bank credit policy more repayment were made by debiting the customer account at the time of repayments.

Based on the findings, the following conclusions were drawn

- As qualified and experienced manpower enhances competence, majority of employees of the bank were degree holders and highly experienced, this enables the bank to accelerate its service delivery and become competitive in the growing stiff competitive industry, to meet its vision of "preferred bank."
- The bank is compliant to all directions of the regulating body in all of its activities of credit management. Hence the way of categorizing and holding provisions for the non performing loans is as per the direction and requirement of the national bank of Ethiopia.
- Most of the loans provided were on short term repayment schedule (mostly for the purpose of working capital). This might be due to the limitation of capital base of the bank. However, it is currently causing burden repayment to the borrower and most of loan clients preferred to be improved as most of the time faces difficulty to manage it accordingly. It is one of the causes for loan client termination.
- The credit analysis and procedures which is being followed by the bank is lengthy and reluctant to approve adequate amount per the requisition and intended purpose of the business, requiring improvement so as to speed up and satisfy the delivery of loan to its clients and become acceptable in the eyes of potential customers
- Most potential and experienced loan clients are leaving the bank after accumulating experience and ascertained bankable which is considered as a factor for appraisal by others and this is highly affecting the client reputation. This problem is observed when the loans above the branch discretion are sent to head office for approval. The complaints

are due to underestimation of properties offered as collateral, length of loan processing time, excessive reduction of loans requested and recommended by the branch.

- The collection techniques so far adopted by the bank is appropriate and convenient to most loan clients to manage it. Consistent to the convenience of the collection techniques, the repayment behavior of most loan client is improved to the required level revealing one step forward in the culture of not losing the collateral healed. Moreover, most business people understand the advantage of creating friendship ground with the financial sector as best strategy to their business growth and success.
- The key credit collection strategies adopted in the study area to develop credit collection section in the credit management department and to establish payment guideline.

5.2 Recommendations

On the basis of the results and conclusions of this study,

- The nature credit policy and procedure of the bank should incorporate the ideas of the clients and employees to become more competitive in the banking industry and meet its vision. In other words, it is better for the bank to make its credit policy flexible to meet its potential loan clients and thereby putting a good administrative set up that improves credit lending and administration and the bank improvement of credit policy to the loan committee both at branch and head office level with the discretions limit and the policy must be updated for supporting the credit management of the bank.
- The current loan processing and approving direction of the bank is moderate inclined to be conservative especially regarding collateral and analysis. This is highly retarding the loan growth of the branches in particular and the bank in general. Hence, the bank should follow creative way of loan processing and approving direction that assists to meet the loan demand of potential loan applicants and also system of loan approving and decision based on committee level as well as the lending and overriding limit both in branch and head office is acceptable as direction for prudent credit management and control. But most often it is observed as impediment when loans are forwarded to head office causing long time loan processing and reduction of loans without substance and offends potential applicants. Hence, the amount of lending and overriding limit of each branch should be improved and the head office credit management committee should focus on huge loans

and on loans that are complex in nature. Moreover the head office management of credit committee is (MCC) is high in number and taking excessive time in decision making. So the number should be reduced to executive numbers with three or four members to get the competitive advantage on the banking industry.

- As it is disclosed in the analysis part of the study most of the loan clients and bank employees have complaints on the short term periodic repayment schedule, reminder letter delivery of the bank should be flexible by considering the operation of the clients' business as repayment duration has its impact on the performance of loan collection and minor credit collection strategies adopt like, establishment collection section and establishment of payment guideline. It is recommended that the credit collection section should be provided with the logistics needed to carry out its main task of debt collections.

5.3 Future Research Direction

When conducting this thesis I came across issues that were related to my subject matter which is credit management practice and therefore further studies will be required

- Compliance against low estimation value of the clients collateral which will be provided as collateral by the bank's engineers as their estimation not include the value of land only include value of the building construction material. As we know the value of the land and location value of the collateral is most expensive in our country, the bank's estimation not include those issue and this leads the estimation value low and the loan that the customers get depend on this which will be also low.
- As it is disclosed in the analysis part of the study most of the loan clients and bank employees have complaints on the short term periodic repayment schedule. This has a burden for customer to repay their repayment on time and leads them to NPL loans especially for those customers who took huge amount of loan. This has an impact both for the customer and for the bank also.

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APPENDICES

Appendix 1. Questioners for employee of the bank

ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM

Questionnaires to be filled by Employees of the bank

Dear valued respondent,

This thesis is entitled as "***Assessing the Credit Management Practice in Private Commercial Banks***".

The aim of this thesis is to indicate the importance of efficient credit management in commercial banks in united bank's four branches and as partial fulfillment of the requirements for the Master Degree in general MBA. Participation in this thesis is completely based on your willingness and it is only for academic purpose. The self administered questionnaire results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's thesis report.

For further information, please contact the researcher by the following address.

E-mail: Marosol222@gmail.com

Thank you in advance for your contribution and commitment.

(Response from the Bank Employees)

Instruction:

Please encircle or/and fill in the blank spaces your possible answer to the corresponding question and comment on open questions.

I .Personal Details:

1. Gender:
   a) Male b) Female
2. Age:
   a) 18-25 b) 26-35 c) 36-45 d) Above 45
3. Marital Status:
   a) Single b) Married c) Divorce
4. Educational qualification
   a) 12th Complete b) Diploma holder c) First Degree holder d) Master and above

5. Years of experience?

a) In the bank _______years. b) In the current position_______ years.

II. Details on Credit Policy and Procedure Manual:

6. Do you have a credit manual or policy?

a) Yes b) No

7. If your answer to Q no, 6, is “Yes”, when was the manual or policy revised?

____

8. Do you think it is up to date & convenient for Credit processing?

a) Yes b) No

9. If your answer to Q no, 8, is “No”, specify the impediments encountered

____

10. How can you see your institution’s credit policy and procedure?

a) Rigid b) Flexible c) Average

11. Does the policies and procedures exactly comply with regulations of National Bank?

a) Yes b) No

12. If your answer to Q no, 11, is “No”, please specify the gaps _________________________

13. How frequent does the Credit committee repeats the credit portfolio?

Monthly ☐

Quarterly ☐

Semi annually ☐

Other (please specify) ------------------------------

III. Credit Processing Procedure

14. Do you think your branch’s loan growth is as required?

a) Yes b) No

15. If your answer to Q no, 14 is, “No”, please specify the major reasons

____

____

____

____

16. Most of your current loan is created by

a) Approaching promoted clients b) clients approached with request

17. How do you rate the credit analysis and procedure followed by the bank in Extending credit?

a) Excellent b) Very good c) Good d) Fair e) Poor

18. How do you evaluate your bank's credit providing procedure?

a) Based on creativity b) conservative c) moderate

19. Do you think the branch lending limit and overriding credit limit has any impediment in you branches?

a) Yes b) No

20. If your answer to Q no, 19, is yes, please suggest other most convenient procedure

____

21. What are the main reasons to loan client's dissatisfaction in loan processing?

____

____

____

22. Your banks loan approving/recommending procedure of the credit proposal of clients is based on

a) Loan committee at all levels

b) Branch Manager and president

c) Loan department

d) Board

IV. Credit Collection & Control Mechanism

23. Which of the following credit collection technique/s/ are adopted by your Bank?

a) Cash/check payment b) Debiting client account per undertaking

c) Using Collection Agencies d) Personal visit e) Telephone f) a and b g) a and d

h) All of the above i) Other, (specify) ____

24. Do you think the credit collection technique used by your bank is effective (to collect on time, to be comfortable to customers)?

a) Yes b) No

25. If your answer to Q. 29 is "No", please specify the appropriate technique/s/ that you think is best?

____

____

____

26. How often does your institution visit clients’ business?

a) Monthly b) quarterly c) Semi-annually d) in time of default e) other, (if any specify) ____

27. What are the major reason/s/ for default of credit management in your Branch? (Multiple responses are possible)

a) Lack of follow-up

b) Lack of training

c) Inadequate information about customer creditworthiness

d) Loan diversion

e) Absence of book-keeping

f) Lack of market for clients’ product

g) Unfavorable Environmental conditions

h) Others, (specify) ________________________

28. What measure/s is/are taken on the side of the bank to improve the Repayment situation? (Multiple responses are possible)

a) Loan rescheduling

b) Additional loan

c) Frequently insisting the client

d) Others, (specify) ________________________

31. Do the measures bring an improvement in repayment?

a. Yes b) No

29. If your answer to Q. 34 is “No”, what measures are taken by the bank to enforce repayment (Multiple responses are possible)

a. Foreclosure

b. Court proceeding

c. Others, (Specify) _____________________________

30. Would you please specify any problem/s/ of credit management that your institution faces so far apart from the above raised issues?

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Appendix 2. Questioners for clients of the bank

ለባንኩ ደምበኞች የተዘጋጀ መጠይቅ

ይህ መጠይቅ የተዘጋጀው ብቃት ያለዉ □በ□ር አገልግሎት አሰራር በግል ንግድ ባንኮች ላይ ጥናት ለማድርግ ሲሆን የጥናቱን ውጤት መሰረት በማድረግ መፍትሄ ለመጠቆም እና ዋና አላማውም በቅድስት ማርያም ዩኒቨርስቲ **የቢዝነስ አስተዳደር** የድህረ ምረቃ ዲግሪ ማሟያ ጥናታዊ ጽሁፍ ለማቅረብ ነው፡፡ ምንም አይነት የሚሰጡት መረጃ በጥንቃቄና በሚስጥር የሚያዝ ሲሆን ለመማሪያ አገልግሎት ብቻ የሚውል መሆኑን እየገለጽኩ በመጠይቁ ያሉትን ጥያቄዎች በሙሉ መሙላት ወሳኝነት ስላለው ሁሉንም ጥያቄዎች እንዲሞሉ በትህትና እጠይቃለሁ፡፡ ስምወትን መፃፍ አያስፈልግም፡፡

በቅድሚያ መጠይቁን ለመሙላት ስለተባበሩ አመስግናለሁ፡

ለበለጠ መረጃ በሚከተለዉ አድራሻ ማግኘት ይችላሉ

ኢ-ሜይል marosol222@gmail.com

ሀ. ፅላዊ መረ□

□እርስዎ ምርጫ ከሆነው ፊት ለፊት ባለው አማራጭ በማክበብ ምልክት ያስቀምጡ

1. □ታ
   ሀ. ወንድ ለ. ሴት
2. እ□ሜ
   ሀ. 18-25 ለ. 26-35 ሐ. 36-45 መ. ከ45 በላይ
3. የጋብቻ ሁኔታ
   ሀ. ያላገባ/ች/ ለ. ያገባ/ች/ ሐ. □□ታ/ች/
4. የትምህርት ደረጃ
   ሀ. ያልተማረ/ች/ ለ. አንደኛ □ረ□ ሐ. ሁለተኛ ደረጃ መ. ከዚያ በላይ

ለ.የብድር አጠያየቅ ሂደት

5. በመጀመሪያ ወደ ባንኩ የብድር ጥያቄ እንዲያቀርቡ ያደረገዎት ማነው?
   ሀ. በራሴ ተነሳሽነት ለ. በባንኩ የብድር ደንበኞች ሐ. በባንኩ ሰራተኞች
6. የብድር አሰጣጥ አገልግሎቱ እርስ- እንደጠበቁት አግኝተው□ል?
   ሀ. አዎ ለ. አይደለም
7. □ተራ ቁ□ር "6" መልስዎ አይደለም ከሆነ ምክንያትዎን ቢገልፁልን?

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8. የባንኩ የብድር ሀላፊዎች የብድሩን ጥያቄ ባቀረቡበት ወቅት የእርስዎን የስራ ቦታ እና ሁኔታ □□በኛሉ?

   ሀ. አዎ   ለ. አይደለም

9. የብድር ማመልከቻውና የብድር አሰጣጥ ሂደቱ ምቹ እና ቀላል ነው ይላሉ?

   ሀ. አዎ   ለ. አይደለም

10. □ተራ ቁ□ር "9" መልስዎ አይደለም ከሆነ ለእርስዎ የማያስፈልጉ ነገሮች የሚሏቸውን ቢ□ረ□ሩ?

የብድር አሰጣጥ ሂደት የሚፈጅበት ግዜ አጭርና ምቹ ነው ይላሉ?

   ሀ. አዎ   ለ. አይደለም

11. □ተራ ቁ□ር "11" መልስዎ አይደለም ከሆነ ችግሩ የት ላይ ነው ብለው ያስባሉ?

   ሀ. በቅርንጫፍ ደረጃ   ለ. በዋና መስሪያ ቤት ደረጃ

12. ብድር ለመውሰድ ሲመጡ ከባንኩ በቂ የሆነ ግንዛቤ ስለጥያቄዎ አግኝተዋል?

   ሀ. አዎ   ለ. አይደለም

13. □ተራ ቁ□ር "13" መልስዎ አይደል ከሆነ እርስዎን ያጋጠመዎትን ችግር ቢገልፁልን?

ሐ. የብድር አሰጣጥ እና አሰባሰብ ሂደት

14. በቅርንጫፉ ባንኩ ደንበኛ ከሆኑ ምን ያህል ግዜ ሆኖዎታል?

   ሀ. 1-2 ዓመት   ለ. 3 ዓመት   ሐ. 4 ዓመት   መ. ከ4 ዓመት በላይ

15. ከባንኩ ጋር ያለዎትን ደንበኝነት በእርስ- ሀሳብ እንዴት ይገምቱታል?

   ሀ. እ□ፅ በ□ም □ሩ   ለ. በ□ም □ሩ   ሐ.□ሩ   መ. ደህና   ሠ. ጥሩ ያልሆነ

16. □ተራ ቁ□ር "16" መልስዎ ደህና ወይም አጉል ከሆነ ምክንያትዎን ቢገልፁልን።

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17. በእርስዎ ሀሳብ ባንኩ ማሻሻል አለበት ብለው የሚያስቡት የትኛው ላይ ነው? (ከአንድ በላይ መምረጥ ይችላሉ)

   ሀ. የብድር ማመልከቻ አቀባበል

   ለ. የብድር ክትትል እና አሰባሰብ

   ሐ. የመያዣ ግምት

   መ. □ብ□ር ማ□□ቅ እና አሰጣጥ ሂደት ላይ

ሠ. በ “ለ” እና በ “መ” ላ□

18. በተራ ቁ□ር “18” ላይ ለሰጡት ማንኛውም መልስ ምክንያትዎን ቢገልፁልን

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19. ባንኩ የብድር ደንበኞቹን መልካም ግንኙነት ለረጅም ግዜ ለማቆየት ምን አይነት መፍትሄ ማምጣት አለበት ይላሉ?

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20. በእርስዎ አስተሳሰብ የባንኩ የብድር አገልግሎት መኖር በእርስ- □ስራ እድገት ላይ ያመጣዉ ለዉጥ አለ?

ሀ. አዎ ለ. አይደለም

21. □ተራ ቁ□ር “21” መልስዎ አይደለም ከሆነ እባክዎትን ምክንያትዎን ቢገልፁት?

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22. ባንኩ የፈቀደልዎት ብድር እርስዎ ከሚፈልጉት ጋር ሲነፃፀር በቂ ነው ብለው ያስባሉ?

ሀ. አዎ ለ. አይደለም

23. □ተራ ቁ□ር “23” መልስዎ አይደለም ከሆነ ምክንያትዎን ቢገልፁት

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24. □ብ□ር መ□□□ ፅ□□ ለእርስዎ ምቹ ነው ይላሉ?

ሀ. አዎ ለ. አይደለም

25. □ተራ ቁ□ር “25” መልስዎ አይደለም ከሆነ በእርስዎ አስተሳሰብ ምቹ የክፍያ ግዜያትን ቢግፁልን::

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26. ከሚከተሉት መካከል ክፍያ በአግባብ ሊከፍሉ እንዲችሉ በተበዳሪዉ ላይ ተነሳሽነት የሚፈጥሩት የትኞቹ ናቸው

ሀ. መ□□ ስለሚሸ□

ለ. በማህበረሰቡ ያለኝን ስም ለመጠበቅ

ሐ. ሌላ ተ□ ማሪ ብ□ር ለማፅኘት

መ. በ□ለታ መ□□ል ፅ□ታ□ እንደሆነ ስለማውቅ

ሠ. ሌሎች (በዝርዝር)

27. ከባንኩ የተበደሩትን ብድር የክፍያ ግዜ ጠብቆ ላለመመለስ መሰረታዊ ችግሮች የትኞቹ ናቸው ብለ□ □ስባሉ?

ሀ. የገበያ ሁኔታ

ለ. አካባቢያዊ ሁኔታ

ሐ. ድንገታዊ ነገሮች ለምሳሌ /ሞት፣ ህመም/

መ. የባንኩ የብድር ፖሊሲ /መመሪያ/ ችግር

ሠ. □ሩ የሆነ የብድር ማኔጅመንት አለመኖሩ

ረ. ሌሎች

29. እርስዎ ላልከፈሉት ብድር ክፍያ በምን አይነት የአከፋፈል ሁኔታ /የገንዘብ ምንጭ/ ነው የሚከፍሉት

ሀ. □ስራ □ር□ በመቀ□ር

ለ. ንብረት በመሸጥ

ሐ. ከሌላ የገንዘብ ተቋም በመበደር

መ. ከጓደኞችና ቤተሰብ በመበደር

ሠ. ሌላ አማራጭ ---

30. እርስዎ ክፍያ በማዘግየትዎ ባንኩ የሚወስድበዎት እርም□ ካለ

ሀ. ለህፅ □□ል ማሳ□ቅ

ለ. ተጨማሪ ብድር ማመቻቸት

ሐ. መያዣን መውሰድ

መ. ሌሎች---

31. በእርስዎ በኩል አጠቃላይ በባንኩ የብድር አመራር ዙሪያ ላይ ያለዎትን አስተያየት ቢገልፁልን
