Extenuating Loans Non-Performance, Best Practice Perspective of Banks in Bono East of Ghana

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Abstract:- **Pandemonium in the Banking industry which emanates largely from loans portfolios is eventually catching the attention of stakeholders of banks. Perpetual loan defaulters are predators of financial institutions as they comb round for banks with feebler systems to play their tricks on. It is therefore important for banks to build and maintain a continuous resilient system that will either expose or cut them off. The study fundamentally examined best practices that have been embraced by Banks for mitigation of loans non-performance. The purposive sampling method of data collection was used to select ten credit administrators from five banks within the Bono East region of Ghana.Questionnaire and structured interview are the main instruments that were used for the data collection. The data collected was analysed using the 'Statistical Product and Service Solution' (SPSS). The findings from the research indicates that, insisting on collateral security with an affidavit cover by banks to be used to secure each loan granted, coupled with active monitoring is an effective way of preventing loan from going bad. Also, giving clear credit payment schedules to clients together with regular sending of written notices to loan defaulters were found to be effective credit collection strategies. On the basis of the findings, it was recommended that management of banks within the Bono East Region and beyond must come out with a credit risk management policy that is geared towards the granting of current loans whiles cutting down drastically the approval of loans which have the possibility of becoming doubtful or loss in the long run; by ensuring that clients provide collateral security before credit(s) endorsement.**

Keywords: **Non-performing Loan, Extenuation, Best Practice, Banks Perspective**

I. INTRODUCTION

The impact of loan default in recent times has rendered many financial institutions in Ghana insolvent. The struggle of meeting the needed capital requirement of GH¢400 million declared by the Bank of Ghana in 2017 on the part of many of the banks is attributable to loans default. It is therefore important for banks and for that matter those in the Bono East Region to reconsider their credit management practices by employing best practices and possibly taking into consideration; internal control measures, loan appraisal and loan risk management policies to decrease the rate of credit default. According to Myers and Brealey (2003) credit management practices is made up of techniques and strategies used by an enterprise to ensure that an optimum credit level and effective management is maintained. This is an aspect of monetary administration, which includes; credit examination, credit assessment, credit scoring and credit reports. Adding to that, credit management is the act of controlling and collecting payments from ones' credit customers (Small business, 2011). The main consequence of lending, to banks, is that when there is an increase in bad loans, financial advancement of banks is limited (Karim, Chan & Hassan, 2010). However, one cannot run away from the reality that lending activities of banks is a major source of their profit and revenue generation (Karim et al., 2010; Munene & Guyo 2013). It is worth knowing that one of the major contributory factors of the collapse of most financial institutions is the weaknesses of those institutions credit management practices. There are serious problems with risk management in many financial institutions, more especially credit risk management. Many financial institutions have unfavourable environment and capacity constraints in critically assessing borrowers effectively to reduce the incidence of loan default. In spite of this, some banks grant loans to their customers with no collateral security to protect the loans. Loans constitute one of the biggest financial assets of many banks in the Bono East Region whiles interest on loans is one of their major sources of income. Notwithstanding, the most critical thing that is worth knowing is that funds granted as a matter of fact are not absolute properties of these banks, they are liabilities to banks and need to be made accessible to depositors as and when they need it. Where cash is not available in sufficient amount to meet withdrawals; this can lead to panic withdrawal and possibly lead to the folding up of such financial institutions. Where also monies are not pushed into income generating sources such as loan, it implies that operating expenses will be made on depositors' money which could render a bank insolvent. In whichever way, one important thing that much attention needs to be given to, is the enforcement of good credit management practices. In the time past, banks in Bono East Region especially those in the capital town thrived tremendously in the industry. Notwithstanding, banks operations are currently down in the area following the recession in the industry. An investigation shows that many banks have an amount of doubtful loans. The study probed the credit management practices of banks in Bono East region, and has established best practices banks can employ for mitigating loans loss.

II. RESEARCH OBJECTIVES

I. To determine the factors that influence access to credit in banks within the Bono East region.
II. To critically assess the credit management and control policies of some banks within the Bono east region by observing how loans appraisal processes are conducted, monitored and updated.
III. To analyse the credit collection strategies of the banks in the area.

III. RESEARCH QUESTIONS

I. Which factors influence credit accessibility in your bank?
II. How is each credit appraised, managed and controlled throughout its circle in your bank?
III. What is your credit collection strategy?

IV. THEORETICAL STANDPOINT

Credit

Credit is a debt issued by an organization to a person or an entity at a rate of interest, and supported by a promissory note specifying, among other things, the amount of money borrowed, the rate of interest applied, and the date of repayment. On the other hand,they are the practices within financial institutions which help to improve and control credit policies that lead to increased revenue and low risk including increased collections, reduced credit costs, extending more credit to creditworthy customers and developing competitive credit terms. The essential role of credit management practices according to Raghavan (2003) is to "identify, measure, and more importantly monitor the credit profile of a bank". By inference, credit risk management helps financial institutions to check, track and evaluate their various activities to prevent orminimise credit threats.

Tailoring the definition specifically to suit banking, Amidu and Hinson (2006)stated that credit management practice is a management tool which leads to a maximized bank risk-adjusted rate of return by ensuring that credit risk exposure is maintained within acceptable limits. The authors further explained that "it is important that financial institutions like banks manage credit risk owing to individual debtors and all the risks within their comprehensive portfolio". This means that, in the case where an institution is or not credit risk conscious, such could be as a result of the type of creditors, transactions or risky nature of the entire loans portfolio that is before it.

At large, when lending results in increased bad and doubtful loans, the financial growth of banks is narrowed (Karim, Chan & Hassan, 2010). Putting it in another way, a Survey report on Ghana Banking (2013) and some other studies (Awunyo-Vitor, 2012) posit that bad loans adversely affect banks' financial progress and their lending potentials in Ghana. It is undisputable that Banks make a greater part of their incomes and returns from lending activities (Karim et al., 2010; Munene&Guyo, 2013). This implies that banks cannot in anyway refrain from granting of loans. The only option therefore is for them to indulge in best practices in terms of credit management by setting up proper systems in place with up-to-date logistics that can help sustain the system with improving effect.

For better understanding, credit risk in banking means the "potential that a bank borrower or counterparty will not be able to meet its obligations according to the agreed terms" (Gallati, 2003).Financial institutions generally have some exposure in terms of credit because of their prominent lending and trading activities (Horcher, 2005). Credit risk is a global canker and hence banks, business owners and for that matter every individual need good credit management practice to survive.

Default Risk

Horcher (2005) asserted that, credit risk is generally related to lending and investment as well as disbursement of credit and that, it concerns particularly with the arrival of borrowed cash. Put differently, an incredible wellspring of credit risk in money related markets emerge from the execution of counterparties in contractual treaty, for example, given a monetary commitment which is not completely honoured, either due to the counterparty being handicapped to satisfy his or her commitments, which is a misfortune. These credit dangers are alluded to as counterparty dangers since they emerge from exchanges with counterparties (Horcher, 2005). Giesecke (2004) additionally acknowledged that credit risk is by a long shot one of the significant risks confronted by lending companies and the accomplishment of their business relies on exact estimation and prudent management practices of this risk to a more noteworthy degree than other risk. Yet, as per Anson et al. (2004) counterparty danger is characterized as default danger, where the issues of a bond or the borrower on an advance would not execute the extraordinary obligation in full. Default danger can be ended given that no measure of the bond or credit would be reimbursed or given that some piece of the first obligation would be recovered (Anson et al. 2004).The probability of the default happening is perceived as the likelihood of default. The probability of recuperation relies on few components and additionally the lawful status of the lender, henceforth if an establishment comes up short because of huge exceptional commitments or misfortunes, later accumulations maybe troublesome or incomprehensible (Horcher, 2005).

In the nutshell default risk has a huge impact on businesses, financial institutions among others. Above all, the prompt for employment of extenuating management practices is what everyone or institution should be in the look out.

Credit Monitoring Process

Lending is an activity that caries risk, but appropriate management practices can minimize credit loss. Checking and controlling of credit threat is a key, especially when banks are

most liable to the issue of moral risk (Carlettieettal 2007). Loan specialists need to screen credit applicants keeping in mind that the end goal is to:

- Ensure that legitimate and administrative necessities are met
- Ensure that documentation and charges over insurance security are adequate.
- Confirm data given by the client about wage and active income
- Detect unfriendly patterns and potential issue of advances, ahead of schedule as prudent
- Set aside provision for credit failure
- Become mindful of circumstance that guarantees that the one borrowing is credit commendable and has the ability to repay.

Credit Limits

Credit limit among others is a device use by financial institutions to control their loan portfolio. Setting credit limit is one of the ways financial institutions use to manage credit process and to reduce lending threat. Bessis (2011) made mentioned that; the significance of employing credit limit is to help avoid credit threat which can jeopardize the financial position of an institution. Dekker (2008) opines that loan/credit officers' responsibility is to set repayment period and payment amount that would support the affordability of the customer.

Nevertheless, Bessis (2011) also stated that setting of credit limit could conflict with the growth and development of financial institutions' business volume as it will control client's rate of borrowing. Furthermore, he stated that a shorter loan repayment period affects the generation of interest income by banks. It further increases customers' inability to meet their instalment repayment schedules since the instalment amounts will increase. This will also lead to borrowers being needlessly categorized into a delinquency state (Dekker, 2004).

Furthermore, Dekker (2004) indicates that the longer the repayment period of a loan facility the greater likelihood that borrower will default in repayment. This is so because of change in environment and possibly the change in circumstance and situation of the borrower. Accordingly, the question then arises that, are financial institutions employing a rigorous credit limit procedure in their credit assessment? The amendment of credit unions system of credit assessment is to support their basic values of existence and to assist their members in times of difficulties. However, this can create more problems for the credit unions when they have to manage large credit portfolios. Managing credit limits is largely an instrument use to control and curtail credit loss(Bessis, 2011). Nonetheless, Hobbs (2010) indicates that credit unions are battling with credit recovery problems. Consequently, this survey evaluates the regulations governing credit management practices in order to establish if there are lapses and hence establish the best practices that are in used by banks in the Bono East region in this present economic difficulty.

Affordability

Increased regulatory focus and a rise in interest rates imply that, lenders need to re-examine their affordability calculation measures ahead of time. Precisely, evaluating the affordability of customers and their suitability is indispensable prerequisites for all lending institutions who want to widen credit sensibly while at the same time reduce their threat exposure. As lending institutions try to balance growth with risk, some borrowers/customers are faced with insufficient disposable incomes. The present economic situation has made it necessary for lending institutions to employ a better credit appraisal process. Failure to adhere to proper credit monitory process could put pressure on customers and lenders in the mid of stagnant fiscal climates. Affordability is the assessment of a customer's financial capabilities to fund new and outstanding loan now and in the future. Burton (2012) contemplates the reason behind granting of additional loans to borrowers who have existing loans that they are already struggling to repay. He argues that this results in the use of affordability in the credit assessment procedure of lending institutions. With a different perception, Thomas (2009) indicates that when assessing the affordability of borrowers, it is their lack of cash flow and not assets that causes loan default in institutions.

Despite the viability of this method, Wilkinson and Tingay (2004) findings discussed by Burton (2012) who conducted a research on the effectiveness of using affordability test in credit assessment. The findings reveal that affordability method is weak when it comes to determining the default risk of a borrower as there exist a high link between it and more conventional data gathered from the loan application of the borrower. Despite this, Burton (2012) indicates that Financial Regulator and lending institutions have some additional processes for assessing the affordability of borrowers with high risk. Conversely, with the financial challenges of banks, can they be able to finance some of these methods of assessment where the system automatically decides how much should be given to a client? This system reduces the involvement of human in decision making. Affordability as a lending tool marches a borrower's disposable income with the regular payment that will be expected from the borrower. This is done with regards to the borrower's earnings and percentage to be used to secure the loan.

In Ghana, according to Bank of Ghana Act, one cannot deduct more than 40% of someone's income to services a loan. Middlemiss (2004) said that, the barrier in updating technology is getting financial institutions that are ready to invest in it. Finally, it appears that using affordability tool in borrower assessment has enormous benefits for banks in Ghana and for that matter those in the Bono East Region.

Risk Assessment Models

Risk Assessment Model is one of the internal rating software envisioned to aid a bank in evaluating a borrower for credit. This is in congruence with the prerequisites under the internal base rating processes. The model has a cautious mix of objectives and subjective methodologies which help to facilitaterecord of borrowers' information for their credit risk assessment.

To be able to control credit threat, the lending institution should do a credit check on the borrower potentials, this may require that the borrower takes an insurance policy or provide a guarantor or both. This enables the institution to critically evaluate the risk in relation to a particular borrower. Fatemi and Fooladi (2006) state that financial institutions need a new method for assessing credit risk of borrowers. On that note, there exist a number of products in the financial institutions design with credit risk extenuative features (Fatemi and Fooladi, 2006). They further stressed that, there are technologies that could be employed with the philosophy and the lending process of banks. In that regard, they insisted that credit scoring model could also be employed by financial institutions in their credit evaluation processes.

Besides the usefulness of risk evaluation models, according to Kindred (2004) stated that credit assessment tools depend on the supposition that economic situations are unpredictable, thus the current situations are different from the past. One of the Irish credit unions risk assessment technologies is the Irish Bureau Model; this is utilized by many credit unions in Ireland in their process of examining borrowers for credit. Bailey (2004) said that credit bureau is an organization that brings together and maintains credit data of customers of financial institutions operating in Ireland. In general Hobbs (2010) asserts that using model like this brings about a more credible and cheaper lending decision. Nevertheless, there is the need for such bureau database to be developed further to integrate all loans together with the guarantors who guaranteed for them.

Stress Testing

This is a financial terminology that is used to assess the strength of a bank for handling risks in connection to its credit portfolio. The risk could be associated to the entire operations or connected to the financial projections which are based on estimates. A bank or its regulator may undertake a stress testing to look at how robust the institution is against certain risks as a scenario analysis. This lays emphasis on adequacy and risk-adjusted fortitude of capital which has been enhanced further by modifications of banking regulations.

Stress testing models could be useful when testing variety of events and individual risks. Stress tests centre on key risks for instance credit threat, market threat and liquidity threat which affects banks' financial position. The study of Honohan (2009) concentrates on stress testing for the robustness of credit unions against credit threat. When stress testing is carefully done it can effectively predict how non- payment of loans can affect financial institutions. This can inform banks of the appropriate credit decision to take. Honohan (2009) defines stress testing as a method that is intended to envisage the condition of a bank in severe situation, of which Baptista (2009) said that financial intermediaries normally use stress testing to put limits on their credit level for a reason of reducing threat exposure. Moreover, stress test supports the conventional models (Hilbers and Jones, 2004).

Consequently, Banks within Bono East region should stress test their portfolio in other to detect the dangers in their credit portfolio and find solution to them. This is an examination which is taken under adverse fiscal situation intending to establish whether a bank has sufficient capital to survive the consequence of unfavourable economic conditions. Banks can perform stress test themselves internally or by a supervisory unit pursuant to their oversight role on the institutions. These stress tests are done to reveal weak areas in the operations of banks at the bud stage; this helps in taking corrective measures to mitigate the situation. In recent times, economic difficulties have called for banks to stress test their loans so as to detect the extent of risks associated with them. However, Honohan (2009) warns that while stress testing is helpful, it provides information on risks relating to the system.

Arrears Interventions

Arrears is a legal term used by lending institutions to describe the amount of a loan that is unpaid, overdue or of which repayments is missed as per the agreed loan terms. Arrears is the amount unpaid or missed from the date on which repayment should have been made. An account is held to be 'in arrears' if a payment or a number of payments are unpaid or missed in contravention of the loan terms. The loan agreement requires regular payments like mortgage, rent payments, school fees payment, utility bills payment etc. This term is mostly used in connection with payments recurring periodically. A clear definition of what constitutes non-performing loan, risks exposure and the provision for loan loss procedures should include how unrelated categories of difficult loans is examined and deal with.

Finlay (2008) indicates that pressure should be put on loan defaulters at the early stages of the default; this action reminds the defaulters about their obligations towards the institution. In line with Finlay's (2008) assertion, Hinder (2004) urges banks to integrate adequate communication process when retrieving debt in arrears from customers. Accordingly, Finlay (2008) indicated the stages that credit unions can employ to bring down the rate of non-payment or loan default. He indicated that for successful recovery of loans, lending institutions should employ timely arrears interventions, thus they should start the arrears recovery process early. The process should involve regular issuance of firm letters, telephone calls and visitations to the loan clients. Conversely, without arrears intervention in place, Finlay (2008) said that it sometimes becomes difficult to group the customers into

specific categories before decisions are taken on the medium of communication to reach them. With this hindrance, Finlay (2008) suggests that scrupulous expertise is needed by lending institutions in recovering their loans arrears. The arrears intervention system places a great degree of responsibilities and controls on credit management process, because it gives credit control officers a hint to the particular accounts that needs daily monitoring. The day to day monitoring of some selected accounts helps lending institutions to detect debtors who have defaulted early for prompt action. Now, one may question whether banks should employ this system? Looking at how practical this system or process is, Hinder (2004) indicates that there will be a problems of maintaining a friendly relationship with customers after employing this arrears recovery system. Hinder (2004) additionally asserts that banks must behave conscientiously by listening to their borrowers in order to establish the reason behind the arrears and not to harass them. Institutions should retrieve the arrears professionally such that the customers will not feel bad. Therefore, collections of arrears should be done with customer care principles in mind.

The process of dealing with overdue loans instituted by banks should be followed to the later to guarantee the recovery of credit and the interest. When this process does not yield the expected results then, the provided collateral which was used to guarantee the loan should be looked for and invoke the value of the loan agreement concerning the collateral security. Care need to be taken since the security provided can deteriorate and fall in value due to passage of time. As a result of that, lending decisions should not be based absolutely on the financial value of the collateral security. However, when it does occur, there must be clear policy guidelines to follow in order to handle such situation. This policy guideline should incorporate in it, details on how the officer in charge should handle it. The arrears policy and procedure should detail as to who has the authority to make final decision and the kind of decisions that can be made. Hinder (2004) states that when delinquency duration gets longer, maintaining a cordial relationship with the borrower becomes difficult.

However, loan rescheduling as a method in retrieving arrears is being greatly contended recently. Hobbs (2010) shares an opinion that it makes the risk relating to customers worse. Therefore, credit scoring model is a means of classification, whereby data gathered from application of new or extended credit lines are used to group credit applicants into ‘good’ or ‘bad’ credit risk category (Constantinescu et al., 2010). Inkumbi (2009) also said that capital and collaterals that are usually requested by lenders are major hindrances for industrialists who try to access capital. It becomes problematic particularly for young businesspersons who have no money to invest as equity or assets to offer as collateral security for a loan.

Credit Accessibility Indicators

Literature had it that, the effect of bad loans on banks returns on investment/net profit and lending potentials is practically realistic. This literature can be identified from the perspective of foreign and local researches. The findings of Karim et al. (2010), Munene & Guyo, (2013), Obamuyi, (2009), Nawaz et al., (2012), Chelagat (2012), Aballey (2009) and Fidrmuc & Hainz (2009) provide such evidence in a foreign context. A number of studies including Awunyo-Vitor, (2012) & Appiah, (2011) show that bad and doubtful loans adversely affect banks’ monetary progress and lending potentials in Ghanaian prospective. Machiraju (2004) opines that banks have generally centered there lending activities on the five Cs standard in appraisal of borrowers' financial trustworthiness. He proposed the accompanying definitions for the five Cs;

Character: This refers to the borrower's personal qualities, for example, trustworthiness, eagerness to take responsibility for payment of debt. Borrowers who show normal state of uprightness and responsibility to reimburse their obligations are viewed as qualified for credit.

Capacity:This additionally alludes to borrowers' capacity to contain and service debt, judging from the achievement or generally of the endeavour on which the credit facility is utilized. Borrowers who display fruitful business progress over a sensible past period are likewise viewed as ideal for credit facility.

Capital: This discusses the monetary status of the borrower. Where the borrower has a sensible measure of monetary resources in excess of his financial liabilities, such a borrower is viewed as ideal for credit facility.

Collateral:These are resources, typically portable or undaunted property, swore against the accomplishment of a commitment. Examples of collaterals are buildings, inventory and account receivables. Borrowers who use assets to pledge as collateral are often considered favorable for credit facility.

Condition: This refers to the monetary circumstance or condition charming at the credit's season of application. In times of disaster, borrowers discover it entirely hard to acquire credit facility.

This is a key constituent of success in every financial institution. Supporting this, Oesterreichch National bank (2005) laid emphasis on the essence of individual stages in the loan’s management process. A weak credit management system is the reason for many none performing loans (Nishiru and al, 2001).

Credit Management and Controls

Credit management and controls is a very important measure which should not be relaxed at any point in time. Perpetual loan nonpayers are marauders of banks as they are always on the lookout for banks with fragile systems to play their tricks on. It is therefore important for banks to build and maintain a continuous buoyant system that will either expose or cut them

off. Such systems need to be well equipped to be able to continuously monitor individual credits granted, inclusively off-financial position to ascertain the quality of the loan portfolio on daily basis. The system should also incorporate a corrective measure to meet any deterioration that may occur at any time. A system of this nature will definitely help a bank to establish as to whether credits are being paid according to the credit prerequisites. And as to whether the general profile of credit threat is within the boundary established by management and other authorities.

Establishing an effective and efficient credit control system will aid senior staff to monitor the overall quality of their total credit portfolio and its trends. The procedure of credit administration starts by precisely evaluating the credit-quality of a client and his/her business feasibility. This is particularly incumbent if the organization decides to expand some sort of credit line or spinning credit to specific clients. Consequently, putting a fitting credit administration is setting a particular criterion that a client must meet before accepting the proposed credit sequence of action.

Many Microfinance Institutions often employ the 5Cs model for the valuation of the potentials of borrowers (Abedi, 2000). The 5Cs usually support banks to accelerate credit assessment, as they get to know their clients better and fast. Character, Capacity, Collateral, Capital and Condition are the five (5) Cs. It must also be known that the key loan controls, consist of credit committees, delinquency management and that of the design of products (Churchill and Coster, 2001). It is expected that the design of loan product should have features that thwart loan default. Beyond that the credit committees also plays the responsibility of averting default, but where the unexpected happens the delinquency management committee comes in to make sure that such clients are brought to book, where necessary and gets the debts paid by all means possible. Much effort should be put in place to ensure that credit clients pay their loans on time and should further ensure that the act of non-payment of loans is made utterly unpalatable.

Credit Collection Strategies

There are various policies that an organization could implement to make sure that there is effective management of credit. The fact that many clients don’t usually pay the bills of firms in time, it is important to ensure that strategies for credit collection are well designed and implemented. Often time’s customers are either no-payers or slow payers. Much effort should therefore be put in place to double up the speed of the slow payers and as well minimized bad debts, and this should be a principal aim (Kariuki, 2010).

Empirical Review

In other to gain insight into what other learners have written around this study, so as to avoid repetition it is expected that such literature be reviewed to identify gaps and hence concentrate on the cavernous. As a result of that the following empirical review has been done, which consist of a good number of published research work relating to this study.

A study that was led by Afriyie and Akotey (2011) centered on the effect of credit risk management on the gainfulness of a group of banks in Ghana. By utilizing the financial proclamations of ten rural banks from the time of 2006 to 2010 for their investigation, the panel regression model was utilized for the estimation. In the model, Return on Equity and that of Return on Asset were employed as profitability indicators while Non-Performing Loans proportion and that of Capital Adequacy Ratio were used as credit risk management pointers. The discoveries demonstrate a strongly positive connection between non-performance of loans and rural banks profitability, uncovering that there are higher loan misfortunes though banks still make profit. This demonstrates that, banks within the country don't have sound and viable credit risk management practices. Hypothetically, non-performing loans reduce the profit of rural banks, however in circumstance where non-performing loans are expanding proportionately to productivity then it implies that rustic banks don't have compelling institutional measures to manage credit threat. What the banks do is that they move the expense on loan default to different clients as higher premium rate on loans.

A comparative study was directed by Achou and Tengue (2008) on the Qatari saving money industry and their discoveries demonstrate that better credit threat management results in better bank accomplishment. They presumed that, "it is along these lines of pivotal significance for banks to hone reasonably on their credit risk management to shield the bank's benefit and secure financial specialists premium". Achou and Tengue (2008) further presented that lending with solid credit management approaches have a tendency of reducing loan default and net premium salary.

Nair and Fissha (2010) researched on a comparable investigation of the Ghanaian rural banking industry shows that the level of loan misconducts in a rural and communities bank's loan portfolio is frequently viewed as the best driving pointer of the institution`s financial progress. Nair and Fissha (2010) further on established that the rate of credit proportion that was in non-payment was sixteen percent for over one month. This was viewed to be extraordinary and unsuitable, given the worldwide normal rate of three (3) percent for the overall miniaturized scale of managing an industry. Onaolapo (2012) also executed a comparable study. His study probed into the connection between proficiency of the management of credit risk and financial wellbeing in chosen Nigerian banks. Data Collections were for the most part of auxiliary traversing, a six-year period prior and then afterward solidification program of the Nigerian banking industry. The study hypothesized negative relationship between Efficiency of Credit Risk Management; bank growth and operational viability. Gathered information was regressed and unit root test was conducted to confirm request of combination for every time information is utilized. The discoveries demonstrated negligible causation between Deposit Exposure

and growth yet more noteworthy reliance on operational productivity parameters. Examination of stationary belongings directed using Augmented Dickey Fuller shows that all the variables were non-stationary while the pair insightful Granger causality proposed that Deposit Exposure Performance impact was not effective for the commercial banking sector of Nigerian. The recommendations of the policy were made based on the discoveries.

A research by Tetteh (2012) assessed Ghana commercial bank Ltd (GCB) credit risk management methods for the time of 2000-2010. The study aim was to examine the level to which the implementation of different credit management techniques of the bank had lessened the portfolio of bad loans. The researcher utilized a case study method where interview was used to gather views of senior credit officers at the Ghana Commercial Bank on credit management strategies. Besides, the researcher depended on information from the yearly report of the GCB and its policy documents of credit. Data on non-performing loans was also taken from the bank books for the analysis. The results of the study depict that the bank had a clearly written procedure for management of credit risk, whereby an oversight role for the implementation was played by the Board of Directors. Credit amounts at the commercial Bank within different sectors were also realigned depending on the factors within the environment, including microeconomic plans of political regimes, legislation and regulations both new and old, technological advancements and social concerns of markets within the Ghanaian banking industry, and the political regimes.

Achou and Tenguh (2008) in the same way also executed a study on credit management practices and performance of banks of which he established a significant connection between banks progress and that of credit risk management. It was noticed that good credit risk management ends up with better banks performance. Hence, it is crucial for banks to adopt prudent credit risk management approaches in other to safeguard the valuable assets of banks and the interest of investors at large. This could also be true for banks in the Bono East Region. Method used by the researchers was a mixed research method. Matu (2008) executed a study on profitability and sustainability of microfinance institutions, and noted that efficiency and effectiveness were the main challenges facing Kenya on service delivery. Soke Fun Ho and Yusoff (2009), in their research on credit management approaches of some financial institutions within Malaysia realized that numerous of the financial institutions and for that matter banks losses came from total default due to difficulty of clients to meet requirements in connection to trading, settlement, lending and other financial transactions.

Credit threat stems from the association of banks with corporate, sovereign entities, financial institutions, and individuals. A bad portfolio poses a potential credit threat and liquidity challenges. The aim of credit management is to optimize the risk returns of banks by keeping the exposure of banks' credit risk within a suitable boundary. An effective credit risk control is an essential element of the general risk management system of banks and is important for the survival of financial institutions. It is therefore significant for financial institutions such as banks to frequently analyze the risk level of every credit they want to advance, in order to maximize profit. Therefore, it must be understood that effective credit threat management is an essential tool for credit risk extenuation and critical for the future success of financial institutions.

Orua (2009) conducted a research on the relationship amid financial performance and the capital structure of microfinance institutions within Kenya. It was noticed that Microfinance institutions were positively impacted by their short term debts. Though long term debts depict positive connection between financial advancement and that of the capital structure of microfinance institutions, such relationship was found to be insignificant. On the overall, many of the microfinance institutions (MFIs) performed better through outreaching to many clients. It was also discovered that those MFIs also enjoyed economies of scales as they tried to avoid hazards through their threat management ability enhancement. Sindani (2012) also completed a study on the effectiveness of credit management systems on credit performance. The study which centered on the Kenyan microfinance sector found that, institutional formulated credit terms did impact credit performance. Specifically, it was established that the involvement of clients and credit staff in credit terms definition had an effect on loan performance. Interest rates also was found to have an adverse effect on loan progress of the banks, in that, as the interest rates of the credit rises, the lower the performance of the loan.

Generally, the study discovered that microfinance credit threat controls that were adopted, affected credit insurance, loan performance, signing of covenants with clients, customers' credit rating, diversification of loans and reports on financial conditions which led clients to refrain from further borrowing, on the performance of loans. Consequently, the study denoted that loan recovering policies implemented by financial institutions had had an effect on the performance of loans in those banks. Though stringent policy was noted to have a greater effect on the performance of loans, it was realized that lenient policy impact was less.

V. METHODS

Research Design

This refers to a blueprint that guides a researcher on how to organize the research activities (Bryman& Bell 2003). A research design presents a framework or procedure of action for a study. Descriptive research design which offers a comprehensive picture of a circumstance or a situation was adopted with qualitative data collection method. It is normally done in order to determine and describe features or characteristics of the given variable of interest for a certain situation (Cooper & Schindler, 2008). The researchers circulated questionnaires to the staff of five identified banks

within the Bono East regional capital of Ghana on best practice for extenuating loans non-performance. This was coupled with structured interview on the subject matter. The use of structured interview enabled the researchers asked pre-determined questions that were in congruence with the objectives of the study. In addition, the questionnaire was also used to capture short but direct response from the sampled staff. The analysis and conclusion reached emanated from the data gathered through this procedure.

Sample and Sampling Technique

Ten Persons from five Banks were selected to form the sampled population using purposive sampling technique from the total of banks and their employees within Bono East Region of Ghana. Due to the specific needs of the topic of study, only people who were directly involved in credit administration and who as well were readily available to answer the questionnaire and be part of the interview section formed the sample size for the study. Generally, two staff each were selected form National Investment Bank, Consolidated Bank of Ghana, Access Bank, Guaranty Trust Bank and Fidelity Bank.

Sources of data

The study was subjected to both primary and secondary data. Primary data for the study was collected with the help of structured interview and questionnaire. The interview was granted by the staff of the selected banks. Data from the secondary sources included the gathering of information on credit operations from financial statements of the selected banks. These secondary data source provided some useful statistics and information used in supporting the analysis.

Data analysis procedure

Data collected was examined by first cross checking, coding, editing and tabulating. Cross checking was done to ensure that all the questions on each questionnaire and the structured interview were well answered. Coding was carried out to have the data in the "Statistical Package for Social Science" (SPSS) format for execution. Editing was performed to discover and eliminate errors in the collected and the coded data. Tabulation was done to have processed information in a summarized form. Data was analyzed with the research objectives in mind. For the purpose of this research, data collected from the banks were analyzed with the help of SPSS, using descriptive statistics (ie frequencies, means, standard deviation, mean error and percentages) and inferential statistics (correlation, Chi-square and T-test analysis).

VI. DISCUSSION AND FINDINGS

TABLE 1: BACKGROUND, QUALIFICATION AND EXPERTISE OF LOAN ADMINISTRATORS

Variables		Qualification			%
		Diploma	First degree	profession	
Age	20 – 29	1	2	1	**40**
	30 – 39	1	4	0	**50**
	40 – 49	0	1	0	**10**
Position	Manager	0	2	0	**20**
	Credit Officer	1	5	0	**60**
	Others	1	0	1	**20**
Experience	0-2year	1	3	1	**50.0**
	3-4year	0	3	0	**30.0**
	5-6years	1	1	0	**20.0**

The illustration above shows that most of the respondents' ages were within the category of 30-39 representing about 50%, follows by those within 20-29 which is about 40% and lastly 10% within 40-49 years. On the overview, majority (60%) of the respondents were credit officers of their financial institutions whose role purely centered on loan activities. This is followed by 20% of the respondents who were managers of their financial institutions. Though they are managers, their explanation showed that they have a significant oversight role in credit granting and ensuring the recollection of loans given. Subsequently, 20% of the respondents who identified themselves as marketers, front desk officers among others indicated that they doubled up as credit officers and do play that dual role. It was noticed that majority of these officers were degree holders followed by those with diploma qualification and eventually some few others with professional qualification background. Consequently, the study unearths that most of the respondents had worked with their institutions from 0-2years; this constituted about 50% of the total respondents. This is followed by 30% of the respondents who had worked within 3-4years and lastly 20% with 5-6years working experience. Though majority of the respondents had worked fewer years with their current employers, every respondent had a number of years of work expertise in granting and collection of loan. In line with this Hobb (2010) asserts that banks with staff that have the needed skills and expertise to understand loan appraisal processes are good at curbing credit default.

TABLE 2: CREDIT ACCESSIBILITY HINDRANCE & REMEDY

	Variables	Qualification			%
		Diploma	First degree	Profession	
Credit constrains	Client age	1	1	0	**12.5**
	Customer History	1	1	0	**12.5**
	Stringent policies	0	1	1	**12.5**
	Purpose of loan	1	2	1	**25.0**
	Loan Amount	0	1	0	**6.3**
	Cash Flow	0	3	2	**31.3**
Constrains remedy	Education	1	2	1	**28.6**
	Good business plan	1	4	1	**42.9**
	Effective credit Unit	1	1	0	**14.3**
	In-service training	0	0	1	**7.10**
	Interest rate reduction	0	1	0	**7.10**

The survey revealed cash flow of clients as the main hindrance to loan accessibility of banks within the Bono East region. This constituted about 31.3% of the total responses from credit administrators who responded to the questionnaire. It was noticed that many clients who needed loan were people with bad cash flow pattern. In this instance banks doubt their credit worthiness and in most cases deny such clients loan. The study is in congruence with the finding of Thomas (2009) who indicated that when assessing the affordability of a borrower it is their lack of cash flow and not assets that causes loan default in institutions. The purpose for which a client is seeking for a loan was noticed to be the second hindrance for credit accessibility representing 25% of the overall reply received from the respondents. It was explained that many of the clients apply for loan with no business plan; some seek for the loan to apply it on non-profitable ventures. In either of these cases clients were seen as candidates for loan default. Other variables such as the historical background of customers (i.e. savings, loan, behavior), stringent polices surrounding loans granting and the purpose for which a client is seeking for a loan were noticed to be at a level ground representing about 12.5% each of the total responses. Finally, the amount of loan a client applies for was identified as the last constrain to credit accessibility representing about 6.3%. The survey noticed that some clients applied for loan above their financial capacity, which turns to be a hindrance. It was realized that in the case of salary earners, some of them apply for loan at the time that they have already taken loan from two or more banks of which their monthly net salary disqualifies them for the amount they are seeking. Literature agrees with the finding of this study as Ahiable (2012) emphasized that factors that influence access to credits include stringent policies, client history and cash flows of clients. In other to mitigate these hindrances, majority (42.9%) of the response show that getting good business plan in place could facilitate easy credit assessment. It was also noticed that education of customers on how to access loan and on how to be qualified for credit is the second (28.6%) solution for credit accessibility related problems. It was acknowledged that getting an effective credit department in place could also address the menace labeled in credit accessibility, which constituted about 14.3% of the total response. Consequently, in-service training and reduction of interest rate were identified with the least (7.10%) contribution to credit denial. Consequently, the study subscribed to the results of Ahiable (2012) who posits that management should ensure that collateral agreement is signed, look at the viability of the business plan and the past financial statements of client before taking a decision on the credit worthiness of a client.

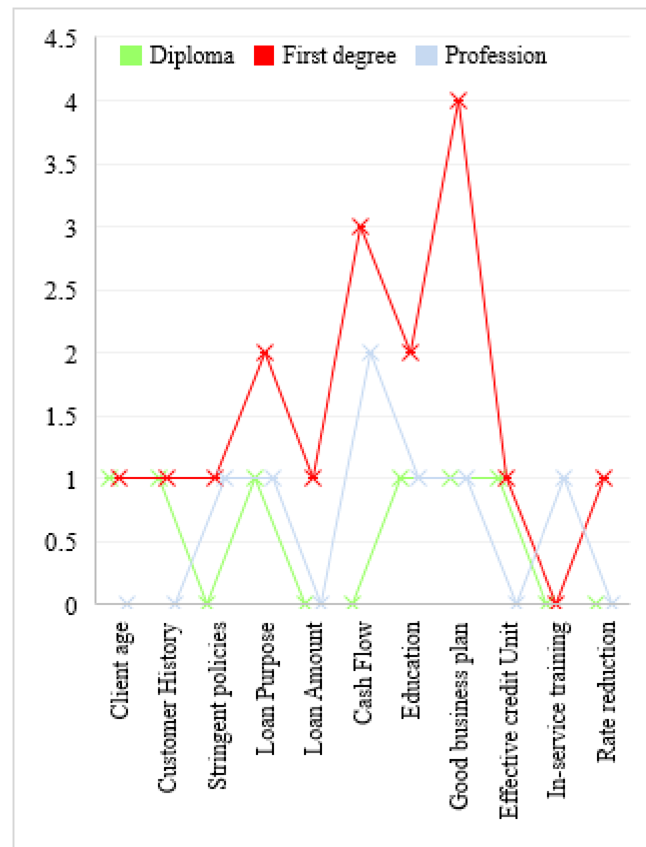

Figure 1; Credit access determinants & remedy

TABLE 3: RATING OF DETERMINANTS OF CREDIT ACCESSIBILITY

Variables	Class	Qualification			%
		Diploma	First degree	Profession	
Savings pattern	Not important	0	1	0	**10**
	Neutral	0	1	0	**10**
	Important	2	3	1	**60**
	Very important	0	2	0	**20**
Job Security	Neutral	0	3	0	**30**
	Important	2	2	1	**50**
	Very important	0	2	0	**20**
Wage/Salary	Neutral	0	1	0	**10**
	Important	2	3	1	**60**
	Very important	0	3	0	**30**
Savings balance	Not important	0	2	0	**20**
	Little important	0	1	0	**10**
	Neutral	1	1	0	**20**
	Important	0	2	0	**20**
	Very important	1	1	1	**30**
3rd Party Guarantee	Little important	0	1	0	**10**
	Neutral	1	1	0	**20**
	Important	1	4	0	**50**
	Very important	0	1	1	**20**
Delinquency	Neutral	2	1	1	**40**
	Important	0	4	0	**40**
	Very important	0	2	0	**20**

The survey brought to the noticed of 60% of the respondents who rated saving balance of client as an important determinant for credit accessibility with additional 20% who rated it as very important. Notwithstanding that, 10% and another 10% of the respondents labelled it as neutral and not important factor of credit accessibility respectively. Job security was marked important and very important by 50% and 20% of the respondents respectively. Meanwhile 30% of the workers did not declare their stand on job security determinability of loan access. Similarly wages and salaries level of loan applicant was rated important by 30% of the respondents, very important by 20% of the respondents, neutral by 20%, not important by 20% and little important by 10% of the respondents. Third party guarantee was also rated important by 50% of the respondents, very important by 20%, neutral by 20% and not important by 10% of the respondents. Loan delinquency was rated important by 40%, neutral by 40% and very important by 20% of the overall respondents.

TABLE 4: RATING OF DETERMINANTS OF CREDIT ACCESSIBILITY CONTINUATION

Variables	Class	Qualification			%
		Diploma	First degree	Profession	
Affordability Calculator	Neutral	0	2	0	**20**
	Important	0	3	1	**40**
	Very important	2	2	0	**40**
Client loan history	Little important	0	1	0	**10**
	Neutral	1	1	0	**20**
	Important	0	2	1	**30**
	Very important	1	3	0	**40**
Loan with others	Neutral	1	2	0	**30**
	Important	0	2	0	**20**
	Very important	1	3	1	**50**
Loan outstanding	Neutral	1	2	0	**30**
	Important	0	2	1	**30**
	Very important	1	3	0	**40**
Shares to loan ratio	Not important	0	1	0	**10**
	Little important	0	1	0	**10**
	Neutral	1	1	1	**30**
	Important	0	2	0	**20**
	Very important	1	2	0	**30**

The study further denoted that 40% and another 40% of the respondents rated affordability calculator as important and very important determinant of credit accessibility respectively, while 20% of them remained neutral. On client loan history, 40% of the respondents believe it is a very crucial factor that determine credit accessibility, 30% said it is important, 20% neutral and 10% said it is of little important. A loan applicant credit portfolio with other banks was ranked very important by 50% of the respondents, while 30% of them remain silent on it, 20% of the respondents said it is a

significant determinant. Similarly, a client loan outstanding balance was held very important and important by 40% and 30% respectively, while 30% of the respondents maintained neutral. The study unveiled that while 30% assumed a silent position, another 30% of the respondents emphasized that shares to loan ratio is a very important factor that determines loan accessibility. Adding to that while 20% of the respondents acknowledge shares to loan ratio as an important factor, 10% and another 10% saw it to be of little important and not important factor respectfully. On the overview the factors that determine credit accessibility were rated from very important to not important as follows; affordability calculator, client loan history, client loans with other financial institutions, loan outstanding and client share to loan ratio. It is significant to notice that existing literature (Hobbs, 2010) and majority of respondents to the survey deem the use of these tools essential for credit accessibility.

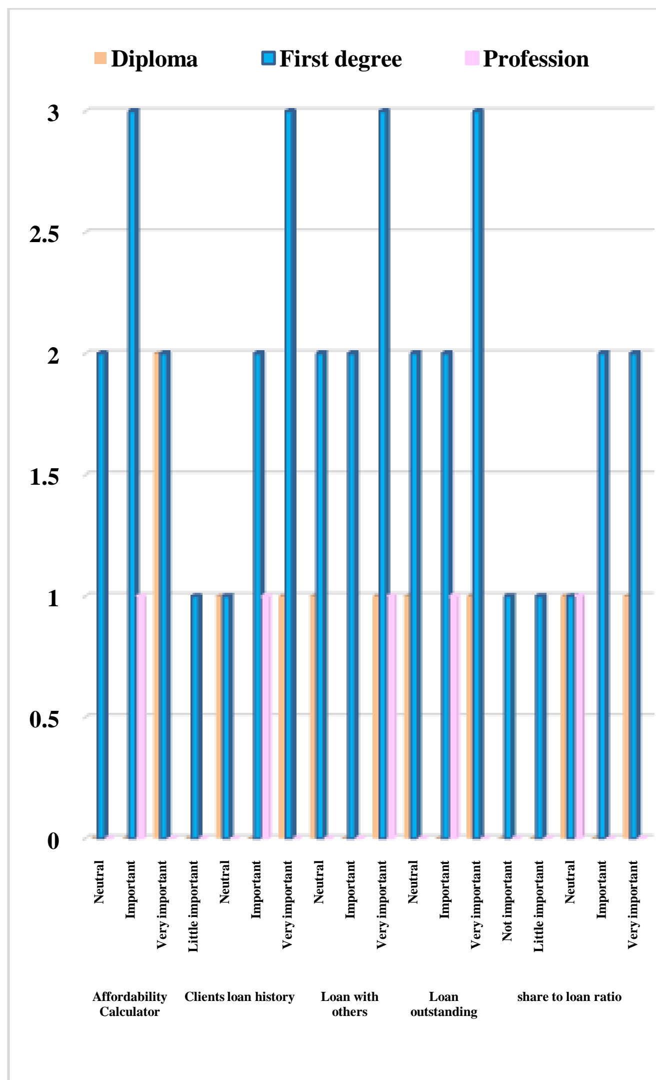

Figure 2: Credit accessibility determinants rating

TABLE 5; CREDIT RISK CONTROL MEASURE

Controls	Frequency	Percent (%)
Internal guidelines compliance	5	**26.2**
credits application completeness	4	**21.1**
collateral agreement & credit signing	6	**31.6**
Client compliance confirmation	4	**21.1**
Total	19	100.0

The study depicts that the best practice for controlling credit risk is by signing of credit collateral agreement. This was attested by 31.6% of the overall respondents. Respondents indicated that clients usually attach much importance to their properties pledged as collateral for loan facility. And for the fear of losing it, will normally settle the loan for the reason that its value is higher than the credit taken. This was followed by internal guidelines compliance of which 26.2% of them designated that where credit officers employ due diligence in their work in that the follow all the internal guidelines for granting of loans, credit risk is controlled. When it comes to ensuring a collection of affidavit and credits application form completeness, an equal proportion of 21.1% of the respondents agreed that it was a sure path of curtailing credits from going bad.

TABLE 6; CREDIT CONTROL PROCESS IMPROVEMENT

Variables	Frequency	Percent (%)
Training	2	**10.5**
Effective Monitoring	9	**47.4**
Internal Controls improvement	3	**15.8**
Initiate Legal Process Early	1	**5.3**
Provide remainder letters early	4	**21.1**
Total	19	100.0

The illustration in the table above depicts that the optimum medium of improving upon credit risk control processes is through effective monitoring of credit clients before, during and immediately after credit is grant. The confirmation was done by 47.4% of the overall respondents contact during the study. Subsequent to that, 21.1% of the respondents made mentioned that sending of remainder letters early and within a good interval to clients could prevent credit default. Another 15.8% of the respondents demonstrated that looking into internal credit control processes and reengineering the controls process could contribute to the improvement of internal credit controls and for that matter could thwart the tendency of credit default by extension. While 10.5% of the respondents believed that the best way forward is giving good and up-to-date training to loan administrators on credit related issues, 5.3% of the respondents remaining said that initiating legal processes early enough against loan defaulters or potential loan defaulters could solve the catastrophic.

TABLE 7; CREDIT COLLECTION STRATEGIES

Variables	Frequency	Percent (%)
Establish payment guidelines	7	**41.2**
Prompting clients of payment deadlines	1	**5.9**
Write notice to debtors very often	6	**35.3**
Seek legal advice	3	**17.6**
Total	17	100.0

Majority (41.2%) of the staff of the selected banks within the Bono East Region alluded that establishing payment guidelines for loan clients is an effective strategy of credit collection. Following that, 35.3% of the respondents stated that writing to notify loan debtors of their debt status very often is an effective strategy of credit collection. They explained that many clients believe that when a bank begins to write to them, it is a way of gathering evidence to later prosecute them, and will normally try to pay off their loan to avoid court issues. Another 17.6% of the respondents were of the view that seeking legal advice far in advance of credit default is an effective way of collecting credit from loan clients. Lastly 5.9% of the respondents subscribe to prompting clients of when to make payment as a good strategy of credit recovery. Obviously it is good for banks to establish clear guidelines for loan repayment; explain them very well to clients and constantly reminds them from time to time.

TABLE 8; BAD DEBT DECLARATION

Variables	Frequency	Percent (%)
Debtor demised	6	**37.5**
When the debtor absconds	4	**25.0**
Negligible debt economic benefits	1	**6.3**
Debtor insolvency	3	**18.8**
Imprisonment of debtor	2	**12.5**
Total	16	100.0

A greater (37.5%) number of the sampled staff of the banks stated that a credit granted to a client is only declared bad when the client is dead. Following this was 25% of them who also said that it is when a loan client flees away and cannot be located, that the debt is labelled bad. Adding to that, 18.8% of the respondents made mentioned that when a debtor is declared insolvent by a law court his/her debt automatically becomes bad. While about 12.5% of the sampled staff were of the view that debt becomes bad when a client is convicted and imprison, about 6.3% of the respondents remaining indicated that credit granted to clients become bad when the economic benefits for pursuing to recover it, is less than the cost that will be incurred in the recovering process.

Summary

The principal goal of the study was to assess the credit management practices of selected banks within the Bono East Region of Ghana. The study specifically focused on these objectives; 1) Determining the factors that influence access to credit from banks within the Bono East region, 3) Critically assess the credit management and control policies of banks within the Bono east region by observing how the process is conducted, monitored and updated, 4) Analyze the credit recovery strategies of the banks in the study area. In terms of methodology, the study employed purposive sampling method for drawing sample from banks and staff for data gathering and completion of the research. SPSS was used for the data analysis. Chi-square and descriptive analysis were performed on data obtained for the study.

With regard to findings it was noticed that aside some few respondents who act as credit administrators as an added on role, majority (60%) of the respondents were purely credit officers, meaning that their key role in the banks centered on loans. While many of the respondents were first degree holders, above 50% of them had 0-2years working experience with their current employer.

Adding to that the study in an effort to identify factors that determine loan accessibility, 31.3% of the overall respondents made mentioned that cash flow is the determinant of a client chance of accessing loan from banks. Meanwhile the staff (42.9%) believes that where a loan applicant is in possession of a good business plan, it facilitates easy access to loan. In other to get to the depth of this matter, respondents were asked to state how important a list of loan determining factors were in their various banks. The results depict that loan affordability calculation, savings pattern, collateral security availability, wages/salary level, loan history with them and otherbanks among others, were the important factors respondents take into consideration when appraising loan.

In other to establish how loan is managed and controlled throughout its circle, 31.6% of the total respondents indicated that collateral with an affidavit pledging it against a loan is an effective way of preventing loan from going bad. To buttress this, 47.4% of the respondents made mentioned that effective monitoring of loan right from the day of granting it till the day full payment is received for it and any accrue interest is a sure way of avoiding loan default.

Going further, the study identified establishment of payment guidelines (41.2%) for clients and sending of written notice (35.3%) to loan clients as appropriate strategies for collection of debt from loan clients. It was explained that when people understand the payment guidelines and deadlines through regular reminding, it is most likely that such clients will pay their loan promptly. Moreover, most of the respondents made mentioned that every loan is considered good until the client demised or abscond, when then such loan is declared bad.

VII. CONCLUSION

Base on the main outcome of the study, the proceeding conclusions were reach on the various objectives of the study; Good business plan and cash flow pattern are the leading factors that determine accessibility to credit facility from

banks within the Bono East Region. If only clients wish to access loan easily for their businesses and real life activities, they should first ensure they have either a viable business plan and or good cash flow. To ensure proper management of loan, collateral with affidavit sworn by loan client should be used to cover the loan. Coupling with that, effective monitoring of the loan right from the day the loan is grant till the day it is fully paid is required. Eventually, sending of written reminding notices to loan clients as well as making credit deadlines and payment guidelines clear,are effective strategies for recovery of credit.

VIII. RECOMMENDATIONS

The study probed into the credit management practices of banks within the Bono East including credit recovery strategies. It was realized that clients who collect loans from financial institutions without collateral security signed, easily default with higher percentage of such portfolio most likely to turn bad. It is against this background of the findings that the study recommends that management of banks must come up with a credit risk management policy that cuts down drastically the approval of loans which has the potency of becoming doubtful or bad in the long run, by way of taking collateral securities from clients. Through such a policy, the amount of risk associate with the granting of credit facility to borrowers will be greatly reduced.

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