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ABSTRACT

Recently banks witnessed rising effects of credit portfolios and these significantly contributed to financial distress in the banking sector. Banks collects deposit and lends to customers but when customers fail to meet their obligations, problem arise and it affects the profitability of the bank. This study evaluates the effect of credit administration on profitability of banks in Nigeria. Financial ratios as measures of bank profitability and performance were the data collected from secondary sources mainly the journals, text books and internet documents. Descriptive and chi-square were used in the analysis. The findings revealed that credit risk management has significant impact on the profitability of Nigeria banks. Therefore, management need to be cautious in setting up a credit policy that might not negatively affect profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Credit administration is standards and practices followed in extending servicing, and collecting loans, Factors such as loan purpose, size, type, and complexity, the borrower's financial condition, earnings history, intrepidity, and ability; and the impact of macro economic conditions on the institution's territory influence credit administration.

Furthermore, as discussed in the loan portfolio management section of this module, the institutions lending policies should include adequate credit administration standards. Credit administration can have a significant impact on the quality of the loan portfolio. Effective credit administration can mitigate certain credit risks, while deficient credit administration can increase credit risk and often a fore runner of deterioration in the loan portfolio. As such, credit administration standard should ensure all loans are administered in a safe and sound manner and on compliance with FCA regulations. This section provided guidance in evaluating these standards, as well as the actual practices followed in the administration of credit.

Credit administration can go a long way to determine the profitability of banks because credit has become a vital function of banking operations because of its direct effect on economic growth and business development. The business of banks is that of taking deposits, lending out money or given of credit and other related services. Banks and their lending activities have been usefully integrated into government policy formulation in the national economic development process.

In the light of the above, as far as banks are concerned, their role as lender is as important as that of taking deposits, considering the interrelationship between them. Banks give out more than 80% of money within the economy as loan. It is through these activities of banks that profit are realized through the interest earned on these credits extend to worthy customers.

Finally, credit administration is most effectively examined using a system analysis approach that determines how the process is supposed to be done, how it is actually being done, and what the weaknesses are in the process.

1.2 STATEMENT OF THE PROBLEM

The problem for this study is to appraise the effect of credit administration on profitability of banks in

Nigeria, and particularly, Wema Bank of Nigeria plc. With a view of finding the causes, consequences of profit in banks year after year, banks gain much from the part or full loan extended which as for one reason or the other yielded profits to the banks.

However, banks looses millions of naira as a result of poor credit administration and management each year. Despite efforts which have been made by banks management, they still perform poorly; they are not making profit as projected and as well not meeting the demand and supply of their customers.

1.3 RESEARCH QUESTION AND HYPOTHESIS

In view of the consequences on the effect of credit administration on profitability of banks in Nigeria, especially Wema banks of Nigeria Plc. It is necessary to formulate some research question and hypothesis which will enable the researcher formulate statistical tables for testing hypothesis.

However, there are two ways in which researcher work can be carried out using the hypothesis testing; namely:

Null hypothesis and alternatives hypothesis.

Null hypothesis will be used to formulate our research hypothesis, since the actual research work has not been fully conducted. Below are the stated null hypotheses;

Ho: Consolidation exercises in the Nigeria banking industry do not have any effect on the credit facilities of banks.

Ho: Banks do not have the required capital base that is unimpaired by losses.

Ho: Credit facilities of banks do not have any significance on the economy

1.4 PURPOSE OF THE STUDY

The main reason behind this research work is to find out how effective or ineffective banks in Nigeria are able to manage their credit administration. And also the importance of credit administration on profitability in Wema Bank of Nigeria Plc.

To determine and appraise the lending procedure of banks using Wema Bank of Nigeria plc as case study with a view to highlighting the effect of credit administration on profitability of banks.

1.5 SCOPE OF THE STUDY

The research work will focus more on Nigeria banks and most especially Wema bank of Nigeria Plc on how effective it has been able to manage her credit administration.

1.6 LIMITATION OF THE STUDY

The major limitation encountered in this study is the lack of sufficient time to carry out the research work, which will hinder getting adequate information.

Another constraint is money, lot of money will be expanded on the research to get current and vital in formations and the researcher is handicapped in this area.

Banks, especially Wema bank, are reluctant to divulge information on their credit activities because of the policy of secrecy and for security reasons. However, this research work is capable of adding to knowledge.

1.7 SIGNIFICANCE OF THE STUDY

It is hardly an exaggeration that the difference between the success and the failure in the banking industry is in the effective credit administration. Efficient credit administration is vital to the protection of banks profitability and returns of investment. Though much work abound in the literature of techniques of lending, methods of securing such lending and pitfalls that await the unwary banker. By comparison it appears to be very little in point on the subject of credit management and administration.

A study of this subject will therefore be a welcome addition to the existing volume of banking literatures. Effective credit administration will recognized that beyond the application of sound banking principles whenever a credit is made there is need for urgency in appreciating the point when a credit begins to look doubtfully in arriving at a decision as to the appropriate action and on taking that action. This will enable the bank i.e (Wema Bank of Nigeria Plc) to at least obtain full payment including accrued interest or at worst to mitigate the capital loss in the face of increased competition among banks, future profits are likely to be harder to come by, since credit administration are a charge against profits, it is appropriate that we reviewed the methods, proportions and margins of lending to customers.

Hence the significance of this study to bankers will enable them to appreciate an appraisal of their lending and control mechanism now that they are expected to lend under tight monetary conditions.

1.8 DEFINITION OF TERMS

CREDIT: Can be defined as a transaction between two parties in which the creditor or lender supplies money, goods and services or securities in return for promised future payments by the debtor or borrower.

CREDIT ADMINSITRATION; Can be define as central and vital to banking business because banks are intermediate of funds and therefore pay special attention or credit administration because credit administration can greatly influence the success and failure of any financial institution.

LOAN: A loan is a credit arrangement; a security is pledged and must be repaid with interest over a stipulated period of time

COLLATERAL: Assets the customers may offer as security to obtain credit in case of bad debt

PROFIT: Can be defined as the return received on a business undertaking after all operating expenses have been met.

INTEREST: Charges made on loan or to the use of money

LIQUIDITY: State of being able to convert asset to raw cash

CREDIT POLICY: This is laid down rules and regulation guiding the lending activities.

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