

**ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
ACCOUNTING DEPARTMENT**

**AN ASSESSMENT OF THE LONG-TERM LOANS IN
THE CONSTRUCTIONS AND BUSINESS BANKS S.C**

BY:

MIHERET ASMAMAW

MEHBUBA AREBO

TEMIMA SEBRA

June 20062014

SMU

ADDIS ABABA

Table of Contents

Title	Page No
Acknowledgement	I
List of Table	II
CHAPTER ONE	
1. INTRODUCTION	
1.1 Background of the Study	1
1.2 Statement of the problem	2
1.3 Research question	3
1.4 Objective of the study	4
1.4.1 General Objectives	4
1.4.2 Specific Objectives	4
1.5 Significance of the study	4
1.6 Delimitation/Scope of the study	4
1.7 Research Design and Methodology.....	5
1.7.1 Research Design	5
1.7.2 Population and Sampling	5
1.7.3 Types of Data to be collects	6
1.7.4 Methods of Data collection	6
1.7.5 Data analysis Methods	6
1.8 Organization of the study	6
CHAPTER ONE	
2. Review of Related literature	
2.1 Definition of loan	7
2.2 Types of loans made by Banks	7
2.2.1 Intermediate – term loans	9
2.2.2 Real state loan	12

2.2.3 Types of Real state Loans	12
2.2.4 Types of commercial loans	14
2.2.5. Consumer loans	14
2.2.6 Credit decision	15
2.2.7 Controlling & advising Borrowers	15
2.2.8 Collection Policy	16
2.2.9 The basic collection Techniques of loans	17
2.2.10 Analysis of loan market	17
2.4 Why use credit	18
2.5 Source of credit	18
2.6 Getting & use credit	19
2.7 Loan evaluation	20
2.8 Loan Rate	20
2.9 Regulation of lending	20
2.10 Source of information about contusion & Business Bank S. C	20
2.11 Loan collection	22
2.12 Banks loan policies system & procedure	22
 CHAPTER THREE	
3. Data Presentation analysis and interpretation	23
3.1 Background of Respondents	23
3.2 Ratio Analysis	24
 CHAPTER FOUR	
4. Conclusion & Recommendation	32
4.1 Summary of major Finding	32
4.2 Conclusions	33
4.3 Recommendation	34
Bibliography	36

List of Table

No Table	Title	Page No
Table 2.1	Bank's gives consultancy before granting loan	24
Table 2.2	Precondition for borrows for borrows before it permits a loan.....	25
Table 2.3	Bank has a strong credit appraisal procedure	26
Table 2.4	Loan is granted to a borrower	27
Table 2.5	Credit limits or exposure to a single borrower	28
Table 2.6	Strong Collateral	28
Table 2.7	Any Means to check credit procedure.....	29
Table 2.8	Follow-up how the borrows do their business	29
Table 2.9	Clients repay their debt per Scheduled	30
Table 2.10	Loan Collection.....	31
Table 2.11	Possible for every customer to borrow long-term loan.....	31

Acknowledgements

God, this success would not been possible with the absence of your help. Your invisible hands pay a great role in changing our life, therefore, the first and foremost praise and Glory goes to you.

Secondly our deepest and heartfelt gratitude goes to our families for their constant support and encouragement from beginning up the end of college life. In fact we are in there debt, if not, always.

Thirdly, we owe great thanks to our advisor, Abera Yilema for his helpful and cooperative advice from its inception to completion of this paper.

Last but not least, we also indebted to all loan officers loan managers with important materials and information in preparing the paper.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of study

Currently, the service of Banking in Ethiopia is becoming popular to every business people or others. Banking industry becomes the most sensitive and competitive sector which necessitated fast or professional service to the general public. Furthermore: credit is one of the major areas of the Bank. (cbb credit procedure Aug.2012)

The Institutional sources of credit come from Government Treasury, Financial Institutions such as Ethiopian Insurance Corporation, Commercial Banks and other depository and non-depository institutions.

The essential function of Banking systems are to act as an intermediary between savers and borrowers. However, practically some of Bank credits have inherent problems and risks. Analyzing and assessing the loan before disbursement and following after disbursement and following after disbursement is a major activity that requires due consideration in order to protect the Bank from risk or loss. In order to prevent the Bank from risk or loss, the Banks credit activities should be properly assessed and analyzed. (morsman and edgarm.1987).

The Construction and Business Bank is one of the Financial Intermediaries in Ethiopia, which serves according to National Bank Code of Ethics to borrowers. The source loan able fund is demand deposit or savings deposits made by customers. The Bank provides various types of loans to customers mainly long term construction loans, short term loan, medium term loans, personal loan and loan against deposit. It also provides business loans to meet the working

capital requirements of Commercial and Industrial activities within a limited ceiling. Construction and Business Bank is required to function efficiently to meet the growing demand of credit so as to induce developments. (cbb credit procedure Aug.2012)

Construction and Business Bank S.C. (CBB) are a wholly government – owned public enterprise and successor of the former Housing and Saving Bank (HSB) which was established in Nov. 1975. The Bank was created by amalgamate the former of Imperial Saving and Home ownership public Association of the saving of mortgage corporation S.C.

The purpose of the Bank was to encourage the construction of residential houses by providing long term loans at a low rate of interest in urban areas. (cbb credit procedure Aug.2012)

This paper is intended to assess long term loans in CBB maturity of longer than one year; usually

1.2 Statement of the Problem

Long term loan is a formal agreement to provide fund for more than five years most loans are for an improvement that will benefit the company and increase earnings. Such loan would be used purchasing a new building that will increase capacity or a machine to make manufacturing more efficient and it is granted for construction sectors agriculture and mining long term are usually repaid from profit.

People borrow money to finance the purchase of homes, cars, and household appliances. Businesses borrow to finance the construction of new plants and equipment's and takeover of existing companies. For each borrower, a loan is a debt, an obligation to repay the borrowed money plus

interest. For each lender, a loan is an investment comparable to bonds, stocks or other assets (Gary Smith, 1991, pp 227)

Some of Bank credit have inherent problems and risks. However in CBB Face many problems in long term credit like loan un collectability or repayment of loans NPL and lack of liquid Assets like cash asset.

There for loan uncollectability was caused by the investors or borrowers are makes one contract and performs other types of constriction design. And they are more expense than the loan because of this investors not finished and not get in to the business. The luck of liquidity in CBB caused by the demand for long term loan is stronger than that of the supply of long term loan. This proportionate increase in the size of demand compared to the supply of long term loans faced the Bank to change its credit policy, which requires a greater short term maturity. Causes for NPL's are morely varied Bank to Banks well as country countries based on the level of responsibility for the occurrence of NPLs. In general risk's in CBB tend to be concentrated in the loan portfolio when a Bank gets serous financial trouble, its problems usually came from loans that have became uncollectable due to mismanagement, illegal manipulation of loan, misguided lending policy's or unexpected economic downturn.

1.3 Research questions:

1. What does long term loan looks like in CBB?
2. What are the factors that affect long term loan in CBB?
3. To what extent the measures taken by the bonk for repay's failority is effective?

1.4 Objectives of the study

1.4.1 General Objectives

The general objective of the study is to assess long term loan in CBB in particular and how it affects the beneficiaries.

1.4.2 Specific objectives

- To assess the long term loan practice of CBB.
- To identify factors that affect long term long in CBB.
- To investigate the effectiveness of the measures taken by the Bank for repay failurits.

1.5 Significant of the study

The study is important for the following points:

It is helpful for managements of CBB in understanding the major problems of long term loans and policy framework for making improvements.

It gives information to the existing management and the BOD to know the proposition of the Bank. It will serve as a base to researchers who want to study on the topic. It also serves other Banks on their long term loan management and policy system.

To improve working ability without shortage of resources and the investor will make portfolio management.

1.6 Delimitation/Scope of the study

The study is on the long term loan management policy, procedure and assessment process of CBB in unit of credit at head office with in the time frame of 2011 to 2013G.C

1.7 Research Design and Methodology

1.7.1 Research Design

Descriptive study was use because it helps to describe the facts that provide constructive comment for our study.

1.7.2 Population and Sampling Technique

The population size for our study was includes Employees of CBB who are directly related with the credit.

1.7.3 Sampling Method

The sampling technique that was use in this research purposive sampling. It was be preferred since it involves the researcher made a decision about what type of study unit is involved in the study affects the operation of the stated Bank and the beneficiaries. It is believed to get necessary information from personnel of the Bank. 18 employees are our populations. In this case we will take all employees by using census method. Because the number of employee is manageable comparing with other methods. The key information from the Bank include credit relation mangers, Accountant and credit Analysts, each include five members.

1.7.4 Types of Data to be collected

The primary data was collected through questioner from loan officers and managers. The secondary data on the other hand was collected from various sources such as magazines, annual reports, policies and manuals.

1.7.5 Methods collected

In this student researcher was collected both primary and secondary data.

The primary data was collected through questionnaires based of the study.

Questionnaires was close and open ended, describe use to those employees who handle Long term loan and the responsible bodies.

Secondary data sources was collected from loan files, different articles, books, Journals, annual report, related websites and other documents that are related to the topic under study.

1.7.6 Data Analysis Method

Even though there might be options of quantitative (numerical) and qualitative (non numerical) data analysis for this research, more emphasis were given for qualitative data analysis techniques.

1.8 Organization of the study

This study is organized in to four Chapters the first chapter highlighted background of the study, statement of the problem, objective of the study, scope and limitation and organization of the paper. Chapter two presents reviews of related literatures. Chapter three Methodology (analysis of data collected). The last, chapter focuses on summary, conclusion or recommendations. This research includes reference and Bibliography at the end.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURES

2.1 Definition of Loan

Credit is a medium of exchange is limited acceptance because of different potential losses and components the credit number of loan office will not allow everyone to use credit programs. Credit is a medium of exchange to the extent that is facilities are transfer of value from buyer to seller (borrower to lender), but it is not available to everyone. Credit personnel conduct investigations and assess the risk a particular client before accepting a promise to pay. Credit is privilege that must be earned and protected by those who wish to use its form of exchange. (WB credit manual, 1998).

According to Thomson's dictionary of Banking "loan is a thing that is lent specially a sum of money. The action lending something or the state of being lent for each stocks or other asset. On the hand for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest" (Thomson's Dictionary of Banking)

Long term loan is a formal agreement to provide fund for more than five years most loans are for an improvement that will benefit the company and increase earnings. Such loan would be used purchasing a new building that will increase capacity or a machine to make manufacturing more efficient and it is granted for construction sectors agriculture and mining long term are usually repaid from profit.

People borrow money to finance the purchase of Homes, Cars, and Household appliances. Businesses borrow to finance the construction of new Plants and equipment's and takeover of existing companies. For each borrower, a loan is a debt, an obligation to repay the borrowed money plus

interest. For each lender, a loan is an investment comparable to bonds, stocks or other assets (Gary Smith, 1991, pp 227)

A loan is a liability for individual or business receiving it but an asset for provides like Banks. Loans are typically less liquid than other assets. Because they cannot convert in to cash until they matures. If the Bank makes a one year loan, for example, it cannot get until the loans comes within one year (mihkin, 1998, p -231).

The loan arises from negotiation between the Bank and its customers and it is a written agreement designed to meet the specific credit need of customer (Koch, 1998 p-98).

Influences both the level and distribution of long term finance provided by the financial system. For example prudential regulation seeks to ensure that the maturity mismatches and leverage risks that accumulate on Bank balance sheets. As part of the financial intimidation process are adequately covered by capital and liquidity buffers. The buffers increase the resiliency of these institutions and contribute to the internalization of the risks they pose to the boarder financial system regulation should not distort incentives in favors of certain types of market participant or sectors, but rather seek to better align providers and users of finance in accordance with their respective investment horizons and risk-bearing capacity. (<http://www.bis.org/publ>).

Generally the lender has to bear risk that the borrower may not repay loan (through modern capital markets have developed many ways of margining this risk). (Internet access)

Borrower is a person that has applied, met specific requirements, and receiving a monetary loan from a lender. The individual initiating and the

request signs a promissory note agreeing to pay the lien holder back during a specified time frame for the entire loans amount plus any additional fees. The barrower is legally responsible for repayment of the loans and subject to any penalties for not repaying the loan back based on the landing terms agreed up on.

Lender: - is a private, public or institutional entity which makes funds available to others to borrow.

Return:-is

- 1.The annual return on an investment expressed as percentage of the total amount invested also called rate of return.
- 2.The yield of a fixed income security.
- 3.Same as tax return.

Repay:-is to pay funds owed to a person or business.

Risk: - is the quantifiable likelihood of loss or less –than-expected retunes. Examples currency risk, inflation risk, principle risk , country risk economic risk, marriage risk, liquidity risk-, market risk, op-p-ort unity risk, income risk, interest rate risk, p-repayment risk purchasing power risk, event risk.

Capital markets: - a market where debts or equity securities are traded.

2.2 Types of loans made by Banks

What type of loan do Banks make? The answer is, of course, that Banks make a wide variety of customers for many purposes. Bank loans may be divided into eight categories of loans delineated by their purposes.

Long term liabilities (Long term debt) are liabilities that do not require the payment of cash, the shipment of good, or rendering of service in one year (or the next operating cycle ,whenever is longer) for the liquidation.

Examples of long term debt are; bonds, mortgage note, promissory notes, deposits received for utilities service. Some obligation under pension and deferred compensation plans certain types of lease obligation, deferred income tax credits, and some deferred revenue item.

Long term liabilities may be collateralized (secured) by liens on business property of various kinds, for examples, equipment (equipment notes), real property (mortgages), or security (collateral trust bonds)

Long term liability in the balance sheet

All long term liability should be described in the balance sheet or a note to the financial statement .Business enterprise having large amounts of long term debt in the form of numerous issues often show only one amount in the balance sheet and support this with a note to financial statement that present the details of maturity dates, interest rates, call provision, conversion features, asset pledged as collateral and limitations on dividend or other restriction imposed on the issuer

The financial accounting standard Board requires disclosure of the combined aggregated amount of maturities and any sinking fund requirements of all long term borrowing for each five years following the balance sheet date also FASB requires disclosure regarding troubled debt restriction and in substance of debt.

Any portion of long term debt that mature in one year is listed as a current liability unless the retirement of the debt will not require the use of current assets. If individual require the use of current assets. If during the ensuring

year, long term debt is expected to be converted to common stock, refunded, or repaid from sinking fund, there is no reason to change its classification to a current liability, however, the expected method of retirement should be disclose (A.N. MOSICH, Ph. D.C.P.A 6th edition)

Long-term loan Loans and obligations with a maturity of longer than one year; usually accompanied by interest payments. Also called funded debt?

Could be add of cash provided to the receiver for associate extended amount of your time that is over five years. Most often, the flexibility to get long-run money loans involves security loan process. Mortgage loans open sufficiently enticing prospects for the borrowers. Real and movable estate will operate as a mortgage accepted by the individual. In this regard, the property value and its liquidity should meet the lenders desires and necessities. It's necessary that the disposal rate for such programs seems to be basically smaller and also the longer loan term permits to assign funds to hide comparatively massive money desires.

Process

Once all the terms and conditions have been agreed, a contract or agreement should be drawn up and signed by both parties. This would be similar to the loan contract, but will specify certain differences particular to a long term loan:

1. Length of loan
2. Insurance details
3. Purpose of the loan
4. Use of the object

5. When permission is required from the owner and when not
6. What to do with loan requests

2.2.1 Intermediate - term loans.

Usually running less than three years, these loans are generally repaid in monthly installments (sometimes with balloon payments) from a business's cash flow. According to the American Bankers Association, repayment is often tied directly to the useful life of the asset being financed.

Real estate loans: These are secured by real property land building, development and long term loans to finance the purchase of farm land, home, apartments, commercial structures and foreign properties.

2.2.2 Real estate loans

They are classified separately from commercial and consumer loan, because the collateral is some form of real property and the loan are subject to different risks on regulation many Banks speeds also extend long term mortgage are in to resident home owners or the holder s of commercial property.

2.2.3 Types of Real Estate Loans.

- A. Short term real estate loan:** - most Banks lend heavily to their construction loans represents interim financing on commercial, industrial and property. Bank extends loan to a builder that will repay when the project is completed and permanent (long term) financing is arranged. While , the developer repays the loans as home owners or invertors pay lost matures on these loans normally ranged from twelve months to two years but are often extended when the developers cannot find permanent financing(Koch, 1995 p-651)

B. Long term real estate loan: - most Bank estate loans are long term mortgages primarily on a single family house. Mortgages loans are attractive investment when priced currently. When the deposit base was relatively stable, Banks made fixed rate loans with 30 years maturities (Koch, 1995 p-653).

C. Financial intuition loans: Including credit to Banks, insurance companies, and other financial institutions.

D. Agricultural loans: extended to farm and branch operations to assist in planting and harvesting crops and to support the feeding and care of livestock.

These are loan given or granted for the purchase of agricultural equipment's or to purchase of inventory in the in the form of seed, fertilizer, and pesticides and to pay other production costs. The fundamental source of excess of operating expense (Koch, 1995 p- 65)

E. Commercial and industrial loans: granted to businesses to cover such expenses as purchasing inventories, paying taxes and meeting payrolls.

The loans may be used to finance for short term use such as temporary working capital needs and constriction expanse in circumstance. When the borrowers has obtained commitment for long term financing from another lenders, they use for long term uses such as new equipment purchases and plant expanse. But short term business loans often take the form of loans commitment or line of credit agreement this loans often may be formal an informal and they operated by credit card arrangements.

2.2.4 Types of Commercial Loans

- A. Short term commercial loans:** - Banks try to match credit terms with borrower's specific needs. This type of is funding needs for short period of time this loan needs as current expense of the business and individuals this loans have not long term maturity.
- B. Term commercial loans:** - term commercial loans have original maturity of more than one year. Most term commercial loan have maturity from one to seven years and are granted to purchase of depreciable assets start up costs new (Koch, 1995 p-650).

2.2.5 Consumer Loans

The usual purpose of these loans is to finance the purchase of durable goods; although many individuals borrow to finance education, medical and other expense most of them have a maturity of less than one year. The types of loan that are included in this section are:

A. Installment loan:- this is the type of loan which requires partial payment of principle plus interest periodically until they mature. They may be short term or long term depends on the rearmament period (Koch, 1945 p-701)

B. Credit card:- are revolving credit management where a borrower will pay for purchase using credit card instead of such as master card and visa (kahsu and Goitom,2005,p- 15)

Non- installment loans:- they are generally short term loans where funds advanced for a years or loss with be rapid are one are one payment of the end of the period sometimes referred to as notes loans the barrower will receive

funds for the fixed period of time perhaps 90 days. He/she will return the funds in single payment after the prescribed time period (Kahsu and Giutom, 2005 p- 20).

Loans to individuals: include credit of finance, the purchase of automobile, mobile homes, appliances, and other retail goods, to repair and modernize homes, lower the cost of medical care and other personal expenses either extended directly to individuals or indirectly through retail dealers.

Miscellaneous loans: They include all those loans not classified above including sector ties loans.

Lease financing receivables: where the Bank buys equipment's or vehicles and leases them to its customers. (Peters Rose, 1999, pp 518)

2.2.6 Credit Decision

The credit decision is a judgment made by the credit management to accept or reject an application for accredit purchase. Credit is medium of exchange with limited acceptance due to the time and risk involved in collecting payment. The credit decision can be arrived through logical techniques and analyzing data obtained through logical technique and analyzing data obtained through investigation, particularly credit decision or approval for granting loans is made by committee of two or more persons for controls purpose (Koch, 1995 p-638)

2.2.7 Controlling and advising borrows

As Larson (2006) sated information in credit files the most kept up to date. Information previously gathered is valuable because, it affords insight in to history of a concern of individual and those antecedent's relation are always

important yet the charter and earning power of a business may change very suddenly and consequently name upon which no new information has been recorded for one years are usually regarded us out of data and require revision. As result borrowers spent most of their time controlling following up, revising requirement on regular basis and watching out for danger signals on the existing borrowing. The closer the control of customer's activates may help the Bank to take corrective action and reduce risk on non- payment.

2.2.8 Collection Policy

Collection policy is asset of procedure for collecting credits. The effectiveness of this policy can be partly evaluated by looking at the view of bad debt expanses. This level depends not only on collection policy but also the policy on which the extension credit is based.

If one assumes that the level of bad debt attributable to credit policy is relatively consistent, increasing collection expenditure can be expected to reduce bad debt expanses. The approaches used evaluate credit and collection policies include the average collection period ratio and aging of receivables.

2.2.9 The basic collection techniques of loans

1. **Letters:** - after the loans become overdue a cretin number of days the Banks normally sends a polite letter to remained the customers for their obligation.
2. **Telephone Calles:-** if the letters proves unsuccessful, telephone calls may be made to the customers personally to request immediate payment

3. **Personal visit:** - sending a collection person to confront the customer can be very effective collection procedure.
4. **Agencies:** - a Bank can turn uncollectable account over to a collection agent or attorney for collection.
5. **Legal collection:** - legal action is the strongest steps in the collection processes. It is an alternative to the use of collection agency, not direct action is expansive but also it may force the debtor in to Bankruptcy, thereby reducing the possibility of future bossiness without guarantee the ultimate recipient of the overdue amount (Larson, 2006).

2.2.10 Analysis of loan market

The loans contracted in the market can be imagined to be bills denominated in currency, with principal and interest payable in currency at the end of one period, the common period of portfolio planning and decision. They can be assumed to be divisible, that is available in any denomination.

Two essential features of a loan are determined in the market. One, of course, is the interest and the other is the margin requirement. The risk of partial or complete default by a borrower depends on the amount of his debt relative to his net worth consequently, the attractiveness of a loan, both the lender that can be borrower on the basis of a dollar of net worth. (Money credit and capital, James Tobin, pp127).

2.4. Why use credit?

For most people, the real reason for need of credit is impatience. We all know we could save up first, but we don't want to wait. Besides, we will be making more money later. (H. Darden Chambliss Jr. 1990, pp316)

2.5. Source of credit

The most common sources of credit include the following:

Banks, savings and loans;

Insurance company;

Oil companies and Stores, which offer credit as a way to facilitate sales;

Credit unions;

Finance companies;

In addition, your doctor, dentist, and other providers of professional services often extend credit of various kinds. This practice used to be casual-your friendly doctor would carry you at no interest for a while-but professional people increasing use service to monitor and collect on account, and they now may impose finance charges on unpaid balances. (H. Darden Chambliss Jr. 1990, pp 197)

2.6. Getting and using credit

If you are like most people, you have acquired a lot of attitudes about borrowing money, most of which make you feel guilty when you do it. Business people, however, have no such hang-ups, to them money is something they buy when they need it. As possible, of course, it is just like other raw materials. There are public sanctions for credit, too. The uses of credit that have the highest level of social acceptance are those for home mortgages (we feel pretty emotional about the home and those for business investment because that can create jobs).National policy endorses both by

granting tax incentives for them. The fact is credit involves a kind of fantasy it makes it possible for us to fantasy, lets us reach into the future. That can add available dimension to our financial management. It can also create the worst of financial nightmares. (H. Darden Chambliss Jr. 1990, pp 268)

2.7. Loan Evaluation

Long term residential and business loans are initiated with an application and an interview with a loan officer, who is sometimes given a more congenial title, such as relationship manager. The evaluation of a residential construction loan involves an investigation of the applicant's employment and credit history. The loan officer looks for are stable employment at a wage adequate to repay the loan and meet other financial obligations; and for evidence of the repayment of earlier credit obligations, including a home mortgage, car and education loans, and credit-card purchases. (Peter Rose, 1999, pp 115)

2.8. Loan rates

The major determinant of loan rates are the Bank cost of fund, the interest rates the Bank can earn on other investments, and the risk of default. Banks cannot afford to pay their depositors of percent and lend out money at 5%. They generally require an average spread between their deposit rate available on treasury securities and other potential investments, because Banks won't lend money at 8% when they can buy treasury bonds paying 9%. (Gray Smmihkin, 1998, p -231)

2.9. Regulation of Lending

The loan portfolio of any Bank is heavily influenced by regulation, because the quality of a Bank's loan portfolio has more to do with risk and safety than any other aspect of the Banking business. Some loans are restricted or prohibited by law. Under the uniform financial institutions rating system used by federal Bank examiners; each Bank is assigned a numerical rating based on the quality of its asset portfolio, including its loans. The possible examiner ratings are: Strong performance, satisfactory performance, marginal performance and unsatisfactory performance (Peter Rose, 1999, pp 522)

2.10. Source of information about Construction and Business Bank

Consumer information

Local or regional and city Administration;

Customer financial statements; and other creditors

Business information

Customer financial statements;

Genuine and degree of collateral offered;

Experience of other lenders;

Customer annual reports;

Government information

Government budget report;

Proclamations

General economic information

News letter published by central Banks (peter Rose, 1999, pp 536)

Warning signs of weak loans and poor Banking policies

Indicators of a weak or trolled loan:

Poor loan renewal record (with little reduction of principal each time the loan is renewed);

Absence of cash flow statements or projections;

Customer reliance on non-recurring sources of funds to meet loan payments (e.g. selling building or equipment). (Peter Rose, 1999 pp542).

Nonperforming means loans or advances whose credit quality has deteriorated such that full collection principal and interest in accordance with the contractual repayment terms of the loan or advance in question. (Construction and business Bank, 2012, annual report)

Indicators of inadequate or poor Bank lending policies:

Poor selection of risks among borrowing customers;

Lending money contingent on possible future events;

Failure to specify a plan for liquidation of each loan, and lack of sensitivity to changing economic conditions. (Peter Rose, 1999 pp 542).

2.11. Loan Collection

Collection is a value of money weighted measure of maturity that considers that timing of all cash inflows from earning assets and all cash outflows associated with liabilities. It measures the average maturity of promised stream future cash payments such as the payment streams that Bank expects to receive from its loans and securities or the stream of interest payment the Bank must pay out to its depositors. (Peter Rose, 1999, pp 234)

2.12. Banks Loan policies system and procedures

The principal reason Banks are characterized by state and a federal authority is to make loans to their customers. Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed, making loans is the principal economic function of Banks to fund consumption and investment spending by businesses, individual and units of government. (Peter Rose, 1999, pp 517)

support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed, making loans is the principal economic function of Banks to fund consumption and investment spending by businesses, individual and units of government. (Peter Rose, 1999, pp 517)

CHAPTER THREE

3. DATA PRESENTATION ANALYSIS AND INTERPRETATION

This chapter is concerned with data presentation analysis and interpretation of data gathered through questioners. The questioners were distributed for 14 credit relation manger and 2 credit staff employees of CBB at Mexico Head Office. Two (2) questioners from employees didn't return on the time scheduled. The analyses of the questioners are presented in the table

3.1 Background of Respondents

In the following table, the reserve clearly put the background of questionnaire respondents with regard of their sex, area of study, qualification and working experience.

Table 1: Respondents' area of study and sex

No	Qualification	Sex		Total number of respondents	Percentage
1	12 th complete	M	-		
		F	-		
2	Certificate	M	-		
		F	-		
3	Diploma	M	-		
		F	-		
4	1 st Degree	M	7	7	50%
		F	7	7	50%
5	2 nd Degree	M	-		
		F	-		

Table 2 Respondents' Qualification

No	Area of study	Total number of respondents	%	Remark
1	Accounting	9	64.28%	
2	Economics	5	35.72%	

According to the previous table respondents indicates the following opinions regarding their qualification beyond 12th complete, certificate and Diploma. The 1st degree and graduate which are equally percentile of these numbers Females are 50% who have 1st degree by accounting and Males are 50% of who have by Economics under 3 - 9 years of work experience of the respondents.

All the above data shows, the Bank needs educated a rich in working experienced employed in order to have healthy creditor review procedures.

Ratio analysis of respondents

Table2.1 Bank's gives consultancy before granting loan

Item	Number of respondents and percentage	
	Number	percentage
Do you believe that the Bank gives consultancy before granting loan?		
Yes	12	83.3%
No	2	16.7%
Total	14	100%

According to table 2.1, question that Banks gives consultancy before granting loan? 83.33% of the respondents answered “yes” and 16.667% of them replied “No”. Respondents who said that the Bank gives the consultancy information the reason and expressed that the Bank checks any collateral which is related about perspective borrowers but there is no response for the choice No answer .This implies the Bank has good tradition on collection of reliable information about its prospective borrowers. This result that the Bank will not face problems with regarding to prospective borrowers information and others.

Table 2.2 Precondition for borrows before it permits a loan

Item	Number of respondents and percentage	
	Number	Percentage
Does Construction and Business Bank use any precondition to identity borrowers before it permits a loan?		
Yes	13	92.84%
No	1	7.14%
Total	14	100%

According to table 2.2 For the question “Does CBB, any pre condition to identity the borrows before it permits a loan? 92.84% of the respondents answered “yes” and 7.14% of them replied ‘No’. The respondents who said “yes”. Were asked to mention the reason and expressed that the Bank checks any collateral which is related with the requested amount of loan using different methods. From the above answer we can understand that the Bank uses precondition so as to minimize performing loan amount.

Table 2.3 Bank has a strong credit appraisal procedure

Item	Number of respondents and percentage	
	Number	Percentage
Construction and Business Bank has a strong credit appraisal procedure?		
Strong agree	6	42.86%
Agree	5	35.71%
Neutral	3	21.42%
Disagree	0	0%
Strongly disagree	0	0%
Total	14	100%

According to previous page 2.3, 42.857 % of the respondents said that the strong credit appraisal are strongly agree 35.71% of the respondent said that the CBB has strong appraisal procedure agree 21.42% of the respondents said that the credit appraisal neutral. From the above answer we can understand that the Bank has a strong credit appraisal procedure?

Table 2.4 Loan is granted to a borrower

Item	Number of respondents and percentage	
	Number	Percentage
How effective do you think that the Banks credit analysis before the loan is granted to a borrower		
Very good	4	28.58%
Good	8	57.15%
Medium	2	14.29%
Bad	-	0%
Very Bad	-	0%
Total	14	100%

According to table 2.4, 28.58% of the respondents said that the credit analysis before the loan is granted to a borrower was very good, 57.15% of the respondent said good and 14.29% of the respondents are said the credit analysis was medium others not give their idea. Form the above answer we can understand the Bank credit analysis before the loan granted to a borrower was acceptable.

Table 2.5 Credit limits or exposure to a single borrower

Item	Number of respondents and percentage	
	Number	Percentage
Do you agree that the Bank uses credit concentration limits or exposure to a single borrower?		
Yes	12	85.71%
No	2	14.28%
Total	14	100%

According to table 2.5 85.71% of the respondents that the Bank uses credit concentration limits or exposure to a single borrower by the Bank is satisfactory, but 14.28% of the respondent the says that CBB has a problem on the concentration limit or exposure by the Bank. This results shows the Banks have a particular limitation for single borrowers.

Table of 2 .6 Strong Collateral

Item	Number of respondents and percentage	
	Number	Percentage
Do you believe that having strong collateral secures loan repayment		
Yes	10	71.42%
No	4	28.58%
Total	14	100%

As indicated in the above table 2.6, 71.42 of the respondent answered that it's appropriate to give loan with strong collateral, the remain 71.42% think

that its collateral secures loan repayment was appropriate the remaining 28.58% think that the loan for this sector is of appropriate. From the above answer having strong collateral secures loan was repayment.

Table of 2.7 any means to check credit procedure

Item	Number of respondents and percentage	
Is there any means to check weather the credit procedure set by the Bank is strictly being followed	Number	Percentage
Yes	7	50%
No	7	50%
Total	14	100%

As the above table shows, 50% of the respondents answer that the Bank after check credit procedure set by the Bank is strictly being followed 50% said that sometimes they don't check the credit procedure set by the Bank. Form the above answer we understand the Bank credit procedure were equally they give their opinion.

Table of 2.8 Follow- up how the borrowers do their business

Item	Number of respondents and percentage	
What mechanisms do the customer relation manager use to follow-up how the borrowers do their business?	Number	Percentage
Site visit	8	57.14%
Trade check	3	14.42%

Direct interview	3	14.42%
Total	14	100%

As indicated in the previous page table 2.9 57.15% the respondents answer that to follow-up customer relation manager was site visit presenting the places. 14.28% of the trade check going in the trade areas. 14.28% of the respondents are directly interview and the left 14.28% of respondents was others. The total respondents are give information about customer relation manager follow-up mechanisms more by site visit.

Table of 2.9 Clients repay their debt per Scheduled

Item	Number of respondents and percentage	
	Number	Percentage
Do all clients repay their debt according to the scheduled prescribed under the loan contract?		
Strong agree	-	0%
Agree	10	71.43%
Neutral	4	28.57%
Disagree	-	0%
Strongly disagree	-	0%
Total	14	100%

As shown in the table 2.9. 71.43% of the clients repay their debt according to the scheduled was agree and 28.57% of the Borrowers are repay their debt and 28.57% of the debtor on scheduled was neutral the others are not give their idea. Form the above information we understand more of clients repay their obligation on a time of contract.

Table 2.10 Loan collection

Item	Number of respondents and percentage	
	Number	Percentage
How do you rate the loan collection effort of your Banks?		
Very good	5	35.71
Good	7	50%
Medium	2	14.28%
Bad	-	0
Very Bad	-	0
Total	14	100%

According to the previous page 2.10 37.71% of the respondents said that the rate of loan collection effort of the Bank was very good, 50 % of the respondents said that CBB loan collection rate good and 14.28% of the respondents said that the Bank practice medium loan collection rate. The above answer the collection rate was a good for more the respondents.

Table of 2.11 Possible for every customer to borrow long -term loan

Item	Number of respondents and percentage	
	Number	Percentage
Is it possible for every customer to borrow long-term loan		
Strong Agree	-	0
Agree	2	14.28%
Neutral	4	28.57%
Disagree	8	57.14%
Strongly disagree	-	0
Total	12	100%

As indicated the table 2.12. 14.28% of the respondents said that the every customer can borrow long term loan was agree. 28.57% of the respondents was said that the long term can every customer was neutral and 57.14% of the respondent was disagree by this idea. From the above answer we can understand the Banks for every customers not possible to give a long term loan.

CHAPTER FOUR

4. CONCLUSIONS AND RECOMMENDATION

4.1 SUMMARY OF MAJOR FINDING

This chapter deals with the summary, conclusion and recommendations of the result found from customers CBB

With regard to regarding consultancy before granting loan 83.33% responds revealed that the bank does give consultancy.

The CBB was used to prediction to identity borrowers before it permits a loan. 92.84% of respondents are accept to permits a precondition to give a loan.

In relation to credit appraisal procedure 42.86% of the respondents replied as the bank has strong credit appraisal – procedure.

With regarding to the credit analysis practice of the bank, 57.15 of the respondents mentioned as the bank conduct analysis before the loan guaranteed the bank conduct to borrower.

Based on the data collection, the inadequacy of credit concentration limits or exposure to a single borrowers the 85.71 of the responds which are agreed by the banks uses credit concentration limits or exposure to a single borrower.

Concerning strong collectable secures loan repayment, 71.42% of respondents are to agree on the availability of the collateral.

The analysis shows that there are credit procedure set by the bank is strictly being followed was equally number of respondents give idea. Which means 50% of the respondents are they agree and 50% of respondents are disagree.

With regard to the table mechanism of customer relation manager follow-up to borrower do their business was more site visit which means 57.14% of the respondents were site visit.

Regarding repayment of their debt schedule prescribed under the loan contract was agreed. 71.43% of the respondent are positive influence the on the idea.

Based on the data rate of loan collection effort of the bank was good. 50% of the respondents are give available of information.

Based on the gathered information every customer to borrow long term loan gives disagree. 57.14% of the respondents negative response on this idea.

4.2 CONCLUSION

The aim of this research paper was to examine and asses the long term loan in Construction and Business Bank of Ethiopia at Mexico Head Office. Thus based on the findings presented in chapter three, the following conclusion has been drawn.

According to the findings gathered the bank has good reliable information about its customer and also respectable work relation with customer Because of this bank will practice consistence work habit. Although the basis to allow loan to the customer is depend on more of the work done strength of prospective borrower and it may lead for reduction of customers who don't have repayment done.

Regarding the speed ,courtesy and cooperativeness there is considerable problem is exist and most of the respondents agrees that the bank should exert the maximum effort on the improvement of the loan processing as there is exaggerated Length of time taken between the loan application to approval .

In addition maximum number of the respondent agreed that estimation of consultancy before granting loan fair because of the aims of the construction and Business Bank was follow-up of the work or Business based work, and they are time consistency for the planned work.

The major factors affecting the long term loan was the repayment of loan of uncollectable of long term loan. It is caused by different factors by borrowers like shortage of time, shortage of capital, difference of planned and work done.

The CBB was taken the measures by repay's failiaritites first of all by calling phone, by sending letters, face to face and the last action was legal action. These all actions are lean in the time of maturity date of repayment.

Construction and Business bank of Ethiopia checks how the borrower's investment is performing as the respondents answering, which influence the collection of credit on time. In case where there is existence of loan uncollectability, the bank uses all the collection techniques such as letter of reminding, telephone, rescheduling and legal action finally.

4.3 RECOMMENDATION

Providing the loan has major and significant positive impact in the countries national economic growth. When a bank lends more it became profitable and in turn increase capital of the bank in the form of reserve along with its deposit mobilization. Growth in capital leads to proportional growth of loan able funds.

Based on the foregoing findings and conclusion, the following recommended for reduce the loan processing and management problem in CBB at Addis Ababa Mexico Head Office is suggested.

- ✓ Emphasize should be made on collection of reliable information about perspective borrowers to ascertain for the payment what they are being borrow.
- ✓ Attention must be given to the basis for give loan to customer. This is the one that is primarily see for granting a loan so this must be consider a lot of other things other than collateral strength like profitability of the business.
- ✓ It is inevitable, among other things cooperativeness and speed of front officers have major role in facilitating the overall process of the loan department. In order to facilitate this there must be competent and professional person or officer in the place.
- ✓ More attention must be given to loan process from application to approval in the bank this will help to reduce length of the time that take to grant loan from the bank, decrease cost of process and others. In order to achieve this, the bank must look back its process length and time it take and setup new improved process.
- ✓ More emphasis must be given to the sectors those do not get loan from CBE, the bank must take in to account there value if they are involved in the country's economy.
- ✓ Estimation of collateral has a major effect on the side of customer because it is pledged by them, and it is estimated by the bank the current market value, which result in agreement between them. This must be solve by estimation correctly and considered with the customers need.
- ✓ The bank must keep its strength on the current performance of its loan collection techniques. This will make uncollectability very low.

BIBLIOGRAPHY

1. Edward Hasting Chamberlin (1962). **The Theory of Monopolistic Competition**. 8th edition. Harvard University Printing Office, Inc.
2. Gary R. Smith (1976). **Exploring Market Occupations**. Mc Grow Hill, Inc.
3. James (1985). **Statistics for Business and Economics**. 3rd edition. Dellen publishing Company, a division of Machmillan, Inc.
4. Peter S.Rose (2003) **Money and Capital Markets**. Mc Graw – Hill companies, Inc.
5. Koch W.ansen, (1998), **effective loan management**, 6th edition, New York: (kahsu and Goitom, 2005, p-15)
6. Koch W. ansen, (1998) **effective loan management**, 6th edition, New York: [http//loan information – center](http://loan information – center).

ST. MARY'S UNIVERSITY

FACULTY OF BUSINESS

Department of Accounting

Questionnaire to be filled by Credit Relation Manger

This questionnaire is prepared by undergraduate degree student in St. Mary University in order to collect data for the research entitled "Assessment of Long- term loan in construction and Business Bank S.C". All information you give is valuable and will be used only for the academic purposes and kept confidential. The validity of your response will highly contribute for success of this research paper.

We would like to ask with due respect for you to give your genuine response

Thank you in advance for your cooperation;

Part I: Personal – Information

1. Gender

Male

Female

2. Age

18 – 35

35 – 45

45 ≥ 60

3. Education Status

12th complete

Certificate

Diploma

1st Degree and above

2nd Degree

4. Field of work; _____

5. Work experience in the bank;

< 2 years

2 - 5 yrs

Above 5 yrs

Part II: Questions directly related with study

6. Do you believe that the bank gives consultancy before granting loan?

Yes No

7. Does Construction and Business Bank use any precondition to identity borrowers before it permits a loan?

Yes No

8. Construction and Business Bank has a strong credit appraisal procedure

Strong agree

Agree

Neutral

Disagree

Strongly disagree

9. How effective do you think is the banks credit analysis before the loan is granted to a borrower

Very good

Good

Medium

Bad

Very Bad

10. Do you agree that the bank uses credit concentration limits or exposure to a single borrower?

Yes No

11. Do you believe that having strong collateral secures loan repayment

Yes No

12. Is there any means to check weather the credit procedure set by the bank is strictly being followed

Yes No

13. What mechanisms do the loan officers use to follow-up how the borrowers do their business?

Site visit

Trade check

Direct interview

Others

14. Is clients repay their obligations per the scheduled time?

Strong agree

Agree

Neutral

Disagree

Strongly disagree

15. How do you rate the loan collection effort of your bank?

Very good

Good

Medium

Bad

Very Bad

16. Every customer can borrow long term loan

Strong agree

Agree

Neutral

Disagree

Strongly disagree

17. Do you have any comment or suggestion about the questionnaires?