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CREDIT CONTROL ATTITUDE AND COMPLIANCE WITH CENTRAL BANK OF NIGERIA PRUDENTIAL GUIDELINES: EVIDENCE FROM A DEPOSIT MONEY BANK IN NIGERIA

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Abstract

This study examines the extent of deposit money banks' compliance with Central Bank of Nigeria (CBN) prudential guidelines on credit control. This was necessitated by the persistent increase in the loan impairment charges of the surveyed bank between 2012 and 2016. Certain qualitative factors were looked into in identifying possible issues associated with the credit control attitude of the bank staff. The major objective of this study was to determine whether any significant relationship exists between credit control attitude of bank staff and level of compliance with CBN prudential guidelines. The study used primary data collected through oral interviews and through a structured questionnaire administered to 40 credit control staff who constituted the population sample. Analysis of the data collected was carried out using X2-distribution model. The study revealed that the attitude of staff towards credit control is significantly independent of their level of compliance with CBN prudential guidelines. There was therefore, no significant relationship between credit control and CBN prudential guidelines suggesting a weakness in the credit control system of the bank. It was thus recommended that awareness be created for staff on the importance of complying with CBN prudential guidelines, emphasizing that loans and advances be properly monitored, and customers' creditworthiness be properly ascertained before credit facilities are granted.

Keywords: Credit control, CBN prudential guidelines and Deposit money bank.

1. Background to the Study

Banking in any given economy is one of the primary activities which oil the wheels of economic growth. Basically, a bank is a financial institution which accepts deposits and channels these deposits into lending, either directly or through the capital market. A bank serves as a financial intermediary which connects customers that have capital deficit to customers with capital surplus. Its two traditional functions are deposit collection and lending, amidst other functions which include granting overdrafts, discounting bills of exchange, agency functions, etc. according to Jhingan (2004) deposit money banks operate by keeping a certain percentage of their time and demand depositing cash, lends the remaining amount on interest. Thus these banks render great economic services in extending credit facilities to borrowers. Deposit money banks are also positioned to manipulate the monetary policy so as to achieve governments laid down objectives. Jhingan further stated that they help the economic development of a country by faithfully following the monetary policy of the central bank. They do this through the variation of the level and volume of deposits, as well as the contraction and expansion of their loan schemes through their interest rates. Primarily, deposit money banks are profit-driven. This entails that their motivational driving force is profit. As noted by Kock (1992) managers of these

banks have critical interests in ensuring that the bank is operated in an efficient and profitable manner. They create profit mainly through the issuance of loans. Jhingan also noted that by advancing a loan, banks create credit which is a temporary source of funds for the bank. Thus while being the highest earning asset, the loan portfolio is the riskiest of bank assets. Its degree of risk is occasioned by the fact that it is highly liquid. In the process of extending credit facilities, banks incur risks and experience losses when certain borrowers fail to repay their loans. As noted by Harvey and Merkowsky (2008) a business must first consider that some debtors will never pay any of the amounts they owe, while others may pay a part of the amounts owing, only leaving the remainder permanently unpaid. When there is a doubt concerning the recovery of a given loan, such is classified as doubtful, and when there is a default by the debtor over a prolonged period of time, it is regarded as an impaired loan. This arises due to reasons such as the demise of a borrower, bankruptcy, etc. According to Libby, Libby and Short (2001) impaired loan is the expense associated with estimated uncontrollable accounts receivables. Thus a loan is classified as impaired when the bank beyond every reasonable doubt cannot recover it. Since giving out credit is one of the major businesses of banks, credit control systems are very vital to ensure that the credit given can be re-paid by the collectors because failure to collect the loans prejudices the banks capacity to honor their own obligations, owing to the fact that the bank managements task remains the generation of sufficient profit with a logical eye on boosting shareholder value.

1.2 Statement of the Problem

A thorough appraisal of credit projects by banks is of utmost importance in order to identify the project risks, and to ascertain the fact that the project will function as per plans. Assessment of the financial and economic viability of the debtor with respect to the repayment of the debts, as well as ensuring a satisfactory rate of return on the funds proposed to be lent. Banks are, therefore, encouraged to develop the requisite expertise to conduct a thorough appraisal of the debtor, and may constitute appropriate special divisions/department for project financing or outsource project feasibility assessment. (CBN Prudential Guidelines, 2010).

Unfortunately, the annual report of a major deposit money bank in Nigeria showed a persistent increase in its loan impairment charges from ₦739 million in 2012 to ₦65.3 billion in 2016 cumulatively representing 8,736% increase for a 5-year period and 1,747% in yearly average terms. This scenario suggests that the credit control system of the Bank is weak making one to wonder whether CBN prudential guidelines are actually being complied with. The objective of this study is to determine the extent to which deposit money Banks in Nigeria have complied with CBN prudential guidelines. To what extent have deposit money Banks in Nigeria complied with Central Bank of Nigeria (CBN) prudential guidelines on Credit control?

1.3 Objectives of the Study: The main objective of this research is to determine the attitudes of deposit money banks' staff towards compliance with CBN prudential guidelines. The specific objectives are:

1.3.1 To determine the perception that credit control staff of deposit money Banks have for CBN prudential guidelines.

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1.3.2 To check the level of compliance of the credit control unit with prudential guidelines of the Central Bank of Nigeria.

1.3.3 To determine the factors that influence level of compliance with CBN prudential guidelines.

1.4 Research Questions: Given the problem of this study, the critical questions that need to be addressed are;

1.4.1 What effect does the credit control staff perception of CBN prudential guidelines have on the success of the credit control system?

1.4.2 What effect does compliance with the CBN prudential guidelines have on the credit control unit of the bank?

1.4.3 What factors influence the level of compliance with CBN prudential guidelines?

1.5 Research Hypotheses: The following was formulated to guide the research:

1.5.1 **H_0:** Attitudes of deposit money bank staff towards credit control is significantly independent of their level of compliance with CBN prudential guidelines.

1.5.2 **H_1:** Attitudes of deposit money bank staff towards credit control is significantly dependent on their level of compliance with CBN prudential guidelines.

1.6 Significance of the Study

This research work is expected to render great assistance to corporate financial institutions mainly banks and be beneficial in varied forms to the government, business organizations, the academia and other interest groups not listed.

Specifically, it is aimed to aid the following interest groups:

1.6.1 The Banking Sector: It will aid the management of deposit money banks in the appraisal of some of their policies which have been rendered ineffective by modern developments in the business and financial circle. It will further aid bank policymakers and managers in their credit management decisions.

1.6.2 The Government: It will aid the government in formulating better financial policies and directives which regulates the banking sector.

1.6.3 The Academia: It will aid both current and potential researchers, as well as add to the existing literature on debt management and thus will broaden learning.

1.6.4 Investors In The Capital Market: It will aid both current and potential investors in deposit money banks in evaluating whether it is worth investing in the banking sector.

1.6.5 Other Business Organizations: It will aid other business organizations in understanding the negative effects of defaulting bank loans, and the importance of repaying on time, as well as formulating better policies for borrowing from the money market.

1.6.6 The Researcher: It will aid the researcher in increasing learning as no knowledge is a waste. It will also provoke the penchant for research into related areas in the financial market as well as debit credit management studies in other fields of business.

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1.7 Scope and Limitations of the Study

This research is centered on credit control attitude of deposit money bank staff and their compliance with CBN prudential guidelines, with reference to the Nigerian Banking Industry. Its scope is further restricted to the credit control and the debt recovery department of banks, using a major deposit money bank in Nigeria as the unit of analysis. The study was however, limited to only one deposit money bank using the bank's annual report for a limited time span of only 5 years. Future research in this area should be extended to more than one deposit money bank using annual financial reports covering a longer time span than the 5-year period used for the current study.

1.8 Operational Definition of Terms: The following words are defined as will be used in this work.

1.8.1 Credit Control: In this study, credit control is defined as debtors' circularization, the existence of a customer –banker relationship and credit control staff perception of the CBN prudential guidelines.

1.8.2 Prudential guidelines: These are laid down regulations of the Central Bank of Nigeria (CBN) that guide the activities of all banks as they relate to the creation and control of credits.

2. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Profitability Theory: Traditionally, profit maximization is the goal of every firm. Even when this proposition is argued against, it has been replaced with the goal of wealth maximization and the need to accord a top priority to profits, still remains visible. As argued by Ndubisi (2008) profit maximization has been postulated as the proper objective of the firm rather than wealth earned to sustain the operation of the business to be able to obtain funds from investors for expansion and growth. It is thus imperative to state that the essence of every commercial enterprise is to maximize profit. In other words, profit is the chief goal of most business concerns. Hence the profit degree of a bank is an indicator of its capacity to carry risks. It will not be out of place that the drive for profits underlies the very existence of deposit money banks. However, there are lots of constraints to this objective especially in developing economies, and these can cause bank failure. As noted by Hubbard (1994) bank failure occurs when a bank cannot pay its depositors in full, with enough reserves left to meet its reserve requirements. When the management makes enough profit, the investor will be satisfied with the bank, and will be in a better position to meet the demands of other interest groups. Specifically, the need for banks to generate sufficient return on their investment is imperative because banks profit is needed to pay shareholders dividend, make adequate provision to absorb the adverse pressure on the banks operation arising from unexpected loan losses and bad debts, retain profit for investment purposes and to strengthen its capital base so that it can attract more customers.

Furthermore, for a bank to be able to attract deposits from the general public, it must be able to win and retain public confidence. A bank with a good profit record, will obviously find it easy to win such confidence than a bank known for losses. In addition to the above, the ability of a bank

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to attract more capital from the money market at a reasonable cost, depends on its past profitability quoted on the stock market and greatly influenced by its past profitability record.

Thus, there is every need for a bank to minimize losses associated with bad debts so as to generate adequate and satisfactory profit on its investment. The question then is what level of profit is needed in a bank as would measure up to the size of a bank's capital base and total investment? Stating the answer, this can appear in various conflicting terms. But at least, there should be an adequate retainer on capital employed, enough to pay shareholders dividend, make prudent provisions, and have sufficient returns such as would be able to retain depositors' confidence. Whatever the level may be, there is need for banks to strive and ensure consistent records of such profit and growth. Thus, it is important to state categorically that a bank's profit depends on the rate of return on loans and investment, the level of various fees imposed for services rendered, the size and composition of assets, in addition to the level of its operating expenses.

2.1.2 Dividend Policy and Decision: The dividend policy and decisions of the firm are yet other crucial areas of financial management. Hampton (1992) stated that a firm's dividend policy has the effect of dividing the firm's after tax profit into two (2) categories:

1. Funds to finance long term growth represented in the balance sheet by retained earnings account.
2. Funds to be distributed to shareholders represented by cash dividend, declared by the board of directors.

He maintained further that the objectives of a dividend policy should be to maximize shareholder wealth or the return value of his/her investment.

According to Kithinji (2011) most large widely held firms are reluctant to lower their dividend payment even in times of financial distress. A firm with a history of stable earnings is usually more willing to pay a higher dividend than a firm with erratic earnings. This mostly depends on individual firm's decisions. However, the cash available for paying dividends is affected by the loans investment and financing decisions. The decisions to loan and give advice by banks to its customers for profit purposes is that less cash will be available to its customers for profit purposes is that less cash will be available for payment of dividends in the event of non-payment or non-repayment of dividends thus giving rise to bad and doubtful debts. Dividend payment has an impact on share price because they communicate information to investors about the bank's profitability when a bank has a target payout ratio that is stable overtime and it suddenly changes this ratio, investors may believe that management is expecting a change in expected future profitability of the firm.

Accordingly, the price of the stock may react to this change in dividends. Thus, dividend payments are used by investors to judge the future performance of the firm.

Hampton (1992) added that dividend payments are important to investors because it represents a distribution of current earnings which in effect reduces uncertainty. He further stated that the declaration and payment of cash dividend carries information that the firm is reasonable, strong and reliable etc. Thus, dividend declaration, reveals the liquidity position of banks since cash is needed to make the dividend payment.

2.2 Empirical Review of Literature

One of the primary functions of deposit money banks is the extension of credit to worthy customers. In making credit available, deposit money banks render great services not only to the borrowers, but also to the economy at large. Through their actions, production is increased, capital investments are expended and higher standards of living are attained. The extension of credit also makes possible the effective financing of agricultural, commercial and industrial activities of the nation. Hence, the monetary authorities pay greater attention to the levels of banks loans and advances.

According to Kaufman (1977) commercial and individual loans comprise the largest single category of the earnings asset of banks. It is therefore understandable that loans and advances constitute the biggest single component in the asset structure of banks, hence the biggest earning asset in their statement of financial position. Other functions performed by banks include; safekeeping of valuables, acceptance of deposits from customers, etc. by this, banks encourage their customers to save more money. They do not do this because they are charitable organizations, but because depositors serve as raw materials used by them to perform lending functions. It further contributes materially to banks achievement and fulfillment of the objectives of profitability by providing a higher return than other financial assets. It is a method through which banks management attempts to satisfy the credit needs of a community, or the credit market which they intend to serve.

The importance of lending in banking cannot be overemphasized. While being the earning asset the credit portfolio is also the most liquid of the bank's asset. Apart from being the most liquid it is also the riskiest of banks operations. According to Vanhorne (2002), the term liquid asset is used to describe company assets that are readily convertible into money. Also as noted by Kaufman (1977) commercial banks (now deposit money banks) extend credit to different types of borrowers for many different purposes. In the process, banks incur risks and experience some losses when certain borrowers fail to repay their loans. Besides, since banks lend on short terms, failure to repay banks loan prejudices the banks capability to honor their own obligations. It is also not a good credit control policy for a bank to borrow short and lend long as this will amount to a violation of the principle of suitability

Although banks' lending is regarded as the most profitable activity of banks, it is a very risky venture, and a reasonable approach to it can ensure survival through effective credit control. If the credit control systems or policies of the bank is strong, loans will be relatively secured and losses will hardly occur.

As rightly noted by Kaufman (1977) bank failure results when losses on assets exceeds the amount of capital and must be charged against deposits making the bank unable to repay depositors in full. He also noted that a banks minimum capital requirement depends in great part on its liquidity strategy. The riskier its asset portfolio, the greater a banks need for capital.

Thus, it is obvious why the management of the lending portfolio is crucial in bank operation. The fact remains that no matter how cautious a bank is, the incidence of bad and doubtful debts is unavoidable in bank lending. Since lending means taking risk and assessing the risk of default, the ability to lend without loss of funds is the major concern an aim of modern banking.

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2.2.1 Lending policies and objectives: Some issues considered in this study include some basic considerations in lending as well as risk assessment and analysis. Though banks have profit maximization as their major objective, as socially responsible corporate institutions they are influenced by a number of social and economic factors in designing their lending policies and choosing their objectives. In spite of this however, the principal lending objective of a bank relates to attaining growth, ensuring profitability and liquidity, etc. the growth objectives ensure that any credit granted should directly or indirectly enhance the business growth of the bank by yielding good income. In this regard, effort must be made to ensure that reasonable risk is carried by the bank in its lending activities. Consequently, in our lending activities the safety of credit must be given uppermost consideration. Firstly, credit is obtained from depositors' fund, which are liabilities which the bank must repay as at when due. Given strict prudential regulations, loans that turn bad have to be provided for in terms of principles and these lost earnings decreases banks income and profitability prospects. This was rightly captured by Kock (1992) where he maintained that whenever a bank acquires an earning asset, it assumes the risk that the borrower will default that is, will not pay the principal and interest on a timely basis. Secondly, increasing non-performing assets erode the capital of the bank because provision has to be made for risk and thus making the bank vulnerable to distress. Liquidity is another important objective of lending. Liquidity can be defined as the ability to meet short term financial obligations without recourse to the sales of fixed assets. As noted by Kock, a liquid asset is one that can be easily converted to cash with minimum loss. Banks liquidity must be reasonably maintained, beside meeting the statutory mechanisms of the monetary authorities like Cash Reserve Ratio and Liquidity Ratio, lending must be done in such a way that prudent marketing of deposits and loans must be achieved. Kock further noted that bank deposits represent the most liquid form of money such that the Federal Reserve systems make efforts to control the nation's money supply and the level of aggregate economic activity of credit in banks. In particular, deposit money banks have mostly short term funds and according to the deposit money banks loan theory, banks should lend for short term purposes only so as to avoid liquidity crisis.

2.2.2 Internal constraints to lending: Basic amongst the internal constraints to banks are its deposit base, liquidity requirements, shareholder fund and statutory lending limits. The deposit base is bank specific, and here comes in the issue of credit marketing to expand the banks deposit. The greater the deposit, the higher the amount of sourcing thus the higher the volume of funds available for lending. There is also a direct relationship between shareholders' funds, deposits, and the extent or degree of loans that can be granted. In order to prevent overexposure to any one individual, the amount is committed to 20% of shareholders' fund.

2.2.3 External constraints to lending: Foremost amongst this is the economic climate. When there is a boom and production is high, investment in the real sector leads to demand for credit and hence banks can lend more. In this context, if capacity utilization is low, demand for credit will fall. Another external constraint is government regulation and credit policies guideline. Banks should evolve policy guidelines to provide a framework for granting loan credit. This normally considered both internal and external constraints to lending by each bank. For example, the deposit base existing credit policies stipulated growth in domestic credit at 10% and

continued to abolish the requirement of mandatory credit allocation by banks which was effected on 1st October 1996. Similarly, mandatory credit allocation to rural borrowers and small scale enterprises remained abolished. However, grace periods on agricultural loans under allocation are specified for specifics such as agriculture and manufacturing.

2.2.4 Cannons of good lending: The principles for assessing lending and risk are often referred to as the cannons of lending. These include:
a) Customers: (capital, capacity and character) the banker needs to know the customer. His previous relationship with the bank and his previous credit records. Similarly, previous track records will determine if the customer has the capacity, moral, technical and managerial proficiency to execute the project for which credit is being sought.

b) Proposition: (Purpose, Mobility, Repayment Ability, Term and Security). The bank may seek answers to the following basic questions:
i. How much is needed?
ii. What exactly is to be done with the money?
iii. What are the plans for repayment?
iv. What exactly will be the banks position if a plan for repayment goes wrong?

To seek information about the customers, banks rely on indirect mechanisms like designing contractors to know when potential borrowers respond in their own interest, information about their riskiness can be assessed by banks as lenders. Such mechanisms include: use of personal relationship like ethnicity, kinship location, religious affiliations, etc. therefore, in conclusion, it is worthy to state that since the capacity and usefulness of a banker to the community is judged through the manner to lend, he has to make cost of his profit from the extensions of credit, thus he has to temper liberty liberally with caution.

2.2.5 Credit risk: According to Mayo (1999) risk is the uncertainty that the realized return will not equal the expected return. Also, as noted by Vanhorne (2002) risk can be thought of as the possibility that the actual return from holding a security, will deviate from the expected return. Risk is the measurable uncertainty inherent in decision making processes. Since lending involves committing funds to a borrower who would repay later, the problems of default and the predicted condition of the proposed business remaining as envisaged after funds have been invested, create moral hazard problems and hence risk for the lender, besides changes in economic and local conditions like prices and high interest rates may make the borrower to invest in potentially high returns and high risk projects, lending to adverse incentives problems and hence risk for the borrower. A banker should be aware of this and so through risk analysis should know who best to grant credit. Although the number of services a modern deposit money bank offers has increased immensely, risk taking which is a fundamental nature of banking remains unaltered. This goes to mean that bank management is not just about managing risks, but the risks of mismatches between assets and liabilities and between borrowing and lending services. However, the concern of this research work is credit risk arising from difficulty in the repayment of bank loan and advances extended to customers which is thus represented by the provision of bad and doubtful

debts. A credit is a potential variation in net income and delayed payment of principal and or the interest element of a credit facility extended on a timely basis. Loans typically exhibit the greatest credit risk. According to Hubbard (1994) if banks do not manage credit risk effectively, they won't be profitable for their shareholders, and won't be in business for very long. He also maintained that banks can reduce their exposure to credit risk on individual loans by investing in information gathering and monitoring. Risks exist because of the inability of the decision maker to make perfect forecasts of future events. Deposit money banks in a bid to avoid risks, lend on short term. As rightly observed by Mayo, these banks are concerned with liquidity, they want to make loans that are relatively of short duration.

A general truth is that investments are not risky, if we can specify a unique sequence of cash flows for it, but the whole trouble is that cash flows can occur depending on future events. Thus, risks lead to investment evaluation because we cannot anticipate the occurrence of the possible future event with certainty, and consequently cannot make any correct prediction about the cash flow sequence. Credit risk is therefore the risk that the payment on a loan investment may be rescheduled, which may involve not more than a formalized delay, but special provisions and ultimate write-offs. Credit risks associated with banks' lending in Nigeria has increased due to changes in the basic economic environment on which banks and their customers operate. The rate of inflation, the levels and changes in the interest rate and the fluctuations in foreign exchange rates, tend to go together and these are notable sources of risk. The risk can be reduced through proper analysis of borrower's willingness and ability to repay the loan. Furthermore, specific risks which may lead to loan defaults can be reduced through insurance. This can help to spread the risk. Credit task became more demanding itself and the constraint in lending is the fear of not being paid back rather than more abstract considerations of statement of financial position and profitability. The experience of the eighties (80s) has summarized the importance of credit risk management in domestic and international banking. Many banks across a wide range of countries suffer both from released losses and loan rescheduling in the domestic markets and from large and well publicized and rescheduling of syndicated international credits. These concerns were heightened in 1987 by the supervision of payment by a number of developing countries and by the claims in certain developing countries. According to Jhingan (2004) the general considerations and risk factor in lending amongst the generally known risk factor in lending includes the following:

a) Sudden change in the demand for the borrower's products leading to insufficient sales.
b) Changes in government fiscal and monetary policies leading to high costs of import – dependent products.
c) Technological change in productive and distributive methods, which may result in losses compared to the level of projects previously projected.
d) Unforeseen occurrences such as drought, fire theft, political instability, etc. which may reduce production and sales.

2.2.6 Sources of credit information: Unlike the formal sector, banks rely on third parties to collect information about customers in order to assess their risk profile. This is the so-called indirect screening mechanism. It is complementary to the historical and investigational

information on the borrower, which when well carried out would reduce the risk elements of a lending proposition. Usually, credit information is obtained thus:

a) Internally is from individual's applications or management of the company.
b) Externally: amongst the external sources are the borrower, banks and their trade sources. Also the financial statement can be a very good source of obtaining credit information. However, the present day undying office has to do more analysis of financial statements so as to assess a company's present level of operation, sources and application of funds.

Financial statements provide the basic data used to assess a company's earning power, its liquidity and capital structure. This is because the determination of a company's debt capacity and ability to repay a loan, begins with the analysis of its financial statement. The revenue statement when analyzed, gives the indications of its earning power. The analysis of the balance sheet done on a comparative basis gives an understanding of the nature of the company's ability to generate cash to meet its obligations.

2.2.7 Types of banks' lending facilities: Banks exist to lend money and offer other financial assistance to individuals and corporate bodies, with interest for profit. Both customers (individuals) and businesses need financial assistance from time to time. Below are some types of bank lending facilities:

a) Overdraft: These are the straight forward traditional sources of funds for personal borrowers and corporate bodies. With overdrafts, customers are allowed to withdraw above their original deposit at a specified rate for repayment. The advantage here is that the money is borrowed for a very short time and the banks is entitled to call for repayment and demands though they may provide a formal loan to make this possible if they believe the customer to be reliable of the business to be sound. To reduce bank lending, the banks may be forced too, to reduce overdrafts. However, nowadays interest on overdraft are charged at a fixed rate monthly depending on the bank, rather than at the rate linked to base rate.

b) Loans: Loans may take a variety of forms. The personal loan is the commonest type of loan to ordinary customers, and most times it is frequently available over the telephone to banks' creditworthy customers. But nowadays, the process is more tedious. A customer has to get his employers attestation by doing some of the paperwork, i.e certifying him/her payment worthiness. Interest is added either at a fixed maternity rate monthly, yearly, etc. depending on the duration of the loan.

According to Driga (2012) under the consumer credit act regulation 1989, the annual percentage rate (APR) must be clearly stated as well as the fixed rate of interest, so that borrowers can assess the savings to be made by postponing the purchases which the loan seeks to finance, and can compare the loan proposed with other sources of credit with monthly rate loans interest charged in arrears on the amount outstanding at the end of the month. Furthermore, besides the overdraft and loans described above there are many more sophisticated financial services that can be used in businesses, particularly large ones.

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i. Hire Purchase Financing: The variety of finance options available today means that hire purchase is not as widely used as before. A credit card holder for instance, might purchase an item using the balance in his/her card and spread the payments out over the months ahead, under the terms of the credit card arrangement. Where the hire purchase is required, it is usual to pass the customer on to specialist subsidiary, i.e. a finance house and this takes care of the trading under the laid down rules of fair trading.

ii. Leasing: Leasing is an arrangement whereby capital assets required by a business are purchased by the bank usually via subsidiary finance. All funds provided by finance houses are now used to purchase assets for leasing. Under lease agreements, a monthly charge is made based on either the volume of output or other just benchmarks, so that the bank can ensure full recovery and a reasonable profit over the life of the assets for a specified period of time without obtaining ownership interest in the asset. The customer in use of the asset obtains the payment of a fair rent and in event of a change in business activity, can escape from its leasing agreements/arrangements, subject to any period of notice or other clauses in the contract.

2.2.8 Security for bank lending: It is a gamble to assume credit facilities extended will be safe, properly used and repaid on schedule. Things may go wrong such that the basis and optimism established and expected do not materialize. The need for security for bank lending arises as a result of high profitability of credit risk. This is why the bankers should not be left uncovered, but must ask for adequate collateral security (securities) as a manifestation of the borrowers' confidence in his/her own project, and as something upon which the bankers can fall back on if things go wrong and expected results are not archived. Nevertheless, the bank should not rely only on securities while making credit analysis. Securities for bank lending are based principally on trust and faith in the customer and his/her business, the subject matter for which the loan is being sought. Lending is a highly subjective activity, thus it is needful that the banker analyses the securities being lodged thoroughly in order to ensure that in case of default in payment, the security is good and adequate to cover the credit extended.

Whatever the security may be, the banker should be careful and continue to lend at an amount which is less than the value of the collateral security in order to protect himself should the market value of the collateral security decline. It is thus needful, that the banker makes an objective estimate of the value of the asset being offered as security, and ensure that it will be greater than the value of the loan or credit. Finally, it is worthy to note that effective lending is that which maximizes profitability, liquidity and growth. Nevertheless, inherent in bank lending is the incidence of bad debts. This adequate security must be obtained as a 'fallback' in the event of default.

2.2.9 Causes of loan impairments: When lending institutions extend a large volume of credit facilities to their customers, it expects a corresponding large return. On the other hand, if credits are based on sound credit analysis, large volume of credit will give rise to a large amount of impaired loans. Emphasizing on this, Kock (1992) further stressed by saying that losses are natural by-products of extending credit. It should be noted that effective lending is that which maximizes the profitability, liquidity and security needs of the banker. One of the causes of loan default is the inadequate and incomprehensive knowledge about the customer or borrower on the

part of the loan officer or banker. The primary objective of credit and investigation analysis is to ascertain the creditworthiness of the borrower, his capabilities and his willingness to repay the loan as agreed. In the absence of this, the tendency is that the banker's subjective judgment will be defective and the result will be the extension of credit to unqualified and unsuitable loan applicants, which may result to a default in payment and thus loan impairments. Another factor that leads to loan defaults is misappropriation of loans by the borrower or customer as well as poor supervision of the loan account by the banker. The level of risk of sectorial lending also contributes to high incidence of loan default or loan impairment record. The minimum section provision is mainly allocated with high level risk. Another factor is the level of government interference in the operations and management of banks. Government interference of credit facilities influences the rate of default facility repayment. Furthermore, the unexpected change in the economy and condition of living of the borrower mitigates his ability to honor loan obligations. For instance, unexpected natural change in the form of ill-health, fire outbreak, unfavorable weather may not actually result in high level of impaired loans which influences the level of loan impairment provision. Such factors include the following:

i. Banks may present high figures for loan impairment provision as an illegal way of evading tax payment since this provision is a tax deductible expense.
ii. To many bank’s management, loan impairment provision in excess of actual requirement, could be a suitable way of keeping away some of the profit hence boosting their reserves.
iii. If economic conditions are expected to be on the downturn, bankers make high provision for impaired loans even though the actual loan loss may below.

However, for whatever purpose, high level of provision for impaired loans signifies bad management and indiscretion of management in lending.

2.2.10 Accounting policies: Loans are usually impaired in some situations as a result of poor credit control systems. Impaired loans are normal business expenses and must be charged as such when calculating the profit or loss for the period. When a debt is found to be bad or doubtful to recover, that part of the asset as shown in the loans and advance account is worthless, and must accordingly be eliminated as an asset. A loan is considered to be impaired or doubtful if its recovery is unlikely, and if it falls within one or more of the following categories:

1. Interest is being credited to interest in the suspense account.
2. If the account has been dormant for six months or above.
3. If the customer is insolvent, deceased or their whereabouts are unknown.
4. Where a solicitor’s letter of demand has been issued or court action instated or where debt is as a result of fraud.

The ideal situation from the accounting point of view for measuring net income is for the expense of the period to be matched against the revenue of that period which the expense helped to create. Accordingly, policies used by banks for provision for impaired loans, differed significantly from one another. Generally, the accounts of commercial advances are stated after deduction of provisions against debts considered doubtful of recovery. The estimate is arrived on

the basis of experience, knowledge of the customers' condition and the state of the economy at that point in time. Banks in estimating the provision for impaired loans employs different approaches. Past studies have dealt extensively on the following areas: importance of granting and controlling credits, lending information and facilities, lending constraints, loan impairments and accounting policies. These researchers have however, not come across any study that has attempted to investigate how credit control attitude of bank staff relates to Central bank prudential guidelines. The current study is therefore, an attempt to fill this gap.

3. RESEARCH METHODOLOGY

This section summarizes the different procedures and methods used in conducting the study which borders on credit control attitude of the bank staff (independent variable) and compliance with CBN prudential guidelines (dependent variable). The data were obtained from both primary and secondary sources using questionnaire, observation and personal interviews and the bank's annual financial reports from 2012 to 2016 respectively. The target population was made up of 66 deposit money Bank staff out of which 40 of them were randomly selected to represent the accessible population. Taro Yamane formula was therefore used to determine and justify a sample size of 40 as follows:

$$N = \frac{N}{1 + N(e)^2}$$

Where n = sample size

N = population size of the credit control department

E = degree of error assumed

I = Constant

With the provision of 10% tolerance error, the sample size for the study becomes;

$$N = \frac{N}{1 + N(e)^2}$$

$$N = \frac{66}{1 + 66(10\%)^2}$$

$$N = \frac{66}{1 + 66(0.01)}$$

$$N = \frac{66}{1 + 0.66}$$

$$N = \frac{66}{1.66}$$

$$N = 40$$

Thus, the sample size for the study is 40.

The researcher issued 40 copies of the questionnaire each of which contained 14 questions. Some of the questions were typed in likert scale format and also open–ended questions were included in the questionnaires to give the respondents the opportunity to present their responses in the form it suits them. The null and alternative hypotheses were formulated and tested to determine the relationship between attitudes of the bank staff towards credit control compliance with

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Central Bank of Nigeria prudential guidelines. Tables were used to analyze the responses and frequencies calculated based on the total number of responses.
The statistical technique used in analyzing the result of the information is the chi–square method. According to Kargi (2011) the chi–square is used for test of independence in contingency tables and it is suitable for analyzing categorical variables. In the current study, credit control attitude and CBN prudential guidelines are treated as categorical variables. The Chi–square is the sum of the ratio of differences between the squares of the observed and expected frequencies. The hypotheses were tested at 5% significance level with the difference between the expected and observed frequencies shown. According to Felix and Claudine (2008), when frequencies in discrete categories constitute the data of interest, the chi-square test becomes appropriate to determine the significance of the differences for two or more independent samples. Basically, chi–square is used for measuring the degree of deviation or variance that exists between a calculated value and an expected value. Mathematically, the chi–square is given as:

$$X^2 = \frac{\Sigma\ (O - E)^2}{E}$$

Where O = Observed frequency
E = Expected frequency
X^2 = Chi–square
Σ = Zigma (symbol for summation)

Another feature of the chi–square distribution is the degree of freedom. The number of the degree of freedom is given by the product of the number of rows less one, and the number of columns less one.
It is denoted as df = (r – 1)(c – 1)
Where df = Degree of freedom
r = Number of rows
c = Number of columns

3.1 Decision rule
The chi–square decision rule is that if the calculated value (X^2cal) is greater than the table value (X^2tab), the null hypothesis is rejected. On the other hand, if the calculated value (X^2cal) is less than the table value (X^2 tabs) the null hypothesis is accepted.

4. PRESENTATION AND ANALYSIS OF DATA
The data collected are summarized and presented in tabular form for easy analysis.
The purpose of data analysis is to dig out information useful for decision–making. Data appears in a variety of forms and the amount of information in data depends on the type of data measurement.

4.1 Questionnaire responses:

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Table 1: Number of questionnaires distributed and the number returned, with their various percentages.

	Number	Percentage (%)
Number sent	40	100
Number returned	40	100
Number not returned	0	0

Source: Field Survey, 2018.

From table 1 above, the questionnaires distributed among the banks staff, got reasonable responses of all the forty (40) copies sent, the total forty (40) were returned.

4.2 Analysis of data

In the analysis of responses obtained from the questionnaires only questions of utmost relevance to the study will be critically studied and analyzed.

TABLE 2: CONTRIBUTORS TO LOAN IMPAIRMENT FIGURES

Question	Number of respondents	Option	Respondents	%
11	40	Secured	2	5
		Unsecured	38	95
13	40	Manufacturing sector loan	10	25
		Commercial general loan	13	32.5
		Agricultural sector loan	4	10
		Residential building loan	1	2.5
		Working capital finance	12	30

Source: Field Survey, 2018.

Table 2 above shows that 95% of the total respondents were of the view that unsecured loans have the highest default risk, while only 5% maintained that secured loans have the highest default risk. On the other hand, 32.5% of the total respondents were of the view that commercial general loans contribute the highest to loan impairment followed by working capital loans with 30%, manufacturing sector loans with 25%, agricultural loans with 10% and residential building loans with 2.5%.

TABLE 3: EFFECTS OF TOTAL LOAN ON BANKING PROFIT

Options	Responses	%
Strongly agreed	15	37.5
Agree	10	25
Disagree	7	17.5
Strongly disagreed	8	20

Source: Field Survey, 2018.

From table 3 above, 15 respondents, representing 37.5% of the total respondents strongly agreed that banks profit can change as a result of loan losses, while 10 respondents agreed, 7 respondents disagreed and 8 respondents strongly disagreed.

4.3 Hypothesis testing

Testing of hypothesis constitutes the decision–making technique leading to either accepting or rejecting the hypotheses under consideration. One (1) hypothesis was formulated. To test the hypothesis, the chi–square (X^2) statistical test was used.

4.3.1 Hypothesis one

H_0: Attitudes of deposit money bank staff towards credit control are significantly independent of their level of compliance with CBN prudential guidelines.

4.3.1 Hypothesis two

H_1: Attitudes of deposit money bank staff towards credit control are significantly dependent on their level of compliance with CBN prudential guidelines.

Decision rule

Accept H_0 if chi–square calculated is less than chi–square tabulated, otherwise reject H_0 and accept H_1.

Test data: the data used in testing the hypothesis is obtained from responses to question 8 of the questionnaire.

TABLE 4: CREDIT CONTROL ATTITUDES OF 40 BANK STAFF FROM DIFFERENT LEVELS OF COMPLIANCE WITH CBN PRUDENTIAL GUIDELINES.

Responses	Strongly agreed	Agree	Undecided	Disagree	Strongly Disagree	Total
High	8	4	2	2	2	18
Middle	2	1	2	5	1	11
Low	1	2	1	3	4	11
Total	11	7	5	10	7	40

Source: Field Survey, 2018.

The expected frequencies (e) were calculated using the formula:

$$E = \frac{\text{Column total x Row total}}{\text{Total Frequency}}$$

$$E_1 = \frac{11 \times 18}{40} = 4.95$$

$$E_1 = \frac{11 \times 11}{40} = 3.03$$

$$E_1 = \frac{11 \times 11}{40} = 3.03$$

$$E_2 = \frac{7 \times 18}{}$$

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40 =3.15

$E_2 = \frac{7 \times 11}{40} = 1.93$

$E_2 = \frac{7 \times 11}{40} = 1.93$

$E_3 = \frac{5 \times 18}{40} = 2.25$

$E_3 = \frac{5 \times 11}{40} = 1.38$

$E_3 = \frac{5 \times 11}{40} = 1.38$

$E_4 = \frac{10 \times 18}{40} = 4.50$

$E_4 = \frac{10 \times 11}{40} = 2.75$

$E_4 = \frac{10 \times 11}{40} = 2.75$

$E_5 = \frac{7 \times 18}{40} = 3.15$

$E_5 = \frac{7 \times 11}{40} = 1.93$

$E_5 = \frac{7 \times 11}{40} = 1.93$

TABLE 4: EXPECTED FREQUENCIES

Responses	Strongly agreed	Agree	Undecided	Disagree	Strongly Disagree	Total
High	8 (4.95)	4 (3.15)	2 (2.25)	2 (4.50)	2 (3.15)	18
Middle	2 (3.03)	1 (1.93)	2 (1.38)	5 (2.75)	1 (1.93)	11
Low	1 (3.03)	2 (1.93)	1 (1.38)	3 (2.75)	4 (1.93)	11
Total	11	7	5	10	7	40

Source: Field Survey, 2018.

The calculated chi–square (X^2) is 0.638.
Degree of freedom (df)
df = (r – 1) (c – 1)
where
R = number of rows
C = number of columns

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1 = constant
Thus, df = (3 – 1) (5 – 1)
d.f = 2 x 4 = 8.
Using 0.05 level of significance, the critical value (X^2 tab) from the X^2 table at 8 degrees of freedom is 2.73.
Decision: since X^2 calculated (0.638) is less than the X^2 tabulated (2.73), we accept the null hypothesis and conclude that the attitudes of the bank staff towards credit control are significantly independent of their level of compliance with CBN prudential guidelines.

5. DISCUSSION OF FINDINGS

The summary of the analysis as carried out is as follows:

1. The outcome of testing hypothesis one, reveals that the attitudes of the deposit money bank staff towards credit control are significantly independent of their level of compliance with CBN prudential guidelines.
2. The success of the credit control system is not influenced by the credit control staff perception of CBN prudential guidelines.
3. In the analysis of the category of loans that are prone to default, unsecured loans bore the highest risk of default.
4. It was equally revealed that loans granted to commercial sectors have the highest prevalence of impaired loans.

5.1 SUMMARY OF FINDINGS

The major findings are summarized as follows:

a) It was found out that loans and advances constituted the riskiest of banks assets.
b) The study revealed that the success of the credit control system is not influenced by the credit control staff perception of CBN prudential guidelines.
c) The study also revealed that unsecured loans have higher default risks, than secured loans.
d) It was also discovered that loans advanced to the commercial sector, contributes the highest to total bad debts of banks.
e) The study also revealed that inadequate knowledge of the customer (borrower) and misapplication of borrowed funds, poor monitoring and supervision, undue government interference in bank management, among other things, contributed to the major drawbacks of credit control systems and their non-compliance with CBN Prudential guidelines in the Nigerian banking industry.

5.2 CONCLUSION

Credit control is a very serious function in the Nigerian banking industry. When credit is not controlled or managed properly, it leads to loan impairment which is the major factor causing corporate failures. From the findings made in this study, it is clear that the causes of credit control failure ranges from banks' inability to obtain complete knowledge of the borrowers, misapplication of borrowed funds by borrowers, through poor loan monitoring and supervision by banks, to governments' undue interference in the operation and management of banks. It is

clear that banks' credit portfolio, portends high risk, hence its management requires great skill and care. On the possible effects of credit control, it is obvious that if not handled properly will lead to loan losses which reduce banks profitability and ultimately affect shareholders' funds adversely. Hence, a factor in corporate failure. It is however hoped that if the measures detailed in this study are implemented, it will go a long way in reducing the problem of credit control mismanagement, leading to a reduction in bad and doubtful debts and hence a reduction in the rate of corporate failures.

5.3 RECOMMENDATIONS

To reduce the problems of corporate failure, it would be appropriate to take a closer look at the factors responsible for credit control failure, since a check on these factors will go a long way in reducing the incidence of corporate failures.

In the light of this, the following recommendations are made:

a. Banks should ensure that adequate information about the creditworthiness and other personal information of a borrower, or potential borrower, be provided before loans are granted.
b. Banks should equally ensure that proper collateral securities should be provided by would-be borrowers.
c. Banks should ensure effective and efficient loans monitoring and supervision so as to forestall any imminent loan default.
d. Government should not always interfere with banks' lending policies by dictating the sectors to which loans should be channeled, rather banks' lending should be based on a borrower's ability to repay.
e. There should be no discrimination on the basis of giving out loans and advances. By so doing, the issue of credit control procedures being faulty, debts becoming bad, and its resultant risks and effects, is reduced since the issue of tribalism and same ethnicity syndrome is ruled out.
f. There should be proper supervision of those in charge of loans and advances. Also there should be proper documentation so as to ensure that all accounting records are kept correctly.
g. Interest rates charged should be minimal to encourage customers assess more loans and advances.
h. Proper regulations should be passed by the governing bodies (CBN, etc.) to make sure that deposit money banks' bad lending habits be curtailed so as to avoid the incidence of loan impairment and bank failures.

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