ASSESSMENT OF LOAN ADVANCING PROCEDURE AND PRACTICE (IN CASE OF DASHEN BANK WOLKITE BRANCH)

A RESEARCH PAPER SUBMITTED FOR THE PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ART (BA) DEGREE IN ACCOUNTING AND FINANCE

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DECLARATIONS

I have carried out independently a research work on Assessment of Loan Advancing Procedure and Practice in Case of Dashen Bank Wolkite Branch in partial fulfillment of the requirement of the Bachelor Degree of Art in Accounting and Finance with the guidance and support of my advisor. This study is my own work conducted during the period 2022/3(G.C) and I have produced it independently except for guidance and suggestions of the research advisor, and that all references materials contained there have been appropriately acknowledged by means of complete references.

Declared by:

Name: Birike Bayuh

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Confirmed by advisor: Mr. Idris. A

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AKNOWNELEDGEMENT

First and foremost, I would like to thank the almighty God and his mother St. Marry for helping me in the successful accomplishment of this paper. Secondly deepest gratitude to my adviser Mr. IDRIS. A. for his valuable advice, suggestion, encouragement and offering useful hints since the date of topic selection to the submission of the research paper. Also, I would like thanks greatly deepest for my family for giving morally and financial support for successful completion of this paper.

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ABSTRACT

The major- objective of this study was assessing the loan advancing procedure and practice in Bank branch with the primary objectives of to assess the lending procedures of Dashen Bank at Wolkite branch. So as to achieve the stated objective the study adopted a mixed method research approach. In this regard, both primary and secondary sources of data were used. To this end, the necessary data were collected through self-administered questionnaires and the researcher used judgmental sampling techniques to select target population among employees and also the researcher used descriptive method of data analyzing. The analysis of the data revealed that rendering to the services given by the bank, Dashen Bank Wolkite branch have been given all bank services, and the banks are working on loan advancing procedures and practices. Regarding to the types of loans, the banks are currently delivered both long and short-term loan. Concerning with the bank's loan advancing process collateral as the best instrument. The major challenges related with loan advancing procedures and practices, are under estimation of collateral and lack of customer awareness with the bank's policy and procedures. And also, some recommendations were suggested that is this estimate collateral with current market value before providing loans to the customers about the bank's policy and procedures.

LIST OF ACRONOMY

CBE	Commercial Bank of Ethiopia
CIT	Corporate Income Tax
LDR	Loan Deposit Ratio
NBE	National Bank of Ethiopia
NPL	Non-performing loan

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Loan is a debt provided by one entity (organization or individual) to another entity at an interstate, and evade encode by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back to the lender at a later time (Smith, 2006).

The bank loans advancing procedure and practices provide guidelines for determining suitable lending requirements and format and preparation of loan proposals. This procedure applies to bank loan applications but can be used for alternative forms of financing. Proposals can be used for loan applications for one or more banks or lending institutions. This procedure comes from the financial policies and procedures manual (Mishkin, 2005).

Loan advancing procedures and practices have considerable impact to the development of the bank and corresponding issues. Lack of study and assessment in the advancing procedure and practice can result in the fall, liquidize, and investment sacrifice of the bank (Richard, Stewart, & Myers, 2001).

The loan is generally provided at cost referred to as interest on the debit, which provides an incentive for the lender to engage in the loan. In a legal loan each of these obligations and restrictions is enforced by contract. This can also place the borrower under additional restrictions known as loan convenient (Smith, 2006).

Acting as a provider of loans is one of the principal tasks for financial institutions for other institutions issuing of debit contracts such as bonds is a typical source of funding. Most of the banks in the world earn incomes from the source of loan and other services provided to the borrowers and clients. This income depends on the normal lending and borrowing between the banker and the clients. In order to acquire the loan the applicants must fulfill the requirements which the banks imposed and the bank should have its own loan advancing procedure policies and guidelines. These loan advancing procedures policies and guidelines leads the banker (lender) how to lend the money and the borrower (clients) how to acquire the fund (money). These loan advancing procedures policies and guidelines include time frame term of loan. Loan limit (the amount that borrower can acquire). Interest rate and other legal issues like burden of overdue in repayment (Soldofsky& Olive, 2000).

All financial institutions including banks, cooperatives, unions and loan institutions and other financial sectors provide different types of loans to their clients. Who request to obtain the loan? To provide the loan to borrowers, the bank should have the above guidelines such as policies, procedures its manuals. Which show the direction how to give the loan and control its liquidity? Quality of loan and none performing in accordance with, without having the document (manual by the bank) the control and analysis of loan recovery and management is difficult (Smith, 2006).

The bank loan advancing procedure and practice provide guidelines for determining suitable lending requirements and format and preparation of loan. This procedure applies to bank loan applications, but, can be used for alternative forms of financing, proposals can be used for loan applications for one or more banks or lending institutions, this procedure comes from the financial policies and procedures manually(Soldofsky& Olive, 2000).

"Loan Advance" mean only financial asset of a bank arising from direct or indirect advance (unplanned over draft participation in loan syndication the purchase of the term doesn't included accrued, but included noncollectable interest (national Bank of Ethiopia). A loan is a debt evidenced by a note while specifies among other things that the principal amount, interest rate and date of repayment.

If the loan entails the reallocation of subjects aspect for a period of time between the lender and borrower, loan is a debt provided by one entity (organization and individual) to another entity at an interest rate and evidence by not which specifies among the other things are the principal amount interest rate and date of repayment /Garrison,RayHg edition/.

The loan advancing procedures and practices are the standards to the bank while providing the loan. Also loan advancing procedure and practice can have both positive and negative effects based on their goodness and weakness (Smith, 2006).

Dashen Bank Wolkite branch is various types of loan and advance to the following business sectors /Blekoo.com/. There is domestic trade, import and export trade, Agriculture, hotel and restaurant, manufacture, transport and service, education and health and another service. When the researcher was deciding to be conduct the loan advance procedure and practice in case study Dashen Bank Wolkite branch

1.2. Statement of the Problem

In modern world economic savings and investments are usually carried out by different groups. The banking system channels the transfer of funds from savers to borrowers. Loans are assets of the bank that represent the majority of earning and make profit by granting loan to their customer who fulfill the banks and countries rules and regulation.

The profit is a function of both the volume and quality of loan in banking service. Despite the fact that a well-designed loan advancing procedure and practice to provide the above expressed benefit for an organization. The policy or procedures that the bank follows can have effect on profitability, on financial performance and loan repayment performance. According to Bruka,2006 done research on assessment of loan advancing procedures and practices in Commercial bank, his finding shows that both the external and internal factors relate with loan advancing procedures and practices can have effect on loan processing. According to Nuru, 2012 done research on the same title with that of Break, his finding shows that complex and longtime loan processing procedures and practices have effect on loan repayment. Even though both researchers did assessment of loan advancing procedures and practices they didn’t show the factors that can affect loan advancing procedures and practices.

By considering this gap the current researcher tries to fill this gap by assessing the main challenges of loan advancing procedure and practice in Dashen Bank, Wolkite branch by considering under estimation or mismatch between collateral and requested amount of loan and lack of customer awareness about the bank policy and procedures.

Here, the researcher prepared or organized the following questions for better assessment

1. How loan is provided to bank customers?
2. What are the lending procedures of Dashen Bank?
3. What are the types of loan provided by Dashen Bank?
4. What are the main challenges of loan advancing procedure and practice in Dashen Bank?

1.3. Objective of the Study

1.3.1 General objective

The general objective of the study is to assess the loan advancing procedure and practice in Dashen Bank Wolkite branch

1.3.2 Specific objective

1. To assess how loan is provided to customers
2. To assess the lending procedures of Dashen Bank
3. To identify the type of loan provided by Dashen Bank to its customers.
4. To identify the main challenges of loan advancing procedure and practice of Dashen Bank

1.4. Significance of the Study

The importance/significance of this study is to identify or to show the main challenges of loan advancing procedure and practice and different understanding aspect of loan advance. So the researcher intended to study the loan advancing procedure and practice which has impacts on the services of the bank. Reliable data on which there are strong need for investigation help for further study. It provides information for everyone who wants to know about loan advancing procedures and practice on Dashen bank Wolkite branch and also it was be helps to other researchers as a source document that are interested deal with in loan advancing procedure and practice.

In addition, when the researcher analyzes the data to show the way how the bank provides the loan, the study can also be served as an input for the organization to improve its performance and to analyze its problem of loan advancing procedure and practice. Generally, it helps as a guideline to the concerned managers of banks with regard to how they properly addressed the credit need of their customer.

1.5. Scope of the Study

The scope of the study was cover the loan advancing procedure and practice in depth and detail in the issues related to loan, loan advancing, loan advancing procedures and practices and loan related areas, and the geographical limit of the study was in Dashen Bank Wolkite branch.

1.6. Limitation of the Study

The researcher has faced different difficulties and limitations like:

- ✓ Lack of experience of the researcher
- ✓ Financial and other constraints the researcher faced were also the limitation
- ✓ Absence of managers from office due to meetings during data collection period
- ✓ Lack of generalization

1.7. Organization of the Study

The research paper was having five chapters. The first chapter deals about the overall introduction, such as, background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter deals with review of related literature and the third chapter is concerned with research method. This part contains research design, source of data, methods of data collection, sampling design and methods of data analysis. The fourth chapter was examine data analysis and contains findings and discussion. Finally the conclusion was drawn and recommendations forwarded by the researcher were be included in the fifth chapter.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical literature

2.1.1 Loan Advancing Procedure

Definition and Concept of Loan

Loan is the sale of goods, services and money claims in the present in exchange for a promise to pay in the future. That means the debtor and the creditor agrees to settle their transactions.

In respect of bank's meaning: credit means lending or granting money to those who are in need of it (investors) who fulfill the bank's requirements. It is a liability for the individual or corporation received it but an investment comparable to bond, stock or other asset. For each borrower a loan is a debt, an obligation to repay the borrower money plus interest (Garry smith, 1995).

2.1.2 Type of loan

Banks make a wide variety of loans to a wide variety of customer in order to address the credit need of the business society. Banks divide their loan into different groups for different purpose. Those are based on purpose and maturity (Rose, 2002).

2.1.3 Loan based on purpose

Bank loans can be classified according to the purpose for which is borrowed, for example:

✔Commercial loan: are provided to large or small companies who use the funds provided to make purchases or make payroll and pay back to the lender over an agreed upon time, Usually for a short term(From 30 days to 1 year).Loan given for trading activity such as purchasing inventory.

✔Industrial Loan: loans given for industrial activities.

✔Consumer loan: an amount of money lent to an individual, usually on an one secured base for personal family house hold purpose.

✔Mortgage loans: Loans advanced for purchase of residential houses and commercial buildings are classified under this category.

✔Contraction loan: is relatively short-term credit that repaid when the builder obtains long term credit are repaid (Rose, 2002)

◆ **Requirement to be considered for mortgage loan**

- ✓ The maximum term of the loan should not exceed five (5) years.
- ✓ The source of repayment towards the loan could be either from monthly salary for employed personnel or income from business for business people.
- ✓ Disbursement should be affected directly to the supplier or seller after transfer of ownership (title deeds) in the name of the borrower is completed and submitted to the bank and also upon registration of the same with the appropriate government authority.
- ✓ Borrower should offer primarily the building to be purchased as collator for the loan and /or other acceptable collateral (Source Dashen bank manual).

2.1.4 Lending Procedure

The Principle of Lending

Lending money is easy; it is ensuring that loans are repaid. Skill is required when asked to make a loan, the first concern of a bank was be to extract as much information as possible about the proposition so as to be able assess the probability of repayment.

Some loans were become bad debts and cannot be recovered; but this should never happen if a risk could have been foreseen from the outset. In coming to a decision, you must check how well the proposition measures up to a number of criteria. Some of the questions to be asked are vital and help the lending officer to obtain an overall view of the proposals (Pilfer man D. Ford F, 1989).

In considering loan applications, loan officers should be encouraged to adopt flexible approach. Here what is important is an overall appraisal backed by a good knowledge of physical market prices applicant and his/her background and familiarity with the nature of operations of applicant.

Loan officers should be able to comprehend the total situation and determine whether,

- ✓ Applicant seems honest
- ✓ Applicants' proposal seems reasonable
- ✓ The information given by the applicant makes sense
- ✓ Applicants can accomplish the purpose of the loan.
- ✓ Purpose of the loan of the loan is legitimate and productive
- ✓ Applicants have the capacity to repay the loan according to schedule under normal circumstance and
- ✓ There is margin of safety, if things just do not go right.

Bank staff should perform an additional duty of consulting these applicants where ever required, with a view to converting seemingly imprecise and unattractive proposals in to reasonably bank able proportions.

Controlling offices of banks should advise their branches detailed reasons for rejection of loan proposals. Wherever this is not already being done, this was enabling branch staff to understand the core lending policy and in turn do counseling to applicants in appropriate cases.

It would be desirable to advise loan applicants, in each case, the reason for rejection of their applications but this may not be possible always. Banks would be justified in refusing to make known the reason for rejection. But, wherever possible, customers should be advised of the reason backed by counseling in appropriate manner (Gray Smith, 1991).

2.1.5 Risk associated with lending

Banks accept in order to earn profit. They must balance alternative strategies in terms of their risk /return characteristics with the goal of maximizing shareholders wealth. Lists nine (9) risk for the purposes of bank supervision, some of them are:

✔**Financial risk**: does intern comprise two types of risk.

A. pure risk: includes liquidity credit and solvency risks which can be result in losses for bank if they are properly managed (Peters, Rose, 1999).

B. Speculative risk: are based on financial arbitrage and can result in a profit if the arbitrage is correct or losses if it is incorrect. The main categories of speculative risk are:

 Interest rate risk

 Currency risk, and

 Market price risk

✔**Operational risk**: are related to a bank over all business strategy, organization functioning of internal system including computer related and other technologies.

Complain with bank policies and procedure.

✔**Business risk**: are associated with banks business environment including micro economics and legal regulatory factors.

✔**Credit risk**: is the risk that a firm's customer and the parties to which it has lent money eill fail to make promised payment is known as credit risk.

✔**Default risk:** is the probability that promised payment of interest and principal was not be made on the time (Peters, Rose, 1999)

2.1.6 Credit Terms

The length of the repayment period of the advance required for was depend on the degree of the proposals. It is important because the longer the loan is outstanding the more chance there is of something unforeseen happening to prevent the customer from adhering to the agreed schedule.

2.1.7 Credit analysis

Credit analysis is the evaluation of borrower's capacity of properly serving the loan proper credit analysis the core part of quality loan in a bank in doing this. The five (5) basic credit factors (5c's) to be evaluated;

A. character: refers to the borrower's reputation and the borrower's willingness to meet credit obligations. In evaluating character, the borrower’s honesty, integrity and trust worthiness are assessed.

B. Capacity: refers to the business ability to generate sufficient cash to repay the debt. The customer's ability to meet credit obligation out of the operating cash flows.

C. Capital: refers to owner's level of investment in the business and customer’s financial reserves.

D. Collateral: also called security is the assets that the borrower pledges to the bank to mitigate the banks risk in the event of default.

E. Condition: General economic conditions in the customers line of business are external circumstances that could affect the borrower’s ability to repay the amount financed (Timothy W.Koch, 2006).

2.1.8 Control Credit

In a developing economy as that of our shortage of capital has always been as tumbling block on the road to industrial progress. The role of commercial banks in overcoming this difficulty by extending large credit facility is abundantly clear. However, this does not mean that they should be given a free hand in the creation of credit. The recent monetary policy of the reserve bank shows that it has taken a serious view of the rising price levels; the key note of the policy has been to exercise both a general and selective restraint on credit and pruning down of the less essential demands through a combination of measures, quantitative, qualitative and selective. The bank has been careful to implement the various methods of credit control in a flexible and judicious manner (Suekhar, 1987).

2.1.9 Factors Affecting Bank Loan

According to Zewdu (2010), the sources of fund for lending are reserve, deposits and capital. All these sources may be affected by different factors and would have a direct influence on lending. Since lending is the principal function of banking industry, the management of banks should give due attention, analyze and take the necessary measures on time on internal and external factors that affect or limit lending. Without lending, banks' incomes especially interest income would highly deteriorate and affect bank survival. In case, since nonperforming loans (NPLs) has a direct reflection of poor asset quality, the factors that influence banks loans have their own impact on NPLs (Rawlinet al. 2012).

According to Reed and Gill (1989) cited in Zewdu (2010) therefore, the factors that influence bank loans, that might have their own impact on NPLs are:

Capital position: The capital of banks serves as a custom for protection of depositors' funds. The size of capital in relation to deposits influences the amount of risk that a bank can afford. Relatively large capital structure can make loans of longer maturities and greater credit risk.

Profitability: Some banks may emphasize earning more than others. Banks with greater need of earning might adapt more aggressive lending policies. An aggressive policy might call consumer loans, which normally are made at higher rates of interest than short-term loans.

Stability of deposits: - The fluctuation and type of deposit must be considered. After adequate provisions have been made for reserves, bank can then engage in lending. Even though, these reserves designed to take care of predictable deposit fluctuations and loan demands since unpredictable demand force banks to give consideration to the stability of deposits in formulating loan policy.

Economic conditions: - Stable economy is more conducive to a liberal loan policy than the one that is subject to seasonal and cyclical movements. Deposit of famine economies fluctuate more violently than deposit in an economy noted for its stability. Consideration must be given to the national economy. Factors adversely affect the nation as a whole may, if they are of serious magnitude, eventually affect local conditions.

Influence of monetary and fiscal policies: - If monetary and fiscal policies are expansive and additional, reserves are made available to the commercial banking system; the lending ability of banks is increased. Under these policies banks can have a more liberal loan policy.

Ability and experience of bank personnel: -The expertise of lending personnel is not insignificant in the establishment of bank loan policy. One of the probable reasons that banks were slow in entering the consumer lending field was the lack of skilled personnel.

Credit needs of the area served: - banks specialized experience on different types of loans e.g. Mortgage real-estate. The major reasons banks are chartered is to serve the credit needs of their communities. Banks are morally bound to extend credit to borrowers who present logical and economically sound loan requests.

According to Black and Daniel (1989) cited in Zewdu (2010) there are also other factors that affect bank lending and investing activities. These factors include:

The interest rate: represents rate of returns available from the various alternative lending and investing activities. Fundamental problem of bank management is achieving the proper balance between return and risk.

The liquidity of fund: - it is the amount of liquid fund tied up in varies lending and investing activities. To maintain adequate liquidity, bank must constantly guard against excessive losses from lending and investing activities. If bank made too many bad loans, the value of its asset could fall below the amount of its liabilities.

Tax: corporate income tax rate affects the bank loans in different aspects: one is that high tax burden enables the banks to shift the tax burden either by increasing lending rate and fees or paying low interest rate on deposits. The second aspect is that, corporate income tax rate has output and input substitution effect. The output substitution effect states that increased CIT rate represents a decrease in production in the incorporated sectors. In this case, the demand for loan gets lower whereas input substitution effect represents the substitution of equity with other inputs for instance; debt (Albertazzi and Gambacorta, 2006). Taxation in banking sectors represents the ability of banks to allocate its portfolios reduces its taxes. Bank is capable of transferring the tax costs to its customers by raising fees and interest spreads. The shifting of tax burden to customers through higher lending rate on loan and lowering interest rate on the deposit has a direct impact on the level of NPLs (Khan et al.2011). Besides, corporate entities shift their tax burden to other tax payers due to the existence of double taxation (Kaplow, 2008).

2.2. Empirical review

Bruka, 2006 in Haramaya conducted the evaluation of loan and advance procedures in Commercial bank of Ethiopia Haramaya branch by using systematic random sampling. The study focused on credit policy and determination system and he suggests that in lending the bank to follow a certain guidelines principle or procedures that emphasis on a various loan types. His study revealed that external and internal factors to processing loan in the bank but the external factors are more causing loan processing. Nuru, 2012 in Hawassa studied loan advance and procedures in Wegagen bank Hawassa branch. His studies were particularly focused factors that affect the profitability of the bank in providing the loan to customer. He suggests that complex and long loan advancing procedures is discouraging customer to make loan and make a conclusion that loan is beneficial both to the bank as well as to the borrower.

Having this concept from the empirical study, the two studies have been seen the effect of loan advancing procedure and practice in a narrow way. But my study focuses on assessment of loan advancing procedure and practice and was be different in methodology, scope and other important elements.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study was be conducted using descriptive design since this type of research is more appropriate to describe the state of affairs of topic focus on potentially necessary to describe the condition of the problem under investigation it was described by table and percentage. By using, both qualitative and quantitative approaches used to assess a method of collecting data for the purpose of answering research questions concerning the current status of the subjects under study.

3.2. Target population

The target population of this study constitutes the employees of Dashen Bank Wolkite branch who had job relationship with the loan transaction of the bank.

3.3. Sampling technique and sample size

The researcher used the non-probability sampling method and from the non-probability sampling we have used judgmental sampling methods. This is because of it is important to select the right person who have a strong relation with the issue involved. So, the researchers were focused on those employees working in the area of direct job relationship with the loan transaction of the bank and some other management positions. This sample more focused on the employees of loan officer, loan Clark, credit analysis employees, managerial of the credit and in Dashen Bank Wolkite branch general manager was be selected and the unstructured interview is also designed to collect the relevant information from the one bank manager for fulfillment of my study.

3.4. Source of Data

Both primary and secondary data was be collected and systematically presented and analyzed. The statically tool was be used to make visible and easily understand different descriptive statistics

Primary source of data

The primary source of the data was be collected by using structured questionnaire and structured Interview. The structured questionnaires were used to get unbiased opinion of respondents. Both the open ended and close ended questionnaires were used. The open-ended question helps the respondent to express their opinion in unlimited way and close ended questionnaires provide actualize question to the respondents. Interview also used in order to get detail information regarding the situation. The main advantage of primary data is the first hand of the information and the data collections were reliable and qualified.

Secondary source of data

Secondary data collection is data collected by someone else for some other purpose (but being utilized by the investigator for another purpose). In the secondary data collection the researcher uses different documents, books, manual and different materials which relate with loan and advance and internet to investigate the problem and to recommend what should to be done in the future.

3.5. Data Collection Method

In order to get sufficient and relevant information for the study, the researcher was use primary data which are questionnaires. The questionnaires are directly collected from employees. Interview was be conducted from the bank manager to get detail information. Secondary data was be obtain from the written materials like review of related literature and books, magazines concerning to loan advancement in the bank.

3.6 Data Analysis Method

After the relevant data is, descriptive method of data analysis would be used in order to analysis the collected data by using frequency, percentage and tables. The data was be collected through questionnaires were analyze and interprets by using qualitative techniques such as percentage and tabulation.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 primary data analysis and discussion

Under this chapter data presentation and analysis are obtained from the Banks employees. And collected data has been analyzed and interpreted from the answer, comment and suggestion of the respondents pertaining to the loan advancing procedure and practices in Dashen bank wolkite branch.

In distributing the questionnaires, the researcher used census survey technique of 19(100%) of the noticeable employees in Dashen bank of wolkite branch. At the first part respondent's character sex, age and educational background was identified. The next to the background of employees, the current positions and working experience in the bank employees and next to the main questionnaires was related to the loan advancing procedure and practices was analyzed in the fourth type. Finally, the comment and feedback are analyzed in the fifth type.

In general, this chapter deals with the presentation and interpretation of data collected from primary source from respondent to distribution of questionnaires and interview conducted with bank employees and branch manager and secondary sources from internet and pamphlet that has been distributed by Banks.

4.2 Personal backgrounds of the respondent

Table 4. 1: Background of the respondents

No	Item	Category	Respondents	
			Frequency	Percentage
1.	Sex	Male	12	63.15
		Female	7	36.85

		Total	19	100
	Age	Below 25	1	5.26
		25-30	9	47.37
		30-40	8	42.2
		Above 40	1	5.26
		Total	19	100
	Work experience	0-3 year	1	5.26
		3-5 year	13	68.42
		Above 5 year	5	26.32
		Total	19	100
	Have an experience of old guardian in the loan procedure and practice in bank	Yes	4	21.05
		No	15	78.95
		Total	19	100

Source: - Questionnaire survey (2023)

As the tables 4.1 shown above 63.15% of the respondents were male and 36.85% of the respondents were female. Regarding to the age group 5.26% is below 25, 47.37%

are 25-30, 42.2% are 31-40 and the rest 5.26% are above 40 years. When we see the educational back ground of the respondents 5.26% of the respondents are Diploma, 89.47%of respondents are1st degree, and 5.26% of the respondents are masters. Regarding to the employees working experience out of 19 or 100%, 5.26% or 1 of the respondent are between 0-3 years, 68.42% or 13 of the respondents are between 3-5 years, and remaining 26.32% or 5 of the respondents are above 5 years. Concerning to the experience of old guardian in the loan procedures and practice in the bank, 21.05% of the respondents are said “Yes” and 78.95% of the respondents are said

"No". Hence as a conclusion most of the respondents are male within the age between 25-30 years and almost all the respondents are degree holder. And almost half of the respondents are working with Dashen Bank between 3-5 years despite 5.26% as of the respondents are working in between 0-3 years and for the question of experience of old guardian in the loan procedures and practice in the bank to this respondents are almost all respondents are says no.

4.3. Respondents' response toward the lending procedures of Dashen Bank

Table 4. 2: Loan procedure and practice the Bank

No	Item	Category	respondent	
			Frequency	Percentage
2.	What is the service given by your bank ?	Domestic banking (loans and deposits)	2	10.53
		International banking (import export, letter of credit and florin services)	2	10.53
		Money transfer	2	10.53
		All	13	68.41
		Total	19	100
	What loan advancing procedure and practices employed by the bank	Simple agreement	1	8.3
		Collateral	10	83.4
		Guarantee	1	8.3
		Against cash	-	-
		Construction agreement	-	-
		Total	12	100

	What types of loan the bank provides to borrower	Long term	-	-
		Short term	1	8.4
		Both of them	11	91.6
		Total	12	100

Source: - Questionnaire survey (2023)

As the above table 4.2, for the question about the services given by the banks are 16.6% of the respondent said the banks are provided Domestic services and the rest 83.4% are said the banks are provided all service those are listed in the questions. For the questions of loan advancing procedures & practices working by the banks are 8.3% of the respondents are answers the banks are working with simple agreement, 83.4% of the total respondents are says or answers the banks are required collateral, and the rest 8.3% of the respondent are said the banks are required guarantees to provide loan. About the types of loans provided to the borrowers by the bank? 8.3% of the respondents say or answers the banks are provided the short term loan types and the rest 91.6% says the banks are provided both the long and short term loan type.

Hence from the above summery most of the respondents are agreed up on all services, that the banks are provided like Domestic service international banking service and money transfer banking services. And the banks are working on loan advancing procedures and practices. Regarding to the types of loans, the banks are currently delivered all types of loans to the borrowers.

Table 4. 3: The bank effectiveness of loan procedure

No	Item	Alternative	Respondent	
			Frequency	Percentage
3.	Does the bank effective from the loan provided by	Yes	19	100
		No	-	-

	procedures and practice?	Total	19	100
	If your answer is “No” for the above question by what case	Due to customer default	4	33.33
		Due to the bank’s loan practice	8	66.67
		Total	12	100
	If your answer for the above question is “B” what are the main challenge of the bank in the loan advancing procedure and practice	Under estimation of the collateral before the bank provide the loan	-	-
		Luck of provision of the customers about the loan	1	8.3
		Both	11	91.7
		Total	12	100
	How loan is disbursed to the customers	By applying individual of customer	2	16.6
		By applying cooperative of customer	1	8.4
		By applying both of the above	9	75
		Total	12	100

Source: - Questionnaire survey (2023)

As the table shown us for the question of the profitability of the bank by the loan most of the respondents 66.6% are agreed NO and the rest 33.4% of the respondents agreed Yes

Regarding to the next question which focus on how the bank not profitable by what? Most of 66.6% of the respondents are agreed on due to bank loan practice. But the rest 33.4 % of the respondents are agreed not by the bank it's due to customers default. Regarding to the question on the main challenges of the Bank in loan advancing procedure and practice. 8.3% of the respondents are answering by luck of provision of customer's awareness no loan the rest 91.7% of the respondents are answered in both reasons by luck of provision of awareness of loan practice to the customer and under estimation of collateral before the bank provided amount of loan to the borrowers. Regarding to the criteria required providing loan the customers? 16.6% of the respondents are answered by applying individual customer, 8.4% are answered by applying cooperative of customers. And the rest of the respondents are agreed on both.

Therefore, from the above summery we can generalized that the bank is not much profitable and effective by providing loans to the borrowers this is as a result of a problem of bank loan practice that emanates from the bank underestimation of collateral and the amount of loan provided. In addition to this the provision of awareness to the borrowers about loan practice is not enough. Regarding to the discernment of loan to the customers the bank is disbursed the loan by both Appling by individual and cooperative

Table 4. 4: Problem that faces the customer during the lending procedures

No	Item	Alternative	Respondents	
			Frequency	Percentage
4.	Do you think that there is a problem that faces the customer during the lending procedures?	Yes	8	66.6
		No	4	33.33
		Total	12	100
	Could you think that your bank loan advancing procedure and practice is better than others	Yes	2	16.7
		No	10	83.3
		Total	12	100

	What are features of the bank's loan advancing procedure and practice in relation to other banks?	Borrowers can get loan within short time	2	16.6
		Borrowers can get loan in long time	5	41.7
		Borrowers can get both loan access	5	41.7
		Total	12	100

Source: - Questionnaire survey (2009)

As the above table shown, the question about Does the borrowers faces a problem during loan? 66.7% of the respondents say “Yes” and the rest 33.3 % of the respondents says “NO”. When we go to the next question which focus on does your bank loan advancing procedure and practice is better than others? 16.7% of the respondents say “Yes” but Most of the respondents 83.3% are Sailed “No”. And the last question for this part which focuses on the exceptional features the bank provides on loan advancing procedures and practice in relation to other banks? 16.6% of the respondent's replies that our bank has providing long term loan access as the borrower's demand. 41.7% of the respondents answered our bank has provides long term loan access as the customers demand and the rest 41.7% respondents replies our bank has provides both services which better than others.

There for from the above summery the researcher interprets that, most of the bank customers are faces a problem during lending. And the loan advancing procedure and practice of this bank is not better than others. Regarding to unique features of the bank's loan advancing procedures and practice in relation to other banks our bank is providing both long- and short-time loan to the borrowers based on the customers demand than other banks.

Table 4.5: Respondent's comments and feedback.

No	Position	Alternative	Respondent	
			Frequency	Percentage
5.	Does the bank collect feedback from its borrowers	Yes	10	83.3
		No	2	16.7
		Total	12	100
	If there is a feedback and comment what brings on your policy and procedure?	V. good	2	16.7
		Good	7	58.3
		Medium	1	8.3
		Poor	-	-
		No change	2	16.7
		Total	12	100
	Do you believe in the loan service?	Yes	10	83.3
		No	2	16.7
		Total	12	100

Source: - Questionnaire survey (2009)

As the researcher tries to entitle overhead this part Respondents comment and feedback was be analyzed bellow, the first question under this, does the bank collect feedback and comments about its services from its borrowers 83.3% of the respondents answered "Yes" we are collecting the respondent's feedback or comments. And the rest 16.7% answered "No" we are not collecting comments and feedback from the customers.

And the next question if there are collected feedback and comments what are the main comment over your policy and procedure? 16.7% of the respondents replied it is V. good, 58.3% of the respondents replied well. 8.3% of the respondents answered medium and the rest, 16.7% of the respondents answered no change. 83.3% replied “Yes” it is very important to source of revenue for the bank. And the rest 16.7% of the respondents says “No”.

There fore from the above summery the researcher interprets the as follows, the bank collects customers comment and feedback for further actions. And these comments and feedback are good to the bank as well as the loan service is an important source of revenue to the bank.

4.4. Open ended question summary

To summarize the first question which emphases on the major problem of loan advancing, procedure and practice? about 83.3% or most of the respondents are describes as a problem first there is mismatch between collateral and requested amount of loan by the borrower’s, luck of bringing sufficient document by the borrowers, and luck of understanding the bank policy and procedure by the borrower.

When we go to the next question which tells us about the credit follow up procedure of the bank almost all 83.3% of the respondent answered the credit follow up was preformed depend up on the agreement between the borrower and the bank either by a month or by annual. The last question to this part, which expresses about the customer satisfaction is Almost 66.6% of the respondent replied we can identify or get customers satisfaction during they return and finished their loan. If the borrowers use the money properly up on the agreed business.

Settlement of loan mechanism of collecting disbursed loan and evaluation system

First, we are always alarming and reminding the borrowers by letters as well as we call to the individuals by phone before due date and then we give try attached banners on board newsletter.

Before that we orient the bank customers in different mechanism on Loan term is a period in which the customer repaid the principal loan and interest. It may be installment or a lump sum on or before the due date. Most of the time loan term is short term, medium term and long term. the main ground or base for deciding loan term is depend on amount of loan provided purpose of the loan, customer relationship with the bank previous payment record.

Before disbursing of loan, the bank takes different criteria on collateral, which the customer gives as guarantee, before giving of a loan a bank has Its own engineer or professionals as a result professionals or engineers has evaluate collateral. Even if most of the times underestimation and mismatch of the collateral and the requested amount of loan are happened.

The collateral which be taken as guarantee can cover the loss which arises when the customer is default, that means it the customer doesn’t pay the loan, the security of the customer and be sold to compensate the bank loss. So, these and different criteria is fulfilled by banker professionals before granting of loans.

The banks have different mechanizing to collect the disbursed loans. This mechanism /system/ is used for bank to get a loan that is in the hand of a customer in earlier before the due date; from those banks can be advantages. If a loan is collected earlier before expiration of date, for this purpose bank take different mechanism.

- By extending installment base repayment: - those mechanism is very essential for bank and also for customer of the bank because installment base is fixing of some amount of money in a constant period of time. These leads to cover the loan amount in a given amount of period.
- By making an arrangement for percentage rendition from given income. The percentage reduction of income from the employee or of their income. Those can faster and reduce the loan and it’s a good mechanism of to collect disbursement loans.
- The customer status different reasons for late repayments of loan. These are unexpected reduction of production loss and different reconfirm their late repayment of loan. Additionally, the bank also provides different incentive for customer to early repayment.

Generally, the level to give the customer for timely repayment of the principal and interest charges of loan is good. (Support your analysis by indicating source)

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusions

Generally, this chapter gives in a conclusion in the relationship with the loan advancing procedure and practice of Dashen Bank Wolkite Branch to this and credit related issue are discussed and relevant data are analyzed. The researcher concludes that loan is beneficiary both to the bank as well as the borrowers, the bank have to give a special focus on it.

Standing from the above chapter the researcher trying to conclude the following points

- concerning to the respondents personal back ground most of them are female within the age between 26-30 and they are worked with the organization more than five year and regarding to the educational level, most of the employees are degrees holder and concerning to their current position almost all respondent are form different position. However more employees have not an experience of old guardian in the loan procedures and practice in the bank.
- Rendering to the services given by the bank, Dashen Bank wolkite branch have been given all bank services, and the banks are working on loan advancing procedures and practices. Regarding to the types of loans, the banks are currently delivered both long and short-term loan.
- Concerning to the bank profitability, the bank is not much profitable and effective by providing loans. This is as a result of a problem of bank loan practice that emanates from the bank underestimation of collateral and the amount of loan provided. In addition to this the provision of awareness to the borrowers about loan practice is not enough. Regarding to the discernment of loan to the customers the bank is disbursed the loan by both Appling by individual and cooperative.
- About the bank challenges or problems and comparatives with others, Dashen bank Wolkite branch employees answered that most of the bank customers having problems during lending. And the loan advancing procedure and practice of this bank is not better than others.
- Concerning to the comment and feedback of the customers the Dashen bank wolkite branch collects customer comments and feedback for further actions. And these comments and

feedback are good to the bank as well as the loan service is an important source of revenue to the Dashen bank.

Regarding to the finding the main challenges of loan advancing procedures and practices are under estimation or mismatch between collateral and requested amount of loan and lack of the customer awareness about the bank policy and procedures.

- ✓ Regarding the bank's loan provision method, the banks uses both individual and cooperative basis.
- ✓ Regarding with the lending procedures that the bank's loan advancing procedures, the bank highly depends on collateral bases.

5.2. Recommendations

Based on the finding of the available questionnaire and interview data the following recommendation are forwarded with hopefully believe that it was be helpful for the Dashen bank wolkite branch improvement. Performance in loan advancing procedure and practice on the basis of the assessment of Dashen bank of Ethiopia in wolkite branch should take the following measures to improve its credit activity and to maintain its customer appreciation.

- ❖ Dashen bank wolkite should facilitate training and advertisement to the community about loan rules and procedures.
- ❖ Dashen bank wolkite branch should estimate collateral with current value or market value to provide loans.
- ❖ The bank should have to facilitated and should have settled relaxed method and simple lending procedures to the borrowers so far, the borrower needed and asked
- ❖ The bank should provide different and training to the customer as well as to the staff to build their common understanding to get benefit.
- ❖ The bank should always update the loan procedures based on the prevailing changes and conditions
- ❖ The bank should provide different methods for attract customers to deliver better loan.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Respondent!!

The questionnaire is prepared for employees of Dashen Bank, wolkite Branch to conduct a study on loan advancing procedures & practices of Dashen Bank, wolkite Branch. The study is conducted in partial fulfillment of the requirements for BA Degree in Accounting & Finance in wolkite Branch.

So, your response will be only used for this research purpose and will keep confidential. Respondents should not write their name on the questionnaire paper.

Therefore, you are kindly requested to give information by putting (□) mark and filling relevant information as well.

Thank you in advance for your time!

Part I: General background information of the respondents

1. Sex: a. male □ b. female □
2. Age: A. 25-30 □ B. 30-40 □
3. Education: A Diploma □ B. 1st degree □
   C. master □ D. others □

4. Working experience in the banking industry

A. Between 0-3 year □

B. Between 3-5 years □

C. Above 5 years □

5. Do you have an experience of old guardian in the loan procedures & practices in the bank?

A. Yes □ B. No □

Part II Loan Service

6. What are the services given by your bank?

A. Domestic banking (loans and deposits) □

B. International banking (import export, letter of credit and forex services) □

C. Money transfer □

D Others ………………………………………..

7. What type of loan the bank provides to borrowers?

A. Long term loan □

B. Short term loan □

C. Both of them □

8. What loan advancing procedures & practices employed by the bank?

A. Simple agreement □

B. Collateral □

C. Guarantee □

D. Against cash □

E. Construction agreement □

9. Is the bank effective and profitable from the loan provided by procedure and practice? Do you think that the bank's current loan advancing problem & practice is effective & profitable?

A. Yes □ B. No □

10. If your answer for the above question is no why?

A. Due to customer default □

B. Due to bank's negligence □

C. Due to economic condition □

F. Others ……………………………………………………………………………….

11. Are you satisfied with the existing loan advancing procedure and practice?

A. Yes ☐ B. No ☐

12. How is in the loan approved to disperse to their customer your bank?

A. As per the application of individual customer☐

B. Based on the request of cooperative customer

C. By applying both of the above

13. Do you think that there is a problem that faces the customer during the lending procedures?

A. Yes ☐ B. No ☐

14. Could you think that your bank loan advancing procedure and practice is better than others?

A. Yes ☐ B. No ☐

15. If your answer of the above question is Yes what are unique features of the bank's loan advancing procedures and practice in relation to other banks?

A. Borrowers can get loan with in short time ☐

B. Borrowers can get loan in longtime ☐

C. Both of them ☐

Part III Feedback, Comments and Actions

16. Does the bank collect feedback and comments about its services from its borrowers?

A. Yes ☐ B. No ☐

17. If your answer for the above question is Yes what is borrower's feedback and comment over your policy and procedure?

A. Very good

B. Good

C. Medium

D. poor

E. No comment and feed back

18. Did you get loan service from other bank before?

A. Yes □ B. No □

19. How long did you take to permit the loan your request?

A. Below 5 days □

B. 5 – 10 days□

C. 15 – 30 days□

D. Above 30 days □

20. Do you believe that the loan service that is given to the customer is an important source of revenue for the bank

A. Yes □ B. No □

Part IV Follow Up

21. What are credit follow up procedures of the bank?

____

____

22. How do you measure customers/borrowers' satisfaction?

____

____

23. How do you measure customer or borrower satisfaction?

◆ Interview questions to bank manager.

24. What are the mechanisms that the bank that apply to collecting?