COMPUTERISATION OF LENDING AND CREDIT CONTROL / ADMINISTRATION IN NIGERIAN BANKING SYSTEM.

(A CASE STUDY OF UNITED BANK FOR AFRICA PLC MINNA)

BY

ABOI EMMA SULE

PGD/ MCS/264/94/95

DEPT OF MATHS/ COMPUTER SCIENCE
FEDERAL UNIVERSITY OF TECHNOLOGY MINNA.

MARCH, 1998.

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A PROJECT SUBMITTED TO THE DEPARTMENT OF MATHEMATICS / COMPUTER SCIENCE FEDERAL UNIVERSITY OF TECHNOLOGY MINNA

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF POST-GRADUATE DIPLOMA IN COMPUTER SCIENCE.

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APPROVAL PAGE

This project has been read and approved as meeting the requirement of the Department of mathematics & computer science

Prince .R. Badamasi
Project Supervisor.

Date

Dr. K.R. Adeboye
Head of Department

Date

External Examiner

Date

DEDICATION

This project is dedicated to my immediate family. Most especially my mothers- Mrs Swanta and Mrs Ladi; wife and Daughters -Vicky, Ya'alyen and Kubai and my beloved younger ones-

Brothers and sisters I salute your patience, courage and understanding at this crucial time.

ACKNOWLEDGEMENT

To the Almighty God, I praise you o lord for giving me the ability to complete this programme despite all odds.

For my Supervisor prince R. Badamasi, thank you very much for sacrificing your valuable time in going through this project. Dr Adeboye my able Head of Department Sir, I treasure your professional guidance and advice in my heart. May your family be always covered by the blood of our living Christ. Amen.

With deep remorse I passionately continue to remember the following who were of immense assistance to me - financially and morally during this course. They include

MR ODAODU -NSITF ABUJA

MR ALADE (DUBMASTER) INTERCITY BANK MINNA

MR OBAJU - NSITF, ABUJA

MR IBRAMA- CBN, MINNA

MR BAYO - CBN , MINNA

MR SHINA - NBEM, MINNA

MRS.

Others, I cannot mention here please forgive me. However it IS my sincere prayer and hope that of you and Families continues to Pasture in the evergreen vineyard of God Amen.

Aboi Emma Sule
March 1998

ABSTRACT

The essence of computerising credit control/ administration in all banks should not be a new idea in the banking system. This is because lending forms the core business of any profit - oriented bank. Most banks have created separate departments for this purpose. Some even engage the services of professionals like lawyers and Accountants to take charge of them. Commercial banks that have negated this noble course have to either batter for their future survival through costly and empty result-yielding efforts on recovery of bad debts, or may have their names delisted from the "roll-call" of healthy banks. Hence if declaimed distressed the consequences amongst other include high volume of non- performing credits. Most of these could be as a results of the frivolous activities of a very few dubious management staff and other staffers of the bank.

In this write-up efforts will be made to explain the need for banks to embrace modern techniques in credit control administration. The need for regular training and re- training of personal in this department (both in - house and external) More so, the need to fully computerise this department to improve on its effective and efficient operations will equally be viewed.

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CHAPTER ONE

1:0 INTRODUCTION.

1:1 EVOLUTION OF MONEY

In the simplest societies there was no money. Self - sufficiency prevailed, with each family or tribal unit producing for its own needs, enjoying the plenty of autumn and enduring the poverty of spring. Many tribes developed special adaptations to survive hard times like putting fatly tissue around their buttocks, where vast meal eaten in prosperous times can be stored as fat for survival in less happy situations.

Trade began as "silent trade". The successful hunter would leave his bush - meat outside his house under tree. The farmer who accepted the meat would leave agricultural produce in exchange, which the hunter would collect, unseen, at nightfall. Later, a system of open barter developed. This is the exchange of goods directly for other goods, and it presented quite serious problems to the parties trading.

When we live in a community where specialisation is the rule, so that every single thing we need has to be obtained by exchange, the difficulties of barter system become so onerous that a "money" system has to be developed.

As society developed, specialisation grew. The only sensible way to create wealth was to concentrate on mastering particular skills, and develop real facility in a trade or service. In situations where the best hunter hunted, the best farmer tended his flocks, the goldsmith worked all day in his smoothly in short, where production was indirect and not direct - exchange became important, and a medium of exchange i.e - money- had to be developed. It enabled someone who had contributed usefully to the creation of wealth in one field -as a baker, farm labourer, chemical engineer, e.t.c - to claim a balanced `basket of resources' from a variety of other areas. The chemical engineer exchanges the money earned by his labour in the oil fields for bread, meat, yam, accommodation entertainment e.t.c produced by other workers.

The dawn of money system saw many strange objects being used as a medium of exchange. Shells for adornment, semi-precious stones, nails, hides and skin jewellery had been used as money.

1:2 MONEY AND THE DEVELOPMENT OF BANKING.

As economies grew the need for a really advanced money system increased. The use of coins made from metals of intrinsic value, such as gold, silver and copper were for centuries the solution to money problem, but even these were not without their disadvantages. Nations because more powerful by accumulating precious metals. This they tried to achieve by selling more abroad then was purchased, the balance being taken in precious metal.

The first bankers in Britain began operating as early as the twenty century. They were Lombards from the plains of Lombardy in Northern Italy. Here had grown up a group of independent cities called the lombard league. Merchants and traders from this cradle of European liberty came to do business in the city of London, and their home, Lombard street, was still the centre of British banking . The Lombards, after a century or so of business in London, were eventually made bankrupt because they lent money to kings who did not repay the loans.

After the departure of the Lombards, banking came to be considered by the goldsmiths as a sideline to their normal activities in the bullion and Jewellery fields. The early goldsmiths had large vaults which were soundly built and heavily guarded. The idea grew up of letting one of these goldsmiths take care of your wealth if you had more than you could safely defend yourself.

The person who deposited his surplus funds with the goldsmith became known as a depositor and naturally paid for the privilege of having his money defended in this way.These payments were the first "bank change". The depositor who needed funds, to pay wages or debts, could call at the bank and collect such sums as he required.

Before long, it became clear that unnecessary risks were being run by depositors who needed to pay money to creditors. The depositor had to collect the money and deliver it to the creditor who promptly had to return it to the bank. Why not simply order your banker to transfer funds from your deposit to the creditor's? This was the origin of the cheque system. A cheque is an order to a banker to pay money from your account to, or into the account of, another person without the need for the money to have the safety of the bank.

1:3 EVALUATION OF BANKING IN NIGERIA.

The supply of banking services in Nigeria dates back to 1892 when Elder dempster company was engaged in the business of moving coins up and down the country. Later that year African Banking corporation was formed to provide banking services to Elder dempster company. The Bank failed in 1892 and was take over by bank of British West Africa in 1894. Up to 1928 more banks - all of then overseas banks - opened offices in Nigeria and monopolised banking business, following the discriminatory practices by the foreign banks especially as regards credit policies and management, some notable Nigerians grouped themselves together with the aim of breaking the monopoly funds deposited by Nigerians were used to support expatriate firms or sent abroad to develop their economies. Investment and meaningful development in the country were therefore lacking.

Between 1929 and 1951 many indigenous banks were opened. Mismanagement, aggressive competition by the foreign banks and under-capitalization were the main reasons for their failures. A few of the banks survived despite the odds against them. The Central Bank of Nigeria was established in 1958, and started operations on 1st July, 1959, As a result of indigenisation and the oil boom of the 1970s, more commercial, merchant, and development banks spraing up

(UBA PLC inclusive) in the country. This trend has continued through the 1980s and 1990s with the establishment of community banks and other finance houses as additions to the nest of banking system in Nigeria.

1:4 BRIEF HISTORY OF UNITED BANK FOR AFRICAN PLC.

The united Bank for African Ltd was incoporated in Nigeria as a public company on 23rd February 1961 by a consortium of five major international financial institutions to take over the banking business carried on in Nigeria since 1949 by the British and french Bank Ltd (a subsidiary of a French Bank now known as Banque Nationale de a Paris). The Bank received its licence on 17th may, 1961 and commenced business on the 1st October of same year.

The Bank is active in all aspect of Commercial Banking including the operation of current account, deposit and savings accounts, short and medium term financing to industry commerce agriculture housing and government bodies. In addition the bank provide international banking, share registration, corporate finance and computer services through specialised departments.

Aggressive promotion of business in these areas and a willingness to innovate has earned the bank a leading position in the banking industry with branches spread nationwide.

As a result of a public share issue in 1971 and the acquisition of shares in the major banks in the country by the federal ministry of finance in 1973 and 1976, Nigerian interest. then stood at 60% of the share holding, four of the founding international consortuin of banks namely, banque nationale de Paris, Bankers Trust company, New york, Bank Nazionale del Lovoro and Moute dei paschi de siena, who together owned 40% of the share holding. However with government privatisation policy of 1992, United Bank for Africa Plc is now wholly owned by Nigerians. The Bank maintains correspondent relationship with many Banks in Africa and most countries of the world.

1.5 INTRODUCTION TO LENDING

Lending forms the spinal-cord of any profit-oriented financial institution earlier banking which was a system for taking care of money was soon supplemented by a more profitable activity-lending. By then goldsmiths had noticed that only a very small proportion of the funds of each deposition were in use regularly, being drawn out and paid in as payment and deposit simultaneously. The proportion left on permanent deposit were for above average deposition's funds It seemed sensible to lend some of this money to people anxious to borrow for commercial and industrial purposes.

However, in lending out these surplus funds the banks took a more sophisticated view of only the unused balances and merely regarded them as funds available for lending. Such bankers who unwisely lent more than they had safe to lend were at times caught with depositors asking for their money back at a time when the bank had already lent the money out to someone else. Bumours of bankruptcy could caused panic in the country side. To curtail such an unfortunate occurrences and allow for greater prudence banks are usually required by the regulatory authorities to maintain a mandatory liquidities ration with the apex bank of the country.

Banks creating credits also need to pursue sound credit polices, the two requirements for which are:-

a. That the depositor whose funds are being used shall be content to leave them on deposit without making sudden demands upon the bank. To encourage this it is usual to pay him interest on the deposit.

b. That the borrower shall be credit worthy, and shall offer- If requested some form of security. This may take the form of guarantee from some credit-worthy person, or deeds of a house or piece of land, life assurance policy, stocks and shares, it is therefore the uncertainty and risk on repayment on the part of the borrower that informs of a bank to evolve and maintain a sound and responsive credit control department that could cope up with the challenges ahead.

1.6 INTRODUCTION TO CREDIT RISK CONTROL /ADMINISTRATION

Banks manage depositors funds in such a way as to achieve the triple objectives of liquidity, safety,and income. Achieving these objectives while still creating credits entails a lot of risks no the part of the banking and financial institutions. As stated earlier lending of deposited funds to those who require them implies risk taking by the lending institutions. It is worth differentiating here risk and uncertainty. Risk could be defined as the measurable uncertainty involved in any decision-making, be it credit granting or not. Uncertainty on the other hand is different from risk because its occurrence of impact cannot be measured and therefore cannot be adequately taken care of in a decision-making process. The degree of measurability therefore distinguishes risk from uncertainties.

Lending, like most other business activities are prone to two types of risks and these are generally called the dynamic and pure risk. Dynamic risk occurs in the normal course of business activities. An investment being financed with credits from a bank may decline in value as a result of a negative swing in the business cycle, technological changes in the mode of production and distribution, unexpected competition from producers of substitute products; death of major shareholder or owner, sudden demands in the borrower's products without compensatory payment for the products e.t.c. All these could lead to the borrower being unable to generate their projected cash flow with which to meet the repayment schedule. Pure risk on the other side can arise as a result of natural causes like war, fire outbreak, drought in areas not prone to drought, robbery, arson, e.t.c.

The resultant unpack of all these is the inability to meet the repayment schedule as planned because of poor cash flow. When this happens the concerned bank will have an accumulation of bad and doubtful debts and therefore will be unable to meet their statutory functions in order to reduce to the barest minimum the dynamic risks associated with credits, most banks should create credit departments fully staffed with specialists called credit Analysts. The job of these specialist is to do a thorough analysis of each loan application bearing in mind all the anticipated risks that may render the loan repayment as per the repayment schedules untenable. Only those that scale the tests should normally be recommended for the approval to the appropriate authorities. A good credit appraisal would normally follow the canous of good lending. However, each bank or lending institution adopt these to suit its own peculiar requirements. I will elaborate on some of these salient points in my subsequent chapters.

1.7 SIGNIFICANCE OF THE STUDY

The essence of this study is to evaluate the lending activities of commercial banks and the roles they actually play in the development of the nation.To highlight how putting in place a well co-ordinated credit risk control Department could enhance not only their success, but also improved efficiency. Equally, it is intended to show reasons why credit Analysts should always do a thorough analysis of each loan application. This is because their recommendations would normally influence management decision-making process in giving approvals with their attendant implications.

To united bank for Africa Plc efforts will be made to have an overview of the existing lending procedures with some possible suggestions on areas on improvement which if adapted may allow for accelerated income generation and growth.

1.8 AIMS AND OBJECTIVES OF THE STUDY.

Some of the aims and objectives of this study include amongst others:-

1. To appraise the need for using computers for processing credit requests.
2. To revisit some of the basic tools to be adopted in credit analysis.
3. To recount some of the lopeholes usually negated by management that could result to having increased volume of bad and doubtful debts.
4. To stress the need for adhering strictly to the requirements of prudential guide lines.
5. To recommend some of the training and re-training programmes required by credit officers.
6. To advise management on the need for regular monitoring of all credit port-folios this could be achieved by ensuring prompt and proper rendition of periodic returns from branches and also through regular visitation/inspections.

1.9 SCOPE AND LIMITATIONS

This project is intended to cover only an integral but very vital aspect of banking i.e lending and credit control. In the past most procedures involving this aspect were handled manually resulting to time wastage and delay in decision-making process. basically nearly all procedures in respect of lending and credit control in United Bank for African Plc are same in their branches nationwide. Therefore this project will be limited to Minna branch because of the following:-

a. That all lending and credit control activities are dictated at the Head office.

b. That to sample another data whole some from two different branches will make the write - up cumbersome and may not make any difference.

1.10 METHODOLOGY.

Sourcing information for this project was not an easy task. This was partly due to existing employee's fidelity bond with his employer on voluntary divulgence of information to a third party without any implied or express permission. However, after series of persuasions and upon conviction that the required information was for an academic exercise, one was able to gain the co-operation of the staff.

For purpose of having a well blended project direct interviews were conducted with some other credit officers and Bank Managers to test their personal knowledge and awareness of the enormous gains of computerising lending and credit control department of their branches/banks.

Extensive research consultation were also carried out in text-books relating to money and banking, Banking and finance, and other management services which I intend to have a detailed review un my subsequent chapter - literature review.

ORGANISATIONAL CHART OF UBA PLC, MINNA SOURCE: UNITED BANK FOR AFRICA PLC MINNA.

The Branch manager is charged with the entire running of the branch. He ensures a proper co-ordinated activities within the other units/departments. He reports directly to either Area / Regional / or Head office.

The Branch accountant is the operations officer. He oversees the daily operations of the branch and reports to the Branch Manager.

The credit officer Heads the credit department. Technically he is a staff of credit control department domiciled at the heads office. operationally he reports to the Branch Manager.

Cash/vault administration, current/deposits and foreign exchange services Department are headed each by an officer. The detailed functions of these department have been discussed earlier.

Tellers are personnel engaged in daily cash receipts and payments.

Entries sections processes daily intra and inter funds transfer transactions.

CHAPTER TWO

2.0 LITERATURE REVIEW.

2.1 DEFINITIONS OF LENDING/CREDIT

A.S. Hornby Advanced learners English dictionary defines lending as the ability "to give somebody the use of something, for a period of time on the understanding that it or its equivalent will be returned."

Femi Adekanye in his book practice of Banking Vol 1 which analysing what entails lending expounded that every lending proposition must be so good that the question of security becomes secondary. He advised that inspite of all the myriad of controls, regulations, and guidelines in respect of bank lending in Nigeria, banks should exercise care and prudence in their lending activities. When a bank manager or lending officer is approached for a loan or overdraft facilities, he should obtain satisfactory answers to some basic questions which he described as the canons of lending: These are:-

1. How much does the customer want to borrow?
2. Why does the customer want bank finance? In other words,what does he want it for?
3. How long does he want it fir?
4. How does he intend to repay?
5. Is the customer's business financially strong enough to keep going if his plans suffer a set back?

6. What security can he offer?

7. What is your assessment of the customer?

- ***Amount***

The customer is expected to be able to determine fairly accurately how much finance he requires. He should, therefore submit a cash budget. The capital resources of the borrower will also have to be determined corporate accounts are required to submit their financial statements for a particular number of years to assess whether their business is growing in strength or show signs of financial strain.

It is also necessary to evaluate the adequacy of the amount required is the bank asked to lend too much or too little? The customer's contribution to the project is very important.

- ***Purpose of the Loan***:

It must be emphasised here that commercial banks specialise in short-term loans. It is only in rare cases, that they agree to go into medium and long-term finance. However, the momentary authorities always encourage banks to provide both short - term and medium term finance to what is termed 'preferred sector' that is manufacturing, agriculture, and construction sectors. Commercial banks that have flouted these directives in the past and laid emphasis on the 'less preferred sector' encompassing domestic trade import, personal and professional loans were penalised accordingly.

- ***Period of the Repayment***

Most commercial banks basically accept deposits repayable on demand or at short notice, so they cannot afford to lend in the long term. Banks are prepared to grant working capital finance repayable on demand or renewable every year. This is generally done by overdraft, where by a `Limit' is granted up to which the customer can draw. If speedy means of repayment are not visual, the borrower may be advised to seek more permanent finance elsewhere.

However it is words mentioning that some leading commercial banks have now set up corporate finance departments to make medium - term loans available to a wide range of corporate customers.

This is a crucial point. Repayment pre-occupies the heart of every Bank manager or Lending officer on any loan proposition. A borrower should be able to demonstrate clearly that the additional finance if granted him with assist in the growth of his business and generate enough profit with which he can comforably cope with arrangements for reducing the borrowing steadily. As repayment of every loan or advance is expected from future earnings, a borrowing customer must be able to submit a simple cash budget. A cash budget gives a monthly

2:1 ***Continued***

Estimate of all future cash receipts and payments and also the estimated closing bank balance at the end of each month for the period for which it is prepared. In the case of business customers, the bank will require in addition to the cash budget, projected profit and loss account and a projected balance sheet of the company forthcoming year. For large corporate customers, a five- year business plan and financial projections may be required.

Another very important factor that must be considered is the ability of the customer to manage his business efficiently

- ***Strength of the business:***

The bank should scrutinise all relevant documents submitted by the borrower and compare same with the trends in the customers account. Later a meeting with the customer should be arranged to clear any outstanding questions and doubts. The customer should be out line details of his financial planning and control system. It is after this meeting that the bank can determine the inherent strengths and weaknesses of the business and whether it is formidable enough to withstand any setback as a result of change in plans.

- ***Security:***

The ability to produce tangible security is not the most important criterion for granting, credit facilities as the offer of collateral security does not weaken the need for a thorough examination of the proposal. This does not mean that security is unimportant .After the bank has evaluated the proposal and is able to assess what risks it runs in lending to the customer. It is upon this assessment that it bases the request for security.

Security should never be looked upon as the source of repayment, but only as something to fall back on if the expected source of repayment should fail. Basically it is more or less an insurance against unforseen adverse developments. It is generally agreed, therefore, but advances are not to be made just because they are secured, but that the custumer has satisfied all the other conditions enumerated above before consideration is given to the question of security.

- ***The borrower:***

As a general rule, the customer to whom facilities are to be extended must pass the test of reliability, personal integrity and honesty. He does not qualify for bank assistance if he lacks any of these qualities, however strong his security. .It is therefore necessary for a good banker to know his customer very well. He should be able to vouch on his customer's ability, intelligence, dedication to work, knowledge of the basic operations of this company and business experience generally. These have a direct bearing to the customers ability to repay within the agreed period. It is also wise for a banker to know his customer life style. To ensure the safety of banks money, it is necessary to know something about the health of the borrower and whether he possesses energy and drive. It is also very important that the customer be knowledgeable about his proposed venture. In a nutshell a banker should be able to assess his customer's character fairly accurately before he determines his credit - worthiness.

L.C. matter, a famous banking author and a great authority on the practical aspects of banking, advised against strictly following lending rules and regulations. He made a comparison between the principles of lending and economic laws in that certain facts and other things being equal, a prescribed course should follow. They are neither independent nor unbreakable. Thus, the principles must be carefully considered with an open mind. He suggested three basic principles behind all bank lending, according to matter, but these should only serve as a guid. They are: safety, suitability and profitability.

Safety:

The safety of any loan/advance is of paramount importance to the bank. Hence banks lay great emphasis on the characters, intergrity and reliability of borrowers. There must be a reasonable certainty that the amount granted can be repaid from profits and cash flow generated from the operations of the company. If the advance is granted to a personal borrower, the source of repayment must not be doubtful. In support of safety requirement, the borrower must be able to provide acceptable security which will serve as something to fall back on if the expected source of repayment should fail.

Suitability:

The banker should also satisfy himself about the suitability of an advance. Even when the borrower has satisfy safety and risk considerations, it is absolutely necessary for the banker to ensure that the purpose of the loan or advance does not conflict with the economic and monetary policies of the government. The regulatory bodies issue annual credit allocation guidelines and the inposition of quantitative and qualitative limitations on bank lending the purpose of the advance and its implications on the economy should therefore, be given due consideration when granting an advance.

A part from the guidelines, there are certain ventures that should not be encouraged by banks for instance lending to finance gambling, betting and other speculations. Commercial banks would also not usually provide long - term capital or equity.

Profitability:

It is a well known fact that banks are in business established mainly to make profits and not as charitable organisations. Therefore any facilitaties granted are expected to yield some profit to the bank. What determines the amount of profit is the rate of interest charged. Interest rates on advances are generally higher than interest paid depositors though all are presently determinable by market forces in Nigeria. banks are able to make profits relatively easily.

2.2 CREDIT RISK ANALYSIS AND CONTROL.

An efficient credit control and administration in any bank does not only enhance the bank's performances and profitability, but also entails sustained growth in the economy by the provision of adequate funding of working capital and rehabilitation needs of existing enterprises and for the creation of new investments and employment.

Dr. H. O. Oriji FCIB in his write-up credit risk analysis and control procedures, documentation and securities maintained that it is the financial sector that provides credits to the various economic players in the economy. And that a bulk of the funds given as credits are a pool of deposits from various savers. The lending of these deposited funds to those who require them implies risk-taking by the lending institutions. The implied risk is when borrowers cannot meet repayment schedules the lending institutions may not be in position to honour withdrawal demands from depositors. If this happens it affects the backs objectives of liquidity, safety and income generation. The cumulative effect would be a loss of confidence in the banking system.

According to Dr. Orji 'risk' or 'uncertainty' can be defined as "the measurable uncertainty involved in any decision-making, be it credit granting or not". He attempted to differentiate between risk and uncertainty. Risk he maintained has certain precautionary measures which when identified in a decision-making process could reduce the associated loss. Uncertainty on the other hand differs from risk because its occurrence or impact cannot be measured and therefore cannot be adequately taken care of in a decision making process. It is therefore the degree of measurability that distinguishers risks from uncertainties.

laying much more emphasis on risk, Dr. Orji identified two types of risks prone to any lending activities. This are 'dynamic' 'pure' risk. Dynamic risk occurs in the normal cause of business activites. A business or investment being financed with credits from a bank may decline in value as a result of a negative saving in the business swingin the business cycle, technological charges in the mode of production and distribution, unexpected competition from producers of substitute products; dealt of a major shareholder or owner; sudden demand in the borrowers products with out compensatory payment for the products e.t.c. All these will lead to the borrower being unable to generate the projected cash flow with which to meet the repayment schedule. Pure risk on the other hand can arise as a result of natural causes like war, fire outbreak, drought, robbery, arson e.t.c.

The resultant unpact of all these is the inability to meet the repayment schedule as planned because of poor cash flow. When this happens, the concerned bank will have an accumulation of bad and doubtful debts and therefore will be unable to meet its statutory functions in order to reduce to the barest minimum the dynamic risks associated with credits, banks should create credit Departments fully staffed with specialists called credit Analysts. The job of these specialists is to do a through analysis of each loan application bearing in mind all the anticipated risks that may render the loan repayment untenable as per the repayment schedule. Only those loan applications that scale the test should normally be recommended for approval by the appropriate authorities.

RISK ANALYSIS.

The existence of most dynamic credit risks stems from poor analysis of loan proposals. The best way to handle or nip any credit risk that may arise is to do a thorough loan appraisal before the credits are granted. It would be noted that credit are granted with the hope that repayments would follow the agreed terms without recourse to the realisation of the security offered. A good credit appraisal should normally follow the canons of good lending.

- Confidence, Nature of business, Capital, Capability, environment, and security fully discussed earlier in section 1.2. However each bank or lending institution should adapt these to suit its own peculiar requirements.

- **CONTROL**

In a volatile economic environment like ours where things change fairly rapidly, creditor should not be caught off guard because of their poor administrative control of their loan portfolios. Past trends that have left the debtor unmonitored tempted some of them to divert approved loans to other businesses which they hope to make faster returns. Such ventures are normally more riskier than the initially approved ones and may in most cases fail. To avoid such an unfortunate occurrence, a lending banker needs to continuously monitor the debtor's use of the approved facility.

Though bankers tend as a matter of principle to review credits annually, however a sharp eagle eye banker could notice unexpected events in the coure of funds utilisation and can make a timely intervention to save the situation. Loan/credit control like administrative process requires a process of action, analysis and follow-ups.

2.3 TOOL FOR EFFECTIVE CREDIT CONTROL AND ADMINISTRATION.

i. ***Compliance with loan agreement:***

Every credit granted to a customer should be duly documented together with the accompanying conditions that must be fulfilled before and after the loan has been draw down. This should be in form of contract agreement duly offered to the customer and accepted by him. The contract should be dated. The agreement should specifically state the mode and method of drawn downs, minimum account's turnover for a particular period, liquidity ratios more so the borrowing projections should be maintained throughout the life of the facility. All these must be closely monitored to avoid any breach occurring undetected thereby endangering the position of the bank.

ii. ***Contacts:***

Contacts with the borrower should not end with the approval of his facility. There should be continuous contacts between the bank and the customer throughout the life of the facility. Customer-banker dialogue brings out the true positions of the usage of the borrowed funds and how effective it had been utilised. As R.K.O Osaymeh pointed out in his book, "never wait until the customer comes to tell you what he wants you to hear or know; rather go in search of what you desire to know". contacts with borrowers in the ordinary course of business have proved to be very useful to bankers. These customers regard their bankers as their personal friends who are interested in the welfare of their businesses and not-just those out to milk their businesses dry in the name of recovering their loaned out funds.

iii. ***Accounts Operations at the Branch:***

Close observations should be maintain at borrowers accounts operations at their various branches. Particular attention should be paid on the direction of cheques paid out on the account of borrower; nature of deposits into the account; the turnover situation; frequency of excess requests and poor debts servicing e.t.c.

iv. ***Direct control of disbursements:***

Disbursement schedules should be in accordance with conditions of the draw down. Too much or too little funds to a customer at a particular time could pose danger. Moerso, it is better to make payments direct to the suppliers of the goods and services needed by the borrower to avoid fund diversion.

2:4 DOCUMENTATIONS.

The process of documentation starts from the moment an application is received for a loan facility. Disbursements are normally effected at branches where the loan applicants maintain their accounts while loan approvals are carried out by the credit departments that may be domiciled at the headquarters or area offices of the banks. Analysing and approving officials should have full knowledge of credit risks and must have taken same into consideration before giving approvals. In most cases, credit request originates from the branch except those for some corporate customers. It therefore becomes very imperative that branch credit officers who assemble these documents should have a well defined sequence of documentation. Inputs from different levels of authorities must be duly documented. Also the terms and conditions of approvals should be documented. These may include the securities on offer, perfection of the securities, mode of disbursements, periodic cash inoflows and tunings expected turnover of the revenue generated into the account, any relationship between outflow and inflow into the account. Once these are duly documented and available to the branch operatives, they would be in position to monitor the facility usage and take corrective measures when the accounts are not operating as planned.

In order to avert further deterioration of the accounts operations and hence put the bank's position in an unpleasant position, the branch operatives are expected send a distress signal to higher authorities who would then take definite steps to protect the bank's interest. More over, since many Nigerians are prepared to evade on revenege their contractual obligations if they were opportune to do so. only a well documented transaction would prevent them requrings to repay the facilities borrowed from banks. All credit proposals and analysis must be well documented and even possible course of action to take in case of deviations.

2:5 SECURITIES:

Through the issue of obtaining security has been dealt with extensively in section 2:1, a brief revisit of same here may suffice. It would be noted that the essence of obtain, securities for credits granted is to minimise the risk of default in the repayment of the credit on maturity. In order to achieve this objective, items to be accepted as securities for bank lending should posses the following attributes:-

i. The value of such items should be ascertainable and reasonably stable over years while providing for sufficient margin for depreciation.

ii. Such properties/items should be readily realisable when the need arise.

iii. The bank giving out the loan/credit should be able to obtain a safe, unquestionable little to the securities being offered without undue trouble or expense.

iv. The bank should not incur unnecessary ability to third parties arising out of its title to the security in question.

Once a property satisfies the above criteria, it is advisable to accept such securities to shield the bank from the inherent risks on lending.

However the security to be demanded will depend on the following factors:-

a. Nature of facility being sought

b. Amount of the facility

c. Duration of the facility

d. Perceived integrity of the borrower(s).

The following are some of they acceptable securities either individually or in combinations:-

- Mortgage over land and building
- Insurance polices to the extent of their surrender value
- Lien over accounts
- Stocks and shares
- Guarantees
- Domiciliation of payments
- Hypthecations/Trust receipts
- Bills of sales
- Debentures

Knowing the negative mentality of some Nigerians in settling their liabilities, it is important that approved facilities should only be disbursed as per the disbursement schedule after the customer has satisfied all security documentations. Branch operators are advised to adhere strictly to this and base all disbursement of any credit on valid approval and not on an anticipated approval as jumping the gun would put bank interest into jeopardy. The best security a bank can take against credit risks is diversification of its credit portfolio. The CBN has been of tremendous help to banks in this direction, by prescribing minimum lending to various sectors of the economy

2:6 FACTORS MILITATING AGAINST EFFICIENT CREDIT ADMINISTRATION.

Inefficient credit administration is traceable to a number of factors. These include:-

i. Inadequately qualified professional staff in banks

ii. Long lags between loans applications and approvals/disbursement.

iii. Undue emphasis on equity contributions and collateral requirements.

iv. Short term lending tendency of credit institutions.

v. Unsound banking practices.

- ***Inadequately qualified professional staff:***

If not just of recent times that banks have started a change of heart most of them generally lack experienced professional staff who can evaluate and assess loan applications with thoroughness. Also, they do not have adequate manpower to monitor projects to ensure that their implementations and operations are on course.

- ***Longtime lag between loan applications and approvals/ Disbursements:***

There is, very unfortunately, a long time lag between the submission of loan applications and approvals. The delays are attributable mainly to cumbersome administrative procedures. These lags have the effects of undermining profitable opportunities.

- ***Equity contribution and collecteral requirements:***

Most commercial banks lay too much emphasis equity contribution as capital investment in loan proposals to borrowers, they argue that it would make such borrowers take their businesses more seriously. However, many of these borrowers cannot meet this requirement because if their poor financial standing. Another problem is the requirement for collateral securities in form of assess before granting credit facilities to customers, which most borrowers cannot afford.

- ***Short term lending tendency:***

Experience has shown that most banks in Nigeria engage mainly in short term lending operations to trading and contracting enterprises as against long-term credit to the productive sector. They are of the view that granting long-term loans against short-term deposits will be a mismatch of portfolios since depositors could call without notice for withdrawals. This attitudes tend to deprive establishment of some long-term viable ventures.

- ***Unsound lending practices:***

Unsound banking practices have contributed to making credit administration in effective. These include not following strictly banking procedures in applications assessment and evaluation, improper opening of customers accounts, Lending to fictitious borrowers effected through fictitious accounts opened at branch, granting loans without adequate information and security from borrowers, or lending with the full knowledge that the loan will not be paid.

2:7 IMPROVING CREDIT CONTROL/ADMINISTRATION.

Improving the credit control and administration in banks requires addressing the problems which have been discussed in the preceding section. Though I intend to put all these in summary form.

There is need for every bank to establish a credit department stapped mainly with specialists who are experienced in evaluation and analysing loan proposals/requests, monitoring and assessing business performances of borrowers. Such a department if it is very efficient will reduce the time-lag and other cumbersome administrative procedures in loan requests processions and approvals. Simplification of application forms, standardization of documentation, and open policy in credit appraisal are required. It is suggested that the issues of equity contribution and collateral requirements should always be given a human face in credit appraisal. Banks should be encouraged to promote long-term investment through the restoration of macroeconomic stability since it is only by so doing that financial growth and sustained development in the economy can be guaranteed.

On the issue of unsound banking practices banks are advised to publish leaflets explaining their landing policy method of application, what the bank expects from the prospective loanee. Credit control and administration should be entrusted to only staff with sound banking experience and integrity.

2.8 LOAN RECOVERY

Recovery of loans is about the most difficult and harzadous task of a banker. It is most uninteresting and energy snapping. This is because the banker now deals with a difficult and unfriendly customer who is neither prepared nor willing to repay the loan except very drastic steps are taken.

The customer who appeared very honest and friendly at the time of advancing the loan suddenly become very hostile unco-operative and problematic. He employs all sorts of methods including the legal process at times to avoid, delay repayment or prolong unduly the recovery process. Sometimes he denies owing the bank any money, contending that whatever amount that was advanced to him by the banker had been repaid in the normal course of business with the bank. Sometimes he admits the debt but counter-claims against the banker for a larger amount as damages arising from one wrong-doing or the other which in most cases he will not be able to establish.

The banker is therefore placed in an unenviable position. After parting with his money he is faced with the ordeal of chasing the customer around. The banker is compelled to utilise all available human and financial resources to establish the debt against the customer and to recover the same from him. After all avenues have been exhausted towards recovery the debt amicably have failed, the banker may have to resort to legal proceedings. The method of recovery however depends on whether the loan is secured or unsecured and the type of security held by the banker. If the loan is secured, it becomes easier for the banker to realise it. But if unfortunately the loan is unsecured, longer and more tedious processes of litigation may become inevitable.

2.9 COMMENCEMENT OF RECOVERY PROCESS

- ***Formal demand:***

Regardless of the type of security held by the banker, he must make a formal demand on the customer to repay the loan or any part thereof when due. The letter of demand stating the actual amount outstanding must be served on the customer. Recovery process may be commenced on the expiration of the period of notice given in the letter, and it may be an enforcement of security where one is held or legal proceedings where the loan is not secured.

- ***Enforcement and realisation of security:***

The mode of realising a security depends largely on the nature, form and quality of the security. In other-words, the creditor's right over security is determine by the type of security he holds. Security can be either direct or collateral. Direct security is that lodged by the customer to secure his own accounts while collateral security is that lodged by a third party known as guarantors or surely to secure the account of customer. The quality of security is determined by the preferences between completing charges if any.

- ***Legal proceedings:***

Institution of court proceedings is a major way of debt recovery whether or not the debt is secured. But before commencing the proceedings, the creditor must ensure that all materials/documents necessary to establish the debt are assembled and made available to his solicitor. The letter of instruction to the solicitor must state the actual amount due from the customer and how the amount is made up.

- ***Jurisdiction:***

A very important issue to resolve before commencing recovery proceeding is the power of the court to hear and decide the case. A good claim instituted in a wrong court is a wasteful exercise because at the end of the day the proceedings will be declared null and void.

2.10 OVERVIEW OF PRE-COMPUTED SYSTEM IN UBA MINNA PLC

Traditionally Banking business is being operated by the interaction of inter - related units/departments. Equally in UBA Minna Plc, some of the department include

- Current Account Department
- Deposit Account Department
- Credit Department
- Entries Department
- Cash Department.
- Foreign Exchange

CURRENT ACCOUNT DEPARTMENT

Customers accounts are maintained and operated here through the use of cheques. A customer can draw fund up to the level of his credit balance outstanding with the bank or if under an agreed arrangement beyond his credit balance. This is termed temporary overdraft. The bank charges commission against operators of current account.

DEPOSIT ACCOUNT DEPARTMENT

Deposit accounts are accounts opened for the purpose of earning interest, as opposed to current or drawing accounts opened for the purpose of being operated on by cheques.

Deposit accounts take various forms; they may be in the form of

(a) fixed deposits with receipts on which interest is paid by bankers after a fixed period, quarterly, half, yearly, or yearly as may be agreed upon in advance expenses vouchers, insurance of bank drafts, bankers cheques , effecting funds transfer from one account to another or from a branch to another branch or even to Head office. Infact this department ensures that all books of account are property reconcile to avert any possible attempt to perpetrate any fraudulent activities.

FOREIGN - EXCHANGE DEPARTMENT

This is the department that avails to the bank customers the benefits of foreign currency transactions. Some of the services offered include methods of international settlements through banks via

- Drafts, mail and telegraphic payment orders including international money transfer and travellers cheques.
- Collection of bills of exchange both clean and documental including sights and usarce/term bills covering import and exports.
- Documentary credits as methods of payment and arranging banking services abroad for customers
- Protection against exchange risks by means of forward exchanged
- Providing bank guarantee, bonds and stand by letters of credit.

Though a critical view of the setting of the traditional system has been made there still exist room for improvement to pave way for a more result - oriented system..

All these questions can be easily answered through a thorough system analysis with the ultimate view to designing a more dynamic one that can always withstand the changing waves in any environment. A good system is that which is simple, flexible, reliable, economical, and acceptable.

System analysis can therefore be defined as the methods of determining how best to use computers with other resources to perform tasks which meet the information needs of an organisation. System analysis involves a general approach of procedural

3.5 CHANGE-OVER PROCEDURES FROM AN OLD TO A NEW SYSTEM

So far scholars have been able to deduce from the various research works three broadly based change-over procedures these are:-

A) ***Direct change-over***

This involves a drastic change from the old system and the new system becomes operational immediately.

B) ***Parallel Change-over.***

Here, the old and new systems are run concurrently using the same inputs. The outputs are compared and reasons for differences resolved. Outputs from the old system continue to be distributed until the new system has proved satisfactory. At such a point, the old system is discarded with and the new one takes its place.

CHAPTER FOUR

4.0 PROGRAMMING CONCEPTS AND DATA PRESENTATION

4.1 COMPUTERS AND DATA PROCESSION.

A computer can be defined as electronic device which accepts data from an input device, performs arithematic and logical operations in accordance with a pre-defined program and finally transfers the processed data to an output device either for further processing or in final printed form. It has a further capability of storing data as may be required. Data input into a computer is processed with the aim to generate output regarded as information which aids individuals organisations in decision-making.

Computer system consist of the basic components. These include.

(i)- ***Hardware:***

This refers to the physical components of a computer like the mechanical, magnetic, electrical and electronic devices, the input, storage, processing and control devices of the computer.

(ii) ***Human ware***:

These are all human beings engaged in the use of the computers. They include programmers, operators, and all other users.

(iii) ***Software***:

Software enables us to exploit the capabilities of a computer. Software refers to the set of computer programs procedures that control the activities of a computer.

give names or addresses of the memory location(s) that will be affected by this operation.

(ii) ***Assembly language:***

To relieve programmers the rigorous of the machine language and still have efficient programs for computers, the assembly language was evolved. Therefore, assembly language program consist of mnemonics and symbols. Mnemonics used in place of opcodes while symbolic addresses are used instead of actual machine addresses.

(iii) ***High level language:***

In order to alleviate the problems inherent in the machine and assembly languages, a third group of programming language was developed and it is high level language. In high level language, programs are written in English-like manner.

(B) **Programming:**

(i) ***Basic Programming:***

BASIC is the acronym for Beginners All-purpose Symbolic Instruction code. It is designed for people who have no prior programming experience. BASIC encourage running the computer in an interactive mode. As soon as the user submits a program and some data to the computer, it executes the program, produces the result back to the user immediately and enables the verification correctness of same.

Some of the requirements of BASIC programming include:

by the programmer. The basic entities are identifiers, numbers, strings, labels, directives and comments. The symbols and the basic entities are made with characters - letters, digits and punctuation characters.

(iv) Database Management System:

Database management system (*DBMS*) is a software that constructs, expands and maintain the data contained in database. It also provides the inter-face between the user and the data in such a way that it enables the user to record, organise, select, summarise, extract, report on, and otherwise manage data contained in a database.

DBMs programs keep information in files, and within each file is a collection of related information. The data in a file are organised into rows and columns with each row making up a record. A column of data is known as a ***field*** and the column heading is a field name. The content of a field determines the field type. The usual field types are numerics, character, memo, date e.t.c.

authorities do the approvals based on verifiable facts presented by the analysts in combination with the superior knowledge they have of the projects and their promoters.

Some of the delays in appraising credit applications and credit risk control have been attributable to undue administrative procedures. It is therefore become imperative for banks to acquire computers for sufficient and effective managing of their credit portfolios. This will assist alot in prompt credit propositions processions and approvals. Moreso sound a computerised internal control and monitoring unit will notice in good time any credits that have began to be sticky and take the necessary steps to protect the interest of the bank. In addition staff under this department should always undergo regular training and retraining (both internally and external) to enable them breast-up with any future turbulent challenges as the occur.

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