Saint Mary's University
School of Graduate Studies
MBA Program

ASSESSMENT OF LOAN RECOVERY PERFORMANCE IN WEGAGEN BANK S.C

By: Selam Abebe

2020, SMU

Addis Ababa

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Zenegnaw Abiy (PhD), All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Selam Abebe ____________________

Name **Signature**

St. Mary's University Addis Ababa **January, 2020**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Zenegnaw Abiy (PhD) ______________________

Advisor **Signature**

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ABSTRACT

Loan recovery is a very essential component for the performance of banking institutions as it plays a key role in ensuring the major goal of the bank that is to issue loans that results into the preferred outcome of making a profit margin beyond the loans advanced.. Therefore the purpose of undertaking this study is to describe the loan recovery performance in Wegagen Bank S.C and to see the loan recovery performance in relation to credit assessment, loan follow-up, collateral and workout and to suggest possible solution. The study is based on primary data collected through questionnaires survey from 84 employees by using censes method working in loaning unit of the Bank which are directly involved in credit processing and administering because they would better be able to assist with the relevant research data and un-structured interview for some staffs in credit area of the bank. Based on the nature of the study the research design is descriptive research method. SPSS statistical software is used to analyze the data collected. The research found that lack of financial follow-up, absence of scheduled physical follow-up, lower budget for loan monitoring, collateral miss estimation, unavailability of additional collaterals, lack of marketability for collaterals, collaterals with high depreciable values, fraud made by some dishonest staffs, complicated collateral estimation procedure and Inefficiency in implementing detailed workout strategies are factors that decreases the loan recovery performance of the bank . Positive note the banks credit policy and procedure is in line with NBE's rules and regulation and have good legal follow-up that can enhance loan recovery performance. Finally based on this findings recommendations are given. These includes improve the credit assessment, give advisory service to its customer, provide adequate budget to loan monitoring, insist the staffs to strictly apply its credit procedure manual, revise complicated collateral estimation manual and prepare an action plan for the reduction of NPL .

Key words*: loan recovery, loan recovery performance*

Lists of Table

List of Acronyms

NPL-Non performing loan

WB- Wegagen Bank

NBE-National Bank of Ethiopia

DBE-Development Bank of Ethiopia

OIB- Oromia International Bank

CBB- Construction and Business Bank

AIB-Awash International Bank

NPA-Non performing asset

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking sector plays an important role in the economic growth of a country through its intermediary activities, the banking sector fosters the production, distribution, exchange and consumption processes in the economic system. It stimulates the flow of funds in the economy and fuels economic growth. The efficiency of banking system, thus determines the pace of development of the economy (Siraj, 2014).

Banking service involve mobilization of funds in the form of saving deposits, checking accounts and time deposits that are payable on demand and lending these to business organization and individual traders. Lending is the principal business activity for commercial banks. The loan is typically the largest asset and the predominant source of revenue for the bank. It is also one of the largest sources of risk to the banks safety and soundness (Bacha, 2008).

Commercial banks are the dominant financial institutions in most economies of any country. They play a critical role to emerging economies where most borrowers have no access to capital markets. Well functioning commercial banks accelerate economic growth, while poorly functioning commercial banks are an obstruction to economic progress and aggravate poverty (Barth et.al, 2001).

The growth in NPLs influences significantly credit supply. Due to the psychological effect, banks are reluctant to extend new loans when they see that old loans are in default. Moreover, NPLs influence a decline in loans due to growing financing costs, interest margin growth, and reduction in free capital. Financing costs imply provisioning needed to cover final loan losses. Uncertainty with regard to potential losses grows as NPLs grows .so the bigger the uncertainty the higher the risk premiums for potential losses. Banks' capital declines as non-performing loans grow. Lower capitalization reduces banks' capacity for lending (Demirgüç et.al, 2000).

Therefore debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced. It is evident of that the presence of debt recovery puts pressure to the customers to pay at least when they get the dreaded calls from the banking staff through the debt recovery unit. Debt recovery unit is involved in the day to day role of ensuring that the loans issued to the bank's customers repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery entails compiling a list of overdue loans and proactively managing the loans by calling up customers who are defaulting. This unit is equally charged with the role of liaising with lawyers no draft demand letters to the loan defaulters and sending the same to the customers who are defaulting (Beatrice A.,2012).

Economic growth and development is unthinkable without the participation of financial sector in general and commercial banking in particular but non-performing loan can affect the ability of banks to play their role in economic development. The fast increase in NPLs not only increased banks' vulnerability to further shocks but also limited their lending operations with broader repercussions for economic activity (Anisa, 2015).so loan recovery performance is critical issue to private commercial banks therefore this study is to assess the loan recovery performance in one of the private banks in Ethiopia that is Wegagen Bank S.C

1.2. Statement of the Problem

There are different forms of credit related to the loan facilities, hence several ways to structure a credit facility. But how the loans could be recovered from the loaners to increase the deposits so that the banks can invest the other projects/ loaners is the main issue of loan recovery (Ayasha, 2015).

A prudent bank management should always try to make an appropriate balance between its return and risk involved with the loan assortment.

Failure to manage loans, which make up the largest share of banks assets, would likely lead to the episode of high level of non -performing loans which are closely associated with banking crises. NPL have negatively affected the performance of the banks in terms of credit crisis and profitability. It is recognized that an increase in non-performing loans resulted in a reduction of bank's profitability as well as it reduces the loan to be granted to the needy (Habtamu, 2015).

The loan recovery performance of Development Bank of Ethiopia have been studied by, Edale (2015) and Gobena (2012), loan recovery performance of Construction and Business Bank by Abay (2015), the trend of loan recovery performance in Awash Bank by Fiysa(2009), the trend of loan recovery performance in Oromia International Bank by Genet (2018).all of the study made on loan recovery performance of different banks recommended improvement of the loan recovery.

In accordance with NBE directive No (SBB 69/2018) the banks in Ethiopia are required to maintain ratio of the nonperforming loan below 5% but the unpublished data from Wegagen Bank S.C has illustrate that the ratio of nonperforming loan for the past Three consecutive ye/ars (2016, 2017 & 2018) in average is 8.01% of its total outstanding loans which violet the NBE perimeter that is below 5% and insists to study the loan recovery performance of Wegagen Bank S.C. the researcher has not found so far any research conducted on the loan recovery performance of Wegagen Bank S.C and loan monitoring is studied in general in the previous studies but in this thesis all monitoring system are seen specifically on the other hand loan workout strategies are see in this paper which is a new idea which has not be done previously. As well as seeing the bank has NPL more than the allowable percentage which is 5% by NBE, the researcher believes that conducting a research on this tittle in this bank is a good decision. This research paper used employee's information that are found in the credit area as primary data and try to assess loan recovery performance of the Wegagn Bank S.C.

1.3. Research Questions

These research papers try to answer the following research question.

- What type of credit assessment process used by the bank in relation to loan recovery?
- How does the follow up system of the bank in relation to loan recovery look like?
- What are the collateral related problems of the bank in relation to loan recovery?
- What is the loan work-out performance of the bank?

1.4 General objective

The general objective of this study is to assess the loan recovery performance of Wegagen Bank S.C

1.4. 1 Specific Objective.

The study has the following specific objectives in order to achieve the general objective stated above.

- To examine the credit assessment process of the bank in relation to loan recovery.
- To assess the follow up system of the bank in relation to loan recovery.
- To assess the collateral related problems of the bank in relation to loan recovery.
- To examine the loan work-out performance of the bank.

1.5. Significance of the Study

It is known that the commercial banks are highly regulated because of the fact that they are using others capital and the government protects this investment by implicating different regulations so the research finding will provide valuable information to the NBE that will be useful in policy formulation on loan recovery since loan is the largest asset of a bank.

It enables the shareholders to decide on their equity to hold or to increase the share amount by understanding the bank's loan recovery performance. The outcome of this study will also have significance to the Wegagen Bank S.C management to improve the loan recovery performance of their banks by identifying the reason behind.

The study is also useful as source document for further study in the banking industry loan recovery performance and other studies.

1.6. Scope of the study

The study deal with loan recovery performance of Wegagegn Bank S.C by analyzing the data gathered from selected employees of Wegagegn Bank S.C that are working in credit area of the bank. Those are found in Addis Ababa districts and head office because of the fact that much of the loan is given to the selected districts and head offices as per the data from the portfolio management department outstanding loan in 2018G.C was 15,038,492,106.01 out of this 12,919,807,687.11 was in Addis Ababa districts and head office.

1.7 Organization of the paper

The study has five sections. The first section was introduction, the second section deals with the different literatures that are theoretical and empirical. The third section deals with the method that has been used while undertaking the study. The data analysis findings of the study presented under section four. The last section, section five, summarizes the study and recommends possible solution.

CHAPTER TWO

LITERATURE REVIEW

This part of the thesis has a review of related literature both in the theoretical review and the empirical review which has been conducted abroad and in our country.

2.1 Theoretical Literature Review

2.1.1 Loan Recovery

Debt recovery techniques is a very essential component of the performance of banking institutions as it plays a key role in ensuring that the major goal of the bank is to issue loans that results into the preferred outcome of making a profit margin beyond the loans advanced. It is evident that the presence of debt recovery techniques ensures the loans to pay up their debts. Debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank's customers are repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery involves compiling and accumulating a list of unpaid loans and practically managing and organizing the loans by following up on defaulters. The debt recovery unit interacts with lawyers to summarize demand letters to the loan debtors and sending the same letter to the customers who are defaulting (Hellen, 2016).

An effective credit monitoring system will include measures to; ensure that the bank understands the current financial condition of the borrower or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use customer make of approved credit lines; ensure that projected cash flows on major credits meet debt servicing requirements; ensure that where applicable, collateral provides adequate coverage relative. Its obligors' current condition and identity and classify potential problem credits on timely basis. The problem of credit risk often begins at the loan origination/application stage and increased further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategic procedures for credit processing do not exist, are weak or incomplete (Greuning & Bratanovic 2003).

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loonies to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender (bank). The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans (Garber, 1997).

2.1.2Credit default

Loan default is the failure to pay back a loan which may occur if the debtor is either unwilling or unable to pay its debt. A defaulted loan is a cost to financial institution in terms of forgone or delayed interest, high recovery cost and finance cost associated with external borrowing.

The clearest definition of credit default is given by Moody’s where a credit default involves both delinquency and the notion of expected loss to the lender. This definition of default comes closest to why one is interested in credit defaults in the first place it is to estimate expected losses from lending. Even the delinquency definition of default with a specified time lag such as currently adopted by Basel II can be interpreted as a convenient indicator of potential loss for secured loans. A credit default represents the financial failure of an entity (a person or a company). A theory of credit default should therefore represent a systematic understanding of the causes which directly lead to the effects which are associated with credit defaults. Such a theory is required to provide direct causal connections between macroeconomic causes of changing financial environment and their microeconomic effects on changing personal or corporate financial conditions, leading to possible credit defaults. Most existing theories of credit default do not meet this causal requirement (Wilson, 2007).

Banks failures have involved with the combined effects of severe liquidity and credit deterioration. Credit Risk is a failure to fulfill the terms of any contract with the bank or to perform as agreed. Credit sensitive funds providers may work that the bank's increased credit exposure leads to insufficient profits and credit problems. A bank may increase its liquidity risk that assumes more credit risk through adoption of new underwriting or asset Concentration in relation with risky business line (James, 2003).

2.1.3 Lending policy

Typically, every bank has its own lending policy, which determines bank visions and strategies linked to credit activities. For a commercial bank, this policy acts as a guideline for employees and loan personnel in their daily jobs by setting a common mindset, a common goal among workers whenever they make decisions, handle transactions, negotiate and interact with customers. Though, components in a lending policy may vary from bank to bank, a lending policy needs to contain at least five elements: introduction, objectives, strategies, credit standards, lending authorities and approvals (Hempel & Simonson, 1999).

In a rational profit-maximizing world, banks should maintain a credit policy of lending if and only if borrowers have positive net present value projects. Why then are changes in credit policy seemingly correlated with changes in the condition of those demanding credit? This paper argues that rational bank managers with short horizons will set credit policies that influence and are influenced by other banks and demand side conditions. This leads to a theory of low frequency business cycles driven by bank credit policies (Raghuram ,1994).

In another study to define basic components of a lending policy point out that a lending policy should cover the following sessions: - Lending organization - Lending objectives Standards and criteria for loan - Credit risk rating - Loan authority - Lending procedures a good lending policy is a strong tool to manage credit risk because it forms a system to evaluate and analyze credit profiles of new and existing borrowers. Since loan personnel is affected by lending policy in granting or refusing loan applications, the board of directors should put effort into developing and reviewing this policy annually and make necessary adjustments (Buzzell & Spasovski 2004).

2.1.4 Credit analysis

Credit analysis is necessary analyses of credit files that bank officers conduct in an attempt to evaluate the ability to pay back the loan of existing or new debtors. Compton listed down three questions that credit analysts need to answer this are what are the risks presenting in the borrower's business, what has the borrower done so far in order to control those risks, Have the borrowers succeeded or failed and why and what can the bank do, within its organization, to limit potential losses when providing credit (MacDonald, 2010).

Credit analysis is the evaluation of borrower's capacity in properly servicing the loan. It is done to ensure that loans are made in appropriate terms to clients who can and will pay it back. What analysis is needed and in what scope, is primarily determined by the type and size of loan, but the ultimate purpose is to place good loans so that both parties can benefit from it and meet their objectives. In properly analyzing the credit worthiness of borrowers, lenders often look at some five factors that are known as the five C's of credit. (James, 2003)

In response to the three questions, credit analysts evaluate credit risk levels through both subjective and objective analysis. For subjective evaluation, banks can utilize the five Cs of good credit, described by as key features when assessing borrowers. Character indicates the debtor's willingness to repay, the reputation of the debtor in his industry and in relationships with other lending institutions. Bank officers will look at the customer's historic transactions to detect any events that are relating to credit lending. For example, if a firm has always repaid its interests on time in the past, it is more likely that, for a new loan, the firm will continue to retain its reputation and full fill its loan's obligations. Capital refers to the capital structure of the borrower. Credit analysts study the level of leverage of the target firm by evaluating the weight of debt and equity that are used as sources of finance. Conditions refer to external factors that might affect the borrower's financial situation and his ability to repay. Capacity when analyzing this, banks focus on cash flow reports of customers. Banks always want to lend out money to firms that have predictable, stable cash flow and alternative sources of credit to pay back loans. (Apostolik, & Went, 2009)

Credit analysis is the first step in the process to tailor-make solution to fit the customer's needs. The assessment starts with an understanding of the customer's needs and capacities to ensure there is a good fit in terms of the financing solution. Quality of the credit being granted and is considered an essential element of credit risk management (Cade, 1999).

2.1.5 Non Performing loan

the most commonly used definition of NPLs as a default that occurs when the bank considers that an obligor is unlikely to repay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held); or the obligor is past due for more than 90 days on any material credit obligation to the banking group (Beck, et.al 2013).

2.1.6 Foreclosure and Recovery-

In lending activities, commercial banks always know that it is impossible to collect all loans. It is because even high-rated loans have the risk of unable to maintain their performing status and turn into non-performing loans (NPLs). These loans are viewed by lending institutions as high-risk assets which can cause financial damages. The question here is "What should banks do with loans that are marked non-performing?" there are four probable results for non-performing loans: write-off, foreclosure, bad bank and restructure troubled loans (Golin & Delhaise, 2013).

Write-off refers to an action of deducting an amount of non-performing loans from bank assets in the balance sheet. When a bank exercises write-off, an equal amount must be modified on the liability side of the balance sheet. Write-off will normally affect the profit and loss statement and bank profits, however, under different laws and regulations, banks can sometimes credit the write-off amount directly from equity. When banks carry out a foreclosure, they consider not only write-off but also the recovery rate of NPLs, which comes from collaterals used to secure the loans. NPLs with recourse mean banks will require debtors to add more collateral to their loans since the current value of collaterals is not enough to cover potential losses in case of default. Conversely, NPLs without recourse are loans which have sufficient amount of collaterals. Bad bank or Asset Management Company is another solution for NPLs. This type of companies buys weak assets or NPLs from lending institutions and then resells them to other investors under the form of bonds. In this case, those NPLs still exist but they are removed from the original balance sheet. Practically, many big Asset Management Companies that are founded and funded by governments act as a temporary solution for bad debts and NPLs in the commercial banking sector (Linh, 2016).

In previous years before the issuance of the Foreclosure Law, banks in Ethiopia used to resort to courts as a recovery mechanism. This mechanism proved to be inefficient. Recognizing this inefficiency, Ethiopia has issued a law which deals with property mortgaged or pledged with banks. Proclamation No. 97/1998 is issued aiming to achieve different objectives. The objectives include avoiding long time it takes to obtain judgment, from the court of law, for sale of property mortgaged or pledged with banks, avoiding problem in execution of judgments and avoiding its adverse effect on public money received by banks by way of saving deposits or acquired from other sources. Furthermore, the law is expected to create conducive environment to economic development by enabling banks to collect their debts from debtors efficiently and there by promoting a good business culture (Tihitina, 2009)

2.1.7 Collaterals

Collateral refers to assets of the borrower which are used to securitize loans. In case the client failed to make payment, the lending bank can sell these assets to compensate for part or all of the loss. Collateral is an asset pledged by a borrower to a lender until a loan is paid back. If the borrower defaults, then the lender has the right to seize the collateral and sell it to pay off the loan. The lender has the right to demand collateral basically, collateral serves the lenders' interests to limit a lender's losses by giving the lender a protection against the partial or total loss of resources (in addition to the intrinsic capacity of the financed activity to generate a surplus), The pledge in a collateral arrangement means that the borrower could lose part of his property if he does not pay back; the borrower has an interest in paying back. The hesitation of a borrower to provide collateral could signal to the bank that the borrower is fully aware of the implications of making this pledge, and if he does provide collateral, then he is likely to do everything to avoid the loss of the pledged asset (Linh, 2016).

2.1.8 Effects of Loan Default for Banks

The lending of funds deposits with banks to those who require them implied risk taking by the lending credit may not materialized as planned. The lending institution demands may be made by depositors. If this happens, the lending institution would not be able to attain the objectives expected of them. This can cause loss to banks the un-recovered loans constitute a very heavy loss on the part of the banks. When the debts are not paid, the banks have to write them off which sometimes have significant adverse effects on the banks operations, decline in revenue The interest loss adversely affects the bank’s major revenue. The main activity of the banks is the granting of loans and credit to customers. They charge interest on loans and this forms a major source of revue for them. Failure to pay interest on loans means that the banks will lose substantial revenue; distress In a situation where bad accumulate largely to the extent that the bank cannot write them off, it may lead to the bank becoming illiquid. After this stage, if the situation does not improve, the affected banks may become distressed and ultimately go into liquidation, increased overhead when the debt foes bad, the bank may resort to legal action to receive part or the whole of the debt. The legal fee involved in most cases is usually very enormous. Regrettably, they may lose the case after spending the huge amount on litigation and limited Credit Creation Capacity: As bad debt increase, the capital of the bank decreases and the money available to the banks for lending becomes depleted, thereby hampering the capacity of the banks to create credit (Anioke &Chisom, 2012).

2.1.9 Loan Workout

Workout is basically any arrangement in which the loan obligations of the borrower, lender or third parties are modified in a default situation or to prevent a default. A workout may result in a continuation of the loan (e.g., extension of maturity) or a termination of the loan (e.g., a payoff or a deed in lieu). Workouts may be within or outside of bankruptcy. A workout is obviously cheaper if done outside of bankruptcy, but bankruptcy provides powers (e.g., termination of contracts, stay of foreclosures, ability to obtain new financing) that can facilitate the workout. One typically thinks of a workout in terms of a consensual arrangement, but the workout may occur within the context of nonconsensual actions, e.g., commencement of foreclosure or appointment of receiver (Michael, et.al 2009).

2.1.10 Steps in loan recovery

Generally if the loan account is an overdue account, that is, when the borrower has committed default in repayment of loan amount with interest as per the dates specified in the loan agreement, then the banks have power to take the necessary steps against the borrower, which will result in the recovery of NPAs amount the steps are risk management approach the vast credit portfolio can be segregated into smaller groups such that priority attention can be focused on these, leading to initiation of result oriented steps. A credit manager while scanning the extent of risk attached to an asset looks at the period of time for which the asset is NPA, willful defaulters, compromise settlements a compromise is a settlement of disputes reached by mutual consent. It is a negotiated settlement with sacrifice components on all the parties to the dispute, write off write off is resorted to in the borrower accounts when the Bank has exhausted all possible avenues of recovery and there are no more chances for affecting the recovery. Write off is of two kinds. Prudential write off and regular write off, legal measures one of the problems faced by banks is the low rate of loan recoveries. This has a bearing on the accounting standards as well as on current operations of banks (Gautami, 2017).

2.1.11 Credit Assessment

Credit processing is the pre-qualification screening criteria where all required information on credit is gathered and applications are screened. The criteria may include rejecting applications from blacklisted customers. In this connection, financial institutions should have a checklist to ensure that all required information is, in fact, collected. This would help institutions avoid processing and screening applications that would be later rejected.

The next stage to credit screening is credit appraisal where the financial institution assesses the customer's ability to meet his obligations. Banks should be equipped with well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy customers who can make repayments from reasonably determinable sources of cash flow on a timely basis. Financial institutions usually require collateral or guarantees in support of a credit in order to mitigate risk. Banks must have a policy for valuing collateral, taking into account the Reserve Bank of India guidelines dealing with the matter. Such a policy shall, among other things, provide for acceptability of various forms of collateral, their periodic valuation, process for ensuring their continuing legal enforceability and realization value.

The appraisal criteria look into the following issues while granting loan: Determining the amount and purpose of lending, determining credit worthiness of the applicant to assume the credit obligation, understanding risk profile of the borrower, forecast operating environment of the borrower inspection of the borrower's business premises as well as the facility that is the subject of the proposed financing, ensuring goodwill of applicant, ensuring adequacy and enforceability of collateral or guarantees and Collecting information on shareholders, directors and beneficial owners for corporate customers; and management capacity of corporate customers (Kankipati Srinivasa, 2014).

2.2 Empirical Review of Literature

This part of the review consists of empirical studies that are made out of our country and in our country on loan recovery performance and related titles.

2.2.1 Empirical Evidence in other countries

The research on loan recovery and performance of commercial Banks in Bangladesh indicated that, better supervision with making a cell division of the credit, restructuring the credit policy and concerning the loan with advances of the loan in against of available securities as per the best, for the strategic point of view giving more power to the branch manager, find sound borrower with paying special incentives , paying more concentration of the short term basis loan with perfect matching of sound transactions , imposing restriction on poor or sick industries , and taking special legal action promptly for implication and the nature of the problem of the recovery system important and significant factors that enhance the loan repayment performance (Most. Ayasha, 2015).

The study on disbursement and recovery of rural credit show that recovery performance of higher age group, higher educated people and higher income group is relatively high. The small family size is related to better recovery performance because the expenditure of the small family is lower than the larger family size. The two variable income and business are statistically significant and family size is close to statistically significant for robust standard error this indicates that the higher income group and disbursement of loan to business sector and fewer family members are related to higher recovery performance. On the other hand, the age groups and education are not statistically significant so, these are not related to better recovery performance (Nishad& Shankari,2014).

The study concluded on the effect of debt recovery techniques on Performance of Selected Financial Institutions indicated that the collateral value of the guarantor influences the performance of the institution, the institution checks the repayment history of the guarantor to offer loan to the borrower and the character of the guarantor influences the shares of the institutions. the value of the collateral retention greatly influence the performance of financial institutions, the type of collateral influences the image of the institution, Ease of disposal of collateral greatly affects debt recovery of the institution and the institution ensures that the owner of the collateral pay the loan on time for improved performance (Hellen,2016).

2.2.2 Empirical Evidence in Ethiopia

There are studies made by Ethiopians on loan recovery performance .Endale, (2015) studied with the aim of identifying the loan recovery performance of development bank of Ethiopia. The researcher used both primary and secondary data came up with Inadequate credit policies & procedure manual, Absence of periodical evaluation of loan policies and procedures manual, Unreasonable loan repayment period, Inappropriate Collaterals estimation, Inadequate loan disbursement procedure, Absence of well designed Project follows up system, Inadequate analysis of customers' financial statements and Absence of Well designed controlling and monitoring loans are the major problems of inadequate loan recovery performance.

Another study made by Abay,(2015)on similar topic in construction and business bank, the researcher found out internal and external factors contributing to NPLs. From those internal factors ridged credit police, no clear credit approval procedure and proper as well as week follow up to gate back the loan given to the customers by the bank has negative influence on the Loan recovery performance of the Bank. The study also shows that the Bank faced during recovery of nonperformance Loan are unavailability of additional collateral, Complicated Bank procedure, complicated Legal procedure and deprecation of collateral are the major problem for recovering nonperforming loan.

Study made by Kibrom, (2010) on the determinants of successful loan repayment performance of the borrowers and performance of Development Bank of Ethiopia North Region is analyzed using primary and secondary data. To identify the determinants of successful loan repayment performance of borrowers a probit model is estimated. The probit model describes that educational level of the borrowers, repayment period of the loan, availability of other source of income, sector, purpose of the loan and type of labor determine successful loan repayment performance of the borrowers positively and significantly. Other variables such as, gender and household size have positive sign, but are not statistically significant. Moreover, variables such as age, loan diversion, other source of credit show negative sign but not statistically significant. The variable experience is statistically significant but show negative sign.

Another study by Hunegnaw ,(2014) on Management of Nonperforming Loans at Development Bank of Ethiopia has indicated Both external and internal factors are responsible for the problem of nonperforming loans observed at the bank. The internal factors responsible for NPLs problem are lack of proper supervision and reporting of projects under implementation and taking corrective actions timely, inadequate screening process of potential borrowers, unable to appraise adequately the various aspects of projects submitted by prospective clients to the Bank due to capacity limitations and insufficient efforts made to collect loans as per the repayment schedules after the financed projects have started commercial production.

A study made by Million,(2012) on determinants of formal loan repayment performance of Eastern Hararghe Administrative Zone small-scale farmers using Tobit model. The following factors are identified as the determinants of loan repayment this are celebration of social ceremonies affected the loan repayment performance negatively, The number of contact days that the household head has with extension agents has positive, informal loans affected the loan repayment performance negatively and Other factors affecting loan repayment performance negatively were production loss due to bad weather, disease, and pests.

Hagos, (2010) studied on credit management of wegagen bank s.c tigray region and concluded that the default problem in the bank is due to market problem, environmental problem, loan diversion, and policy problem like the credit policy of the bank related to loan duration and amount. All leads to credit risk that has bad consequences on the Bank's financial stability, clients' business performance, and economy of the region.

The study by Fayesa, (2009) the trend of loan recovery performance of Awash Bank S.C.And the trend of loan collection of AIB s.co was fluctuating trend during the period under consideration in comparison with the industry average; it had a low loan collection trend but its peer groups such as Dashen Bank had an increasing trend in their loan collection. This implies that there are/is problems of loan follow-up and supervision.

2.3 Summery and literature gap

When we summarize the empirical evidences out of our country better supervision, restructuring the credit policy, imposing restriction on poor or sick industries enhance the loan repayment performance. On the other contrary the higher income group and disbursement of loan to business sector and fewer family members are related to higher recovery performances. Ease of disposal of collateral greatly affects debt recovery of the institution and the institution ensures that the owner of the collateral pay the loan on time for improved performance.

When we summarize empirical evidences in our country, Endale, (2015) studied with the aim of identifying the loan recovery performance of development bank of Ethiopia. The study used descriptive research type and simple random sampling method to select the respondents of the study survey and both primary and secondary data to collect the data. The study finding indicated that the Bank's policy & procedures does not segregate the economic sector when the projects have been held as collateral, The repayment period of the disbursed loans have not been determined by using cash flow of the project, Inappropriate Collaterals estimation and Absence of Well designed controlling and monitoring loans.

The study conducted by Abay (2015) on CBB loan recovery performance has used both primary and secondary sources of data, the sampling technique that is used in this study is simple random sampling and descriptive type research method. The study has found that an internal factor that contributes to poor loan recovery performance are ridged credit police, no clear credit approval procedure and proper as well as week follow up to gate back the loan given to the customers by the bank.

Hunegnaw ,(2014) Management of Nonperforming Loans at Development Bank of Ethiopia used both descriptive and analytical researcher type, judgment sampling method. Both external and internal factors are responsible for the problem of nonperforming loans observed at the bank level and internal factors are not less important than external factors and the internal factors are lack of proper supervision and reporting of projects under implementation and taking corrective actions timely, inadequate screening process of potential borrowers, unable to appraise adequately the various aspects of projects submitted by prospective clients to the Bank due to capacity limitations.

On the study of Kibrom,(2010) the determinants of successful loan repayment performance of the private borrowers in Development Bank of Ethiopia North Region The sample selection was based on stratified random sampling; primary data has been used to conduct the research work, the researcher used probit model to describes that educational level of the borrowers, repayment period of the loan, availability of other source of income, sector, purpose of the loan and type of labor determine successful loan repayment performance of the borrowers positively and significantly. Other variables such as, gender and household size have positive sign, but are not statistically significant. Moreover, variables such as age, loan diversion, other source of credit show negative sign but not statistically significant.

The researcher made a study on loan recovery performance, determinants of loan repayment and non-performing loans by using deferent methods. Endale (2015) the loan recovery performance of DBE is not satisfactory. The study made on loan recovery performance of OIB by Genet (2018) concludes that the loan recovery performance of the bank needs an improvement. Other researcher has studied on the Recovery performance of Awash Bank S.C by Feyesa (2009) finding indicates that from the total loan demand of AIB during the given period, on average only 34% was recovered. This implies on average 66% of the total loan demand was not recovered. An empirical study on DBE, CBE, AIB and OIB there is no research made on Wegagen bank loan recovery performance in my knowledge and loan monitoring is studied in general in the previous studies but in this thesis all monitoring system are seen specifically on the other hand loan workout strategies are see in this paper which is a new idea which has not be done previously.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with the research approach & design, population, sample size and sampling procedure, data collection instruments and data analysis.

3.1 Research design and approach

The researcher used descriptive research approach since descriptive research examines a situation as it exists, presents a picture of the specific details of a situation, social setting, or relationship, describe the situation in terms of its characteristics i.e. provide an accurate profile of a group Presents background information and Creates a set of categories or classify the information (Fawcett and Downs, 1986)

The major purpose of descriptive research is to describe characteristics of a population or phenomenon. It gives a brief description of the statistical units under investigation so it enables us to analyze the loan recovery performances of Wegagen Bank S.C in relation to credit appraisal, credit follow up, collaterals and loan workout strategies by using qualitative data types.

3.2 Population, Sample size and sampling procedure

The target population of the study is directed to Wegagn Bank S.C credit department found at head office and Addis Ababa districts which are North Addis Ababa, South Addis Ababa, East Addis Ababa and West Addis Ababa which have 84 total population this are monitoring officers, Senior monitoring officers, workout officer, senior workout officer, loan officers, credit analysts, senior credit analysts, principal credit analyst, division managers on credit area, credit directors and relationship mangers. All the above listed credit related staffs are used for this research. Censes is an accurate and reliable because of the fact that no element of chance is left and the total population is not too large to adopt censes method.

3.3 Data sources and data collection method

The sources of data were primary it was collected using structured questionnaires both open-ended and closed ended questions developing and distribution of questionnaires to the Wegagen Bank S.C credit assessment, follow-up & recovery staffs and manager and unstructured interview to in credit area managers as the topic of the research relates directly to them was major source of data gathering instrument.

3.4 Data analysis method

The researcher utilizes descriptive statistics method and employs SPSS statistical software to analyze the collected data it is select because of the simplicity to analyze data. Using the SPSS result the collected data were analyzed.

Data collected was checked for completeness and consistency. The researcher organized and analyzed the data using tables and percentages also interpretation was given under each table through statistical and qualitative method based on the tabulate data. Interviews response is written in each section of data analysis with the open ended questions responses.

3.5 Reliability of the research

The reliability refers to a measurement that supplies consistent results with equal values (Blumberg et al., 2005). In quantitative research, reliability refers to the consistency, stability and repeatability of results, that is, the result of a researcher is considered reliable if consistent results have been obtained in identical situations but different circumstances (Twycross & Shields, 2004).

The most common internal consistency measure is Cronbach's alpha (α), the researcher used SPSS statistical software for the four parameters and the Cronbach's alpha (α) is above 0.7 which is acceptable and reliable.

The Cronbach's alpha (α) for the total is **.798** which is more than **.7** which is acceptable and reliable

3.5.1 Credit appraisal related issues of the bank in relation to loan recovery

The Cronbach's alpha (α) for the total is **.711** which is more than **.7** which is acceptable and reliable .

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.711	.717	6

3.5.2 Follow up system of the bank in relation to loan recovery.

The Cronbach's alpha (α) for the total is **.722** which is more than **.7** which is acceptable and reliable.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.722	.737	6

3.5.3 Collateral related problems of the bank in relation to loan recovery.

The Cronbach's alpha (α) for the total is **.717** which is more than **.7** which is acceptable and reliable.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.717	.719	6

3.5.4 Loan work-out strategy of the bank

The Cronbach's alpha (α) for the total is **.710** which is more than **.7** which is acceptable and reliable.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.710	.719	6

3.6 validity of the research

Validity of a research instrument assesses the extent to which the instrument measures what it is designed to measure (Robson, 2011). It is the degree to which the results are truthful. The questionnaire is given to senior staffs in credit area and checked as per their comments to be clear for the participants to answer correctly which gives content validity for the research. The research questioner has been distributed to professional staff and experienced in credit area so as professional persons they give right answer for the question this is internal validity.

CHAPTER FOUR

DATA ANAYSIS AND PRESENTETION

This part of the thesis deals with the data analysis presentation and interpretation using the descriptive statistical analysis of the questionnaire. The questionnaire was designed and distributed to 84 employees of the bank who are currently working in credit area of the bank specifically in Addis Ababa districts and head office. Accordingly, 74 questionnaires were returned, which is about 88.09% of the total distributed questionnaire.

4.1 Section One: Education level, Position in the bank and Experience in credit related activities.

4.1.1 Education level

The questionnaire included the educational level of the respondents in order to increase the creditability of the response**.**

Table 4.1.1

Level of Education		Frequency	Percent
	Degree	**51**	**68.9**
	Masters	**23**	**31.1**
	Total	**74**	**100.0**

Source: primary data

As per the table above all of the respondents has degree and above. Majority of the respondents that are 68.9% are holder of BA degree and the rest 31.1 % of the respondents has postgraduate Degrees. Since all of the respondents have at least university degree they are capable of understanding loan recovery. This shows all of the respondents have academic background that helps increase the credibility of the response and capability of handling week performances.

4.1.2 Position in the bank

This response gives information about the diversification of respondents in order to increase the quality of responses**.**

Table 4.1.2

Position in the bank	Frequency	Percent
monitoring officer	5	6.8
senior monitoring officer	4	5.4
workout officer	6	8.1
senior workout officer	4	5.4
Loan officer	8	10.8
Credit Analyst	9	12.2
senior credit analyst	5	6.8
Principal credit Analyst	6	8.1
Division Manager credit Area	3	4.1
Relationship manager	24	32.4
Total	74	100.0

Source: primary data

The above table shows as the responses are obtained from different potions which give lot of information from different angles. Majority of the respondents are relationship managers which are 32.4%. The next respondents are credit analysis which consists 12.2%, loan officers 10.8%, workout officers & principal credit analyst 8.1% each, monitoring officer’s & senior credit analyst 6.8% each, senior monitoring officers &senior workout officers 5.4% each and Division manager’s credit area 4.1%.as we see above majority of the respondents are relationship managers due to modification in job title to give valuable credit related services to the customers. This indicates that all levels of job categories under the credit are involved in responding the questions presented, which enables the study to obtain various information from different respondent observations. Relationship managers can enhance loan recovery performance by providing reliable documentation and advice the customers about their credit relation with the bank. Workout officers can enhance loan recovery performance by identifying problems in each NPL and implement effective loan workout strategies. On the other hand monitoring officers can enhance loan recovery performance by applying repayment follow- up, physical follow-up, financial follow-up and legal follow- up and credit analyst can enhance loan recovery performance by performing deep financial, industrial, economic and managerial analysis.

4.1.3 Experience in credit related activities

As a part of the questioner the respondents was requested about their work experience in credit related activities which gives the researcher confidence on the obtained response to check the validity of the resonance gained.

Experience	**Frequency**	**Percent**
Less than One Year	**5**	**6.8**
1-5 Years	**33**	**44.6**
6-10 Years	**24**	**32.4**
Above 10 Years	**12**	**16.2**
Total	**74**	**100.0**

Source: primary data

From the table above 44.6% of the respondents have 1-5Years of working experience in credit related areas and the other 32.4% of the respondents have 6-10yerars, above 10 Years consists of 16.2% and 6.8 % of the respondents have less than one year. As we see most of the respondents have 1-5 years of experience there is turnover in this area. but we can conclude that 48.6% (above 6 years) of the respondents has worked for longer time in credit related area in the bank therefore the information obtained from this respondents are reliable and valid.

4.2 Loan recovery performance

This part of the research deals with analysis, presentation and discussion of research finding based on the specific objectives of the research which are redit appraisal related issues of the bank in relation to loan recovery, follow up system of the bank in relation to loan recovery, collateral related problems of the bank in relation to loan recovery and loan work-out performance of the bank.

4.2.1 Credit assessment related issues of the bank in relation to loan recovery.

Strongly Agree (1) Agree (2) Neutral (3) Disagree (4) Strongly disagree (5)

Table 4.2.1

Questions related to credit assessment	1		2		3		4		5		Total	
	%	Fre	%	Fre	%	Fer	%	Fer	%	Fer	%	Fer
Small number of loans has adequate credit criteria documentation in the bank.	32.4	24	35.1	26	12.2	9	14.9	11	5.4	4	100	74
New loans are approved for customers who have bad credit relation With WB.	45.9	34	31.1	23	16.2	12	5.4	4	1.4	1	100	74
Missing deep Financial statement analysis is the main for high risk of NPL in WB.	45.9	34	33.8	25	12.2	9	2.7	2	5.4	4	100	74
Loans with weak collateral have lower recovery performance.	27	20	25.7	19	21.6	16	10.8	8	14.9	11	100	74

The loan to be approved should fully secured by the given collateral in WB.	**29.7**	**22**	**37.8**	**28**	**8.1**	**6**	**18.9**	**14**	**5.4**	**4**	**100**	**74**
Missing Timely collection of tax clearance certainly affects loan Recovery.	**36.5**	**27**	**35.1**	**26**	**6.8**	**5**	**6.8**	**5**	**14.9**	**11**	**100**	**74**

Source: primary data

To see factors that relate to loan recovery the researcher raised some questions about the credit assessment and its relation with loan recovery.

As we see from the above table on the first question respondents were asked about small number of loans have adequate credit criteria documentation in the bank. 32.4% of the respondents strongly agreed with the issue while 35.1% agreed 12.2% of them neutral about the issue 14.9% of them disagree and 5.4% of the respondents are strongly disagree. A loan file is the file that contains all lending-related documents and letters which helps us for detailed analysis. Majority of respondents agreed that small number of loans have adequate credit criteria documentation in the bank. It is known that the credit assessment is made based on loan related documents so if they are not fulfilled; the outcome of the credit assessment will be poor, which implies an increase in the risk of NPL.

For the second question new loans are approved for customers who have bad credit relation with WB. 45.9% of the respondents strongly agreed and 31.1% of them also agree 16.2% of the respondents are neutral about the issue raised 5.4% of the respondents disagree 1.4% of the respondents strongly disagree. It is known that Credit relation is an important input of credit assessment. Customer's credit relation shows there credit character. This indicates the debtor's willingness to repay back loans and relationships with other lending institutions. Bank officers look at the customer's historic transactions to detect any events that are relating to credit lending. In our case most of the respondents agreed that new loans are approved for customers who have bad credit relation with the bank which can increases the risk of NPL in the bank and decrease the loan recovery performance of the bank.

As it can be seen on the third question missing deep financial statement analysis is the main for high risk of NPL in WB. 45.9% of respondents strongly agreed where as 33.8% agreed 12.2% neutral about the issue raised 2.7% disagree 5.4% of the respondents strongly disagree. Financial analysis using financial statements of the customer provides a means of assessing a company's strengths and weaknesses as well as financial issues of the customer that are liquidity, Solvability, profitability and efficiency. A large amount of the respondents agreed that missing deep financial statement analysis is the main for high risk of NPL in the bank. This implies that customers with weak financial potion and poor creditworthiness take a loan and they can’t repay back, which accelerate the risk of NPL and decrease loan recovery performance.

Regarding the fourth question loans with weak collateral have lower recovery performance 27% of the respondents strongly agree at the same time 25.7% of them agreed while 21.6% of the respondents were uncertain 10.8% of them disagree 14.9% disagree. Collateral is an asset hold by the bank as a fallback in case of default or to mitigate the presumed credit risk. Collateral should never be a first way out or a substitute for Credit -worthiness. The bank should primarily assess and ascertain the existence of adequate cash flow to repay the loan and/or the level of risk exposure or magnitude to decide on collateral requirement. More than 50% of the respondents agreed about the issue that loans with weak collateral have lower recovery performance which implies that recovery performance is dependent on the collateral type when there is a fall in loan repayment. Therefore those loans which are disbursed against weak collateral and fall to pay loan repayments decreases loan recovery performance of the bank.

Concerning the fifth question presented the loan to be approved should fully secured by the given collateral 29.7% of the respondents strongly agree while 37.8% of them agree and 8.1% of the respondents were uncertain where as 18.9% of respondents disagree and 5.4% of them strongly disagree. In order to minimize default risk or to safeguard the loan, a bank requires first-degree collateral security for all loans. Most of the respondents argued that loan to be approved should fully secure which improves loan recovery by selling of security and decreases loan write-off.

For the last question raised timely collecting of tax clearance certainly affects loan recovery 36.5% of the respondents strongly agreed 35.1% of them agreed 6.8% of the respondents uncertain 6.8% of the respondents disagree 14.9% strongly disagree. Most of the respondent agreed on timely collecting of tax clearance certainly affects loan recovery. This implies that timely collection of tax clearance increases the loan recovery performance of the bank by giving priority to the bank at the time of selling property to recover debt.

As per the open ended question which is in the credit assessment process of the bank loans that are granted based on the business feasibility were re-paid back than loans that have strong collateral however this doesn't mean that collaterals are not necessary. Detailed information of the customer and other legally required documents should be fulfilled to make a sound credit appraisal decision.

4.2.2 Follow up system of the bank in relation to loan recovery.

Table 4.2.2

Questions related to Follow up	**1**		**2**		**3**		**4**		**5**		**Total**	
	%	**Fre**	**%**	**Fre**	**%**	**Fre**	**%**	**Fre**	**%**	**Fer**	**%**	**Fer**
Absence of Scheduled Physical follow up decreases the loan recovery performance of WB.	**41.9**	**31**	**39.2**	**29**	**4.1**	**3**	**13.5**	**10**	**1.4**	**1**	**100**	**74**

Monitoring is the main for loan recovery following credit assessment in WB.	**25.7**	**19**	**33.8**	**25**	**6.8**	**5**	**17.6**	**13**	**16.2**	**12**	**100**	**74**
Lack of Financial Follow up highly affects loan recovery process of WB.	**47.3**	**35**	**43.2**	**32**	**6.8**	**5**	**1.4**	**1**	**1.4**	**1**	**100**	**74**
There is a Legal follow-up that can ensure loan recovery performance of WB.	**39.20**	**29**	**24.3**	**18**	**20.3**	**15**	**13.5**	**10**	**2.7**	**2**	**100**	**74**
Lower budget for loan Monitoring may lead to higher non performing loans.	**45.9**	**34**	**35.1**	**26**	**10.8**	**8**	**4.1**	**3**	**4.1**	**3**	**100**	**74**
Strict follow-ups ensure loan recovery performance	**39.2**	**29**	**39.2**	**29**	**5.4**	**4**	**13.5**	**10**	**2.7**	**2**	**100**	**74**

Source: primary data

For the other factor that relate to loan recovery the researcher raised some questions about the Follow up system and its relation with loan recovery.

As we see from the above table for the first question respondents were asked about absence of scheduled physical follow decreases the loan recovery performance of WB 41.9% of the respondents strongly agreed with the issue while 39.2% agreed 4.1% of them neutral about the issue, 13.5% of them disagree and 1.4 of the respondents respond strongly disagree. Physical follow up assists to ensure existence and operation of the business, status of collateral, Properties, correctness of declared financial data, quality of goods, availability of raw materials, labor situation, marketing difficulties observed, change in management set up and the physical existence and status of collateral properties. Physical follow-up helps if there are early warning signals in customer's business to take quick action and manage the difficulties occurred. more than 80% of the respondents agreed that absence of scheduled physical follow-up decreases the loan recovery performance of WB which implies that the existence of the data presented to the bank is not ascertained by the bank which may lead to unrecovered loan at some point of the loan period.

For the second question monitoring is the main for loan recovery following credit assessment in WB 25.7% of the respondents strongly agreed and 33.8% of them also agree 6.8% of the respondents are neutral about the issue raised 17.6% of the respondents disagree 16.2% of the respondents strongly disagree. Credit assessment shows whether a business entity is strong enough to warrant lending of money to it, and related risks. It is generally done to assess the creditworthiness of a borrower and involves examining the ability of a borrower to repay debt. On the other contrary monitoring is essential when loan granted on the basis of sound analysis/appraisal might go bad if the borrowers may not meet there obligations as per the terms and conditions of the loan contract. Conversely more than 50% of the respondents support the statement monitoring is the main for loan recovery following credit assessment in WB. Which means credit assessment is the first and monitoring is the next for good loan recovery performance.

As it can be seen from the third question lack of financial follow up highly affects loan recovery process of WB. 47.3% of respondents strongly agreed where as 35.1% agreed 13.5% neutral about the issue raised 2.7% disagree 1.4% of the respondents strongly disagree Financial follow up is required to verify whether the assumptions on which lending decision was taken continues to hold good both in regard to borrower’s operation and environment, and whether the end use is according to the purpose for which the loan was given. Most of the respondents argue that lack of financial follow up highly affects loan recovery process of WB. This shows that the financial potion of the customer is seen and analyzed at the time of the loan approval as result the financial follow-up is not done for the life time of the loan. This increases the risk of NPL and decreases the loan recovery performance of the bank.

About the fourth question there is a legal follow-up that can ensure loan recovery performance of WB. 39.2% of the respondents strongly agree at the same time 24.3% of them agreed while 20.3% of the respondents were uncertain 13.5% of them disagree 2.7% strongly disagree. The aim of legal follow up is to ensure that the legal recourse available to the Bank is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, and proper follow up of insurances. More than 60% of the respondents argue about the existence of legal follow-up that can ensure loan recovery performance of WB as a result the loan recovery by security increases and loan write off decreases which can help the bank for better loan recovery performance.

Regarding the fifth question presented lower budget for loan Monitoring may lead to higher non performing loans 45.9% of the respondents strongly agree while 35.1% of them agree and 10.8% of the respondents were uncertain where as 4.1% of respondents disagree and 4.1% of them strongly disagree. Most of the respondents argue that lower budget for loan Monitoring may lead to higher non performing loans which shows that not giving attention for loan monitoring can lead to higher NPL and decrease the loan recovery performance of the a bank.

For the final question raised strict follow-ups ensure loan recovery performance 39.2% of the respondents strongly agreed 39.2% of them agreed 5.4% of the respondents uncertain 13.5% of the respondents disagree 2.7% strongly disagree. The majorities of respondent’s argred about the issue strict follow-ups ensure loan recovery performance which implies applying all types of loan follow up can reduce NPL and enhance the loan recovery performance of a bank

Open ended question and interview was raised for additional information about the follow-up system of the bank some amendment should have to be taken to get good follow-up system. This are some problem related with follow up system most of the follow-up is made on the repayment but for a better follow up and recovery there must be scheduled physical and financial follow-up to check if the loan is used for the intended purpose before the loan is not classified as NPL.

4.2.3 Collateral related problems of the bank in relation to loan recovery.

Table 4.2.3

Questions related to collateral	1		2		3		4		5		Total	
	%	Fre	%	Fre	%	Fer	%	Fre	%	Fre	%	Fre
Collateral miss estimation is a major problem in the process of loan recovery in WB.	55.4	41	17.6	13	9.5	7	13.5	10	4.1	3	100	74
Unavailability of additional collaterals Strongly affects loan recovery process of WB.	31.1	23	44.6	33	13.5	10	2.7	2	8.1	6	100	74
Lack of marketability in collaterals has an effect on loan recovery performance of the bank.	47.3	35	35.1	26	13.5	10	2.7	2	1.4	1	100	74
Collaterals with high depreciable values are core problem in the process of loan recovery of WB.	43.2	32	31.1	23	12.2	9	8.1	6	5.4	4	100	74
Fraud made by some dishonest staffs highly affects the bank loan recovery performance.	36.5	27	37.8	28	13.5	10	12.2	9	-	-	100	74
Complicated collateral estimation procedure has an effect in loan recovery performance WB.	44.6	33	35.1	26	6.8	5	9.5	7	4.1	3	100	74

Source: primary data

Furthermore the factors that relate to loan recovery the researcher raised some questions about the collateral related problem and its relation with loan recovery.

As we see from the above table on the first question respondents were asked about Collateral miss estimation is a major problem in the process of loan recovery. 55.4% of the respondents strongly agreed with the issue while 17.6% agreed 9.5% of them neutral about the issue, 13.5% of them disagree and 4.1% of the respondents strongly disagree. Most of the respondents agreed that the collateral miss estimation is a major problem in the process of loan recovery which causes settlement of loans in partial or loan write off may happen because of miss leading estimation at the time of loan approval.

In the second question unavailability of additional collaterals Strongly affects loan recovery process of WB 31.1% of the respondents strongly agreed and 44.6% of them also agree 13.5% of the respondents are neutral about the issue raised 2.7% of the respondents disagree 8.1% of the respondents strongly disagree. Lots of respondents agreed unavailability of additional collaterals strongly affects loan recovery process of WB accordingly the risk in loan write off accelerated and loan recovery performance decline.

As it can be seen from the above table for the third question lack of marketability in collaterals has an effect on loan recovery performance of WB of 47.3% of respondents strongly agreed where as 35.1% agreed 13.5% neutral about the issue raised 2.7% disagree 1.4 % of the respondents strongly disagree. When a property fails to be sold at the second auction, the bank acquires it and such property shall be handled by the bank’s material management. After this it shall be considered as the property of the Bank. Majority of the respondents agree on lack of marketability in collaterals has an impact on loan recovery performance of the bank that can increase cost of material management and declines loan recovery performance of the bank.

About the fourth question collaterals with high depreciable values are core problem in the process of loan recovery 43.2% of the respondents strongly agree at the same time 31.1% of them agreed while 12.2% of the respondents were uncertain 8.1% of them disagree 5.4%

disagree. Many of the respondents agreed that collaterals with high depreciable values are core problem in the process of loan recovery for that reason loan with collateral of high depreciable value increase loan write off and decrease loan recovery performance of the bank.

Regarding the fifth question presented on fraud made by some dishonest staffs highly affects the bank loan recovery performance 36.5% of the respondents strongly agree while 37.8% of them agree and 13.5% of the respondents were uncertain where as 12.2% of respondents disagree and no one of the respondent responded strongly disagree. Most of the respondents agreed about the issue of fraud made by some dishonest staffs highly affect the loan recovery performance of the bank which implies that due to fraud made by some dishonest staffs loan write off increases and loan recovery performance decline.

For the final question raised about complicated collateral estimation procedure has an effect in loan recovery performance of WB.44.6% of the respondents strongly agreed 35.1% of them agreed 6.8% of the respondents uncertain 9.5% of the respondents disagree 4.1% strongly disagree. Lots of respondent agree that complicated collateral estimation procedure has an effect in loan recovery performance of the bank which indicates that the estimation procedure is not equally understandable by the staff as a result the estimation made by the property valuators staffs is dependent on their own understanding. Due to this the property may be underestimated (estimating below the market value) or overestimated (estimating above the market value) this means the property estimation do not show the market value of the property which decreases loan recovery performance of the bank. Generally collateral related problems directly related with the loan recovery performance of the bank.

4.2.4 Loan work-out strategy of the bank

Table 4.2.4

Questions related Loan work-out strategy	1		2		3		4		5		Total	
	%	Fre	%	Fre	%	Fre	%	Fre	%	Fre	%	Fre

Lack of restructuring the loan repayment period with the consent of the concerned parties highly increases NPLs of the bank.	**24.3**	18	**28.4**	**21**	**21.6**	16	**17.6**	13	**8.1**	6	**10 0**	**74**
Changing the type of the loan is a major strategy to decreases foreclosure in the bank.	**44.6**	**33**	**29.7**	**22**	**10.8**	**8**	**10.8**	**8**	**4.1**	**3**	**10 0**	**74**
Difficulty of injecting additional finance to resolve working capital shortage of a customer extremely increases NPLs of the bank.	**47.3**	**35**	**28.4**	**21**	**14.9**	**11**	**6.8**	**5**	**2.7**	**2**	**100**	**74**
Most of customers in WB categorized as NPL Voluntarily Liquidate their assets to settle their loans	**8.1**	**6**	**12.2**	**9**	**23**	**17**	**37.8**	**28**	**18.9**	**14**	**100**	**74**
Inefficiency in Implementing detailed workout strategies higher NPLs of the bank.	**41.9**	**31**	**36.5**	**27**	**14.9**	**11**	**4.1**	**3**	**2.7**	**2**	**100**	**74**
Absence of genuine information about the deflated loan Strongly affects loan workout strategies of the bank.	**40.5**	**30**	**33.8**	**25**	**14.9**	**11**	**6.8**	**5**	**4.1**	**3**	**100**	**74**

Source: primary data

To see factors that relate to loan recovery the researcher raised some questions about the loan work-out strategy and its relation with loan recovery.

As we see from the above table on the first question respondents were asked about lack of restructuring the loan repayment period with the consent of the concerned parties highly increases NPLs of the bank. 24.3% of the respondents strongly agreed with the issue while

28.4% agreed 21.6% of them neutral about the issue, 17.6% of them disagree and 8.1% of the respondents are strongly disagree. Rescheduling is considered when the borrower's current situation and future prospect indicate the need for extended time beyond the contractual term of the loan to settle the debt by checking the cash flow of the business and adequate collateral coverage. Respondents more than 50% agreed about lack of restructuring the loan repayment period with the consent of the concerned parties highly increases NPLs of the bank. As a result it can lower interest income, higher provisions to the loan reserve, increased administrative costs for managing and collecting these assets and decrease loan recovery performance.

For the second question changing the type of the loan is a major strategy to decreases foreclosure in the bank 44.6% of the respondents strongly agreed and 29.7% of them also agree 10.8% of the respondents are neutral about the issue raised 10.8% of the respondents disagree 4.1% of the respondents strongly disagree. Most of the respondents agreed on the changing the loan type to decrease foreclosure in the bank. It implies that it can be a good strategy for some type of loans that are approved without considering the behavior of the business. This implies that decrease in NPL and increase loan recovery performance of the bank.

As it can be seen on the third question difficulty of injecting additional finance to resolve working capital shortage of a customer extremely increases NPLs of the bank 47.3% of respondents strongly agreed where as 28.4% agreed 14.9% neutral about the issue raised 6.8% disagree 2.7% of the respondents strongly disagree. Injecting of additional finance is a choice to be taken under extremely required situation when it is believed that injection of additional fund is the only best alternative to protect the interest of the bank. However, its selection shall be based on in depth analysis and is to be applied together with institution of effective control and monitoring mechanisms. Majority of the respondents agreed on difficulty of injecting additional finance to resolve working capital shortage of a customer extremely increases NPLs of the bank which implies that loans that can be managed with injection of additional finance continues default which increases foreclosure and decrease loan recovery performance.

Regarding the fourth question most of the customers categorized as NPL voluntarily liquidate their assets to settle their loans 8.1% of the respondents strongly agree at the same time 12.2% of them agreed while 23% of the respondents were uncertain 37.8% of them disagree 18.9% disagree. Most of the respondent disagree with the idea of most of the customers categorized as NPL voluntarily liquidate their assets to settle their loans which indicates customers are not willing to liquidate their assets this will increase the cost of loan recovery to the bank.

Concerning the fifth question presented inefficiency in implementing detailed workout strategies higher NPLs of the bank 41.9% of the respondents strongly agree while 36.5% of them agree and 14.9% of the respondents were uncertain where as 4.1% of respondents disagree and 2.7% of them strongly disagree. Workout is a series of steps taken by the bank and a borrower to resolve the crisis of loan repayments from borrowers whose loans are categorized as NPLs. A workout can be considered as continuous process that in the first instance identifies problems and then redefines the relationship between a bank and a borrower through narrowing diverge interests and goals of the bank and the borrower. Many of the respondents agree about the issue of inefficiency in implementing detailed workout strategies higher NPLs of the bank. This shows the bank is not efficient in implicating loan workout strategies as a result of this loan recovery performance of the bank decline.

For the last question raised about absence of genuine information about the deflated loan strongly affects loan workout strategies 40.5% of the respondents strongly agreed 33.8% of them agreed 14.9% of the respondents uncertain 6.8% of the respondents disagree 4.1% strongly disagree. More than 70% of the respondents agreed on absence of genuine information about the deflated loan strongly affect loan workout strategies increase NPL and reduce loan recovery performance of the bank.

For the open ended question and interview on the loan workout strategies; there must be full information about the major reason for default of the loan by interviewing the customer, looking at the capital of the customer, requesting additional collateral and prepare action plan that should be communicated to the customer. On the other hand finding the way to recover the loan in NPL with different workout strategies are grace period, expanding the loan term, waving of repayment, and amalgamation with new finance and changing the term of repayment. To the successful workout strategy the workout strategy to be chosen needs to weigh or consider the time and costs involved while taking foreclosure, with the cost of choosing other workout scenarios. Use of workout strategies, rather than liquidating through enforcement on companies with a viable future is to the benefit of all the stakeholders i.e., as much as possible the strategies to be sought need to avoid foreclosure.

CHAPTER FIVE

FINDING, CONCLUTION AND RECOMMEDATION

This part of the thesis deals with the finding of the analysis conclusion and recommendation for better loan recovery performance**.**

5.1 Finding

The study conducted on the loan recovery performance of Wegagen Bank S.C by identifying the credit assessment related issues of the bank in relation to loan recovery follow up system of the bank in relation to loan recovery, Collateral related problems of the bank in relation to loan recovery and Loan work-out performance of the bank.

The analysis reveals the following findings about credit assessment; monitoring, collateral and workout.

Credit assessment in relation to loan recovery

- Small number of loans has adequate credit criteria documentation in the bank. It is known that the credit assessment is made based on loan related documents so if they are not fulfilled the outcome of the credit assessment is poor. Which increase the risk of NPL.
- The risk of NPL also increases in the bank due to new approval of loans for customers with bad credit relation with the bank which results decrease in loan recovery performance system of the bank.
- Loan given to Customers with weak financial potion and poor creditworthiness accelerate the risk of NPL and decrease loan recovery performance of the bank and timely collection of tax clearance increases the loan recovery performance of the bank by giving priority to the bank

at the time of selling property to recover debt.

Credit follow-up in relation to loan recovery

- Lack of financial follow up highly affects loan recovery process of the bank shows that the financial potion of the customer is seen and analyzed at the time of the loan approval as result the financial follow-up is not done for the life time of the loan. This increases the risk of NPL and decreases the loan recovery performance of the bank
- Absence of scheduled physical follow-up decreases the loan recovery performance of WB which implies that the existence of the data presented to the bank is not ascertained by the bank which may lead to unrecovered loan at some point of the loan period
- There is a good legal follow-up that can ensure loan recovery performance of the bank as a result the loan recovery by security increases and loan write off decreases which can help the bank for better loan recovery performance.
- lower budget for loan monitoring lead to higher non performing loans which shows that not giving attention for loan monitoring can lead to higher NPL and decrease the loan recovery performance of the a bank.
- Strict follow-ups ensure loan recovery performance which implies applying all types of loan follow up can reduce NPL and enhance the loan recovery performance of a bank

Collateral related problems in relation to loan recovery

- Collateral miss estimation is a major problem in the process of loan recovery as a result partial settlement of loans or loan write off may happen because of miss leading estimation at the time of loan approval
- Unavailability of additional collaterals strongly affects loan recovery process of the bank accordingly the risk in loan write off accelerated and loan recovery performance decline.
- Lack of marketability in collaterals has an impact on loan recovery performance of the bank that increases the cost of material management and declines loan recovery performance of the bank.
- Collaterals with high depreciable values are core problem in the process of loan recovery for the bank by increasing loan write off and decrease loan recovery performance of the bank.

- Fraud made by some dishonest staffs my lied the bank to increases loan writes off and decline loan recovery performance.
- Complicated collateral estimation procedure of the bank which indicates that the estimation procedure is not equally understandable by the staffs. As result the estimation made by the property valuators staffs is dependent on the own understanding. Due to this the property may be underestimated or overestimated which has a deceases loan recovery performance.

Loan workout strategies of the bank

- Lack of restructuring the loan repayment period with the consent of the concerned parties highly increases NPLs of the bank. As a result lower interest income, higher provisions to the loan reserve, increased administrative costs for managing and collecting these assets and decrease the loan recovery performance of the bank.
- Changing the loan type is a good strategy to decrease the loan recovery performance of the bank.
- difficulty of injecting additional finance to resolve working capital shortage of a customer extremely increases NPLs of the bank which implies that loans that can be managed with injection of additional finance continues default which increases foreclosure.
- Most of the customers categorized as NPL don't voluntarily liquidate their assets to settle their loan which increase the cost of loan recovery to the bank.
- Absence of genuine information about the deflated loan strongly affects loan workout strategies and increase the risk of NPL which decline loan recovery performance..
- Inefficiency in implementing detailed workout strategies higher NPLs of the bank. This shows the bank is not efficient in implicating loan workout strategies as a result of this loan recovery performance of the bank decline.

The study concluded inadequate loan assessment & Lack of follow up are the major contributing factor for NPL to accumulate.

5.2 Conclusion

NPL has been increasing for the last three years those are 565,491,453 for the year 2016 G.C, 915,446,535 for the year 2017G.C and 1, 171, 498, 535 for the year 2018 G.C which implies that the unpaid loan has been increasing. this therefore lead the bank to higher recovery cost, liquidity problem, higher amount of provision. This reduces the profitability of the bank. Based on the findings, this paper concludes the following in relation to loan recovery performance which are contributing for the increasing of NPLs and decline in loan recovery performance.

The credit assessment of the bank is not satisfactory due to the fact that small no of loans has adequate documentation, new approval of loans for customers with bad credit relation with the bank and loan given to Customers with weak financial potion and poor creditworthiness.

On the other hand the follow up system of the bank is not efficient due to lack of financial follow up, lower budget for loan monitoring, absence of scheduled physical follow up and the follow up is only dependent on repayment follow up.

Collateral related problems of the bank are collateral miss estimation, unavailability of additional collaterals, lack of marketability, collaterals with high depreciable value, fraud made by some dishonest staffs and complicated collateral estimation procedure. This all decreases the loan recovery performance of the bank.

The bank has deficiency in implementing loan workout strategies which increases loan recovery costs and absence of genuine information about the deflated loan strongly affects loan workout strategies.

5.3 Recommendation

Based on the research finding above the under listed recommendation were given

- The management should improve the credit assessment by applying adequate loan documentation; deep financial statement analysis, functioning on the 5cs of credit analysis, checking the credit relation with the bank and other banks, giving higher attention to creditworthiness of a borrower to examine the ability of a borrower to repay debt. This will help the bank to improve the credit assessment to have good loan recovery performance and reduction of NPLs.

- The management of the bank should give advisory service to its customer by preparing well experienced staffs about the financial position of the customer in order to improve the creditworthiness of the customer and create awareness about the disadvantages of credit default.

- The management should provide adequate budget to loan monitoring in order to decrease NPL and improve the loan recovery performance of the bank.

- The management should insist the staffs to strictly apply its credit procedure manual about the follow-up system which are physical- follow-up and financial follow-up.

- The bank is required to revise complicated collateral estimation manual in order to avoid miss understanding in estimation and create a check and balance system to eliminate miss estimation and fraud made by some dishonest staffs.
- The bank should prepare an action plan for the reduction of NPL by using workout strategies which are restructuring/extension of the repayment period with the consent of the concerned parties(borrower and mortgagor/guarantor), Changing the form of the loan fully or partially, Requesting additional collateral or change of collateral, Arranging the sale of the business to a third party with the consent of the borrower and Voluntary liquidation of collateral

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St. Marry University School of Graduate Studies (SGS)

Dear Sir/Madam

This questioner is designed for the propose of collecting data on "**Assessment of loan recovery performance in Wegagen Bank S.C**" .the data collected will be used in an input for the thesis in partial fulfillment of MBA in Accounting and finance. I would like to request your cooperation to give me reliable and genuine response for each question. The data collected will be treated with a very high confidentiality and it is used for academic propose only. You don't require writing your name**.**

Thank you for your cooperation.

For credit assessment, follow-up and workout

Section one: Demographic information (Please put a tick (✓) in the appropriate box.

1. Educational level

Diploma ☐ Degree ☐

Masters ☐ Other ☐

2. Position in the bank

Workout officer ☐ senior workout officer ☐ Principal credit analyst ☐

☐ ☐ ☐

Monitoring Officer Senior monitoring officer Senior Credit Analyst

Relationship manager ☐ Loan Officer ☐ Manager on credit Area ☐

Credit Analyst ☐

3. How long have you been working in credit related activates in Wegagen Bank S.C?

Less than 1 year ☐ 1-5 years ☐ 6-10 years ☐ above 10 years ☐

Section Two

(A)For each of the following statement, please tick (✓) where applicable the extent to which you agree scale

statements	Strongly agree	agree	Neutral	disagree	Strongly disagree
Small no of loans has adequate credit criteria documentation in the bank.					
New loans are approved for customers who have bad credit relation With WB.					
Missing deep Financial statement analysis is the main for high risk of NPL in WB.					
Loans with weak collateral have lower recovery performance.					
The loan to be approved should fully secured by the given collateral in WB.					
Missing Timely collection of tax clearance certainly affects loan Recovery.					

7. Please writes additional information about credit assessment process of your bank

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(B)For each of the following statement, please tick(✓) where applicable the extent to which you agree scale.

Statements	Strongly agree	agree	Neutral	disagree	Strongly disagree
Absence of Scheduled Physical follow up decreases the loan recovery performance of WB.					
Monitoring is the main for loan recovery following credit assessment in WB.					
Lack of Financial Follow up highly affects loan recovery process of WB.					
There is a Legal follow-up that can ensure loan recovery performance of WB.					
Lower budget for loan Monitoring may lead to higher non performing loans.					
Strict follow-ups ensure loan recovery performance					

7. Please write additional information about the follow up system of the bank**.**

(C)For each of the following statement, please tick(✓) where applicable the extent to which you agree

statements	Strongly agree	agree	Neutral	disagree	Strongly disagree
Collateral miss estimation is a major problem in the process of loan recovery in WB.					
Unavailability of additional collaterals Strongly affects loan recovery process of WB.					
Lack of marketability in collaterals has an effect on loan recovery performance of the bank.					
Collaterals with high depreciable values are core problem in the process of loan recovery of WB.					
Fraud made by some dishonest staffs highly affects the bank loan recovery performance.					
Complicated collateral estimation procedure has an effect in loan recovery performance WB.					

7. Please writes additional problems of collateral at the time of recovery

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(D)For each of the following statement, please tick (✓) where applicable the extent to which you agree scale.

Statements	Strongly agree	agree	Neutral	disagree	Strongly disagree
Lack of restructuring the loan repayment period with the consent of the concerned parties highly increases NPLs of the bank.					
Changing the type of the loan is a Major strategy to decreases foreclosure in the bank.					
Difficulty of injecting additional finance to resolve working capital shortage of a customer extremely increases NPLs of the bank.					
Most of customers in WB categorized as NPL Voluntarily Liquidate their assets to settle their loans					
Inefficiency in Implementing detailed workout strategies higher NPLs of the bank.					
Absence of genuine information about the deflated loan Strongly affects loan workout strategies of the bank.					

7. Please writes additional information about loan workout

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