UNIVERSITY OF CAPE COAST

AN EXAMINATION OF CREDIT PROCEDURES AND DEFAULT RATES: A STUDY OF ADVANS GHANA SAVINGS AND LOANS LIMITED

EDMUND O. AIDOO

2016

UNIVERSITY OF CAPE COAST

AN EXAMINATION OF CREDIT PROCEDURES AND DEFAULT RATES: A STUDY OF ADVANS GHANA SAVINGS AND LOANS LIMITED

BY
EDMUND O. AIDOO

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS OF THE COLLEGE OF DISTANCE EDUCATION, UNIVERSITY OF CAPE COAST, IN PARTIAL FULFILMENT 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/13/0042

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

Supervisor's Declaration

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

Supervisor's

Name…………………………….……………………………………

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

DEDICATION

To my wife, Mrs. Gifty Aidoo and children, Nana Adwoa Aidoo and Kwabena Adom Aidoo who have been a source of encouragement and inspiration to me throughout my study.

It is also dedicated to the Management of Advans Ghana for their support and contribution to this project.

ACKNOWLEDGEMENTS

There are a number of people without whom this project might not have been written, and to whom I am greatly indebted.

In the first place I would like to record my gratitude to **Mr. Babonyire Adafula** for his supervision, advice, and guidance from the very beginning of this research as well as sharing with me his experiences throughout the work.

Above all and the most needed, he provided me unflinching encouragement and support in various ways.

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

This study examined to what extent the credit processes contribute towards loan delinquency. The convenient sampling procedure was used to select thirty (30) respondents: fourteen (14) credit officers and sixteen (16) clients all from the Microfinance Institution studied for the research. Frequencies, Charts, Percentages and Tables were the statistical tool used to analyze the data collected. Microsoft Excel Software and SPSS were used for the analysis.

From the findings it was clear that the experience of credit officers does not necessarily influence them to hurriedly expedite the processing of the loan facility but rather informs them to rather pay particular level of attention to specific files.

The findings also revealed that both clients and officers had aversion for certain stages in the loan procedure.

The research was therefore focused around these under listed purpose if not specified objectives:

- To assess whether administrative staff are given in-service training.
- To examine whether in-service training is based on the need of the workers/staff.
- To assess how effective in-service training is.
- To examine the impact of in-service training on the performance of administrative staff workers and how it affect the growth of the company.

  In conclusion several recommendations were made available to the assembly as the main object of the research study.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Businesses are always confronted with several investment decisions, which they view as opportunities to make them more competitive in the market. Especially, in developing economies like Ghana, there are always numerous opportunities that the firms would want to capitalize on. These opportunities could be in the forms setting up new companies, new product lines, provision of certain kinds of services, increase in production to meet existing demand, the acquisition of vehicles or major equipments needed, expansion in the earning capacities of existing facilities, increase the working capital and many more.

All these investment decisions require capital injection into these companies that could be raised by either floating more stocks or raising long-term debts (bonds) or probably accessing short-term funds, from both the money and capital markets or by collaborating with other companies. According to Pearl Essau-Mensah, the Deputy Managing Director of UT Bank, in Business & Financial Times (29 June 2011 Pg18), securing finance has never been easy. Thus, confirming the a research carried out by Richard Torian on June 29, 2010 indicating that Ghana seems to be very interested in promoting foreign investment in Ghana and attracting foreign businesses to Ghana. Microcredit Institutions which used to provide funds to micro entrepreneurs in the rural areas are all now moving to the urban areas, thus staying away from their core reason of inception. But Pearl Essau-Mensah continued to say that financing is available if one knows how and where to look. When it comes to gaining, there are a number of different places and avenues that one can use but what one chooses depends on ones business needs. There are various financing options, which are open to start up and establish growing businesses. She also said that when it comes to business finance, there are financing avenues that one needs to know. We have Debt financing, Equity financing and in some cases if very lucky, one can have grants.

Money is said to be the lifeblood of every business and so regular and stable inflows depicts a good financial health. Well-developed capital markets in the developed economies provide financial support to these companies. These markets provide both capital assets in the form of stocks and long-term debt in the form of bonds. Stock depicts ownership so any sale of a stock means a division of the ownership of a firm among several investors (shareholders). Raising funds from this market through stocks to finance a project is a long and a cumbersome process that takes a while for the kind of amount to be realized. The stock market is also an important factor in Business Investment Decisions, simply because share prices affect the amount of funds that can be raised by selling newly issued shares to finance investment spending. However, there are even times that shares are under-subscribed to and as such expected fund to be raised to undertake a project are not obtained.

The next alternative option is to fall on debts that are either long term or short term. The long-term debts could be in the forms of debentures, bonds, and probably redeemable preference shares. Duration for such debts could lapse over 5 to 10 years. The other, short-term debts are loans, trade creditors, and overdrafts. They are the common form of debts in our part of the world. Allen et al. (2005) comments that the importance of stock markets continues to increase, but as of the early 2000s had yet to reach a scale and importance as a financing channel comparable to that of Financial Institutions. The reason could be that it is very accessible without many procedures to follow and probably because of it does not come with many restrictions. However, according to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance.

In the Ghanaian market, several Financial Institutions are rendering these kinds of services. The most common of them are the banks and microfinance institutions. With the exception of some of the banks, which are able to provide long-term debts, a chunk of these Financial Institutions, especially, the microfinance ones provide short-term debts, which mostly last up to a year. Their roles played by these Institutions in the economy is geared towards empowering the under privileged and eliminating poverty from the society. Due to the inherent risks embedded in the loan granting, Financial Institutions do meet regularly to deliberate about how to handle them.

"For years the Credit Risk Summit has been a leading conference in London for credit practitioners from Investment and retail banks, Asset Management

*Firms, Hedge Funds, Rating Agencies, Consultancies and Technology providers. Organizers are particularly attentive to the latest developments in the market and this conference showcases talks and courses on the most recent and challenging aspects of market practice in Credit. Especially now, with Credit markets undergoing a major discussion, this conference is an important appointment for credit practitioners".(***DamianoBrigo, Gilbart Professor of Mathematical Finance, King's College, London, Most Cited Risk Author 2010)** The Government launched numerous special credit schemes since 1989, usually at subsidized rates, reaching very few people and with extremely poor recovery rates.

A partial exception has been Enhancing Opportunities for Women in Development (ENOWID), which in the early 1990s made over 3,500 relatively small loans (over 6 years) with a cumulative recovery rate of 96% using funds from the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo 1997). All Financial Institutions are only considering risks taken as a result of careful judgment and not those taken unwittingly

Irrespective of the important roles played by these Institutions, most of these small businesses have developed negative attitudes towards accessing loans. According to the Chronicle paper (February 2008), the then Deputy Minister of Finance and Economic Planning, Professor George Gyan-Baffour, indicated that high interest rates charged by universal banks as well as savings and loans companies were killing businesses in the country, especially Small and

Medium Enterprises (SMEs). The balance between risk and reward is the very essence of business for these Financial Institutions and taking higher risks means generating higher returns.

Credit granting process involves:

1. *Client prospection*: - It is the identification of potential clients and communicating the institutional product or service benefits to potential clients to get them buy into the product that is been sold so as to transform them into clients.
2. *Loan application*: - This stage is when the financial institution manages to convert potential clients into actual clients by getting them to apply for their loan products. At this stage clients make known their loan request by stating the amount they needed as loan, the duration and their repayment capacity. Details of client are captured at this point as part of Know Your Customer (KYC) under the credit policy.
3. *Appraisal*: - Client's loan request in the form of application is then assigned to an officer, whose duty, it is, to assess or appraise the client's business. The appraisal stage seeks to identify risks associated with clients business and this does not exclude client's morality, stability, repayment capacity and assets used as collateral for the loan.
4. *Presentation at loan committee meeting*: - The loan officer presents the appraisal conducted before the loan committee, which is chaired by any management member and any other supporting member usually an experienced credit officer. The committee reviews the work that is presented and tries to identify likely risks associated with that type of business by asking questions in that line so as to find out whether the

officer did due diligence before arriving at a decision, that is, loan amount proposed by the officer.

5. *Decision*: - Based on the analysis, questions and the responses from the work presented, the committee is able to reach a decision as to either grant the loan request or decline the request, but in some cases the committee may decide to postpone an application until a particular issue is resolved.
6. *Monitoring*: - There is the need for regular follow-up to ensure that the client used the loan for the intended purpose. Regular follow-up helps the institution to stay updated on clients business and can quickly step in to recover its money before it goes bad.
7. *Recovery*: - In the unlikely event that the loan goes bad, the institution may have to take practical steps to recover the loan. But as part of the recovery process the client is served a default notice specifying the total amount in default and the deadline for the payment of the amount in default.

The possibility that a borrower or counterparty (guarantor) will **fail to meet its obligations** in accordance to the agreed lending terms poses what is termed credit risk. Individual credit risk is the risk that a borrower defaults a loan. There are two types of defaulters: wilful and unwilful defaulters. **Wilful defaulters** may be able to repay a loan but they are not willing, whereas **unwilful defaulters** may not be able to repay but willing. The core problem in lending is **information**. There is an unequal (asymmetric) distribution of information between the borrower and the lender. The borrower – as insider – generally knows more about his own credit standing and risk profile. The lender - as outsider - tries to gather as much and as accurate information as possible on the borrower. Client screening and risk assessment therefore pose the core challenges for the lender.

In the credit granting process, time wastage in between when a loan is applied for and when it is actually granted mostly have effect on what the loan is used for. At times, moneys taken are not used for the intended purpose and these could have adverse effect on the loan repayment. Loan clients apply for the facility to meet an existing demand or an opportunity arising in the environment. When the loan does not come in early enough to meet such opportunities, moneys are either abused or used for unintended purposes. This may have effect on the cash inflows of person since the loan amount wasn't invested in an income generating business. Clients would begin to default because he is cash trapped.

With the rigorous seizure of assets and the prosecution of defaulters, most of these individual businesses have developed aversion for accessing loans from Financial Institutions. They now prefer to borrow from friends and relatives or probably but goods on credit if possible. Funds from these sources are mostly not enough and have caused these businesses to loose many opportunities to their competitors, hence their inability to grow. These bad loans occur as a result of individuals providing incomplete and imperfect information to the credit institution and also credit officers not carrying out effective credit analysis on the loan clients. This has a latent effect on the economic growth of the country as a whole.

1.2 Statement of the Problem

Generally, many business people in Ghana frown on borrowing money to work. Most of them find it unsafe to borrow but rather find it more prudent to operate their businesses with their own capital and this attitude has led to most of the companies in the country not being able to capitalize on most of the opportunities around. People harbor these feelings because of the continuous inability on the part of those who had already accessed the loans to repay. The global recessions all emanated as a result of Financial Institutions given out subprime loans. Most of these loans which did not follow the requisite procedures went bad. In an article by the Division of Supervision and Consumer Protection, it was stated that an effective underwriting and loan approval process is a key predecessor to favorable portfolio quality, and a main task of the function is to avoid as many undue risks as possible. It continued to state that when loans are underwritten with sensible, well-defined credit principles, sound credit quality is much more likely to prevail." (FDIC - Division of Supervision and Consumer Protection, March 2007).

Collateralized assets of these individuals and firms are often seized and auctioned off whenever they default. In an article by Eric S. Rosengren (9th October 2008), he stated that investment banks have found that having ample assets to use as collateral did not insulate them from liquidity problems. This has resulted in a blame game between the Financial Institutions and the loan defaulters. These Financial Institutions cast the blame on the clients' unwillingness to disclose certain vital information about themselves, which later on cause them to default. They also blame it on the incompetent nature of the clients to manage their own businesses. The loan defaulters also look at it from a different angle. They often state that they are defaulting because they could not get loan at the right time to undertake their expected project. Some of them also said they amount given them was not enough to enable them to carry out the project. From their agitations, they all tend to blame the loan process as a key contributor to the default.

There have been few researches done on general crediting process and these ones only analysed the loan processes. It is for this reason that this research is being undertaken to look at the extent to which the credit process of granting loans contribute to clients' loan defaults.

1.3 Objectives of the Study

The overall objective of this study is to identify the relationship that exists between the credit granting process and the clients' propensity to default in paying their loans. The process can help the organization to reduce the high default risk of loans granted to businesses and individuals. The overall objective of this study will be achieved in accomplishing three secondary objectives:

1. The exact relationship that exists between the loan amount granted and the loan defaults.
2. The exact relationship between the duration of loan process and its impact on the performance of the loan.
3. How Credit Officers and loan clients will want the loan process to be like.

1.4 Significance of the Study

The results of this study could help to improve the level of risk analysis carried out on every loan granted out to clients.

It will also help to improve the ethical background, and reputation the company will obtain in the market and economy in which it finds itself.

However, those who will benefit directly are Financial Institutions, credit committees, and credit officers.

Financial Institutions

Every Financial organization that wants to minimize its default risk will find this research beneficial. Organizational culture clearly has an impact on the risk sensitivity of the company. Companies' attitude to risk depends on their set credit policies which contain their systemic risks and also set guidelines which guard them in their process of granting of loans. Their systemic risk measures contain predictive power to identify financial crisis periods. (Zeno Adams, Roland Füss, and ReintGropp, March 2011). This research will help organizations to set the necessary loan procedures that can help them to reduce their loan assets from going bad and thereby increasing the quality of their loan portfolio.

Credit Officers

These are the people who make it possible for the loans to be granted. They go to the businesses of these loan applicants to have a discussion with them about their businesses and their mode of operation. They are the main point of contact in the credit granting process. Information gotten from these people in addition with some other backing a document is used to analyze the performance of these businesses. This study will therefore be beneficial to any Credit Officer who wants to be able to know how his level of performance and proactive nature can influence the performance of the loans that he grants out.

1.5 Scope and Limitations of the Study

This research will try to embrace all the parties involved in the loan granting process. These parties will mostly be the Financial Institutions, their credit officers and the loan clients. Different forms of information will be solicited from these players in this credit industry. Some traders too will be interviewed.

Generally, people have become very critical about surveys that will never yield direct and immediate benefit to them; as such one of the major limitations of this study will be the focus on limited number of samples that will affect the findings of the study. Another limitation of the study will be the coverage area. Because the study will not cover all financial institutions in the country but only few, its findings will not be representative of the banking industry in Ghana. Because it is a case study, the survey of others could have provided interesting findings.

1.6 Structure of the Reports

The research work is organised into five (5) chapters arranged as follows:

Chapter one deals with the background of the study, statement of the problem, objectives of the study, significance of the study, scope and limitation of the study and the organization of the study.

Chapter two deals with the literature review. This chapter looks at the theoretical framework, review of related studies, research hypotheses/research questions, definition of terms.

Chapter three consists of the research methodology. This covers the Research design, Target population, Sample and Sampling procedure, Research Instrument, Administration procedure and Analytical methods.

Chapter four deals with results findings from the data collection, i.e. data presentation and analysis. It covers statistical analysis of the research. Chapter five contains the summary of all the research findings. It also discusses conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The past decades have seen dramatic losses in the financial industry. Firms that had been performing well suddenly announced large losses due to credit exposures that later on became unpleasant. Because banks and other financial institutions (including securities firms, investment banks and other financial intermediaries; are so important in creating credit flows, adverse shocks to Financial Institutions can have an outsized impact on the overall economy. Actual insolvencies and investor panic triggered by insolvency concerns played important roles in triggering the recent recession, as well as recessions in 1893 and 1907 and the Great Depression in 1929.The 20th century experienced two major global financial crises. There were recessions in the late 19^{th} century and the early part of the 20^{th} century. The Great Depression which was seen during 1929-30, which affected the developed nations (Europe and America). Another crisis came in 1997 and remained till 1999 and was experienced by emerging economies of Asia Pacific. The most recent of these is the financial recession in 2006 – 2008 which struck the USA and most of the European countries.

All these were basically due the fact that most of these financial institutions were given out subprime loans. The global financial crisis in 2008 originated in the American subprime mortgage market (Demyanyk& Van Hemert, 2009). Financial Institutions gave out loans without making sure that all necessary credit granting procedures are followed. Clients' morality, liquidity and solvency were all undermined. The sole driven motive was these institutions ability to make the necessary interests on the loans that they were granting. The banks' lending policies changed due to actual economic conditions. In the 1990s, the credit market faced a recession which led to a credit crunch as an effect on the decline in bank lending (Shrieves& Dahl, 1995). This credit crunch also led many well established companies to fall apart. In response to this, financial institutions have almost universally embarked upon an upgrading of their risk management and control systems.

Theoretically, loan defaults occur when borrowers are not willing and or able to repay loans (Hoque 2004). This paper focuses on the basic factors that influence borrowers to default. Among the many factors, high interest rate is the most important one which influences borrowers' ability to repay loans. It widely reported (that high interest rates has devastating effect on investment and growth of an economy though McKinnon (1973) and Shaw (1973) underscored the important of higher real interest rates during inflationary pressure to promote savings and investment in financially repressed economies. Rittenburg (1991) found that too high interest rates were detrimental to investment and growth.

2.2 History & Structure of Advans Ghana Savings & Loans Limited

Advans Ghana Savings And Loans Company Limited is a company that offers a brand array of financial products and services to consumers, small business and commercial clients.

Advans Ghana has one of the most widely recognized brands in Ghana. As one of the nation's top savings and loans based on credit with a total of 12 branches, Advans Ghana Serves customers through branch locations in the major market centers primarily in Greater Accra, Eastern Region, Volta Region and the Ashanti Region.

Advans Ghana has its shareholders as Advans Sicar (representing Advans Group), IFC (International Finance Corporation), SG Ghana and KFW (Entwicklungs bank)

The Company has its **Mission** As: Advans Ghana aims to provide adapted financial Services Primarily to Micro, Small And Medium Enterprise (MSMEs) in Ghana, which have limited or no access to formal banking services, secondarily and in as much as they are not properly served by banks, low to middle income employees and individuals.

Vision:-Becoming the most preferred financial institution for micro, small and medium size enterprises in Ghana. Their Success is guided by the highest standards of financial integrity and fair business practices; rooted in our Core Values as Open to all, Entrepreneurship, Professionalism, Unrivalled customer Service, Integrity and Environmental and Social Responsibility.

They have helped to create mutually beneficial relationship with micro entrepreneurs and SMEs. At Advans Ghana, we make things happen, we do not wait for opportunities to knock. Since Its Inception in 2009, Advans Ghana understands that it's all about the customer. We make our customers feel at home, we show them we care, we make them feel special, Give them Advice, help them out when they really need it, reach out to them and let them realise that our business begins and ends with people. We are focused on building deep lifelong client relationship and providing maximum shareholders value. The measure of our success is the success of our clients. In helping them grow, we are "growing together" which is the motto of the Company.

2.3 Microfinance Operations

Ghana is particularly interesting because its tiered system of different laws and regulations for different types of institutions has evolved largely in response to local conditions and because so many of its institutions are savings-based. The resulting system resembles the tiered approach recommended by the World Bank's 1999 study of microfinance regulation (Van Greuning et al.) and more recently adopted by Uganda. While Ghana's approach has fostered a wide range of both formal and informal RMFIs (Rural and Micro-Finance Industry), it has not as yet been so successful in achieving strong financial performance, significant scale, and true commercialization of microfinance.

The Bank of Ghana has streamlined microfinance institution lending operations to ensure that credit actually benefits the small scale businesses and the rural community as required by the Basel II. All financial institutions operating under the permission of BOG has to comply with these regulations stipulated by the Basel II commission.

Loan applications are accepted from individuals, groups and companies. Recommendations to reject an application must be justified by specific and clearly stated reasons and cannot be based on vague suspicions or discrimination. Before granting a loan to a group, the institution requires that there be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and severally liable.

After the loan application has been taken, the applicants are assigned to credit officers who go to the various businesses of the clients to assess the performance of the of the clients' businesses. At this stage, credit officers assess the clients' character, managerial competence, loan purpose, cash flow risks, net worth of the business and the possible guarantees. To ensure that resources assist small businesses, most of these institutions require that the individuals should have been in the business and the same location not less than a year.

Loans are granted based on their purposes and amounts are mostly granted only up to the tune of the purpose. If the loan is for as asset, they arrange for it to be made available in kind (equipment and machinery, etc). Loan repayment conditions are determined with reference to the borrower's capacity to repay. A "grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan. During the "operation period" of the loan, the institution's credit officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Credit Officer are common during the operation period of the loan.

Problems loans may arise after money has been granted out. In such situations, rescheduling may be allowed if there are circumstances which the loans committee or board of Directors accepts as "unforeseen developments." If there is default on the loan, the case is sent to the institution's lawyer(s) for action. Asset seizure could be a last resort if all attempts to retrieve money from clients fail. Some S & L experience negative profitability resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. This is mostly due to high rate of default by loan clients.

2.4 Credit Granting Process

Microfinance Institutions in Ghana all have their different ways of granting their loans to their clients even though most of them are related. Some of these institutions require their clients to save over a period of time before they grant them the loans while others grant the loans to these people even when they have not deposited with them over a period. Their modes of operations are mostly stated in their Credit Policies. Examples of some prominent Microfinance Institutions are Advans Ghana S&L, APED, Pan African S&L, Opportunity International S&L, Adehyeman S&L, Sinapi Aba S&L, etc.

All loan applicants who go to these MFIs are mostly passed through similar processes even though loan requirements may differ. Due to the clientele base of these institutions, they have flexible structure which provides the clients with some flexibility but these flexibilities expose these institutions to some credit risks. Some of the institutions force loan applicants to save for some period of time just to have a saving history or know their savings habit. They do this savings for at least a month. It is after this that the clients are allowed to put in their loan application.

Some institutions start straight from the application stage. Clients are at stage required to come and make the application. Some of these institutions take the applications at the clients businesses place whiles others only take applications at their offices. At this stage clients are to make known the purpose of the money they want, the duration and the type of guarantees that they can offer. The basic documentations are taken at this stage. After this stage is the analysis stage. Here the clients business and character are being assessed by the credit officer to ascertain if the client would be creditworthy. Here, they client's morality and stability, purpose of the loan, cash flows, guarantees etc. The amount to be granted out is basically determined at this stage.

After the loan amount has been determined, the clients are then informed of the amount and if they accept, they are called to come for the money. Before the money is granted out to them, they are made to enter into a contract which makes it possible for these institutions to use any possible legal means to recoup their moneys if the clients default. It would also spell out the charges and penalties that the clients would have to pay if they are to default. It also portrays the rights that clients enjoy under the contract. Because of the educational background of these clients, some of these institutions make the clients sign jurat as a proof that the contract was explained to them in languages that they understand.

After, the loans have been given out some of these institutions follow up on the clients to make sure that the loan was used for their purposes. Subsequent follow ups are made on the clients just to make sure that they are in business can be able to repay the loan with ease.

2.5 Evaluation of the Credit Process

In order to evaluate a financial institution's credit process and procedure, the evaluator would first have to ascertain what kinds of lending activities the bank participates in. What the FI chooses to do sets the requirements for the specific types of risk management systems used. After determining the credit areas that will be the focus of the evaluation, the examiner will begin by analysing the institution's credit policy, standards and procedures. The policy, standards and procedures establish the FI's credit risk management system, from the general to the specific. The examiner must determine whether or not the policy and credit risk management system it sets forth is adequate for the types of loans the bank extends to its customers, the bank's credit risk profile. Further, the evaluator must assess whether or not the credit process is adequate.

Adequacy means that all of the necessary components of the credit process have been fully implemented, are routinely executed and verified independently. If the process includes a sound credit risk evaluation process that leads to justifiable internal credit risk ratings, then the examiner should do limited testing or validation of that process. If gaps or weak points in the process are evident, then the examiner should focus on those areas in the examination, discuss them with bank management and detail them in the examination report. The credit risk management section of the supervisory plan should then focus on these areas and the examiner should monitor them, or perhaps even follow up with a targeted exam, until the bank has made the necessary improvements.

This is the essence of risk-based supervision, focusing on weak points or gaps in the risk management system and monitoring them continuously until the examiner is satisfied that they have been corrected and the system as a whole is adequate and operating as it should. The goal is for the risk management system to be operating as intended by management, so that examiners need only validate during the examination that the process remains adequate to the risk profile of the bank and no serious weaknesses are evident. One of the primary validation actions is to test a sample of new loans to ensure that the current process remains adequate, that the loans are in compliance with the bank's credit policy and procedures, and that the internal credit risk ratings are appropriate.

2.6 Government Credit Programs

The Government has launched a number of special credit schemes since 1989, usually at subsidized rates, reaching very few people and with extremely poor recovery rates. A partial exception has been Enhancing Opportunities for Women in Development (ENOWID), which made over 3500 relatively small loans in the early 1990s with a cumulative recovery rate of 96% using funds from the Programme of Action to Mitigate the Social Costs of Adjustment

(PAMSCAD) (Quainoo 1997). PAMSCAD, launched in 1989, directly reached only some 1,200 clients and struggled to achieve an average 83% cumulative recovery by 1996. None of the other four programs being administered by the National Board for Small-Scale Industries (NBSSI) (which charges 20% interest) has reached a 70% recovery rate or as many as 200 clients. As a result, these "revolving funds" are steadily depleting, involve substantial costs to operate, and have negligible outreach. The Government has also entered into micro credit through poverty alleviation programs and the District Assembly Common Funds. While in some instances this made wholesale funds available to local RMFIs for on-lending to clients that they choose, more commonly it has been perceived and used as politically motivated, with negative consequences for repayment. The main threat to sustainable RMF from these government programs comes from the negative effects on efforts of RMFIs to mobilize savings and collect from borrowers, whose willingness to repay typically is low when loans are known to come from government or donor funds at subsidized rates.

2.7 Interest Rates

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectorial allocation of credit, no doubt retarded development of Ghana's formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates), and District Assemblies have been mandated since 1979 to provide 20% of their "Common Funds" for micro and small enterprises at an interest rate of 75% of the commercial bank rate.

2.8 Credit Rating

There are two main techniques used to evaluate a borrower's creditworthiness (Crook, 1996): the loan officer subjective assessment (judgmental technique) and the credit scoring technique.

Creditworthiness is judged based on the characteristics of an individual that makes him or her qualify for a loan; and one who is not creditworthy will be unqualified for the loan (Lewis, 1992). The subjective assessment of a borrower's creditworthiness is based on 6 C's - Character, Capacity, Cash, Collateral, Conditions and Control (Rose, 1993). Glassman and Wilkins (1997), Crook (1996), and Lewis (1992) argue judgmental assessment of credit is inefficient, unexplainable, inconsistent and non-uniform. Traditional methods of deciding loan granting base on experience of previous decisions and use human judgment of the risk default. However, economic pressures resulting from increased demand for credit, allied with greater commercial competition and the emergence of new computer technology; have led to the sophistically models to aid the credit granting decision (Hand and Henley, 1997).

Credit scoring is one of the risk management tools which are used in the advanced world to ascertain the credit worthiness of a loan applicant. It was used by the U.S. in the 1950s with early applications of portfolio analysis to manage and diversify the risk inherent in investment portfolios (Thomas et al., 2002). Credit scoring models are complex and often vary among creditors and for different types of credit. Credit scoring models in these countries are used as a tool for underwriting and administering all forms of retail credit, including credit cards, direct and indirect installment loans, residential mortgages, home equity loans, and small business credit (OCC Bulletin, 1997). For example, credit scoring models can be used effectively to control risk selection, manage credit losses, evaluate new loan programs, improve loan approval processing time, and ensure that existing credit criteria are sound and consistently applied.

Credit scoring methods produce more accurate classifications than subjective judgmental assessments by human experts. Rosenberg and Gleit (1994) and Chandler and Coffman (1979) discuss the credit scoring method advantages over the judgmental assessment. For example, credit scoring can increase efficiency by leaving loan officer to concentrate only on ambiguous cases, and it also allowed the lenders to review the creditworthiness of the borrowers periodically (Glassman and Wilkins, 1997). Thus, credit scoring models have become a preferable technique in credit risk appraisal.

Unlike the advanced countries, financial institutions in Ghana use judgmental techniques in assessing credit risk. The judgmental system depends on the experience and common sense of the credit evaluator. In addition, this method of assessing credit involves subjectivity of the credit assessing officer. This loan approval process can not ensure lenders are applying the same underwriting criteria to all borrowers regardless of race, gender, or other factors (Mester, 1997). Judgmental assessment has some serious limitations, for example, the difference in loan officers' experiences lead to different views regarding the relationships between risk and specific credit characteristics of loan applicators. Consequently, lending institutions can not ensure loan officers' approval of loan applications is consistent with the risk objectives of the institution (Avery et al., 1996).

Preceding credit scoring valuation is important against the increasing financial risk, and adopting credit risk analysis method to value the consumer credit is a necessary step to resist serious credit loss (Li and Zhang, 2003). It is important for banks to understand that every borrower is a potential lemon and the probability to default is high. This is evidenced in today's U.S. subprime loan problems. In essence, a credit scoring model provides an objective estimate of a borrower's credit risk. Since a lender cannot observe the borrower's probability to default, credit scoring models enable lending institutions to rank potential customers according to their default risk, and improve the allocation of loan resources.

The central Bank of Ghana has designed a framework for all financial Institutions to serve as a tool for monitoring and controlling risk inherent in individual credits. All these institutions are to report on their loan clients to this central point for collation. This information can later on be fallen on by all these institutions. For some time now, some financial institutions have been using the Credit Reference Bureau System which is referred to as XDS Data to determine whether a borrower is creditworthy or not. From this XDS Data, the credit histories and the repayment behaviours of clients who have once taken a credit facility, be it loan or overdraft, from any other Financial Institutions which are on this system would be displayed when information about them are being sought for. This has also helped these FIs to evaluate a borrower's ability to repay loans.

2.9 Lending Institutions Policies towards Micro Small and Medium Enterprises (MSMEs)

The policies of lending institutions to small and large enterprises in Ghana are almost similar, except for the documentation relating to company registration/incorporation. While the big enterprises are required to submit Certificate of Incorporation, names of directors and good track records, the small firms, especially sole proprietorship are required to submit evidence of business name. Often, the same types of forms are used by both the small and large firms, with the firms filling the areas relevant to them. To the extent of the explanation above, one may be tempted to say that the lending practices towards MSMEs are not different from those for large enterprises.

In granting loans, however, financial institutions employ some standard criteria to assess the creditworthiness of borrowers. The range of factors include financial strength, profitability, net worth, track record, management quality, relations and payment records with other lending institutions, business prospects, business risks and collateral securities. In most cases, these FIs request for personal guarantee for MSMEs loans. The FIs requested for collateral as an additional requirement, apart from requiring personal guarantees for MSME loans, because the financial and operational transparencies of MSMEs were relatively low and their accounting standards were poor. The enterprises are also perceived as risky due to the fact that, in most cases, the death of the owner leads to the death of the business, diversion of funds, high cost of monitoring loans and the fact that most of the loans may not be collateralized.

Generally, it is always difficult for the MSMEs to meet the standardized requirements of the banks specifically. However, when a financial institution is favorably disposed to lend to the small firms, the operational records of the small firms with the FIs are used to determine the suitability or otherwise, of such enterprises in obtaining loan. Sometimes, the issues of the length of time of operating the accounts and the customers' relationship with bankers were considered in lending.

2.10 Related Researches

Many different researchers have done several researches on the credit granting process but none of them tried to research on the contribution of the process to loan defaults. They all assessed them by looking through different lenses. No directly related work on this research topic was identified throughout my review. There was a research by Rose Ajiambo (2005) on the causes of default in government micro credit process. The objective of the study was to determine the causes of loan default in UasinGishu District Trade Development Joint Loan Board Scheme. The study covered a Government Micro-Credit Scheme namely UasinGishu District Trade Development Joint Loan Board and also the loan disbursements and recovery between 2000 and 2005. The major finding from the research was that the study found a strong relationship between major source of income and cause of default, thus loan clients who depended on their businesses that performed poorly, defaulted. Other findings from her research were that the Board lacked capacity (staffing) to handle core functions. It took at least 6 months for an applicant to apply and get the loan and that was found to be a great contributor to the loan diversion. The board also lacked appropriate Management Information Systems (MIS). E.g. Manual record keeping by the Board was not suitable for effective management of the loan scheme. Her research again revealed that board could not detect slow loan clients and potential defaulters and this also led to over- and under-repayment of Board loans. Finally, the non-prosecution of defaulters is contributing to the rising trends in default.

Another research by Charlotte Lilja and Camilla Petersson (December 2010) sought to look at the credit granting processes of the financial institutions in Sweden. It basically considered the various processes and procedures that governed financial institutions in their credit granting. The sample sizes used were six different banks. It continued to look at the other tenets like market value of property versus repayment ability, and Interest rate and repayment period. The conclusions drawn from this research after the data analysis were as follows:

- Banks make sure their customers are creditworthy by analyzing the creditworthiness and repayment ability of the applicant.
- There are differences in the credit granting processes between households and companies.
- Differences between the processes are needed for the bank to be able to assess the creditworthiness and repayment ability for both households and companies in debt to decrease their credit risk.

2.11 Operational Definition

Risk: the possibility that something planned would be different from the actual.

Client / loan /credit Officer: An employee of a financial institution, who searches for loan clients, assesses businesses of loan applicants, submits appraisals to the credit committee for consideration and manages a portfolio of loans.

Credit Committee: An ad hoc group of 2 – 3 people who meet to analyse files which are presented before them by the credit officer, to identify all possible and potential risks that the associated with the business of the loan applicant.

Credit Risk: It is the probability that the loan that has been given out would not be repaid.

Delinquent/Defaulter: A loan client who has delayed in payment.

Delinquency/Default: It is the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect to service the loan

Credit/Loan Cycle: The steps or procedures to be followed when granting loans or credit.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter sets out in detail the various methods, procedures and techniques employed in the conduct of the study. It deals with the procedure of data collection which is very vital to the research work. It shows the background of the study area, population of study, sample size and sampling technique, mode of data collection, research design and the method of data analysis.

3.2 Research Design

The study is a descriptive survey which aimed at assessing the credit granting procedures as a cause of or contributor to loan delinquency and the study area was the four branches of Advans Ghana Savings and Loans Ltd.

3.3 Target Population

The population for the study was Advans Ghana branches and their zones in Greater Accra Region namely: Okaishie, Newtown, Kaneshie and Agbogbloshie. The main people studied are the clients in these zones, the credit officers and the credit committee members.

3.4 Sample and Sampling Procedure

The sample was credit officers, credit committees, operations officers, recovery unit, auditors and the clients. The sample size used was 30 people in this proportion: 14 credit officers and 16 clients. The credit officers and the credit committees were selected from four branches. The clients were from the respective zones of all these branches.

3.5 Research Administration

Well designed and structured questionnaires were administered to all the requisite respondents. A separate questionnaire was designed for each category of respondents in the study area. The questionnaire was used in order to get a standard form of answers or response.

In order to determine the clarity and validity of the questionnaires, they were pre-tested on a number of respondents within the study area. The questionnaires were prepared with both open and close questions.

A group discussion was also conducted to obtain information from both clients and credit officers to ascertain some of the common issues from both sections that contribute to loan defaults.

3.6 Administration Procedure

Thirty questionnaires were used, one for each person or respondent. The questions were read for the illiterate clients to answer. The research was restricted to both the primary and secondary data collection mechanism. The primary method was gotten from questionnaires. The secondary data was gathered from case studies, journals and books as well as other supportive documents.

3.7 Analytical Methods

The descriptive or qualitative data analysis was used. Qualitative research bases upon the actors' perspective and how they perceive the situation at hand (Gustavsson, 2003). A further attribute of qualitative research is the desire to have a relationship with the person who is participating in the study and the researcher. The relationship is a means by which the researcher can understand the participants' situation (Bryman, 2002). Frequencies, percentages, bar graphs, tables and pie charts were used to analyse the data. SPSS software, Microsoft Excel was used to develop these charts and these were used in the description.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.0 Introduction

This chapter sets out in detail the data gathered for the study. It also presents the results of the analysis together with interpretations and discussions of the findings.

4.1 Restatement of Research Objectives

To facilitate a consistent analysis and interpretation of the results of the study, the main research objectives are restated here. These are:

1. Identify the relationship that exists between the credit granting process and the clients' propensity to default in paying their loan.
2. The exact relationship that exists between the loan amount granted and the loan defaults.
3. The exact relationship between the duration of loan process and its impact on the performance of the loan.
4. How credit officers and loan clients will want the loan process to be like.

4.2 Data Analysis

Some questionnaires were distributed out to some credit officers and clients to ascertain their respective views of the credit granting process. You can find this questionnaire in (appendix 1). The questions asked were both open and close ended. They sought to ascertain the perceptions that both Credit Officers and clients have about the credit granting process. In this chapter, we are going to analyze the data gotten from the field. The first part of this chapter will present the results for the credit officers; the second part the results for the clients and at the end of the section a comparison between the two respondents.

There are sixteen (16) different questions that credit officers were asked. Some of the questions were follow ups from answers chosen in close ended questions. Clients were asked 18 questions and these questions also had the same structure as that of the Credit Officers. In the final part, a summary of the answers are given to make a comparison between those of the clients and the credit officers.

4.3 Data Interpretation

4.3.1 Credit Officers

Respondents' years of experience were asked in the questionnaire and it was established that they ranged between twelve (12) months to forty-eight (48) months i.e. One year to four years.

Table 1: Years of Experience as a Credit Officer

Months of Experience	Frequency	Percent
12 – 23	6	42.9
24 -35	3	21.4
36 – 47	4	28.6
48	1	7.1
Total	14	100.0

Source: Field data, Feb 2016

Six out of them constituting 42.9% of the total credit officers respondents had 12 - 23 months of experience. It was closely followed by respondents with 36 - 47 months of working experience. They constituted 28.6% of the total respondents. This was also followed by Credit Officers with working experience of 24 - 35 months. They constituted 21.4% of the total respondents. The remaining respondents had working experiences of 48 months. They constituted 7.1%. This is illustrated in Table 1 above.

Respondents were again asked for their average time that they spend on each client file that they picked. Majority constituting 64.3% of the respondents said they spent an average of 1 - 3 days on each file that they pick. It was followed by 21.4% of respondents who claimed that they spent an average of 4-6 days on the files they appraised. The remaining 14.3% of the respondents said they also spent an average of 7 days on each file that they pick. From this it can be deduced that irrespective of the number of months of experience as credit officers, they still spend enough time on each loan client to properly assess them. This is illustrated in Table 2.

Table 2: Time spent on each file

No. of days	Frequency	Percent
1 – 3	9	64.3
4 – 6	3	21.4
7	2	14.3
Total	14	100.0

Source: Field data, Feb 2016

Respondents were then asked about what made inform them to spend such length of time. They gave several reasons. About 21.5% of the respondents said it was due to the careful analysis that they perform on the clients' businesses in order to minimize risk. This is in accordance with what the Basel Committee explains as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 28.6% of them also alluded it to the cumbersome processing procedure as per the policy. 42.8% of them said it was dependent on how fast clients' are able to provide requested documents. . The remaining 7.1% of the respondents said that it is also dependent on the nature of clients' business and the availability of the clients.

Table 3: Reasons influencing time

Reason	Percentage
Dependent on the nature of clients business	**7.1%**
Availability of clients documents	**42.8%**
Careful analysis performed on clients' businesses	**21.5%**
Cumbersome procedure	**28.6%**
Total	**100%**

Source: Field data, Feb 2016

Respondents were then asked if they spent equal time on all clients' files. 85.7% of the respondents said no. This comes to affirm the research finding from the work of Lailja and Camilla December 2010) that different levels of attention are paid to different loan applications. The remaining respondents affirmed that they spent equal time span on each given file.

Table 4: Spend equal time on all clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	2	14.3	14.3	14.3
	no	12	85.7	85.7	100.0
	Total	14	100.0	100.0	

Source: Field data, Feb 2016

Respondents were then asked for what accounted for the differences in the times spent on each client. 16.7% of them said some of their clients lived closer to their businesses so it becomes easier for them to assess their stability and morality. 41.7% of the respondents also explained that some of these clients do not provide the necessary information and required documents in due time hence delaying the whole loan process. 25% of them said that the level of acquaintance with clients determines the duration. They spend less time on already existing clients and much time on new ones.8.3% of the respondents also explained that it depended on the size of the businesses and their complexities. The remaining 8.3% of the respondents associated time span with the risk levels of these businesses. They said that businesses with several income generating activities demanded more time for their appraisal since a careful approach were always needed to be used to ascertain the right information about these businesses. This is displayed in table 5 below.

Table 5: Reasons for Differences in Time Spent on Each

Reason	Percentage
clients lived closer to their businesses	16.7%
clients do not provide the necessary information and required documents in due	41.7%
the level of acquaintance with clients determines the duration	25.0%
Size of the businesses and their complexities	8.3%
Risk levels of these businesses	8.3%

Source: Field data, Feb 2016

Respondents were again asked to list the credit granting processes. All of them cited the same processes as those involved in credit granting. Generally they all listed the processes as follows: Application stage, appraisal stage, decision stage, disbursement stage and finally monitoring repayment stage. Respondents were then asked if they found the credit process to be cumbersome. A greater number of the respondents answered in affirmation. That is, 64.3% of the respondents said YES". The remaining 35.7% denied that the process was cumbersome. This comes to support "the article by Pearl Essau – Mensah (29 June 2011) that it is never easy for businesses in Ghana to assess loan facilities.

Table 6: Is the credit Process Cumbersome

		Frequency	Percent	Valid Percent	Cumulative
Valid	Yes	9	64.3	64.3	64.3
	No	5	35.7	35.7	100.0
	Total	14	100.0	100.0	

Source: Field data, Feb. 2016

Response	Percent
Yes	78.6%
No	21.4%

Respondents who affirmed that they saw the processes to be cumbersome were then asked to voice out their views about that. 80% of the respondent to that question explained that some of the stages in the credit processes should be quashed to make the process simpler. They reiterated that duplicated procedures should be eliminated. Another 70% of the respondents to that same question explained that the process should be made more relaxed for renewal cases. This goes on to affirm an article by FDIC (March 2007), for a quality loan portfolio, the underwriting and loan approval process should establish minimum requirements for information and analysis upon which the credit is to be based. It continues to say that in this hyper-competitive market, some banks may be inclined to relax lending terms and conditions beyond prudent bounds in attempts to obtain new customers or retain existing customers.

Respondents were then asked if the credit granting process had any impact on clients' loan defaults. About 78.6% of these respondents affirmed that the processes has impact this. The remaining 21.4 of the respondents denied that assertion. This can be found in the table 7 below.

Total	**100**

Table 7: Effect of the Process on Clients loan default

Reason	Percent
Delays may cause moneys not to be used for intended purposes	45.5%
Critically risk assessed loans would find it difficult to go bad.	54.5%
Total	100%

Source: Field data, Feb. 2016

The respondents who affirmed that the processes were cumbersome were then asked to give the view on how they think the processes affected the loans repayments of the loans that they had granted out. 40% of them explained that clients have purposes for the loans that they take and these needs are to be met within a specific period of time. Any delays throw these things off balance and these cause them to default since money was not used for the intended purposes. Because of the expected delays, some of these clients apply at two financial institutions with the hope that they would only take the facility from the financial institution which is able to quickly process the loan but when all the loans go through they refuse to reject the other. The remaining respondents, that is, 60% of the respondents also explained that it positively affects loan defaults since there is a minimum likelihood for diligently assessed loans to go bad. This can be found in table 8 below.

Table 8: Does the Credit Process

skip some of the processes					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	1	7.1	7.1	7.1
	No	13	92.9	92.9	100.0
	Total	14	100.0	100.0	

Source: Field data, Feb. 2016

Respondents were again asked if they at times skip some of the processes. Only 7.1% of respondents affirmed. The remaining people denied that they skip any of the processes. This goes on to affirm the findings of the research charlotte Lailja and Camilla Pettersson (December 2010) that all the finding that the researched took the process very serious. Those who skip some of the processes claim that some of the processes may not be important especially for repeat loans.

Respondents were again asked if they thought that the loan processes help to mitigate or manage risk. 100%of the total respondents said “YES”. This goes to affirm the assertion that they had earlier on made that length of time they spend on the file helps them to assess the all the risks associated with the loan applicants. Table 9 throws light on this.

Table 9: Process help to mitigate risk

Response	**Valid Percent**
Yes	**100**
No	**0**
Total	**100.0**

Source: Field data, Feb. 2016

All the respondents who affirmed that the credit granting process helps to mitigate risk explained that the process helps to identify problem spots during the appraisal stage thereby help to reduce the associated risks. They claim that it helps to know the clients' morality, stability, creditworthiness and their business operations, cash flows etc. very well.

4.3.2 CLIENTS

Responses	***Percent***
First time	**25%**
Second time	**25%**
Third time	**34.3%**
Fourth time	**8.2%**
Fifth time	**7.5**
Total	**100%**

Table 10: Loan Cycle

Source: Field data, Feb. 2016

Respondents were asked about the number of times that they had taken loans from the institution out of 16 respondents; 25% of them it was their first time. Another 25% of these respondents said it was their second time. 34.3% of them were having their third loans. The remaining 15.7% were those who were in their fourth and fifth cycles. This can be found in table 10 above.

Table 11: Duration of the loan

Response	Percent
Yes	35.3%
No	64.7%
Total	100%

Source: Field data, Feb. 2016

These respondents were then asked whether their application for the loan lasted for long before the money was granted out. 35.3% of the respondents said it took time before they could have the loan. The remaining 64.7% said otherwise. This can be seen in table 11 above.

Respondents who affirmed the previous question were asked if they had any idea about what they think made it delay; 15% of them said it was because of the quality of their collateral. 55% also said that they had to bring some documents and it took time before they could send it. The remaining 30% of the also said they did not know why it kept that long. Table 12 explains it.

Table 12: Reason for the delay

Response	Percentage
Quality of their collaterals	15%
Had to present some documents	55%
Knew nothing	30%
Total	100%

Those who said their loans took long before they got it were then asked if the delay was explained to them. 14 of them constituting 84.5% of them affirmed it. The remaining 15.5 % said they still don't know what made them kept that length of time. This explains that the credit officers constantly informing the clients about the progress of their application. The table 13 below explains this.

Table 13: Cause of delay communicated

Response	Percentage
Yes	**84.5%**
No	**15.5%**
Total	**100%**

Source: Field data, Feb. 2016

Table 14: Loan process cumbersome

Response	Percent
Yes	**60.3%**
No	**39.7%**
Total	**100%**

Source: Field data, Feb. 2016

Respondents were then asked if they found the credit granting process cumbersome. 60.3% of the respondents said YES. 39.7% said No. This was a direct confirmation of what the credit officers stated. Both of them see the credit granting process to hinder the free flow of the loan facility. This is clearly shown the table 14 above.

The respondents were again asked if each stage of the loan process was explained. 25% of the total respondents affirmed that each stage of the process was explained to them. The remaining 75% said no.

Table 15: Was Each Stage of the Process Explained

Response	Percent
Yes	25%
No	75%
Total	100%

Source: Field data, Feb. 2016

Respondents were swiftly asked for the stages in the credit granting process where they think, they spend enough time there. 45.8% of them gave the Disbursement stage as the time taken stage. This was followed by the application stage which was also another 32.2%. The remaining 22% of the respondents said it was the appraisal stage. This goes in to affirm the credit officers' assertion that they had earlier on stated that the credit process helps them to assess the clients in order to mitigate risk. This can be found in the table 16 below.

Table 16: Stages where enough time is spent

Response	Percentage
Disbursement	45.8%
Application Stage	32.2%
Appraisal stage	22%

Source: Field data, Feb. 2016

Respondents were later on asked if there had been a time that they had to induce credit officers before they quickly act on their files. None of the respondents affirmed that they had to influence credit officers with gifts in order to expedite the credit process. 100% of the respondents denied such assertion. This goes to still buttress the finding that they spent enough time on the clients to be able to minimize all related risks. This can be found table 17 below.

Table 17: Induce Credit Officers with Gifts

Response	Percentage
Yes	0%
No	100%
Total	100%

Source: Field data, Feb. 2016

The respondents were again asked if they had their requested loan amounts. 25% of respondents said they got their requested loan amounts. The remaining 75% of the respondents said their amounts were reduced. The table below depicts that.

Table 18: Requested Amount granted

Response	Percentage
Yes	25%
No	75%
Total	100%

Source: Field data, Feb. 2016

They were then asked if they knew why they could not get their requested loan amounts. About 83.33% of them affirmed that the reason that influenced their loan amounts to be reduced were explained to them. The remaining 16.67% of them denied that. This tends to affirm one of the findings from the clients that all information about their loan application is communicated to them at every stage. This can be seen in Table 19 below.

Table 19: Reasons given

Response	Frequency	Valid Percent
YES	10	83.33
NO	2	16.67
Total	12	100.0

Source: Field data, Feb. 2016

Respondents were again asked if they were able to use the money for the intended purpose. About 45.75%of the total respondents confirmed that. The remaining 54.25% of the respondents denied having used it for the intended purpose. In table 20, it can be found out that those who answered by affirming the assertion were in minority.

Table 20: Use money for Intended Purpose

Response	**Percent**
Yes	**45.75%**
No	**54.25%**
Total	**100%**

Source: Field data, Feb. 2016

Respondents were again asked if they had for once defaulted in their repayment of their loans. About 25% of the respondents affirmed the assertion that they had defaulted before. The remaining 75% of the respondents denied having defaulted with their repayments before. Table 21 highlights this. This again buttresses the point that the intuited idea of mitigating risk through the credit process is really yielding results.

Table 21: Defaulted in Repayment Before

Response	***Percent***
Yes	**25%**
No	**75%**
Total	**100%**

Source: Field data, Feb. 2016

The 25% of the respondents who said they had ever defaulted were once again asked if it was because they did not use the money for the intended purpose. 75% of those who said that they had ever defaulted affirmed that they did that because of the loans they took were not used for the intended purpose. The remaining 25% however denied and said the money was used for that which it was taken. Those who denied were then asked if it was because of the contract that they signed with the company. This can be found in table 22 below.

Table 22: Defaulted because Money not used for intended purpose

		Frequency	Valid Percent
Valid	YES	3	75
	NO	1	25
	Total	4	100.0

Source: Field data, Feb. 2016

Table 23: Because of Company's Terms and Conditions

	Frequency	Percent
YES	10	83.33
NO	2	16.67
TOTAL	12	100

Source: Field data, Feb. 2016

Respondents were again asked if their zero default rates was as a result of the terms of the contracts that they had signed with the financial institution. 83.33% of them affirmed that it was because of the terms and conditions that have influenced them not to default in repayment of the loan. The remaining 16.67% alluded it to different reasons best known to them. The table 23 above explains this.

Table 24: What influenced you to pay without defaulting?

Response	Percentage
Good credit history	47.2%
Good clientele service	19.4%
Not to mar relationship with FI	33.4%
Total	100%

Source: Field data, Feb. 2016

Respondents who denied the assertion were asked for what actually influenced them to pay without defaulting. 47.2% of them said it was because of the good credit history that they have always wanted to have. 19.4% of them also said it was because of the good clientele service that the credit officers grant them that is why they are not defaulting. The remaining 33.4% of the respondents claim that it is because they do not want to mar their relationship with financial institutions. This is clearly displayed in the table 24.

Table 25: Credit Officers Come and Check

Response	Percent
Yes	83.25%
No	16.75%
Total	100%

Respondents were then asked if credit officers came back to check on them if they used the moneys for the intended purposes. 83.25% of the respondents affirmed that after having received the loans, the officers still came around to see if the money was used for the intended purpose. The minority of them constituting about 16.75% of the respondents denied the return of the credit officers after the credit had been granted. This can be found in Table 25 above. Respondents were then asked for their impression about the whole credit granting processes. 58.25% of the total respondents saw it to be important since one cannot just lend his money to someone that he/she does not know well. The remaining respondents saw it to be time wasting to allow them to go through all those stages. Table 26 below explains that.

Table 26: Impression about the Credit Process

Response	Percentage
Important	**58.25%**
Time wasting	**41.75%**
Total	**100%**

Source: Field data, Feb. 2016

Respondents were then asked to give some recommendations about the credit granting process. 64.5% 0f the respondents wanted the loan process to be shortened. 35.5% also wanted the credit granting requirements to be minimized to include all those potential good clients who by means of not meeting the requirements, are not able to assess the institution's credit facility. This is explained in table 27 below.

Table 27: Recommendations by Clients

Response	Percentage
Shorten Process	**64.5%**
Lower the requirements	**35.5%**
Total	**100%**

Source: Field data, Feb. 2016

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter entails a careful discussion of the research findings. It tries to create some relationships between some of the research variables. It would try to bridge the various findings from the credit officers and then bridge them in order to ascertain the kind of correlation among them. The findings would then be compared to the findings of similar researches. After the discussion, some conclusions would be drawn from the whole discussion and subsequently some recommendations would be given.

5.2 Summary

The analysis of the collected data really brought fascinating issues to bear. The findings brought to light the similarities in thinking between the credit officers and the loan clients. From the findings it was clear that the experience of credit officers does not necessarily influence them to hurriedly expedite the processing of the loan facility but rather informs them to rather pay particular attention to specific files. Their experiences helped them to understand some of the files quickly and work on them. This comes to affirm the research finding from the work of Lailja and Camilla (December 2010) that different levels of attention is paid to different loan applications.

What rather determined how fast they worked on loan application was how well they understood clients business and how fast a client is able to produce required documentations. One major issue encountered concerning the length of experience is that, it was revealed that, their experience levels gained, made them myopic to risk. They tend to process loans quickly for existing clients based on trust and a good credit history without critically assessing the possibility of occurrence of certain risky events. They also out of experience take cues from the performance of previous similarly assessed businesses and base on it to assess the performance of a new one. This means they fail to ask the necessary questions which would unveil most of the risk related issues with clients' businesses.

From the findings, it was clear that the respondents; credit officers and loan clients, knew all the credit granting procedures and all the relevant stages. Most of them saw the lengthy loan process to be a good recipe for new or fresh files or loan clients. However, since they saw it to be procedural and helped them to mitigate risk, they never tried to skip any of them. They were rather agitating for loan underwritings with fewer requirements.

From the findings, it also came out that clients also shared some similar thoughts like that of the credit officers. They also saw some of the stages of the loan process to be demoralizing. At these stages, some of the clients claim that they are being stretched to repetitively perform some activities that they had already done in their previous loans that they took and at times feel reluctant to follow the same processes. This appears to be in agreement with what some of the credit officers stated when they said that the process delays because some clients are not able to submit their required documents. All the clients stated that the loans that they always take are geared towards meeting a specific need within that specific period of time. They also said they mostly try to capitalize on emerging opportunity so if they are not able to have the money in due time, it tends to thwart their plans. Some of these clients said they defaulted because they could not use the loan amount for the intended purpose.

5.3 Conclusions

From the research findings, it can be asserted that the credit granting process helps to reduce or mitigate most of the risk associated with the loan. This means that when the due process is followed, it would help the financial institution to identify most of the risk elements. Their systemic risk measures contain predictive power to identify financial crisis periods. (Zeno Adams, Roland Füss, and ReintGropp, March 2011). This comes as a confirmation of the research by charlotte Lailja and Camilla Pettersson (December 2010). It can be deduced that there could be several factors that could impact on clients to default. It clearly shows that one's propensity to default could greatly be the persons attribute.

Notwithstanding all these, the research established that there is a positive relationship between the loan granting process and loan default. The time spent on clients' loan files before they are disbursed to some extent contributed to loan defaults since loan applicants always have a need that they want to meet and the inability of the funds to arrive at the right time influence clients to divert funds later on if the loan is given since by then the use of the loan would have elapsed. This goes on to affirm the conclusion of Rose Ajiambo (2005) that the delay of loans before they are being given out usually led to loan diversion and finally to default but due to certain limitations, its immensity in terms of the contribution could not be ascertained.

Again, it could clearly be seen that both the credit officers and loan clients would prefer if the loan process is made more relaxing for those clients who have been with the institution for some time. They would prefer if some of the requirements through the processes are reduced for them to be able to access the loan facility. To them, with repeat loans, much is known about the clients businesses and also characters and because of this some of the processes should be skipped so that loans can be granted earlier than it always takes.

5.3 Recommendations

In accordance with the findings of the study, the following recommendations may be given due consideration.

- Loan process should be reviewed and shortened for repeat loans.
- Loan underwriting requirements should be reduced.
- Monitoring activities should be intensified to make sure that loans are used for their purposes.
- Good clientele relationship should develop to maintain clients' loyalty.
- Clients should be kept informed of everything that ensues during the processing of the loans.

REFERENCES

Addeah, Kwaku (2001). “The Legal and Regulatory Framework of Micro and Rural Finance Institutions in Ghana,” paper presented at the Rural Financial Services Project Launch Workshop, Agona-Swedru, Ghana.

Addo, J. S., Consultants (1998). “A Feasibility Study and Business Plan for the Establishment of an ARB Apex Bank,” Accra: revised report for the Association of Rural Banks.

Ajiambo .B. Wakuloba Rose (2005). **“C**auses of default in government micro credit programmes”, An article for the ministry of State for Youth Affairs, Kenya

Allen et al. (2005) Allen, Franklin, Qian, Jun & Qian, Meijun, 2005. Law, Finance and Economic Growth in China. Journal of Financial Economics 77, 57-116

Anin, T. E. (2000). Banking in Ghana, Accra: Woeli Publishing Services.

Aryeetey, Ernest (1994). “A Study of Informal Finance in Ghana,” London: Overseas Development Institute, Working Paper 78.

Asiedu-Mante, E. (1998). “Financial Markets in Ghana” in Issues in Central Banking and Bank Distress, Lagos: WAIFEM.

Bank of Ghana (2000). “Non-Bank Financial Institutions Business (BOG) Rules” Accra.

Calomiris, C.W. &Himmelberg, C.P. (1993), 'Directed credit programs for agriculture and industry : arguments from theory and fact', In: Proceedings of the World Bank Annual Conference on Economic Development, Supplemented to the World Bank Review and the Third Word Research Observer, 1994, pp 113-13?

Charlotte Lilja and Camilla Petersson (2010). "Credit Granting Processes for Banks in Sweden"**:** A research article. Jönköping International Business School

CHORD (2000)."Inventory of Ghanaian Micro-Finance Best Practices." Accra: Report for Ministry of Finance, Non-Banking Financial Institutions Project. Department of Cooperatives. Annual Reports1999 – 2003, Accra.

DamianoBrigo, Gilbart Professor of Mathematical Finance, King's College, London, Most Cited Risk Author 2010

(Demyanyk& Van Hemert, 2009) Demyanyk, Y., & Van Hemert, O. (2009, May 4). Understanding the Subprime Mortgage Crisis. *The Review of Financial Studies*, pp. 1-33.

FDIC - Division of Supervision and Consumer Protection, March 2007

Hoque M Z. (2004), Flawed working capital loan policy and loan default: Evidences from Bangladesh, *Journal of Accounting, Business and Management*, Vol.11, No. 2, pp.202-213

Gallardo, Joselito (2002). "A Framework for Regulating Microfinance Institutions: Experience in Ghana and the Philippines," Washington, D.C.: World Bank Policy Research Working Paper No. 2755.

"Ghana: Microfinance Investment Environment Profile" Amit Jha, Neeraj Negi and RekhaWarriar

Gupta S. (1990), Rural Credit Policies and Persistence of Overdues in Indian Agriculture, Unpublished PhD Dissertation, Stanford University, Stanford.

Hand, D. J., & Henley, W. E. (1997). Statistical Classification Methods in Consumer Credit Scoring: A Review. *Journal of the Royal Statistical Society*. Series A (Statistics in Society), 160 (3), 523-541.

http://www.informationforaccountants.com/article_Business_In_Ghana.html,

http://www.google.com/dictionary?aq=f&langpair=en|en&q=risk&hl=en

http://www.slideshare.net/ricardo.vargas/ricardo-vargas-historico-gerenciamento-riscos-ppt-en (Richard Torian on June 29, 2010)

Hoque M Z. (2004), Flawed working capital loan policy and loan default: Evidences from Bangladesh, *Journal of Accounting, Business and Management*, Vol.11, No. 2, pp.202-213.

Laws, Regulations, and Rulings, Banking Laws for Examiners, OCC, Banking Regulations for Examiners, Volumes 1 - 4, OCC

Mester, L.J., (1997). "What's the point of credit scoring", Business review Federal Reserve Bank of Philadelphia.

Opoku-Afriyie, Y. 1974."Regional Development Authority and Rural Development."*Greenhill Journal of Administration* 1 (1), 27-36. April-June.

Pearl Essau-Mensah, the Deputy Managing Director of UT Bank, in Business & financial Times (29 June 2011 Pg18),**(**Principles for the Management of Credit Risk, September 2000 by the Basel Committee on Banking Supervision)

Stoyanov, (2008) St., Credit Risk Analysis and Information Supply, p. 43

The Basel Committee on Banking Supervision, Principles for the Management of Credit Risk, September 2000,

The Basel Committee on Banking Supervision, Best Practices for Credit Risk Disclosure, September 2000

Zeno Adams, Roland Füss, and ReintGropp, March 2011, Spillover Effects among Financial Institutions: A State-Dependent Sensitivity Value-at-Risk (SDSVaR) Approach).

QUESTIONNAIRE

QUESTIONNAIRE TO EXAMINE CREDIT PROCEDURES AND DEFAULT RATESA STUDY OF ADVANS GHANA SAVINGS AND LOANS LTD

INSTRUCTIONS

Please answer the following questions and tick where appropriate. This is entirely an academic exercise and your responses will be treated as confidential.

<u>Questionnaire for Credit Officer</u>

1. For how long have you been a credit officer?

…………………………………………………………………………………

…………………………………………………………………………………

……………………………….

2. How long do you often spend on each file taken?

…………………………………………………………………………………

…………………………..…………………………………………………….

………………………………….

3. What do you think makes you spend that length of time?

…………………………………………………………………………………

…………………………………………………………………………………

……………………………..……

4. Do you spend the same time on all clients?

   Yes ( )   No ( )

5. If no, then what accounts for the differences in time spent on different clients?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

6. What are the normal credit processes that clients have to follow?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

7. Do you find the credit process to be cumbersome?

Yes ( ) No ( )

8. If yes, then what do you suggest could make it simple?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

9. Do you think the credit granting process have an effect on clients' loan default?

Yes ( ) No ( )

10. If yes, how do think this can affect it?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

11. How do clients react when you are taking them through these processes?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

12. Do you at times skip some of the processes?

Yes ( ) No ( )

13. If yes, then why do you skip some of them?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

14. Do you think the process helps to mitigate or manage risks?

Yes ( ) No ( )

15. If yes, then how do you think this helps to manage it?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

16. What do you recommend the process should be like?

………………………………………………………………………………

………………………………………………………………………………

QUESTIONNAIRE

QUESTIONNAIRE TO EXAMINE CREDIT PROCEDURES AND DEFAULTRATES: A STUDY OF ADVANS GHANA SAVINGS AND LOANS LTD

INSTRUCTIONS

Please answer the following questions and tick where appropriate. This is entirely an academic exercise and your responses will be treated as confidential.

<u>Questionnaire for CLIENT</u>

1. In what loan cycle are you?

   ………………………………………………………..

2. Did it take time before the loan was granted out to you?

   Yes ( )   No ( )

3. If yes, what do you think made it delay?

   …………………………………………………………………………

   …………………………………………………………………………

   …………………………………………………………………………

   ……………………………………………………

4. Was it explained to you?

   Yes ( )   No ( )

5. Do you find the loan process to be cumbersome?

   Yes ( )   No ( )

6. Were the processes explained at each stage of the loan process?

   Yes ( )   No ( )

7. Which of the stages do you think took enough time?

   …………………………………………………………………………

   …………………………………………………………………………

   …………………………………………………………………………

8. Did you have to induce the loan officer with a gift in order to expedite the process?

   Yes ( )   No ( )

9. Did you get the requested loan amount?

   Yes ( )   No ( )

10. If no, were you given the reason why you could not get it?

    Yes ( )   No ( )

11. Were you able to use the money for the intended purpose?

    Yes ( )   No ( )

12. Have you ever defaulted in repayment before?

    Yes ( )   No ( )

13. If yes, then was it because the money was not used for the intended purpose?

    Yes ( )   No ( )

14. If no, was it because of any of the company's contract with you?

    Yes ( )   No ( )

15. If yes, then what exactly was it?

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

16. Did the officer come to check if the money was used for the purpose?

Yes ( ) No ( )

17. What was your whole impression about the process?

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

18. What do you recommend should be done?

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