CREDIT MARKET ANALYSIS: WHAT TO GAIN

Past. Prof. Abomaye-Nimenibo, Williams Aminadokiari Samuel

PhD, M.Sc., B.Sc. Economics, MBA Management and UD, Personnel Management and Industrial Relations,

Director of Postgraduate Studies,

School of Postgraduate Studies,

Obong University,

Obong Ntak, Etim Ekpo LGA,

Akwa Ibom State.

Nigeria

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Abstract

There have been dramatic losses in the banking industry in the recent past as companies that had been performing well relapses and announced sudden large-scale losses due to soured credit and derivative exposures, and positions of the interest rate were taken and assumed to hedge balance sheet risk. Commercial banks universally embarked upon upgrade of their control systems and risk management. Credit is often granted to both individuals and companies running into billions of naira, which fund need to be guarded. Therefore, the use of credit market analysis is very crucial to lenders of these funds.

Keywords: Credit Market, Interest Rate, Balance Sheet Risks, Control Systems, Risk Management, Lenders and Borrowers of Money.

1. INTRODUCTION

There have been dramatic losses in the banking industry in the recent past as companies that had been performing well relapses and announced sudden large scale losses due to soured credit and derivative exposures, and positions of the interest rate were taken and assumed to hedge balance sheet risk. Commercial banks universally embarked upon upgrade of their control systems and risk management.

Identifying risks in lending is the primary purpose of credit market analysis, which draws conclusions concerning the likelihood of payment and makes appropriate recommendations regarding the loan's proper type and structure to meet the people's perceived financial needs and risks.

Credit market analysis means the quantitative and qualitative analysis of a company's finances, to ascertain its debt service capacity, which can pay back its loan principal and interest to its creditors. So, credit market analysis is the assessment, identification, evaluation, and mitigation of risks in terms of a borrower company being able to meet its credit obligations.

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Credit market analysis encompasses examining management performance, financial capacity, the interrelationship of a company's assets, liabilities, and equity in balance in its income statement and cash flow. The evaluation of the company's financial statements and the ratios that indicate the company's performance's efficiency are indices of its success and its ability to service its debts in the present and possible future.

1.1 BASIC CONCEPT OF CREDIT

"Credit" as a word, is derived from a Latin word "Credo", which mean "I Believe". The Latin verb is "credere" meaning "to repose confidence in something". This word translates to say that the lender has confidence in the borrower that he could pay back at the appointed time if the money he wants is given to him. The borrower, therefore, is creditworthy, and confidence is reposed in him/her.

Credit is the ability to command other peoples' capital in return for a promise to repay at some specified time in future. Therefore, for credit to be what it should be, there should be an ability and willingness to receive a credit which is regarded as an economic good to be produced, managed and marketed.

Credit is another connotation for the control a borrower has over money, materials, goods or services in exchange for his promise to repay at some future dates; implying that, the lender shall forgo the use of his money or its equivalent in the current time by making money a loan available as a credit to the borrower who promises to repay this money. Money is borrowed on terms specified in the loan agreement, which makes the transaction a debit instrument. The borrower(s) obtain resources or money to use the fund on current production and consumption and get before generating savings that could be used to repay the loan.

Credit means the acquisition, and control of funds for a specific period at a cost, which repayment is to be effected at an agreed time, the control of the fund ceases, and the funds revert to the creditors.

Borrowing is a function of a person's (borrower) ability to command and receive profit to service current debts and envisaged expenses with a promise to repay it in future. They obtain specific amounts of money as a loan to be rapid as specified in the agreement between the concerned parties, which are often based on confidence in the borrowers' future solvency and repayment.

1.1.1 CREDIT MARKET

The credit market is the marketplace for governments, businesses, entrepreneurs, and the general public who are seeking for funds to start or burst the business or projects through a particular form of debt assurance strategy; which include the issuance of investment-grade bonds, securities like commercial papers, junk bonds, collateralised debt obligations, and mortgage pools.

A credit market is a collective name for different types of investment markets. One common credit market is the bond market issued by federal governments, municipalities, and businesses, a

relatively safe investment. Credit investments provide a lower but reliable return rate without less risk-bearing and are among the world's largest investment marketing sectors.

We also have bonds and mortgages pools which have dissimilarities on how they were structured. Mortgage securities are a better investment option that generates returns based on amount of interest generated through the underlying securities. Mortgage pools have more significant risks when an economy is not stable, but they are a good option when there is a stable economy.

There are Mutual funds which offer credit market. These funds may be structured, and appeals to corporate investors, and are aimed at individual investors who in most cases, increases their interest in the fund, especially in the employer sponsored mutual fund programs. The fund's basic framework will vary, based on governmental regulations, different investors are attracted by the funds.

Credit market differs in size depending on the nation and the attention given to it. Credit markets are of better credence in the United States and the United Kingdom, where there exists as a wide range of investment options than any other nation due to the varied sizes and categories. These varieties encourage healthy competitiveness, as an investment is encouraged, which keeps the general economy healthier. However, in smaller nations, the existence of a wide range of investment opportunities are not usually found.

Credit markets are available to ease financial difficulties and should always be found to actively stabilise the economy and improve a nation's citizens' living standard.

CREDIT MARKET ANALYSIS

Credit market analysis is the process of determining the likelihood of default, especially by a bond issuer. Credit rating agencies conduct credit market analysis to provide bond ratings; they may change these from time to time. Bond investors likewise conduct credit market analysis. For instance, if an investor's credit market analysis revealed that a bond's rating is about to decrease, it is a truism that the borrower will be unwilling to invest in that bond, which will lead to locking in a lower interest rate at a higher level of risk. Similarly, if the credit market analysis indicates that a bond rating is about to increase, an investor will be more willing to purchase that bond, providing a lower level of risk; with a higher coupon.

Credit analysis evaluates companies and bond issues to estimate the issuer's ability to live up to its future contractual obligations. When companies sell their products, they sometimes demand cash on delivery, but they delay payment in most cases. These receivables include both trade credit to other firms and consumer credit to retail customers.

The essential components considered in credit market analysis are the "five c's" including character, Capacity, Capital, Collateral, and Condition.

i. Character is the general impression the customer makes of the prospective lender or investor. The lender will always form a subjective opinion about whether or not the company coming to borrow is trustworthy enough to repay the loan or generate a return on funds invested in the

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company. The background and experience in business and the industry will be considered. The quality of the references and the background and experience levels of employees will also be reviewed.

ii. The capacity is the ability of a borrower to repay a loan, and it is one of the most critical of the five components; it is the primary source of repayment of cash inflows and cash generated by the company. The prospective lender will always want to know precisely when and how the borrower intends to repay the loan. The lender will consider the business's cash flow, the repayment timing, and the probability of successful repayment of the loan. The lender will also want to know the payment history on existing credit relationships, whether personal or commercial. Capacity consideration is an indicator of the future repayment performance of the borrower and his sources of repayment.

iii. Capital is the money personally invested in the business by the shareholder (borrower) who want to borrow credit and also indicates how much the shareholder has in his vault against risks should the business fail or collapsed. Investors and lenders will expect a contribution from borrowers' assets, and Lenders and borrowers have undertaken financial risk to lend credit to establish a business outfit before asking them to commit any funding. The capital investment is also seen as a proof for shareholder's commitment in the business.

iv. Collateral guarantees an additional form of security against credit (loanable funds) that the customer (borrower) can provide on his/her own. Giving collateral to a lender means that the borrower's asset is mortgaged to the lender, such as property forfeited if it is not repaid as per terms and conditions agreed for the financing. On the other hand, a guarantee refers to a statement of an undertaken by signing a guarantor's form or document in which he appends his seal on that document with a promise of repaying the loan if the initial lender fails or unable to repay the loan taken. In some cases, an additional guarantee in collateral is required by the lender as security for a loan granted. Collateral is considered the second way out by the lender in case the credit goes sour.

v. Conditions describes the loan's intended purpose and the conditions under which the credit is to be granted. What use is the credit (money) to be used for working capital, to purchase a piece of additional equipment and inventory or for long-term investment? Before the money or credit is granted, further consideration of local or macro-economic conditions and climate effect within and outside the industry can impact the business.

2.0 MAIN ELEMENTS OF THE CREDIT MARKET ANALYSIS

Generally, the analysis of the credit market includes the following elements:

2.1 LOANS

Loans of different types are available in the credit market issued from Commercial banks to meet specific requirements.

Loans are differentiated by
(i) the loan maturity date,

(ii) the expected yields or proceeds, and
(iii) the amount of money available to borrowers.
The availability of various loans depends on both the industry's nature and the Bank's assessment of its profile to determine its creditworthiness. The types of loans traditionally available are listed below as:

2.1.1 Short-term loans:

Short-term loans are ordinarily used for a specific purpose with the lender's expectation of the loan being repaid in a few months or within a year or two, and in most cases at the full execution of the project. This true especially when a seasonal business is to be set up and may need some credit facility to build up its inventory in readiness for the peak period or season; and such borrowed funds are expected to be repaid as soon as the peak period or season ends. A short-term loan could be borrowed to cover up the shortfall in inventory or meet customers or clients' orders or when the company's customers are in arrears. Such loans may be secured by the inventory or accounts receivable for which the loan is designed to cover, or it may be less secured (i.e. no collateral needed). Most short-term loans are unsecured, having no laborious documentation processes, reducing lending bank's processing time and costs. Short-term loans are self-liquidating, meaning that they can be repaid outrightly. This type of loan is comfortable and recommended for a growing business as the financial risk and credit processing fees are also low. Short-term borrowing serves as an avenue for establishing a relationship with a bank and credits trustworthiness.

2.1.2 Lines of credit.

Lines of credit refers to a specific amount of capital available to a company as needed on agreed conditions as specified. Sort term credits are for 60 to 120 days or of an intermediate term (i.e. one to three years), and maybe renewable or non-renewable, and are fixed or fluctuating interest rates.

Intermediate-term loans are usually provided where the repayment period is between three-to-five years and taken to acquire equipment, fixtures, furniture, and supplies; expanding existing facilities; acquiring another business; or provide working capital. The loan is always secured by the assets being purchased with the loan proceeds and the company's other assets, such as inventory, accounts receivable, equipment, and real estate. This arrangement usually calls for a loan agreement, which typically includes restrictive covenants that govern its operations and management during the loan term.

Covenants are agreement designed to protect the lender's interests by ensuring that all repayments of loans are made on time, and such payments take precedent over dividends, employee bonuses, or non-critical expenses.

2.2 Long-term loans are those loans which repayment terms are for a specific period. These loans are highly secured, having collateral and are granted for the purchase of real estate or a multimillion business project, and its interest ranges from 65 to 80% of the appraised value of the land or building. As a general rule, commercial banks do not provide long-term credit facility to small businesses due to the high risk of market fluctuations and business failure. The

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repayment period is over a ten-to-twenty year term which risk volatility is too high for the commercial lender.

2.3 Financing lines for issuance of letters of credit and letter of guarantees: The letters of credit are issued by commercial banks, mainly connected with international sales transactions to expedite the shipping and payment processes. In a typical letter-of-credit, the seller demands that payment be made in the form of a credit letter to enable the buyer to make necessary arrangements with its bankers to issue the credit letter. The buyer's bankers, have a corresponding bank to the purchaser, communicate with the seller, requesting a negotiable bill of lading document as a condition for releasing the funds.

3.0 DESCRIPTION OF THE COMPANY

The description of a company is very vital to the success of a company in terms of its name, the industry in which a company subsists, description of the company's activities, the legal framework, owners of the business outfit, Holding or Mother Company, group structure should be listed. The company's market share, the type of products or services it provides, and the major suppliers, significant clients, and crucial competitors should all be mentioned. The suppliers and clients must analyse their creditworthiness to show if the company is dependent on its suppliers (clients).

3.1 Credit History

Every lender would want to know whether the client has been able to pay up past credit accounts on time. Nevertheless, late payments are not an automatic reason for non- granting of the loan. In the same vein, having no late payments in the credit report does not automatically qualify a company for granting of the loan sort.

3.2 ANALYSIS OF THE MARKET/INDUSTRY

The Bank is to identify and evaluate the borrowing company's vulnerability in terms of external factors, and its ability to defend against such a factor. The following areas are prone to vulnerability, and therefore, accessible:

i. The market, in terms of its structure (i.e. either monopoly, oligopoly).
ii. Market size as regards the number of participants and market share.
iii. The extent of demand for the product (i.e. market assessment).

The most critical issues related to the industry analysis are:

i. Rate of industry growth.
ii. The industry's life cycles determine its growth rate, maturity, or declining industry status.
iii. The industry's development strengths are strong, weak, old or new.
iv. The industry trends, to ascertain whether it is a seasonal or cyclical industry.

Therefore, all the industry risks should be identified, including production risks, transportation risks, distribution risks, etcetera.

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3.2.1. Financial Analysis of Borrowers

A company's financial statements contain a peculiar to a particular business, which can be described by analysing each financial statement's components and ratio analysis. They also reflect conditions in the industry and general economy and result from management's decisions to control its overall affairs.

Financial analysis using the business or financial ratios provides a mean of assessing a company's strengths and weaknesses.

Using data from the balance sheet and income statement of various ratios can be computed, which can then be compared directly to competing companies of varying sizes. Comparing the firm's operating results with those of specific competitors or the industry as a whole helps identify relative strengths and weaknesses. Besides, comparing changes in a firm's ratios over time can highlight improvements in performance or problem areas needing attention.

Generally, financial ratios are calculated for evaluating aspects of a company's operations, and it is categorised as follows: liquidity ratios, solvency ratios, profitability ratios, efficiency ratios. Etc.

3.2.2 Liquidity Ratios

The company should provide information that indicates whether or not the business will be able to pay its creditors, expenses, loans falling due at corresponding periods in time. A company may be profitable, but if it fails to generate enough cash to settle its liability, it is insolvent. Suppliers and providers of short-term finance are interested in these ratios as they are used to assess the business's ability to settle its current liabilities. Turning assets into physical cash are referred to as Liquidity ratio.

3.2.3 Solvability ratios

Cash flow and income statements record used to measure the performance over time of a business, whereas, the balance sheet shows the company's financial position a particular date. The balance sheet reveals the assets and liabilities of a business, i.e. what the company owns (its assets), what it owes (its liabilities), and the value of the business to its stockholders (the shareholders' equity). The Balance sheet is the company's financial statement in its state of being balanced, and it records both the balances or Assets of the one side, minus Liabilities plus equity (Asset - Liability + equity.

The balance sheet provides a creditor with many clues to a firm's possible future performance. To acquire assets, a company must pay for them with either debt (liabilities) or with the owners' capital (shareholders' equity).

3.2.4 Solvency ratios

These ratios are also called leverage ratios. Providers of finance mostly use these to assess the financial risk of the business. Increasing amounts of debt in a business's capital structure means that the business is becoming heavily geared. This condition negatively affects long-term

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solvency because it increases legal obligations to pay interest periodically and principal at maturity; which failure results in bankruptcy.

Long-term solvency has to do with the business's ability to survive for many years - the Bank must assure that the "going concern" accounting principle is fulfilled when decided to finance a specific business. Long-term solvency analysis aims to point out early that a business is on the road to bankruptcy.

Declining profitability and liquidity ratios are critical signs of possible business failure. As indicated earlier on, the ratio on their own carries less business meaning unless interpreted together with other non-financial indicators, such as loss of critical suppliers, threatened Litigation against the business, failure to settle liabilities and failure to adapt to new technologies.

The objective of profitability relates to a company's ability to earn a good profit so that its investors and shareholders will continue to provide capital to it. A company's profitability is linked to its liquidity because earnings ultimately produce cash flow.

3.2.5 Efficiency Ratios

Efficiency ratios provide information about management's ability to control expenses and to earn a return on the resources committed to the business. Management is required to maintain an optimum level of working capital. If an entity has high inventory levels, it will incur high storage costs, theft, insurance costs and stock losses. Likewise, having low stock levels will disturb the company's production run as it will regularly run out of inventories, thereby losing meaningful business opportunities. The same can be said about receivables, having more receivable the company may run the risk of bad debts and be too strict with debt repayment period may result in loss of customers.

The asset management ratios are working capital ratios or the efficiency ratios. The aim is to measure how effectively the firm is managing its assets. These ratios are designed to answer the question: does the total amount of each type of asset is reported on the balance sheet to seem reasonable, too high, or too low because of current and projected sales levels? If the company has too many assets, its capital cost will be too high hence its profit depressed. On the other hand, if the asset is too low, profitable sales will be lost.

3.3 CASH FLOW AND PROJECTED CASH FLOW ANALYSIS

Loans must be paid back in cash, and the most direct way of evaluating a company's creditworthiness is to evaluate the ability to generate sufficient cash to pay back loan borrowed. This ability is known as the Cash Flow and Projected Cash Flow, an essential credit market analysis tool.

Cash Flow means the ability to move money into and out of business; it is the cyclical movement of cash inflows and outflows that determines the business's solvency.

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3.4 COLLATERAL ANALYSIS

Collateral represents assets provided to secure an obligation. Traditionally, banks require corporate borrowers to commit company assets as security for loans. Under such arrangements, a party who owes an obligation to another party (borrower) posts collateral (to the Bank) to secure the party's obligation defaults on the obligation, the secured party seizes the collateral.

Collateral is one of the main factors that influence the decision on crediting along with financial standing and effectiveness of the credit transaction and is the secondary source of loan reimbursement.

3.4.1 Types of Collateral

The main types of collateral accepted by credit market are Mortgage on real estate, commercial property, Pledge on securities, accounts, company's shares or equipment, Cash deposits, Letter of Comfort Guarantee, Bill of Exchange, Promissory Note, and Assignment of receivables.

i). Requirements to the collateral

The collateral forms are determined in every case based on the crediting project's character and the borrower's financial standing.

In order to be accepted, the collateral should have the following features:

a. **MARKETABLE** - meaning the quick possibility to transfer the collateral into money facilities
b. **ASCERTAINABLE** - meaning the collateral is easy to identify.
c. **STABLE** means that the security nature will not change; for example, no deterioration of receivables' quality.

3.4.2 TRANSFERABLE - meaning the collateral is legally available

3.4.2.1 Collateral valuation

The pledged value of the collateral should cover the amount of the borrower commitments on total loan agreement (the loan amount, the amount of interest rate payable in the course of the nearest year), the expenses related to the collateral enforcement and of the other amounts according to the provisions of the loan agreement. Its mortgaged value will become lower than its market value fixed by the evaluator in his report to provide sufficient liquidity for the mortgaged property or the title on the property to the Bank.

3.5 SWOT (STRENGTH, WEAKNESS, OPPORTUNITIES AND THREATS) ANALYSIS

The SWOT analysis is a theory that provides information useful in analysing a firm's resources and capabilities in a competitive environment in which it operates. SWOT is an acronym standing for Strength, Weakness, Opportunities, and Threats.

i. Strengths

Every organisation has some strength. In some cases, this is obvious, as it dominates more than 50% of its market share. A company might be small in size, and maybe lousy position but have

unprecedented strengths. Strengths represent the advantages the companies have, concerning the competitors. Strengths may be in the area of new innovative product or service, patents, strong brand names, business location, good reputation among customers, quality processes and procedures and any other area of operation that adds value to its services.

ii. Weaknesses

There is no single organisation that does not have a peculiar kind of weakness. A company might have its weakness in higher costs of production. Others may have market nitch of 98% and are susceptive to attacks from every new player

in the market. It may be interesting to note that companies may be very competent in what they often do and be weak in other areas not acquainted with, affecting its profile. A weakness could be a weak brand name, high-cost structure, undifferentiated products and service (i.e. about competitors), the business's location, low-quality goods or services, and damaged reputation.

iii. Opportunities:

Opportunities available to companies have made them strive for mastery and make gains; especially in diversification to scale of operations. Identification of hidden talents or opportunities is the mark of an astute analyst. The opportunities that exist at present or possibly in the future can increase sales, improve productivity and make its operations more efficient. An opportunity could be an unfulfilled customer need, removal of international trade barriers, a developing market such as the Internet, mergers, joint ventures or strategic alliances, moving into new market segments that offer improved profits, a new international market, a market vacated by an ineffective competitor.

iv. Threats

All organisations are not immune to threats, which are external to the company's business. Analysts are advised to identify every threat to the company, whether such exist at present or potential future threats that could affect the company's performance to give a poor operational result. The threat is of various degrees and dimensions. It could be shifting in customers tastes of other goods than the same company's products, the emergence of a new competitor in the home market, price differentiation with competitors, a competitor having a new innovative product or service other than the existing product, competitors having special access to other distribution outlets, or the existence of tax exemption of particular product production.

SWOT analysis can be very subjective in that two people hardly ever come up with the same version of SWOT. Therefore, a SWOT analysis should be used strictly as a guide than use it as a prescription.

4.0 CREDIT MARKET DECISION

Once the loan proposal has been submitted, the process after that should not be a mystery or an indefinite process. Below are some key questions to ask the commercial loan officer once the proposal has begun to go through the evaluation process: What are the top three strengths and weaknesses in the proposal? Does this proposal seem to be a fit with the Bank's current lending

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practices and objectives? What problems or challenges do one foresee, and how can we overcome or mitigate these negative factors? What key terms or covenants should be anticipated, and why? What transactional or closing costs should be anticipated, and how will the decision be made? How long will the process take? If the proposal is rejected, will there be another chance to amend the initial proposal and resubmitted? Is that a waste of time? Are there any other lenders or sources of debt capital that would be recommended?

4.1 Negotiation of loan documents:

Financial documents negotiation requires a delicate balance between the lender's requirements and customer needs. The lender of credit facilities will always want to protect all of the rights and remedies available to him to mitigate the risk of loan default, while the customer will want to minimise the level of control the lender exercises and achieve a return on the assets that dramatically exceeds the debt-service payments. Before examining each document involved in typical debt financing, the main aspects under a credit transaction that might be negotiable should be known:

A. Interest rates:

These will generally be computed per prevailing market rates, the degree of risk inherent in the proposed transaction, the extent of any pre-existing relationship with the lender, the cost of administering the loan. Also, the maturity of a loan (long term loans) should always be more expensive than short term loans due to liquidity adjustment costs that have to be applied.

B. Collateral: The loan must be secured by mortgaging assets with a value equal to or greater than the loan proceeds. Under such circumstances, certain business assets might be kept outside the mortgage agreement so that they are available to serve as security if more money is needed later. Beyond the traditional forms of tangible assets offered to the lender, the intangibles must also be considered (such as the assignment of lease rights, critical man insurance, or intellectual property) as collateral candidates. Collaterals are very costly to sacrifice for a growing company in the event of default.

C. Restrictive covenants: There are provisions designed to protect the lender's interests, and so, the typical loan agreement will contain several kinds. A breach of covenants is an event of default, allowing the Bank to declare the default and accelerate the loan. Still, a bank will usually take legal actions only after it has tried to implement a restructuring solution, and it did not work.

Affirmative covenants encompass obligations (and the subsidiaries', except as otherwise provided) during the period that the loan is outstanding, and may include the following affirmative acts that must be done:

i. provides audited financial statements at regular intervals (usually quarterly and annually with the annual statement to be prepared and certified by an independent certified public accountant).

ii. It provides copies of all financial statements, reports, and returns sent to shareholders or governmental agencies.

iii. Provide access to the properties, books of accounts, and records.

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iv. Keeps and maintains proper books of accounts.
v. Lending and borrowing companies should comply with all applicable laws, rules, and regulations.
vi. Maintain the corporate existence (as well as that of any subsidiaries) and all rights and privileges.
vii. Maintain all property in good order and repair.
viii. Maintains any agreed dollar amount of net worth (or any agreed ratio of current assets to current liabilities).
ix. Keeps and maintains proper and adequate insurance on all assets.
x. Pays and discharges all indebtedness and all taxes as and when they are due.
xi. Purchase and pay premiums due to life insurance named key personnel (wherein the company is named beneficiary).
xii. Maintain certain levels of various financial indicators.
xiii. The turnover clause is rooted in total collections or total sales through the Bank's accounts.

Negative covenants (generally negotiable) encompass specific actions for which the lender's consent must be obtained and depend in large part on the company's financial strength and economic and operational requirements. The lender's consent must be obtained in order to: Engage in any business not related to the present business, maintain the same shareholder structure, and create any mortgage, lien, or other security other than pending security on the property securing the loan, Create any mortgage, lien, or other encumbrance, including conditional sales agreements, other title-retention agreements, and lease-purchase agreements, on any property of the company or subsidiaries (unless accepted), Incur any new indebtedness except for trade credit or renewals, extensions, or refunding of any current indebtedness, The right to incur indebtedness may be conditioned on compliance with a specified ratio (actual or pro forma) of pre-tax income to interest expense for a designated period. Entering into leases of real or personal property as the lessee is more profitable than a specified aggregate amount. (The right to make leases may be conditioned on compliance with a specified ratio - actual or pro forma - of pre-tax income to fixed charges for a designated period.). We are enjoined to purchase, redeem, or otherwise acquire (or retire for cash) any of the company's capital stock above a specified amount or for reserves set aside to redeem preferred stock and pay any cash dividends (with stated exceptions) such as those from after-tax earnings earned after a specified date or over a specified amount. Loans or advances invested in any person or entity other than subsidiaries, Merge or consolidate with any other corporation, or sell or lease all assets substantially. However, there may be exceptions in cases where the company is the surviving corporation, having permit net worth or current assets to fall between 2 specified levels, i.e. permit capital expenditures to exceed a specified amount (which may be on an annual basis, with or without the right to cumulate). Permitting officers' and directors' remuneration to exceed a specified level, sell or dispose of all the stock of a subsidiary (subject to permitted exceptions) and permit subsidiaries to incur debt (other than trade debt).

The contractual clauses can also be classified in financial clauses (meant to monitor the company's financial health) and non-financial clauses (mainly the negative covenants). To assure

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transparency to the customer, the company has to mention the contractual covenants monitoring frequency.

Prepayment rights: Regardless of the loan's actual term, repayment rights could be negotiated along with the right to prepay the principal of the loan without penalty or special repayment charges. Many commercial lenders seek to attach prepayment charges with a fixed rate of interest to ensure that a minimum return rate is earned over the loan's projected life.

4.2 Credit Market Costs and Fees:

These are Processing fees, filing fees, late registration fees, Agreement or attorneys' fees, out of-pocket expense such as courier, travel, photocopying, and etcetera, Court filing fees or costs, Closing fees, and auditing or inspection fees, and insurance fees, that are associated in the granting of a loan or credit granting. Thee fees are to be paid by loan seekers to the Bank granting such loans. Commercial lenders earn extra cash or money by imposing depository restrictions, maintaining a certain account balance in the company's operating account, or a depository condition to keep the credit facility afloat.

Based on fulfilling the above-specified conditions provided by the Bank, the granting of the credit is approved. However, the Bank may ask the borrower some additional questions as conditionality, enabling the fund's disbursement when fulfilled.

i. Once, the borrowing company has been granted a loan; the borrower cannot apply for a new loan unless he liquidates the subsisting loan, with the written approval of the Bank or else, the Bank has to grant the right of first refusal in case of a new banking facility by the loan seeking company;

ii. The borrower company makes a certain amount of payments through the Bank being a fixed percentage or percentage of total banking operations or total turnover. In the event of non-fulfilment of the terms and conditions of the loan as a result of a decrease in the borrowing company's business will attract some penalty cost for default;

iii. The borrower company will not pay dividends without the written approval of the lending bank; and

iv. The borrowing company shareholders cannot withdraw any amount of money without the loan lender bank's written approval.

There is always the consideration of credit decision to lend to a borrowing nation based on credit scoring in international lending.

4.3 CREDIT MARKET SCORING

Creditor bank(s) must apply a consistent evaluation and rating scheme to all its investment opportunities to make credit market decisions consistently and for the resulting aggregate reporting of credit market risk exposure to be meaningful. A substantial degree of standardisation of process is needed to facilitate the loan, and documentation is required. Credit market scoring has led to standardised ratings across borrowers and a credit market portfolio report that presents meaningful information on credit market portfolios' overall quality. In the following part, a

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credit-rating procedure is presented that is typical of those employed within the commercial banking industry.

5.0 CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

Credit is an advance of money or equivalent given by a Lender to a Borrower for repayment at maturity, ranging from a few days to several years. It is the monetary financial aspect of capital resources that are generally considered goods employed but not used in the production course. In this case, credit could take the forms of biological or physical capital purchased and supplied to the producer.

The credit market is that market available for companies looking for where to raise funds through debt issuance. The credit market encompasses investment-grade bonds and junk bonds, as well as short-term commercial papers. Investors see the market as having offerings of bonds, notes and securitised obligations such as mortgage pools and collateralised debt obligations.

5.2 RECOMMENDATION

i. Credit markets equity be enlarged to take care of the companies whose capital base is small.

ii. The current state of the credit markets speaks of a large portion of the financial community's relative health, so the government and Central Bank of Nigeria should finance money lending institutions.

iii. The government should examine the prevailing interest rates and review the rate downtown to enable small entrepreneurs to strive.

iv. The Nigerian apex Bank and the Federal government of Nigeria should make available loanable funds as more investors' demand keeps on increasing.

v. More bonds are issued which will spill over into the equity market.

vi. It is suitable for companies always to have Credit market analysis to be aware of its creditworthiness.

vii. Regular evaluation of a lending officer's ability to honour its financial obligations be carried out as often as possible. A large company's audited financial statements are made available to the public at all time.

viii. A lending officer may analyse a small business's financial statements before making or renewing a commercial loan to revamp the ailing businesses.

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