

## ABSTRACT

The researcher has purely, analyzed the appraisal of debts recovery in merchant bank in Onitsha metropolis.

The researcher intends to know whether the debt recovery in merchant banks over the years had led to distress in banks, or poor management whether debt recovery board has failed to appoint the committee to look after the distress banks.

The researcher does not want to analyze the impact created but wants qualitatively examine of the impute which the procedure has created. This will then enable the researcher to either recommend the recovery system or suggest a more suitable system for the merchant banks operations.

Apparently in the analysis of data using the percentage, the researcher found out that every technology and regulatory changes no doubt affected the cost structure of the banks.

Also considering the importance of agriculture in our country, Nigeria government should reduce the interest rates to present farmers, agricultural investors to increase their productivity.

Lastly, the debt recovery boards have been expressed on the wisdom of merging some distressed banks in Anambra State. Such opinions suggest that resulting large banks would be more efficient in providing banking services of lower cost to the society while still making profit to their owners.

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## CHAPTER ONE

### INTRODUCTION

The origin of merchant banking can be traced to the part played by mechanist in early times in financing international trade. In London, the so-called merchant bank is seldom merchant and by no means always bankers. The title or designation merchant bank often used as a generic description of firms or institutions that operated in the financial sector whether they perform pure banking services or merchandising service or not. Although these activities were originally and still are predominantly, intimately, connected with foreign trade and with the international movement of goods, the pattern of business is constantly changing. Thus in recent times this type of bank has changed considerably both in form and structure and have acquired other functions. The result is that it has become even more difficult to arrive at a dear definition of the term "Merchant Banks".

Over the past decade, debt recovery in merchant banks in Onitsha appears to be inconsistent, as a matter of trial and error, counter productive and against a background of unpredictable individual and corporate behaviours, have defiled any known theories.

The above situation appears very worrisome to bankers, watchers and implementers in the economy against a bank grand of rising inflation, and unemployment. It could prevent a company from getting funds from the merchant banks for operations. It could make the public form a bad opinion of their customers, persisted deficit, in banks of payment, declining growth rate and general down turn into the economic activities.

The cardinal objective of banks in lending is to ensure repayment of sums advanced. Default therefore denotes a fundamental breach in the transaction underling the contractual relationship between a creditors and a borrower, when the borrower fails or is unable to meet repayment obligations on either the sum, interest element or both. Failure to pay may be the result of understandable inability or outright refusal (recalcitrance) by the borrower.

Debt recovery efforts on strategy by a bank in the event of default are therefore natural sequential consequences of default. The effectiveness of which would depend on whether the situation of default occasioned can be regarded ad reasonably foreseeable and therefore avoidable or simply unavoidable default.

It is generally agreed that the most crucial consideration in lending are the twin elements of trust and confidence, trust in the viability and profitability of a credit proposition and confidence in the borrower infact it can be taken that the will established "cannons of lending" are merely factor employed to ascertain the existence or otherwise of these two important elements. The decision of a bank on the quantum of loan, the

scope, type and value of security to be taken, are all determined by the level of trust and confidence.

Default then implies a faulty assessment of the basis of trust and confidence on the borrower or the intervention of an event outside the control of the borrower.

An appraisal of debt recovery procedures in merchant banks in Onitsha metropolis is no different from the above trend of events. It will be very proper against this view, to venture into its study and probably appraise its performance in recent times.

It is hoped that this write up will be useful to bankers, economic watchers and implementers in banks recovery efforts and that of the interim management board appointed to redeem the distress banks.

### STATEMENT OF PROBLEM

Debt recovery in merchant banks play a very important roles in bringing about changes both in commercial and merchant banks aspects in Nigeria, and some states, seeing what debt recovery procedures did to these countries, now Nigeria government fights to chase but the debt had keep fit to the economy by planning the committee to look at these distressed banks.

It has been established that most of the repayment were from debts declared bad and doubtful by the banks former boards and management, officials of Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC) working in the distressed banks claimed that some of the debtors explained that the banks did not show serious commitment in recovering the debts, and that was why debtors were not keen in repaying.

However, according to business times of Ivory Merchant Bank (IMB's) are already planning to make a case to the monetary authorities for persecution of the debtors many of debtors according to officials of another commercial bank owned by state government told business times that a large portion of the banks estimated N700 million bad debts was incurrent through loans backed by director and top executives of the banks.

Failure to pay outstanding financial obligations by otherwise financially "hearty" borrowers. This could be the result of fall in expectations, frustration of goals by unforeseen circumstances, faulty investment decisions or strategies, unexpected adverse policies.

Failure to pay by a borrower that is not in business or is otherwise insolvent.

### PURPOSE / OBJECTIVES OF THE STUDY

The first purpose of this study is to find out is the procedures being used by the banks in question are beneficial to them.

Whether these procedures are obtainable in all of them within the state. To analyze and ascertain how much these procedures has helped the banks in actual recovery of their money from their debtors.

To find out whether to save the firms from collapse with recovery of debts it will save the companing from further collapse.

To find out how the borrowers have so far enjoyed the issue of lending with these recovery procedures in question.

To find out whether this procedure are being used efficiently in these banks.

### SIGNIFICANCE OF THE STUDY

Cross-default clauses are regarded as merely a prelude to a general default, the first early warning events of

default, which is usually couched as follows: -

“If the borrower defaults on any indebtedness or any other indebtedness accelerated or become capable of being accelerated”.

It is believed that default by the borrower on a separate loan or of its obligations to one creditor is likely to be followed by default on all its obligations to all its creditors. This is usually also made to cover guarantors or operating subsidiary. Thus, default by a guarantor under some unrelated transactions may be regarded as an event of default even though the borrower may no be in any financial difficulty. How ever, cross-default clauses would not usually apply to all liabilities for the very practical reason that a borrower on whom such provisions is imposed, might constantly be in default.

**INSOLVENCY:** - This is another leading anticipatory event of default (insolvency generally, or such other objective circumstances which are reasonably deemed to constitute it i.e. inability to pay debts as they fall due under sections 408 and 409 of the (Companies and Allied Matters Decree).

#### STATEMENT OF HYPOTHESIS

- Ho: The objective of debt recovery in Onitsha Metropolis has not been achieved.  
HI: The objective of debt recovery in Onitsha Metropolis has been achieved.  
Ho: The debt recovery has no impact in economy in Onitsha Metropolis.  
HI: The debt recovery has an impact in economy in Onitsha Metropolis.  
Ho: Debt recovery has not increased revenue generation of merchant's banks in Onitsha Metropolis.  
HI: Debt recovery has increased revenue generation of merchant's banks in Onitsha Metropolis.

#### SCOPE OF THE STUDY

The merchant's banks are all over the federation but this work is centered within Onitsha metropolis. This work goes on to explain the standard, means, duration of acquiring loan and the failure by the borrower which led to communication of debt.

This study will limit its scope to the ways and means of recovering these debts to give life to distress banks and liquidated bank in Onitsha metropolis and others who may like to use and implement this work.

#### DEFINITION OF TERMS

This is the operational meaning of some works in these study.

**Community Bank:** A bank whose business is restricted to a specified geographical area of Nigeria. it is a business establishment that offers a variety of financial services.

**Bank Policy:** Plan of action, statement of aims and ideas made by a bank.

**Property** e.g. stocks or bonds pledged as security for repayment of loan.

**Small-Scale Industries:** They are those industries with capital employment of not more than N700, 000.00 which are owned, managed and controlled by one or few persons are family influence in decision making, have relatively small share of market and employ not more than fifty people.

## DEBT RECOVERY IN MERCHANT BANKS IN ONISHA METROPOLIS

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