

Critical Analysis of Credit Management in Nigeria Banks

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Abstract: It is noteworthy to stress that management or administration of credit is a critical task facing every bank in the world of which Nigerian banks are inclusive. Specifically, the application requires experience and in-depth knowledge of banking practice. And for its effective performance, top management must be involved because of its critical importance in the overall performance of the bank and the fact that credit administration can impact either positively or negatively on the financial position of the bank. It determines the liquidity of the bank and how solid is the capital structure as well, the combination of both is imperative to determine how healthy the bank is.

A positive lending policy will ensure a constant flow of income to the bank which will lubricates their liquidity mechanism and making it possible to meet its cash demand as and when due, remains sound and resilient, and impact positively on its profitability for the benefit of the stakeholders or shareholders. This important task is not only achieved through the intermediation functions of the bank that triggers the injection of funds to the real sector of the economy, which stimulates economic growth and development. Nevertheless to stress that negative administration of credit will lead to the accumulation of bad debts in the books of the banks, dry up their liquidity, and led to the erosion of their capital. The continuous erosion of capital will trigger the folding up of the bank or lead to a merger or simple acquisition of the weaker banks by the stronger banks; typical examples are Skybank acquired by the Polor is bank or Diamond Bank that merged with a stronger Access bank.

Therefore, this paper will critically analyze the importance of credit management by the banks, and carefully crutinize its positive and negative impacts on the financial position of the banks and the economy as a whole. And recommend major steps to be deployed by the banks to ensure good credit management that will usher in confidence in the lending policy of the banks, by enunciating steps to be taken in the administration of credits to eliminate the possibilities of the loans crystalizing into bad debts.

I. INTRODUCTIONS

Credit Management is one of the most difficult task facing banks all of over the world and the case is more pronounced in the Nigeria situation because going through the history of banking in Nigeria, one can observed that the major source of bank failures was ineffective credit management. Instructively, such ineffective lending led to accumulation of bad debts in the books of such banks. Credit administration is the bane of Nigeria banks and a major source of worry to Regulatory Authorities. The Prudential guideline issued by Central Bank of Nigeria defined Credit as the aggregate of all

loans, advances, overdraft, commercial paper, bankers' acceptances, bills discounted, leases, guarantees, and other loss contingences connected with a bank's credit risk. However, Mandel (1974) noted that credit is the right of lender to receive, money in the future for his obligation to transfer the use of funds to another party in the interim.

Credit management is the strategy applied by the management of the banks to plan, control and monitor loans and advances given to their customers to prevent such loans from crystallizing into none performing loans or bad debts. The main aim of credit management is to ensure that the bank realizes its investment in the granting of loans and stimulate constant flow of income from the advances. Coyle Brain (2000) opined that the main fact is that credit management is concerned primary with managing debtors and financing debts. He went further to state that in the organization and the control of credit activities, Management should ensure that responsibility for credit management are allocated efficiently, operating systems are in place and credit control staff are of suitable quality and properly trained and motivated.

Another observation, credit management should be taken seriously, because one of the key service deliveries of the banks in Nigeria is loan administration and major source of their revenue and profit. Also a careful examination of financial statements of banks showed that loan and advances constitute the major item in the balance sheet of the banks. The banks must adopt strategy to ensure effective credit management, to prevent none performing loans which may lead it to illiquidity. Morton and Jonathan (2011) noted that Bank failure is caused by lax credit standard, ineffective portfolio risk policies and risk taken in excess of capital constraints.

It is pertinent to note that any lending decisions has an element of risk or the other and a banker must take into considerations the risk elements of any loan advances critically. It means that the bank should not only analyze the loan request and its suitability but should also assess the risk implications of the advances given to their customers and ensure such loan deliveries are within the risk appetite of the banks.

Nevertheless to state that banks derived their greatest profit from lending, the greater the lending facilities granted to their customers the higher the profit and the risk elements associated with the lending. The bank must strike a balance between profit and its risk apatite to avoid a lot of bad debts

which may hurt its profitability. In other words, the bank must avoid overtrading in pursuit of profit.

II. THE IMPORTANCE OF BANK LENDING IN THE ECONOMY

Mordi (2010) observed that the basic functions of financial sector are: to provide efficient payment mechanism for the whole economy and intermediate between lenders and borrowers. These basic functions are domain of banking institutions. He further noted that banks and other financial institutions play a vital role in facilitating the overall funding of the economy

It needs not to be over emphasized that bank lending is very important in the economy, banks through financial intermediation help to stimulate the economic activities. John and Edward (2004) observed that financial intermediaries borrow one subset of agent in the economy and lend to another, and diversification, financial subsets- borrowers and lenders –are typically large. Thus, to the extent that numbers represents diversifications, financial intermediaries are well represented on both sides of the balance sheet. Banks therefore through its involvement in financial intermediation funds the real sector of the economy, thereby stimulating the growth of the economy and development.

Banks' lending more especially to the real economy like agriculture and business organizations helps to create employment. It is noted that effective bank lending generates series of employment opportunities in the economy, especially if the loan is effectively managed.

Instructively, the development of agricultural sector in Nigeria will trigger production of enough food for its citizens, reduce food imports and helps to reduce balance of payment deficit. Nevertheless to stress that importing food depletes our foreign reserve. Again it will enable the country to derive foreign reserve by exporting most of its agricultural products such as cocoa, groundnuts, and palm oil. Nigeria will therefore, be prevented from external shock whenever the world crude oil price drops if another source of external revenue is harnessed. The above is supported by the fact that Nigeria derived about 85 per-cents of its foreign reserve from the sales of crude oil. This constituted the major problem facing Nigeria in 2015 to 2016 when the world oil price drops from about 118 to 65 dollars per barrel. Not only it depleted the external reserve of the country, it forced the government to cut its budget drastically, not until late 2016 that the world price of crude oil began to pick again.

The worst scenario is seen when the Central Bank of Nigeria (CBN) devalued its currency from 155.5 naira to 168 naira to dollars in its Monetary Policy Committee meeting held on December 26, 2014; this set a wrong signal to the economy and triggered a lot of negative consequences and the issue was further aggravated when Central Bank of Nigeria mopped up about N500bn from the financial system. This created liquidity problem in the financial sector and shoot up the

overnight borrowing rate to 44 percent and the banks have no other alternative than to adjust their lending rate from 25 to 27 percent to keep afloat.

Despite the above, lending to the agricultural sector constitute a barrier to agricultural development. Banks felt reluctant to extend loan facilities to farmers more especially peasant farmers who made up the block of farmers. The introductions of micro finance banks to extend micro credits to peasant farmers have not done much to this regard. The reluctance of the banking sector to lend to the agriculture sector is because of risk inherent in lending to the agriculture sector. The provision of funds made available by the government to the agricultural sector is not the major problem, but the problem is the ability of the farmers to access the loan timely and adequately. The contribution of agriculture to the real sector is not in doubt; it was noted by Anyanwu that “between 2006 and 2009, the agricultural sector attracted an average of 21 per cent of the total credit in the economy in contrast to its average contribution of 42.2 per cent to the GDP over the same period.”The government of Nigeria is aware of this fact and went further to introduce another financial framework known as Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL). The major objective is to adopt a value chain approach to lending and to act as incentive to banks to choose which part of the chain they will like to lend to. It is hoped that it will encourage banks to deliver loan facilities to the farmers, reduce counterpart risk facing the banks through innovative crop insurance products, increase the profitability of banks in agricultural lending noting the fact it will also be managed with performance based incentive. Nevertheless, the scheme is value-focused agricultural policy of the government that must be maintained because of the inherent advantages to the economy.

Another important role of banking sector is the mobilization of funds through saving and deposits and channeling the funds to more productive sector of the economy for investment. This is germane to stimulating economic growth, a well-developed banking sector is therefore necessary for economic development. The CBN to ensure a healthy and sound banking system, monitors the activities of banks very closely by carrying out Risk Based and Consolidated Supervision of the banks and if necessary issue out directives through circulars with the view to focus on one of its major mandates to promote a sound financial system in Nigeria.

Another observation is that deposits by the customers in the banks becomes savings to the customers and the item is shown on the balance sheet of the banks as liabilities while advances and loans are asset to the banks. The deposits by the customers are used by the banks to lend to the real sector like agriculture, oil and gas industries, and manufactories. In summary, banks ensure savings which lead to investments in the economy.

Banks through their intermediation function provide information to potential investors thereby making it possible

for easy flow of capital to where they are actually needed. This reduces the cost of information and encourages resource allocations that stimulate technological development and financial sector accessibility.

Risk management policy of the banks is critical to facilitate trading that reduces risk elements in investment, thereby enhancing liquidity in the economy which is germane in increasing the personal income and reduction of poverty, which is dominate in developing countries like Nigeria.

One of the vital roles of the banks is provision of payment facilities thereby engendering exchange of goods and services. Banks deliver these services either through payment of cash over the counter, the use of cheque, and the provision of payment technology such as Automated Teller Machine (ATM), Point of sales (POS), plastic money such as e-Purse, Debit Cards and Credit Cards or through on line banking; these payment technologies not only quicken the pace of financial transactions but ensure real time and instantaneously payments. The necessary point to note is that with the use of ATM cards one can assess his fund at any point in time and all over the world.

It is envisaged that Banks through their strict application of Good Corporate Governance in banking sector could lead to high degree of savings and it will increase the trust of the shareholders have in the management of the banks. A sound banking sector facilitates investment which is cornerstone to economic development. As opined by Zhuang et al (2000) stated that monitoring and disciplinary by creditors (banks or shareholders), shareholder activist exercised by institutional investors (such as banks, pension funds etc.), threat of takeovers and market for corporate control, threat of insolvency, and capital market competition, among others are effective mechanism for strengthening corporate governance. It is critical to note here that the observation of Good Corporate Governance in the banking sector foster public confidence which is the heart of banking services.

III. THE CAUSES OF BAD DEBTS IN THE BANKING SECTOR THROUGH INEFFECTIVE CREDIT MANAGEMENT

It is a statement of fact that some of the bad debts are caused by the banks due their quest to make super abundant profit through lending; profit is an incentive for banks to charge high interest rate on loans. The lending rate of banks is currently very high and is 25 per cent to 28 per cent per annum and the increase in the interest rate was due to increase in banking rate at the interbank market caused by liquidity squeeze in the banking sector, as a result of CBN monetary policy. The higher interest rate discourages borrowing and encourages none servicing of loans by the borrowers which may lead to accumulation of bad debts.

Another serious factor that could lead to none performing loans is poor appraisal of loan request. In some cases loan requests are not subjected to intensive and objective analysis

before loan is granted. This may be that the customer presented an adequate collateral or the person requesting the loan is a high profile government official. The bank however should not rely on security alone when appraising loan request bearing in mind the security is only a factor to be considered in loan administration. Security is a fall back by the banks in case of default. Jon-Gregory (2011) posited that threshold is a level of exposure below which collateral will not be called. He went further to define threshold to represent an amount of uncollateralized led exposure. That means that there is a certain credit exposure that collateral is not expected to cover. It needs to be mentioned that giving loan based on political consideration is highly risky lending as in most cases than none such loans turn out to be none performing ones.

None monitoring of the projects after loan extension to the customer may cause bad loans in the banking system in Nigeria. Banks sometimes are deceived when a customer presents to them a well prepared loan request based on their project analysis, the bank management are attempted to relax advance, without monitoring the project. It is only when the loan starts crystallizing into none performing loan that they will realize the necessity to monitor the projects. And by then it is too late. Banks must therefore monitor the project of the customer in which the servicing of the loan is based to ensure nothing goes wrong on the onset.

When the former Governor of Central Bank of Nigeria Prof. Charles Soludo introduced Consolidation Policy of Nigeria Banking industry, one of the key items in the 13 points agenda is Good Corporate Governance. This is regarded generally as set of structures, process, principles and policies affecting the way an institution is governed while the Code of Corporate Governance issued by Central Bank of Nigeria defines Corporate Governance as “a system by which corporations are governed and controlled with a view to increasing shareholders value and meeting the expectations of the stakeholders” Quite unfortunate many Top Executive of the banks do not adopt a sound Corporate Governance when making loans decisions. The issue of undue influence on Board ‘Credit Committee’ of the banks plays a major role in considerations of the loans. How can one justify a situation where lending facilities running into billions of naira are extended to all the members of Board at ridiculous interest rate? In short, many of such loans turned out to be bad debts and provision are made to write off the huge sum of bad loan. The negative impact of such action is to reduce the profit of the bank to the detriment of the shareholders. The above situation was captured clearly by Ganiyu (2010) most of those banks were run aground by a few greedy Directors and Officials who perpetrated frauds and all kinds of unethical practices against their institutions. He went on to stress that the backlash of that was to crystallize in micro-economic dislocation and loss of confidence in the banking industry. However, many of the liquidated banks were caused by ineffective management and lack of Good Corporate

Governance which is the heart of a sound banking management.

The Universal banking which was introduced in Nigeria in 2000 and was phased out in 2009. The main reason adduced for phasing that aspect of banking scheme out, was that it became a vehicle by banks Directors to divert depositors' funds from banks into many of their subsidiaries companies. Therefore, it became a conduits pipe for siphoning funds from the banks to their various private companies, the worst scenario, such loans were never meant to be repaid by the Director. However, a large amount of non-performing loans that wiped out the capital of these liquidated banks were traceable to such loans. Therefore, lack of sound Corporate Governance lead to huge chunk of bad debts in the banking industry which put those banks in a serious liquidity problems that wiped out their capital. The net result was liquidation of such banks.

Another fact that escalated the accumulation of bad debts in the banking industry is fraudulent action perpetuated by the Staff of the banks in credit administration. This is seen when credit officer demands bribe before he endorses a loan application for the customer. The risk element is that not only the credit officer will not be objective in assessing the loan efficiently and effectively before the loan is given, but the customer will find it difficult to service the loans. Such inside abuses are bound to lead to loss of confidence in the banking sector and may escalate systematic banking crises.

In a developing country like Nigeria and with their own unique cultural background, the customers' perception about borrowing is quite different from the developed countries; some of the customers of the banks regard loan extension as their own share of the 'National Cake'. This is so from the background where the politicians are so corrupt, amassing great wealth and purchasing houses all over the world to the detriment of the majority of the population who live in abject poverty. In vast majority of cases, bank customers' borrow with no intention to repay the loan and such advances constitute bad debts on the onset. Banks should ensure that all loan requests are subjected to a critical and objective appraisal by a competent and experienced Credit Officer and any loan request that is inappropriate should be rejected.

In some cases, the loan application is subjected to objective assessment and the necessary collateral taken and even supported with a guarantor, in such a case the bank has no alternative than to grant the loan. Hopping the loan is secured. The customer will now divert the fund to none economic uses such as marrying of additional wives and purchasing of expensive cars just to show off to his community or society that he has arrived. He will even go to the church to give offering for God blessing him with such great wealth. Some of the borrowed funds were even used to make donations to the church to the applause of the Congregation. Hence the loan is not applied for productive

uses; it will be difficult for the project to generate a cash flow for the repayment of the loan by the borrower

Another factor that leads to the accumulation of bad debts is lack of commitment by the borrower on the management of the projects. The customer may not be fully involved as the chunk of the fund is from the bank. The collapse of the project will discourage the flow of fund and may lead to inability of the customer to continue to service the loan. In no distance time the loan will become none performing one. That is why the customer should contribute more to the capital project before bank steep in to inject fund into the project. The reason is to prompt the customer to ensure the success of the project.

Overtrading in respect of the customer can cause none servicing of advances granted to him. The customer in pursuit of profit may be tempted to expand beyond his capital. And this may lead to the collapse of the business. The bank should constantly monitor the business of the customer and offer professional advice to that effect to nip in the bud the liquidation of the business and eventual loss of fund.

Another critical factor that may lead to accumulation of non-performing loans is political instability more especially loans granted to the State governments and local governments to undertake certain projects developmental purposes. Local and State governments borrow large sum of funds to finance some developmental projects or even settle immediate cash problems for the good of the State. The problem is manifested when there is a change of government. The present government may be very reluctant to service the loan because he may not be interested in the execution of the projects left by his predecessor. In so many cases, such projects are abandoned by the existing government who will like to create and pursue its own agenda. That is why in many States, they are many abandoned projects to the detriment of the people. The net result is to cause financial crises in the banking sector, which may slow down economic growth.

Monetary Policy Committee decision may trigger to the accumulation none performing loans in the books of the banks. For instant, the recent devaluation of currency led CBN to take some sweeping decisions that caused liquidity squeeze in the economy. The Cash Reserve Ratio (CRR) for private Sector fund was increased from 15% to 20%, coupled with Central bank stance to mop up more funds from the Economy to check the galloping inflation, the Policy has triggered triple effects in the economy as the cost of interbank lending has increased tremendously from 35% to 44% which the Banks now factor into their lending cost. It will surely escalate banking lending rate and making it extremely difficult for customers to services the loans,

IV. THE EFFECTS OF INEFFECTIVE CREDIT MANAGEMENT

Ineffective loan extension to the real sector can trigger negative ripple effects in the economy and one of them is a systematic distress in the Nigeria banking sector. Empirical

evidence has shown that many of the distress banks were caused by ineffective management of credit by the banks which lead to accumulation of bad debts. These exposures have negative impact on the cash flow of the banks which may affect the liquidity position of the banks and erode their capital structures. It must be emphasized that many banks that went on liquidation was as result of serious liquidity problem leading to reduction of its profitability and seriously eroding their capital structure. When a bank cannot meet its obligation towards its customer, it will surely lose public confidence and that will trigger a run in the bank and its eventual liquidation.

The liquidation of bank may lead to massive unemployment not only in the banking sector but also in the real sector. If many banks are distressed the real sector will be really affected because there will no flow of funds from surplus sector to the deficit sector and the net effect, many companies will be folding, more especially those companies that depend on bank loan for their operations. The net result would be the laying off of the staff as new capital venture loans are not being granted, there will be a dent of new industries being established to reduce the unemployment. No doubt, the real sector offer a greater opportunity for creation of employment but when the sector is starved of loans it cannot survive nor will it be encouraged to expand, hence it will be unable to create employment opportunities. Again as many of the entrepreneur funds are trapped at the liquidated banks they will be unable to utilize their funds for operation of their companies and organizational expansion. Nevertheless to state, that it may escalate folding of some of the companies. The problem is accentuated more in Nigeria because there is no sound enabling environment for the companies to operate at optimum level. For example, there is no constant supply of electricity and access to good roads which has constituted major problems for the industries to thrive. This leads to creation of massive unemployment. Bureau of Statistics showed that unemployment stands at 25 per cent which is one of the highest in the world. Schoar (2009) noted that in particular, the banking sector should be established and tailored to improve the real economy and, as a tool to create jobs and opportunities.

One of the major role of the banking sector is to encourage growth and development through lending to the real sector as enunciated by the Levine(2004) and Zhunang, et al (2009) Financial system that are more effective at agglomerating capital promote economic development by increasing savings, exploiting economics of scale, and overcoming investment indivisibilities. In the contrary, when banks are unable to perform the above task because of none-performing loans that would make it hard to lend fresh loans and impossible to achieve the above task as pointed out. Coyle (2000) noted that poor credit controls heightens the risk to liquidity and profitability. When a bank manages its credit administration badly it will hurt its cash flow and profitability and prevent it

from having more funds for lending. The economic effect is to reduce economic growth and slow down development.

V. STRATEGIES OF SOUND CREDIT MANAGEMENT

The necessity of a sound credit management cannot be over emphasized and this is achieved by adopting the cannons of good lending enunciated by the experienced bankers. When a customer puts up a loan application it is the duty of the bank to consider the lending proposals whether is favorable or not, if the loan request is in order the bank should extend the advances to the customer. In order was, the bank is sure that the customers will adhere to repayment schedule and make repayment as and when due. It is expected that bank will surely agree to lend if it will make profit from the lending proposal. It follows therefore that certain principles of good lending should guide the banks whether to accept the loan or reject it. However, in researchclue.com, it is advocated that the pre-requisite for giving out loans to the customer is the consideration of the following 4cs;

Character: the likelihood that a customer will honor his obligations. This is quite necessary in case of Nigeria because many borrowers do not intend to service their loans. It is better for the bank to conduct a serious back ground check on the customer to ensure the possibility of the repayment of the loan. The resources used to undertake the search should be factored into the interest of the loan. The bank should not lend simple because the customer is known to the bank or is a respectable personality. In fact, many of the high profile loans that turned out to be none performing loans were obtained by very rich and well known personalities. The fact remains that the banker must establish whether the borrower is honest and reliable and will want to repay the loan. The character of the customer can be determined from his past record by perusing his statement of accounts and also from personal interview.

Capability: the objective is the appraisal of the customer's ability to pay. This involves technical analysis of the cash flow of the customer and other financial data from the balance sheet and from profit and loss account of the business concerned. But if it is individual customer the purpose of the loan must be critical analyzed. However, the ability to pay should be the most important consideration in loan proposal, it is advisable to reject the loan proposal if the customer is not able to make a scheduled payment, the source of repayment must be clear at the onset. The bank should not rely on the security alone; it is just a 'safety net' and must reject the loan if he knows he is going to realize the security in future.

If it is a personal loan request the bank should rely on monthly salary, and ascertain if the monthly salary will cover the loan requested depending on the term of repayment however, if it's a business loan request the source of repayment should be from the cash flow from the business. Will the cash flow generated and profit generated will be sufficient to make the scheduled repayment. The banker should consider the cash flow projection, profit projections, and information about the

newly trading business. If the three projections are all in order the banker should ensure that the customer maintains account with the bank to enable it monitor the customer's account.

Capital: The general portion of the customers' contribution to the project. What is the percentage of the total cost the customer is ready to contribute to the project? The customer should have more capital stake than the bank. They are certain reason for these; the bank should not provide risk capital in case he is unable to repay he bear the greatest part of the loss than the bank. Another reason if the customer has much in stake than the bank he will put on his best to ensure that the business will not fall. In fact, the contribution of the customer will be enough to ensure that the bank's stake is not put to risk. The percentage of the customer contribution should be 60 per cent while that of the Bank projected to be 40 per cent. The type of the business of the customer can provide the bank with the necessary information about the borrower such as the number of years the customer has been in business. Another factor to be considered is for the bank to determine through the assessment of the loan proposal, if the customers loan request is adequate enough for him to be able to execute his project, if not the bank must have discussion with and explain to him that he has estimated wrongly.

Collateral; Asset that customer may offer as security to obtain credit. The security is very necessary and its importance depends how quickly it can be realizable by the bank in case of default and the value of the asset concerned must be greater than the loan requested by the customer so that the bank can fall back on it. In Nigeria situation it is advisable for the bank not to lend money if he will need to realize the security because of the rigors to do so. The banker should consider if the value of the security fluctuates a lot like shares or land that the value continues to increase over period. All these should be put into consideration before loan is given.

In some cases the bank may ask the customer to provide a guarantor from a third party, a guarantor is a person undertaking to guarantee the loan borrowed by the customer. He undertakes to pay if the customer is unable to pay. Infact the guarantee is of little value if the guarantor has no substantial asset.

However, Helen McNals and Peter (2008) advocated 'credit scoring' as tools and techniques to make positive assessment in granting of loan more especially to the retail market. He defined credit scoring as a statistical derived decision – making tools comprising a scorecard and a set of associated statistics. Credits scoring principle is introduced to improve the tradeoff between acquisition volumes and bad debts. And

also to improve decision making and the operational efficiency, it will also ensure that better portfolio control, through monitoring of the scoring process and the subsequent portfolio performance.

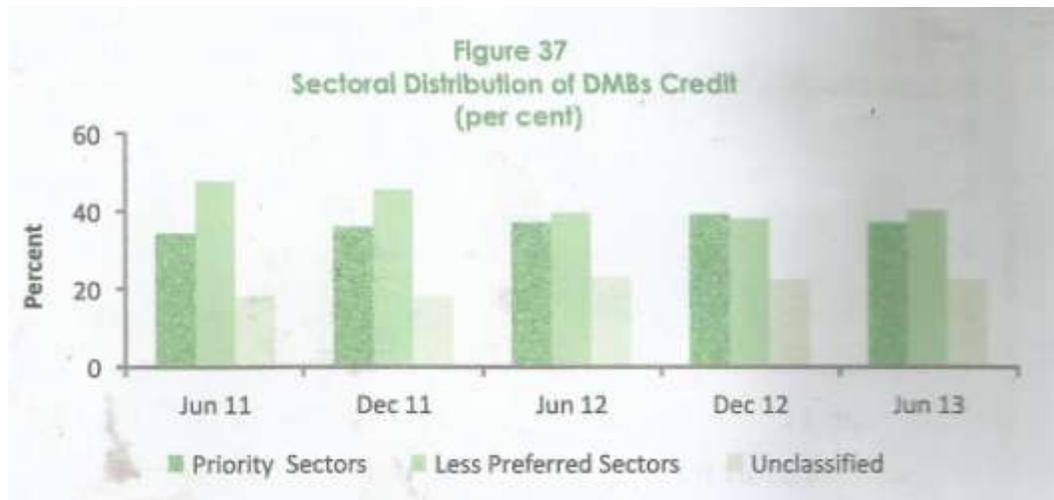
Morton and Johna than advocated that credit review process starts with comprehensive appraisal of the obligor's credit worthiness, calling for a thorough understanding of the strength and quality of an obligator's cash flow and capital structure. They went further to state that the credit review process lies at the core of PRISM an acronym for perceptive, repayment, intention, safeguards, and management. It should be observed that some of these factors have been considered above while some will be considered below.

There are other important factors that a prudent banker must consider in accessing loan applications:

The term of the Loan and the banks' policy. The term of repayment must be established in the onset, it should be clear to the customer and to the bank. Banks in Nigeria prefer short term loan of 2 to 5 years because of the business climate and the increase instants of loan defaults by the customers, however in a very rare cases the bank may accept to give a long term loans such as mortgage lending but it may be to support government policy in housing, the term may be up to 10 to 30 years. Banks' policy can influence the granting of loan to the customers, naturally the bank may have a policy not to lend for speculative purposes no matter how attractive it may be or not lend again for the purchase of the company shares and stocks etc.

Government policy may determine the direction of lending to the real sector. Presently, the Federal Government favors the granting of loans to the agricultural sector by adopting the following strategies over the period such as Credit Allocation and Concessionary Interest Rate, a policy measure adopted from 1970- 1985. The main aim of such policy is to direct credit to the agricultural sector at a very reduced interest rate for example, Agriculture Credit Guarantee Scheme Fund; the scheme was introduced in 1978 by CBN to guarantee cover to the banks who give loan to agricultural sector of the economy. And inclusive of other agricultural schemes, introduced by the government to boast agricultural productions; these incentives will actual influence the banks to lend to farmers

The figure in 37 by the Economic Report for First Half of 2013 showed that the total credit to the priority sectors of the Economy, comprising agriculture, solid minerals, exports and manufacturing. Was N3, 266.2billion at the end of the half 2013, accounting for 37.2 per cent of the total, compared with 37.1 per cent corresponding half of 2012.



However, the table 7 showed that credit to the Priority Sectors like Agriculture, Solid Mineral, Export and Manufacturing dropped from 39.5 as at December 2012 to 37.1 at June 2013.

Table 7
Credit to the Core Private Sector:
(Percentage Share)

	Share in Outstanding (per cent)				
	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13
1. Priority Sectors	34.3	36.1	37.1	39.5	37.2
Agriculture	2.1	3.5	3.7	3.9	4.2
Solid Minerals	18.1	17.7	18.9	21.7	18.3
Exports	1.5	0.5	0.7	0.8	0.1
Manufacturing	12.6	14.4	13.8	13.1	12.3
2. Less Preferred Sectors	47.8	45.8	39.8	38.2	40.2
Real Estate	7.9	6.2	6.8	6.6	7.2
Public Utilities	0.8	0.9	0.3	0.4	0.7
Transport and Communications	12.5	17.3	11.6	11.9	13.5
Finance & Insurance	7.4	4.1	3.9	3.1	3.2
Government	5.9	6.8	7.4	7.8	6.9
Import & Dom. Trade (General Comm.)	13.3	10.3	9.8	8.5	8.6
3. Unclassified	17.9	18.1	23.1	22.3	22.6
Total (1+2+3)	100	100	100	100	100

VI. RECOMMENDATIONS

1) In Nigeria it takes years for dispensation of justice hence, it is recommended for the Government to establish Especial Bank Tribunal, for quick dispensation of court cases related to frauds in the banking sector. It is important to note that since 2009, the case of the five managing Director of the Banks that were taken over by the Central Banks are still pending in the High Court.

2) When there is run on banks it could trigger a contagion effect that may bring about systematic banking crisis, thus it is necessary that the Central Bank of Nigeria should ensure effective and consistent regulation and supervision of the banks to maintain stability in the banking industry in line with one of its core mandates “to promote a sound Financial

system in Nigeria” CBN Annual Report 2016. The present Consolidated and Risk Based Supervision undertaken by the CBN is a right step in the right direction.

3) The ineffective or lack of National Identity card made it highly impossible to identify multiple borrowers who go from one Bank to another to borrow money with no intention to service the loans, to this end, the CBN should equipped the newly established Credit Bureau to track down the defaulters in the banks. The credit bureau data base should be electronically available to all who need the information. It is envisage that credit bureau data base will provide information on defaulters. This would enable the banks to avoid lending to those habitual defaulters.

4) Lack of expertise and skilled Credit Administration stands as impediments for effective credit application analysis, the banks should deploy staff that has not only the skills but the necessary knowledge such as a professional Accountant or Chartered Bankers to the credit sections of the bank to handle loan applications. The banks should also establish effective guidelines for analyzing, extending, and monitoring loans to reduce the risk inherent in extension of loan to acceptable level. "Organization and Control of credit Activities Management should ensure that responsibility for credit management should ensure that responsibilities for credit management are allocated, efficiently operating systems are in place, and credit control staff are of suitable quality and properly trained and motivated. The importance of the customer must be recognized." Coyle (2000)

5) It is acceptable fact that CBN is currently adopting a tight Monetary Policy and that affected the liquidity stance of the banks, however, that made the banks to raise the interest rate and such strategy will discourage borrowing and the probability of non-performing loans. It is therefore advisable to the bank to reduce the current high interest rate to acceptable level at least from 27 to 20 percent. And they should correspondingly increase the deposit rate which is ridiculously very low which now stands at 3 to 5 percent, such policy will attract more deposits.

6) The importance of Good Corporate Governance in the banking sector cannot be over emphasized. The CBN should make it as point of law that any Board member that goes contrary to the principle of Good Corporate Governance should be sanctioned. More especially those members that obtain loans from their banks and failed to service such loans should be sanctioned by removing them from the board and charging them to the Court of Law, that is hoped to serve as deterrent to others. Therefore, the CBN should continue to monitor and encourage the observation of Good Corporate Governance principles in the banking sector, to make them more efficient, responsive, and accountable organizations. Therefore, a sound Corporate Governance is envisaged to contributing to the safety, soundness and stability of the banking sector. The bank must stop granting credit facilities to Director of the banks or their associated companies in contrary to the provision of Banks and other financial institutions Act (BOFIA) as amended, specifically as it goes contrary to Good Corporate Governance which was highlighted in 13 point agenda of Consolidation of banks.

7) The risk elements of every lending proposal must be carefully analyzed and accessed to determine whether to lend or reject the loan. Any request that has a higher risk level must be rejected no matter the value of the security offered by the borrower. It is advisable for the banks not to lend when there is possibility of realizing security offered.

8) It is of great importance that the experience and the competence of the borrower in the business must be subjected to a carefully study by the banker before lending. Also the

source of cash flow which is the repayment sources should be considered before loan application is accepted. Therefore, one must underline the fact that every 'dubious' loan must be turned down no matter who made the request, even when the request comes from high government officials or a known wealthy business man. It is better to nib in bud any advances that might metamorphose into bad debts. The bank should reject such loans with great tact by explaining the reasons for rejection to the customer.

9) The banks should strengthen their Internal Control system to enable them to notice earlier signal of infractions in giving advances to the customers, which would enable the banks to prevent loan applications that might metamorphosed into bad debts.

!0)Gniyu (2010) noted thatthe introduction of prudential guidelines by the Central Bank on asset clarification and provisioning for loan losses is commendable because it exposes weak and poorly managed banks. Banks that hitherto posted large profits reported heavy losses resulting in undercapitalization because of substantial increase in provision for loan losses as required in the prudential guidelines are now unable to do so, as exact trueposition of losses are now highlighted in the banks' financial statement.

11) The introduction of Biometric Verification Number (BVN) by Central Bank of Nigeria is a sound policy decision; banks are directed to get the biometric data of all customers. It is hoped that it will provide higher level of security and protects accounts from unauthorized access, fast tract services, easy and acceptable means of identification across all banks in Nigeria. The introduction will also help to identify loan defaulters who go from one bank to another to borrow money. This policy has since been implemented in the banking sector.

12) Banks should ensure that they have inbuilt review mechanism that will help them to detect quickly poorly appraised credits applications and to prevent weak proposals from being approved. It is observed that if the principle of Review Process is adopted the Credit officers will be more diligent and meticulous in assessment of applications; if he knows that their work will be reviewed by Superior Officers.

VII. CONCLUSIONS

We have enunciated the importance of Sound Credit management and its impact on the economy and pointed out the causes of bad debts in the banking industry and how to prevent them. However, it was stressed that a banker must keep strictly to the principles of good lending such as scrutinizing the character of the customer, the Capital, Collateral, and Capacity and also must be subject them to close analysis . However, if such application did not meet the necessary criteria, the loan request should be rejected outright because the bank is not a charitable organization but in business to make profit.

The importance of observing Good Corporate Governance in the management of banks was highlighted as it will help to prevent insider abuses which come in form of granting of unsecured loans, diversion of banks funds to other subsidiary companies where the Directors have majority shares, granting of loans to the members of the board at a very low interest rate, manipulation of the Accounts to declare a false profit to the shareholders and the general public, worst still writing off the supposedly bad loans that were borrowed by the Directors. Needless to point out that these are the major causes of banks' liquidation.

In final analysis, we observed that the Credit Officers must have the necessary skill, knowledge, and experience in loan appraisal and their approvals must be subjected to review process by the Credit Committees of the banks.

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