ST. MARY'S UNIVERSITY

BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

AN ASSESSMENT OF LOAN RECOVERY PERFORMACE IN CONSTRUCTION AND BUSINESS BANK

PREPARED BY:

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JUNE, 2014
ADDIS ABABA

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A SENIOR ESSAY SUMBITTED
TO THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Banks role in the economy of any country is very significant. They play intermediation function in that they collect money from those who have excess and lend it to others who need it for their investment. Availing credit to borrowers is one means by which banks contribute to the growth of economies.

Credit has been recognized as one of the important financial services that contribute to the success of a business venture and this success in turn contributes to the major economic development of the country. However, the existence of credit facility alone does not necessarily result in supporting economic development unless otherwise, it is accompanied by the existence of factors conduct to the efficient utilization of credit funds, for example, a loan has to be repaid on time if the objective of making loan able funds available to those who want them for productive proposes on continuous base is to be met (Oyatoya, 1983:72).

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

Ability to recycle funds constitutes the corner stone of banking sector, if loans are not repaid over the schedule time. Chronic over dues become irrecoverable in course of time. The net worth of lending institution will be eroded and will have serious impact on the volume of lending. The high incidence of over dues affects the overall liquidity and solvency of credit institution and impairs their capacity to undertake fresh lending (Kumaricgita, 1988:58).

Construction and Business Bank (CBB) evolved from the merger of two financial institutions, the Savings and Mortgage Corporation of Ethiopia S.C and the Imperial Savings and Home Ownerships Public Association (ISHOPA), which were

nationalized and formed Housing and Savings Bank at the onset of the Socialist Era of Ethiopia.

The Savings and Mortgage Corporation of Ethiopia S.C. was established in July 1965 with a capital of Br. 3,000,000. Shareholders were the Commercial Bank of Ethiopia, Ethiopian Airlines, Cement Corporation, Ethiopian Electric Light and Power Authority and Agricultural and Industrial Development Bank (CBB, Annual Report 2011:2).

Therefore, the aim of the study is to assess the loan recovery performance of the Construction and Business Bank (CBB) which contribute to the profitability as well as financial sustainability of any lending institutions, strength of which is believed to foster economic development.

1.2 Statement of the Problem

Lending represents the heart of the banking industry. Loans are the dominant asset and represent 50-75 percent of the total amount at most banks, generate the largest share of operating income and represent the banks greater risk exposure (MacDonald and Koch, 2006:120). Moreover, its contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of fund for their viable projects (creditors) thereby ensure that the money available in economy is always put to good use.

Therefore, managing loan in a proper way not only has positive effect on the banks performance but also on the borrower firms and a country as a whole. Failure to manage loans, which make up the largest share of banks assets, would likely lead to the episode of high level of non -performing loans.

Under the Ethiopian banking business directive, non-performing loans are defined as "Loans or Advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in question" National Bank of Ethiopia (NBE, 2008:13).

Despite the fact that loan is major source of banks income and constitutes their major assets, it is risky area of the industry. That is also why credit risk management is one of the most critical risk management activities carried out by firms in the financial services industry. In fact of all the risks banks face, credit risk is considered as the

most difficult as bad debts would impair banks profit. It has to be noted that credit risk arises from uncertainty in a given counterparty's ability to meet its obligations.

In Ethiopian context, according to NBE (2008:24) the Banks in the country are required to maintain ratio of their non performing loans below 5%. Data from the Construction and Business Bank (CBB) shows that the ratio of nonperforming loans stood at 7.2 % on June, 2011 (Annual Report of CBB, 2011) which is relativity very high when compared with the set threshold by NBE. The deviant observation at CBB caught the attention of the researcher of what seems like the practice of loan recovery and its challenges for a thorough examination.

Putting all these in to consideration, this study assessed the loan recovery performance and investigates the major factors affecting loan recovery performance of the Construction and Business Bank.

1.3 Research Questions

In order to achieve the purpose of the study, the following basic research questions will be addressed:

1. What does the bank loan recovery performance looks like?

2. What are the main causes of borrower's failure to pay back loan on maturity date?

3. What are the strategies used by the bank to speed up collection or loan recovery?

4. What are the challenges related to loan recovery practice in CBB?

1.4 Research Objectives

1.4.1   The General Objective

The general objective of this study is assessing the overall aspects of loan recovery performance of Construction and Business Bank (CBB).

1.4.2   Specific Objectives

The specific objectives of this study are the following:

➢ To review the overall loan recovery performance and assess what it looks like in CBB.

- To identify the main causes that borrower fails to pay back loan on maturity date.

- To examine the strategies used by the bank to speed up collection or loan recovery.

- To identify the challenges that constrained the loan recovery practice of CBB.

1.5 Significance of the Study

The findings and recommendations of this study may have various importances. Firstly it helped us to see the practical implementation of what we have learned theoretically. Consequently this helped us to develop our knowledge and have a good exposure of conduct in research. On the other hand, the study will also give an insight to other researchers that want to make further investigation in the area and to conduct detailed research on the problem.

1.6 Scope of the Study

This study was delimited to operational period, numbers of branches (geographically), respondents and data type variables in perception of manageability and time and budget.

In order to complete the study manageably, the study considered the data about the previous three operational period of 2010 – 2012. In addition, due to time and budget constraint the study was a confined to only having the head-office of CBB.

Due to the confidential policy of banks, access to customer and banks information, except officially disclosed financial information, is difficult and complex to have. So, the study is also limited to bank employees' and officials' personal perception and officially disclosed financial data of banks.

1.7 Limitation of the Study

Some of the possible limitations the researcher faced includes: Lack of cooperation and interest on the side of some employees, shortage of well organized data and finance and time constraint. However, the researcher takes these limitations into account and designs proactive measures that used to neutralize the effects of problems on the findings of the study.

1.8 Research Design and Methodology

1.8.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions (Obalema, 2007:79). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study would be relevant to the problem and that it uses economical procedures.

The aim of this study is to assess the loan recovery performance and investigates the major factors affecting loan recovery performance in CBB. In order to address this objective, the researcher, therefore, used descriptive research design. Because as stated by Shajahan (2004:148) descriptive research design describes the situation or the phenomena as it is, not arguable and it give an answer for why, when, what and who questions. So, it is the suitable design in order to get the relevant and reliable information necessary for successfully completing this study.

1.8.2   Population Design and Sampling Technique

The target population of the study was officers at different level of credit process (Customer Relation Managers, Credit Analysis & Portfolio Management officers and Customer Relation Officers). There are 113 target population/employees working in the above three units organized under the structure of CBB head office.

 In order to collect multi-variant and relevant data about the loan recovery practice and its challenges in the case of CBB, stratified random sampling method was employed. The reason here is that not all employees/respondents are engaged in the same area of operation rather the targets are working in different units. Three strata were formed and these included Customer Relation Managers, Credit Analysis & Portfolio Management officers and Customer Relation Officers units. Hence, the researcher took a sample of 34 respondents/employees working in the above three units under the structure of the bank which is shown on the following table.

Units	Total Population	Sample Selected
Customer Relation Manager	43	43 x 30% = 13
Credit Analysis and Portfolio Management	27	27 x 30% = 8
Customer Relation Officer	43	43 x 30% = 13
Total	**113**	**113 x 30% = 34**

Moreover, 3 employees/officers of the Loan Recovery and Rehabilitation Process working in the head office which was selected purposively as participant for interview. The justification for using purposive sampling is to obtain in depth and diverse information from employees who have high involvement in loan recovery practice.

1.8.3 Types of Data to be Collected

The student researcher, to successfully accomplish the research work, used both primary and secondary data. Primary data were collected from employees and managers working in different units of CBB such as Credit Analysis and Portfolio Management, Customer Relation Manager, Customer Relation Officer, Loan Recovery and Rehabilitation team. Whereas, secondary data were gathered from different published and unpublished documents such as proclamations, by-laws (rules and regulations formulated by unions), magazines, reports, newspapers and web sites.

1.8.4 Data Collection Instruments

This research seeks to investigate the loan recovery performance and challenges faced by CBB. The researcher used open and close ended questionnaire and open-ended structure interview to collect primary data useful for addressing the objective of the study.

In order to gather data, the student researcher used questionnaire as best instrument of gathering primary data from selected employees at different level of credit process in CBB. The questionnaire was distributed to the selected 34 participants.

In addition, structured open-ended interviews were conducted with senior officials of Loan Recovery Process to obtain data resulted from in-depth exploration of officials'

experiences of loan recovery practice and challenges they face. In this type of interview, a series of highly structured and standardized open-ended questions were conducted to all interviewees, resulting in ensuring comparability of responses. A structured open-ended interview was conducted with three employees/ officers of the Loan Recovery and Rehabilitation Process to gather relevant information on the practice of loan recovery and its challenges. Data gathered from primary sources were further substantiated by a critical review of secondary data like credit policy, annual reports specifically related to Non-performing loans (NPL) and other published and unpublished materials.

Secondary data were collected through critical review and analysis of documents such as proclamations, by-laws (rules and regulations formulated by unions), magazines, reports, newspapers and webs. In addition, the credit policy & annual reports of the bank and other relevant documents like journals were reviewed as secondary data sources.

1.8.5   Data Analysis Methods

Following the collection of both qualitative and quantitative data, analysis and interpretation tasks were performed. The collected data were edited, coded, grouped and transcribed in a manner suite to analysis and interpretation. Data gathered were analyzed by using statistical tools like graphs, tables and percentage, with the help of narrative statements.

1.9   Organization of the Study

The layout of this study was organized into four chapters. The first chapter deals about the introduction of the study which consists of background of the study, statement of the problem, research questioners, research objective, significance of the study, scope of the study, limitation of the study, research design & methodology and organization of the study. The second chapter deals with review of related literature which comprise of theoretical framework, critical review of related empirical studies and conceptual framework. The third chapter contains presentation, analysis and interpretation of data. Finally, the fourth chapter includes summarys, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1.   The Concept of Credit

The term credit is used to specifically to refer to the faith placed by creditor (lender) in debtor (borrower) by extending a loan usually in the form of money, goods or securities to debtor. Essentially, when a loan is made, the lender is said to have extended credit to the borrower and he automatically accepts the credit of the borrower.

Credit can therefore be defined as transaction between two parties in which the creditor or lender supplies money, goods and service or securities in return for promised future payment by the debtor or borrower

According to Onyeagocha (2001:102) there are three types of credit: commercial credit, consumer credit and investment credit.

1. **Commercial credit** can be bank credit such as overdraft loan and advance trade credit from suppliers commercial papers invoice discounting bill finance hire purchase factoring etc

2. **Consumer credit** is kind of permission granted an individual or household to purchase goods like refrigerator, television, cars etc, which could not be paid for immediately, but for which installment payment are made over a period of time.

3. **Investment credit** allows a business concern such as corporate body, sole proprietorship or partnership to obtain credit for capital goods for expansion of factory or procurement of machinery.

As described by Onyeagocha (2001:109) the functions of credits are the following.

1. Facilitating the transfer of capital or money to where it will most effectively and efficiently use.

2. Credit economizes the use of currency or coin money as granting of credit has a multiplier effect of the volume currency or coin in circulation.

2.2 Evaluation of Credit

According to Mather (1962:62) evaluation of credit was described in the following three basic principles.

(1) Safety: in the first instance, safety of any advance or loans is utmost important. Banks must emphasize among other things, the characters (honesty, integrity and reliability) of borrowers. The probability that amount granted would be repaid from the cash flows generated from the operation of the company must as matter of requirement be high.

The borrower must be able to provide acceptable security, which will serve as something to fall back on if the expected source of repayment fails.

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

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

However, the enumerated principles of lending identified by Mather discovered to be inadequate. There are some other factors which must be considered when granting loans and advances. The factors are usually described as 'the canons of lending' and according to Adekanye (1983:129) are presented in question forms as follows:

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

- What is your assessment of the customer?

According to Adekanye (1983:93) emphasized that the Manager must obtain satisfactory answers to those questions before agreeing to a loan request. This proposition also has its flaws as comprehensive credit ratings and credit management and recovery procedures which are the essential requirements of modern lending were not emphasized.

According to Mather (1962:32) every bank has to develop and implement comprehensive procedures and information systems to follow up the condition of individual credits. An effective loan monitoring system will include measures to monitor compliance with established covenants, Assess, where applicable, collateral coverage, relative to creditor's current condition, identify contractual payment delinquencies and classify potential credits on a timely basis, and, Direct actions at solving problems promptly for remedial management.

Therefore the study focus on loan recovery performance it helps to invest get the major factor that affecting loan recovery performance of the bank which indicate factors such as, lack of obtain potential creditor that is like character of the borrower capacity of the borrower, estimating and checking appropriate value of collateral (safety) the purpose of the loan (from legal aspect of the country), the cash flow of the business (profitable) and follow-up of their periodic payment.

2.3 Policy Guidelines

The fundamental credit risk management policies that are recommended for adoption by all Banks in Bangladesh. As stated by Obalema (2007:213) the guidelines contained here after outline general principles that are designed to govern the implementation of more detailed lending procedures and risk grading systems within individual banks.

Lending Guidelines: All banks should have established Credit Policies (Lending Guidelines) that clearly outline the senior management's view of business development priorities and the terms and conditions that should be adhered to in order for loans to be approved. The Lending Guidelines should be updated at least annually to reflect changes in the economic outlook and the evolution of the bank's loan portfolio, and be distributed to all lending/marketing officers.

The Lending Guidelines should be approved by the Managing Director/CEO & Board of Directors of the bank based on the endorsement of the bank's Head of Credit Risk Management and the Head of Corporate/Commercial Banking.

Any departure or deviation from the Lending Guidelines should be explicitly in credit applications and a justification for approval provided. Approval of loans that do not comply with Lending Guidelines should be restricted to the bank's Head of Credit or Managing Director/CEO & Board of Directors.

The Lending Guidelines as stated by Obalema (2007:214) should provide the key foundations for account officers/relationship managers (RM) to formulate their recommendations for approval, and should include the following:

A. Industry and Business Segment Focus

The Lending Guidelines should clearly identify the business/industry sectors that should constitute the majority of the bank's loan portfolio. For each sector, a clear indication of the bank's appetite for growth should be indicated (as an example, Textiles: Grow, Cement: Maintain, Construction: Shrink). This will provide necessary direction to the bank's marketing staff.

B. Types of Loan Facilities

The type of loans that are permitted should be clearly indicated, such as Working Capital, Trade Finance, Term Loan, etc.

C. Single Borrower/Group Limits/Syndication

Details of the bank's Single Borrower/Group limits should be included as per Bangladesh Bank guidelines. Banks may wish to establish more conservative criteria in this regard.

D. Lending Caps

Banks should establish a specific industry sector exposure cap to avoid over concentration in any one industry sector.

E. Discouraged Business Types

Banks should outline industries or lending activities that are discouraged. As a minimum, the following should be discouraged:

- Military Equipment/Weapons Finance

- Highly Leveraged Transactions

- Finance of Speculative Investments

- Logging, Mineral Extraction/Mining, or other activity that is Ethically or Environmentally Sensitive

- Lending to companies listed on CIB black list or known defaulters

- Counterparties in countries subject to UN sanctions

- Share Lending

- Taking an Equity Stake in Borrowers

- Lending to Holding Companies

- Bridge Loans relying on equity/debt issuance as a source of repayment.

F. Loan Facility Parameters

Facility parameters (e.g., maximum size, maximum tenor, and covenant and security requirements) should be clearly stated. As a minimum, the following parameters should be adopted:

- Banks should not grant facilities where the bank's security position is inferior to that of any other financial institution.

- Assets pledged as security should be properly insured.

- Valuations of property taken as security should be performed prior to loans being granted. A recognized 3rd party professional valuation firm should be appointed to conduct valuations.

G. Cross Border Risk

Risk associated with cross border lending. Borrowers of a particular country may be unable or unwilling to fulfill principle and/or interest obligations. Distinguished from ordinary credit risk because the difficulty arises from a political event, such as suspension of external payments

- Synonymous with political & sovereign risk

- Third world debt crisis

2.4. Credit Risk Management for Ethiopian Banks

According to Zemen Bank (2012:7) this was disclosed at a one-day seminar on Credit and Risk Management organized by Zemen Bank in collaboration with Eventide and Harland Financial Solutions. The Bank is taking the lead in the country in implementing the Basel II Framework. The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face.

Basel II requires banks to collect more data about customers and consistently use best practices for credit risk management. Participants at the seminar were credit officials from both private and government banks and from the Ministry of Capacity Building.

The purpose of organizing the seminar was to create awareness among other banks so that they too would benefit by using the software.

At the seminar, Harland Financial Solutions Worldwide and Kenya Commercial Bank presented a Credit Risk Symposium for Ethiopian banks. Harland Financial Solutions Worldwide is a global software company with over 7,000 financial institution customers and delivers Credit Quest solutions for credit risk management for banks worldwide.

The full day symposium also covered the Evolution of Credit Risk and Lending Systems, Regulatory Requirements for Lending and Credit Risk Systems (Basel II), a demonstration of the Credit Quest product and a Case Study of KCB's implementation of Credit Quest.

2.5 Credit Risk Models

According to Obalemo (2007:149) over the last decade, a number of the world's largest banks have developed sophisticated systems in an attempt to model the credit risk arising from important aspects of their business lines. Such models are intended to aid banks in quantifying, aggregating and managing risk across geographical and product lines. The outputs of these models also play increasingly important roles in banks' risk management and performance measurement processes, including performance-based compensation, customer profitability analysis, risk-based pricing and, to a lesser (but growing) degree, active portfolio management and capital

structure decisions. The task force recognizes that credit risk modeling may indeed prove to result in better internal risk management, and may have the potential to be used in the supervisory oversight of banking organizations.

However, before a portfolio modeling approach could be used in the formal process of setting regulatory capital requirements for credit risk, regulators would have to be confident not only that models are being used to actively manage risk, but also that they are conceptually sound, empirically validated, and produce capital requirements that are comparable across institutions. At this time, significant hurdles, principally concerning data availability and model validation, still need to be cleared before these objectives can be met, and the committee sees difficulties in overcoming these hurdles in the timescale envisaged for amending the capital accord. Credit scoring models use data on observed borrower characteristics either to calculate the probability of default or to borrowers into different default risk classes.

Prominent amongst the credit scoring models is the Altman's Z-Score. The Z-score formula for predicting bankruptcy of Dr. Edward Altman is a multivariate formula for measurement of the financial health of a company and a powerful diagnostic tool that forecast the probability of a company entering bankruptcy within a two year period with a proven accuracy of 75-80%.

The Altman's credit scoring model takes the following form;

$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$

Where, X1 = Working capital/ Total assets ratio

X2 = Retained earnings/ Total assets ratio

X3 = Earnings before interest and taxes/ Total assets ratio

X4 = Market value of equity/ Book value of long-term debt ratio

X5 = Sales/ Total assets ratio.

The higher the value of Z, the lower the borrower's default risk classification. According to

Alman's credit scoring model, any firm with a Z-Score less than 1.81 should be considered a high default risk, between 1.81-2.99 an indeterminate default risk, and greater than 2.99 a low default risk.

2.6 Banks Performance and Its Determinants

The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (MacDonand and Koch, 2006:206). Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management, financial markets and bank supervisors since the knowledge of the internal and external determinants of banks profits and margins is essential for various parties.

During the last two decades the banking sector has experienced worldwide major transformations in its operating environment. Both external and domestic factors have affected its structure and performance. Correspondingly, in the literature, bank profitability is usually expressed as a function of internal and external determinants. The internal determinants refers to the factors originate from bank accounts (balance sheets and/or profit and loss accounts) and therefore could be termed micro or bank specific determinants of profitability. The external determinants are variables that are not related to bank management but reflect the economic and legal environment that affects the operation and performance of financial institutions. A number of explanatory variables have been proposed for both categories, according to the nature and purpose of each study.

2.6.1 Internal Determinants

According to Adekanye (1983:136) many studies which are dealing with internal determinants employ variables such as size, capital, risk management and expenses management. Size is introduced to account for existing economies or diseconomies of scale in the market.

Oyatoya (1983:79) suggest that the extent to which various financial, legal and other factors (e.g. corruption) affect bank profitability is closely linked to firm size. In addition, as size is closely related to the capital adequacy of a bank since relatively large banks tend to raise less expensive capital and, hence, appear more profitable. Especially in the case of small up to medium-sized banks profitability rises. However, many other researchers suggest that little cost saving can be achieved by increasing the size of a banking firm (Onyeeagocha, 2001:218) which suggests that eventually very large banks could face scale inefficiencies. Other internal factors, such as credit

or liquidity are considered as bank specific factors, which closely related to bank management, especially the risk management. The need for risk management in the banking sector is inherent in the nature of the banking business.

Poor asset quality and low levels of liquidity are the two major causes of bank failures and represented as the key risk sources in terms of credit and liquidity risk and attracted great attention from researchers to examine the their impact on bank profitability.

2.6.2 External Determinants

Turning to the external determinants, several factors have been suggested as impacting on profitability and these factors can further distinguish between control variables that describe the macroeconomic environment, such as inflation, interest rates and cyclical output, and variables that represent market characteristics. The latter refer to market concentration, industry size and ownership status (Obalemo, 2007:112).

2.7 Empirical results

As stated by Kumaricgita (1988:190) a number of explanatory variables have been proposed for both categories, according to the nature and purpose of each study. Studies dealing with internal determinants employ variables such as size, capital, credit risk or costs etc while for external determinants, several factors have been suggested as impacting on profitability and these factors can further distinguish between control variables that describe the macroeconomic environment, such as inflation, interest rates and cyclical output, and variables that represent market characteristics. The latter refer to market concentration, industry size and ownership status.

The empirical findings on the impact of bank profitability in our sample suggest the following conclusions. First, negative and positive effect of liquidity on bank profitability has been found, with weak significant coefficient. This is in consistent with previous studies as the results concerning liquidity are mixed. Therefore, the conclusion about the impact of bank's liquidity on their performance remains ambiguous and further research is required. Second, the ratio of loan loss reserves to net interest revenue has a negative impact on Return on Asset with statistical significance. This implies that higher credit risks results in lower profit.

As the findings shows that liquidity and credit risks do have negative impact on bank profitability, and it provides further implication on the effective risk management practices in banks. As stated by Mather (1962:204) shows that there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests.

Regulation, peroxide by the amount of Reserve Fund appears to have negative impact on all three measures of risk, significantly so for liquidity risk. Depositor behavior appears to significantly impact only liquidity management, but not capital or credit risk management. We do not find evidence that shareholders act in a manner that reduces the credit risk of banks. The more efficient the management, the less capital the bank is likely to hold, subject to minimum capital requirement. That is, the equity multipliers of banks with more efficient management are likely to be higher and that credit risk increases as management efficiency variable decreases (MacDonald and Koch, 2006:125).

CHAPTER THREE

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter deals with the presentation, analysis and interpretation of data such as demographic information of the respondent and the loan recovery performance issues of the bank. This part of the research details about the credit policies and procedure, the competency of employees working in credit management unit, the emphasis of management in allocating the necessary resources and the customers awareness and transparency of the loan services.

Out of 113 total populations 34 of them were selected as a sample respondents using stratified random sampling technique. The respondents were selected from Customer Relation Manager, Credit Analysis and Portfolio Management & Customer Relation Officer.

In order to conduct this research 34 copies of questionnaires were distributed to the employee's of the CBB & all of the questionnaires are properly completed and returned, resulting in a rate of return for the questionnaires as 100%. Three employees/officers of the loan recovery & rehabilitation process working in Head Office are selected for interview and the result will be presented by summarizing the data.

The data obtained from respondents are summarized using descriptive statistics where by the raw data is computed in percentages. Summarized data are then analyzed applying descriptive analysis method using tables, followed by detail explanations. Finally, critical interpretation is made to demonstrate implication of the major findings concerning the subject of the study.

3.1. Demographic Characteristics

The demographic characteristics for the study were: gender, age, educational level, job position, and work experience. Each characteristic is address in the following section.

Table 3.1: Respondents Background Information

No.	Item	Option	No.	%age
1	Sex	Female	6	18
		Male	28	82
		Total	**34**	**100**
2	Age	18-25 year	4	12
		26-30 year	14	41
		31-35 year	12	35
		36-40 year	3	9
		Above 41 year	1	3
		Total	**34**	**100**
3	Educational Status	Diploma	2	6
		First Degree	29	85
		Second Degree & Above	3	9
		Total	**34**	**100**
4	Employees' work Experience	Less than 1 year	0	0
		1-5 year	11	32
		6-10 year	20	59
		Above 10	3	9
		Total	**34**	**100**

Source: own computation from the survey data, 2014

Table 3.1 item 1 shows the sex of employees under credit process. 6(18%) of the employees were female while 28(82%) were male. From this, the student researcher can conclude by saying there is dominancy of male employees in terms of numbers who are working under credit process unit of CBB.

The data presented on Table 3.1 item 2 shows how employees in credit process were distributed across five age categories. 18(54%) of the employees are in between 18 to 30 years, 15(44%) of the employees are in between 31 to 40 years and 1(3%) of employee is above 40 years. This implies that the majority of employees working in credit process are youngsters and at the age of more productive.

As reported on Table 3.1, item 3 shows 2(6%) of the employees earned their Diploma, 29(85%) of the employees earned first degree, while 3(9%) of the employees hold Second degree. Therefore, majority of workers under credit unit of CBB were found as a holder of First Degree. From this, one can conclude Majority of employees who are working at credit process of CBB are fist degree holders

The data presented on Table 3.1 item 4 shows that 11(32%) of the employees of credit process had between 1 and 5 years of experience, 20(59%) of the employees had between 6 and 10 years of experience. Furthermore, 3(9%) of the employees had more than 10 years of experience in the bank. Hence, majority of the employees have experienced of between six and ten years in the bank.

Table 3.2: Current Position of Employees/Respondents

Position	Number	%age
Customer relation officer	13	38
Loan recovery officer	2	6
Credit analyst	6	18
Credit relation manager	10	29
Team leader	3	9
Director	0	0
Total	**34**	**100**

Source: own computation from the survey data, 2014

As Table 3.2 indicates, 13(38%) of the respondent hold a position of customer relation officer, 2(6%) of the respondent hold a position of Loan recovery officer, 6(18%) of the respondent hold a position of Credit analyst, 10(29%) of the respondent hold a position of Credit relation manager and 3(9%) of the respondent hold a position of Team leader. From this one can conclude by saying majority of workers under credit unit of CBB were found in the customer relation officer and Credit relation manager position.

3.2. Employee Competency and Employee Training

The following table shows the skills of employees towards credit service, the provision of training the bank provides to employees on credit procedure and the adequacy of budget allocated for training imperative to ensure proper management of credit.

Table 3.3: Employee Training and Competency on Credit

No.	Items	Alternatives	No.	%age
1	Dose the employee of CBB has well trained on credit procedure?	Yes	16	47
		No	18	53
		I don't know	0	0
		Total	**34**	**100**
2	Is the bank providing training to employees on credit procedure?	Yes	10	29
		No	22	65
		I don't know	2	6
		Total	**34**	**100**
3	Dose CBB allocate sufficient budget for training on credit Management?	Yes	13	38
		No	19	56
		I don't know	2	6
		Total	**34**	**100**

Source: own computation from the survey data, 2014

As indicated in Table 3.3 item 1 from the total respondent, 18(53%) of them responded that the employees of the bank are not well trained while the remaining 16(47%) agreed that employees are well trained. From this it is possible to conclude that there is proportional agreement that employees are well trained and not even if the disagreement proportion is greater.

The response on item 2 of Table 3.3 shows that 22(65%) of the respondent agreed that the bank is not providing adequate training on credit procedure and 10(29%) of the respondent replied that the bank provide training to its employees. This data evidenced that the bank is not providing training to employees working under credit process about the procedure of providing credit.

Item 3 in Table 3.3 deals about the budget allocation of the bank for employee training on credit management. The result of the inquiry shows that 19(56%) of the respondent replied as the bank did not allocate sufficient budget for training and 13(38%) of them replied as the bank allocate budget for training on credit management. From the result it is possible to conclude that the budget allocated by the bank is not adequate to provide training on credit management for employees working in credit process.

As the above result, witnessed that employees lack competency and the bank did not provide training, this result support the proposition that lack of training keep employees incompetent of performing the task of credit management properly. Therefore, employees are found to be unskilled as a result of lack of training due to minimum emphasis by top management in allocating sufficient budget for employee training on credit management.

3.3. Credit Policy and Procedure

Table 3.4 showed the credit policy and procedure, practice of loan process in line of the pre stetted procedure and the bank's emphasis in creating awareness for the customers.

Table 3.4: Procedure and Policies of Credit Services

No.	Questions	Alternatives	No.	%age
1	How did you rate the credit policy and procedure of the bank giving loan service to customer?	Ridged	6	18
		Somehow Ridged	8	24
		Somehow flexible	16	47
		Flexible	4	11
		Total	**34**	**100**
2	Does the loan process as per the existing procedure set by CBB?	Yes	18	53
		No	16	47
		Total	**34**	**100**
3	Dose the bank officials explain the credit policy of the bank before granting the loan?	Yes	9	26
		No	21	62
		I don't know	4	12
		Total	**34**	**100**

Source: own computation from the survey data, 2014

The result of item 1 under Table 3.4 shows that 16(47%) of the respondent replied as the credit policy and procedure of the bank is somehow flexible, 8(24%) of them replied as somehow rigid, 6(18%) of them responded as it is rigid and 4(11%) of them replied as it is flexible. As the majority agreed that the bank's credit policy and procedure is somehow flexible which means it is not that much bureaucratic.

Item 2 in Table 3.4 result shows that 18(53%) of the employees agreed that the loan process of the bank is performed as per the procedure and the remaining 16(47%) of the respondent did not agree of it. Therefore, it is possible to conclude that the process of providing loan is conducted based on the procedure and guideline of the bank.

The result of item 3 in Table 3.4 showed that 21(62%) of the respondent replied that the bank officials did not explain about the credit for the customers and 9(26%) of them replied as the officials explain for customers. From this it is clear that officials under credit process were found as they have been done nothing in creating awareness in the minds of customers about how they process loan and when the return their loan.

Generally, the above items result and the interview results showed that the bank's credit policy and procedure is somehow flexible and the loan process is performed as per the guideline of the bank. Even if it is flexible and the loan process is as per the procedure of the bank, the customers have got no or very little awareness from the bank's official about how they process loan and when they return it.

3.4. Customers Attachment with Credit Services

Table 3.5 indicates the bank's advisory service and the transparency of customers before, during and after loan is approved and provided.

Table 3.5: Customers Relationship with Credit Service Providers

No.	Questions	Alternatives	No.	%age
1	Dose the bank gives advisory service to the prospective borrowers?	Yes	13	38
		No	21	62
		Total	**34**	**100**
2	Dose CBB credit advisors provide relevant service or information to customer in processing loan?	Yes	10	29
		No	24	71
		Total	**34**	**100**
3	Dose the customer willing to disclose genuinely all information to the bank when they request loan?	Yes	11	32
		No	22	65
		I don't know	1	3
		Total	**34**	**100**

Source: own computation from the survey data, 2014

Item 1 in the Table 3.5 showed that about 21(62%) of the employees agreed that the bank did not give advisory services for its customers and the remaining 13(38%) respondent replied as they disagree on it. From this result, it is clear that the advisory service of the bank is very minimum and insignificant which let customers confused of using the loan, how to make the loan productive and let customers incapable of repay the loan regularly.

The result of item 2 in Table 3.5 about the question of whether the bank provide the necessary information for the customer in processing loan, about 24(71%) replied "No" and the rest 10(29%) replied as "Yes". From this, it is possible to conclude that the bank is not open for the customers as the required information of processing loan is not provided by the concerned unit of the bank.

Item 3 in Table 3.4 shows the response on customer's willingness in disclosing information for the bank whenever they are requested showed that 22(65%) of the response was "No" and 11(32%) response was "Yes". From this it is clear that customers were found that they conceal the needed information to the bank when they are asked to make clear the loan agreement.

In addition, the interview results were similar with the above results that the bank didn't gave sufficient advisory services for customers that help them to be capable of

utilizing loan appropriately and return their debt. In addition, it was also found that the bank's credit advisors were provided insufficient information for customers about how to process and use loan; and also the customers of the bank were conceal the detail of their personality and property whenever needed. Hence, it is possible to have agreement on the miscommunication between the bank and its customers as both parties have not been open and transparent.

3.5. Requirement and Provision of Loan

Table 3.6 deals with the term of credit, the collateral for loan and the preconditions as requirements of the bank for lending.

Table 3.6: The Requirements and Terms of Loan Provision

No.	Questions	Alternatives	No.	%age
1	What term loan did the bank give mostly?	Short term	15	44
		Medium term	13	38
		Long term	6	18
		Total	**34**	**100**
2	Which type of collateral frequently used in CBB to give term loan?	Building	17	50
		Machinery	7	20
		Vehicles	8	24
		Personal Guarantor	2	6
		Total	**34**	**100**
3	What is the major requirement that CBB used for lending?	Collateral	14	41
		Financial Worthiness	6	17
		Sector of business engaged	9	26
		Existence or relation with the bank	5	15
		Total	**34**	**100**

Source: own computation from the survey data, 2014

The result of item 1 under Table 3.6 showed that about 15(44%) of the response were witnessed as the bank gives short term loan, 13(38%) of the response were medium term and 6(18%) were long term loan provided most of the time. This result evidenced that mostly the bank gives short term loan followed by medium and long term loan.

In Table 3.6 item 2 shows about 17(50%) of the employees were responded as the bank used building as collateral, 8(24%) of the response were vehicles, 7(20%) of the response were machinery and the rest 2(6%) were personal guarantor collateral. Therefore, the bank used building as primary collateral followed by vehicles and machinery.

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In addition, item 3 in Table 3.6 showed that the major requirement of the bank for lending were collateral 14(41%), sector of business engaged 9(26%), financial worthiness 6(17%) and existence or relation with the bank 5(15%) from most emphasized to less emphasize. From this it is possible to conclude that the bank's primary requirement for lending is collateral followed by business sector.

Generally, the above results and the interview's result showed that the bank mostly provides short term loan and medium term loan. In addition, collateral was found as a basic requirement for getting loan and the bank mostly used buildings and machinery provided as collateral when customers request loan. Therefore, the bank asks customers to bring collateral with high priority given to buildings and machinery during processing their short and medium term loan.

3.6. Credit Analysis and Process

The following table consists of the evaluation of project before lending and the support of bank's software to credit process and follow up.

Table 3.7: The Procedure and Analysis of Credit

No.	Questions	Alternatives	No.	%age
1	Did the credit analyses clearly evaluate viability of the project/ business before the loan granted?	Yes	13	38
		No	20	59
		I don't know	1	3
		Total	**34**	**100**
2	Dose the bank software support the credit process and follow up?	Yes	19	56
		No	15	44
		Total	**34**	**100**

Source: own computation from the survey data, 2014

As indicated in Table 3.7 items 1, about 13(38%) "Yes" and 20(59%) "No" were responded on the bank's credit analysis evaluate clearly the viability of the project/business before the loan granted. From this, it is clear to understand that the credit analysis is not capably examining the viability of the project or business operation when customers request loan and before granting loan.

Item 2 in Table 3.7 result showed that 19(56%) of employees agree that the bank's software support the credit process and follow up and the rest 15(44%) disagree about it. This clearly indicates that there is support relation between the bank's software and the credit process and follow up tasks.

Therefore, the above results showed that most of the time the bank's credit analysts were not evaluating the feasibility and successfulness of the projects/business operation of customers requesting loan. In addition, the software installed in the bank is helpful of performing the credit process tasks and loan management tasks of the bank properly. Hence, it was found support of software of the bank to manage loan process effectively and efficiently.

3.7. Loan Repayment and Default Loan

Table 3.8 indicates the loan repayment, loan delay and default as well as the reason for customers delay in repaying loan. In addition, the major problems faced in loan recovery on non performing loan are indicated in the table.

Table 3.8: The Loan Repayment and Default

No.	Questions	Alternatives	No.	%age
1	Dose the customer of CBB pays their debt monthly?	Yes	10	29
		No	24	71
		Total	**34**	**100**
2	Among the following select reason of dalliance for monthly repayment of the loan.	Working capital shortage		68
		Poor business performance		26
		Fund diversion for personal responsibilities		6
		Total		**100**
3	Which one is indicate the major problem that borrowers default the loan.	Business failure		50
		Business diversification		6
		Death of the borrower		9
		Lack of awareness		17.5
		Ineffective Monitoring		17.5
		Total		**100**
4	What is the major problem faced in loan recovery on non performing loan?	Unavailability of collateral		18
		Depreciation of collateral		38
		Lengthy legal procedure		15
		Lengthy bank procedure		9
		Unavailability of information about borrower property		20
		Total		**100**

Source: own computation from the survey data, 2014

The result of item 1 in Table 3.8 showed that about 24(71%) of the respondent replied as "No" and 10(29) percent of them replied as "Yes" on customers pay their debt monthly. Therefore, it is possible to conclude that the bank's customers are not paying their debt regularly as per the condition in the agreement.

In Table 3.8 item 2 showed that among those respondent replied as there is delay in loan repayment, 68%, 26% and 6% of them were provided their reason for such a delay as Working capital shortage, Poor business performance and Fund diversion for personal responsibilities respectively. Therefore, it is possible to conclude that shortage of working capital was found to be primary reason for customers' delay of paying loan followed by poor business performance.

In addition, item 3 in Table 3.8 about 50%, 6%, 9%, 17.5% and 17.5% of the respondent were replied as Business failure, Business diversification, Death of the borrower, Lack of awareness and Ineffective Monitoring as a reason for fault in repaying loan. From this it is possible to conclude as business failure is a primary reason for customers default in repaying loan followed by lack of awareness and ineffective monitoring.

In Table 3.8 item 4 shows about 18%, 38%, 15%, 9% and 20% of the respondent replied to the major problem faced in loan recovery on non performing loan as Unavailability of collateral, Depreciation of collateral, Lengthy legal procedure, Lengthy bank procedure and Unavailability of information about borrower property respectively. Therefore, depreciation of collateral was a primary problem of loan recovery on non performing loan followed by unavailability of information regarding borrower's property.

Generally, the results of interview were similar as above and it is found that customers delay and default of repaying loan were happened in the bank. The main reasons of the delay repayment were shortage of working capital and poor business performance. In addition, the major reason for default of loan was business failure and the depreciation of collateral was the prime problem of loan recovery on non performing loan. Therefore, the constraints of loan collection were related with customers as they were faced shortage of working capital, business failure and poor business performance which makes customers incapable of repaying loan regularly and defaulting loan.

3.8.   Mechanisms Adopted to Reduce Default Loan

The following table shows the mechanisms that the bank adopted in reducing the default loan.

Table 3.9: The Actions of the Bank to Minimize Default Loan

Questions	Alternatives	%age
What Mechanism dose CBB used to decrease default loan?	Making close follow-up	41
	Give high attentions to collateral	27
	Making deep analysis before the loan approved	29
		3
	Not to give credit facility to any one	
	Total	**100**

As indicated in Table 3.9, about 41%, 27%, 29% and 3% of respondent replied mechanisms of reducing default loan as making close follow up, give high attentions to collateral, making deep analysis before the loan approved and not to give credit facility to any one respectively. From this, it is possible to conclude that the bank adopted of close follow up as

primary mechanism of reducing default loan followed by making deep analysis before loan approval and giving high attention to collateral.

The other mechanisms of reducing delay and default loan proposed by the informants of interview new customers exactly and examine the worth of collateral in-depth through gathering all the necessary information. In addition, the analysis and evaluation of proposed business and operation of established business is the very important mechanism of minimizing the default rate. Pre and post loan approval plan of following up the detail of borrowers is another imperative mechanism that should be used by the bank.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1. SUMMARY

Following the data presentation and analysis this chapter deals with summary, conclusions and recommendations part of the research. The intention of this chapter is to summarize and draw conclusions regarding the main findings of the study. Based on the results of the findings, possible recommendations for the betterment of loan recovery performance of the bank are also highlighted in this chapter.

Out of 113 total populations 34 of them were selected as a sample respondents using stratified random sampling technique. The respondents were selected from Customer Relation Manager, Credit Analysis and Portfolio Management & Customer Relation Officer.

In order to conduct this research 34 copies of questionnaires were distributed to the employee's of the CBB & all of the questionnaires are properly completed and returned, resulting in a rate of return for the questionnaires as 100%. Three employees/officers of the loan recovery & rehabilitation process working in Head Office are selected for interview and the result will be presented by summarizing the data.

Based on the computation of the survey findings under credit process of the employees of CBB, the following summaries are drawn:

- ✓ The 28(82%) of the sample taken employees are male and 6(18%) of them are female.

- ✓ The 14(41%) of employees are in between the age of 26-30 and 12(35%) of employees are between 31 - 35 years.

- ✓ The 29(85%) of employed are first degree holders.

- ✓ The 20(59%) of employees have experiences of between 6-10years.

- ✓ The 13(38%) of employees are found in customer relation officer position and 10(29%) are working in credit relation manager position.

- ✓ 18(53%) of respondents agreed that the employees of CBB are not well trained, 22(65%) of respondents agreed that the Bank did not providing training. 19(56%) of respondents also agreed that CBB does not allocate sufficient budget for training.

- ✓ The 16(47%) or employees agreed that the credit policy and procedure of the bank giving loan service to customer is somehow flexible, 18(53%) are replied that the loan process is as per the existing procedure set by the bank. But 21(62%) are agreed that the bank officials do not explain the credit policy of the bank before granting the loan.

- ✓ 21(62%) of employees replied that the bank doesn't give advisory service to perspective borrowers, 24(71%) of than agreed the bank credit advisors do not provide relevant service or information to customer in processing loan, 22(65%) of the employees also indicated that the customers do not willing to disclose genuinely all information to the bank when they request loan.

- ✓ 15(44%) of employees agreed that the bank of give short term loan and 14(41%) of employees replied that the major requirement of the CBB used for lending is collateral. 17(50%) of the employees agreed the collateral frequently used to give term loan is building.

- ✓ 20(59%) of employees replied that the credit analysis does not clearly evaluated viability of the project or business before the loan granted and 19(56%) of employees are agreed on the bank software support the credit process.

- ✓ 24(71%) of the employees agreed that the customer of CBB do not pay their debt monthly, 68% of employees agreed that the main reason of dalliance of monthly repayment of the loan is shortage of working capital.

- ✓ The 50% of employees replied that the major problem that borrowers default the loan is business failure, 38% of the respondent agreed that the major problem faced in loan recovery an non performing loan is depreciation of collateral.

- ✓ The 41% of employees agreed that the mechanism that CBB used to decrease default loan is making close follow-up.

4.2. CONCLUSIONS

Based on the summary of the findings, the following conclusions are drawn;

- ✓ As it has been observed from different reports of the bank and information's provided from interviewees, the bank's loan recovery performance can be considered as good.

- ✓ The major reasons for default of loan based on the answers of the questionnaire are shortage of working capital, business failure and depreciation of collateral.

- ✓ Construction & Business bank as a loan granting organization doesn't employee strategies helpful to speed up loan recovery rather it tries to collect its loans using the banks credit procedure like most other banks do.

- ✓ The challenges related to loan recovery practice of the bank are the following according to information gathered through the questionnaire:

  - The advisory service of the bank is very minimum and insignificant which let customers confused of using the loan and not disclose genuine information.

  - The Bank provides mostly short term loan by using a requirement of collateral, especially building is the type of collateral frequently used.

  - The soft ware installed in the bank is helpful of performing the credit process tasks and loan management tasks of the bank, the bank's credit analysts were not evaluating the feasibility and successfulness of the project or business operation of customers.

4.3. RECOMMENDATIONS

Based on the summary of the findings and conclusions, the following recommendations were drawn

1   Even though, there is training which is offered for new employees, the bank should facilitate additional training with new technologies to upgrade their awareness on up-to-date information for the existing employees.

2   The bank should provide all the necessary information of processing loan with regular advisory services to their credit customers in relation with performance of their businesses interms of profitability and ongoing business operation.

3   The bank should apply team inspection or supervision instead of one person inspection on the time of supervision of collateral inorder to minimize the risk that arises on collateral.

4   The bank should facilitate especial incentive (such as making discount on interest rate, allowing additional loan) for those who pay their monthly repayment properly, this may initiate to pay their monthly repayment those who do not.

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APPENDICES

ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

Questionnaire prepared to collect Data from Employees of CBB who are working in Loan Recovery and Performance Department

Dear respondent

We are undertaking research proposal on Construction & Business Bank conducting study on the topic of loan recovery performance the case study of Construction & Business Bank.

The purpose of this study is to obtain reliable information about the Loan Recovery Performance of the bank & how CBB can resolve the problem in relation to the Loan Recovery Performance. We have prepared a self-administered questionnaire to help us to gather the pertinent information from the selected bank. The quality of the result of this research is based on the accuracy of the information you provided.

Eventually, we promise you the information you will provide us is going to be reported and communicated in aggregate and utmost care will be taken for its confidentiality and will be used only for academic purpose.

Thank you for your cooperation.

Direction

- There is no need to write your name
- Kindly request you to put tick mark (√) inside the provide next to each alternative or in writing wherever appropriated.

I. Personal Information

1. Sex
   - 1. Male ☐   2. Female ☐

2. Age
   - 1. 18-25 years ☐   4. 36-40 years ☐
   - 2. 26-30 years ☐   5. Above 41 years ☐
   - 3. 31-35 years ☐

3. Educational Level
   - 1. Diploma ☐   2. First Degree ☐   3. Second Degree and above ☐
   - 4. Others (If any specify) _____

4. What is your position?
   1. Customer relation officer ☐
   2. Loan recovery officer ☐
   3. Credit analyst ☐
   4. Credit relation manager ☐
   5. Team leader ☐
   6. Director ☐

5. How long you have been working in CBB?
   1. Less than 1 years ☐   3. 6 to 10 years ☐
   2. 1 to 5 years ☐   4. Above 11 years ☐

II. Specific information

1. Dose the employee of CBB has well trained on credit procedure?
   - 1. Yes ☐   2. No ☐   3. I don't know ☐

2. Is the bank providing training to employees on credit procedure?
   - 1. Yes ☐   2. No ☐   3. I don't know ☐

3. Dose CBB allocate sufficient budget for training on credit Management?
   - 1. Yes ☐   2. No ☐   3. I don't know ☐

4. How did you rate the credit policy and procedure of the bank giving loan service to customer?
   1. Ridged ☐   3. Somehow flexible ☐
   2. Somehow ridged ☐   4. Flexible ☐

5. Dose the loan process as per the existing procedure set by CBB?

1. Yes ☐   2. No ☐

6. Dose the bank officials explain the credit policy of the bank before granting the loan to their customer?

     1. Yes ☐   2. No ☐   3. I don't know ☐

7. Dose the bank gives advisory service to the prospective borrowers?

     1. Yes ☐   2. No ☐

8. Dose CBB credit advisors provide relevant service or information to customer in processing loan?

     1. Yes ☐   2.No ☐

9. What term loan did the bank give mostly?

     1. Short term ☐   2. Medium term ☐   3. Long term ☐

10. Dose the customer willing to disclose genuinely every information to the bank when they request loan?

     1. Yes ☐   2. No ☐   3. I don't know ☐

11. If your answer in question 10 is 'No' what are the major reasons?

_____

_____

12. Which type of collateral frequently used in CBB to give term loan?

     1. Building ☐   3. Vehicles ☐

     2. Machinery ☐   4. Personal guarantor ☐

13. What is the major requirement that CBB used for lending?

     1. Collateral ☐   2. Financial Worthiness ☐

     3. Sector of business engaged ☐   3. Existence or relation ☐

14. Did the credit analyses clearly evaluate viability of the project/ business before the loan granted?

     1. Yes ☐   2. No ☐   3. I don't know ☐

15. Dose the bank software support the credit process and follow-up?

     1. Yes ☐   2.No ☐

16. Dose the customer of CBB pays their debt monthly?

     1. Yes ☐   2. No ☐

17. Among the following selected reason of dalliance for monthly repayment of the loan.

    1. Working capital shortage   _____

    2. Poor business performance   _____

    3. Found diversion for personal responsibilities _____

    4. If any other please specify

_____

_____

18. Which one is the major problem that borrowers default the loan.

    1. Business failed   _____   4. Business diversification _____

    2. Death of the borrower _____   5. Lack of awareness_____

    3. Ineffective Monitoring_____   6. Others (If any) _____

19. What is the major problem faced in loan recovery on non-performing loan?

    1. Unavailability of collateral   ▭

    2. Depreciation of collateral   ▭

    3. Lengthy legal procedure   ▭

    4. Lengthy bank procedure   ▭

    5. Unavailability of information about borrower property ▭

20. What Mechanism dose CBB used to decrease default loan?

    1. Making close follow up   ▭

    2. Give high attentions to collateral   ▭

    3. Making deep analysis before the loan approved ▭

    4.   Not to give credit facility to any one   ▭

    5. If any other please specify_____

_____

_____

ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING
INTERVIEW QUESTIONS

Interview prepared to collect Data from Employees of CBB who are working in Loan Recovery and Rehabilitation Department.

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

2. Dose the loan process as per the existing procedure set by CBB?

3. Dose the bank gives advisory service to the prospective borrowers?

4. Dose CBB credit advisors provide relevant service or information to customer in processing loan?

5. Which type of collateral frequently used in CBB to give term loan?

6. What is the major requirement that CBB used for lending?

7. What is the major problem that borrowers default the loan?

8. What is the major problem faced in loan recovery on non-performing loan?