UNIVERSITY OF CAPE COAST

DETERMINANTS OF LOAN DEFAULT IN UT BANK

ERIC KWASI FIA

2016

UNIVERSITY OF CAPE COAST

DETERMINANTS OF LOAN DEFAULT IN UT BANK

BY
ERIC KWASI FIA

THIS DISSERTATION IS SUBMITTED TO THE SCHOOL OF BUSINESS, DEPARTMENT OF FINANCE, UNIVERSITY OF CAPE COAST IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION DEGREE IN FINANCE

MARCH, 2016

DECLARATION

Candidate's Declaration

I the undersigned hereby declare that except for the reference to other people's works which has been duly acknowledge, this work is the result of my own research under the supervision of **Mr. Babonyire Adafula**, and that it has neither been presented in whole nor in part for the award of any degree in this university or elsewhere.

Candidate's

Name…………………………………………………………………………..

SB/DFN/13/0035

Signature…………………………………… **Date**……………………

Supervisor's Declaration

I do hereby declare that, the preparation of this dissertation was supervised in accordance with the guide lines on supervision of dissertation as laid down by the University of Cape Coast.

Supervisor's

Name…………………………….……………………………………………..

Signature………………………......... **Date** ……………………………

DEDICATION

This work is dedicated to my father Major Simon Blewusi Kwami Fia, my wife Rita Akpakli, my mother Laurencia Anumah, my Kids Dela, Fafa and Esenam and my siblings for their encouragement.

ACKNOWLEDGEMENTS

I am most grateful to God Almighty for His guidance and wisdom which has brought me this far. I am also grateful to all persons and organisations without whose invaluable help this work would not **have** materialised. I have great debt of gratitude to Rita Akpakli and my supervisor **Mr Babonyire Adafula** for their constructive criticisms, suggestions and needed guidance. Finally my heartfelt gratitude once again goes to my wife; Rita Akpakli and my children; **Dela, Fafa** and **Esenam**, my siblings and friends who helped in diverse ways.

CONTENTS

ABSTRACT

Banks play very significant task in the fiscal life of every country. A strong and stable financial system, underpinned by sound macroeconomic management and prudential regulation, is an essential ingredient for sustained growth. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. The main objective of this study is to identify the determinants of loan default using UT Bank as a case study. The design of the study will be a cross-sectional survey design using the qualitative approach. From the results, it was clear that, the major cause of default associated with Business Loans, Auto Loans and Salaried Loans are divergence of loans and delays in funds payments, inadequate income from repayment source and multiple loan obligations respectively. Again, the study showed that, Construction is the industry of the Business Loan portfolio that has the highest default rate. In relation to Auto Loan, the Private Individuals sector is the category of product that has the highest default rate and the Private Services sector is the category of the Salaried Loan portfolio which has the highest default rate. Business Loan however has the highest default rate among the three loan products. It was also observed that the reasons why the clients find it difficult to repay loan is because of the high interest rate, loss of job, accident car and bankruptcy.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Banks play very significant task in the fiscal life of every country. According to Berger *et al*., (2005) the strength of every economy is closely related to the soundness of its banking system.A sound banking system mobilizes the scattered savings of the community and makes them available for investment in productive enterprises.Banks therefore mobilize deposits and distribute these savings through loans among enterprises and individuals which are connected with economic development. Although banks create no new wealth, borrowing, lending and their other related activities facilitate the process of production, distribution, exchange and consumption of wealth. Banks have an array of challenges in the commercial finance arena, but one standout issue is investing in the right opportunities, from a lending perspective, while trying to understand when the uncertain economic seas will calm and how the landscape will look afterwards.

Bank provides necessary funds for decision-making program in the process of economic development. In this way they become very effective partners in the process of economic development. Today, modern banks are very useful for the utilization of the resources of the country. All branches of economic activity today are fundamentally dependent on access to financial services.

It is going to be hard for banks to attract, evaluate and monitor good credit opportunities since there are no clear cut policies and strategic procedures, these has resulted in loans taking so many different turns lately. It is extremely important for bankers to have a complete understanding of the ramifications of their lending efforts for two key reasons. Foremost of all, garnering more complete, consistent and correct; up to date information (the “three Cs” of data) concerning a borrower’s character, capacity and collateral (the “three Cs” of lending) will translate into more confident decisions with a higher probability of repayment in difficult economic times (Paravisini, 2008). Additionally, good data will help lenders increase loan portfolios by sourcing new deals based on trends they see in their own portfolios or by more effectively cross up-selling to their solid clients.

Also organizations that focus now on ensuring they have solid, quality and efficient processes will be best positioned to handle opportunities from either weak or failing institutions while economic conditions continue to languish and from new business needs as conditions recover (Petersen and Rajan, 1994). Therefore, the time is right for banks to consider process improvements and deploying end-to-end processing to address the issue of lending challenges.

According to Sapienza (2002) a strong and stable financial system, underpinned by sound macroeconomic management and prudential regulation, is an essential ingredient for sustained growth. Conversely, macroeconomic instability emanating from weaknesses in the fiscal sector can weaken the progression of development (Fluck et al., 1998). The enduring globalization of economic activity, and the challenge of attracting productive investments in a competitive international environment, accentuates the need to maintain a healthy and efficient financial sector. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses (Sharma, 2008). Therefore there is the need for banks to manage financial activities carefully so that they do not incur debt through loan defaulting.

1.1 Background of the Study

The major source of income of banks comes from interest income (Vong, 1996). This therefore makes granting loans to borrowers as one of the principal activity of banks. Loans are the fasters yielding assets banks have. However banks with high volumes of loans are confronted with high liquidity risk (Devinaga, 2010). It is therefore important for banks to devise strategies and ways in reducing defaults. Thus, the quality of the loans would also contribute towards higher profitability. Cosh and Hughes (2003) found that loans from UK Banks provide the funding for around two thirds of UK businesses and the largest source for over 25 percent of firms. Loans and consumer credit have come to play an increasingly important role, both as an instrument in the financial planning of businesses and households as well as an asset on the balance sheet of financial institutions. This shows that, banks are the major lending financial institution in the world. Also loans facilitate business expansions and enable clients to undertake several projects. These activities add up to strengthening of the economy of any nation. But most often Banks encounter various challenges in lending be it short term or long term, consumer loan or business loan. This is as a result of loan defaulters not paying the loan. Loan managers are not able to go after these defaulters due to several factors such as poor information record on client, demanding and unclear loan policies.Non-performing loans as they are usually called, may affect a bank's interest income and hence profitability. Loan default is the inability of borrower to fulfill their obligation (Balagun&Alimi, 1990). According to Ameyaw-Amankwah (2001), default occurs when a debtor has not met his or her legal obligations according to the debt contract.

Kotey (1999) reminds us that growth is constrained and failure can be caused by financing constraints, and that there are both supply and demand side factors. On the supply side, it is noted that banks are less likely to lend long-term to clients especially those in Small and Medium Enterprise (SMEs) due to risk, which is in itself caused by SMEs “lacking a track record of performance on the basis of which their credit rating could be assessed” and cost which includes administrative costs, potential interest income and to the risk of default and on account of lack of collateral. The demand side, Kotey argues, is that many entrepreneurs do not wish to use long-term debt finance. Whilst this may be true for some, it is clear that many entrepreneurs are refused finance by banks.

Therefore it is important to seek opinions from the management of banks to ascertain the various challenges they face. This will enable banks to be able to regain their money and increase the loan portfolio to be able to give loans easily to wide group of people and be able to restructure their banking policies which will also make clients understand and appreciate their service and enable them pay their loans on time without running into debt. This study is assessing factors influencing loan default rate among customers of UT-Bank.

1.2 Statement of the Problem

In almost all advanced economies, banks deliver a broad range of financial services and lending products, and the efficiency of such well-developed systems has contributed to macroeconomic stability and sustained economic growth and prosperity (Berger et al., 2001). According to Mian, (2008) capital has been among the prevailing problems that are frequently raised in relation to the stagnation of the economy. Individuals and businesses struggle to acquire loans from banks. In most cases after the loan acquisition, most clients do not pay back loan on time and others do not pay at all. This cripples the financial assets of most banks and they record loses, hence are unable to declare any dividend to the shareholders. The sustainability of banks depends largely on their ability to collect their loans as efficiently and effectively as possible. In other words to be financially viable or sustainable, banks must ensure high portfolio quality based on 100% repayment ,or at worst low default, cost recovery and efficient lending. Banks must do everything they can to minimize loan default. This requires them to continuously review individual exposures in order to monitor loan quality and reduce losses. A high ratio of non-performing loans to advances is a reflection of imprudent lending practice and poor credit management. It poses a threat to customer's deposits. According to UT Bank annual report 2014, the bank continued to grapple with the effects of the increasingly difficult economic conditions which causes the volume of Non-Performing loans increased. The bank's Non-performing loan ratio stands at 12.38% in 2014 as compared to 10.92% in 2013.

In general, banks in Ghana are not experiencing credit crisis, they do have significant challenges with regards to policies, proportion of loans they give that deteriorate into bad credit due to demanding policies, undiversified nature of the composition of their loan portfolios among other challenges in their lending activities (Chelagat, 2009). Meanwhile, despite the challenges they face inlending,Banks in Ghana are being persuaded to step up their lending to the private sector but as long as increased bank lending is accompanied by increased challenges leading to bad debts, Banks in Ghana will continue to be reluctant lenders, prompted by sheer necessity rather than real enthusiasm. It is as a result of this that this research seeks to assess factors influencing loan default rate among customers of UT-Bank.

1.2 The objectives of the study are to:

1. Assess the lending policies of UT Bank.
2. Identify the causes of loan defaults among customers of UT Bank.
3. Find out the challenges faced in retrieving payment from UT Bank's borrowers.

1.4 Research Questions

The study seeks to answer the following questions:

1. What are the lending policies of UT Bank?
2. What are the causes of loan defaults among customers of UT Bank?
3. What are the challenges faced in retrieving payment from UT Bank's borrowers?

1.5 Justification of the study

According to Assefa (1987), the low productivity, low income and again low productivity cycle, can only be broken through the availability of credit for individuals, private companies and public institutions. Thus, robust growth and effective functioning of Bank lending and loan management system is essential for economic development and prosperity. The rational of this study is based on the fact that increased availability of funding and more efficient allocation of capital for productive private sector and public sector investment is beneficial economy wide, with particular benefits for SMEs (Small and Medium Enterprises). However these sectors, particular the SMEs are often constrained in their financing options due to the challenges the Banks face in lending to the sector but if Ghana's growth recovery is to be sustained and widespread, effective bank lending systems are a clear requirement. The non-performing loan ration of UT Bank between the years 2013 to 2014 as increased. The bank's Non-performing loan ratio stands at 12.38% in 2014 as compared to 10.92% in 2013 (UT Bank annual report, 2014). This has necessitated a study of this nature to ensure that viable business opportunities receive the credit they need, no matter who the entrepreneur may be. Therefore it is expected that the outcome of this research will serve as a guide to the staff of the UT Bank's Credit Department to effectively and efficiently deal with the challenges that they face in lending and retrieving loans from borrowers in addition to serving as a guide for UT Bank to strategize their lending products and services to make it more attractive and convenient to their clientsthereby reducing non-performing loan ration and by so doing increase profitability. It will also be useful to management in policy making, research department of the Bank as well as the Central Bank. Finally, it will serve as reference for academic knowledge in the area of lending challenges for future academic use.

1.6 Scope of the Study

The study centers on assessing factors influencing loan default rate among customers of UT-Bank. This study will be done with focus to the UT Bank Tema Main Branch. The study will identify the causes of loan default among borrowers of UT Bank. The research also seeks to recommend and improve lending policies of UT Bank andthe composition of UT Bank loan Portfolio. The research would principally focus on loan defaulters and the Credit department of UT Tema Main Branch.

1.7 Limitations to the Study

A variety of problems are anticipated in the collection of the data for the research and it is quite important that these problems are brought to light. Most frustrating may be the unwillingness of respondents to participate in the research. Also the anticipation of low level of literacy among respondents may demand that one on one interview questionnaire method be used. Furthermore, in some cases there might be outright refusal of respondents to answer questions they thought were suspicious or could be used for covert purposes other than stated and explained to them.

1.8 Organization of the study

The study was organized in five chapters. Chapter looked at the introduction which comprises the background of the study, statement of problem, objectives, and research questions, justification of study, scope of study, limitations of study and organization of study. Chapter two comprised a review of literature relevant to the study. Chapter three dealt with the methodology to be used in carrying out the research and profile of UT Bank. Chapter four dealt with the findings, presentation and analysis. The final chapter, which is chapter five, included summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A bank that lends money to a borrower faces two types of risk. Most frequently mentioned is the risk of a default. Barely ever referred to, is the risk of an early redemption of the loan-lending to dormancy (Carling and Roszbach, 2001). "Banking is a business of getting ones money back (Ennew and McKechnie, 1998). For this reason banks want to make good loans. One of the main problems for banks is that they have to determine whether the loan application is for the purpose of expanding a profitable on-going business or is this loan to finance unprofitable operations? What often happens is that small businesses, even existing ones, do not have good books, so when they come in to acquire loans, they often claim to be doing fine. A bank is a financial institution where you can deposit your money (Coleman, S.2000). Banks provide a system for easy transfer of money from one person or business to another. Using banks and the many services they offer saves us an incredible amount of time, and ensures that our funds "pass hands" in a legal and structured manner (Fraser, S.2005).

There are also other types of financial institutions that operate just like banks. Other "Banking" organizations offer similar that are offered by traditional banks from other financial institutions as well. Savings and loans or thrifts, as well as Credit Unions, offer banking services that may fit the needs of people (Micro-Save Africa, January, 2001).The primary difference between various financial institutions is in the charters under which they operate and the regulatory body that oversees them (CGAP Occasional Paper, July 2004). Often people do not have enough money when they face a need, so they borrow. Loan is an amount of money that is given from one (the lender) to another person (the borrower) with an expectation of repayment (Bernanke and Gertler, 1995). Loans are a type of debt (Curran and Blackburn,1993). Sometimes if the borrower is not careful and you take out a loan, one could end up with a loan that is hard to repay, leaving the borrower in debt. The expected return on a loan depends on several factors such as the interest rate, the amortization scheme, fees paid by the customer, fixed and variable costs incurred by the lender, the probability of a default. Dimtsu and Tesfaye (2008) concluded that banks prefer bigger loans because they offer higher expected earnings. Bigger loans are generally thought to be riskier; maximizing expected earnings would then imply deviating from risk minimization. Curran and Blackburn(1993) say that, “better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid. The bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses. In effect, it may therefore be that simple because banks approach the lending process in a risk-averse way in order to protect the funds of savers, and thus turn down a number of propositions perceived to be ‘riskier’.According to Lane and Quack,(1999) lending is to give or allow the use of temporarily on the condition that the same or its equivalent will be returned or to provide (money) temporarily on condition that the amount borrowed is returned, usually with an interest fee.

2.2 Bad loans/Non Performing Loans (NPLs)

From Wikipedia, A bad debt or bad loan is an amount owed by a debtor that is unlikely to be paid, for example due to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment and the institution provisioning. In the USA, bank loans with more than ninety days' arrears become "problem loans". Bad loans and non-performing loans are often used interchangeably (Fofack, 2005). Non-performing loans can be described as loans that are ninety days or more past due or no longer accruing interest (Bloem, 2001). Bad loans may also be referred as the one that is not yielding any interest plus principal for a minimum of 90 days. A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue.

2.3 Principles of Lending

Banks depend largely on lending; therefore the need to adhere to the basic principles of lending is quite inevitable. The principles, if strictly followed, will guarantee depositors and shareholders' funds, increase profitability and make a healthy turn over. According to Leece (2001), such advances in turn assist in the transformation of rural environment, promote rapid expansion of banking habit and improve and boost the nation's economy.

2.3.1 The Five Cs Principle

Jappelli*et al*, (2002) pointed out that the principle of the 5 Cs of credit is to establish the creditworthiness of a borrower. The concept if correctly applied seeks to evaluate the key criteria of repayment ability, by analyzing the stream of cash flows, the character of financial discipline, the financial health of the borrower and other qualitative factors.

The 5Cs of credit are:

a) Character

The character of the borrower indicates two things; the ability to pay versus the willingness to pay. The ability to pay refers to the borrower's financial credibility to pay. A good character is one that has the ability to pay and a willingness to pay. The lender should check on the borrower's character.

b) Capacity

Capacity refers to the sources of repayment, i.e. the cash flow. The borrower must be able to meet all his financial obligations on the due dates.

c) Conditions

Condition refers to the macroeconomic environment. For example, if the loan is needed for setting up a retail business in a particular area, then the lender must make a study of the economic conditions (the degree of propensity to spend by residents in that locality).

d) Collateral

Collateral is the lender's second line of defense. If the payback is derived from cash flows, then the collateral will not be liquidated for repayment. It is widely practiced that different weightings or emphasis are allocated to these factors.

Generally, the percentages are:

- Character 30 percent
- Capacity 30 percent
- Capital 20 percent
- Conditions 10 percent
- Collateral 10 percent

2.3.2 Other Principles

a) Safety

According to Leece (2001), safety is the most important principle of good lending. When a bank lends, the bank must feel certain that the advance is safe; that is, the money lend to the borrower will definitely be paid back. For example, the borrower invests the money in an unproductive or speculative venture, or if the borrower is dishonest, the advance would be in danger. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The bank ensures that the credit granted goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industry where it is employed, is repaid with interest.

Safety is also dependent on the nature of the borrower. The basic considerations in bank lending are the character of the client seeking loan from the bank (Sa-aadu&Sirmans, 1995). The client must be an honest, upright customer whose record of transaction with the financial institution or in the society is remarkable. The information on the character of the borrower could be obtained through a completed form of his guarantor or his statement of account.

b) Liquidity

The surety that the loan taken would be paid back is really not the most important thing as asserted by Leece (2001). The most critical thing is whether the loan would be paid on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by the borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way. The source of repayment must also be definite. Banks attach so much importance to liquidity as against safety because the bulk of their funds are repayable on demand or at short notice (Sa-aadu&Sirmans, 1995). If the bank lends a large portion of its funds to borrowers from whom repayment would be coming in but slowly, the ability of the bank to meet the demands made on it would be seriously affected in spite of the safety of the advances. For example, if, however, the recovery of the mortgage money has to be made through a court process, it may take a few years to do so. The loan is safe but not liquid.

c) Purpose

The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment (Phillips &VanderHoff, 1991). The purpose should also be short termed so that it ensures liquidity. Banks discourage advances for hoarding stocks or for speculative activities. There are obvious risks involved therein apart from the anti-social nature of such transactions. The bank must closely scrutinize the purpose for which the money is required, and ensure, as far as it can, that the money borrowed for a particular purpose is applied by the borrower accordingly. Purpose has assumed a special significance in the present day concept of banking.

d) Security

It has been the practice of banks not to lend as far as possible except against security. According to Lane *et al*,(1999), security is considered as insurance or a cushion to fall back upon in case of an emergency. The bank carefully scrutinizes all the different aspects of an advance before granting it. At the same time, the bank provides for an unexpected change in circumstances which may affect the safety and liquidity of the advance. It is only to provide against such contingencies that the bank takes security (collateral) so that it may realize it and repay itself if the well-calculated and almost certain source of repayment unexpectedly fails. It is incorrect to consider an advance proposal from the point of view of security alone. An advance is granted by a good bank on its own merits, that is to say with due regard to its safety, likely purpose etc., and after looking into the character, capacity and capital of the borrower and not only because the security is good. Apart from the fact that taking of security reserves as a safety valve for an unexpected emergency it also renders very difficult, if not impossible, for the borrower to raise a secured advance from another source against the very security.

e) Ideal Advance

Phillips &VanderHoff, (1991), describes an ideal advance as "one which is granted to a reliable customer for an approved purpose in which the customer has adequate experience, safe in the knowledge that the money will be used to advantage and repayment will be made within a reasonable period from trading receipts or known maturities due on or about given dates."

2.4 Lending policy

To evaluate loan applicants, banks use a large variety of systems. One of such system is the loan policy. The loan policy is the primary means by which senior management and the board guide lending activities. According to Boyes*et al*, (1999), although the policy primarily imposes standards, it also is a statement of the bank's basic credit philosophy. It provides a framework for achieving asset quality and earnings objectives, sets risk tolerance levels, and guides the bank's lending activities in a manner consistent with the bank's strategic direction (Bernanke and Gertler, 1995). Loan policy sets standards for portfolio composition, individual credit decisions, fair lending, and compliance management (Roszbach, 1998)

Typical loan policies require that the borrower have a certain debt to income ratio, often 38 percent or less. The policy will require that income be verified and that the collateral, such as the home or car, be valued at a level that supports the loan amount through an appraisal or Blue Book comparison. Banks will order a credit check on each borrower, and the policy will determine what credit score is necessary to qualify for the loan. Policies also indicate what a borrower will pay to get a loan (Jaffee and Stiglitz, 1990).

2.4.1 General Principles

a) Identification of Borrower

Track record or experience or educational or professional qualifications are verified as well as the type of business organisation and the past performance of the business.

b) Purpose of the Loan

Is the loan for a productive purpose and is the activity legitimate. Is the loan for the establishment of a new venture or existing one, if existing, is it for expansion or diversification purposes?

c) Quantum of Loan

The loan should be timely and needed based. It should be with borrower's stake or margin (varying between 5 to 25%). It should also neither be over-financed nor under-financed

d) Period of Loan

The loan should either be for short or long term and adequate by time. The loan should be a renewal or revival or enhancement. Are there chances of contingencies?

e) Source of Repayment

Is the loan going to be paid out of the business or income salary? Is it self-liquidating (ie a working capital account), cash credit-hypothecation or pledge (lock-n-key) facility. The loan can also be paid from out of sales asset(s) financed or disposal of collateral security. Another source of income can be a guarantor.

f) Collateral Security Offered

It can be primary which includes stock, assets, etc (hypothecation, pledge, etc). Secondary collateral includes 3rd party guarantee or charge on immoveable property.

g) Appraisal or Sanction or Acceptance of Term

The appraisal or sanctioned terms are outlined.

h) Convey Terms and Conditions in Writing

Terms and conditions of the loan are conveyed to the borrower.

i) Documentation or Disbursement or inspection

There should be evidence of proper documentation, stamps, complete in all respects. It should be executed by all authorized signatories or seal.

2.5 Factors that Influence Loan Portfolio

Banking is both a risk-taking and profit-making business, and bank loan portfolios should return profits commensurate with their risk (Pazarbasioglu, 1999). Although this concept is intellectually sound and almost universally accepted by bankersand examiners alike, banks have had difficulty implementing it. Over the years, volatility in banks' earnings usually has been linked to the loan portfolio. While there are many contributing factors including market forces, anxiety for income, poor risk measurement, and weak risk management, a common underlying factor has been banks' tendency to underestimate or under price credit risk. Because bank managements and boards are responsible for serving their communities, achieving acceptable shareholder returns, and protecting the interests of depositors, they need to ensure that the loan portfolio provides consistent, reasonable returns. Individual credits and portfolio segments should be priced to provide reasonable shareholder returns while maintaining adequate capital and allowance levels. The price (index rate, spread, and fees) charged for an individual credit should cover funding costs, overhead/administrative expenses, the required profit margin (generally expressed as a return on assets or equity), and risk. Funding costs are relatively easy to measure and incorporate into loan pricing. Measuring overhead and administrative costs is more complicated because banks traditionally have not had strong cost accounting systems. Additionally, common services with differing or ambiguous values to each user (What, for example, is the dollar value of loan review?) can be difficult to measure. The required profit margin is a straightforward concept and is usually derived from the strategic plan.

According to Morgan (1997), company credit risk may also be influenced by systematic market risk, which is reflected in the changes in interest rates, stock index, exchange rates and unemployment level. The probability of default of a company and the probability of its credit rating migration is thus related to market risk. In an ideal world, the methodological tool for bank risk measurement should therefore link market risk and credit risk, which banks are exposed to in their operations.

Abd and Tan Be Lay, (2002), developed a model for loan loss provision which follows the accounting practice in Malaysia. Banks are subject to generally accepted accounting principles (GAAP) in disclosing the loan loss provision. However, the expected loan losses factor should also be taken into account to counter unexpected situations. Prior studies show that banks tend to manipulate the loan loss provision through discretionary accruals for income smoothing purposes. Empirical evidence state that the loan loss provision is positively related to non-performing loans, loan loss allowance and write-offs. In addition, the banks must consider the expected non-performing loans in providing loan loss provisions. In determining loan losses, the performance of each economic sector should also be considered due to different default risks. Another factor could be labeled as ‘interest rates, for it comprise different real and nominal (short and long-term) interest rates of most banks. The second factor could be labeled as ‘other macroeconomic factors’, for it comprises 10 different macroeconomic variables, for instance export (import) of goods and services, employment rate, growth rate of production, exchange rate, developments on the securities market and the inflation rate in the country were the loan is being offered (Jappelli& Pagano, 2002).

2.6 Determinants of Non-Performing Loans

There were various literatures that scan the causes and effect of non-performing loans. This is linked to the fact that non-performing loans can be associated to banking crisis.

2.6.1 Macro Economic Factors

The available literature showed an association between NPLs and macroeconomic factors. According to Morris (1987) countries economic conditions added to poor performance are the causes of loan defaults rate in financial institutions in the United State. The report also revealed that the higher the volume of lending the higher liquidity rate. There were also several publications which went the same line as Morris' (Salas &Suarina, 2002; Rajan& Dhal, 2003; Fofack, 2005). According to the above studies, there was strong positive growth in real GDP usually translates into more income which improves the debt servicing capacity of borrower which in turn contributes to lower non-performing loans. They also argue that inflation rate have a positive effect on that non-performing loans (Fofack, 2005).

There are other microeconomic variables that were stated by Dimitros et al (2010) which also have a strong relationship with non-performing loans. A part from GDP and inflation rate, the author added factors like unemployment rate and poverty. They concluded that increases debts causes from rising interest rate payments leads to a higher number of NPLs. These were also confirmed by the theoretical literature of life-cycle consumption models (Lawrence, 1995). After studying such model, Lawrence explains explicitly the profitability of default. To add to the above, banks usually charge higher interest rates to riskier clients.

2.6.2 Bank Specific Factors

From the bank point of view, there is numerous evidence which point to the fact that, the size of institution, profits margins, efficiency, term of credit, maturity and interest rate are important determinants of non-performing loans. Bindra (1998) on the other and put the blame on poor risk management. This means that credit department does not follow the lay down procedure to assess the credit worthiness of the borrower. There is no proper mechanism to monitor and evaluate the work of the credit officers. Consequently professional management could help in reducing loan defaults rate. This will mean that banks should not just be looking at lending but also follow up on how the money is been used to ensure value for money. The contributor to the bad loans of many of the failed local banks was insider lending (Brownbridge, 1998). Brownbridge stated that in case of Kenya, banks are extensively involved in lending to politicians. Such loans are often invested in speculative projects such as real estate which cannot yield short term returns. Browbrigde associated NPLs to political pressure, under capitalization and high interest rate charged to borrowers. Keeton (1999) reports evidence of a strong relationship between credit growth and impaired assets. Specifically, Keeton (1999) shows that rapid credit growth, which was associated with lower credit standards, contributed to higher loan losses in certain states in the US. Excessive lending was also identified as an important determinant of NPLs. The impact of bank size on NPLs has mixed reaction from various studies. For instance some studies revealed a negative association between NPLs and bank size (Hu et al, 2006). From the point of this study the bigger the size of the bank the lower the NPLs rate. On the other hand Rajan& Dhal (2003) believe otherwise. There is also evidence that shows a strong positive relationship between NPLs and the ratio of loans to asset, which captures the risk appetite of banks (Sinkey and Greenwalt, 1991). The supporting rationale is that banks that value profitability more than the cost of higher risk are likely to incur higher levels of NPLs during periods of economic downturn.

Finally one other factor is bank concentration (Fernandez de Lis, 2000). In countries where there is monopoly of banking markets. Lending institutions lend at very high interest rate. This is a contributor to an increase of NPLs rate. This usually does not happen in competitive market. Breuer (2006) finds a small but a significant positive association between banking industry concentration and nonperforming loans.

2.6.3 Client Specific Factors

The problems of NPLs are influenced by internal and external factors confronting borrowers. The internal factors could be that; borrowers take the loan to undertake projects which do not get complete to get the necessary funds for repayments. Even when the projects is completed, often the failure or inefficient management also make the project not yielding any return (Muniappan, 2002). External factors are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities. Loan default is closely related to corporate bankruptcy (Lízal, 2002). Bankruptcy is often caused by indebtedness, lack of profitability and less liquidity (altman, 1968). In addition, there are other characteristics of the firm, which influence the degree of the moral hazard problems and ultimately the risk of default. If the debtor is fully liable, the effects of investment decisions are internalized in the payoffs. In contrast, when the degree of debtor"s liability is restricted, for example, if there are insufficient assets that can be used as collateral and can be liquidated in the case of failure, the debtor repays only in the case of a successful outcome. As a consequence, the incentives of the debtor are distorted if he is not (fully) liable (Bester, 1987, Holmström, 1996, and Hainz, 2003). The character of the borrower also determines whether he will default on loan repayments. Fergal (2012), concluded that typical financial ratios, such as the ratio of the loan to total assets, the current ratio, leverage ratio, liquidity ratio and profitability ratio, are found to be significant predictors of default.

2.7 Barriers to Bank Lending to Clients

2.7.1 Location of Business

The location of a business can affect whether a bank finds it suitable to grant loans to clients or not. Businesses located in a low income target area can be an unarticulated reason for denial of a loan. The location of the business does make a difference as to whether the client will get the loan or not. Coleman **(**2000) stated that "Being a banker and being a minority and sitting on loan committees, if a business is in a profitable area, that possibility of growth for that business, additional income, etc. is a factor. If, however, the business is in an area that is not growing and where the economic development prospects are bleak, the location of the business is definitely going to have a great deal of bearing on the decision made on that loan."

Fraser, S.(2005), noted that while a number of the larger banks were, in fact, trying harder to make loans in low income communities, the unfortunate reality of today is that it still did make a difference from what part of town the businesses was located. However, there is a strong counter-point. Ennew and McKechnie(1998) stated that "Banks are interested in lending money to people who are going to return it. If the business is profitable and has the track record and looks like the cash flow is there to pay the bank back, it does not matter where the business is. The key thing is that, is the money going to be there to pay back the loan?"

2.7.2 Lack of Equity

Lack of equity on the part of the borrower was identified as another barrier (Howorth,2001). A lot of banks are asking people to over collateralize, in other words, they want everything, your house, all your assets. Most poor people have few assets that can be secured by a bank as collateral. As documented extensively by Graham and Mutesasira, (2001); Christen, Rosenberg &Jayadeva, (2004); MFW4A Microfinance, (2005), even if they happen to own land in the developing world, they may not have effective title to it.This means that the bank will have little recourse against defaulting borrowers.

According to Kotey(1999), there were a number of very good reasons for banks to demand sufficient collateralization; the actual problem is how much the collateral is really worth. That's what collateral is and that is how banks evaluate it. Butaccording toIrwin and Scott (2006), it is more than that. If a small business person is not willing to make a commitment, a total and complete commitment, then they are most likely not going to be a success in that business. In other words, a small business person has to always be running scared.

A banker who participated in a forum stated: 'in all honesty, unless we believe that the entrepreneur has just as much to lose as we do we will feel nervous about making the loan" (Smallbone*et al.*,2001). Banks want to see at least parity between their risk of loss and the clients' risk of loss on a lending situation. There is a risk-return ratio to consider. Banks are not like a venture capitalist that could share in the equity of a business that potentially could boom and be sold off for tremendous profit. Banks have a relatively low return on their loans compared to a high risk.

Ram and Deakins (1996) agrees on this point that "The reason the banks want your house, your mother-in-law's house and everything else is because of past experience. I have seen a lot of people, small entrepreneurs, and come in to get loans based on good intentions. They had every intention to do well in their business but things just did not work out. As a result, other borrowers following them will have a harder time in getting a loan."

2.7.3 Banks used as a Source for Start-up Capital

There is a misconception in the community that if one needs money to start up a business, one just have to go to a bank", and, Banks are just not in the business of making loans for start-up businesses (Irwin and Scott, 2005). Most start-up businesses need financing in order to begin operations. The problem is that banks do not normally provide financing for start-up businesses. This is true in both the

Anglo or white and minority communities. According to Curran and Blackburn (1993), Banks are not the foundation for start-up capital since it is not our market to be out there lending to start-up businesses. That's more the venture capital system.

Bernanke and Gertler (1995) agreed that banks do not normally finance start-ups but suggested that this was still a legitimate credit need in the community that must be addressed. Banks only lend to those people who do not really need the loan. Sometimes people see a person with prior experience in the bank getting money to start up a business. But the bank is not giving money based on the business, but based on the previous banking experience with that client. It's a different ball game

Another banker reinforced this point and suggested a way that a certain number of start-up entrepreneurs could obtain bank credit by using the equity in their homes: It looks like we're always lending to people who don't need it, but we lend to people who have a track record (Boyes, Hoffman and Low, 1999). Banks are not a source of start-up capital because of the fact that most of those people do not have a track record. But banks try to look for alternatives, for a different type of capital. If the client is going to start a t-shirt business and the client does not have any background selling t-shirts, but if the client has property the bank can take some equity out of, the client can use that to start the business. But many would be entrepreneurs do not have sufficient equity in their home for this idea to work. Carling, Jacobson and Roszbach (2001) who were providers of technical assistance endorsed the idea that there still needed to be some new mechanism to overcome the legitimate barriers to making loans for start-up businesses, that such mechanisms should focus on start-ups where the entrepreneur has a good business idea and has access to training and technical assistance.

2.7.4 Lack of Educational Experience for Start-ups

The lack of education and experience were barriers for start-up businesses. Coleman **(**2000) stated that: "when we talk about the need for education and experience, we are sort of talking concerning the qualifications for a loan. A cautious banker or a prudent lender, requires a certain amount of equity investment, wants a certain amount of education and experience. So these perhaps are barriers to making loans in these neighborhoods". Carling, Jacobson and Roszbach (2001) added that "Small business people, regardless of race, creed or color, have to be educated to understand that if they go into business without the record of experience, that all the loan money can do is set them up to fail. We need to address (the educational and the experience needs) of people before they start a small businesses".

Irwin and Scott, (2005) elaborated that based on his experience, when he speaks to a client who wants to start a small business; he really does not push the capital first. It is important to talk about the experience. Unfortunately what happens with most small business people is that they want to go into business because something bad happened in their previous job. So, they decide, to go into a venture that they do not know anything about. Inexperienced entrepreneurs had a tendency to want to start restaurants (Coleman, 2000).

2.7.5 Inadequate Technical Assistance for Start-ups

Roszbach, (1998) believe that inadequate technical assistance was a barrier to banks offering credit to clients. The high cost of technical assistance was one issue. Carling, Jacobson and Roszbach, (2001) stated that another problem is that technical assistance providers often give an overly optimistic viewpoint. Most technical assistance providers will not tell people the truth and that compounds problems. When one is in the lending business one must have almost no real opportunity to explain something to a client who's already misguided. Jaffee and Stiglitz, (1990), however cautioned that the burden of developing the business plan is that of the business person himself and not the technical assistance provider, because often people come in and they want their loan package in two weeks. What good is that doing the small business person?

2.7.6 Poor Management

Another barrier that is hard to quantify is poor management. Shoddy record keeping greatly affects borrower's chances of being granted loan. Obviously in business the borrower must have reasonable records that can show what he or she has done. This then makes it much easier to deal with the lending process. Greene, (1997) summarized as follows; "Obviously, I think most of us are aware that the major reason why most businesses fail is poor management. That's nationally recognized as a major reason for business failure. Take an established business, put in brand new ownership, it may take off, it may stay the same, it may begin to die a slow death. So we would consider the owners as a major event, but obviously you do have track records, sales, product or service and we would be looking to see how much of the management team was still in the place."

2.7.7 Gender-specific Challenges

Socialization is one of the mechanisms employed to facilitate business transactions in Ethiopia, which appear to be more so in the financial sector. In a male dominated society like ours women find it difficult to easily socialize. As a way out they would tend to depend on male kin to facilitate issuance of loan through socialization. This was raised as one of the major entry barriers women face by most respondents, including the male business owners in a study conducted by Irwin and Scott, (2005).

Ennew and McKechnie (1998) compare the banking relationships of male and female entrepreneurs and suggest that, “discrimination occurs amongst lenders at a more unconscious level”, and then consider the relationship between banks and female entrepreneurs with respect to terms and conditions, and quality of service. Coleman (2000) finds that women have a lower propensity to access external financing but he argues that this is due not to discrimination by lenders, but rather “that women-owned firms paid higher interest rates than men for their most recent loans”.

2.8 Summary of Literature

The literature present various information on banking, loans, non-performing loans, determinants of non-performing loans, bank lending policies and challenges bankers face in terms of lending. The key causes of non-performing loans in the banking industry are three- pronged. These are factors specific to internal organization, factors relating to the macro- economic policies, which ultimately determine how the economy works, and finally those factors relating to the actual management of business, Mucheke (2001). The focus is the assessment of factors influencing loan default rate among customers of UT-Bank.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focuses on the research methodology and design, methodology section of a research study describes the theory of how the research should be undertaken, including theoretical and philosophical assumptions upon which the research is based and the implications of these for the methods adopted. It is made up of the working definitions, method of data collection and method of data analysis. The second part of this chapter is a brief corporate profile of UT Bank.

3.1 Research Design

The research was undertaken in UT Bank with focus on Tema main branchin the Greater Accra Region. The design of the study will be a cross-sectional survey design using the quantitative approach.Osuala (1993) believes that survey research deals with the present. Surveys are oriented towards the determination of the status of a given phenomenon rather than towards the isolation of causative factors. Osuala (1993) argues that surveys are generally based on large cross-sectional samples.A survey design according to Fowler (1988), provides a quantitative or numeric description of some fraction of the population. The sample through the data collection, in turn, enables a researcher to generalize the findings from a sample of responses to a population

3.2 Sample and Sampling Procedure

In order to gather and collate the data necessary a convenience or opportunity sampling was used. The choice of this sampling technique was based on the accessibility of a sample available within limited time and resources. In total, the researcher opted for a sample size of 100 borrowers and 10 credit officers.

3.4 Population

The study will involve all Borrowers of UT-Bank and credit officers under the credit department.

3.5 Sources of Data Collection

Primary and secondary data from UT-Bank Tema main were used in carrying out the study by the researcher.

3.5.1 Primary Data

Questionnaires and interviews were used to collect data from the borrowers and credit officers at the UT bank Tema Head Branch for the study.

3.5.1.1 Questionnaire

The borrowers and staffs of the Credit Department at the Tema Main will be administered with two different questionnaires. In designing the questionnaire both closed and open ended questions were used. The borrowers' questionnaire was divided into two sections. Section A looks at the background information, Section B looks at the reasons for defaults and recommendations towards betterment of loan policies. On the other hand the Credit Department officer's questionnairewas also structured into three parts. The first part captures loan policy. The second part included questions that seek to find out the composition of business and personal (Auto and Salaried) loan portfolios. The third part seeks to find out challenges faced by UT Bank in retrieving loans.

3.5.1.2 Interview

In addition to the administration of questionnaire, one-on-one interview session with the respondent above was used to gather information on lending policy of UT Bank, business loan portfolio and personal loan portfolio. This helped the researcher obtain other significant information not captured by the questionnaire.

3.5.2 Secondary Data

Secondary data were sourced from UT Bank's monthly loan portfolio reports, annual reports and administrative manual.

3.6 Data Collection Procedure

The questionnaire was administered to the targetpopulation through personal contact by the researcher. First, permissionof the consent of respondents was sought,informed of the purpose, assured anonymity and confidentiality of responses.

3.7Data Analysis

Rose and Sullivan (1993) pointed out that it is not necessary to be a mathematician or statistician as some people might be thinking order to develop an understanding of quantitative data and how they can be analyzed. Data analysis is concerned with sensitizing social researchers to the use, interpretation and evaluation of relevant data rather than with the more formal understanding of statistics.Data will be analyzed using Excel. Pie charts, line graphs, tables and excel software were used in analyzing the data collected from the respondent. Specifically, qualitative analysis was applied to capture the policies and challenges faced by the bank. Trends were also observed in the secondary data.

3.8 Profile of UT bank

UT Bank Ghana Limited (formerly UT Financial Services Limited) commenced business as a Finance house in 1997 under the name Unique Trust Financial Services Limited. It has evolved from a lending institution to a Universal Bank through the acquisition of the former UT Bank in June 2010 and trades on the Stock Exchange under the new name UT Bank. From humble beginnings as a privately owned company in Ghana, UT Financial Services Ltd became a publicly owned company in 2008 with shares listed and actively traded on the Ghana Stock Exchange. Unique Trust Financial Services, the name at inception of the company, was changed to UT Financial Services in 2008 just before its listing. With an annual turnover of GH¢74 million, over 600 staff and 26 branches nationwide, UT Bank is one of the fastest growing indigenous banks in Ghana. The Bank has positioned itself as a lending bank that seeks to redefine banking in Ghana through fast, efficient and respectful delivery of service. The company has for the past decade committed itself to serving the needs of Ghanaian traders and businesses not normally catered for by the traditional banks. The desire of the founding members was to create an entity set apart by its nonpareil standards of integrity in its dealings with clients and shareholders.

3.8.1Mission Statement

The mission statement for UT Bank is to be the preferred bank for businesses and individuals providing quality and outstanding products with speed and efficiency to delight customers and build shareholder value.

The initial focus of UT was centered on servicing the “unbanked” informal sector, but over the years, UT’s services have extended to cover the formal sector. What set’s UT apart in the financial services market is its solid business structure, flexibility and timely delivery of financing to clients whilst maintaining the promise of providing business loans in less than 48 hours.

3.8.2 Vision Statement

The vision statement of UT Bank is “Redefining Banking”

3.8.3 Core Values

The core values of UT Bank are as follows:

- Stepping up to the plate
- Why not!
- Respect
- Integrity
- Professionalism

- Ubuntu

3.8.4 Loan Products

a) Fon4loan

Fon4Loan is an innovative product that recognizes the fact that owners of SMEs are not always able to leave their desk to secure the necessary funding for their jobs thereby compromising their business. Instead of the traditional way of applying for a loan by going to the bank, and having to wait for approval of the facility subject to procedural loan committee meetings, this product allows you the option of calling or texting to a unique number and a follow up will be done within two (2) hours by a branch closest to the client.

b) Social loan products

These products are designed for all salaried workers and some non-salaried workers to meet pressing personal financial obligations. Workers thus do not have to wait for their “payday” to meet financial challenges they are confronted with. This loan product includes the following:

c) Fast Credit

This is an employee personal loan which can be used for any purpose. For instance, it can be used to finance rent, land, travel expenses, household appliances, personal effects, laptops, etc.

d) F.L.E.A.P – Future Leaders Education Assistance Plan

This product comes with a lower interest rate to ease the burden of making lump sum payments for fees to schools and institutions either for the applicants or their wards.

e) S. Facility

This is a special product and is designed for high earning individuals who are not in the main stream employment but earn regular income e.g. directors of companies who do not pay themselves, lawyers, school proprietors, etc. Under this, the maximum loan amount one can access is GH¢5,000 for maximum duration of one (1) year.

f) Auto Loan

This type of loan is offered to individuals or business entities to purchase any vehicle of their choice, whether brand new or second-hand for their private or business use. The UT Auto Loan is designed to assist individuals as well as corporate entities to purchase vehicles for either private or business uses.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

4.0 Introduction

This chapter seeks to describe how the data for this study was obtained, presented and interpreted with the ultimate objective of providing answers to the research questions. Data was analyzed using excel charts and qualitative analysis according to specific areas categorized under specific headings inrelation to the objectives of the research heading.

4.1 Response to the questionnaire given to the head of credit at UT bank, Tema branch

4.2 Lending policies

Interview with the Head of Credit at UT Bank, Tema branch on the bank's lending policies revealed that, UT Bank lending Policies are distinct per each loan product; Business Loans and Personal Loans. Personal loans are however categorized as Salaried loans and Auto Loans.

In general, the key fundamental of these policies is the financial strength and repayment ability of the applicant with regards to each of the loan products upon financial assessment.

4.2.0 Policies on Business Loan

Data from UT Bank, Tema branch revealed that it is a policy that applicants of Business Loans must have been in their line of business for at least one year with evidence of financial records covering the immediate past six months for financial analysis and assessment. Business registration certificates and at least one national identification card are required but not mandatory. UT Bank also requires that the business offices and residence of applicants are inspected and graphical directions placed on file. Most important of all these policies is the collateral cover such as properly registered landed property, vehicles, stocks etc for the loan facility which must be of a ratio of at least 2:1 as required by the policy. The minimum loan amount per the policy under the business loan is GH¢1,000. The policy does not however stipulate the maximum as it depends on the financial strength of the customer and collateral cover. Loan duration is for a maximum period of one year and interest rate is between 3%-5.5% per month depending the applicant's risk exposure. The major component that influences the bank's decision in granting business loan is customer business financial strength. In all, start-up businesses are not financed since they have no past records for financial assessment. It is also a policy that 4% of loan amount is charged upfront as processing fee for every loan application.

4.2.1Policies on Auto Loan

Data from the respondent also showed the bank's policy on this product is a mandatory initial 30% and 50% deposit for private and commercial vehicles respectively as same vehicles are used as collateral. Applicants' residence and business offices are required to be inspected as well and graphical directions placed on file. Loan duration for this facility per the policy is one year for loans up to GH¢5,000 and a maximum of twoyears for loans above GH¢5,000. Comprehensive insurance cover is also a major requirement for all loans under this product. In general, vehicles which are more than 10 years in age (over age) do not qualify for this product. The major component that influences decision in granting auto loan is strong source of loan repayment. Interest rate per the policy ranges between 2.5% - 4% per month depending on age of the vehicle or type of client; corporate or individual. Upfront charge of 3% of loan amount which is processing fee is an applicable policy and 1% of loan amount is also charged for life insurance premium.

4.2.2Policies on Salaried Loan

Data from the Bank further points out that apart from the policy of employer guarantee for employees under salaried loans which comprises of FLEAP, FAST CREDIT, S-FACILITY, It is required that immediate three months pay slips and six months bank statement of the prospective applicant is submitted for assessment to determine how much facility can be advanced. Residential abode and place of work are required to be inspected as well.

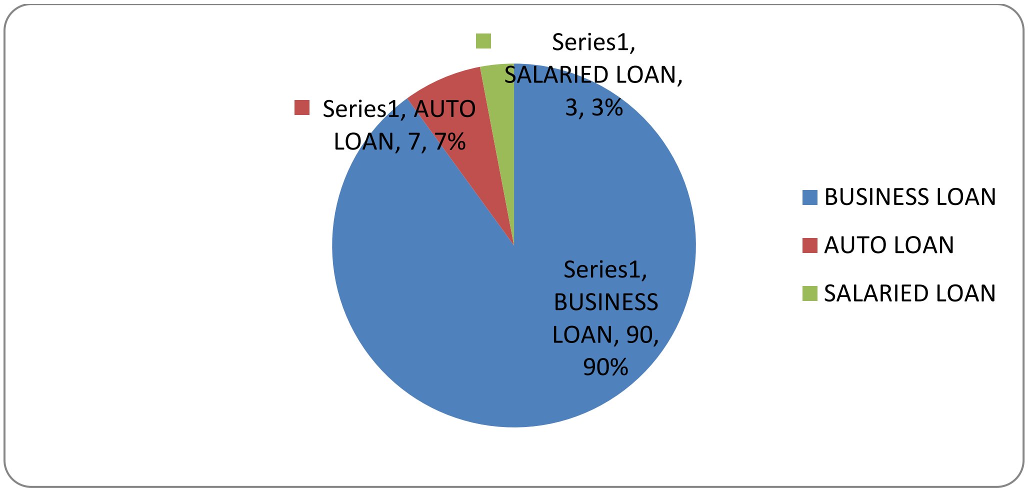
From the data, the policy also requires that private salaried workers should have a net monthly salary of at least GH¢500 in order to qualify for this facility with a maximum duration of 12 months. Post-dated cheques to cover monthly repayments for loans advanced are required as well. Public and civil servants however per the policy have a maximum of three years as loan repayment duration with a minimum loan amount of GH¢200 for clients in this sector. Interest rate for this product per the policy is 4% per month with upfront life insurance premium charge of 1% of loan amount apart from 3% upfront charge of loan amount as processing fee. However, FLEAP (Future leaders Education Plan) does not attract any fee charges at all per the policy.The major component that influences decision in granting salaried loan is the adequacy of applicants' monthly salary.

4.3 Composition of the loan portfolio

Data from the respondent showed that the percentage of the entire loan portfolio that constitutes business loans is 90% whilst Auto and Salaried loans make 7% and 3% respectively of the rest of the portfolio.

Figure 4.0 below is a pie chart representation in terms of the three loan products of the entire loan portfolio.

Fig 4.0 Composition of loan portfolio by product

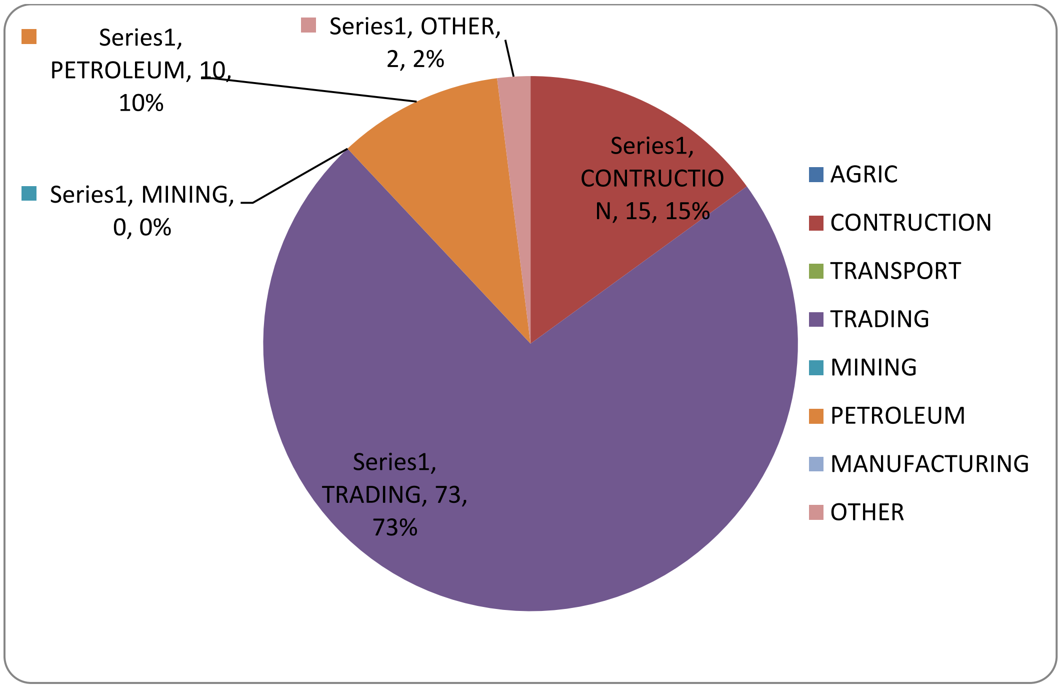


Source: *field work, 2016*

4.3.0 Composition of Business Loan Portfolio by Industry

As in figure 4.1 below, the respondent data showed that the Agric industry constitutes 0% of the entire business loan portfolio. The Construction industry constitutes 15% whilst Tradingmake up 73% of the business loan portfolio. Ironically, the Mining industry makes up 0% of the business loan portfolio. Additional data from the respondent revealed the Transport, Manufacturing and Petroleum industry having percentages of 0%, 0% and 10% respectively. Other industries constitute 2% of the business loan portfolio according to data from the respondent. However, 8% of the entire business loan portfolio is non-performing out of which the Construction industry constitutes the highest percentage. The Trading industry on the other hand has the highest percentage of the performing business loan portfolio.

Fig 4.1 Composition of business loan portfolio by industry

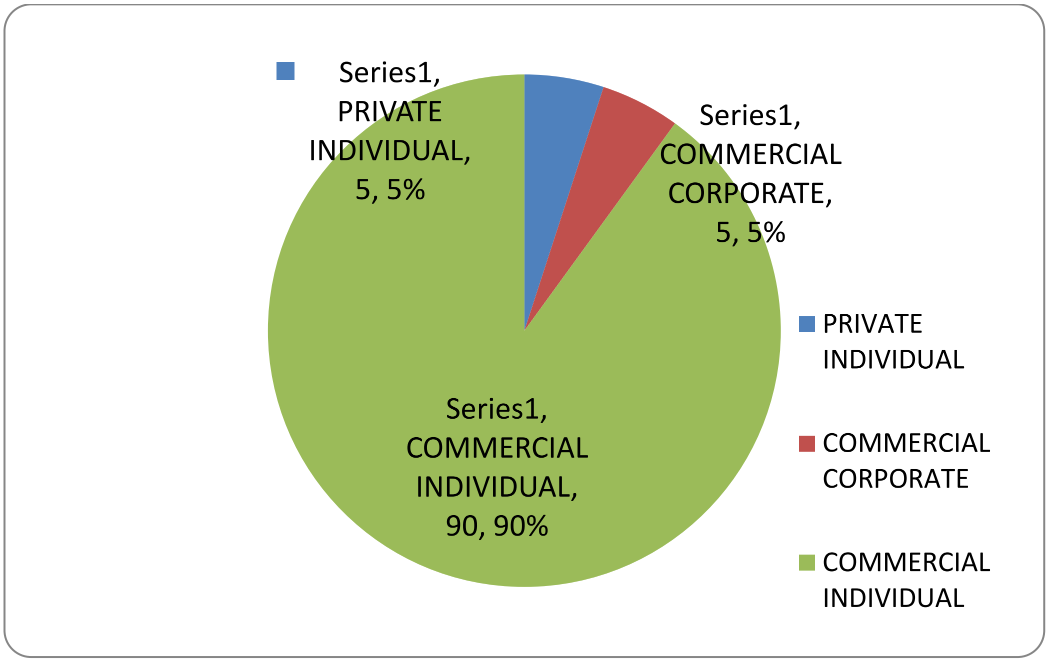


Source: *field work, 2016*

4.3.1 Composition of Auto Loan Portfolio by Sector

Categorized into Private Individual, Commercial Corporate and Commercial Individual sectors as represented in the Pie chart in figure 4.2 below, data collected from the respondent showed that 5%, 5% and 90% of the entire Auto loan Portfolio constitutes Private Individual, Commercial Corporate and Commercial Individuals sectors respectively. However, 1% of the entire Auto loan Portfolio is non-performing out of which the Private Individual sector has the highest percentage. The Commercial Individual sector, on the other hand forms the highestpercentage of theentire auto loan portfolio which is active and performing.

Fig 4.2 Composition of auto loan portfolio by sector

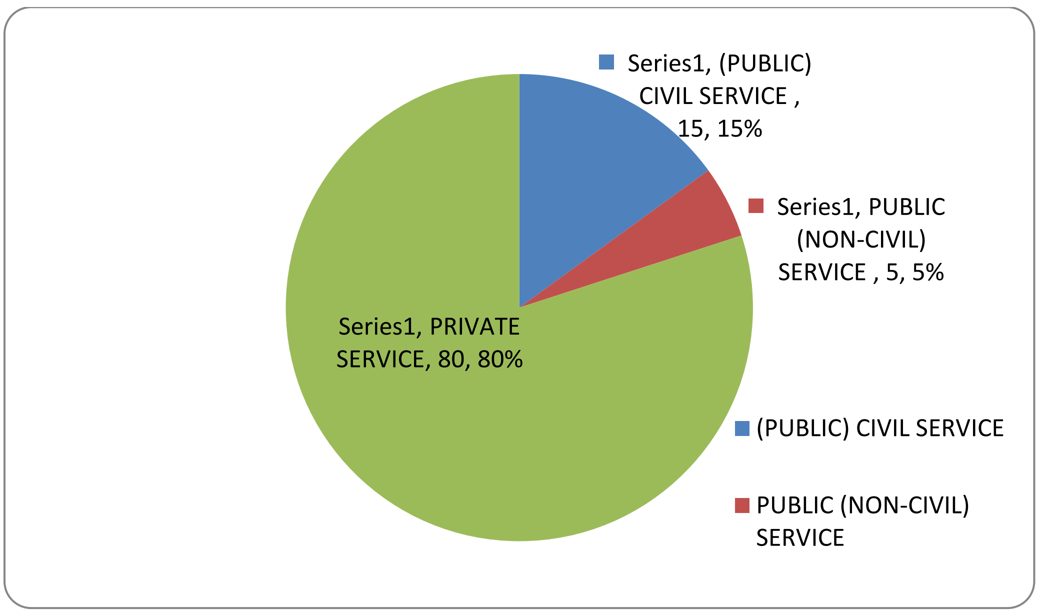


Source: *field work, 2016*

4.3.2 Composition of Salaried Loan Portfolio by Sector

Data collected from UT Bank represented below in Figure 4.3 shows the composition of the Salaried loan Portfolio on sector basis. The (Public) Civil Service sector which comprises of Government employees paid through the Controller and Accountant General's Department, making up 15% of the entire Salaried loan portfolio. This is because this sector is considered as low risk as a result of loan deduction being done at source. On other hand, Government employees, classified as Public (Non-Civil) Service sector, because they notpaid through the Controller and Accountant General's Department make up 5% of the entire Salaried loan portfolio. The high risk sector, categorized as the Private Service sector by virtue of the fact that loan repayments are by postdated cheques constitutes 80% of the Salaried loan portfolio. Nonetheless 1% of the Salaried loan portfolio is non-performing and thePrivate Service sector constitutes the highest percentage of it. The (Public) civil service sector constitutes the highest percentage of active and performing salaried loan portfolio.

Fig. 4.3 Composition of salaried loan portfolio by sector



Source: *field work, 2016*

Additionally, the respondent expounded that the Bank has seen a steady growth in the composition of Loan Portfolio since it began operations in the year 2012. Tables 4.1, 4.2, 4.3 and figure 4.3 below are tabular and graphical representations of yearly portfolio growth in the various products.

Table 4.1 Business Loan Portfolio Growth (2012 – 2014)

DETAILS				
PRODUCT TYPE	**Business Loan**			
	YEAR	**Loans Disbursed**	**Number of Clients**	**Portfolio Size**
	2012	**931,458.00**	**185**	**364,532.79**
	2013	**2,221,928.00**	**261**	**732,906.25**
	2014	**3,280,841.00**	**129**	**1,773,438.00**
TOTAL		**6,434,227.00**	**575**	**2,870,877.04**

Source: *field work, 2016*

Table 4.2 Auto Loan Portfolio Growth (2012 – 2014)

PRODUCT TYPE	Auto Loan			
	YEAR	Loans Disbursed	Number of Clients	Portfolio Size
	2012	7,000.00	1	6,488.00
	2013	36,475.00	4	24,942.00
	2014	185,440.00	12	158,190.00
TOTAL		228,915.00	17	189,620.00

Source: *field work, 2016*

Table 4.3 Salaried Loan Portfolio Growth (2012 – 2014)

PRODUCT TYPE	Salaried Loan			
	YEAR	Loans Disbursed	Number of Clients	Portfolio Size
	2012	72,400.00	101	157,795.00
	2013	117,780.00	278	162,581.00
	2014	201,435.00	305	198,245.00
TOTAL		391,615.00	684	518,621.00

Source: *field work, 2016*

Comparatively, the salaried Loan enjoy the highest patronage in terms of clientele. Business loan on the other hand has smaller clientele base but of big Portfolio size as a result of the bigger loan application sizes. The least in both Portfolio size and loan applications is Auto Loan.

4.4 Lending and Retrieval challenges

According to the respondent, the Bank has a number of challenges which are factors contributing to the default in loan and retrieval of Loan from credit officers.

4.4.0 General Challenges

- ***Address System***

Data from the respondent by the researcher showed that improper residential address systems for most applicants have been one challenge with regards to applications for all loan products. The respondent was of the opinion that the residential numbering system in the country as a whole and Tema in particular poses a great challenge which makes it extremely difficult in locating a borrower's place of work and residence as required. Streets do not have names; houses do not have numbers etc.

The respondent was of the opinion that this challenge would be curb if streets are well named, demarcated and houses numbered appropriately.

- ***Field Inspection***

Data from UT Bank, Tema branch revealed that the issue of client confidentiality in respect of loan applicants being followed by loan officers to their residences, offices and shops for inspection as a policy for loan applications is another challenge to the Bank. Loan applicants, the respondent explain, are not comfortable with this policy as most of these applicants would not want others to be aware they have facilities from the Bank.

The respondent however explained borrower's character is the problem; the discipline to stay focused to keep money safe and repay loans is not there. To be fair to the banks, many borrowers are simply unwilling to repay their loans although some are genuinely unable to, having misapplied the funds in the first place.Even as the operating environment for business has improved, the loan repayment performance has worsened. Borrowers according to the respondent must therefore develop the attitude of paying their loans to prevent loan officers from inspecting their residence, offices and shop among perfecting the address systems.

Credit Referencing Bureaux

Per additional data from the respondent, it became evident that the Credit Referencing Bureaux institutions which are licensed to collect information from credit providers and available public sources on a borrower's credit history for compilation on these individuals and/or small firms, such as information on credit repayment records, court judgments and bankruptcy rulings and then create a comprehensive credit report that can be made available on request to the Banks as well as other credit providers (ie financial institutions, retailers, utility companies) hardly update their systems regularly on data collected hence information obtained from the Bureaux are archaic, very unreliable and a major challenge to the Bank with regards to lending.

The respondent however attributed this to the non-enforcement of the Credit Reporting Act, 2007 (Act 726) enacted to regulate the operations of Credit Bureaux by Bank of Ghana which is charged with the responsibility of the enforcement of the Act by licensing, supervising and regulating the operations of Credit Bureaux. The respondent subsequently recommended for enforcement and proper supervision by the Bank of Ghana as a solution to this challenge.

- ***Legal Issues***

Lack of proper infrastructure with regards to legal systems puts Banks at a greater risk. The respondent's data explained that debt collection is very difficult with respect to exercising legal remedies. The respondent sited the unwillingness of the Ghana Police Service to prosecute people who issue cheques that bounce and the fact that court processes to recoup debts takes too long, sometimes up to five years. The respondent explained further that the courts do not deliver justice on time and therefore it is difficult to foreclose on collateral hence the high write-offs.

As a solution to the legal challenge, the responded explained that in reality, the Bank of Ghana has been doing a lot to reduce the structural risk that banks run in their lending and that the Central Bank has also set up a collateral registry to prevent a borrower from using the same collateral to secure more than one loan, as well as to ease execution of collateral. At the centre of the effort is the Borrowers and Lenders Act, promoted by the Central Bank, which details the rights, responsibilities and obligations of both loan counterparties.There is however a view that some aspects of the legislation may need some tightening in order to encourage borrowers to be more creditworthy in their loan repayment practices.

- ***Poor Financial Management***

Data from the respondent made known that the smaller the company generally, the more risky the loan, since small companies have small cash flows, unpredictable source of income for repayment of loansand are unable or unwilling to take on competent managers to handle their finances, marketing and other professional assignments. The problem is exacerbated by the fact that such small and ill-managed companies are predominant in Ghana's economy. The small and medium sized enterprises sector is a dangerous sector to deal with because about 75% of them are in the informal sector with improper financial records.

In a solution, the respondent disclosed that Banks need to learn the (SMEs) peculiar characteristics. SMEs present major challenges. They do not have proper addresses, they have poor quality management, they are secretive about their business and strategies and they do not plan. If the Banks do not do the loan at the precise time they need it, they will divert it into something else because that particular business opportunity has gone.

4.4.1 Business Loan Challenges

- ***Collateral Security***

Data from the respondent showed that, UT Bank's predominant challenge in lending include the lack of physical assets such as properly registered landed propertiesfor collateral security as a policy by the Bank for business loan applications.Though most applicants of the business loans product are into viable venture, the absence of collateral securities as a mandatory policy for facilities have been a major challenge for the Bank in administering credit.

The respondent in a solution to the challenge above disclosed that character, condition, capital and business inflows of the borrower are what are key in lending rather than dwelling on collateral security.

- ***High Interest and Default Rate***

On interest rate, Data from the Bank explained that while banks insist on high interest margins above their declared base rate (the rate at which a bank supposedly lends to its most favoured customers) for most borrowers, because of the perceived risk involved, they actually lend at rates significantly below their base rates to borrowers they regard as safe bets, such as big corporations that are consistently profitable and have cash flows that can be applied to meet their loan repayment obligations. The respondent however mentioned that potential borrowers however are not satisfied with this since according them there is no justification for banks to charge high interest rates because of what they claim are high default rates.The respondent explained further that though borrowers agree that there are risks, they are not nearly as high as the banks make it out.The respondent however mentioned better risk and quality credit assessment processes founded on business inflows,but not collateral security, as a solution to this challenge. The respondent did not however fail to point out that the major cause of default associated with business loans is divergence of funds and delays in payment of funds for executed contracts and was of the opinion that joint name payment for contract loans should be encouraged to mitigate the challenge of divergence which is common with the Construction industry making the industry highest with regards to default rate.

4.4.2 Auto Loan Challenges

- ***Mandatory Initial Deposit***

A major challenge, according to data collected from the Bank, with respect to Auto loans, is the mandatory deposit policy of 30% and 50% for private and commercial vehicles respectively. The respondent explained that applicants seeking the Car loan for private use are required to make an initial deposit of 30% of the retail price of the Car whilst 50% of the retail price of the vehicle is required to be deposited if the vehicle is meant for commercial purpose. These requirements are quite high and demanding according to the respondent and therefore do not encourage patronage of the product which ultimately impede the growth of the Auto loan portfolio.

In a solution, respondent was of the opinion that these initial deposits should be made flexible and discretionary in accordance with the borrower's initial available funds whilst the emphasis rather rest on the repayment source as well as the ability and financial strength to repay the loan.

- ***Compulsory Comprehensive Insurance Cover***

The compulsory comprehensive insurance cover for all vehicles under the auto loan product was also a challenge as per data from the Bank. The respondent elucidated that it was compulsory for all vehicle purchased under the Auto loan product to be comprehensively insured since same vehicles served as collateral security for the loans. There was therefore the need to insure them against accident according to the respondent so that the insurance premium could either pay off the loan or reinstate the vehicle in case of accident. This type of insurance cover however is quite expensive and therefore discourages potential applicants from patronizing the Auto loan product.

The respondent was however quick to mention that additional vehicle, landed property or another form of additional collateral security as an alternative for borrowers who cannot afford the comprehensive insurance.

4.4.3 Salaried Loan Challenges

- ***Employer Guarantee***

Data collected from the Bank revealed the fact that employer guarantee for employee was a key challenge. The respondent gave further details that most employers are unwilling to guarantee facilities for their employees. The employers believe that the risk of paying back the loan become their sole responsibility if the employees are no longer in employment.

The respondent however in an answer to this challenge was of the opinion that the employer could guarantee and tie it to the employee's benefits but march the benefits to the loan amount being guaranteed.

- ***Minimum Loan Amount***

The respondent's data also made known the fact that most applicants in the private sector earn less than GH¢500 which is the minimum net salary required by the Bank's policy to qualify an applicant engaged in the Private Service sector for a salaried loan. A larger percentage of employees within the Private Service sector earn less than the GH¢500 threshold hence according to the respondent most employees do not qualify for the salaried loan however these categories of employees are the potential applicants for the Salaried Loan product. The respondent subsequently in a solution suggested that the minimum threshold is made flexible and rather tied to deductions not exceeding 50% of applicant's net monthly salary.

Information from the respondents also showed that the reasons why respondents find it difficult to pay their loans is because of:

- High interest rate (33%)
- Loss of job (21%)
- Car having accidents (23%)
- Bankruptcy (23%)

Table 4.4 Determinant of loans default

	Count	Percentage
High interest rate	33	33
Loss of job	21	21
Car having accidents	23	23
Bankruptcy	23	23
Total	100	100

Source: *field work, 2016*

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter the summary of the findings of the study related to previous research areas in relation to lending challenges in UT Bank are presented. The main purpose of the study was to identify the challenges that UT bank faces in lending money.

5.1 Summary

The purpose of this research was to assess the determinants of loan default in the banking sector with reference to the Tema main branch of UT Bank Ghana located in the Greater Accra Region. The research assessed the lending policies of UT Bank, found out the composition of the loan Portfolio of UT Bank and found out the determinants of default and challenges faced by UT Bank in retrieving their money.

The study was a descriptive one. The Head of Credit guiding credit administration of UT Bank, Tema branch was interviewed.

From the results it was clear that:

UT banks key policy in granting Business loans, Auto loans and Salaried loans are collateral security, mandatory initial deposit (30%-50%) payment and employer guarantee for employees.

Also, the major component that influences decision in granting Business loan, Auto loan and Salaried loan are customer business financial strength, strong source of loan repayment and adequate monthly salary respectively.

The bank's interest rate on Business Loan, Auto Loan and Salaried Loan are 5.5% per month, 4% per month and 4% per month respectively.

Considering the composition of the loan portfolio;

Business Loans constitutes 90% of the entire loan portfolio of UT Bank. The composition of Business Loan portfolio as categorized by theAgric, Construction, Trading, Mining, Transport, Manufacturing, Petroleum and other industries are 0%, 15%, 73%, 0%, 0%, 0%, 10% and 2% respectively.

The percentage of non-performing business loan portfolio is 8%. The Construction industry constitutes the highest percentage of non-performing Business Loan portfolio. Trading constitutes the highest percentage of active Business Loan portfolio.

Taking into consideration Personal Loan under which is Auto loan and Salaried loan;

Auto Loans constitutes 7% of the entire loan portfolio of UT Bank. The composition of Auto loan portfolio is categorized by the Private Individuals, Commercial Corporate and Commercial Individual sectors. These sectors constitute 5%, 5% and 90% respectively of the entire Auto Loan portfolio.

The percentage of non-performing Auto Loan portfolio is 1%. Private Individuals constitutes the highest percentage of non-performing Auto Loan portfolio and Commercial Individual constitutes the highest percentage of active Auto Loan portfolio.

Additionally;

Salaried Loans constitutes 3% of the entire loan portfolio of UT Bank, Tema branch. The composition of salaried loan portfolio is categorized by (Public) Civil Services Public (non-Civil) services and Private Services sectors.These sectors constitute 15%, 5% and 80% respectively of the entire Salaried Loan portfolio.

1% of the Salaried Loan portfolio is non-performing; the Private Services sector is the category that constitutes the highest percentage of non-performing Salaried Loan portfolio and the (Public)civil service with the highest percentage of active Salaried Loan portfolio.

General challenges of UT bank in retrieving money are;

Improper address systems, archaic data from the Credit Reference Bureaux as a result inefficiency and non-enforcement of the Credit Reporting Act 2007 (Act 726) by Bank of Ghana as well as delays by the Courts in delivering justices to recoup debts.

The key challenges with business loans are;

Lack of proper financial record to assess clients for loans and clients inability to provide collateral cover for loans.

Major challenges in auto loan lending are;

Clients' inability to provide the initial 30%-50% mandatory deposit and the compulsory comprehensive insurance policy which has led to low patronage of the product.

Accident of vehicle

Salaried loan product also has major challenges such as;

Employers' unwillingness to guarantee loan for employees as well as the threshold of GH¢500as a policy for qualification of a loan by employees engaged in the Private Service sector.

From the results, it was clear that, the major cause of default associated with Business Loans, Auto Loans and Salaried Loans are divergence of loans and delays in funds payments, inadequate income from repayment source and multiple loan obligations respectively. Again, the study showed that, Construction is the industryof the Business Loan portfolio that has the highest default rate. In relation to Auto Loan, the Private Individuals sector is the category of product that has the highest default rate and the Private Services sector is the category of the Salaried Loan portfolio which has the highest default rate.Business Loan however has the highest default rate among the three loan products.

It was also observed that the reasons why the clients find it difficult to repay loan is because of the high interest rate, loss of job, accident car and bankruptcy.

5.2 Conclusion

Banking is both a risk-taking and profit-making business, and bank loan portfolios should return profits commensurate with their risk (Pazarbasioglu, 1999). Although this concept is intellectually sound and almost universally accepted by bankersand examiners alike, banks have had difficulty implementing it. In developing countries, industries, business owners and individuals have great difficulty in obtaining the necessary financial resources to effectively scale up and grow their businesses. Most bankers point to the high provisioning cost as evidence that lending in Ghana is very risky, which is largely why the banks insist on high interest margins. Basically put the net interest income, the banks demand has to cover the loan losses they incur from bad borrowers and their other operational costs as well as shareholders' expected returns on their investment. A lot of banks are asking people to over collateralize, in other words, they want everything, your house, all your assets. Most poor people have few assets that can be secured by a bank as collateral. The bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses. In effect, it may therefore be that simply because banks approach the lending process in a risk-averse way in order to protect the funds of savers, and thus turn down a number of propositions perceived to be 'riskier'. Banks depend largely on lending; therefore the need to adhere to the basic principles of lending is quite inevitable.

The loan policy is the primary means by which senior management and the board guide lending activities. Although the policy primarily imposes standards, it also is a statement of the bank's basic credit philosophy. Typical loan policies require that the borrower have a certain debt to income ratio, often 38 percent or less. The policy will require that income be verified and that the collateral, such as the home or car, be valued at a level that supports the loan amount through an appraisal or Blue Book comparison. Banks will order a credit check on each borrower, and the policy will determine what credit score is necessary to qualify for the loan (Jaffee and Stiglitz, 1990).

The principles, if strictly followed, will guarantee depositors and shareholders' funds, increase profitability and make a healthy turn over. According to Leece (2001), such advances in turn assist in the transformation of rural environment, promote rapid expansion of banking habit and improve and boost the nation's economy. It is also important for the bank to have a look at their interest rate.

5.3 Recommendations

Based on the established findings, the following recommendations are found suitable:

Given the fact that UT Bank's target clientele are the informal sector (SMEs, etc) relative to key policies of physical assets as collateral security, initial mandatory deposits and employer guarantee among others for Business, Auto and Salaried loans respectively, it is imperative that these policies are customized to suit a particular customer need. The Bank however argues that, even as the operating environment for business has improved, the loan repayment performance of borrowers has worsened. Many borrowers are simply unwilling to repay their loans although some are genuinely unable to, having misapplied the funds in the first place hence the need for the Bank to cushion (collateral) itself and put in place policies to ensure genuine applications. It is however recommended that loan policies of UT bank should be given a second look and credit administrations or lending appraisal be largely based on business financial strength, strong source of repayment and adequate monthly income to ensure a healthy loan portfolio for all the loan products. It is also recommended UT bank addresses procedures for determining when to obtain a new evaluation to understand the collateral value and credit risk implications for a particular Loan.

Interestingly, whereas the Central Bank's police rate which forms the bases for computing the Banks base rates is computed on per annum basis, UT Bank's interest rates computation is per monthly basis. This accounts for the high interest rate for UT Bank leading to the high default rate especially with the Business Loan product and Construction industry in particular. UT Bank, apart from being into short-term loans, however points to the high provisioning cost as evidence that lending in Ghana is very risky, which is largely why the banks insist on high interest margins including UT Bank. Simply put the net interest income the banks demand has to cover the loan losses they incur from bad borrowers and their other operational costs as well as shareholders' expected returns on their investment. Nonetheless, it is recommended that interest rates of UT Bank are revised downwards and computed on per annum basis to reduce the high rate of default. Measures such as joint name payments from contract sources and special payment plans for construction loans could be adopted to avoid proceeds divergence and curtail the high default rate in the sector. Again, UT bank should ensure that a proactive risk management strategy is in place to manage all loans.

The risk associated with the composition of UT Bank's loan portfolio is quite high given that the entire loan portfolio is highly undiversified. Data collected on industry bases showed that the Agric, Transport, Manufacturing and interestingly the Mining industries constitutes 0% of the entire Business Loan portfolio which is Trading biased (73%). The entire loan portfolio itself of UT Bank – Tema branch is Business Loan biased (90%) in composition. Whilst Auto Loan portfolio according data collected is Commercial Individual sector biased in composition (90%), the Salaried loan Portfolio is also Private Service sector biased in composition (80%). The associated risk on product bases with regards to the Bank's portfolio rests on business loan. On industryand sector basis for each product, the risk however rest on Trading, Commercial Individual and Private Service for Business, Auto and Salaried loan respectively, though, a Bank's location or area of operation is determinant of its major loan product as well as industry or sector of specialty. It is therefore recommendable that UT Bank's loan portfolio is diversified on product, industry and sector lines to minimize the total loan portfolio risk.

Improper street naming and numbering systems, judicial service delays in delivering judgment to recoup debts as well irregular update of borrower information on the Credit Referencing Bureaux systems leading to archaic data among others are key challenges confronting lending in the Banking sector and UT Bank in particular. Given the aforementioned, it is highly recommendable that potential borrowers' residences are inspected and graphical directions placed on their files as a solution to the challenges with address systems. Though borrowers are not comfortable with this practice, UT Bank could politely attribute it to the KYC (Know Your Customer) policy. As a solution to the legal challenges, it is recommended the Bank of Ghana reduces the structural risk that banks run in their lending and monitor effectively and efficiently the collateral registry set up to prevent a borrower from using the same collateral security to secure more than one loan, as well as to ease execution of collateral security. Additionally, the Borrowers and Lenders Act which details the rights, responsibilities and obligations of both loan counterparties must be promoted by the Central Bank. However, some aspects of the legislation need some tightening in order to encourage borrowers to be more creditworthy in their loan repayment practices. Finally, strict supervision, regulatory and enforcement of the Credit Reporting Act, 2007 (Act 726) enacted to regulate the operations of Credit Referencing Bureaux by Bank of Ghana is recommended.

Generally, it is recommendable that UT Bank staff is educated on the key policies in granting loans, components that influence decision in granting loans, the banks interest rate on all the loan products and the percentage of the entire loan portfolio that constitute each product. The management should educate the staff with updated growth of the loan portfolio and where there is default.

REFERENCE

Abd, Ghafar I., Tan Be Lay, A., (2002). Bank Loan Portfolio Composition and the Disclosure of Loan Loss Provisions: Empirical Evidence from Malaysian Banks. *Asian Review of Accounting*, Vol. 10 Iss: 1, pp.147 - 162

Assefa, A. (1987). A Review of the Performance of Agricultural Finance in Ethiopia: Pre-Post Reform Periods. Addis Ababa University.

Basel Committee on Banking Supervision, (1999). A New Capital Adequacy Framework, Publication no. 50, June 1999. http://www.bis.org/publ/index.htm.

Berger, A. N., L. F. Klapper, & G. F. Udell. 2001. "The ability of banks to lend to informationally opaque small businesses." *Journal of Banking & Finance*, 25:12, pp. 2127- 67.

Berger, A. N., N. H. Miller, M. A. Petersen, R. G. Rajan, and J. C. Stein. (2005). Does function follow organizational form? Evidence from the lending practices of large and small banks. *Journal of Financial Economics*, 76:2, pp. 237-69.

Bernanke, B., Gertler, M., (1995). Inside the black box: The credit channel of monetary policy transmission. *Journal of Economic Perspectives* 9 (4), 27–48.

Boyes, W.J., Hoffman, D.L., Low, S.A., (1999). An econometric analysis of the bank credit scoring problem. *Journal of Econometrics* 40, 3–14.

Carling, K., Jacobson, T., Roszbach, K.F., (2001). Dormancy risk and expected profits of consumer loans. *Journal of Banking and Finance* 25, 717–739.

Christen, RP, Rosenberg, R. &Jayadeva, V. Financial institutions with a double-bottom line: implications for the future of microfinance. CGAP *Occasional Paper*, July 2004, pp. 2-3.

Coleman, S.(2000) Access to Capital and Terms of Credit: A Comparison of Men- and Women- Owned Small Businesses. *Journal of Small Business Management*, 38 (3): 37-52

Curran J. and Blackburn R.(1993) Enterprise and the High St Bank, Small Business Research Centre, Kingston Business School, Kingston University.

Dimtsu, H. &Tesfaye, A. (2008). "Expanding Outreach through Linkage Banking: The Case of the Commercial Bank of Ethiopia"; Paper to be presented at the AFRACA workshop in Addis Ababa.

Ennew, C. and McKechnie, S. (1998). The Nature of the Banking Relationship: A Comparison of the Experiences of Male and Female Small Business Owner. *International Small Business Journal*, 16 (3): 39-55

Fluck, Z., D. Holtz-Eakin, and H. S. Rosen. (1998). "Where does the money come from? The financing of small entrepreneurial enterprises." NYU Stern Working Paper.

Fraser, S.(2005). Finance for Small and Medium Sized Enterprises: A Report on the 2004 UK Survey of SME Finances, Warwick Business School: Coventry

Graham A.N.W. and Mutesasira, L.(2001) The relative risks to the savings of poor people, Micro-Save Africa, January, 2001.

Greene, W.E., (1997). Econometric Analysis, third ed. Prentice Hall, Englewood Cliffs, NJ.

Howorth, C.A.(2001) Small Firms' Demand for Finance, *International Small Business Journal*, 19 (4): 78-86

Irwin, D. and Scott, J.M.(2005) The Important Role of Micro-finance in Supporting SMEs. ISBE conference, Blackpool, November 2005

Irwin, D. and Scott, J.M.(2006) The Important Role of Micro-finance in Supporting SMEs, *Cyprus International Journal of Management*

Jaffee, D., Stiglitz, J.E., (1990). Credit rationing. In: Friedman, B.M., Hahn, F.H. (Eds.), Handbook of Monetary Economics, vol. 2. North-Holland, Amsterdam, pp. 837–888.

Jappelli, T. & Pagano, M., (2002). Information sharing, lending and defaults: Cross-country evidence. *Journal of Banking and Finance*

Kotey, B.(1999) Debt Financing and Factors Internal to the Business, *International Small Business Journal*, 17 (3): 11-29

Lane, C. and Quack, S.(1999). The Social Dimensions of Risk: Bank Financing of SMEs in Britain and Germany, Organization Studies, 20 (6): 987-1111

Leece, D. (2001). Regressive interest rate expectations and mortgage instrument choice in the United Kingdom housing market. *Real Estate Economics*, *29*(4), 589-613.

MFW4A Microfinance (2010-11-05). "MFW4A - Microfinance". http://www.mfw4a.org/access-to-finance/microfinance.html.

Mian, A. (2008). "Distance Constraints: The Limits of Foreign Lending in Poor Economies" *Journal of Finance*, 61:3. pp1465-1505.

Paiella, M., &Pozzolo, A. F. (2007). Choosing between fixed and adjustable rate mortgages [Electronic Version]. Retrieved April 3, 2007 from http://ssrn.com/paper=976346

Paravisini, D. (2008). "Local Bank Financial Constraints and Firm Access to Finance" *Journal of Finance*, 63:5, pp. 2161-2193.

Pazarbasioglu, C. (1999), *Determinants and Leading Indicators of Banking Crises: Further Evidence*.

Petersen, M. A. &Rajan, R. G. (1994). "The benefits of lending relationships – Evidence from small business data." *Journal of Finance*, 49:1, pp. 3-37.

Phillips, R. A., &VanderHoff, J. (1991). Adjustable- versus fixed-rate mortgage choice: The role of initial rate discounts. *Journal of Real Estate Research*, *6*(1), 39.

Ram M. and Deakins D.(1996) African-Caribbean Entrepreneurship in Britain, University of Central England

Roszbach, K.F., (1998). Bank lending policy, credit scoring and the survival of loans. Working Paper Series in Economics and Finance No. 261, Stockholm School of Economics. http://www.hhs.se.

Sa-aadu, J., &Sirmans, C. F. (1995). Differentiated contracts, heterogeneous borrowers, and the mortgage choice decision. *Journal of Money, Credit & Banking*, *27*(2), 498-510.

Sapienza, P. 2002. "The Effects of Banking Mergers on Loan Contracts" *Journal of Finance*, 57:1 pp. 329-367.

Sharma, A (2008). Incomplete reform or opportunity: the role of the banking sector in the credit transmission mechanism in India. *Journal of Economic Policy Reform* 11(4).

Smallbone, D., Ram, M., Deakins, D. and Baldock, R.(2001) Accessing Finance and Business Support by Ethnic Minority Businesses in the UK, paper presented at the 'Public Policy and Institutional Context of Immigrant Businesses', Liverpool, 22-25 March 2001

Smith, D. J. (1989). The borrower's choice between fixed and adjustable rate loan contracts. AREUEA Journal: *Journal of the American Real Estate & Urban Economics Association*, 15(2), 110-116.

APPENDIX

INTERVIEW QUESTIONS ON LENDING CHALLENGES IN THE BANKING SECTOR CASE STUDY OF UT BANK - OBUASI

The information provided would be used solely for academic purposes and it is strictly confidential.

INSTRUCTION: Please give answers to all of the following questions appropriately.

PART ONE: LENDING POLICIES

1. What is UT Bank's key policy in granting business loans?

……………………………………………………………………………………..

2. What is UT Bank's key policy in granting Auto loans?

……………………………………………………………………………………..

3. What is UT Bank's key policy in granting salaried loans?

……………………………………………………………………………………..

4. What major component influences your decision in granting business loan?

……………………………………………………………………………………..

5. What major component influences your decision in granting auto loan?

……………………………………………………………………………………..

6. What major component influences your decision in granting salaried loan?

……………………………………………………………………………………..

7. What is your Bank's interest rate on business loans?

……………………………………………………………………………………..

8. What is your Bank's interest rate on Auto loans?

……………………………………………………………………………………..

9. What is your Bank's interest rate on salaried loans?

……………………………………………………………………………………..

PART TWO: LOAN PORTFOLIO

Section A: Business Loan

10. What percentage of your entire loan portfolio constitutes business loans?

……………………………………………………………………………………..

11. Please classify by percentage, the composition of your business loan portfolio as categorized by industry below:

a. Agric [%] b. Contracts [%] c. SME [%] d. Mining [%] e. Transport [%]

f. Manufacturing [%] g. Petroleum [%] h. Others [%]

12. What percentage of your business loan portfolio is non-performing?

……………………………………………………………………………………..

13. Which industry in (11) above constitutes the highest percentage of your non-performing business loan portfolio?

……………………………………………………………………………………..

14. Which industry in (11) above constitutes the highest percentage of your active business loan portfolio?

……………………………………………………………………………………..

Section B: Personal Loan

Auto Loan

15. What percentage of your entire loan portfolio constitutes Auto loans?

……………………………………………………………………………………..

16. Please classify by percentage, the composition of your Auto loan portfolio as categorized by below:

a. Private Individuals [%] b. Commercial Corporate [%]

c. Commercial Individuals [%] d. Private Corporate [%] e. Others [%]

17. What percentage of your Auto loan portfolio is non-performing?

……………………………………………………………………………………..

18. Which category in (16) above constitutes the highest percentage of your non-performing Auto loan portfolio?

………………………………………………………………………………………..

19. Which category in (16) above constitutes the highest percentage of your active Auto loan portfolio?

………………………………………………………………………………………..

Salaried Loans

20. What percentage of your entire loan portfolio constitutes salaried loans?

………………………………………………………………………………………..

21. Please classify by percentage, the composition of your salaried loan portfolio as categorized below:

a. (Public) Civil Services [%] b. Public (Non-Civil) Services [%] c. Private Services [%]

22. What percentage of your salaried loan portfolio is non-performing?

………………………………………………………………………………………..

23. Which category in (21) above constitutes the highest percentage of your non-performing salaried loan portfolio?

………………………………………………………………………………………..

24. Which category in (21) above constitutes the highest percentage of your active salaried loan portfolio?

…………………………………………………………………………………..

PART THREE: LENDING CHALLENGES

25. Which of your loan products has the highest default rate?

a. Business loan [ ] b. Auto Loan [ ] c. Salaried Loan [ ]

26. What is your key challenge in granting business loans?

……………………………………………………………….

27. What is your key challenge in granting Auto loans?

………………………………………………………………

28. What is your key challenge in granting salaried loans?

………..……………………………………………………………

29. Which of the following is the major cause of default associated with business loans?

a. Divergence/delays in funds payments [ ] b. Improper record keeping [ ] c. Lack of Experience in Area of business [ ]

30. Which industry of your business loan Portfolio has the highest default rate?

a. Agric [ ] b. Contracts [ ] c. SME [ ] d. Mining [ ] e. Transport [ ]

f. Manufacturing [ ] g. Petroleum [ ] h. Others [ ]

31. What is the major cause of default associated with Auto loans?

……………………………………………………………………………

32. Which category of your Auto loan Portfolio as listed below has the highest default rate?

a. Private Individuals [ ] b. Commercial Corporate [ ]

c. Commercial Individuals [ ] d. Private Corporate [ ] e. Others [ ]

29. Which of the following is the major cause of default associated with salaried loans?

a. Loss of Employment [ ] b. Change in Employment [ ] c. Multiple loan obligations [ ]

33. Which category of the salaried loan Portfolio below has the highest default rate?

a. (Public) Civil Services [ ] b. Public (Non-Civil) Services [ ] c. Private Services [ ]

PART FOUR: DEMOGRAPHIC DATA

34. Age Group: 18-25 [ ] 26-35 [ ] 36-46 [ ] 46 and above [ ]

35. Position held…………………………………………………………………………….…

36. Duration of working with UT Bank a. 0-5 year [ ] b. 6-10 years [ ] c.11-15 years [ ]

CLIENT QUESTIONNAIRE

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated strictly confidential. Your response to this questionnaire would be highly appreciated.

SECTION A: BACKGROUND INFORMATION

1. Kindly provide your age in years…………………………..

2. What is your Marital status: Single [ ] Married [ ] Divorced [ ] Widow [ ]

Other, specify……………….

3. What is your educational background? Basic [ ] Secondary [ ] Tertiary [ ] Other ………………

4. What is the size of your Family? Less than 5 [ ], Between 5 – 10 [ ] Over 10 [ ]

5. What type of business are you engaged in? Trading [ ], Agriculture [ ] Transportation [ ] Cottage Industry [ ], Government worker [ ], Others, Specify………………………..

SECTION B: REASONS FOR LOAN DEFAULT & RECOMMENDATION

6. How many times have you benefited from loan facilities from the Bank?
Once [ ] Twice [ ] Trice [ ] Others [ ] Others, Specify………………………

7. What was the size of your last loan?

Less than GHS500 [ ] Between GHS500.00 – GHS2,000.00 [ ]

Between GHS2,001.00 – GHS5,000.00 [ ] Between GHS5,001.00 – GHS10,000.00 [ ] GHS10,001.00 – GHS20,000.00 [ ], Over GHS20,000.00

8. Did the Bank give you the amount requested? Yes [ ] No [ ]

9. If no, why were you denied?
………………………………………………………………………………………
…

…………………………………………………………………………………………
….

10. Were you able to repay it as scheduled? Yes [ ] No [ ]

11. If No, what accounted for the default (State as many causes as you can)

………………………………..……………………………………………
…
…………………………………………………………………………………………
…
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………

12. What do you think can be done to improve the situation? State your comments………………………………………………………………………
…..

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………

13. How is the Banks loan processing like (State your comments)

…………………………………………………………………………………………
…………………………………………………………………………………………
……………………………………………………………………………………….
…………

14. Do you like the Bank's loan processing procedures? Yes [ ] No [ ]

15. If no, what improvement would you like to see in the loan processing of the Bank?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………

16. What did the Bank ask you to provide before the loan was advanced?

…………………………………………………………………………………………
…………………………………………………………………………………………

…………………………………………………………………………………………
………

17. What was the interest rate charged by the Bank for the loan you have defaulted?

Less than 30% [ ], Between 31 – 40% [ ], Over 40% [ ]

18. Do you think high interest rates can cause loan defaults? Yes [ ] No [ ]

19. In your opinion, what do you think the Bank should do to reduce loan defaults

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………

20. How would describe the services you have been receiving from UT-Bank Credit Officers

a. Best [ ] b. Better [ ] c. Good [ ] d. Poor [ ] e. Worse [ ] f. Worst [ ]

21. Select 5 things you don't like about OARB loans

i. High interest rates [ ] ii. High processing fees [ ] iii. Delay in the disbursement of loans [ ]

iv. Terms of repayment very short [ ] v. Kick backs/bribes to Credit Officers [ ]

vi. Loan size too small [ ] vii. Rude behaviour of Credit Officers and related staff towards clients [ ]

viii. Provision of cash security and landed property to guarantee loans [ ]

22. Based on your answer to Question 21, state at last 3 things you want UT-Bank to improve on its loans delivery

a. ………………………………………………………………………………

b. ……………………………………………………………………………….

c. ………………………………………………………………………………..

d. ……………………………………………………………………………….