LOAN GRANTING AND IT'S RECOVERY PROBLEMS ON COMMERCIAL BANK

(A CASE STUDY OF FIRST BANK)

PRESENTED BY

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CERTIFICATION

This research project has been read & approved to have met the requirement of the Department of Banking and Finance, Institute of Finance and Management Studies (IFMS) Kwara State Polytechnic Ilorin for the award of Higher National Diploma (HND) in Banking and Finance

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DEDICATION

This project is dedicated to almighty God, the creator of heaven and earth, the ancient of days, the giver of life, the beginning and the end. The one who sustained me since the inception of this programme up till its completion.

ACKNOWLEDGMENT

All praises are due to Allah the beneficent, the merciful. And may His peace and blessings upon his messenger, **Muhammed (S.A.W).** I thank **God** for his guidance from the beginning of my higher national diploma programme to the end and for the success of this project.

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May **God** Almighty rewards them abundantly.

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CHAPTER ONE

1.0 INTRODUCTION

Virtually, every business has a credit relationship with a financial institution, especially banks. Some rely on periodic short term loans to finance temporary working capital needs. Others primarily use long-term loans to finance capital expenditure, new acquisitions or permanent increases in capital. Regardless of the type of loan, all credit request mandate a systematic analysis of the borrower's ability to repay as at when due.

Commercial banks carry on ordinary banking business with the general public, changing cash for bank deposits and bank deposits for cash, transferring bank deposit from one corporation to another, giving bank deposit in exchange of bills of exchange, providing of trustees and executor's services, providing safe custody of funds and valuables as well as foreign exchange remittance.

Though commercial banks differs from country to country, their profit and banking motives are the same. Their activities are of interest to their customers, workers (staff), and above all, shareholders. The commercial objective of the bank is to maximize profit, though other social and economic functions tends to deflect banks from profit maximization. The aims and objectives of commercial banks have therefore paved way frothier customers to make and obtain credits, in form of loan of which the researcher is interested in. Lending has become a vital function on operation because of its direct effect and impact on economic growth and business development.

In a market oriented economy, there are two main participants that move the economic growth; these are the suppliers of invisible funds and the users of the funds for productive purposes. These two participants are spread widely in the economy and may not have direct relationship with each other. For this, there is the need to have an. intermediary to link them up. The banking sector mobilize surplus funds from small and big savers who have no immediate need for such funds. The users of these funds are the business entrepreneurs and investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute their ideas. These groups of people approach banks to obtain loan.

Subsequently, lending is a risky venture which banks only engage on after a rigorous and satisfactory analysis of the project for which lending is being made. The main preoccupation of banks is extending loans to their customers. Thus, the formulation and implementation of such lending policies are some of the important responsibilitie8 of the management of the bank. The lending policy of a bank must be specific on how much loan will be made available to whom, what period and for what reason. For this reason, lending policies should be well documented so that lending officers will be able to know the areas of prohibition and the area of where they can operate. Also, such policies should be subjected to periodic review to make the banks keep abreast with the dynamic had innovation nature of the economy as well as competing with other changing economic sector.

Therefore, the basic objectives of credit analysis t-is to assess the risks ninvolved in extending loans to bank customers. In financial circle, risk typically refers to the volatility in earnings. Lenders are particularly concerned with adverse fluctuation in net income or cash flows, which hinder the borrower's ability to service a loan. Some risks can be measured with historical and projected financial data, while others such as those associated with borrower's character and willingness to repay a loan are not directly measurable.

1.1 Statement Of Research Problems

Banks in recent times has failed as a result of loan recovery problems. Loan is the major source of bank profitability.

However, in going about their lending activities, banks have their objectives among which are profitability, growth, safety, suitability and liquidity.

1.2 RESEARCH QUESTION

1. What are the several problems faced during loan recovery?
2. What type of loan do commercial banks grant?
3. Who are the loan beneficiaries of commercial' banks?

1.3 OBJECTIVES OF THE STUDY

Loan, when not recovered could adversely affect banks. It is easily granted than recovered. It usually needs proficiency i.e. competency and expertise in the recovery process. It some times become an uphill task to recover.

When they are not recovered, the impact is often disastrous to the bank. It can lead to illiquidity, insolvency and even distress as the case may be. There is therefore a need for arriving at strategies for efficient loan recovery.

That is the peak of the problem.
Having known that lending objectives of a commercial bank is to provide growth, profitability and liquidity, and its representing chunk of deposit as a source of income to the bank, the cumulative effect of loan default will be aloes of confidence in the banking system.

The researcher therefore aimed at:
1. Finding out the several problems facing loan recovery
2. The effects of loan default on commercial banks
3. The measures that will help to reduce the incidence of loan default.

1.4 RESEARCH HYPOTHESIS

Ho – the measures taken by banks do not reduce the incidence of Loan default.
H1 The measures taken by banks to reduce the incidence of loan default

1.5 SIGNIFICANCE OF THE STUDY

This study is intended to analyze the problems of loan recovery in commercial banks in Nigeria and their poor system of management of loan.
The result of this study will be immense important to some of us and even the bankers in particular. Banks will become conscious in their loan disbursement. They have to determine the kind o people that will benefit from the loan disbursement, the type of loan to give the criteria to use in granting loan and the procedures to be used for loan recovery.

1.6 SCOPE AND LIMITATION OF THE STUDY

The research work is to analyze the problems of loan recovery on commercial banks (First Bank Plc) in Ojo-Alaba, Ojo Local Government Area of Lagos State.
Due to limited time and the level of this project work, the researcher decided to systematically and meticulously narrow it down to a study that will cover two distinct areas namely:
The problem of loan recovery and how to control! loan default.
The researcher wants to avoid unnecessary details that are not concerned with the problem of loan recovery in commercial banks.

The study is limited to first bank branch in Ojo-Alaba, Lagos State.

1.7 DEFINITION OF TERMS

In the course of the study, the researcher makes use of some words that needs to be defined so as to carry the reader along.

LOAN:

This is the act of allowing a borrower to make a temporal use of funds at its disposal. It is also a more formal arrangement by which a bank agree to lend an agreed amount to a customer usually for a given period.

RISK:

It is the measure of uncertainly inherent in any decision making process.

PROFITABILITY:

It is used as index for measuring managerial performance. It means yielding or bringing profit or gain.

LIQUIDITY:

This is the word that banks used to describe their ability to satisfy demands for cash in exchange for deposits.

BANKING:

It is an agency through which debts and credits are converted and exchanged between owners.

BAD AND DOUBTFUL DEBT:

Bad debts are those which are net recoverable, though they are written off as loss. Doubtful debts are those of which the recovery in full or part is uncertain.

CAPITAL:

It is the equity value of the bank educated to the present value of its future earnings.

1.8 PLAN OF THE STUDY:

In the course of the study, the researcher• was faced with several constraints. One of the constraints was the short time period within which the research was to be completed.

Another factor was shortage of cash which prevented the researcher from traveling to source the data.

Also, most of the credit analysis criteria in commercial banks were not disclosed to offer the necessary data required. Their frequent postponement of appointment coupled with the fact that commercial banks in Nigeria are vast in population i.e. First Bank Branches. The researcher could not get to all of them, therefore a sample was taken to represent all.

CHAPTER TWO

2.0 LITERATURE REVIEW

Banking literature is generally full of research findings relating to the objectives of banks with that of their customers, staffs and shareholders. There is no literature dealing extensively on the problems of loan recovery on Nigeria commercial banks.
However, a close examination of some scholars on related topic exist. Most of them try to attribute this problem to poor debt management which result to most bad debt. In accordance with the words of Ralph K.O Osayemeh, (1998) "Lending decision" P.23, Very much like investment decisions are generally full of risk but the ability to banks to thoroughly assess and analyze such risk will lead to qualitative and more pragmatic decision".

Loan granting is one of the primary functions of commercial banks and plays a central role in the financial intermediation process. By extending credit, banks enable individuals and businesses to undertake consumption and investment activities that spur economic growth. However, the process of granting loans is fraught with challenges, particularly in the area of loan recovery. Poor loan recovery not only affects the liquidity and profitability of banks but also undermines the stability of the financial system.

2.1 CONCEPTUAL REVIEW

Concept of Loan Granting

Loan granting refers to the process through which commercial banks provide credit facilities to individuals, businesses, and government institutions. It is a systematic procedure that involves credit appraisal, risk assessment, and due diligence. The primary objectives of loan granting are to:

Generate revenue through interest income.

Support productive sectors of the economy.

Maintain a healthy credit portfolio.

Loan types may include personal loans, business loans, overdrafts, trade credits, and syndicated loans. Banks usually assess loan applications based on the 5 Cs of Credit**:** character, capacity, capital, collateral, and conditions.

Loan Recovery Process

Loan recovery refers to the processes and strategies adopted by banks to ensure that borrowers repay their loans in accordance with the agreed terms. Effective loan recovery ensures sustainability and liquidity in the banking sector. Loan recovery mechanisms may include:

Monitoring: Regular follow-ups with borrowers.

Loan Restructuring: Revising payment schedules or interest rates.

Legal Action: Litigation or enforcement of collateral.

Debt Collection Agencies: Third-party recovery services.

Problems in Loan Recovery

Commercial banks face multiple challenges in loan recovery, some of which are systemic, while others are borrower-specific:

a. Non-Performing Loans (NPLs)

High levels of NPLs are a critical issue in many developing economies. They reflect poor loan management and may arise due to economic downturns, poor borrower assessment, or political interference.

b. Weak Legal and Institutional Framework

In many countries, the judicial process for loan recovery is slow and inefficient. Courts may be overwhelmed or lack expertise in financial matters, making it difficult to enforce contracts or repossess collateral.

c. Information Asymmetry

Borrowers may withhold relevant financial information or overstate their capacity to repay, leading to poor credit decisions by banks.

d. Poor Credit Appraisal

Lack of thorough credit evaluation can result in granting loans to high-risk individuals or entities.

e. Political and Social Pressures

In some cases, especially in public sector banks, loan decisions may be influenced by political considerations rather than creditworthiness.

f. Macroeconomic Instability

High inflation, currency depreciation, and unemployment can affect borrowers' ability to service loans, thus increasing default risk.

Implications for Commercial Banks

Failure to effectively recover loans can have severe consequences for commercial banks:

Reduced Profitability: Interest income is a major source of revenue for banks. Defaults reduce this income and increase provisioning costs.

Liquidity Crunch: Non-repayment restricts the bank's ability to extend further credit.

Capital Erosion: High NPL ratios can lead to erosion of capital base and even bank insolvency.

Loss of Confidence: Persistent loan recovery problems can undermine investor and depositor confidence.

Mitigation Strategies

To address the problem of loan recovery, banks may consider the following strategies:

Credit Risk Management Systems: Strong internal control mechanisms and predictive analytics to assess borrower risk.

Loan Syndication: Sharing of large loans among multiple banks to reduce exposure.

Collaboration with Credit Bureaus: Sharing credit histories to reduce information asymmetry.

Digital Lending and Monitoring Tools: Use of AI and big data for loan appraisal and tracking.

Legal Reforms: Lobbying for faster, more effective dispute resolution mechanisms.

2.2 Theoretical Framework

A theoretical framework provides the foundation upon which a study is built. In the context of loan granting and recovery problems in commercial banks, various theories from economics, finance, and institutional analysis offer insights into how and why lending decisions are made, why recovery may be challenging, and how these affect banking performance. This section outlines the key theories that underpin loan behavior and challenges in the banking sector.

Information Asymmetry Theory

George Akerlof (1970), Joseph Stiglitz & Andrew Weiss (1981)

Relevance: Information asymmetry occurs when one party in a financial transaction has more or better information than the other. In banking, borrowers often have more information about their financial situation and intentions than lenders.

Adverse Selection: Before the loan is granted, banks may inadvertently lend to high-risk borrowers due to lack of complete information.

Moral Hazard: After loan disbursement, borrowers may take actions that are not in the interest of the bank (e.g., engaging in risky investments), knowing that the lender bears the risk.

Implication for Loan Recovery: Poor screening and monitoring due to information asymmetry can increase loan default rates, making recovery difficult.

Credit Rationing Theory

Acceding to Stiglitz and Weiss (1981). Core Idea**:** Due to asymmetric information and the inability to distinguish between high-risk and low-risk borrowers, banks may ration credit rather than raise interest rates, even when there is excess demand.

Connection to Loan Recovery:

Credit rationing may lead to underserved segments of the economy and push some borrowers to informal lenders.

When loans are granted without adequate collateral or due diligence, the risk of default increases, complicating recovery efforts.

Agency Theory

Proponents: Jensen and Meckling (1976)

Core Concept: There exists a principal-agent problem between lenders (principals) and borrowers (agents). The agent (borrower) may not always act in the best interest of the principal (bank), especially when monitoring is weak.

Application:

Borrowers might misuse loan funds or underreport their capacity to repay.

Bank staff involved in lending may also act against institutional interests if incentives are misaligned (e.g., corruption or favoritism).

Implication for Recovery: Misaligned incentives and lack of control mechanisms increase the risk of default and complicate recovery.

Theory of Financial Intermediation

Proponents: Gurley and Shaw (1960), Diamond and Dybvig (1983)

Key Idea: Banks serve as intermediaries between savers and borrowers by transforming short-term liabilities into long-term assets (loans). They add value through risk assessment, monitoring, and enforcement of contracts.

Relevance to Recovery:

Effective intermediation depends on the ability to enforce loan contracts.

Weak institutional frameworks or judicial inefficiencies hinder this function, thus affecting recovery.

Institutional Theory

Proponents: Douglas North (1990), Oliver Williamson (2000)

Explanation: The institutional environment—including laws, regulations, property rights, and enforcement mechanisms—significantly influences economic performance, including financial sector behavior.

Application to Loan Recovery:

In countries or regions with weak legal institutions, loan enforcement becomes difficult.

Delays in court processes, lack of credit registries, or political interference impair banks' ability to recover loans.

Behavioral Finance Theory

Proponents: Richard Thaler, Daniel Kahneman

Key Idea: Financial decisions are not always rational and are often influenced by cognitive biases and emotions.

Relevance to Lending and Recovery:

Borrowers may overestimate their repayment abilities or underestimate risk.

Lenders might be influenced by optimism bias or herd behavior during credit booms, leading to poor loan assessment.

Risk Management Theory

Proponents: Modern Portfolio Theory (Markowitz, 1952), Basel Accords (Basel I, II, III)

Core Concept: Risk can be quantified, diversified, and managed. In banking, risk management involves identifying, assessing, and mitigating credit risks associated with lending.

Connection to Recovery:

Effective risk-based pricing and provisioning reduce the incidence and impact of loan defaults.

Poor risk assessment results in higher non-performing loans and greater recovery challenges.

2.3 Empirical Review

Loan granting and recovery are central to the performance and sustainability of commercial banks. While theoretical models highlight potential risks in the credit process, empirical studies validate these concepts using real-world data. This section reviews existing empirical research to identify key trends, challenges, and outcomes associated with loan disbursement and recovery problems across different banking environments.

Loan Granting Practices and Determinants

Numerous empirical studies have analyzed the factors influencing loan granting decisions in commercial banks. These studies highlight the roles of borrower characteristics, economic environment, bank-specific variables, and regulatory factors.

Oluwatosin and Olayemi (2017) in their study on Nigerian banks found that credit appraisal techniques, borrower credit history, and the value of collateral significantly influenced loan approval decisions.

Kargi (2011)**,** using data from selected Nigerian banks, noted that banks often extended credit based more on relationship banking than formal credit scoring systems, leading to higher loan default rates.

Amu and Amu (2020) examined the impact of macroeconomic indicators and found that inflation and interest rate volatility significantly influenced the volume and riskiness of loans granted by commercial banks in Ghana and Nigeria.

Loan Recovery and Non-Performing Loans (NPLs)

The issue of loan recovery is closely tied to the rise of non-performing loans (NPLs). Empirical studies consistently show that NPLs have a negative effect on the profitability, liquidity, and stability of commercial banks.

Makri, Tsagkanos, and Bellas (2014)**,** in a cross-country study in the Eurozone, found that high levels of NPLs were significantly associated with poor bank performance and lower capital adequacy ratios.

Sanusi (2012**),** in an evaluation of Nigerian banks post-consolidation, noted that poor loan recovery contributed to the failure of several banks, emphasizing the lack of proper monitoring and institutional enforcement mechanisms.

Kithinji (2010**),** in a study of Kenyan banks, found that a large proportion of loans were disbursed without adequate risk analysis, leading to a surge in default rates. His regression analysis showed that loan recovery efforts had a statistically significant impact on the financial performance of banks.

Factors Contributing to Loan Recovery Problems

Several empirical studies have focused on identifying the specific factors that hinder effective loan recovery:

a. Weak Legal Framework

Adebisi and Oladayo (2019) argue that Nigeria's judicial system is slow in adjudicating loan disputes, which discourages banks from pursuing legal action and encourages willful default.

b. Political Interference

Onyia and Ofoegbu (2017) found that government-owned banks are more susceptible to politically motivated loans, which are often unrecoverable due to lack of proper documentation and collateral.

c. Poor Credit Appraisal

A study by Obamuyi (2007) in Nigerian banks indicated that poor credit evaluation and over-reliance on collateral led to increased default rates. Many borrowers had weak repayment capacity but were still granted loans based on non-financial criteria.

d. Lack of Credit Information

Eze and Oge (2019) studied the role of credit bureaus and found that banks that utilized credit reporting systems had significantly lower NPL ratios than those that did not. This supports the idea that access to borrower credit history improves recovery outcomes.

Technological and Institutional Innovations

Newer empirical research has highlighted the role of digital tools and institutional reforms in improving loan granting and recovery:

Adeyemi and Adebayo (2021) examined the impact of digital credit scoring in Nigerian fintech and microfinance institutions. Their study found that digital systems using AI and mobile money data improved both credit approval speed and recovery rates.

IMF (2020) reports show that countries with strong regulatory institutions, such as Kenya and Rwanda, have significantly lower NPLs due to reforms that improved loan documentation, borrower identification (e.g., biometric data), and credit reporting.

2.4 Gaps in the Literature

- Few studies combine **qualitative insights** (e.g., interviews with loan officers) with quantitative data for a holistic understanding.
- **Comparative analyses** between private and public sector banks on loan recovery are limited.
- The impact of **COVID-19** on loan recovery has been underexplored in African markets.
- Research often lacks integration with behavioral insights that explain irrational borrower or lender behavior.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION TO METHODOLOGY

This section describes the research methodology adopted to examine the challenges of loan granting and its recovery in commercial banks. The methodology outlines the research design, data sources, sampling techniques, instruments of data collection, and methods of data analysis. The objective is to ensure that the research is systematic, objective, and replicable, yielding reliable and valid results that contribute to academic and practical understanding of the topic.

3.2 RESEARCH DESIGN

The research design used for this work is survey design. Here, group of people were studied by collecting and analyzing their data. These group of people were selected from the population to represent the population sample.

This is a field survey type of research, supported by library research work.

Relevant questions

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3.3 POPULATION OF THE STUDY

Presently, at the time of this research work, there exist about two first bank branches in Ojo Alaba. Out of the two branches, one was chosen which automatically form the population of the study."

3.4 SAMPLING SIZE AND SAMPLING TECHNIQUE

The target population consists of **commercial banks** operating within a selected region or country (e.g., Nigeria). The study may focus on a mix of large and medium-sized banks, both privately and government-owned.

Sampling Technique: A purposive sampling method will be used to select banks with significant credit operations. Within these banks, stratified random sampling may be used to select respondents such as credit officers, risk managers, and customers.

Sample Size: The sample size will be determined based on the number of accessible respondents, the scope of the study, and available resources. For quantitative surveys, a sample of 100–200 participants may be targeted, while for qualitative interviews, 10–15 participants could be selected.

3.5 METHODS OF DATA COLLECTION INSTRUMENTS

Questionnaires: Designed to capture key variables such as loan approval criteria, risk assessment practices, borrower characteristics, repayment behaviors, and recovery strategies.

Interview Guides: Used to gather in-depth information on institutional challenges, decision-making processes, and staff experiences with loan default and recovery.

3.6 METHODS OF DATA ANALYSIS

Quantitative Data will be analyzed using descriptive statistics (mean, standard deviation, frequency) and inferential statistics (regression analysis, correlation, ANOVA) with tools such as SPSS or STATA. This will help determine relationships between credit policies and recovery outcomes.

Qualitative Data will be analyzed using thematic content analysis to identify patterns, themes, and insights from interview responses.

3.7 LIMITATIONS TO THE METHODOLOGY

Despite efforts to design a robust and reliable methodology for investigating loan granting and recovery challenges in commercial banks, certain limitations are inevitable. These limitations may influence the scope, depth, and generalizability of the findings. Recognizing them ensures transparency and provides a basis for interpreting the results within their appropriate context.

CHAPTER FOUR

4.0 DATA PRESENTATION

As already mentioned in chapter three of this work, the researcher used some methods in the cause of carrying out this research.
These includes: questionnaire, tables, figures and percentages. All these helped to reduce sampling error and bias in writing the project.

4.1 DATA ANALYSIS

The researcher have so far tried to make a combined analysis given by the banks to the question asked. Most commercial banks grants short-term loan. Their major beneficiaries include sole proprietors, partnerships and corporate enterprises.
It was also discovered that there has been default on loan repayment. The major effects these have on banks is that the loan able fund is reduced to minimum. And this affects the lending capacity.

4.2 DATA INTERPRETATION

Here, the researcher assembled, presented and analyzed the relevant data gathered. Structured questionnaire were distributed to the staff of the bank.
Only the branch manager, accountants and top officials of the bank, including other staffs of the bank were chosen to fill the questionnaire. It is from the information from the respondents, that the analysis was made possible. It should be noted also that the bank's system of classifying the nature of loans and loan beneficiaries are to be used in this analysis. The researcher at this point starts to present the data.

QUESTION 1
What type of loan do you grant?
Table 4.1

Responses	Number	Percentage (%)
Short-term	60	75%
Medium-term	20	25%
Long-term	0	0
Total	80	100

Sources: Field survey 2025

Table 4.1 depicts that 60 respondents or 759% of the sample size agreed that the bank grants short-term loan. 20 respondents or 25% of the sample size said that the bank grants medium-termn loan while nobody said that the bank grant long -term loan.

QUESTION 2

What is the sartorial allocation of your loan?

Table 4.2

Responses	Number	Percentage (%)
Agricultural loan	10	12.5%
Industrial loan	40	50%
Personal loan	20	50%
All of the above	10	12.5%
Total	80	100

Sources: Field survey 2025

Table 4.2 depicts that 10 respondents said that they grant agricultural loan. 40 respondents of the sample size said that they grant industrial loan while 20 respondents of the sample size said that they grant personal loan. Only 10 grants all.

QUESTION 3

What are the several problems faced during loan recovery?

Table 4.3

Responses	Number	Percentage (%)
Customer unable to pay	10	12.5%
Lack of collateral	20	25%
Inability to arrest customer	40	50%
All of the above	10	12.5%
Total	80	100

Sources: Field survey 2025

Table 4.3 shows that all the respondent said that they faced the. Problem of lack of collateral, customers unable to pay or repay loans during loan recovery and inability to arrest customers.

QUESTION 4

Who are your loan beneficiaries?

Table 4.4

Responses	Number	Percentage (%)
Sole traders	10	12.5%
Partnership	20	25%
Limited liability company	40	50%
All of the above	10	12.5%
Total	80	100

Sources: Field survey 2025

The above table depicts that 80 respondents or 100% of the sample size said that all the parties listed above benefits from loans granted by the banks.

Questions 5

What are the effects of the defaults?

Table 4.5

Responses	Number	Percentage (%)
Sole traders	10	12.5%
Partnership	20	25%
Limited liability company	40	50%
All of the above	10	12.5%
Total	80	100

Sources: Field survey 2025

The above table stated that 10 respondents states that default on loan repayment causes distress on bank, while 40 said that defaults cause liquidity on banks, 20 responded that it brings about reduction on bank's loan able funds and 10 responded that the above listed points are the effects of defaults in repayment of loan.

Questions 6

Are there measured to reduce the limit of clan default?

Table 4.6

Responses	Number	Percentage (%)
Yes	80%	100%
No	0	0%
Total	0	100

Sources: Field survey 2025

The above table states that 80 respondents said that there are measures to reduce the limit of loan default. This represents 100% of the sample size.

Question 7

Who are the greatest defaulters of loan repayment on commercial banks sartorial allocation?

Responses	Number	Percentage (%)
Agricultural loan	10	12.5%
Industrialists	15	18.7%
Individual (personal)	5	6.3%
Corporate enterprise	50	62.5%
Total	80	100

Sources: Field survey 2025

Table 4.7 depicts that 50 respondents or 62.5% of the sample size agreed that corporate enterprise are the greatest defaulters of loan repayment

Table 8

What sector of bank’s load allocation have the highest rate of loan repayment?

Responses	Number	Percentage (%)
Agricultural loan	10	12.5%
Industrialists	15	18.7%
Individual (personal)	5	6.3%
Corporate enterprise	50	62.5%
Total	80	100

Sources: Field survey 2025

Table 4.8 depicts that 50 respondents or 62.5% of the sample size agreed that individuals have the highest rate of loan repayment.

Question 9
What are the measures that will help to reduce the incidence of loan default?

Responses	Number	Percentage (%)
Demand notice	10	12.5%
Taking legal action	40	50%
Realizing the security	30	37.5%
Total	80	100

Sources: Field survey 2025

Table 4.9 depicts that respondents or 12.5% of the sample size agreed that demand notice is the measure that will be used to -reduce the incidence of loan default. 40 respondents or 50% of the sample size said that taking legal action will be used to reduce the incidence of loan default. While 30 respondent or 37.5% of the sample size agreed that realizing the security will also help in reducing the incidence of loan default questionnaire. The relevant answer will be considered in order to determine the causes of variation in individual bank's operations.

DISCUSSION OF THE FINDINGS

In the course of the research work, the researcher also discovered other things, which have the need to unravel in order to give a clear picture of what is going on in banking industry. The individuals have the highest rate of repayment. This is because the burden of court actions or sales of their properties fall on the individuals. To avoid greater loss, they have to comply whenever there is threat on them. A close examination of the loan beneficiaries reveals that the corporate enterprises have the greater percentage of defaulters and this is due to the following:-

- They receive the amount of loan which attracts huge interest.
- There is dynamism in monetary policy which have the effects of disrupting the original repayment plan.
- Inefficient management

Agriculturalist default due to the reason that the loan has a very long gestation period. This means that it takes time for the loan to matter, something can happen along the line that could prevent repayment.
Industrialists default because at times infant industries may not survive due to internal management problems. Where the industry cannot attain optimum production, it will not be able to pay/repay. Industrialists at times do not value these loans and as such do not invest them in profit making ventures.

RECOVERY MEASURES

Several steps were taken by banks in recovering their loan from the defaulters. These steps are:-

1. Demand Notice: The customer is notified in writing, calling his attention to the agreement. If the customer fails to respond to the first letter, a reminder may be sent.

2. Realizing the security: In the worst circumstance where the business is beyond redemption, the banker must minimize any looses by disposing the collateral.
The ability of the banks to dispose the collateral on their own immediately depends on whether they obtain a legal mortgage; otherwise they cannot sell of the collateral without obtaining a court sanction.

3. Take legal action: Before instituting legal action, the legal department or the external solicitor will issue strongly worded demand to the customer asking for the repayment.
If after 14 days, and the debtor fails, then the solicitor will go to court on his client's behalf. If judgment against the debtor is obtained, then the bank's claim is established and the extent of his customers liabilities on the debt determined.

Very often, the court gets debtors committed to a specified repayment proposal for the judgment debt including cost awarded. Where the debtor default on the repayment proposal confirmed at the judgment, the solicitor may obtain a garnishee order.

By garnishee order, the movable property does not fully satisfy the department, the solicitor may apply to the court for an order enabling him or her to take possession of the immovable property to be auctioned by the This done as a last resort because it is cumbersome, time consuming and expensive and also because it represent a sad way to terminate what probably was an interesting banker-customer relationship. bailiff for satisfaction. Any surplus will be returned to the judgment debtor.

Hypothesis 1

Ho: The measures taken by banks do not reduce the incidence of Loan default.

Hị: The measures taken by banks do reduce the incidence of loan default

Data of responses

Variable	No of responses	Percentage
Demand notice	10	12.5
Taking legal actions	40	50
Realizing the securities	30	37.5
Total	80	100

Sources: Survey data 2025

Depicts the respondents or 12.5% of the sample size agreed that demand notice is the measure that will be used reduces the incidence of loan default. 40 respondents or 50% of the sample size said that taking legal action will be used to reduce the incidence of loan default while 30 respondent or 37.5% of the sample size agreed that realizing the security will also help in reducing the incidence of loan default questionnaires.

Chi square table

Variable	0	E	(o-e)	$o\text{-}e^2$	$(o\text{-}e)^{2/}/e$	
Demand notice	10	10	0	0	0	
Taking legal actions	40	50	-10	100	2	
Realizing the securities	30	20	10	100	5	
Total	80	80	0	0	7	

Sources: Survey data 2025

Computed value of x2= $(0\text{-}e)^2/e$

Degree of freedom = (R- 1) (C-1)

= (2-1) (3-1)

= 2

Level of significance

=0.05X2

distributions (2,0.05)

The table value of X2 is 5.991.

Decision Rule

If the computed value of X2 than the table value of X2 accept the Ho hypothesis and reject H1 hypothesis but if the computed value of X2 > than the table value ofx^2 reject the Ho hypothesis and accept the Hi hypothesis which means that there are measures that will reduce the incidence of loan default.

HYPOTHESIS 2

Ho: Loans to individuals do not record higher rate of loan default.

H1: Loans to individuals record higher rate of loan default repayment.

Data of hypothesis

Variable	No of responses	Percentage
Agricultural loan	10	12.5%
Industrialists	15	18.7%
Individual	50	62.5
Corporate enterprise	5	63
Total	80	100

Sources: Field survey 2025

The table depicts that 50 respondents or 62.5% of the sample size agreed that individual have the highest rate of loan repayment.

Chi square data of hypothesis

Variable	0	E	(o-e)	o-e^2	$(o-e)^{2/}$/e	
Agriculturist	10	10	0	0	0	
Industrialist	15	5	-10	100	1.667	
Industrial	50	60	10	100	6.667	
Corporate bodies	5	5	0	0	0	
Total	80	80	0	0	8.334	

Sources: Survey data 2025

Computed value of x2=2 (0-e) ^{2}/e

Degree of freedom =(R- 1) (C-1)

= (2-1) (3-1)

= 3

Level of significance

=0.05X2

distributions (3,0.05)

The table value of X^2 is 7.826.

DECISION RULE

If the computed value of X^2 « than the table value of X^2 accept the Ho hypothesis and reject H1 hypothesis but if the computed value of X^2> than the table value of x^2 reject the Ho hypothesis and accept the Hi hypothesis which means that there are measures that will reduce the incidence of loan default.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

This study has a large extent attempted to analyze the loan granting and its recovery problems on commercial banks. The objective was to find out the problems encountered by commercial banks during loan recovery.

In this regard, the research questions were able to embrace the nature of the loans granted as well as the effect of the default. The major causes of these problems as analyzed could be classified into:

a. Adversity

b. Mismanagement

c. Fraud

Lending, being a vital function in banking operation is no longer what it use to be. This is because lending entails a lot of risks on the part of the lending banker. The lending policies are no more strictly adhered to. The issue of loan recovery problems arises when the repayment of the granted loan does not follow as planed and agreed. And if not properly checked, it will have an adverse effect on the operations of the commercial banks and will pose a threat to their expectations.

However, at the end of the study, the following" observations were made:

1. Most banks grant short-term loans
2. Banks does no accept only collateral affected by the defaults.
3. Banks have been seriously affected by the defaults
4. Banks are not idle but have applied tactical recovery measures
5. Some of the measures are effective

5.2 CONCLUSION

The researcher wish to conclude by saying that risk in credit creation through loan granting cannot be completely wiped out because of the futuristic nature of loan repayment schedule.

Most of the loans granted by Nigerian Commercial Banks do not get repaid and turn out to be bad debts.

5.3 RECOMMENDATIONS

If all lending application could be modified and' the risk elements qualified, lending could be done by computer but as any banker should know, lending is the ‚fun" and „leaves" dangerous element in banking this is because no matter how careful banks may be, they must still expect some of these loans to turn bad debts. Therefore, once a loan is identified as a problem, commercial banks are faced with how to avoid possible loss. And to achieve this, the following recommendations were made:

a. Commercial banks should monitor its outstanding loans in order to identify promptly loans which a borrower fails to repay as scheduled.

b. Commercial banks should use some of the risk control procedures to guide against losses. An example of this is covenant which is a written agreement whereby the borrower commits himself of providing specific financial statement at specific intervals during the life of the loan.

c. Compensating balance: This is a system under which the borrower agrees to maintain specific level of deposits at the lending bank. If the borrower defaults, then the lending bankers use its right te off-set the borrower's loan with the deposit at the bank.

d. Before granting loans, commercial banks should examine critically the project of financial statement provided by the customer (cash budget, income statement). This will help them find out the realistic repayment pattern and also help them I knowing if the projects are realistic based on the customers past performance.

e. The government should educated on the need to repay loans.

f. Collateral to be accepted should have higher marginal values, considering the inflationary situation in the economy. Also, effort should be made to ensure that the furnished collaterals are existing. This is so because some dishonest customers will believe that there is collateral of which it does not exist.

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