ASSESSMENT OF LOAN POLICY AND PRACTICE OF (A CASE STUDY IN COOPERATIVE BANK OF OROMIA WOLKITE BRANCH)

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ABBREVIATION

CBO- Cooperative Bank of Oromia

NBE- National Bank of Ethiopia

FY- Final Year/ Fiscal Year

SC- Share Company

ABSTRACT

This research was assessing loan policy and practice therefore the purpose of under taking this research would be to explore the loan practice. The researchers were also assessing policies of the loan in the cooperative bank of Oromia to see the possible solution for the presence problem. In the study both primary and secondary data would be used. The primary data would be collected by using questioners and interview; also the secondary data would be collected from books and bank websites. And also the researcher was used descriptive type research design and with qualitative and quantitative research method for the sake of data analysis as well. Finally, the researcher was put the result using tabulation, percentage, and some types of narration; and the researcher would be gone conclusion and recommendations based on the given information.

CHAPTER ONE

INTRODUCTION

1.1BACKGROUND OF THE STUDY

Bank is financial institution that is serves as financial intermediary. Financial institutions promote economic efficiency too by gathering the surplus fund of millions of individual depositors and making them available to investors in those who invest in real asset. In supplying loans banks functions as financial intermediaries, collecting funds from savers in the form of deposits and supplying them to borrowers as loans. This activity benefits all concerned, savers benefits because bank deposits serve as a medium of exchange and liquid assets and in many case pay interests as well. Borrowers benefits because they gain access to large sums for extended periods. Even though many individuals' savers are willing to commit only small sums for short periods (ColinD.Cambell, 1987).

Banks of course benefits too they earn income because they change higher interests rate on loan than they pay on deposits. In some case they earn additional income from fee for loans services, for example, the point they charge on mortgage loans. The bank loan policy and practice provides guidelines for determining suitable lending requirements, format and preparation of loan proposal. Loan officer are required to follow some basic Guidelines in formatting loan decision (Shelagh Heffernan, 1996).

The loan policy and practice of the bank play a key role in the allocation of credit among various possible uses. Credit is wasted if business firm lack of the ability to pay back with interests the amount they borrow, because they failed to spend the fund productively. Bankers perform the loan function well if they correctly evaluate the proposed users of loans.

Private ownership of bank provides an incentive for bankers to lend money successfully, because bank owners receive maximum return on their bank stock only if bank officers successfully lend funds at the highest possible rate of return that are consistent with reasonable prospect of repayment (Colin D. Cambell, 1987).

The financial sectors of the country in generally and the cooperative bank of oromia in particular currently undergoing a growth and transformation plan of the country by providing agricultural loan, building and construction loan, manufacture loan and domestic trade loan etc.

This study will aim to assessment loan policy and practice of cooperative bank of Oromia in wolkite branch

1.2 Background of the Organization

Cooperative Bank of Oromia (SC) was established to fulfill the demand and supply gap observed in the financial services among cooperatives and other operators in oromia region. The bank was registered commercially, on October 29, 2004, in accordance with the commercial code of Ethiopia and licensed by the National bank of Ethiopia as per licensing and supervision of banking business number 84/1994. It commenced operation on the 8th, of March, 2005.

Vision

To be competent reputable and socially responsible bank in Africa.

Mission

Providing full-fledged and customer responsive banking services for cooperative societies, other entities and individual with special emphasis to agricultural and agro based business financing and to maximize shareholders value through use of competent and disciplined employees, visionary leaders and modern banking techniques supported by technology apply.

Services of the bank:

Saving deposit

Initial deposit of birr 50 is required to open this account, interest paid on monthly basis.

Fixed time deposit

Interest bearing account with agreed maturity dates and attractive interest rate on large deposited fund of longer maturity periods.

Demand deposits

Non-interest bearing checking account can be opened with an initial deposits of birr 500

Children Trust Account

It is a special type of deposit opened by parents or guardians for their children's for future benefits such as covering their higher educational fee. To open such account, parents or guardians should present a document that indicates the age of child.

Loans and advances (credit products)

Term loans (medium and short), Agriculture, Domestic trade service, Manufacturing, Export, Building and Construction, Merchandise loan, Overdraft(OD)facility import/export letter bills, Letter of Guarantee, Consumption loan.

Local money transfer

Delivers fast and efficiency local money transfer services at all of it is branches.

1.3 Statement of the problem

In modern world economic saving and investment are usually carried out by different groups. The banking system channels the transfer of fund from savers to borrowers. loans are asset of the bank that represent the majority of earning and make profit by granting loans to their costumer. Loan underwriting practices an amalgam of a number of things: the criteria used to approve loans, loan pricing, repayment terms, source of repayment, collateral requirement, landing police and adherence to police. The bank loan policy and practice provides guidelines for determining suitable lending requirements, format and preparation of loan proposal. Loan officer are required to follow some basic Guidelines in formatting loan decision (Shelagh Heffernan, 1996).

Financial institution need a policy specifying the types of loan, the size of loan portfolio and policies affecting loan term. The practice and system listed in the loan policy has to be followed consistently at all to ensure sound loan, to improve and maintain the quality of loan of the bank. Always the loan banker should follow the loan policy and practice of the bank to minimize the failure as well as to maximize profit, since loan is the major activity of the bank. To be

profitability the bank should formulate a good loan policy and practice (Frederes S.Mishikin, 1992).

There are many researchers' works (like Dawude, 2014; alemayahu, 2018) in united bank head office and abay bank conducted focusing loan procedure and practices. Those studies would be focused on the loan practices and procedure with in united bank head office related with all branches of past year 2013 only from sample respondents and loan advancing procedure and practices in abay bank in this the study had covered in depth and detail in the issue related to loan advancing procedure and practices employed by bank before granting the loan, issues related with the features of bank, major strength and weakness of bank and challenges that the bank faces with granting loan.in above study did not conceder on loan policy and practices some specific types of loan like; agriculture, domestic trade service, manufacturing, import and export, building and construction, and merchandise loan. Thus, research finding was fill this gap. By focusing on asses the loan policy and perictes including above specific loan type; agriculture, domestic trade service, manufacturing, building and construction, and merchandise loan.

This study was aim to assess the loan policy and practice of Cooperative Bank of Oromia in wolkite branch.

The researcher would have tried to answer the following

1.3.1. Research questions.

- Does the bank follow a good loan policy and practice?
- What are the criterion for acceptable security according to the bank loan policy and practice?
- Does the bank charges a fair interest of the loan?
- How much employees of the bank known the loan policy and practice of the bank?

1.4 OBJECTIVE OF THE STUDY

1.4.1 GENERAL OBJECTIVE OF THE STUDY

The general objective of the study was to assess the loan policy and practice of Cooperative Bank of Oromia wolkite Branch.

1.4.2 SPECIFIC OBJECTIVES OF THE STUDY

- To assess whether the bank follow a good loan policy and practice.
- To identify the criterion for acceptable security according to the loan policy and practice of the bank.
- To promote the relevance of fair interest rate of the loan to customer.
- To assess as how much the bank's employees, know the loan policy and practice of the bank.

1.5 SIGNIFICANCE OF THE STUDY

This study has much significance to:

- The researcher through acquiring enough knowledge and experiences from this study due to gradual process of the study,
- This study was give great importance for the bank because it collected feedback from banks employees about the loan policy and practice of that bank, then the bank use to improve its loan policy and practice in the future and to socially around us to increase awareness about loan policy and practice of the bank.
- Finally, this study would have been used to conduct further detail study on the area of the research.

1.6SCOPE OF THE STEDY

Due to the various restraints to conduct the study in all of the branches Cooperative Bank of Oromia such as lack of finance resource and time was the main. This study concentrated only on the Cooperative Bank of Oromia wolkit Branch in wolkit Town, particularly on the loan policy and practice of the Bank in agriculture, domestic trade service, manufactured, building and constriction merchandise loan in cooprativ bank of oromia in wolkit town.

1.7 LIMITATION OF THE STUDY

While conducting these study there are a lot of constrained encountered the researcher among these; the total questionnaire duplicated and distributed are not collected fully because of carelessness of the few respondents. The researcher obtains few secondary data because banks documents are strictly forbidden for external parties. The bank loan officer would not would to give the current document. Even the loan officer would not voluntary to accept what the researcher was going to ask him and finally unavailability of the reference materials and lack of supportive tools.

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1.8 Organization of the study

The paper was organized in five chapters. The first chapter contains the introduction part, this include background of the study, background of the organization, statement of the problem, objective of the study, Significance of the study, Scope of the study, and organization of the study; the second chapter deals with related review literature, the third chapter deals with research methodology and the chapter four deals with presentation and analysis of data and finally chapter five contains conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

The aim of a bank is to make profit for its shareholders. Banks may have many duties and obligation to the public and to the community at large, but it must not be forgotten that they are private profit making enterprises. Despite the growing range of bank service loan remains the chief source of profit to the bank (Julia Hoyle, 1987).

2.1 DEFINITION OF LOAN

Loan is an amount of money provided by the bank to the firm or individuals, investors in a credit bases to be repaid in the future including the interest charged for the use of money plus principal amuont.it is the largest source of income for bank (Donald, 2005)

Loan is an investment comparable to bond; stock or other asset well-known companies either issue the bond or borrow from bank. Some commercial bank is long term and used to buy machinery loan and building many business loan is short term providing the working capital needed to plug the gap between expenses by financing the purchase of labor, materials and unfinished goods used in production (Gray smith, 1995).

Loan also defined as a debt an obligation to repay the borrow money plus interest and is a thing that is lend specially a sum of money (Mishkin 1996).

Loans are credit facilities in the form of written promise that should not necessary given on physical Monet as loan .it also defined as a credit facility that is provided to an independent /corporation by financial institution, bank, employees and etc. generally for start term and will be recovered by the bank during a short period of time. They usually do not carry on interest payment and therefore, it can be cheaper and convenient method for obtaining some extra cash on short term (Dela, 2007)

2.1.1PRINCIPLES OF BANK LOAN

The precaution to be taken by the banker and the principles is take care off while granting advance is in relation to specific securities is discussed in detail subsequently. The banking loan principles contain these points as follow:

Safety and security

The banker should ensure that the borrowers have the ability to repay the advance as per agreement. Closely allied to this point is that before granting a secured advance. He should consider the margin of safety offered by the security and possibilities of fluctuation in its values. If it is unsecured advance its repayment depends on credit worthiness of the borrower and the guarantor wherever applicable as such cardinal principles which the banker should be consider in case of unsecured advances are character, capacity, and capital [known as three C's.], reliability, responsibility and resource are known as three R's.

Liquidity

The term security implies the ability to produce cash on demand. A bank mainly utilizes its deposit for a purpose of granting advance. The deposit is repayable on demand or unexpired of specified period. The importance of insuring that the advances guaranteed by the banker are a liquid as possible liquidity implies convertibility without law.

Profitability

Banks are essential commercial ventures. it is true that excessive and justifiable profit can be only on the cost of the customer, in so far as higher lending rate push up production cost and in the ultimate analysis adversely affect society. it is necessary that the bank makes Sure that their lending operation are sufficiently profitable. Bank earns the depositor to deceiver dividends to stockholder s makes establishment charges and after expenses provides for revenue and debt full debts Depreciation maintenance and improvement of poverty owned by the bank and sufficient resource to meet contingent law.

Social responsibility

While admitting the bank are essential commercial ventures, a bank does not forget the fact is not enough. The borrowers should be considering in evaluating loan proposal, the social responsibility should not deter the banks from paying adequate attention to the qualitative aspects of loans (kc, shekhar, 2005).

2.1.2 METHOD OF GRANTING LOANS

Cash credit; under this method the banker allows the customer to borrow up certain amounts. The borrowers are usually required to provide security in the forms of pledges or hypnotization of tangible securities. In some cases, the limit is granted on grantees furnished by security acceptable to the banker.

Bill discounting and purchasing; this method allows a short term facilities intended to provide current working capitals. The banker advance money on the securities of bill of exchanges after deducting a certain percentage technically known as discount from face value. This method of providing financial accommodation is heavily favored by conservative's bankers.

Issue of letter of credit; as the matter of facts a commercial letter of credit substitutes the credit worthiness of the importer by the credit worthiness of the banker issuing the letter of credit. Since it is promise by the bank to pay or accept the bill provided the exporter fulfills the term and the condition set out in the credit (Kc, shekher, 2005).

2.1.3 LOAN POLICY

Credit policy is a policy concerning the loan activities of the banking, which is formal and written; it is also as "loan policy". It is describing the desirable to have explicit loan policy for the following reason:

- To establish the direction and use of the fund.
- To control the composition and size of loan portfolios.
- To determine the general circumstance under which it is appropriate to make a loan.

Items included in a loan policy

The following are the major items included in a loan policy:

- ✓ Types of the loans to be made
- ✓ Maturity
- ✓ Excess line
- ✓ Acceptable security and credit worthiness

2.3 CREDIT ANALYSIS

Credit analysis is the method by which one calculates the credit worthiness of all business organization. The purposes of credit analysis and appraisal are to assess the likelihood that the customers will repay the loan in accordance with stipulated terms. In the analysis of the of the customer's loan requested line with its ability and desire to repay and attain a loan. Amount applied should be also evaluated carefully considering the capacity to repay and attain the ability of borrowers' business plan. (Brkic, Sabina Nov 2017)

2.3.1 ANALYSIS OF FINANCIAL STATEMENT

The financial statement like the balance sheet income statement and statement of cash flow should be carefully analyzed to determine the financial soundness of the application and assess the repayment capacity. Credit analysis involves a wide variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projection and detailed analysis to measure the liquidity and profitability of business in the decision making of the amount and types of loan to be granted (Shelagh Hefferon, 1996)

2.4 Loan Pricing

The pricing of the bank loan involves the fixation of interest and some cases, the imposition of the loan fees. Interest rate may be either fixed or variable. A fixed rate is one that remains the same during the loan contract. A variable rate is one that may be changed during the term of the loan.

Factors that should be considered in the loan priced at a level sufficient to cover the all cost founded need provision to the allowance accounts, facilitate the acceleration of capital.

Specific consideration should be given to the:

- ✓ Cost of fund
- ✓ The cost of service loans
- ✓ Cost of operation
- ✓ Credit risk
- ✓ Interest rate risk (IRR)
- ✓ The cooperative environment

A shift in any one of these component could be warrant a pricing adjustments. Failure to do so could be results in insufficient earning to meet capital needs. Therefore, loan pricing programs require constant review and management.

2.5 COLLATERAL

Bankers often think that security is the most vital element for the bank in any loan arrangement but in fact it is really secondary to variability of the loan arrangement itself and only provide the further safeguard for the bank. The chief consideration with customers who are already know to the bank is weather the customer's income or earning from his business is sufficient to enables the repayment to be made. If the decision is that the loan shall be granted we can then reinforce the decision with any security that enable available, but if loan proposed is basically unsounded the bank will not proceed even if security is available. Security with known customers should be regarded as insurance cover should be the worth happen.

The most common types of the security taken are:

- ✓ Mortgage over landed property
- ✓ Mortgage over stock and share
- ✓ Assignment of a life policy
- ✓ Guarantee

General principles of secured advances

I. Adequacy of margin
II. Marketability of security
III. Documentation
IV. Realization of the advances

Adequacy of margin

The word “margin” has special meaning and significance in the banking business. In banking terminology margin means the difference between the market value and the amount of security and amount of the advance grant against it.

Marketability of security

Advances are usually granted for the short period of time by the commercial bank because their deposits resource (except term deposition) are either repayable on demanded or not short notice. If the customers default in making payment, the bankers have to liquidate the security. It is therefore, essential that the security offered by a borrower may be disposed of without loss of time and amount of money. A banker should be very continuous in accepting assets, which are not easily marketable.

Documentation

It means that necessary documents. For example, agreement of pledge or mortgage and etc. are proposed and signed by borrower at the time of the security of loan from the bank.

Realization of the advances

If the borrowers’ defaults in making payments on the specific date, the banker may realize his debt from the sale proceed of the security pledge to him (Julia Hoyle and Geoffrey, 1987).

2.6 CLASSIFICATION OF THE LOANS

Bank loans can be classified in variety of way. There can be classified depend on the basis as follow.

2.6.1 ON THE BASIS OF PURPOSES

Normally the bank loan can be classified as according to the purpose for which it is borrowed. For example, loan given for trade activities are known as commercial loans. Loan given for the industrial activities are known as industrial loans and the loan gives for the purposes of consumers' durable goods (refrigerators, television) and etc. are called consumer loans.

2.6.2 ON THE BASIS OF SECURITY

A bank loans can be secured loans and unsecured loans. The secured loans are these loans which are secured by the security that is offered by the borrowers. Unsecured loans are these loans that are based on the more exclusively on a borrower's integrity and financial condition expected future income and past record of repayment. The largest commercial borrowers are able to borrow on the unsecured loans basis.

2.6.3 ON THE BASIS OF MATURITY

The bank loans can be classified according to the maturity of due date loans can be classified into three 3 sub basis.

Short term basis: loans are usually defined as those loans with maturity of one year or less than a one years, such as weekly, monthly, quarterly, annually.

Medium term basis: those loans the duration basis term more than one year and up to five years. But some institutions allowed up to seven years.

Long term basis: according this term basis loans may be granted for more than seven years or on the demand basis.

2.6.4 On the basis of methods of repayments

The bank loans may be repaid in one lump sum or installments basis. Lump sum loans are usually referred as straight loans. Installments loans required periodic payment of principal.

In generally this classification is different from institutions to institutions and from bank to bank on the basis of the operation and daily of its activities. Many banks for example to grants for their loans only use basis security methods, especially secured loans basis, but others institutions

don’t care, others banks on the basis of purpose use the categories of care sectors, for example for sectors of agricultural sectors used only agricultural loans, for industrials expansions use industrial loan and the remains also respectively, period payment principal usually on equal amount (Harold Barger, 1962)

2.7 TYPES OF LOANS

According the duration of time, the loans can be classified into three (3).

2.7.1 SHORT TERM LOAN

It is the type of loans it has the duration cannot exceeds one year and are normally for working capital to meet financial requirement of customers.

2.7.2 Medium term loan

One types of loans the duration up to either five (5) or seven (7) years and used for purchased of capital goods such as light vehicle, public transport vehicle, completion building and purchasing of residential houses.

2.7.3 LONG TERM LOAN

The types of loans the duration exceeds seven (7) years. Such loans are granted for the constructions of residential houses, commercial and industrial building and large scale investments (Cooperative Bank of Oromia (SC) Annual Report 2011/12)

2.8 Loans categories by types of sectors

2.8.1 AGRICULTURAL PRODUCTION LOAN.

These are loans granted for crop harvesting, purchasing agricultural inputs like selected seeds, fertilizers, rental or purchase agricultural products, agrochemicals, combination of harvesters, truckers, constructions of storage facility and etc... Those are classified under those categories loan granted for the above purpose that are normally short lived and expected to be settled in one crop season, unless the financing extended has an investments nature.

2.8.2 Manufacturing loan

These loans are used for the purchase of basic and auxiliary raw materials, industrial goods or semi processed goods. Such loans are granted to the manufacturing enterprise. Loans availed for purchase of industrial machinery and equipment, and milling full under these categories.

2.8.3 CONSUMER LOAN

These loans are only granted to salaried people for the purchase of home and goods.

2.8.4 AUTOMOBILE LOAN

Loans that are granted for the acquiring automobile for business or personal uses are classified under these categories.

These loans are granted for a construction to bridge shortage of finance and to be served by an upcoming payment.

2.8.5 BUILDING CONSTRUCTION LOAN

The loans to be granted to borrow who are facing shortage of money at a completion phase while building.

2.8.6 Transport vehicle loan

Loans are granted for a purchase of new or used trucks and buses that are to be classified under this category.

2.8.7 HOTELS AND TOURISM

Loans granted for hotels business, restaurants and tour business.

2.8.8 DOMESTIC TRADE AND SERVICE LOAN

Domestic trade implies whose sale and retail trade. The main activity of these sectors is the distributions local produced and imported good buy a way of selling and retailing.

2.8.9 HEALTH SERVICE LOAN

Loan granted for pharmacies, hospitals and clinics.

2.8.10 MISCELLANEOUS DOMESTIC SERVICE LOAN

Loans that are granted for garage, beauty salons and laundry are under this category.

2.8.11 IMPORT LOAN

Loans granted for the importation of general goods and others.

2.8.12 EXPORT LOAN

Loans granted for the export of goods and services. (Cooperative Bank of Oromia (SC) Annual Report 2011/12

CHPETER THREE

3. METHODOLOGIES OF THE STUDY

3.1 RESEARCH DESIGN

Research design is a master plan specifying the methods and procedures frame work for collecting and analyzing the required data(Saunders et al., 2009). Or it is the plan and structure of investigation so conceived as to obtain answers to research questions. This means it gives the procedure necessary for obtaining the information needed to solve the research problems. Many research designs could be used to study business problems. The choice of research design depends on objectives that the researchers want to achieve .Depending on the way in which researchers ask their research questions and present their purpose, the research design could be classified into three groups, namely exploratory, descriptive and explanatory studies (Saunders et al., 2009).

Exploratory study is performed when the researcher has little information (Hair et al., 2011) or when the research problem is badly understood .It is particularly useful to clarify the understanding of a problem, such as if you are unsure of the precise nature of the problem (Saunders et al., 2009).

As to the **descriptive studies**, they are designed to obtain data that describe the characteristics of the topic of interest in the research (Hair et al., 2011). In descriptive research, the research problem is structured and well understood .Compared with exploratory study, descriptive study would give the readers a comforter answer addressed to the research question. In other words, it is used for testing hypothesis Hair et al (2011).

The last category is **explanatory study** (Saunders et al., 2009) or in some book scaled "causal research design" (Hair et al., 2011). In this research, the problems are well structured as in descriptive studies. In contrast to descriptive studies, the researcher is facing with "causes-and-effects" problems. The main task is to separate such causes and to say to what extent they lead to such effects .In other words, it is to explain the causal relationship between variables (Saunders et al., 2009). Explanatory research design examines the cause and effect relationships between

dependent and independent variables (Kothari, 2004).

The study would be employed the descriptive research type. The descriptive research methods can help the researcher to take both qualitative and quantitative measures. The quantitative measures in order to analysis and interpretive what would be founded through the study by distribution questionnaires, and qualitative measures helping the researcher to interpreting the idea that would be gather through personal interview.

3.2 Research approach

According to Creswell (2009), there are three basic research approaches; these are quantitative, qualitative and mixed research approaches.

Quantitative research: is a systematic and scientific investigation of quantitative properties, phenomena's and their relationships by developing and employ mathematical models, theories and hypotheses pertaining to natural and/or social phenomena Bhattacherjee (2012). Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationships. As noted by (Greener 2008) quantitative research is associated with a deductive approach to testing theory, often using number or fact. This quantitative study, beyond mathematical and statistical models application, it applied econometrics application since econometrics models are more comprehensive and scientific than both mathematical and statistical models in studying the relationship between variables. In this study, this approach enables to see the relationship between the tax revenue performance and the major independent variables.

Qualitative research: is an inquiry process of understanding where the researcher develops a complex, holistic picture, analyses words, reports detailed views of informants and conduct the study in a natural setting (Creswell 2009). It involves studies that do not attempt to quantify their result through statistical summary or analysis.

Mixed research: is try to mix the best of qualitative and quantitative research into research studies. Mixed researches use both deductive and inductive methods, obtain both qualitative and quantitative data.

The study would be used of both qualitative and quantitative approach. The qualitative method

would be used to measurers the idea that would be gathering through personal interview and quantitative method would be used analysis and interpret distributive questionnaire for the respondents to collect data.

3.3 SOURCE OF DATA

this study the researcher to collect the necessary information from both primary source and secondary source. The primary source of data would have been collected from the banks employees through questionnaire and from the bank manager through personal interview. The secondary data would have obtained from the bank documents such as annual report of the bank.

3.4 METHODS OF SAMPLING

The study was conducted through distributions of questionnaires to the banks employees in the bank and personal interview to the Bank manager. the researcher would have used the sample size using censes sampling technique. Because of the total population in the bank is small in number.

3.5 Target population

For the purpose of identifying the necessary information about loan police and practice, the target population for this research would use the employees of Cooperative Bank of Oromia in Wolkite Branch. Therefore, the sampling size for the research would have been 6 respondents.

3. 6 Methods of data collection

There are many instruments which are used to data collection such as questionnaire, observation, and interview. Among these the researcher would be used questionnaire that are distributing to the employees of the bank and would make personal interview with the bank manager.

3.7 METHODS OF DATA ANALYSIS

The researcher would have used percentage to analysis the response of the respondents and its present in the form of the tables to provide comprehensive listing and discussions of assessment of the loan policy and practice on Cooperative Bank of Oromia in Wolkite Branch in Wolkite Town.

CHAPTER FUOR

DISCUSSION AND RESULTS

4.1 INTRODUCTION

This part of the study deals with analyzation and interpretation of the collectable data. The data was collected from primary and secondary sources as explained in the methodology of the study. The survey analysis result and discussion are divided into two parts. Part one includes the survey results from questionnaires and parts two includes the survey results from interview.

From the total population size of 6 sample sizes had been designed. Following systematic distributions and collection of questionnaires the collection rate is 100% that means out of 6 questionnaires distributed 6 questionnaires has been collected. The analysis undertaken is based on the information obtained from questionnaires which were distributed to the bank employers.

4.2 DESCRIPTIVE ANALYSIS

TABLE 1: SHOWS PERSONAL INFORMATION'S such as background and characteristics of respondents.

Items	Descriptions	Number of respondents	Percentage (%)
(1)Sex:	Male	6	100
	Female	0	
	Total	**6**	**100**
(2)Age:	18-25	2	33.33
	26-35	4	66.67
	Above 36	_	_
	Total	**6**	**100%**
(3)Educational level	Below grade 8^{th}	_	_
	Between grade 9^{th} - 12^{th}	_	_

	Diploma	–	–
	Degree	6	100
	Above degree	–	–
	Total	**6**	**100%**

Source: primary data from questionnaires 2020.

It can see from the table 6(100%) of the employer are male. This indicates that males have still more participate the work of bank than female. Based on the above data 2(33.33%) of employer are founded between age of 18-25 years old and 4(66.67 of employer are founded between age of 26-36 years old. This shows that the majority of the employer was founded age of productivity and economic active age as well as matured age. With regard to educational status 6(100%) of employers has first degree educational level. This indicates that many workers of the bank have first degree status.

Table 2: show bank FOLLOWS a good loan policy and procedures.

Items	Response	Number of respondents	Percentage (%)
(4) Does the bank follow a good loan policy and procedures?	Yes	6	100
	No	–	–
	No response	–	–
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

Based on the above table data 6(100%) all respondents fully justify the bank follow a good loan policy and procedures.

Table 3: show employers knowledge about loan policy and procedures Cooperative bank of Oromia.

Items	Response	Number of respondents	Percentage (%)
(5) Do you have enough knowledge about the loan policy	Yes	6	100
	No	–	–

and procedure of cooperative bank of Oromia?	No response	–	–
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

According to the response given in the above table out of 6 employers all are have enough knowledge about the loan policy and procedures of Cooperative bank of oromia. In this case all 6(100%) of employers have more knowledge about the loan policy and procedures of the bank. this implied that operation of the bank is efficiently and effectively performing so loan is very good and deducted loans from risk.

TABLE 4 SHOW BANK CRITERION ACCEPTABLE SECURITY

Items	Response	Number of respondents	Percentage (%)
(6) what is the criterion of acceptable security according the bank loan policy and procedures	Yes	6	100
	No	–	–
	No response	–	–
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

According to the response of employers the majority of the employers said that the criterion acceptable security according the loan policy and procedures of the bank: the loan customers has must be guarantee when take loan from the bank, the guarantee has marketable value, the property guarantee has ownership evidence and in addition to this the guarantee presented as a collateral must be meet the loan policy and procedures of the bank which is providing the loan services.

Table 5: show loan interests bank charges

Items	Response	Number of respondents	Percentage (%)
(7) Do you think that the interest rate bank charges on loan are	Yes	6	100
	No	–	–

fair?	No response	_	_
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

As show on above table 6(100%) all of respondent's response that the interests rate bank charges on the loans are fair. According information presented on the above all respondents replied the interests charged by bank on the loans are fair.

We understanding from this the Cooperative Bank of Oromia are more honest and hopefully for customers and other borrowers, it's compatible with other bank in any dimensions.

Table 6: show loan amount the borrower expected

Items	Response	Number of respondents	Percentage (%)
(8) Do you give the loan full amount asked by borrowers?	Yes	4	
	No	2	
	No response	_	_
	Total	**6**	**100%**

Source: primary data from questionnaires 2020.

As present in the above table 4(66.67%) of respondents said that, borrowers get loan amount as they asked and on the other hand 2(33.33%) of them said that borrowers did not get the loan as they ask. This indicates majority of the borrowers get loan amount they ask and some of them cannot successes amount the loan they ask due to different reason. This show the bank gives the loan that the borrowers ask and many respondents replied to get the amount they ask the bank; this indicates that the bank has potentials to satisfied the customers.

the above questions is the response replied are "No" from this, 2(33.33%) of respondents said that they cannot get amount as they expected. The negatively response of respondents were asked mention "why" they not to get a loan amount they ask, said that from the bank view point of there is risk of fall to payback if a bank give the asked amount. The addition to this, the security offered as collateral may be marketable value is less than amount, they ask. From this we can understand that the bank take care when grant a loan to borrowers.

Table 7 show does a bank ask collateral.

Items	Response	Number of respondents	Percentage (%)
(9) Dose the bank ask collateral when you give the loan?	Yes	6	100
	No	–	–
	No response	–	–
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

According to the response given in the above table 6(100%) all of employers said that the bank asks them collateral to grant loan. The borrowers providing owned property such as, building, machinery, and car and so on as a collateral and also personal use guarantee to take a loan. On the above table all employers replied that they presented property as a collateral when take loan from bank. The collateral is asked to protect the banker from the risk of non-payment loan.

Table 8 show the type of property granted for the loan.

Items	Response	Number of respondents	Percentage (%)
(10) what the type of property grants as collateral to give the loan	Building	2	33.33
	Machinery	1	16.67
	License	1	16.67
	Car	2	33.33
	Other	–	–
	Total	**6**	**100**

Source: primary data from questionnaires 2020.

As show on the above table the majority borrowers providing the building and car as a collateral when take loan from the bank around the 2(33.33%) of borrowers providing machinery and license 1(16.67%) of them granted license as collateral. understanding from that the bank ask collateral to minimize non-payment loan and other risk related to performance of the bank operations.

Table 9 show types of loan

Items	Response	Number of respondents	Percentage (%)
(11) What types of loan is mostly taking by customer from the bank?	Commercial loan	3	50
	Consumer loan	2	33.33
	Industrials loan	1	16.67
	Other	–	–
	Total	6	100

Source: primary data from questionnaires 2020.

The table above shows information about types of loan the borrower's needs. From the above data we can understand that the majority of the borrowers take commercial loan 3(50%) followed by consumer and industrial loan (33.33%) and (16.67) respectively. The reason for this bank encourages the commercial loan and gives training to the borrowers how they use the borrowed amount for business. On the other hand, some of borrowers take consumers loan for consumptions purposes and other borrowers take industrials loan from the bank.

Table 10: shows why the borrowers prefer Cooperative Bank of Oromia.

Items	Response	Number of respondents	Percentage (%)
(12) What make you to customer prefer cooperative bank of Oromia from another bank?	Location	2	33.33
	Quality services	3	50
	Nature of interests	1	16.67
	Other	–	–
	Total	6	100

Source: primary data from questionnaires 2020.

As present in the above table 3(50%) of borrowers preferred Cooperative Bank of Oromia for quality of services provided by bank, 2(33.33%) of respondents for location of the bank and the rest 1(16.67%) of borrowers prefer the bank for the nature of interests rate that bank charges for this reason the borrowers are prefer Cooperative bank of Oromia from others banks. This implied that the majority of the borrowers preferred the Cooperative Bank of Oromia for quality services the bank provided. This comes from bank effort that works at all for quality of services for its customers.

Table 11: shows borrowers' satisfactions.

Items	Response	Number of borrowers	Percentage (%)
(13) Dose the customer satisfied with over all the loan system of cooperative bank of Oromia?	Yes	6	100
	No	–	–
	No response	–	–
	Total	68	100

Source: primary data from questionnaires 2020.

As show on the above table according to the response of all borrowers are satisfied with over all loan system of the banking. This shows bank effort to satisfy borrowers any aspect of providing services such as quality service, location and others. The borrowers also realized overall services providing by Cooperative Bank of Oromia. As you see from above table Cooperative Bank of Oromia give quality service to the customers from these, understanding that, they assured this by providing argument such as fast service delivery with the help of modernized technology and delivery of and working for longer service honor in weak.

The respondents also added that the banks technology with skilled labor power contributed to efficient work of the bank. The implication is that in relative term the bank is the standardized service providing firms. Therefore, the above information is possible to conclude that the bank is providing excellent quality of service overall loan system to satisfy customer's needs.

4.3 INTERVIEW FINDING

According to the bank manager of Cooperative Bank of Oromia (SC) Wolkite Town, currently the bank has 6 employers in their bank.

Bank manager said that, the loans policy and procedures is formulated by the National Bank of Ethiopia (NBE) for all the banks in the country. The banks in the country are derived rule, regulation and procedures for smoothly processed performance of the bank operations. He said

that, our bank depends on these policy and procedures derived own procedures and guidelines that develop and support these policy and procedures. According to the loan policy the property accepts as collateral should be meeting the following criteria:

- The property accepts as collateral should be marketable value.
- The marketable value of this security should not less than amount loan granted.
- The perishable property was not taken as collateral.
- The property as collateral should not be owned by government.
- The loan customers bring the ownership title evidence.

In addition to this as a generally the loans policy used by their bank:

- Any customers who borrow many from bank should repay at a mature date.
- Any loan customers of the bank should be taken loan from the bank by using any property as collateral excepts the property specify on the above criteria.
- The banks not borrow money from all customers, if and only if customers should be potential customers for the bank.

Bank managers said that, the bank give training for all borrowers and evaluate the loan customers how they know loan policy and procedures. He said that, most of loan customers know the loan procedures of the bank but, some of the borrowers are new and need training. After training and orientation, they would know well, especially: repayment schedule and payment amounts including interests. Totally for all loan customers of the bank, banks give guidance and counseling from time to time and they follow the loan procedures of the bank.

He said that, loan customers know the repayment schedule of the bank so they should be repay at the schedule basis such as one lump sum and installments basis such as monthly, quarterly, semiannually and annually.

Bank manager said that, bank ask collateral to grant loan to borrowers and accepts any property as collateral that property must registered by city manipulation and legal ownership. The bank accepts property as collateral such as building, car, vehicle, machinery and so on accepts as collateral.

He said that, the numbers of loan customers from time to time increase because many loan facilities rendered by Cooperative Bank of Oromia such as:

- Merchandise loan
- Agricultural loan
- Construction loan
- Overdraft

CHAPTER FIVE

5.1CONCLUSION AND RECOMMENDATION

5.2 CONCLUSION

- The majority of the employers were founded in the economic active age of productivity and maturity.
- The most of the customer give loan for commercial purpose.
- The majority of the employers have enough knowledge about the loan policy and practice of the bank.
- The level of loan procedures to get the loan is somewhat consume time. It is not clear and concise.
- The loan customers get appropriate guidance and consuming on the loan policy and practice of the bank.
- Some of the borrowers do not get the loan amount as expect.
- The rate of interest charge on loan is fair.
- The bank accepts property as collateral such as car, building, machinery and others personal guarantee as collateral.
- A bank follow a good loan policy and procedures

- All of the loan customers are satisfied with over all loan system of the bank.

5.3 Recommendation

Based on the finding of the study the researcher forward the following recommendation

I. It is advisable for the banker to have flexible loan policy. This is because of rigid loan policy most borrowers are not able to get the amount of loan they expect.

II. it would be better if the bank save mony for the purpose of the loan becuse the loan is beneficial for the country and the organization.

III. So long as customers' needs quality of services, speedy, modern and welcoming interest rate on loans. The banker is expected to make service better, quality; modern and speedy. These will help the bank to be component and able to increase its market shares as well as profit.

IV. It is better, if the bankers continue providing currently existing service to their loan customers like guidance and counseling on loan policy and procedures, give training and information about the loan policy.

V. Collateral requirement shall be designed in the manner that regards as the economic efficiency and capacity of the loan customers because this helps the bankers to attract many effective business persons.

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APPENDAXE

Questionnaires prepared to employee of the bank.

Dear respondents the purpose of this questionnaire is to collect necessary and appropriate data for the research study. Your valuable information helps me for successful of my study. Therefore, please you be honestly and trustily.

General information

- No need to write your name on this paper.
- Please using tick mark ( ) for your answer in a given box.
- Write your opinion on the space provided.

Personal information

- Sex: Male ☐ Female ☐
- Age: 18-25 ☐ 26-35 ☐ above 36 ☐

- Educational level: Illiterate ☐ below grade 8 ☐
  between 9-12 ☐ diploma ☐ degree ☐

  Above degree ☐

- Does the bank follow a good loan policy and procedures?

  Yes ☐ No ☐ No response ☐

- Do you have enough knowledge about the loan policy and procedures of cooperative bank of Oromia?

  Yes ☐ No ☐ No response ☐

- If your answer on question number 5 is "No" why?----------

- What is the criterion of acceptable security accordance to the bank loan policy and practice?----------
  ----

- Do you think that the interest rate bank charges on loan are fair?

Yes ☐ No ☐ No response ☐

- Do you give the loan full amount asked by customer?

  Yes ☐ No ☐ No response ☐

- If your question on number 9 is "No" why----------

- Does the bank ask a collateral when you give the loan?

  Yes ☐ No ☐ No response ☐

- What types of property grant as collateral to give a loan?

  Building ☐ Machinery ☐ License ☐ Car ☐

  If any specify----------

- What types of loan is mostly take by customer from the bank?

  Commercial loan ☐ Consumer loan ☐ Industrial loan ☐

  If any specify ----------

- What make you to customer prefer cooperative bank of oromia from other bank?

  Location ☐ Quality service ☐ Nature of interest rate ☐

  If any specify----------

- Dose the customer satisfied with over all the loan system of cooperative bank of Oromia? Yes ☐ No ☐ No response ☐

- If you have suggestion:----------

Interview question for the bank manager.

- What is the criterion of acceptable security according to your bank loan policy?
- How do you evaluate your loan customers whether they know the loan policy and procedures of your bank?
- Do you give and counseling to your loan customers on how they follow the procedures?
- How the customer repays the loan they take from your bank?
- Does the bank accept as collateral while provide the loan?
- What types of property your banks accept as collateral?
- The number of your customers from time to time increases, decrease or stable?
- If you have suggestion?