



**ASSESSMENT OF LOAN ADVANCING PROCEDURE AND PRACTICE A CASE
STUDY ON WEGAGEN BANK IN ARBA MINCH BRANCH)**



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Even if there were no equivalent words to express thanks to GOD First, we would like to thanks almighty GOD and the interception of his mother that made me still alive and in helping and leading me in every microsecond of our life.

Abstract

*In Ethiopia, there are various financial institutions such as banks that give financial services like money transfer, deposit and lending to their customers. As other commercial banks in Ethiopia, Wegagen bank has its own loan advancing procedure and practice used to advance loan. The aim of this research is to assess loan advancing procedure and practice **case study wegagen bank, arbaminch branch.***

To obtain the objective the researchers used descriptive research design in this research. The target population for the study were the loan officers of Wegagen bank, Arbaminch branch. The total number of employee in the organization is 20. The necessary data for the study was gathered using primary and secondary source of data. Primary data was gathered through questionnaires and interview and secondary data was gathered from Wegagen bank manuals, website and reports. This study used judgmental sampling techniques. After the necessary data was collected the data was processed, analyzed and presented by using tubular form, frequency and percentage.

From the findings, conclusion and recommendation, the study concluded that loan is beneficial both to the bank as well as to the borrower and banks have to give a peculiar focus on it. The loan department of the bank is organized by educated and mature employees. The bank should provide regular training to all its Employees in general and loan officers in particular on how to handle customers. The bank should always collect the loans from the borrowers.

CHAPTER ONE

1. INTRODUCTION

This chapter presents background of the study, statement of the problem, general and specific objective. In addition, significance of the study, scope and limitation of the study.

1.1 BACKGROUND OF THE STUDY

Banks play a major role in economic growth and development through provision of credit to execute economic activities. However, the major concern of any bank while advancing credit was how they get their money back and this implies that the engagement between lenders and borrower was accompanied by certain level of risk (OWINO, 2012). Loan is any financial asset of bank arising from a direct or indirect advance or commitment to advance funds by bank to a person that was conditioned on obligation of the person to repay the funds either on specific date or date on demand, usually with interest (National bank of Ethiopia, 2008).

Bank Lending policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients will the bank approve for loans and avoided, and must be based on the bank lending laws and regulations(owino,2012). Lending must be designed in such a way that it could be a total benefit to all different interest group of the bank, which includes the shareholders, depositors and the borrowers (owino, 2012).

In Ethiopia, there are various financial institutions such as banks that give financial services like money transfer, deposit and lending to their customers. As other commercial banks in Ethiopia, Wogagen bank has its own loan advancing procedure and practice used to advance loan. The different types of loan services provided by Wogagen bank includes term loan, overdraft loan, overdraw loan, merchandise term loan, domestic trade and service term loan, foreign trade term loan, agriculture term loan, manufacture term loan, building construction term loan, transport service term loan, mortgage term loan, letter of guarantee, pre-shipment loan, warehouse receipt financing loan, automobile term loan, microfinance loan, project finance loan(www.wegagenbanksc.com). Generally, the loan advancing procedures and practice is important issue that needs banks close attention so as to reduce loan recovery problems and illiquidity to minimum level.

1.2 STATEMENT OF THE PROBLEM

Loan advancing procedures and practices have a great impact on the development of the bank. Lack of study and assessment in the advancing procedure and practice can result in the fall and illiquidity of the bank (Owino, 2012). Previously, Nuru and Aleme (2012) have conducted study on the issue of loan advancing procedure and practice in commercial bank of Ethiopia Hawassa branch.

The main reason to motivate the researchers to conduct this study on loan advancing procedure and practice is because no study is conducted before this study on the Wegagen bank, Arbaminch branch on the issue of loan advancing procedure and practice and this study was conducted in Wegagen bank, Arbaminch branch aiming at discovering the problem in relation to loan advancing procedure and practice. .

1.3 RESEARCH QUESTIONS

1. What are the loan advancing procedure and practices employed by Wogagen bank, Arbaminch branch?
2. Is Wogagen bank, Arbaminch branch effective and profitable from the loan provided by procedure and practice?
3. Is Wogagen bank, Arbaminch branch recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients?
4. What are the unique and similar features of the Wogagen bank, Arbaminch branch's loan advancing procedures and practices in relation to other banks in the area?

1.4 OBJECTIVES OF THE STUDY

1.4.1 General objective

The general objective of this study is to assess the loan advancing procedure and practice in Wogagen bank, Arbaminch branch.

1.4.2 Specific objectives

The specific objectives of this study are:

1. To identify the loan advancing procedure and practices that was employed by Wogagen bank, Arbaminch branch.
2. To investigate whether Wogagen bank, Arbaminch branch was effective and profitable from the loan provided by procedure and practice.

3. To examine whether Wogagen bank, Arbaminch branch was recovered the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients.
4. To identify the unique and similar features of Wogagen bank, Arbaminch branch loan advancing procedures and practices in relation to other banks in the area.

1.5 SIGNIFICANCE OF THE STUDY

The study was provide reliable data for further studies. First, it was help Wegagen bank, Arbaminch branch to reinforce the strength and weakness of the procedure in accordance with the recommendation given by the study. Second, it encourages the person who undertakes this study and other studies by getting knowledge from the study. Finally, it was use as secondary data for other studies on the same issue.

1.6 SCOPE OF THE STUDY

The study covered the loan advancing procedure and practice in detail in the issues related to loan, loan advancing, and loan related areas. Whereas geographically the study will be limited in wogagen Bank, Arbaminch branch which is located in southern part of Ethiopia, SNNP regional state, Arbaminch city.

1.7. Limitation of the study

Since the researcher would be necessary to conduct the concerns body's in many aspects of activities of data collection. So the researcher must be restricted by the following problem.

- Lack of sources like reference book.
- Lack of respondent willingness for question
- Lack of secondary data

1.8 ORGANZATION OF THE STUDY

This study was organized in to five chapters which are sub-divided in to small sections. The first chapter deals with introduction; this contains background of the study, statement of the problem, objectives of the study, research questions, scope and limitation of the study, significance of the study, organization of the study. The second chapter deals with review of related literature. The third chapter deals with research method and methodology. The fourth chapter is data analysis and interpretation and the last chapter deals conclusion and recommendation.

CHAPTER TWO

2 LITERATURE REVIEW

This chapter deals with review of related literatures, in its first part it contains theoretical review and in its second part it contains the empirical review.

2.1 THEORETICAL REVIEW

2.1.1 DEFINITIONS AND CONCEPTS OF LOAN

Loan is any financial asset of bank arising from a direct or indirect advance or commitment to advance funds by bank to a person that are conditioned on obligation of the person to repay the funds either on specific date or date on demand, usually with interest (National bank of Ethiopia, 2008).

Loans are some provisions will be made for repayment of the principal (the original loan amount). Loan might be repaid in equal installments or single lump sum (Jordan, 2000).

Loan is the sale of goods, services and money claims in the present in exchange for a promise to pay in the future. That means the debtor and the creditor agrees to settle their transactions. In respect of bank's meaning: credit means lending or granting money to those who are in need of it (investors) who fulfill the bank's requirements. It is a liability for the individual or corporation received it but an investment comparable to bond, stock or other asset. For each borrower a loan is adept, an obligation to repay the borrower money plus interest (mishkin,2003)

We live in a world of credit. Every day in every way we become more and more involved in various aspects of this credit world. Credit contributes to the development of the country and to high standard of living. The major participants in the credit world are banks. This is because most credits directly or indirectly originated from financial institutions, and credit granting is one of the major activates of banks. It is through this credit granting activates that they made up large portion of their earnings (Bilihatu, 2007).

2.1.2 TYPES OF LOANS MADE BY BANK

1. Real estate loan; which are secured by a real reporting, land, building and other structure and including short term loans constructions and land development and long term loans to finance the purchase of farm lands, homes, apartments, commercial structures and foreign properties?

2. Financial institutions loans: including credit to banks, insurance companies, financial companies and other financial institutions.
3. Agricultural loans: extended to farms and ranch operations to assist in planning and harvesting crops and to support the feeding and care of livestock.
4. Commercial and industrial: granted to the business to cover such expenses as purchasing inventory, paying taxes and meeting payrolls.
5. loans to industrials: including credit to finance to the purchase of automobiles, homes, appliances and other retail goods to repair and modernized homes, cover the cost of medical care and other personal expenses with extended to directly to individuals or indirectly through retail dealers.
6. Miscellaneous loans: which included all these loans reclassified above including securities loans?
7. Loans financing receivables: when the bank buys equipment or vehicles and lease terms to its customer [Peter, et.al. 2008].

2.1.3 THE BUSINESS OF BANKING

Banks are financial institutions that accept deposits and make loans. Banks serve as intermediaries by transferring fund from those with surplus to those who have productive need for them. For instance, person who needs a loan to buy house or car usually obtain it from bank.

2.1.4 PROFITABILITY AND LIQUIDITY

Like any other financial institutions, the banks, objective in providing services to borrowers and depositors in the generation of profit. Banks principally make their profit by issuing loans. Banks make profit by selling liability which one set of characteristics and using the proceeds to buy assets with a deferent set of characteristics. Thus, banks provide a service to the public by transferring one type of assets in another this process is often referred as asset transformation (Mishkin, 2003)

The more money banks can lend the more profit they can earn. However, a bank cannot lend out all the funds. It must retain enough money in liquid form to be able to meet depositor's requests for repayment. In this regard we find the root cause of the banker dilemma because generally speaking, the more liquid the form in which funds are held, the less the rate of return. Cash holdings for instance, being the most liquid form of asset, generate no profit at all. It is true that successful banking requires successful management of both assets and

liability. Safety and liquidity must be carefully balanced against asset earnings. And profitability requires careful control of the cost of the bank source of funds.

The banks therefore affect a careful balance between the maximization of lending and the maximization of liquidity to the lowest level consistent with safety. To some extent this task is taken out of the bank's hands by official controls but nevertheless, there is still considerable room for maneuver. The conflicting requirements of profitability and liquidity can be viewed as resulting directly from the conflicting desires of the two groups who have provided the bank's financial resources; we shareholders and depositors (Mishkin, 2003)

Loans are typically less liquid than other assets because they cannot be turned in to cash until the loan matures. If the bank makes a one-year loan for example it cannot get its fund back until the loan come due in one year. A loan also has a higher probability of default than other assets. Because of the lack of liquidity and higher default, risks the bank earn its higher return on loans (Mishkin,2003)

2.1.5 LENDING PROCEDURES

2.1.5.1 THE PRINCIPLE OF LENDING

Bank Lending policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients will the bank approve for loans and which will be avoided, and must be based on the bank lending laws and regulations (owino,2012). Lending must be designed in such a way that it could be a total benefit to all different interest group of the bank, which includes the shareholders, depositors and the borrowers (owino, 2012).

Lending money is easy, it is ensuring that loan are repaid that skill is required when asked to make a loan, the first concern of a bank will be to extract as much information as possible about the proposition so as to be able assess the probability of repayment. Some loans will become bad debts and cannot be recovered but this should never happen as the result a risk which could have been foreseen from the outset. In coming to a decision you must check how well the proposition measures up to a number of criteria. Some of the questions to be asked are vital other less so but all help the lending officer to obtain an overall view of the proposals (Bilhatu, 2007).

In one sense these criteria can be looked on as a series of hurdles. Which would be borrowers must clear, they fail to completely satisfy the bank on one of the important principles than the application will probably not be pursued all the way through the rest of the decision-making process. On the other hand, it has to recognize that few proposals for advance are perfectly satisfactory in all respects. In most cases the baker must use skill judgment and experience in balancing the good points and the bank points of the proposition to judge the probability of the outcome (Bilhatu, 2007).

Each bank should immediately undertake a sample of the information and data sought for examination of loan proposal from clients in the priority sectors for ascertain whether the demands made by the bank are excessive and or unrealistic, with a view to initiating corrective action. Banks must enjoy on their operating start to call for information data for examination of loan applications, as far as possible in two or more installments (Bilihatsu, 2007).

In considering loan applications loan officers should be encouraged to adopt flexible approach here what is important is an overall appraisal backed by a good knowledge of laical market prices applicant and his /her back ground and familiarity with the nature of operations of applicant loan officers should be able to comprehend the total situation and determine whether; Applicant seems honest; Applicants proposal seems reasonable; The information given by the applicant makes sense; Applicants can accomplish the purpose of the loan.; Purpose of the loan of the loan is legitimate and productive; Applicants with having with the capacity to repay the loan according to schedule under normal circumstance and; There is margin of safety, if things just do not go right. Bank staff should perform an additional duty of consulting these applicants where ever required, with a view to converting seemingly imprecise and in attractive proposals in to reasonably bank able proportions. Controlling offices of banks should advise their branches detailed reasons for rejection of loan proposals wherever this is not already being done this will enable branch staff to understand the core lending policy and in turn do counseling to applicants in appropriate cases. It would be desirable to advise loan applicants, in each case, the reason for rejection of their applications but this may not be possible always. Banks would be justified in refusing to make known the reason for rejection. But, wherever possible, customers should be advised of the reason backed by counseling in appropriate manner (Bilihatsu, 2007).

2.1.5.2 CREDIT WORTHINESS OF CUSTOMER

The most popular methods of analyzing customer worthiness (ability to repay loans) also known as 5c are;

- **Character:** the loan officer must be convinced that the customer has well defined purpose for requesting credit and serious intention to repay. The loan officer must determine the borrower has responsible, truthfulness, serious purpose and serious intention to repay owed make up.
- **Capacity:** the loan officer must be sure that the customer has authority to request a loan and the legal standing to sign a binding loan agreement.
- **Capital:** does the borrower have ability to generate enough cash, in the form of cash flows to repay the loan?
- **Collateral:** assuring the collateral aspects of a loan request, the loan officer must ask and does the borrower process adequate net worth or own enough quality assets to provide adequate support for the

loan? The loan officer must assess: the age, condition and degree of specialization of the borrower assets.

- **Condition:** the loan officer and credit analysis must be aware to recent trends the borrowers line of industry and how changing economy condition may affect the loan.

2.1.5.3 STEPS IN LENDING PROCESS

2.1.5.3.1 FINDING A PROSPECTIVE CUSTOMERS

Most loans to individuals arise from customers who approached a member of the lender staff and ask to fill out a loan application.

2.1.5.3.2 EVALUATING A PROSPECTIVE CUSTOMERS CHARACTERS

Once a customer decides to request a loan, an interview with a loan officer usually follows, giving the customer opportunities to explain his or her credit needs. Because the interview provides an opportunity for the loan officers to assess the customers character and sincere purpose.

2.1.5.3.3 MAKING SIZE AND EVALUATING A PROSPECTIVE CUSTOMERS CREDIT RECORD

If business or mortgage loan is applied, a loan officer often makes a size to assess the customer location and the condition of the property and to ask clarifying questions. The loan officer may contact other creditor who have previously loaned money to these customers to see their previous loan agreement and where required to keep satisfactory deposit balance.

2.1.5.3.4 EVALUATING A PROSPECTIVE CUSTOMER FINANCIAL CONDITION

In all is favorable to this point, the customer is asked to submit several crucial document the lender needs in order to fully evaluate the loan required, including complex financial statements.

2.1.5.3.5 ASSESSING POSSIBLE LOAN COLLATERAL AND SIGNING THE LOAN AGREEMENT

If the loan committee approves the customer request the loan officer or the credit committee will usually check the property or other assets to be pledged as collateral. In order to assure that the lending has immediate access to the collateral or can acquire title to the property involved if the loan agreement is defaulted [Peter, et.al, 2008].

2.1.5.4 CREDIT CONTROL AND TERM

In a developing economy as that of ours shortage of capital has always been as tumbling block on the road to industrial progress. The role of commercial banks in overcoming this difficulty by extending large credit facility is abundantly clear. However, this does not mean that they should be given a free hand in the creation of credit. The recent monetary policy of the reserve bank shows that it has taken a serious view of the rising price levels; the key note of the policy has been to exercise both a general and selective restraint on credit and pruning down of the less essential demands through a combination of measures, quantitative, qualitative and selective. The bank has been careful to implement the various methods of credit control in a flexible and judicious manner.

How long is the advance required for? although this will depend to all large degree on the proposals for repayment, it is important because the longer the loan is outstanding the more chance there is of something unforeseen happening to prevent the customer from adhering to the agreed schedule (Bilihatu, 2007).

2.1.6 INTEREST RATE

2.1.6.1 DEFINITION OF INTEREST RATE

Interest rate is the price at which purchasing power can be shifted from the future in to the present-borrowed today with a promise to pay it back with interest in the future. Interest is not a lump sum but an ongoing stream of payments made over time (DeLong, 2002).

Interest rate is of course the priced charge a borrower for the loan of money. This price is unique because it is really a ratio of two quantities; the total required fee that a borrower must pay a lender to obtain the use of credit for a stipulated period divided by the amount of credit actually made available to the borrower.

$$\text{Rate of Interest} = \frac{\text{Fee required by the lender in order to the borrower to obtain credit (in annualized \%)}}{\text{Amount of credit made available to the borrower}}$$

By convention, the interest rate is usually expressed in percent per annum

Or in other formula:

$$\text{INTEREST} = \text{PRINCIPAL} \times \text{RATE} \times \text{TIME (I=PRT)}$$

For example, interest rate on overnight loan of reserves in Federal funds market are expressed in percent per annual although the loan is going to be paid the next day in addition, some interest rates measures use a 360 days' year and others a 365-day year. Some employ compound rate of return, with interest income earned on accumulated interest and some do not use compounding.

2.1.6.2 THE THEORY AND STRUCTURE OF INTEREST RATE

There are several theories of interest rates and their implications in financial system among this theory, the following four are the common and as well popular as believed by economists and financial analysis:

1. Classical theory of interest rate
2. The liquidity preference theory of interest rate
3. The loan able funds interest rate
4. The rational expectation theory of interest rate

1. the classical theory of interest rate

It is one of the oldest theories concerning the determinant of the interest rate

The classical theory argues that the rate of interest is determined by two forces

- a. The supply of saving derived from household and
- b. The demand for investment capital

2. the liquidity preference theory

During the 1930's the British economists' John Maynard Keynes developed a short run theory of interest rate which he argued was most relevant for policy makers and explaining near-term changes in interest rate.

This theory is known as the liquidity preference theory of interest rate.

3. The loan able fund theory

This view argues that the risk free interest rate is determined by the interplay of two forces

I. the demand for loan able funds consist of credit demands from domestic business consumers and units of government and borrowing in the domestic market by foreigners

II. the supply of loan able funds stems from;

- Domestic savings
- Hoarding demand for money either positive hoarding or dishoarding which increase volume of loan able funds.
- Money creation by banking system and
- Lending in the domestic market by foreign individuals and institutions

4. The Rational Expectations Theory of Interest Rate

The rational expectation theory builds up on a growing body of research evidence that the money and capital markets are highly efficient institution digesting and reacting to new information attesting interest rates (Bilihat, 2007).

2.1.7 Security and source of repayment

Once the proposition have been assessed then move to the consideration of what assets the customer can pledges as security for the advance. It must be proposition as supported by the security and not against the security alone.

It the proposition does not seem viable in its own right and he or she was a defaulter or no more good credit relation with other banks then is will almost certainly have to be relied on as the source of repayment. In other word you should have decided that you want to make loan before you look at the availability of security.

The source of re payment must always be clarified before the advance is taken generally this will come either out income or from realization of capital assets. Your objective will be to check that the proposals for repayment are feasible in the circumstance of the particular case. Repayment instilments should be fixed invariably not in relation the size of loan or on the basis of willingness of applicant, but strictly in relation to applicants paying in to also the minimum basic necessities of applicant and his dependent family members. It may at time be necessary to relax the maximum repayment period generally stipulated in various schemes formulated by bank concerned (Bilihatu, 2007).

2.1.8 Loan advancing laws and regulation in Ethiopia

Central bank in Ethiopia it is also called national bank of Ethiopia (NBE)

This bank acts as a leader of the money market supervising, controlling and regulating the activities of the commercial banks and other financial institutions. The NBE functions in close touch with the government and assist in implementation of its economic policies. It serves as banker agent and advisor to the government.

Discussion under the compulsion

1. Under NBE, the House of People Representative /HPR/ has categorically established the baker's right to capitalize inters 6% up on loan, if unpaid by the borrower on yearly or half yearly basis irrespective of the fact whether it is secured or unsecured loan.
2. It was held that the payment made by a debtor is in the first instance to applied towards interest and thereafter towards the principal, unless there 95 and agreement to the contrary.
3. Under the NBE the reserve bank is expound to collect credit information from banking companies relating to their customers.
4. Borrowing from other commercial bank, a bank may create addition liability by borrowing from other banks having excess reserves. But such borrowings are only for short duration (for a day or week at the most). The interest rate of such borrowings depends up on the prevailing rate in the money market.
5. Borrowing from the central bank (NBE); bankers also create liabilities on themselves by borrowing from the NBE.
6. Safety: it means that the borrower should be able to repay the loan and interest in time at regular interval without default.

7. The repayment of the loan depends up on the nature of the security, the character of the, borrower, his capacity to repay and his financial standing.
8. Diversity: this principle also applies to the advancing of loan to varied types of firms, industries business and trades. It should spread it risks by giving loans to various trade and industries in different parts of the country. (Nuru and Aleme, 2012)

2.2 Empirical review

Nuru and Aleme (2012) studied on the loan advancing procedure and practices employed by banks and their role on loan repayment performance in commercial bank of Ethiopia, Hawassa branch they concluded that the success of loan repayment for particular bank significantly depends on the banks' ability to set and follow sound and applicable policies and regulations in granting loans.

Assefa, et al, (2005) studied that training about the rule and regulation of the loan is one of the important requirements for the success of lending institution and they also develop it is needed not only for client but also for loan officers. Thus, the study tries to find the contribution of training to the repayment rate.

According to Owino (2012) Credit granting procedure and control systems are necessary for the assessment of loan application, which then guarantees a bank's total loan as per the bank's overall integrity. It is necessary to establish a proper credit risk environment, sound credit granting processes, appropriate credit administration, measurement, monitoring and control over credit risk, policy and strategies that clearly summarize the scope and allocation of bank credit facilities as well as the approach in which a credit portfolio is managed.

The size of the lending institution this is very vital in determining the size of the loan to lend. Further, it also restricts the potential market for borrowers such that if a financial institution is small and therefore its geographical coverage is small, its lending decision will differ from Multinational financial decisions. Its loaning decisions will also depend on the business potential on the areas of its coverage. The small financial institutions should therefore consider their local community and immediate environment when drawing up the lending decisions. (Mulualem, et al, 2013)

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothers little or no to see the potential challenges faces loan advancing and procedure. this research was not only identify the problems of the Arba Minch Wogagen Bank loan and practice, but also the cause of these problems. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions.

Chapter Three

3. Research methodology

3.1 Research design

The research design was use descriptive type (using percentage, table, frequency) because according to Kothari (2007), descriptive studies was used to obtain information about the preferences, attitudes, concern and interest of some group or people.

3.2. Research approach

This research paper wasl use Research approach in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative method it is structure to provide relevant information both quantitative and qualitative, to sufficient level that was essential for further processing.

3.3 Source and type of data

The necessary data was gathered by using primary and secondary source of data. Primary data was gathering through questionnaires (i.e. close ended and open questions) and interview and secondary data was gathered from Wegagen bank manuals, website and reports.

The data also includes both quantitative data type and qualitative data type. Quantitative data was be collect from loan officers through questionnaires.

3.4. Target population

The target population for the study loan officers of Wegagen bank, Arbaminch branch. The total number of employee in the organization is 20, Since it is believed that all employees are not aware of (have the same knowledge) the loan advancing procedure and practice employed by the bank, this study selected loan officers only. Loan officers of Wegagen bank, Arbaminch branch are 12. So, the 12 respondents were taken as target population.

3.5 Sampling techniques and sample size

The study was used judgmental sampling techniques by considering that all the employees of the bank are not aware of the loan advancing procedure and practice. Because the study selects judgmental sampling techniques in the sampling technique, the sample size was 12.

3.6 Method of data analysis and presentation

After the necessary data were collected the data was processed, analyzed and presented by using tubular form, frequency and percentage.



CHAPTER FOUR

4.Data Presentation, Analysis and Discussion

Introduction

The objective of Wegagen bank S.C is to mobilize resource and organize them to viable economic activities such as that risk are maintained at an acceptable low level .To carry out the objective it provides various type of loan and advance as well as overdrafts.

Loan composition

The compositions of loan provided by the branch are as follows

- Overdrafts
- Time loans
- Personal loans
- letter of guarantee
- Letter of credit

In order to make such an activity the bank accepts deposits from its customers at an interest rate less than the bank charges for its borrowers. This is because of the bank primarily engaged to make profit and it incurs various type of expenses to make such and activity. Thus the interest rate charged to the borrower should cover the expenses incurred and adds the borrower should cover the expenses incurred and adds the benefit margin of the bank (www.Wegagenbanksc.com).

4.1 Loan Advancing Procedures

The borrower will have a first contact with the banker this affords a chance to examine about the banker. This affords a chance to examine about the application. While, interviewing. The banker should try to cover points like, the purpose of the loan, deposited account at other branches of the applicant if any business experience of the applicant, the applicants commitment elsewhere, ways of paying loan and the business plan (Wegagen bank S.C June, 2013).

Once a potential customer identifies the need of bank loan and approach branch of the bank, the branch carries out an appraisal with the assistance of the potential customer to provide basis for decision.

Branch managers and lending officers have to carry out comprehensive and detailed analysis work in order to determine the business and the securely strength of the applicant.

To make credit decision Wegagen bank has its own guidelines and procedures for handling loan applicants to advance the loan.

There are steps in processing loans

4.1.1 Letter of Application

The loan application should specify every detail request of the loan clearly including;

- The name of the applicant
- The amount of loan requested birr
- The purpose of the loan requested in birr
- The purpose of the loan for which it is use
- The installment payment if monthly, quarterly semiannually or lump sum
- Duration of the loan in which the borrower intends to pay the debt
 - Type of collateral to be offered (movable or immovable)
 - Full address
 - Signature

4.1.2 Opening of Account

The applicant is supposed to open either current or saving account if he or she is new to the branch and was no any account he or she is new to the branch and was no any account before. This is helpful to direct all his or her transactions through a bank account which will finally hint on the financial performance of the customer and the activity of the business. In addition it helps to disburse the approved loan and also to debt for the periodic installments and other charges like insurance and stump duty charges.

4.1.3 Submission of Necessary Documents.

For the review and comments as to who is authorized to conclude loan contract on behalf of the enterprises and also whether he or she can mortgage the property of the company along with the application, the customer should submit the following;

- Like appropriate and renewed original licenses with one copy which shows the beginning capital and year of establishment at least one year in business
- Collateral documents. If the collateral is building the plan and ownership certificate (title deed if the collateral is vehicle need to present car book late)
- Audited financial statements

- Memorandum of association registration certificate and article of association and power of attorney where applicable must be presented (in case of plcs and S.C)
- Any document relevant to the business such as contract made with other organizations and any feasibility study connected with new investment proposal
- Based on the above documents the bank makes further investigation
- Confirms the genuineness of the documents presented by the applicants
- Interview the applicants way she or he needs the money, how she or he has planned to return it and other
- credit information from NBE central data center in order to know the applicant is a defaulter or was good customer in other bank
- In relation to the amount of money that the customer requested, the bank was different hierarchies that scrutinize and approve the loan to be granted.

This is as described below;

Up to birr 200,000 the branch loan committee can approve and above birr 200,000.00 approved by the head office credit committees.

4.1.4 Preliminary Interview

Before starting the paper work for the actual processing loan the loan officer makes further investigation. The respective loan officer must interview borrowers in order to confirm the genuineness of the documents presented by the applicant the questions raised and the response made must be recorded on CCR and attached to the respective file for reference.

Questions declared are like;

- Address
- Name of his /her wife or husband (for credit purpose)
- Year established
- Initial capital & present capital in birr
- Facility applied birr
- Purpose
- security offered
- relation with this bank and other such as depositor, borrower or mortgage
- other liability such as payable, bank loans , tax payable and third party liability

- assets such as cash in bank, cash on hand, goods in stock, advance payment on merchandise in transit etc
- income such as : sales other income etc
- expense such as salaries and wages, insurance ,utility and other

4.1.5 Credit Information

Before deciding on financing of the business it should be obtain both internal and external sources before making decision on the financing of the business it should be decision on the financing of the applicant.

Internal source of information are the customer's account in the bank. The business activity and credit worthiness of the applicant can be obtained by the reputation and magnitudes of the transactions as well as the checked balances for lack of funds (Wegagen bank SC June, 2013)

4.2 Other Means before Lending

The lending information may be past records of settled loans to confirm his agreement habit. As an additional source NBE central data will also provide inform if there is belief that the customer was bee doing his other credit or deposit with other banks. The NBE specifies the applicant's credit relationship with other borrowers past and present performance on credit activity. After this the next step is to review the borrower's business activities.

4.2.1 The Business Visit

The branch management and the loan officer sound visit the applicant's business site as well as the personal guarantor if any. The purpose of this visit is,

- To confirm the announced financial position by checking physically the amount of cash on hand, receivable document, buildings. Goods in stock etc.
- Access whether the applicants is actually operation a business that they are licensed to
- Have an overall view that the business of the applicant by observing as regards demands of the area the numbers of employee and machineries.
- Determine the address of the borrower or this guarantor for subsequent visit also to identify the security pledged.

This is done only after being satisfied with the activities of the business. The property must be fixed in its nurture, have already marketable value not characterized by wide fluctuation and movable like motor vehicle. Bank engineer or loan officer with the branch manager must estimate all *properties offered as security on fee paid*. It is estimated by loan officers or hired professional evaluators who are experienced in market value of all kinds of properties.

Collaterals typically vehicles must be re estimated every request of loan due to rapid depreciation. While building must be re estimated other every three years or after extension is made.

In relation to amount of loan that the customer requested the bank has different hierarchies, up 200,000 birr and if the collateral is vehicle an engine from head office estimates the collateral.

Assessment of property must contain,

1. Basic data:

This include location of the property, type of property(Agricultural land, industrial land, residential property, business property, work ship etc.) market value of similar properties in area any factor that may affect the value of the property, and other factors which may influence the valuation.

2. Assessment;

The assessment must control all relevant data needed for assessment and should, not make reference to source that are not easily accessible to the client or the bank. And the assessment must make allowance for price increase or decrease depending on anticipated make conditions. After the property offered was assessed the loan officer should think about the loan amount to be granted for the applicant as compared with his or her value of the collateral, financial strength of the business activity and credit worthiness. It is granted less than or equal to the value assessed. The next step is about source of repayment.

4.2.3 Source of Repayment

Before proposing loan for a person or an organization it should be known that from which the loan give to the borrower is expected to be repaid. It is supposed to repay from the proceeds of the business activities from his /her sales volume in which generates income within reasonable period of time not from the liquidation of the collateral. And also thinks about repayment schedule such as monetary quarterly , semi-annually, at maturity etc. this is observed from the borrowers financial analysis of income statement and balance sheet which includes cash on hand available during visiting, cash in bank

as at date, account receivable and not receivable as per his /her book register during visiting, goods in stock at visiting shipment in transit as per the receipts, building held as collateral and other additional assets, networking capital, current ratio, sales to receivables ration, sales to current asset ratio income for tax as percentage of current asset, and total debt to net worth ratio. After all this done the loan officer prepares the LAF to approve or reject.

4.2.4 Loan Approval

After all the above activities are completed the loan officer should prepare the loan approval format. The LAF is a format which includes all the necessary information about the borrower such as name of the borrower, types of loan, required amount, purpose of the loan, collateral offered, value of collateral, liabilities outstanding (including the bank) balance sheet summary (including net working capital this year and last year capital and reserve net profit loss). And all other activities of the borrower like background source of repayment financial performance, managerial capability and all other activities that was in the above step are summarized and displaying in the way that easily to understand for the loan committee. And then the loan officer recommends granting the request; then the final part of the LAF is recommendation. In this part should specify, amount recommended duration of loan period, interest rate, and amount of repayment, repayment schedule, blue and collateral offered, conditions should be fulfilled before disbursement is effective. After that the loan proposal that meets all the criteria has to be submitted to the branch loan committee for approval. The branch loan committee has the power to accept, or to reject the loan proposals, which is submitted to it, if he loan amount is above the branch limit, which is above 200,000 birr it is recommended to approve or decline by the head office credit committee.

4.2.5 Loan Contract

After the loan committee approves the proposal of loan the loan contract is to be prepared immediately in all proposed formats and copies as needed in order to register.

Loan contracts are contracts of which the borrower owns or acknowledges the loan forwarded to him, undertakes to pay the periodic installments, agree to pay the indicated interest rate. Loan contracts are witnessed (stat of the bank) by the person and must be signed by the branch manager and the borrower. After this signing of the contract, the borrower will be identified and will also get a copy.

4.2.6 Security Contracts

Securities are pledges or collaterals for the loan advance and fasten the guarantor equally and he borrower himself in case of default.

Similar to loan contracts, security contracts are also signed by the branch manager and the borrower and with the witness (Staff of the bank) of three persons. Besides to this the spouses of the guarantors should join in signing the contracts in case of married person.

In general other *relevant* appends to the contract, like variable interest rate append, defect clause append, insurance appends etc. should be fulfilled in and signed by contract witnessed.

After signing all the contracts, they should be sent to the respective offices for registration of debt against the property. For instance for buildings, the contracts are sent to the municipality who will register the loan, retain a copy of the contract return the rest to the branch. For vehicles the ministry of transport and communication register the loan on the respective files of the vehicle. As per the writer opinion this task should be handling by the bank messenger order to not create insolvency to customers.

The main aim of registering the loan at this office is to safe guard the lender interest against transferring of the title of the collateral to the third party without the awareness of the bank.

4.5.1 Insurance converge for the collateral

Insurance can be briefly defined as the coverage by contracts was by one alliance under takes to identify of guarantee another against loss by a specified contingency.

All properties considered as guarantee while granting loans should be covered and authorized by insurance companies against relevant risks in the name of the bank and the property holder. For instance a building its values of location fences compound and are not included in the insurance rather the year naturally covered against lightening and fire.

In all cases, the insurance policies should be confirmed in the application or name of the lender so that the gain or proceeds will be directed to the lender for the settlement of the debit in the case of the determinate of the property (Nuru and Alemu, 2013).

4.6 Loan disbursement

After accomplishing all the duties mentioned in the report body, then approving of the loan, the contract registered and confirmed insurance policies submitted, disbursement could bade nevertheless, prior to forwarding the loan, the following points should notice.

- For the purpose of management of end use of the loans they should be paid directly to the concerned seller or supplier gains written consent of the borrower if the loan approved is for the purpose of purchasing truck etc. but if the loan is for working capital, it is disbursed to her saving account
- All conditions stated by the loan committee should be fulfilled
- The borrower should give as theorization to the lender wages such as periodic loan repayments, revenue stamps, estimation facing other charges pertaining the credit.

All the information and entries should be immediately posted in computer only since, it is computerized of open in the name of the borrower.

Accounting treatment

Accounting treatment during disbursement of the money to the debtor (assume Mr. is a debtor) will be as follows;

- For the approval of the loan debit loan number and credit account number of Mr.
- For the estimation fee debit accounts number of Mr. and credit other income (estimation fee).
- For the stamp duty a verges debit account number of Mr. and credit head office account
- For the revenue stamp, debit account number MV.X and credit sundry debtors (miscellaneous).

4.7 Follow up and Collection Procedure

Loan advancing involves processing a loan application, approval disbursement and follow up has made to see that the loan is used for the purpose it was intended and the borrowers complying with the terms of the loan agreement. Diverting the purpose of loan after approval is not allowed.

Follow-up starts after the loan disbursement has been effective. There should no relaxation in the follow-up of loans. Keeping track of loan repayment schedule in the case of term loans. Credit follow-up is one of the main tasks of manager and loan officers as well as the credit and risk management department. Nevertheless, it is also the most espial source of potentials. In many ways the most difficult function of lending is the collection of disbursed loans. If any loan falls arrears or is overdue (loans and advances which are not repaid in full at the agreed period as per contract) in spite of regular follow up the lending branch shall contract borrowers by telephone and visit them

The entry involved for treatment of loan repayment has debit account number Mr. X and credit loan number Mr.

(Nuru and Alemu, 2007)

4.8 Primary Data Analysis and Discussion

Data Presentation and Analysis That Obtained from the Bank's Employees

In this section the data gathered will be analyzed and interpreted from the answers and suggestions of respondents pertaining to the loan advancing procedures and practices in Wegagen bank of Ethiopia, Arbaminch branch.

Before distributing the questionnaire, the study determined the size of the sample which was expected to represent the total population of the bank in support of accurate information gathering and generation for the study.

The sample used in this study is 12 respondents. Among them, the number of males is 7(58.33%) whereas females are 5(41.67%).

4.8.1 Background of the Respondents

Objectives of Background of Respondents Analysis

1. To know the age and maturity of the employees to respond the questionnaire honestly.
2. To know qualification of respondents who respond on the questions before concluding and summarizing based on the data collected from them.

To identify experience of the respondents before concluding and summarizing based on the data collected from them.

Table 1: demographic characteristics of respondents

No	Items	Respondents				total
		Males		females		
		No	%	No	%	
1	Sex	7	58.33%	5	41.67%	12
2	Age	4	57.14%	3	60%	7
	a.25-30	3	42.86%	1	20%	4
	b.31-40	0	-	1	20%	1
	above 40					
3	Education					
	a. diploma	0	-	0	-	0
	b.1 st degree	7	100%	5	100%	12
	c. masters	0	-	0	-	0
	d. other	0	-	0	-	0
4	Working experience					
	a. Between 0-3years	4	57.14%	0	-	4
	b. Between 3-5years	0	-	2	40%	2
	c. Above 5years	3	42.86%	3	60%	6

Source: Wegagen Bank of Ethiopia, Arbaminch branch

According to the questionnaires conducted in the above table, from the 12 respondents of the bank 7 (58.33%) are males whereas the numbers of female are 5(41.67%).

☉ For the personal information(Qualification in education) asked, respondents respond or answer as follows:

- ☞ Diploma: Males 0 (-) female 0 (-) total 0(-)
- ☞ 1stDegree: Males 7 (58.33%) and females 5 (41.67%) total 12(100%)
- ☞ Masters: males0 (-) females 0 (-) total 0 (-)

From this analysis we can understand that all of the respondents are degree graduates in percentage of 12(100%)

☉ For the age asked, the respondents answer their ages as follows:

- ☞ 25-30: males 4 (57.14%) females 3 (60%) total 7(58.33%)
- ☞ 30-40: males 3 (42.86%) females 1 (20%) total 4(33.33%)
- ☞ Above 40: male 0(-) females 1 (20%) total 1(8.33%)

From the above we can understand that majority of the respondents are between 25-30 years range having percentage of 7(58.33%)

☉ For the working experience asked in the banking industry:

- ☞ Between 0-3years males 4(57.14%) females 0(-) total 4(33.33%)
- ☞ Between 3-5 years males 0(-) female 2(40%) total 2(16.67%)
- ☞ Above 5 years males 3(16.7%) female 3(60%) total 6(50%)

From this analysis we can understand that majority 6(50%) of the respondents have above 5 years work experience.

4.5.2 Loan Advancing Procedures and Practices

Objectives of Loan Advancing Procedures and Practices Analysis

1. To know what loan advancing procedures are practiced.
2. To identify the procedures and policies applied or used in the bank are appropriate for both the banks safety and customer satisfaction.

The bank should always have healthy principles and policies which help it in the healthy operation and sustainability of the bank in the future. Not only that but also survival in the bad economic conditions is dependent on what the bank is doing and the doing depends on the how to do. Therefore, to know the advancing procedures and practices in the bank the study gathered the following data from the respondents.

Table 2: Loan Advancing Procedures and Practices

no	Items	Respondents				total
		Male		female		
		no	%	no	%	
1	What are the services given by your bank?					
	a. Domestic Banking (Loans and Deposits)	0	-	0	-	0
	b. International Banking (Import-export, Letter of Credit, &Fore Services)	0	-	0	-	0
	c. Money transfer	0	-	0	-	0
	d. All	7	100%	5	100%	12
2	If your answer for above question is 'Domestic Banking (Loans and Deposits)', what type loan it is?					

	a. L o n g T e r m L o a	0	-	1	20%	1
	b. S h o r t T e r m L o a	1	14.29%	0	-	1
	c. B o t h o f t h e t h e	6	85.71%	4	80%	10
3	If your answer for above question is any, what loan advancing procedure and practices are employed by the bank?					
	a. S i m p l e a g r e e m e n t	0	-	1	20%	1
	b. C o l l a t e r a	7	100%	4	80%	11
	c. O t h e r	0	-	0	-	0

Source: Wegagen Bank of Ethiopia, Arbaminch branch

The questions about loan advancing procedure and practice, is gathered from the respondents and analyzed as follows.

For the question asked to know what loan services are provided by the bank, all of the respondents (males 7(58.33%) and females 5(41.67%), total 12 (100%)) answered by choosing all type of loan services(Domestic Banking (Loans and Deposits), International Banking (Import-export, Letter of Credit, &Forex Services) and Money transfer). Also all the respondents (100%) confirm that all the loan advances offered by the bank are based long term and short term basis.

From this we can understand that the bank offers all type of loan services on short and long term basis.

For the question asked to know what loan advancing procedure and practices are employed/used by the bank, respondents answered as follows:

- ↪ Simple agreement: 0males and 1females total 1(8.33%)
- ↪ Collateral: 7 males and 4females total 11(91.67%)
- ↪ Others: nether males nor females responded

From this, the majority of the respondents that means 11(91.67%) employees answered “collateral loan”

4.5.3 Effectiveness and Profitability of the Bank from the Loan Provided

Objectives of Effectiveness and Profitability of the Bank from the Loan Provided Analysis

1. To assess whether the loan advancing procedures are contributing to the profitability of the bank.
2. To assess the effectiveness of the loan and loan return in relation to loan procedure practiced.

The banks’ life depends on the profit earned from the services provided to their respective customers. Among the services loan is one of them and the major part/portion of the income generated from it. So that, in order to check whether the bank is effective and profitable from the loan provided besides to the principles and policies as well as practices, the following table’s data show the response of the respondents both in number and percent

Table 3: Effectiveness and Profitability of the Bank from the Loan Provided

no	Items	Respondents				total
		male		Female		
		no	%	no	%	
1	Is the bank effective and profitable from the loan provided by procedure and					

	practice?	6	85.71%	5	100%	11
	a. Yes	1	14.29%	0		1
	b. No					
2	If your answer for the above question is No, why?					
	↔ Due to customer's default	1	14.9%	0	-	1
	↔ Due to bank's negligence	0	-	0	-	0
	↔ Due to economic condition	0	-	0	-	0
	↔ Due to the loan principles problem	0	-	0	-	0
	↔ Others	0	-	0	-	0

Source: Wegagen Bank of Ethiopia, Arbaminch branch

☞ For the question asked to know whether the bank is effective and profitable from the loan provided by procedure and practice, respondents answered as follows:

↔ Yes 6 males and 5 female total 11(91.67%)

↔ No 1 male and 0 females total 1(8.33%)

This shows that almost all of the respondents 11 (91.67%) selected the choice “yes” and only one male respondent (8.33%) selected “NO”.

At the same time the researcher proceeded to ask why he select “NO” and got a response saying Due to customers default: 1 male total 1(8.33%)

From the analysis, we can understand that majority of respondents chosen “YES” having percentage of 11(91.67%).

4.8.2 Loan Recoverability Test According to Principles

Objectives of Loan Recoverability Test

1. To assess the degree of the loan to be recollected and invested in other portfolio.
2. To dig out the reasons of non-recoverability of loans and how to recover them.
3. To discuss appropriate method to collect loans with minimum effort and time to collect it back. Without recovering the loan provided, effectiveness and profitability are unthinkable issues. In order to know whether it is effective and profitable, the extent of recovering should be assessed. To assess the degree of recoverability, the study prepared the questionnaire in the following form. From the question asked the following data is gathered from the respondents.

Table 4: Loan Recoverability Test According to Principles

No	I	t	e	m	R e s p o n d e n t s		
					M a l e	F e m a l e	T o t a l

		No	%	No	%		
1	Is the bank recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients? a. Yes b. No	6	85.71%	5	100%	1	1
		1	14.29%	0	-	1	
2	If your answer for the above question is No, why? ⇒ Due to customer's default ⇒ Due to bank's negligence ⇒ Due to economic condition ⇒ Due to the loan principles problem ⇒ Other	1	14.29%	0	-	1	
		0	-	0	-	0	
		0	-	0	-	0	
		0	-	0	-	0	
		0	-	0	-	0	
		0	-	0	-	0	
3	How do you do you recover uncollectable loan? a. Phone call billing b. Bill board notification c. Applying to court d. Other	2	28.57%	1	10%	3	
		1	14.29%	2	40%	3	
		4	57.14%	2	40%	6	
		0	-	0	-	0	
		0	-	0	-	0	

Source: Wegagen Bank of Ethiopia, Arbaminch branch

☛ For the question asked to know whether the bank is recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients, the respondents answered as follows:

⇒ Yes: 6 males and 5 female total 11(91.67%)

⇒ No: 1 male and 0 females total 1(8.33%)

This show that the majority of the respondents 11(91.67%) choose “YES” (the bank is recovering/collecting back the loans).

☛ For the question asked to know the reason of non-recoverability, the respondents answered as follows:

⇒ Due to customers default: 1 male total 1(8.33%)

⇒ Due to bank's negligence: neither males nor females choose it

⇒ Due to economic condition: neither males nor females choose it

⇒ Due to loan principles problem: neither males nor females choose it

⇒ Others: neither males nor females choose it

From this we can understand that only one respondent 1(8.33%) choose “Due to customers default”

For the question asked to know the method of recovering non performing (uncollected) loans, respondents answered as follows:

- Phone call billing: 2 male (28.57%) and 1 female (10%) total 3(25%)
- Bill board noticing: 1 male (14.295%) and 2 female (40%) total 3(25%)
- Appling to court: 4 males (57.14%) and 2 female (40%) total 6 (50%)
- Others: Neither nether males nor females choose it.

From this we can understand that majority of the respondents 6(50%) chosen “Appling to court”

4.8.3 Unique Features of the Bank

Objectives of Analysis of Unique Features of the Bank With Regard To Loan Advancing Procedures Practiced

1. To know features of the bank which are different from other banks with regarded to procedures of loans
2. To recommend that principles and procedures to be practiced in the bank.All businesses including financial institutions are in the competition in order to attract the major part of the market because the one, who has greatest market share, will best operate in the market than those who have less market share. In order to know whether the bank has services which make it unique from the others, the study collected the following data from the permanent and experienced employees.

Table 5: Unique Features of the Bank

No	I	R e s p o n d e n t s					
		M a l e		F e m a l e		Total	
		No	%	No	%		
1	Do you think that your bank loan advancing procedure and practice is better than others ?						
		a. Y e	5	71.43%	5	100%	10
		b. N o	2	28.57%	0	-	2
2	If your answer for the above question is yes, what are unique features of the bank's loan advancing procedures and practices in relation to other banks?						
		a. Borrowers can get loan within short tim	4	57.14%	3	60%	7
		b. Borrowers can get loan within long tim	0	-	1	20%	1
	c. B o t h o f t h e	3	42.86%	1	20%	4	

<p>2</p>	<p>If your answer for the above question is any, what is borrowers' feedback and comment over your policy and procedure?</p> <p>a. V e r y g o o d b. G o o d c. M e d i u m d. P o o r e. No comment and feed back</p>	<p>4 3 0 0 0</p>	<p>57.14% 42.86% - - -</p>	<p>3 1 1 0 0</p>	<p>60 % 20% 20% - -</p>	<p>7 4 1 0 0</p>
<p>3</p>	<p>If the borrowers' feedback is any except E (no comment and feedback), have you took any decision and improvement?</p> <p>a) Y e s b) N o</p>	<p>6 1</p>	<p>85.71% 14.29%</p>	<p>5 0</p>	<p>100% -</p>	<p>1 1 1</p>
<p>4</p>	<p>If your answer for the above question is yes, then after what do you?</p> <p>a) W e i m p r o v e t h e p o l i c y b) W e a p o l o g i z e t h e b o r r o w e r s c) O t h e r</p>	<p>6 0 0</p>	<p>85.71% - -</p>	<p>4 0 1</p>	<p>80 % - 20 %</p>	<p>1 0 0 1</p>
<p>5</p>	<p>If your answer for the above question is No, Why?</p> <p>a) W e h a v e n o t t i m e t o i m p r o v e b) W e f o r g o t c) W e i g n o r e i t</p>	<p>0 0 1</p>	<p>- - 14.29%</p>	<p>0 0 0</p>	<p>- - -</p>	<p>0 0 1</p>
<p>6</p>	<p>If your answer for the question is any, what changes do you observe on borrowers due to the bank's operation?</p> <p>a) T h e n u m b e r o f c u s t o m e r s w a s a s i t b) C u s t o m e r s s t a r t t o c h a n g e t h e b a n k c) T h e r e t u r n f r o m l o a n i n c r e a s e d) W e d o n o t t a k e i t i n t o a c c o u n t e) w e o b s e r v e N o t h i n g</p>	<p>3 0 3 0</p>	<p>42.86% - 42.86% -</p>	<p>3 0 2 0</p>	<p>60 % - 40 % -</p>	<p>6 0 5 0</p>

		1	14.29%	0	-	1
7	If your answer for the above question is Customers start to shift/change the bank, what type strategy you start?					
	a) Improvement of loan policy and procedure					
	b) Nothing or no action	4	57.14%	0	-	4
	c) Other	1	14.29%	0	-	1
		0	-	1	20%	0

Source: Wegagen Bank of Ethiopia, Arbaminch branch

☞ For the question asked to know whether the bank’s employees perception and attitude towards banks services and over all operation in relation to loan advancing procedure practiced in the bank, the respondents answered as follows:

- ☞ Yes: 5 males and 5 female total 10(83.33%)
- ☞ No: 2 males and 0 females total 2(16.67%)

From this we can understand that majority of the respondents 10(83.33%) chosen “YES”

☞ For the question asked to know the unique features of the bank’s loan advancing procedures and practices in relation to other banks?

- ☞ Borrowers can get loan within short time: 4 male and 3 females total 7(58.33%)
- ☞ Borrowers can get loan in long time: 0 males and 1 female total 1(8.33%)
- ☞ Both of them: 3 male and 1 female total 4(33.33%)

This show that the majority of the respondents 7(58.33%) chosen “Borrowers can get loan within short time”

Upon knowing the length of time that takes to acquire the loan, the study proceeded to know the comment and feedback of the customers given to the bank regarding authority.

☞ For the question asked to know the borrowers’ feedback and comment over your policy and procedure, the respondents answered as follows:

- ☞ Very good: 4 males and 3 female total 7(58.33%)
- ☞ Good: 3 males and 1 female total 4(33.33%)
- ☞ Medium/Average: 0 male and 1 female total 1(8.33%)
- ☞ Poor: neither males nor females choose it
- ☞ No comment and feedback: neither males nor females chosen it

From this we can understand that the majority of the respondents 7(58.33%) chosen “Very good”

For the question we asked to know whether the bank is taking decision based on the comment of the customers, the respondents answered as follows

- a) Yes: 6 males and 5 female total 11(91.67%)
- b) No: 1 male total 1(8.33%)

From this we can understand that, the majority of respondents 11(91.67%) chose “yes”

☞ For the question asked to know what decision the bank taken, the respondents answered as follows:

- a. We improve the policy: 6 male and 4 female total 10(83.33%)

- b. We apologize the borrowers: neither males nor females chose it.
- c. Others: 1 female total (8.33%).

From this data we can understand that the majority of the respondents 3(60%) chosen “We improve the policy”.

☛ For the question we asked to know what changes are observed from borrowers due to the bank operation, the respondents answered as follows:

- ☛ The number of customers was as it is: 3 males and 3 female total 6(50%)
- ☛ Customers start to change the bank: 1 males and 0 female total 0(-)
- ☛ The return from loan increased: 3 males and 2 female total 5(41.67%)
- ☛ We do not take it in to account: neither males nor females chose it.
- ☛ We observe nothing: 1 male and 0 female total 1(8.33%)

From this data we can understand that the majority of the respondents 6(50%) chosen “The number of customers was as it is”.



CHAPTER FIVE

5. CONCLUSION AND RECOMENDATION

5.1 Conclusion

Generally, this chapter gives a conclusion in relationship with the loan advancing procedure of Wegagen Bank of Ethiopia, Arbaminch branch. To this end, credit related issues are discussed and relevant data are analyzed.

The study concludes that loan is beneficial both to the bank as well as to the borrower, banks have to give a peculiar focus on it.

- The loan department of the bank is organized by educated and mature employees
- Majority of employees have above 5 years work experience.
- The bank offer almost all types of loan on long term and short term basis.
- The bank uses collateral type of agreement to secure its loans from customer default.
- The bank is effective and profitable from most of its loan provided by the procedure and practice
- The bank is recovering/collecting back most its loans according to the procedures.
- Customer default is still problem for the bank
- The bank is using court as a tool for overdue loans or for the clients/borrowers who are not paying back the loan in a date they agree/ maturity date.
- There are unique features which make the bank different from other banks in relation to loan advancing g procedure and practice.
- The time of giving loan to the most of borrowers is within short time.
- The comment and feedback that the bank got from the borrowers is “very good” when the bank ask them to comment it.
- The bank have taken measurements and decisions to improve customers comment over its operations
- The customers/borrowers numbers of the bank was as it is(no change or no increase or decrease)
- The bank is not updating g and improving the loan advancing procedures and principles timely.
- There is lack of discussion between manager and loan officers in the bank about the loan procedures to be used and customers.

5.5 Recommendations

Based on the findings from questionnaire, interview and personal observation, the following recommendations are forwarded aiming at betterment of the bank performance in loan advancing procedure.

On the basis of the assessment, Wegagen Bank of Ethiopia, Arbaminch branch should take the following measures to improve its credit activity and to maintain its customer from switching to other banks.

- The bank should provide regular training to all its Employees in general and loan officers in particular on how to handle customers.
- The bank should always collect the loans from the borrowers.
- The bank should work to maintain customer default to the minimum level possible.

- The bank should give loan for potential debtors and recollect the loans through other means first rather than applying to court.
- The bank should work more on developing unique features that distinguish it from other banks in order to have competitive advantage over them or increase number of customers
- The borrowers should get loan within short time the maximum of ten days after their application and providing necessary documents.
- The bank should work to maintain its good comment from the customers since customer is the greatest asset of any business and financial institutions.
- The bank should always update the loan procedures based on the prevailing changes and conditions.
- The bank should work hard to increase number of customers because the larger the customers the higher the profit.
- The bank should conduct customer's satisfaction research.
- The manager should develop good communication with loan officers and customers.



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Appendix

PARAMED COLLEGE OF BUSSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE FOR THE STAFF OF WEGAGEN BANK OF ARBA MINCH BRANCH

Dear Respondent:

We are paramed healthy and business college department of accounting and finance study in titled. on assessment of loan advance procedure and practice in the case study on Wegagen bank Arba Minch branch. Here, we assure you that the information obtained from this questionnaire will be used only for academic purpose and your responds will be kept confidential and anonymous in the report.

Thank you for your participation

Instruction

- Please put tick mark (√) on your choice(s)
- You may choice more than one option when you feel applicable
- No need of mentioning your name (anonymous)

PART A: DEMOGRAPHIC BACKGROUND OF RESPONDENTS

- 1.Sex: A. Male b. Female
- 2.Age: A.25-30 b.30-40 C. Above 40
- 3.Education: A. Diploma B. 1st Degree C. Masters D. Other
- 4.Working experience in the banking industry?
- A. Between 0-3years B. Between 3-5 years C. Above 5 years

PART B: OBJECTIVES OF LOAN ADVANCING PROCEDURES AND PRACTICE ANALYSIS

- 5.What are the services given by your bank?
- A. Domestic Banking (Loans and Deposits)
- B. International Banking (Import-export, Letter of Credit, &Fore Services)
- C. Money transfer
- D. All

6.If your answer for above question is ‘Domestic Banking (Loans and Deposits)’, what type loan it is?

- d. Long Term Loan b. Short Term Loan c. Both of the them

7.If your answer for above question is any, what loan advancing procedure and practices are employed by the bank?

- d. Simple agreement b. Collateral c. Others

8.Is the bank effective and profitable from the loan provided by procedure and practice?

- c. Yes b. No

9.If your answer for the above question is No, why?

- ↔ Due to customer’s default C. Due to bank’s negligence
↔ Due to economic condition D. Due to the loan principles problem
E. Others

10.Is the bank **recovering** the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients?

- c. Yes b. No

11.If your answer for the above question is No, why?

- A. Due to customer’s default C. Due to bank’s negligence
B. Due to economic condition D. Due to the loan principles problem
E. Others

12. How do you do you recover uncollectable loan? Phone call billing c. Bill board noticing

- e. Applying to court d. Others

13.Do you think that your bank loan advancing procedure and practice is better than others?

- c. Yes b. No

14.If your answer for the above question is yes, what are unique features of the bank’s loan advancing procedures and practices in relation to other banks?

- d. Borrowers can get loan within short time c. Borrowers can get loan within long time
e. Both of them

15.If your answer for the above question is any, what is borrowers’ feedback and comment over your policy and procedure?

- f. Very good c. Good
g. Medium d. Poor
e. No comment and feed back

16.If the borrowers’ feedback is any except E (no comment and feedback), have you took any decision and improvement?

- c) Yes b) No

17.If your answer for the above question is yes, then after what do you?

- d) We improve the policy c) We apologize the borrowers

e) Others

18.If your answer for the above question is No, Why?

d) We have not time to improve

e) We forgot

f) We ignore it

19. If your answer for the question is any, what changes do you observe on borrowers due to the bank's operation?

f) The number of customers was as it is

g) Customers start to change the bank

h) The return from loan increased

i) We do not take it in to account

j) we observe Nothing

20.If your answer for the above question is Customers start to shift/change the bank, what type strategy you start?

d) Improvement of loan policy and procedure

e) Nothing or no action

f) Others

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