THE EFFECT OF BAD LOANS ON THE PROFITABILITY AND LENDING POTENTIAL OF RURAL BANKS. A CASE STUDY OF SOME SELECTED RURAL BANKS IN THE ASHANTI REGION

BY

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DECLARATION

I hereby declare that this submission is my own work towards the Executive Masters in Business Administration (EMBA) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Bad loans have been identified as one of the major factors affecting the profitability and survival of rural and community banks in Ghana. Most rural banks are unable to remain competitive in the turbulent financial sector/industry due to high default rate. Against this backdrop the study examined the effect of NPLs (bad loans) on the profitability and lending potential of selected rural banks in the Ashanti Region of Ghana. Secondary data spanning the period of six years (2008-2013) was sourced from the annual report of the selected banks. In Addition, primary data was collected from the selected banks through questionnaires to help examine the main causes of bad loans in the rural banking industry. Descriptive statistics, Pearson"s Moment Correlation Analysis and Regression analysis were conducted to examine trends and relationships. The result found that the selected banks are witnessing steady rise in their Non-Performing Loan Ratios (NPL), which raises concern about their effectiveness in managing credit risk. The study further found that NPL (bad loans) has significant negative effect on the lending potential of the selected banks. Also, it was discovered that though NPL has a negative effect on the banks" profitability, the effect is not significant. The study further discovered that the main causes of bad loans within the selected banks include laxity in credit monitoring, poor appraisal system and lack of effective credit management policy to govern the disbursement of funds to borrowers. The study recommends that rural banks must take steps to reduce their bad loans since it has effect on their lending abilities and financial performance. Also, effort

must be made by these banks to empower their credit staff with the necessary skills and tools to enhance credit administration within the bank.

DEDICATION

This write up is dedicated to my late mother Mrs. Hannah Kwabi, my late sister Mrs. Esther Boateng and my entire family especially my lovely aunt Mrs. Beatrice Owusu Ansah, and brother Adusei Kwabi Jnr.

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KEY TERMS

ROA- Return of its Assets

RCBs- Rural and Community Banks

NPLs- Non Performing Loans

BFT-Business and Financial Times Newspaper

OLEM- Other Loans Especially Mentioned

GDP- Gross Domestic Product

SMEs - Small and Medium scale Enterprises

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Most of the rural banks revenue is generated through loan grants. Therefore, rural banks can generate more income to maximize profitability through credit growth thus, increase in total loan portfolio. Bad loans or NPLs have added an increasing attention in the last two decades which is a worry to most financial institutions including banks. The banking sectors in Ghana have experienced a number of banks and other non-banking institutions such as savings and loans, micro finance and credit unions failures; with bad loans becoming the forerunner to these financial institutions ultimate failures in Ghana. Bad loans are loan facilities which customers or borrowers often have difficulties in settlements or repayments. Scholarly works done on bad loans have concluded that bad loans are bad debts which are irrecoverable and are very uncertain as it is unserviceable. To the banking system in Ghana, a loan is said to be bad when it is made up of a stock component that is the old debt which is not performing and then a flow component (new lending).

Bad loans are not basically yearly events but mostly happen at different series of the year and they are often pretentious by periodic performance of economy but significantly by macro-economic variables such as short period inflation, lending rates, interest rate, exchange rates among others. An efficient and effective bank should not only be assessed by the robustness of its balance sheet or financial statements but the inclusion of its ROA. Therefore the earning power of a financial institution is a major or vital indicator of the performance of a bank.

According to Kassim (2009), some major reasons or causes of bad loans are poor management skills and experience, non-existence of an efficient and effective loan policy, insufficient loan analysis, documentation errors, much emphasis on profit as against the quality of the loan to be granted, dishonest practices and attitudes, political and economic challenges in terms of depression and instability, unhealthy competition, inconsistent policy and regulation and political and social influences on the management of the banks.

Banks in Ghana should also receive their portion of the blame because banks in Ghana charge very high interest rates on loans mostly between thirty (30) to Forty-five (45) percent. When loan facilities are disburse or approved to customers, financial institutions including banks charge several interests on it as determined by these banks. The total of these interest rates and other interests charges by these banks are usually on a high than the actual amount sanctioned to them. This frequently escalates the loan portfolio collection as well as the quantity of bad loans.

Also, most officers in the credit department and other officers especially branch managers, operations managers after granting or disbursing loan facilities to customers take certain percentage from the loan granted as gratification which is usually referred to as "sule", which may significance in inadequate funds to implement the intended business and at the end of the day, management may not have moral standing to request for the full repayment of the money borrowed. Again, sometimes some banks‟
Executives and Credit officers take "ghost loans" from these banks to develop their own personal businesses without any plan of resettling the loan taken.

Most board of directors and other top management members as noted by Okpara (2009), often their highly placed positions to obtain other form of loose loans which, in some cases goes contrary to the banks‟ statutory lending limits a strong violation of the regulation stipulated in the lending policy of the banking system. Again, loans are approved to acquaintances and relatives with no better documentation covering such loans which in the process grow the potential of bad loans.

Also, some bank branches grant interest waivers on bad insider-credits without obtaining the directives from their head office. The decline of bank assets, capital as well as other financial performance indicators have been the cause of NPLs or bad loans as cited by some researchers. The ARB Apex Bank in its end of year (2010), reporting on the performance of RCBs through its Efficiency and Monitoring Unit said that apart from other contributing factors, one major factor that led to a decrease in the profit margin of banks in the year 2009 was the incidence of a higher loan loss experienced by these banks. They also in their recommendations entreated RCBs to embark on effective debt recovery exercise so as to improve the quality of the loans given out so that the incidence of bad and doubtful debts could be minimised

Moreover, other adverse economic and market factors ranging various recessionary circumstances, regulatory variations and others such as resource shortages of effectual management and unsettled labour relations have obstructed on the health of businesses and mostly leads to the none payments of such loan facilities because of their default risks. Bad loans are credit risk to rural banks and it is the risk of loss arising as a result of inability of debtors in honouring their payments obligation. These loans have tended to affect financial instability in the larger economy and have at times resulted in the outright failure of government projects.

Bad loans can be described in actual sense as default loans, which banks are not proficient to earn from. These are loans which even though its payment schedule is still in force, it is however uncertainin determining whether the debtors would be able to make a regular repayment of the amounts due or the amount owe. Customers of banks in Ghana consist of business men and women, civil servants, contractors, petty traders, state at large. Each contributes to the poor performance of loans in the banking system.

Again, whenever public sector workers who mostly take credit from banks experience irregularities in their salaries payment, they are unable to honour their obligation for some tome resulting in growing NPLs. Most of the pensioners have borrowed from our banks when they were in active service and hoping to complete the payment of the loan from their privileges or monthly pensions. The non-payment of such privilege and due pensions (lump sum) has recurrently resulted in bad debts and bad loans.

Many state and private contractors acquired loan facilities from the banks to finish their projects, and due to none or poor mobilizations from the government or private companies to finish up the projects, the loans borrowed becomes bad and therefore problematic to the banks. The state who also borrowed from banks for some projects but due to the poor priority of projects, most of these projects are often abandoned and repayments of such borrowed amount often become difficult.

1.1 STATEMENT OF THE PROBLEM

Many Rural banks in Ghana have not survived in the banking industry due to NPLs creeping most of their activities. These huge overdue balances (bad loans) in their books with its resulting consequences have resulted in the collapse of rural banks such as Antoabiase Rural bank in the Ashanti Region and both Kakum and Tano Agya Rural bank in the Brong-Ahafo Region. Many works on this topic have cited reasons behind bad loans in other countries. The study conducted by Nishimura et al (2001) in Japan, revealed that some of the credits that were granted to companies during the era of the bubble resulted in bad loans when the bubble busted. Banks in Ghana, according to the Ghana Banking

Survey (2011)have indicated as a contribution factor, the non-existence of a strong response to the high level of NPLs or bad loans and higher cost of capital (resulting from the increase in minimum regulatory capital). Research studies have shown that bad loans make two major effects on banks. These effects are the limitation of bank‟s financial performance and lending potential. In a foreign country context, this evidence is accepted by Karimet al. (2010), Obamuyi, (2007), Nguta&Huka, (2013), Nawaz et al., (2012), Fidrmuc &Hainz (2009), Chelagat (2012) and Aballey (2009), whereas Appiah (2011) and Awunyo-Vitor (2012) also provide this factual evidence in a Ghanaian context. Though these evidences on the effect of bad loans on banks prevail, it is understood that the general contribution to academic debate on the subject is weak owing to the fact that studies on the subject are generally not many and most of them provided their proofs based on meta-analysis and literature reviews. This research provides related evidence using secondary data and empirical analysis, which offers a more valid and verifiable appraisal of bad loans effect on the profitability and lending potential of rural banks in Ashanti Region and the rural banking industry as a whole.

1.2 OBJECTIVES

The general objective of the study is to examine the effect of bad loans on the profitability and lending potential of rural banks using some selected rural banks in the Ashanti Region as a case study. The following would therefore be the specific objectives of the study.

1. To determine the trend of bad loans of the rural banks in the past six (6) years.
2. To analyse the factors accounting for loans default in the rural banking industry.
3. To examine the effect of bad loans on the lending potential (i.e. the amount allocated yearly for disbursement) and profitability of the selected rural banks.

1.3 RESEARCH QUESTIONS

The following research questions are hoped to be answered at the end of this study.

1. What has been the trend of bad loans of the rural banks in the past six (6) years?
2. What are the factors leading to bad loans in the selected rural banks?
3. What effect do these bad loans have on the lending potential and profitability of the banks?

1.4 SIGNIFICANCE OF THE STUDY

The outcome of this study will assist the banking industry to identify and develop methods and measures to reduce the effect of bad loans to maximize profit, thereby increasing recovery rate as well. To that effect, credit managers and other officers in the credit channel can plan recognition initiatives, map out plans for career development, initiate a well balance work-life programs and bring out attractive packages to curve down the non - performing or bad loans in the rural banking industry. The management of these financial institutions could also use the outcome of this research in their operations so as to gain edge over their competitors within the industry.

Again the study also aimed at assisting customers and clients in identifying the factors that will motivate them towards repayment of their loans. It will also serves as a guide to those in the academia, financial institutions, corporate managers and individuals that want to know more about the effect of non –

performing loans on the lending potential and profitability of the banking industry. Lastly, the study will add up to the existing stock of knowledge on bad loans and the extent to which these loans affect the financial performance of banks in terms of profit maximization. It will therefore serve as a useful material for future research work by other related researchers.

1.5 SCOPE AND METHODOLOGY OF THE STUDY

The study will cover employees and customers of the selected rural banks in Ashanti region namely; Kwamanman, Odotobri, Bosomtwe, Kumawuman, Atwima Kwanwoma, Rural Bank Ltd. Purposive and random sampling techniques will be used to select fifteen (15) individuals comprising both workers and customers of all the selected rural banks. Both primary and secondary data will be used to collected data for the study. The primary data is generated from questionnaires while secondary data is obtained from official documentations (minutes from meetings, brochures, newspapers and internet publications, etc.) from the banking institutions in Ghana.

1.6 EXPECTED LIMITATION OF THE STUDY

This study covers the entire rural banks in Ghana. However, this research is limited to workers and customer of the five selected rural banks out of the twenty-five (25) rural banks in the Ashanti Region due to the difficulty in accessing data, time constraints and financial challenges. Every effort however, would be implemented so as to lessen the effect of the expected limitation on the credibility of the results of the study.

1.7 ORGANIZATION OF THE STUDY

The entire study would be grouped into five chapters. The chapter one will be based on the introduction to the study, the study background, problem statement objectives of the study, relevant research questions, significance of the study, the expected limitation, the scope and the methodology adopted and the organization of the study as a whole. The chapter two would be centered on the literature review. The literature review is about theories and concepts found in existing stock of knowledge relevant to this research. The chapter three will be based on the research design, data collection instruments, population and sample used, the mode for collecting the data and the analysis of the data collected and then a brief profile about the selected rural banks in the Ashanti Region.

The chapter four will critically analyse critically discuss the gathered data. The summary of major findings, conclusion, recommendation and implication of the study ends the work in chapters five.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The chapter two of this work is about the literary works which are relevant in determining the effect of bad loans on the operational performance of rural banks. This is done to provide the basis upon which the result of the study would be acceptable. It therefore seeks to provide a comprehensive background underlying the analysis of bad loans in the rural banks.

2.1 THE CONCEPTS OF LOANS

A loan is usually available on a fixed and spot basis and can be secured or unsecured. Loans are offered for specify amounts for specified periods. Mabvure et.al,(2012), describes loans in general are part of or major component of the total assets of every bank. The lender cannot seek repayment prior to expiry of the period unless there have been some default. In a legal sense, a loan facility is a contractual promise between a lender and a borrower where the lender usually bank consent to the granting of an amount to a borrower, who intend undertakes to resettle same to the lender either in bulk or in installments within a specified period of time. A loan may be classified as performing and NPLs.

2.1.1 Performing loans

A performing loan facility takes place when the agreement in terms of the payments of the principal and the interest component between the lender and the borrower are honour up to date. A release by the Bank of Ghana (2008), classified loans that has its principal amount together with the interest being resettled by the borrower as current. Again to the Central Bank, an overdraft could also be classify as current or performing loan if there has been a consistent action on the facility with no indication of a hardcore of liability building up. This classification means that performing loans are loan facilities that have the interest and principal components repaid within the agreed or stipulated time. This category therefore constitute huge part of the quality asset portfolio of most financial institutions particularly banks in terms of the interest revenue that are generated by such resources.

2.1.2 NPLs

NPLs are loans that are still in force; however it is uncertain whether the debtors would be able to often honour their loan obligations. To Goldstein and Turner (1996), the buildup of NPLs is usually attributed to many factors such as economic downturn, macroeconomic instability, moral hazard, high interest rate, extreme dependence on overly high-priced inter-bank borrowings and insider borrowing. Bad loans result from the inability of debtors to repay their loans and their interests within the specified time
(Aballey, 2009), resulting in adverse effects on the financial condition of the creditor (Aballey, 2009; Agu & Okoli, 2013).

To Alton and Hazen (2001), NPLs are loans which have its ninety days or beyond past due or which have no longer accruing interest from it. This thought was corroborated by Hennie (2003), who also agrees in the form of an argument that NPLs are loans having no revenue generating from it. Caprio and Klingebiel (1996) as cited by Fofack (2005), says that NPLs are credit facilities which has not been generating any income within a reasonable period of time, that is either the principal and or the interest on the facility have not been honoured for a period of ninety days or more. Guy(2011), have also that NPLs are loans facility that are usually in arrears for a period of ninety days or more.

In the classification of Basu (1998), "bad loans" were mostly used interchangeably with non-performing and impaired loans as noted by Fofack(2005). Berger and De Young, (1997) on other hand added the term problem loan to this tag of loan. These terms are therefore interchangeable used throughout this research work. Very often credit facilitates that have both its principal and interest in arrears for a long period of time as against the stipulated repayment schedule agreed upon by both parties are classified as NPLs. Thus any loan facility granted to a borrower that is not current in terms of repayment of its principal and interest as against the agreed repayment schedule is termed as non-performing. The ninety or more day"s loan default repayment of the principal and or interest period as stipulated by the Bexley and Nenninger (2012) as loan delinquency has been adopted within this work.

There have been divergent views by researchers in various countries on the descriptions of bad loans. Some adopted quantitative criteria such as number of days that the loan scheduled payments were due but to which it was not honoured while others used qualitative norms such as the background information about the clients" financial status and the management judgment about future payments of the loan. Bad loans take their name from the fact that they are practically in opposition to the financial situation of the bank. By the time they are referred to as “bad loans”, there is the fear that the amounts involved and their interest cannot be fully paid by the debtor (Chelagat, 2012; AwunyoVitor, 2013). In this regard, a financial loss is encountered instead of a profit, leading to adverse effects on the commercial bank, the defaulting SMEs and other corporations and individuals who would like to borrow from the commercial bank in future.

The Bank of Ghana (2008) categorisation of loan advances in the banking sector in December that year, shows that out of the total loan portfolio of GH¢5,966,804,133.00, 7.68% of it was not paid back within the stipulated time or not paid at all. These loans comprised loans that fall within the substandard, doubtful and loss classification. The Central Bank reported that these loans had exceeded ninety days period in terms of repayment.

There is an evident in the fact that more private sector enterprises are defaulting on loans, despite the overall NPLs in the banking industry dropping from 12 % to 11.3% between 2013 and 2014 (BFT, 2015).

2.2 CLASSIFICATION OF LOANS

There are various ways of classifying loans. This process of loan classification helps banks to evaluate the loan facilities so as to be able to grant loans to grades based on the observed risk and other relevant features of the loans. The continual evaluation and categorisation of credit facility makes it possible for banks to monitor the quality of their loan facilities and then take corrective action whenever possible to counter decline in the credit quality of their loan portfolios. To Laurin et al (2002), banks should use more complex internal control classification systems to do away with the more standardized systems that the regulators of bank need in order to evaluate and report on the purposes which are intended to facilitate excessive monitoring.

Loan advances portfolios of financial institutions are classified into various categories or types to determine the level of provisions to be made in conformity with the banking regulations stated in the Banking Act of 1963, Act 179. Kone (2006), classified the various loans as current, OLEM, substandard, doubtful and loss. The Central Bank of Ghana has also classified the loan facilities as the following:

2.2.1 Current

This type of loan facility take place when the debtor is up to date in honouring the loan obligation in terms of settling both the principal and the interest component as stipulated in the agreement. The indications that an overdraft facility is current would mean that there has been a regular action on the said account with no signs that a hardcore of debt is accumulating.

2.2.2 OLEM

This is a facility that is presently secured by enough security, both as to the principal and the interest component, but its weak potential could create an undeserved credit risk, although not to the level of justifying this category as substandard.

2.2.3 Substandard

This type of loan advance shows a distinct loan weakness that endangers the insolvency of the debt incurred. It normally include loans granted to debtors who are having cash flow element that is not enough in meeting the current maturing debt, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs. Substandard loan advances are not secured by the current sound worth and paying capacity of the client. NPLs and receivables which are more or up to ninety days overdue but not up to the 180 days unpaid are also substandard loan. Thus loan advances become unpaid when the principal or interest component is due and unpaid for 30 days or more.

2.2.4 Doubtful

This type of loan advances indicates all the weakness features shown in the substandard loan category with other added features that the loan are not well-secured and the limitation making the liquidation in full on the basis of the facts currently existing together with the conditionality, values which could be highly doubtful. Even though the probability of loss is very high, the existence of certain strong indicative factors may work to the advantage and strengthening of the repayment, deferring its estimated loss categorisation until more exact status determined. NPLs and receivables having 180 days or more unpaid period but not up to the 360 days unpaid period are classified as doubtful loan advance.

2.2.5 Loss

Loss are said to be uncollectible and of such little value that their continuation as recoverable advances is not warranted. However, this does not indicates that there is no recovery value of the loan advance, but the practicability to defer writing off this type of loan even though partial retrieval may be hampered in the future. This type of loan advance includes liquidated or insolvent companies with bad current asset and cash flow. Financial institutions should however not keep this loan advances within their records no matter the long term effort made in recouping the advances. Losses should be taken in the period in which they surface as uncollectible. The NPLs and the receivables having the 365 days unpaid period or more are all termed as a loss.

2.3 LOAN PROVISIONING

One major factor considered by most of the financial institutions in Ghana in making loan facility accessible to the borrowers is the ability to honour the loan obligation. To lessen the risks of loan default, most banks try as much as possible to ensure that the debts are well secured. Even though the facility are normally given based on the ability of the borrower to pay back the facility, and not on the ability to secure its with enough security in the event of default, it would be commendable if facility granted out to all clients and personnel of the banks are well secured. This situation will ensure that the various financial institutions could utilise the property secured for the facility in the events of defaults of the loan to lessen the impact of the financial loss(Banking Act, 2004). Therefore banks ought to take into consideration the value of the property which is being used as collateral in acquiring the loan to establish the level of provision to be used. The regulations of the Bank of Ghana shows that certain amount of provisions are made on the total arrears of all current advances, and the total net unsecured balance of all other categories. The table below shows the five categories which will help to determine the level of provisions required in this direction.

Table 1- A table showing the category, provision rate and its expiration period

	CATEGORY	PROVISION RATE (%)	PERIOD (EXPIRY)
1.	Current	1%	Less than 30 days
2.	OLEM	10%	30 less than 90 days
3.	Substandard	25%	90 less than 180 days
4.	Doubtful	50%	180 less than 360 days
5.	Loss	100%	360 and above

Source: Section 53(1) of Banking Act 2004

The above table shows that the higher the type of that particular NPLs, the likelihood of such provisions and charges for that particular bad loans occurring. For instance as reported by the Bank of Ghana in December, 2008, the accumulated banking sector loan facility depicts an increase in the non-performing groupings which were 85.97%, 78.47% and 63.73% for the substandard, doubtful and loss categories respectively. This means that NPLs jumps from 6.37% in 2007 to 7.68% in 2008.

Banks are expected to maintain sound credit management practices. The banks should therefore endeavour to monitor the quality of the loan facility and also examine the incidence of defaults, classification, adequacy of provisions and progress in recovery in their operations.

2.4 ASSESSMENT OF LOAN PORTFOLIO QUALITY

The parameters applied in assessing loan portfolio quality include the following:

2.4.1 Overdue Loan Ratio

This measures the proportion of overdue loans in the gross loan portfolio outstanding. A declining ratio is desirable but this should not emanate from new credit facilities granted. A healthy situation should be from recoveries of overdue outstanding.

2.4.2 The NPL Ratio

The NPLs are aggregate of substandard, doubtful and loss categories, which pose high degree of difficulty for recovery. The ratio is also referred to as High Risk and is derived by relating the component to total loan portfolio. An increasing trend depicts development of a hardcore portfolio, arising from weakness in the credit management process. A tolerable prudential limit is 25%.

2.4.3 Loss Category to Total NPL Ratio

This determines the loss component in the entire non-performing loan portfolio and provides further test o worse character of the portfolio. An increasing trend is unacceptable since this indicates persistent deterioration in the loan portfolio quality. An increasing trend exhibited by the loan portfolio quality ratios shows an unfavourable development, which requires the institution of far reaching measures to strengthen credit management. These may include taking decision based on objective appraisal report, attesting to a good track record of the customer, effective monitoring of utilization of funds to forestall any diversion, supervision to ascertain state of activities being financed, and instituting recovery schedule among others.

2.5 CAUSES OF BAD LOANS

According to Ahmad (1997), some of the main factors that lead to bad loans are the reluctant in loan resettlement coupled with diversifying the funds by the creditors and the deliberates lack of appropriate appraisal of the facility by the Loan Officers. Kwakwa (2009) have indicated that loans facility granted to corporate firms tend to result in high loan default rate as real GDP falls, and that the decline in the local currency against the major foreign bureaux in the exchange rate, have a direct repercussions on the repayment ability of borrowers. Balogun and Alimi (1988) have also recognized the following as notable causes of loan default affecting the banking sector:

1. Shortages of loan
2. delay in time of loan delivery
3. small farm size
4. the prevailing high interest rate in a country
5. age of farmers in a community or rural area
6. poor supervision by most regulators
7. Non- profitability of farm enterprises and unnecessary government intervention.

To Akinwumi and Ajayi (1990) identified the size of the farm, the size of the family within a household, the scale of operation, the family living expenditure and exposure to efficient management skills as some of the causes likely to influence farmers ability to repay their credits. Again as noted by Gorter and Bloem (2002), NPLs are generally caused by some factors that are likely to happen due to erroneous economic decisions undertaken by individuals and other circumstances such as unfavourable weather conditions and unexpected price changes for certain products which are sometimes beyond the realm of the individual. Whenever this happens, loan holders ought to make allowances for a regular share of default in the form of bad loan provisions, or the risk could be spread through an insurance policy.

A study conducted by Nishimura et al (2001) in Japan opined that one of the main factors inhibiting an efficient economic growth in that country was the issue of NPLs. The study said that some of the loans facility granted to institutions by the banks during the era of bubble turned out to NPLs when the bubble burst. Most of the non-payment occurred due to inefficient management practices, loan diversion and reluctant by debtors in honouring their financial obligation. Kohansal and Mansoori (2009) added to this by saying that government imposed interest rate ceilings, high transaction cost on loans, the issue of moral hazard and the monopolistic power creditors on the markets usually possessed by the informal lenders as some of the major causes of bade loans.

Olomola (1999), have also said that loan disbursement lag and the issue of high interest rate are likely to add up to the transaction cost on loan acquisition which could end up in affecting the repayment schedule. Berger and DeYoung, (1995)indicated that, the issue of recovery and overdue of loans is one main factor militating against banks in India. Even though the reasons cited differs from one financial institution to the other due to the various nature of loans granted, the problem however cut across. From the perspective of the industrial sector as the study indicated, the causes of bad loan are bad selection of the entrepreneur, lack of feasibility study to determine the viability or otherwise of the project, insufficient collateral security that is equitable mortgage against the facility granted, unrealistic terms and schedule of repayment, absence of proper monitoring mechanism and other natural happenings beyond the control of both the lenders and the borrowers.

Other researchers have given other causes of bad loans as the following:

2.5.1 Grace Period

Several lending practises showed that grace periods have been too short to serve their intended purposes. Especially this can be left in the start-up phase of the business. The grace period also affects repayments of loans although it is intended to protect the lending institution. (Lassort and Clavier, 1989).

2.5.2 Insider Lending

According to Bridge (1998, bad loans accounted for most banks which were in distress and the major causes of these bad loans were insider lending, macro-economic instability and lending to high risk borrower. Insider lending was identified as one main factor of bad loans that led to collapse of local banks. In Nigeria for instance, insider loans which were all unrecoverable accounted for 65% of the total loans of the four local banks that were liquated in 1995 (NDIC, 1994, p. 48). According to the study it was cleared that much of the loans of the Uganda local banks taken over by the Bank of Uganda (BOU) in 1995 were granted the various directors and employees of the local banks. The study concluded that insider lending posed a threat to soundness of the lending due to the fact that most of these facilities were employed in speculative projects such as real estates which were not able to generate short term returns to pay back the loans. This means that moral hazards were thus severe in those banks. The case of most rural banks cannot be exempted from insider loans. Most loans contracted from other lending firms are shared among senior managers and board of directors.

2.6 LOAN REPAYMENT

The ability of banks to recoup back the facility granted is the determinant factor for the bank to sanction more loans. Banks must therefore be cautious in the administration of loans. The possibility of customers hiding their real identity should not be taken for granted as the information about them is to be used in determining the ability to pay back the loan. Absence of this vital information about the clients will make it very difficult for banks to determine the customer true identity in terms of repayment ability.

Most enterprises including organisations and SMEs ability to honour their loan obligation often depends to some extent their receivables from their debtors which sometime influence repayment pattern to the various banks. Banks should therefore take into consideration the trend and the business lines of clients of these enterprises during loan acquisitions. Therefore as noted by Bruck (1997),loan maintenance ought not be allowed beyond the agreed loan facility. Thus effective mechanism and regular supervision of the arrears should be undertaken to ensure prompt repayments.

It is a common phenomenon that most personal loans disbursed to public workers who are on the government payroll received a higher rate of repayments. Nyarko (2005) have identified that the employer guarantee granted to these type of workers coupled with monthly deduction at source play a key role in this type of process, however it is subjected to due diligence in terms of effective pre-lending processes and procedures.

2.7 EFFECTS OF BAD LOANS ON THE BANKING INSTITUTIONS

Banks derive most of their income from the interest they charge on loans they disburse which contribute to the profitability of these banks. In view of this, when such loans end up as not performing, the financial strength of these banks are affected. As stipulated in the banking regulations, banks undertake enough provisions and charges for bad loan that is impairment charges and therefore the impact is undesirably on the financial performance these banks. As indicated in the Bank of Ghana Act, (2004) on the loan acquisition policy, loans attains non-performing tag if it is at least ninety days unpaid period, which will make it to invite certain basic rate of 25%, 50% and 100% for substandard, doubtful and loss, respectively.

To Bloem and Gorter (2001), even though NPLs tend to affect negatively all the financial institutions, the impact is however felt more by those within the commercial banks and mortgage financing institutions which usually possess large chunk of loan facilities. This ultimately hampers the ability of these financial institutions in granting further loans to respective applicants. Large NPLs could leads to dwindling confidence level of both depositors and foreign investors who may adopt strange position against the banks which might result in a negative signal and liquidity problems. Bad debts policy tends to reduce total loan portfolio of the financial institutions thus affecting the interest earnings on such assets. Banks thus experience huge cost of operation through this direction. Bad debt could result in banking challenges which might eventually leads liquidation of banks having unprecedented NPLs as confirmed by some of the existing literary works. Demirgue-Kunt et al(1989) as cited in Berger and De Young(1997) confirmed by saying that financial institutions undergoing failings might have high amount of bad debts prior to failure and therefore the quality of asset at its disposal is a statistically enough predictor of bankruptcy.

2.8 WAYS OF MINIMISING BAD LOANS

To Kohansal and Mansoori (2009) financial institutions ought to institutes more practical ways to reduce the high incidence of loan defaults. These could be done through issuance of collateral security, adoption of credit rating mechanism, third-party credit guarantee, and the use of collection agencies. Again as noted by Kay Associates Limited (2005),these debts could be controlled and reduced through adoption of policy that ensures loan facility are given to good standing clients who have the ability to honour their obligation to the end. Application for credit by the potential applicant should be subjected to vigorous loan analysis so as to determine credit risk of the borrower in order to reach a firm decision before the facility are granting.

Furthermore proper monitoring mechanisms should be implemented so that whenever a client fails to honour the loan obligation, necessary action could then be taken and if possible renegotiate with the clients on the loans should the need arises.

2.8.1 Proper management monitoring and control mechanisms

Many management of the financial institutions do not consider the need to put in place a proper loan repayment mechanism even though it is one area of possibility in avoiding the incidence of impairment charges, Rouse(1989)have pinpointed to this as the most effective way to avoid these menace. These measures which he identified as frequent visits and interviews and an efficient audited and management accounts could be adopted as a form of monitoring and control mechanism. Some of the effective mechanism which could also be adopted to reduce the incidence of bad debts is ensuring that the loan acquired is used for the intended purposes. Other measures such as identifying indications that might serves as early warning signals of issues within the operations of the borrower which could affect the payment schedule, sticking to the terms and condition as stipulated in the loan requirement and then taking time to diagnose together with the borrower the likely challenges and prospects of the business.

2.8.2 Security

Demand for security as a prerequisite for granting of loan is very essential as it has the tendency of serving as a form of cushion for banks in the event of loan default. Due to the doubtful financial statements which are sometimes presented to acquire credit, various banks this days insist on security before granting of loan facility. Every effort must therefore be taken in terms of legality of every facility by managers of these financial institutions to help reduce the incidence of bad loan.

Borrowers who could not afford the provision of security mostly do not avail themselves at all to apply for loan which serves as a way of reducing loan default. As said by Tshribi (1996), the provision of security as a prerequisite for loan application emphasises the need by which banks consider the issues of collateral security knowing very well that the security to be used as a guarantee for loan application stands the chance in defraying the arrears of the loan should the unfortunate thing happens. Again other essential provisions such as accessibility, valuation, realization in case of default, ownership title and controls must not be ignored. As a regulatory and a legal requirement for lending in business operations, banks ought to be careful in their consideration of such security so as to help lessen the incidence of loan default.

2.8.3 Pre-Lending Information

In order to help safeguard repayment of loan, adequate checks about the applicants ought to be undertaken before the facility is granted. This detail information about the applicants could be in the areas of personal and business affairs so as to determine the repayment ability. Rouse (1989), haveidentified seven criteria such ascharacter, ability, margin, purpose, amount, repayment and insurance (CAMPARI) in lending which should be adopted. This CAMPPARI is discussed below:

2.8. 3.1Character

The borrower must possess a high integrity and must be trustworthy, that is a person who is able to remain faithful no matter what. Borrowers ought to know that banks sre custodians of money entrusted to their custody by the various depositors and do not possess any money of their own. Usually creditors prefer documentation to buttress whatever claims made by the borrower, but sometimes creditors rely on what is uttered by the applicant and their own judgement of the person. Much rely on the borrower"s existing account with the bank as an evidence, however if the borrower is new, apt skill and experience in interviewing should be used to identify the credit worthiness of the borrowers or again a credit reference bureau could be used to identify the credit history of the borrower.

2.8.3.2 Ability

The borrower must possess some form of proficiency even if not an expert on their field of operation or profession. The question which needs to be asked is what crucial expertise is possessed by the organisation‟s management based on the proposal presented? Indications in any form of flaws in the management team should be identified if possible.

2.8.3.3 Means/Margin

This falls under the interest, commissions and other fees that signify the risk involved in the lending process. The bank must see to the success of the venture and to receive interests on the credit and not as a share profits. Therefore the purpose in applying for the facility must be known to the lender. Whether the facility is intended for personal or business loans, the purpose of the facility should be one of the basic requirement before approval is granted. Therefore financial institutions must not grant any forms of loans unless its purpose is made known.

2.8.3.4 Amount

This also falls under the amount that has been applied for by the applicant. One question in determining this is to find out how much the applicant really qualifies to receive. Usually good borrowers make allowances for contingencies. Therefore the amount which has been applied by the applicant ought to be in proportion to the resources of the borrower.

2.8.3.5 Repayment and Term

This is about how the loan if acquired is to be resettled. There are two main ways by which the loan could be repaid back that is either from the borrower"s income or through the sale of asset belonging to the borrower.

2.8.3.6 Insurance and Security

This is the security that the banks must get to serve as collateral against any unforeseen circumstances in the event of failure of loan repayment. This safeguards the bank and reduces the risk of default.

2.9 LENDING

Lending is defined as the giving of an asset with the expectation that an equivalent value will be retuned at a future point of time. A loan is an asset to the lender and a liability tor the borrower. It is also a deal of money to an individual or institution with the hope of resettlement with an added interest to be paid in either bulk payment or by instalment based on the specified scheduled period. Collateral security are demanded to cover the asset given out whenever the situation demand so (Ribeiro 2006). Due to competition within the banking industry, some banks have adopted the habit of granting credit to applicants without request for any form of collateral as a way of winning the customers into the bank operations. This is normally done on the blank side of the law regulating the issues of credit acquisition.

To Rouse (1989), lending is an art rather than science as it inculcates in its operation skilfulness and common sense. To him methodology such as accounting procedures, credits and risk"s analysis and regulatory framework as science are employed in determining the ability of the client ability to repay the loan, however these are never enough as the lender intuitive sense and skilfulness are the major key factor to discern the repayment ability. Therefore prudent and sound approach ought to be employed by banks as lending is the main avenue for generating revenue by them so as to be able to meet the expectations of their stakeholders.

According to Awuah (2007), as a result of the risk nature of the bank lending, adequate appraisal ought to be taken as to be able needs to determine the true the repayment ability before final decision are taken. Most banks these days are reluctant in financing SMEs due to factors given as absence of collateral security, non-existence of proper bookkeeping practices, poor managerial practices, and the location remoteness of the most of the SMEs. Even though the large institutions on other hand have good book keeping practices in lieu of tax payment and loan appraisal, these practices are not enough as they are fond of preparing separate account in their operations. Based on these, institutions quest to access loan are sometimes subjected to more scrutiny.

The study shows that there is likelihood that the client might not be able to honour the loan obligation and therefore the lender needs to ask whether it is possible for the borrower to pay the said amount in the future as the agreement indicates. The lender should therefore possess the skill of discernment and judgement. Every effort must therefore be taken by the lender with the objective of determining the extent of the associated risk on the loan so as to reduce the doubt that comes along with the prospect of repayment. Lenders must not bow to any form of pressure from client but should rather use sound judgemental process in granting loan to borrowers as loan default is
costly.

2.9.1 Lending Potential

Olokoyo (2011) have indicated that deposits forms the major component of banks‟ lending behaviour as the lending rate of the banks directly influences it lending patterns.

Karimetal (2010)also acknowledges the reduction in bank‟s lending potential as another basic effect of bad loans. Again banks derive greater proportion of their income and returns from the activities of lending (Karimet al., 2010; Nguta& Huka, 2013).

Therefore, proportionate amount of the revenue are lost whenever banks experience bad loan through unpaid credit. Once income is lost in a fiscal year, the ability of the financial institution to grant loan to others would practically happen in the subsequent year. This situation might lead to the bank inability to grant loan or may not give the required amount sought. In this study, the amount located to lending is referred to as

annual “loan size”.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

The chapter three of the research is based on the research methodology used. It focus on the research design, the population, the sample size, the sampling techniques, data collection instrument and technique, data presentation and analysis, and finally the profile of the selected rural banks adopted as case study for this work.

3.1 RESEARCH DESIGN

Research design is a strategy adopted to embark on a research activity. As there are many strategies available, and every research should have appropriate strategy, the survey strategy was employed for this study. The survey strategy is usually associated with the deductive approach, normally used in business and management research. It is frequent used to answer who, what, where, how much and how many questions. Again it is usually employed in exploratory and descriptive studies as it makes it possible to gather sizeable proportion of data from the target population in a highly economical way.

Quantitative data could also be collected for any kind of quantitatively analysis using descriptive and inferential statistics. Data collected through survey approach could be used to determine possible relationships between variables so as to be able to produce models out of these relationships (Saunders et al, 2007).

This study is intended to cover six operational periods of some selected rural banks within Ashanti region of the Republic of Ghana from 2008 to 2013. The researcher therefore adopted the survey approach for this study as there was the need to collect enough data on the incidence of bad loan in order to determine its effects on the banking institutions using some selected rural banks in the Ashanti Region as a case study.

3.2 TARGET POPULATION

The population for this study is all the twenty-five (25) rural banks in the Ashanti Region.

3.3 SAMPLE SELECTION

Non-probability sampling technique was employed in the sample selection. Nonprobability sampling according to Saunders, et al. (2007), is "a sampling technique to which units of the sample are selected on the basis of personal judgement or convenience; the probability of any member of the population being chosen is unknown". The sample size is the five (5) selected rural banks of which questionnaire were distributed purposively to five (5) credit or loan officers and five (5) to their management at the banks two branches for the data. The table below shows the sample size of the respondent selected for the study.

Table 3.1Sample Size of the respective respondents

Name of Rural Banks	Managers	Loan officers	**Totals**
Kwamaman	2	2	**4**
Atwima Kwanwoma	2	2	**4**
Kumawuman	2	2	**4**
Odotobri	2	2	**4**
Bosomtwe	**2**	**2**	**4**
Totals	**10**	**10**	**20**

Source: Fieldwork 2015

3.4 DATA COLLECTION SOURCES

The researcher used primary and secondary data sources in undertaking this study

3.4.1 Primary data

Questionnaires and interviews were used to collect data from respondents for the research.

3.4.2 Questionnaire

Self-administered questionnaire were distributed to five(5) credit officers at each selected rural bank and five(5) to their management members. The questionnaire consisted of both open-ended and closed ended questions in order to ensure high response rate. The questionnaire also contained vivid instructions to be followed in answering the questions to reduce much data from the respondents.

3.4.3 Interview

Face-to face interviews were conducted with regards to the respondents above. This will be vital in obtaining important information which was not captured in the administering of the questionnaire.

3.4.4 Secondary data

The secondary data were collected from the Association of Rural Banks financial reports, the selected banks administrative manual, annual reports, lending procedures and policy manuals.

3.5 DATA ANALYSIS

The data collected were analysed with the aid of EVIES Statistical Software and Statistical Package for the Social Scientist (SPSS) descriptive, correlation and regression analysis. Hence, inferences were made from the data collection analysis.

3.6 ORGANIZATIONAL PROFILE OF THE SELECTED RURAL BANKS

3.6.1 Kwamanman Rural Bank Limited

3.6.1.1 The Bank and its Environment

Kwamanman Rural Bank (KRB) Limited was established in 1982 as a limited liability company. The bank has its Head Office at Nsuta-Kwamang in Sekyere Central district in the Ashanti Region and eight other branches at Kwamang, Beposo, Nsuta, Mampong, Old Tafo, Amakom, UEW-Tanoso, and Kejetia. The bank has two refurbished mobilization centres located at Kona and Adanwomase.

3.6.1.2 Bank's Corporate Vision and Mission

Kwamanman corporate vision is „‟to be among the pace setters of the banking industry through rigorous application of the best practices and procedures for excellent customer service and stakeholder satisfaction‟‟‟‟. The bank‟‟s mission is:

- To promote credit creation through vigorous savings mobilisation
- To apply best practices and procedures for quality service delivery and customer satisfaction
- To encourage private entrepreneurship by supporting micro enterprise and agrobased production concerns with adequate and timely credit
- To recruit and develop best human resources to carry out the bank‟‟s mandate

3.6.1.3 Bank's Products and Services

The bank provides the following products and services to its various customers and clients; current accounts, savings accounts, fixed deposits accounts, Micro Finance/Susu accounts, Overdraft, Susu loan, Salary loans, Commercial loans, Personal loans, Education Financing Transport loans, Salary advance, Juvenile investment accounts, Church Development Loans. The bank also engages in other foreign and domestic transfer such as Apex Link (i-trans) Money Transfer, Western Union Money Transfer, Moneygram, E-Zwich and MTN mobile money.

3.6.1.4 Brief Background of Credit/ Micro Finance Operations in the Bank and the Way Forward

The credit department or unit started operating in micro finance unit of the bank started in 2000. Its mandate was to help minimise rural poverty and by so doing better the lives of the traders in the rural and community areas. Their target was mostly petty traders, cash crop farmers, kente weavers, service (drinking and food bars) operators, dressmakers, hairdressers and small-scale farmers. The unit‟s products and services are Group Loans, Individual loans, Micro insurance, Susu Savings and Susu loans.

The bank provides other loans DANIDA loans and MIDA loans to its customers but has encountered with such loans. Loan recovery rate has been less than 30% because of interest rate, inadequate monitoring and inappropriate timing in recovery by staff.

The Government of Ghana (GOG) is implementing the Rural Financial Services Project (RFSP) that seeks to broaden and deepen financial intermediation in rural areas to improve access to financial services by expanded number of the rural poor. The programme which seeks to build the capacity of RCBs, aims to strengthen the rural and Community Banks for effective intermediation through technology enhancement, human resource development and the development and testing of innovative financial instruments and products respond appropriately to the changing financial needs of the majority of Ghanaians who live in the rural areas. This when implemented will go a long way to help rural and community banks (Arb Apex Bank 2014).

3.6.2 Kumawuman Rural Bank Ltd

3.6.2.1 The Bank and its Environment

Kumawuman Rural Bank Limited is the sixth rural bank to be established in the Ashanti region, and the 45th in Ghana was established in 1982 at Kumawu. This was after some natives from the town residing in Accra mooted the idea to set up a financial institution to inculcate the habit of saving among the people of the area, currently the bank has branches at Bodomase, Drobonso, Effiduase, Banko, Bomso, Tafo Mile Three, Sokoban Wood villege,Amakom and Kwamo-Fumesua.

3.6.2 2 Brief Background of Credit/ Micro Finance Operations in the Bank and the Way Forward

Kumawuman has a credit department made up an experience and dedicated officers. The credit department or unit started operating in micro finance unit of the bank started around 2002. Its objective was to help alleviate rural poverty in Kumawu and its catchment areas such as Pepease, Banko, Bodomase etc. the department provide credit to cocoa farmers, cash crop farmers, dressmakers, petty traders such as provision store traders, kenkey sellers, yam sellers, and the others. This credit provision has done well to the lives of most traders in their operational areas. The unit‟s products and services are

Group Loans, Individual loans, Micro insurance, Susu Savings and Susu loans.

The Government of Ghana (GOG) is implementing the Rural Financial Services Project (RFSP) that seeks to broaden and deepen financial intermediation in rural areas to improve access to financial services by expanded number of the rural poor. The programme which seeks to build the capacity of RCBs, aims to strengthen the rural and Community Banks for effective intermediation through technology enhancement, human resource development and the development and testing of innovative financial instruments and products respond appropriately to the changing financial needs of the majority of Ghanaians who live in the rural areas. This when implemented will go a long way to help rural and community banks (Arb Apex Bank 2014).

3.6.2.3 Bank's Products and Services

The bank‟s products and services is eventually the same as that of Kwamanman Rural Bank Limited. (Kwamaman Rural Bank, 2015)

3.6.3 Odotobri Rural Bank Limited

3. 6. 3.1 The Bank and its Environment

Odotobri Rural Bank Limited establishment was a response by the government to Odotobri Cocoa Farmer‟s appeal to help alleviate their plight at a time when they had to travel long distances of over 20km, most often on foot to cash their Akuafo Cheques at Ghana Commercial Banks in Bekwai, Obuasi and Kumasi as the case may be. Odotobri was incorporated by shares in March 29, 1982 with registration number 20476 under the companies‟ code 1963 (Act 179). The bank was issued with a license to commerce banking operations on September 7, 1982 under the Banking Act 1970 (Act 339). The bank started actual operations to the public on September 16, 1983. The bank‟s Head Office is at

Jacobu in the Amansie central district in the Ashanti region. Odotobri rural bank has other branches Asawasi in Kumasi, Obuasi, Bekwai, Maakro-Kumasi, Krofrom-Kumasi and Old Tafo in Kumasi. (Odotobri Bank, 2015)

3.6.3.2 Bank's Corporate Vision and Mission

Odotobri Rural Bank Limited corporate vision is "to be an accomplished Giant in the unit banking in Ghana". The mission of the bank is "to provide efficient financial services through customized products, goods corporate governance, well-motivated human resource, maximization of shareholders" wealth, consistent application of improved technology and being socially responsible".

3.6.3.3 Bank's Products and Services

The bank"s products and services is eventually the same as that of Kwamanman Rural Bank Limited and Kumawuman as they are under one umbrella of Arb Apex Bank Limited.

3.6.4 Bosomtwe Rural Bank Limited

3.6.4.1 The Bank and its Environment

The establishment of Bosomtwe Rural Bank Ltd was gracious response by the government of Ghana, to the appeal for help to alleviate the suffering of farmers of Kuntunase nad its surrounding villages at the time when they had to travel long distances of over forty-eight (48) kilometres, virtually on foot to cash their Akuafo cheques at the

Ghana Commercial Bank at Bekwai, the nearest bank to them at the time. In this regard, the bank was named after the only natural lake in West Africa, Lake Bosomtwe in the

Ashanti Region.

Bosomtwe Rural Bank was incorporated in Ghana in November 1981, and it was authorised to carry on the business of banking under the Banking Act, 1970 (Act 339) on 9th December 1982. The bank has its head office at Kuntunase and has ten branches scattered across Ashanti region including Jachie, Atonsu Bokro, Atonsu Agogo, Dadiesoaba, Atwima Amanfrom, Ahenema Kokoben, Trede, Kokofu, Kuntunase, and Edwenase Wioso (Bosomtwe Rural Bank, 2015).

3.6.4.2 Bank's Corporate Vision and Mission

The vision statement of Bosomtwe is "to be a leading and efficient rural bank in their target market and provide tailored-customer services". Bosomtwe Rural Bank business mission statement is "to be a reliable rural financial intermediary capable of mobilizing idle resources to support viable economic ventures in its catchment area as a way of promoting growth economic ventures in its catchment areas as a way of promoting growth and development so as to meet the expectations of all stakeholders.

3.6.4.3 Bank's Products and Services

The bank"s products and services is eventually the same as that of Kwamanman Rural Bank Limited, Kumawuman, and Odotobri as they are under one awning of Arb Apex Bank Limited.

3 6.5 Atwima Kwanwoma Rural Bank Limited

3.6.5.1 The Bank and Its Environment

Atwima Kwanwoma Rural Bank as the 68th rural bank in the country and 13th in Ashanti Region was established on the 6th of September 1983 as a financial institution empowered by the bank of Ghana to provide financial service and intermediation within a defined operation area of 32km radius from the main office at Pakyi No. 2. The bank has its head office complex located at Pakyi No. 2 and its various branches at Atonsu, Ayigya, New Tafo, Old Tafo, and Santasi. (Atwima Kwanwoma Rural Bank, 2015)

3.6.5.2 Bank's Corporate Vision and Mission

The bank‟s vision is "to transform from rural bank into fully-fledged hybridized community bank cum micro finance institution". Atwima Kwanwoma corporate mission statement is "to be the leading and preferred rural bank in Ghana, poised to transform the lives and businesses of our stakeholders through motivated and competent human resources; customer-driven products and the use of modern technology".

3.6.5.3 Bank's Products and Services

The bank‟s products and services is eventually the same as that of Kwamanman Rural Bank Limited, Kumawuman, Odotobri and Bosomtwe as they are under one parasol of Arb Apex Bank Limited.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULT

4.0 INTRODUCTION

The chapter four focuses on the analysis, presentation and discussion of results. Both the primary and secondary data are analysed in this section. Five rural banks were selected and their NPLs and return on assets where gotten from their yearly reports. These data are on yearly basis for a period of six years (2008-2013). Questionnaires were also administered to solicit information from credit officers of the selected banks regarding the causes of NPLs in their institutions.

4.1 DESCRIPTION OF DATA AND DATA ANALYSIS TECHNIQUES

The analysis is conducted with the aid of SPSS Statistical tools. The secondary data in the form of financial ratios was analysis using EVIEWS statistical software whiles the questionnaire data was computed using Statistical Package for Social Scientist (SPSS). The study has a general objective which is toexamine the effect of bad loans on the lending potential and profitability of selected rural banks in Ghana. Out of this general objective, three specific objectives are derived. The first examines the trend on bad loans of the selected rural banks for the past six years (2008 to 2013). The second specific objective analyses the main factors responsible for bad loans or credit default within the selected bank. The Final objective examines the effect of bad loans on the lending potential and profitability of the selected rural bank. For the purposes of clarity of analysis, the analysis is conducted according to these specific objectives.

4.2 SELECTION OF RESPONDENTS

In addition to the secondary data (financial ratios) employed in the study, questionnaires were also used. From each bank, the researcher selected five respondents who are knowledgeable in credit management and administration. The researcher mainly sampled credit officers, branch managers, and credit risk managers as respondents. Table 4.1 shows the distributions of respondents. Out of 20 respondent of which four was from each of the five (5) rural banks, we have 25% each from the positions of Manager, Deputy Manager, accountant and assistant accountants.

Table 4.1: Distribution of Positions occupied by Respondents

Position	Frequency	Percent
Manager		
Dept. Manager		
Accountant		
Assist. Accountant		
Total		

Source: Field Data, June 2015

4.3 CATEGORIES OF LOANS OFFERED BY THE SELECTED BANKS

Rural banks offer variety of loans for their clients. The loans offered are Managed loans, Salary loans, and Commercial loans, Susu Loans, Funeral loans and Overdraft. To obtain a fair idea of the categories of loans offered by the selected banks, secondary data from the banks were solicited. The data covered the average percentage of loans offered to each of the above mentioned categories. The result is presented in Figure 4.1.

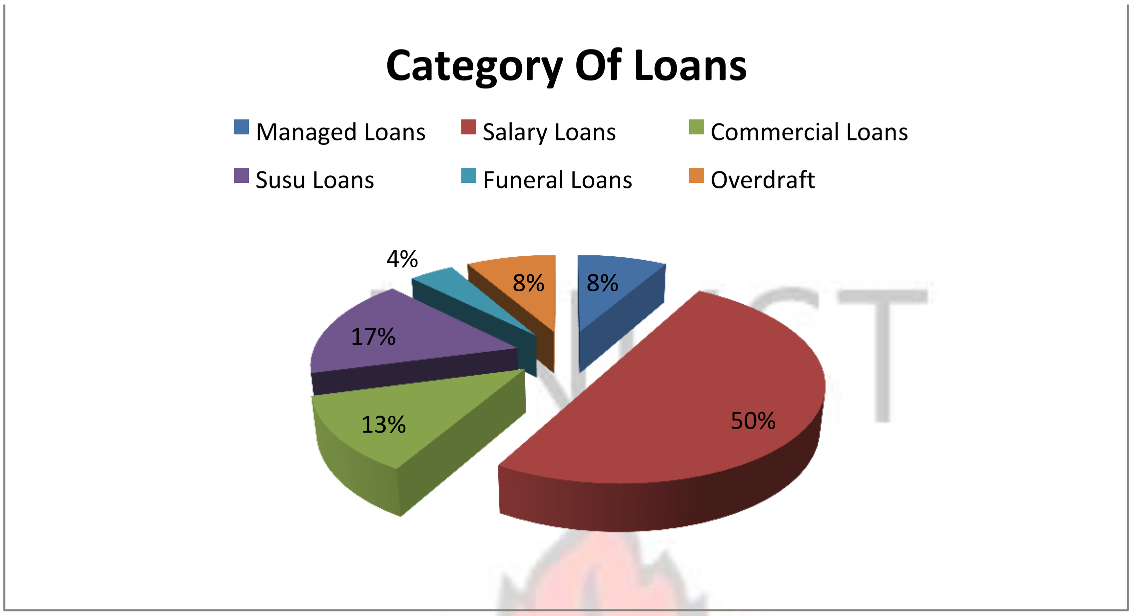


Figure 4.1: Distribution of percentage of the various Categories of Loans

Source: Analysis of Field Data, June 2015

Considering Fig. 4.1 above which represents the average percentage of the various categories of loans usually at these rural banks, the figures shows about half the amount disbursed as loans basically goes to salary loans, 17% of being susu loans, 13% being commercial loans with both managed loans and overdrafts having an average of 8% and the rest 4% representing funeral loans. The result above is not surprising given the fact that most rural and commercial banks lend to groups and individuals who have the capacity to repay the credit with interest. Since salaried workers are assured of regular incomes at the end of the month, banks prefer to grant them more credit than other groups because of the relatively low level of default risk associated with salaried workers.

4.4 ANALYSIS OF THE TREND OF BAD LOANS OF RURAL BANKS DURING THE PAST SIX(6) YEARS.

One of the main issues affecting rural banks in particular and the banking industry in general is credit default or non-performing assets. Against this backdrop, the researcher sought to examine the trend of NPLs for the selected Banks. The section begins by examining the descriptive statistics of non-performing Loan (Bad loans) from 2008 to 2013. The summary of the descriptive statistics of NPL for individual banks and the banks combines is presented in Table 4.2 and 4.3 respectively.

Table 4.2 Descriptive Statistics of NPL for Individual Rural Banks

	Rural Banks				
NPL	Kwamaman	Kumawuman	Odotobri	Bosomtwe	Atwima Kwanwoma
Mean	12.05	17.27	13.05	12.49	11.42
Max	17.55	20.38	15.68	15.03	12.76
Min	8.240	13.48	10.05	10.23	9.930

Source, Analysis of field Data, June 2015

Table 4.3 Descriptive Statistics of NPL for the Selected Banks

Description	**NPL**
Mean	13.25800
Median	12.54000
Maximum	20.38000
Minimum	8.240000
Std. Dev.	2.949979
Observations	30

Source: Analysis of Field Data, June 2015

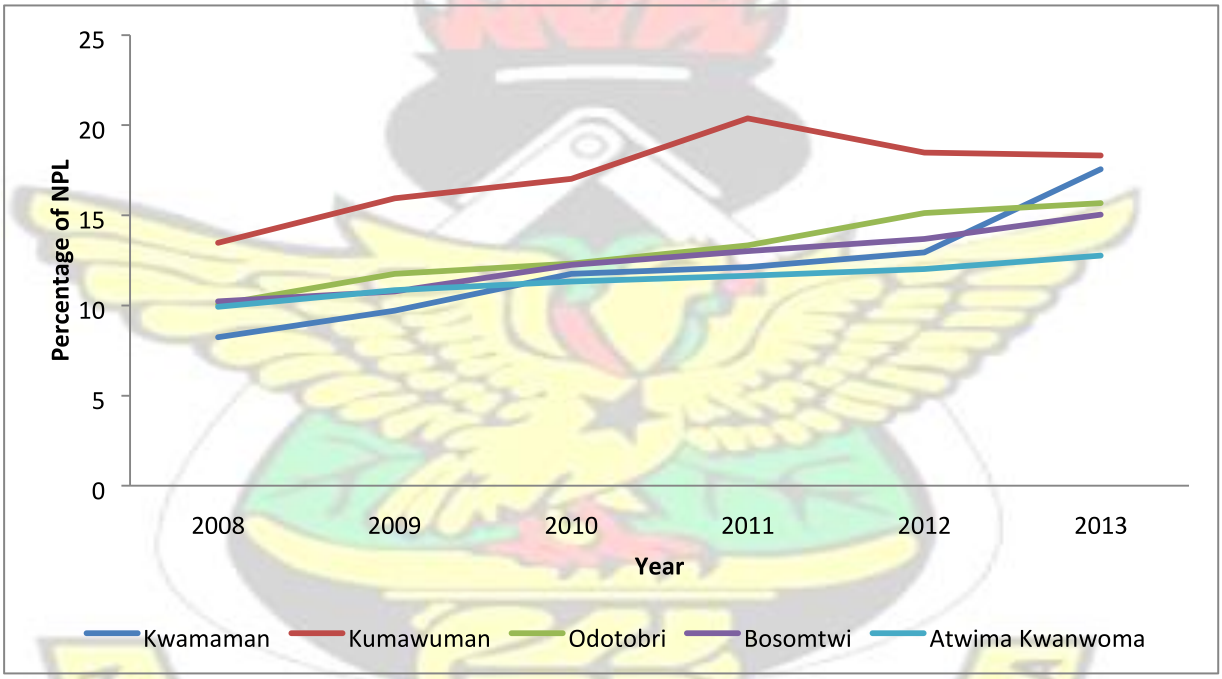
Table 4.2 shows the descriptive statistics of NPL of the individual rural banks included in the analysis. It can be observed from Table 4.2 that Kumawuman rural bank has the highest NPL of 17.27% within the period considered, whiles Atwima Kwanwoma recorded the lowest NPL of 11.42%. The result means that Kumawuman rural bank must improve its credit management effort in order to reduce its NPL or bad loans.

The result from Table 4.3 provides a description of the non-performing loan ratio (NPL) of the selected rural banks combine. The result shows that the minimum NPL for the selected banks for the period (2008-2013) is 8.2% whiles the maximum NPL for the same period is 20.38%. On average, the NPL for the selected banks is 13.5. With a standard deviation of 2.9, it can be concluded that the NPL values of the selected banks do not deviate significantly from the mean (average). It can be inferred from the result that the NPLs of the selected banks are relatively high compared to the industry average of 7% (Apex Bank, 2014). The result implies that the rural banks should do more to reduce their NPLs or bad loans in order to remain profitable and competitive.

4.4.1 Trend of Non-Performing

The trend of NPLs ratio from 2008 to 2013 is depicted in Figure 4.2

Figure 4.2 Line Graphs showing the trend of NPL of the selected banks from 2008 to 2013



Source: Analysis of field Data, June 2015

The result in Figure 4.1 shows that there is consistent increase in NPL of the selected banks since 2008. For instance, it can be observed that the NPL for Kumawuman rural bank increased from 8.2% to over 17% from 2008 to 2011 but has seen a steady fall since it peaked at 2011. With regards to Odotobri, the rise has been quite steady. It can also be observed that Kwamaman rural bank witnessed a sharp rise in its NPL between 2012 and 2013. The result implies that there is a need for the banks to take steps to improve their bad loans since it has implications on their profitability and survival. High NPL means that the banks will have to write off some of the loans as bad, leading to a reduction in profitability. Also, high percentages of NPL imply that the bank will not be in the position to lend more funds to borrowers.

4.5 FACTORS CONTRIBUTING TO BAD LOANS IN THE RURAL BANKING INDUSTRY

In spite of the effort by rural bank to reduce the rate of default, the problem of credit default still persists. The study sought to examine the factors accounting for credit default in the selected banks. In order to achieve this objective, the opinions of credit officers, branch managers, accountants and deputy managers were sought. Five respondents were selected from each of the five banks considered, making a total of 25 respondents. Their response to the factors contributing to the bad loans in the rural banking industry is captured in Table 4.4.

Table 4.4 Causes of Bad Loans in the Rural Banking Industry

Causes of bad loans	Frequency	Percentage(%)
Laxity in loan monitoring	21	84%
Poor appraisal system	14	56%
Ineffective supervision by management	12	48%
Ignorance on the part of borrowers to understand credit terms	17	68%
Poor attitude of Customers towards loan repayment	14	56%

Source: Analysis of Field Data, June 2015

The response as presented in Table 4.4 shows that majority of the respondents (84%) believe that laxity in loan monitoring is one of the major factors accounting for bad loans in the rural banking industry. When asked to indicate why there is poor monitoring of credit (loans), majority of the respondents cite lack of logistics, under staffing, inadequate motivation and poor attitude of staff towards credit monitoring. It can also be observed from the result that poor appraisal of loans is one of the main factors accounting for bad loans in the rural banking sector. A total of 56% of the respondents cited poor appraisal system as a major factor contributing to bad loan. Also, majority of the respondents explained that ignorance on the part of borrowers to understand credit terms is one of the factors responsible for loan defaults at the banks. Other factors mentioned include poor attitude of customers towards loan repayment and ineffective supervision by managers.

From the result, is obvious that poor credit monitoring is a major factor accounting for loan default in the rural banking industry. Monitoring is crucial if a bank seeks to reduce its default rate. Having a technology to monitor customers‟ account can help the bank reduce its credit default to the barest minimum. The finding implies that banks rural banks must improve their monitoring of loan customers to ensure that their NPLs are reduced to the barest minimum.

4.6 ANALYSIS OF THE EFFECT OF BAD LOANS ON LENDING POTENTIAL AND PROFITABILITY OF THE SELECTED RURAL BANKS

The third objective of the study examined the effect of NPLs on the lending potential and profitability of the selected rural banks. ROA was designated as measure of the banks‟ profitability, whiles Non-Performing Loan Ratio was used as a proxy for bad loans. The lending potential of the banks is represented by the yearly amount of loans disbursed. The analysis is performed by examining the descriptive statistics of the variables, the correlation analysis, as well as the regression analysis.

4.6.1 Descriptive Statistics

The descriptive statistics of the variables examined in this study is summarized in Table 4.5. The descriptive statistics indicate that on average, the return on assets of the selected rural banks for the period considered is 3.31%. This implies that on average, the banks receive 3.31% return on each cedi of assets invested. Also, the minimum and maximum ROA of the banks for the period is 1.67% and 6.2% respectively. The result also shows that on average, the banks disburse about GH¢1.8m as credit to their customers. However, the high standard deviation associated with this figure implies that the amount of loans granted by the individual banks significantly deviate from their means. The descriptive statistics further reveals that the average Non-Performing Loan Ratio (NPL) for the period is 13.25% which indicates that over 13% of the loans granted by the banks within the period are classified as non-performing or bad loans.

The results also shows that the Jarque-Bera statistic for all the variables are not significant ($p \geq 0.05$), meaning that all the variables are normally distributed (Pallant, 2011). The normally of the variables forms a basis for making validinclusions in this study.

Table 4.5Descriptive Statistics of the Study Variables

	LNLP	NPL	ROA	LP
Mean	14.13978	13.25800	3.315667	1818883.
Median	14.40038	12.54000	3.345000	1797132.
Maximum	15.30070	20.38000	6.200000	4415818.
Minimum	11.73942	8.240000	1.670000	125419.1
Std. Dev.	0.867127	2.949979	0.979129	1128927.
Jarque-Bera	5.495839	1.251112	2.323839	4.454323
Probability	0.064061	0.534964	0.312885	0.107834
Observations	30	30	30	30

NPL(Non-Performing Loan Ratio); LNPL(Natural Logarithm of lending potential); ROA (Return on Assets); LP(Lending Potential) Source: Analysis of secondary data, June 2015

4.6.2 Correlation Coefficients Analysis

The relationship between the study variables was tested using the Pearson‟s correlation analysis. The result, as presented in Table 4.6, shows that there is a significant negative relationship between NPL (bad loan) and LP (Lending potential) (β=-0.48; $p \leq 0.05$). The result implies that an increase in NPL leads to a decrease in the amount of loans offered by the banks as credit. The result further shows that there is a positive relationship between ROA and LP, albeit insignificant.

Table 4.6 Pearson's Moment Correlation Coefficients

		LP	NPL	ROA
LP	Pearson Correlation	1		
	Sig. (2-tailed)			
NPL	Pearson Correlation	-.482**	1	
	Sig. (2-tailed)	.007		
ROA	Pearson Correlation	.024	-.067	1
	Sig. (2-tailed)	.898	.726	
	N	30	30	30

**. Correlation is significant at the 0.01 level (2-tailed). Source: Analysis of field data, June 2015

4.6.3 Effect of bad loans or NPLs on the lending potential of the selected banks The effect of bad loans on the lending potential of the selected banks was tested using regression analysis. To test the effect of bad loans on the lending potential of the selected rural banks, the amount of loan disbursed by the banks within a year was used as a proxy for lending potential (LP). Also, NPLs was used as proxy for bad loans. Since the objective is to examine the effect of bad loans on profitability and lending potential, LP was used as the dependent variable whiles NPL was used as the independent variable. The result of the regression analysis is summarized in Table 4.7

Table 4.7 Regression Analysis result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.88271	0.893797	13.29465	0.0000
NPL	-0.170242	0.066643	-2.554542	0.0174

R-squared	0.398627
Adjusted R-squared	0.273341
F-statistic	3.181737
Prob(F-statistic)	0.024158

Dependent Variable: LP

Source: Analysis of Field Data, June 2015

The result in Table 4.7 shows that NPL has a significant negative effect on the lending potential of the selected rural banks (β=-0.170, t=-2.554, $P \leq 0.05$). This result implies NPLs inversely affect the lending potential of the selected rural bank. In other words, an increase in NPLs Leads to a decrease in the amount of money disbursed to borrowers. This means that a 1% increase in NPLs leads to 0.17% decrease in the amount of funds disbursed as credit. This result is similar to the result obtained from the correlation analysis which also found a negative relationship between NPLs and lending potential of the bank.

The R-square value of 0.398 implies that 39.8% of the variations in the lending potential of the banks is explained by NPLs. It can also be observed that the F-statistic (3.181) is significant ($p \leq 0.05$) which means that the predictive power of the model is not due to chance.

4.6.4 Effect of bad loans or NPLs on the profitability of the selected banks

To test the effect of bad loans on the profitability of the selected rural banks, ROA was used as a proxy for profitability whiles NPLs was used as proxy for bad loans. Since the researcher needed to examine the effect of bad loans on profitability, ROA was used as the dependent variable whiles NPLs was used as the independent variable. The result of the regression analysis is summarized in Table 4.8

Table 4.8 Regression result of the effect of NPL on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.515275	1.072974	2.344209	0.0277
NPL	-0.060370	0.080002	-0.754608	0.4578
R-squared	0.320280			
Adjusted R-squared	0.178671			
F-statistic	2.261728			
Prob(F-statistic)	0.080709			

Dependent Variable: ROA

Source: Analysis of Field Data, June 2015

The result in Table 4.8 shows that NPL has a negative but insignificant effect on the profitability of selected rural banks (β=-0.060, t=--0.754, P≥0.05). This result implies that though NPL inversely affect profitability, the effect is not significant. The R-square value of 0.320 implies that 32.0% of the variations in the profitability of the banks is explained by NPLs. It can also be observed that the F-statistic (3.181) is not significant at 5 percent level (p=0.08≥0.05) which means that the model cannot be relied on to make meaningful inferences.

4.7 DISCUSSIONS OF THE RESULT

This section presents the discussion of the result obtained from the descriptive and regression analysis of both the primary and secondary data. The study examined three important objectives, which includes the trend of NPLs for the selected rural banks, the causes of bad loans and the effect of bad loans on the lending potential and profitability of rural bank.

From the analysis became clear the banks are witnessing upward trends in their NPLs (bad debt). The result implies that there is a need for the banks to take steps to improve their bad loans since it has implications on their profitability and survival. High NPL means that the banks will have to write of some of the loans as bad, leading to a reduction in profitability. Also, high percentages of NPLs imply that the bank will not be in the position to lend more funds to borrowers. This will affect the profitability of the banks since most banks rely on interest income to generate profit and enhance their dayto-day operations. The consistent increase in the NPLs may be as a result of laxity in loan monitoring as well as ineffective credit appraisal system. To overcome these problems, the banks must set up monitoring team to regularly monitor the activities of borrowers. This will go a long way to improve the credit recovery rates of the banks. Also, the banks must have a comprehensive credit appraisal system in place to ensure that borrowers are effectively appraised to determine their credit worthiness before funds are advanced to them.

The study further revealed that the main factors accounting for bad loans in the rural banking industry is poor monitoring of credit facilities, poor credit appraisal and ignorance on the part of borrowers. The findings are in agreement with the findings of Ahmad, (1997), who identified laxity in loan monitoring as a major factor affecting loan default in the banking industry. The implication of this result is that rural banks in Ghana must take steps to improve their loan monitoring. This can be achieved by employing competent personnel to monitor credit disbursed to customers. Also, technology should be employed to monitor the repayment of credit by loan customers to ensure that defaulters are identified and notified as early as possible to prevent high default rate.

On the issue of the impact of bad loans on the lending potential of the banks, it was revealed in the study that loan default have a significant negative impact on the lending potential of banks. The implication of this finding is that an increase in NPLs leads to a decrease in the amount of funds available for disbursement as credit. This result is in agreement with the findings of Appiah (2011), Awunyo-Vitor (2012) and Nawaz et al. (2012) who found that bad loans have significant negative effect on the lending potential of commercial banks However, while studies such as Appiah (2011) and Fidmuc and Hainz (2009) identified bad loans has having significant effect on profitability, the findings of this study indicated otherwise. The result is surprising given the fact that bad loans affect the profitability of banks through reduction in interest profit. The outcome may be as a result of the number of banks and observations used in the regression analysis. It is therefore important for future studies to examine this relationship using large observations in order to ascertain the true effect of loan default on the profitability of rural banks in Ghana

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter is designed to provide a summary of the main findings obtained from the analysis. In addition, the chapter provides a general conclusion of the study as well as recommendations for key stakeholders.

5.1 SUMMARY OF KEY FINDINGS

The study was conducted to ascertain the effect of bad loans on the lending potential and profitability of selected rural banks in the Ashanti Region of Ghana. The banks selected include Kwamaman rural bank, Bosomtwe rural bank, Odotobri rural bank, Atwima Kwanwoma rural bank and Kumawuman rural bank. The three specific objectives examined include the trend of bad loans of the selected banks from 2008 to 2013, the causes of bad loans, and the effect of bad loans on the lending potential and profitability of the selected banks. For the purposes of clarity of presentation, the findings are presented under each of the specific objectives.

The findings from the analysis show that the selected banks are experiencing upward trends in their NPLs (bad debt). This means bad loans have been increasing percentage wise over the six years examined. Out of the five banks considered, Kumawuman rural bank recorded the highest rate of NPL within the period considered, raising concerns about the bank"s ability to reduce its high default rate. The result implies that there is a need for the banks to take steps to improve their bad loans since it has implications on their profitability and survival. High NPLs means that the banks will have to write off some of the loans as bad, leading to a reduction in profitability.

5.1.2 Causes of bad loans in the rural banking industry

The analysis of primary data shows that majority of the respondents (84%) cited laxity in loan monitoring as one of major factors accounting for bad loans in the rural banking industry. When asked to indicate why there is poor monitoring of credit (loans), majority of the respondents cite lack of logistics, under staffing, inadequate motivation and poor attitude of staff towards credit monitoring as some of the factors hindering effective monitoring of credit. Other factors identified as accounting for bad loans include poor appraisal process, ignorance on the part of borrowers to understand terms of the credit facility and poor supervision by credit and branch managers.

5.1.3 The effect of bad loans on the lending potential and profitability of rural banks.

The analysis of the data revealed NPL (bad loans) has a significant negative effect on the lending potential of the banks. The implication of this finding is that an increase in NPLs leads to a decrease in the amount of funds available for disbursement as credit. The result was found to be in agreement with studies such as Appiah (2011), and Nawaz et al. (2012). However, it was revealed that NPL (or bad loans) has a negative but insignificant effect on ROA (profitability of the banks)

5.2 CONCLUSION

Bad loans have been identified as one of the major factors affecting the profitability and survival of rural and community banks in Ghana. Most rural banks are unable to remain competitive in the turbulent financial sector/industry due to high default rate. Against this backdrop the study examined the effect of NPLs (bad loans) on the profitability and lending potential of selected rural banks in the Ashanti Region of Ghana. Both primary and secondary data was used to meet the objectives of the study. The secondary data in the form of financial ratios spanning the period of six years (2008-2013) was sourced from the annual report of the selected banks. Also, questionnaires were administered to selected respondents from each of the five banks to solicit their views on the main causes of loan default within the rural banking industry.

Using EVIES Statistical Software and Statistical Package for the Social Sciences (SPSS) descriptive, correlation and regression analysis were conducted to examine trends and relationships. The result found that the selected banks are witnessing steady rise in their NPLs ratio, which raises concern about their effectiveness in managing credit risk. The study further found that NPLs or bad loans have significant negative effect on the lending potential of the selected banks. Also, it was discovered that though NPLs has a negative effect on the banks‟ profitability, the effect is not significant. The study further discovered that the main causes of bad loans within the selected banks include laxity in credit monitoring, poor appraisal system and ignorance on the part of borrowers to understand the terms of credit facilities.

5.3 RECOMMENDATIONS

The bulk of rural banks‟ income is generated through loan grants. Therefore, rural banks can generate more income to exhibit better performance in its financial statements through credit growth. However, there is a need to improve the quality of loans given to customers or loan clients so as to reduce the incidence of NPLs, thereby maximizing profit.

Based on the findings obtained through the analysis of the data, the following recommendations are made:

First, the study discovered that poor loan monitoring is the main factor accounting for credit default (bad loans) within the rural banking industry. The study therefore recommends that the banks must constitute credit monitoring team who will regularly monitor the activities of borrowers. Also, the banks must employ technology such as computer system to monitor the accounts of customers and borrowers.

Second, it is recommended that borrowers must be educated by the banks to understand the terms associated with loan facilities so that level of ignorance exhibited by customers during the repayment of their loans could be brought to appreciable level.

Third, to reduce the level of NPLs, rural banks must ensure that there is effective and efficient credit appraisal system in place. For instance, the banks must critically examine the credit worthiness of customers using all possible means so as to ensurethat NPL is reduced to the barest minimum.

Moreover, Effective assessment of loan applicants coupled with an effective monitoring of loans and an effective loan recovery strategy. It is worth mentioning that credit is the backbone of banking. Decision made can make or break a bank; therefore, the right person should be recruited as credit manager. The person should be experienced, firm and honest. In similar vein, credit officers should be competent.

Also, Credit managers and officers should not allow bribes from customers to make them compromise, thereby granting bad loans which negatively affect profitability.

There should also be regular staff capacity building for credit managers and credit officer, so also to improve their skills on effective credit risk management in order to lower NPLs.

Also, board of directors and management members and other senior officers should not exert influence on credit managers to grant loans to friends and relatives who are not qualified. This in turn makes it difficult for credit officers to do monitoring of the loan. If they do, they should do well to make the affected customer repay it in due time rather than making them to default to pile pressure on the loan portfolio of the bank. Adansi Rural bank in the Ashanti Region with its head office at Fomena, is a practical demonstration that quality loans can lead to maximization on profitability and reduce the incidence or rate of bad loans. The bank has a strong credit department made up of a well experience and competent credit manager and some board members with strong credit management backgrounds, thereby contributing to effective credit administration which has reduced the rate of NPLs. In view of this, the bank was adjudged the Best Rural Bank in Loan Financing during the maiden Rural/Community Banks Excellence Award held at Tamale. (BFT, 2015).

Finally, future researchers must include majority of rural banks in the analysis. This will make it possible to generalize the findings to include all rural banks in Ghana.

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APPENDICES

APPENDIX ONE

QUESTIONNAIRE FOR MANAGEMENT

The underneath questionnaire is meant to collect data for academic purposesonly. All responses shall be treated strictly very confidential. Your response to the following questionnaire would be highly cherished.

1. What is your position in the bank?

....

2. How long have you been with the bank and in banking as a whole?

....

3. What categories of loan facilities are normally applied for in your bank?

i. Managed Loan
ii. Salary Loan
iii. Other Loan (Commercial Loan)
iv. Susu Loan
v. Funeral Loan
vi. Overdraft vii. Others

Specify...

4. What is the application procedure for your Loans?

....

....

5. What documents are normally requested for before in loanfacility in your bank is processed? Please state your comments…………………………………………………………………...................................
..

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

6. What is normally the duration of your Loan facility?

i. 6 months ii. 12
months iii. 24 months
and above

7. How does your bank rank a loan facility bad?
   i. 6 months and above
   ii. 12 months and above iii.
   24 months and above

8. Has the bad loansaffected your bank"s operations in terms of profitability of the bank?

Yes

No

Please give reasons for your answer

....

....

....

....

9. Has the bad loans affected your bank"s operations in terms of profitability of the bank?

Yes

No

Please give reasons for your answer

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

10. Has the bad loans affected your bank"s operations in terms of lending of the bank?

Yes

No

Please give reasons for your answer

……………………………………………………………………………………………

……………………………………………………………………………………………

11. In your opinion, which of the following are the factors which cause NPLs in your bank?

i ineffective in loan monitoring []

ii delayed in recovery [] iii

diversion of loans [ ] vi

unwillingness to repay loans [ ]

Others please specify...

12. What are the problems faced in your loan recovery?

....

....

14. Do you think non-compliancewith credit policy of the Bank accounts for bad loans?

(a) Yes (b) No

15. If yes above, which of the following account for that?

(a) Customer pressure [ ]

(b) Management pressure[ ]

(c) Board pressure [ ]

(c) all the above [ ]

(d) Others please specify.............................

APPENDIX TWO

QUESTIONNAIRE FOR CREDIT/ LOAN OFFICERS

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

1. What is your position in the bank?

………

2. How long have you been with the bank and in banking as a whole?

………

3. Which of the following factors hinder effective monitoring of loans by Credit Officers?

(a) lack of logistics

(b) under staffing

(c) bad road to project site

(d) ineffective supervision by management

(e) inadequate motivation

(f) poor attitude of staff

(g) ineffective supervision by external monitors

(h) all the above

4. What are the causes of delayed loan approval?

(a) Rigid approval procedures

(b) Customers inability to meet approval requirements

(c) Liquidity problems

(d) Poor credit appraisal

5. Which of the following reasons do you think account for loan diversion by customers?

(a) Inadequate proper monitoring

(b) Expectancy of high gains in other business ventures

(c) Ignorance of terms and conditions attached

(d) Differences in interest rate applied on loans in different sectors

(e) Inadequate financing

(f) Late disbursement of loans

6. Do bad loans hinder your fast track of fresh loans?

Yes

No

Please provide reasons…………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

7.How do you recover bad loans from your clients?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

8. What are the attitudes of your clients towards loan repayment? a.Better

b. Good

c. Poor

d. Worse

9. What are the attitudes of clients towards the repayment of overdue loans? a.Better

b. Good

c. Poor

d. Worse

10. Is the amount sanction for disbursement enough to your expectation? a. Better

b. Good

c. Fair

d. Bad

11. In your opinion, what do you think the Bank should do to reduce NPLs?

....

....

....

BANK DATA FOR ANALYSIS

Kwamanman		NPL	ROA	LENDING POTENTIAL
	2008	8.24	4.16	451485.77

	2009	9.72	2.17	494975.67
	2010	11.75	1.67	671078.04
	2011	12.12	2.1	2303834.21
	2012	12.95	2.33	2311787
	2013	17.55	3.28	1476322
Kumawuman				
	2008	13.48	2.74	1038617
	2009	15.94	2.19	888933
	2010	17.03	2.86	2042706
	2011	20.38	3.26	3596995
	2012	18.48	2.74	2636100
	2013	18.32	2.81	3395048
Odotobri				
	2008	10.05	3.32	1352128
	2009	11.76	3.74	1050951
	2010	12.32	3.71	494342
	2011	13.34	3.37	3250873.14
	2012	15.12	3.93	4415818.35
	2013	15.68	5.18	2289292.12
Bosomtwe				
	2008	10.23	4.11	1008322.88
	2009	10.78	4.69	125419.11
	2010	12.25	3.73	581467.27
	2011	13.02	3.48	2593086.11
	2012	13.68	3.39	3224923.88
	2013	15.03	3.7	214923.24
Atwima Kwanwoma				
	2008	9.93	3.54	1704898

2009	10.84	2.75	2848680
2010	11.32	2.31	1889365.51
2011	11.65	2.21	1653713.54
2012	12.02	3.8	2649285.01
2013	12.76	6.2	1911123.22