**ARBA MINCH UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

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**ASSESSMENT OF LOAN AND ADVANCE PROCESSING SYSTEM (A CASE STUDY ON DASHEN BANK IN ARBA MINCH)**

**RESEARCH PROPOSAL SUBMITTED TO THE PARTIAL FULFILMENT OF THE REQUIREMENT FOR AWARD OF BA DEGREE IN ACCOUNTING AND FINANCE**

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**DECLARATION**

**CERTIFICATE**

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**ABSTRACT**

This research was conducted on the assessment of loan and advance processing system in Dashen Bank in Arba Minch branch. The objective of the study would be assessing the loan and advance management system of Dashen Bank in Arba Minch .

The study population had been largely confine on employees who are worked in loan performance and the credit customers. The method of data collection was through interview and questionnaire from employees and credit customers and secondary data collected from quarterly and annual report of the bank. The researchers used descriptive data analysis method. The data analysis would be carried out based on tabulation and percentage method and interpreted accordingly.

Major findings of the study is conclude that when the customers should asked the loan from the bank they should bring renewed trade license and requirements in the bank. Finally, conclusion and recommendation on alternative sources usage are forwarded to combat the possible solution.

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**Chapter one**

**1. Introduction**

**1 .1. Background of the study**

Loan is any financial asset of bank arising from a direct or indirect advance or commitments to advance funds by bank to person that are conditioners on obligation of the person to repay the funds either on specific date or date on demand usually with interest(national banks of Ethiopia 2008) .

In finance a loan is the lending of money from one individual ,organization or entity to another organization or entity .A loan is a debt provided by an entity to another entity at an interest rate and evidenced by a promissory note which specifies among other things, the principal amount of money borrowed, the interest rate the lender is changing and date of repayment. Loan are negotiated directly between the lender and borrowers. (Signoriello,Vincent. J.1991 ) .

Loan is the things that is lent ,especially a sum of money, the action of lending something or the state of being lent for each lender a loan is an investment comparable to bonds stock or other assets on the other hand for each borrowers loan is a debt and obligation to repay the borrowed money plus interest (Thompson dictionary of banking) .

In Ethiopia, there various financial institutions such as banks that give financial service like money transfer ,deposit and lending to their customer. Dashed banks has its own loan and advance processing practice that is used to advance loan . Loan and advance signify funds would developed to borrower at specified rates of interest for specified period of time in consideration of dashen banks the select on of the topic help with them . Dashed bank follow different statement of philosophy ,standard and guide line a that it's employees must observe in granting or refusing a loan request as a bank lending policy (owino 2012 ) .

This study would be undertaken because of its good contribution to Wards the country economy .Bank would help to the society by lending money for those who would stop their work because of shortage of money ,for those who would went to invest, additionally the would be do because of the society peer knowledge about the loan and advance with that of its advantage

The activity of loan and advance is activated by between financial institution and operating companies by this process the company get money or fund and the institution also get interest from their able fund. Generally loan and advance is the backbone of the capital for any companies.

**1.2 Statement of the problem**

Banking industry from its nature is a bit wide and modern which has various functions with in its structure. Therefore, the profitability of banks is affected among other thing in their loan and advances system.

Lending activities require banks to make judgment related to the credit worthiness of a borrower may decline to various factors . Consequently, banks face credit risks that the borrower may fail or unable to meet the terms of the underling loan agreement .At this time the bank faced difficulty in collecting the credit, the bank would loss the expected income collection from the solvent customers on time. And the bank May face difficult to control receivables .

Dashen Bank is the strong private commercial Bank playing on important role in the country, economy and social life. Among other various services provided by the Bank lending would be the primary activity for a decade Dashen Bank had a better share in the financial market. Out of this risk non-performing loans take the major part as the borrowers of the Bank would become large and large overtime.

Although the Bank has work for the better position of nonperforming loans, it is still needs great attention because of two reasons. The first one is, loan is the major source of profit for banking and the other one is banking in one country economy is used as a channel for the conversation for saving in to capital investment.

This paper would assess the process of loan and advance system of Dashen bank. (Gary’s.(1991) *.*

Previously, Nuru and Aleme (2012) have conducted study on the issue of loan and advance procedure and practice in commercial bank of Ethiopia Hawassa branch .

Here, the researchers conducted the research on loan and advance processing on Dashen Bank to examine the loan eligibility criteria and also to identify factor that affect loan processing and collection.

**1 .3 ,Research Question** The study would try to answer the following research questions.

1. What are the loan and advance evaluation process dashen bank follows ?

2. What are the types of loan and advance dashen gives ?

3. What are the problem faced by the bank and borrowers with loan and advance ?

4. To what extent loan and advance evaluation management system contribute to the non performing loan (NPL) .

**1.4 .Objective of the study 1.4 .1 General objective**

The general objective of the study is to assess the loan and advance management system of Dashen Bank specifically in Arba Minch branch.

**1.4.2 Specific objective**

The specific objectives of the research were:

1, To see the loan and advance evaluation system of Arba Minch in Dashen branch's .

2, To identify the type of loan and advance system of Arba Minch Dashen Bank

3, To examine the problem faced by the Bank and borrowers in loan and advance.

4, To see the loan and advance management system contributes to non performing loan (NPL)

**1.5 Significance of the study**

This study will provide reliable data for further studies .

1 .It give possible solutions as to how credit office should process potential healthy loan and undertake proper follow up measure when problem occurred .

2. It will encourage the person who undertake this study to conduct this and other studies by getting knowledge from the study .

3. It will use as a secondary data for other studies on the same issue ( used as an additional reference for their finding ) .

4 .It reflect most of the difficulties observed in the loan and advance processing in Arab Minch dashen banks .

**1.6 Limitation of the study**

In the study the paper is delimited conducted to credit department of Arba Minch university. The other problems that may hinder the smooth running of the work are the topic chosen is a bit complicate and broad in nature and have shortage of reference materials. It is impossible to find as much book as need to refer. There are only few manuals which are not confidential. In addition, the willingness of the concerned organizational representatives to give adequate information would be another limitation of the work. Moreover, since the time given would limit the case study is also limited to certain area

**1.7 Scopes of the study**

Loan and advance as one of the activities of the Bank is carried out at any banks. However, the study was delimited to discussing the process of loan and advance system in Dashen Bank is a huge company having many branches in all parts of the country. To make the research complete, it is good to have the necessary information from all branches. But due to some constraints the study is restricted to only Arba Minch Bank which is located in south nation nationality of people .

**1.8 Organization of the study**

This paper contains five major chapters .

The first chapter deals with background of the study, statement of the problem, research question , objective of the study , significance of the study, limitation of the study, scopes of the study and organization of the study.

The second chapter deals with Literature review, Theoretical review and Empirical review .

The third chapter deals with methodology of the study that includes research design, population and sample size, sampling methods ,source of data, data collection method and data collection technique .

The fourth chapter deals with data presentation and interpretation.

The fifth chapter deals with recommendation and conclusion

**Chapter two**

**2 Literature review**

This chapter deals with review of related literatures; which contains theoretical review and empirical review.

**2.1 .Theoretical Review**

**2.1.2. Introduction**

Banking and other financial service and available in Ethiopia which the national Bank of Ethiopia (NBE) serves as the central bank. Commercial banking functions are performed by one state owned commercial Bank and by a number of newly emerging private commercial Bank and after savings and checking accounts, extend short term loans, deal with foreign exchange transactions, provide mail and cable money transfer services, participate in equity investment, provide guarantee services and perform all other commercial banking activities (Addis Ababa Business directory 2001).

**2.1.3 Origin and growth of banking**

The origin of commercial banking can be traceable in the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purpose on interest was prevalent. (K.C. Shechar, 1997 p-3).

There are two specialized banks. The development Bank of Ethiopia (DBE)and construction and business Bank (CABB) DBE intend short, medium and long term loans for viable development project including industrial and agricultural projects. It also provides other banking, Services such as checking and saving accounts to its clients.

The CABB provides long term loan for construction, acquisition or maintain of dwellings, community facility and real estate development (Addis Ababa Business directory 2001).

**2.1.4 .Meaning and function of banks**

**2.1.4.1 Meaning of Bank**

A Bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them and helps in the remittance of money from one place to another. In fact, a modern Bank performs such as variety of functions that it is different to give precise general definition of it.

In general, the term Bank in the modern time refers to all institution having the following features.

* It deals with money, it accepts and advances loans
* It also deals with credit; it has the ability to create credit, i.e. the ability to expand its liabilities as a multiple of its reserve.
* It is a commercial institution that creates demand deposits, which serve as a medium of exchange and as result the Bank manage the payment system of the country (Holders Milne’s 1994 p-4).

**2.1.4.2. Function of Dashen Bank**

* **Saving accounts**

Allows customer to save and grow by gaining very competitive interest rate on their money

* **Current account :**Allows customers to access their money and demand with attractive interest rate.
* **Fixed time deposit**

Is a special type of account where by customers deposit a certain amount of money for a specific period of time and it attracts higher interest rate than the prevailing saving interest rate. The interest rates applied vary depending on the amount and duration of the deposit.

* **Hybrid account**

A type of saving account operated through cheque

* **Saving plus account**

Saving account which makes depositor eligible for consumer loan.

* **Student account**

A saving account meant for students of higher education allowing them to obtain loan for education.

* **Modified youth savings account**

Is a youth saving account which generate bonus for customers

Interest plus bonus account

Is a privilege for high value and stable deposits where by customers with yearly minimum deposit balance of birr 500,000 will enjoy additional bonus.

* **Current account protection scheme**

Is an account linked with saving account of customers so that cheques would not be bounced wherever the current account balance is not found adequate.

**2.1.5. Loans and advance**

A number of problem will face by borrowers also are in regard to deposits, remittance and collections. Basically the problems peculiar for borrowers arise due to difficulties in attitudinal adjustment of Bank staff to the new client and new environments and inadequate job knowledge coupled with inexperience.

It will obviously take some time to overcome these problems in their entirety. (K.e. Shekhar, 1997 p-84)

1. **Meaning of credit**

The word “credit” is derived from the Latin word creditor which means to believe of trust. In economics, the term credit refers to a promise by one party to pay another form one your good, on demand at some future date . R.P. lent defines credit as the right to receive payments or the obligations to make payment. The obligation to make payment on demand at some future time on account of the immediate transfer of goods (Mr. Jhinpan, p-165)

1. **Source of credit**

The major source of profit for banking business is interest able funds is deposit collected from customers in the form of saving deposit, current deposit and fixed deposit (Dashen Bank training manual June, 2009).

1. **Loan**

Loan is the thing that is lent, especially a sum of money, the action of lending something or the state of being lent “for each leader a loan is an investment comparable to bonds, stock or other assets. On the other hand for each borrowers a loan is a debt and obligation to repay the borrowed money plus interest”. (Thomson’s dictionary of banking).

1. Advances

Advances are credit facilities in the form of written promises that should not necessarily be given none physical money as in loans.

**2.1.6. Type of loans and advance**

The generally major categories of Bank loans are: commercial and industrial loans, real estate loans, loans to individual (mainly personal loans and installment loans for consumer goods), loans to units of state and local governments, security loans, loans to financial institutions, agricultural loans, lease financing receivable, and loans to foreign banks and officials institutions. This classification is based on the use of the funds, not on the type of collateral, (Compbell dolang, 1984 p-152).

**2.1.7.Dashen banks credit manual**

Dashen bank’s credit manual classified as follows:

Short term, medium term, and long term

* Short term (have duration not exceeding one year)
* Medium term (have a duration not exceeding five years)
* Long term (have a duration exceeding five years)

2.1.7.1 Overdraft facilities

It is facility where by customer is allowed to utilize a found up to certain limit set by the Bank for a limited or unlimited time (commercial code of Ethiopia 1960).

**2.1.7.2 Overdraw facility**

It is an over daft facility which is allowed for 15 days. An over drawl is a facility where by customers are allowed to withdraw temperately founds to bridge temporary shortage of funds.

The facility is granted to customers to maintain current accounts with the particular banks a have a feed liquidity position with acceptable swings and turnover of the accounts beside, the customer should present genuine and acceptable transit export bills, pending payments, agreement etc. (Dashen Bank credit manual, 2008).

**2.1.7.3 Advance on import bills**

Advance on import bills are a written promise that the Bank gives to foreign banks on behalf of its clients. This is designed to accommodate the non-withdraw of import documents by the importer and a letter of credit /L/C/ is used as an instruments.

**2.1.7.4 Advances against export bills**

Advances against export bills are made available to customer against presentation of complete set of export documents. Such requests for percentage advance must be presented to lending branch.

**2.1.7.5 Letter of guarantee**

Letter of guarantee is written promise by banks starting that the Bank will pay certain amount of money in case the client fails to perform is case the client fails to perform as promised. Letters of guarantee falls in to five main categories. Local guarantees, short term guarantees, long term guarantees. Bid bonds and performance bonds.

2.1.7.6 Merchandise loan

This is the type of facility by which customer are provided with credits against pledge of goods, commodities and agricultural products are acceptable. The duration to this loan most of the time is three months, while valuing the merchandise pledged banks verifies the existence and value of stored goods (Dashen Bank credit manual) .

**2.1.8 Loan categories by type of sectors**

According to the (Dashen Bank credit manual),Agricultural production: these are loans guaranteed from crop harvesting, purchase of agricultural inputs likes selected seeds, fertilizers, agrochemicals, rental or purchase of agricultural equipment and machinery and marketing of agricultural products, combined harvester, structures construction of storage facilities etc.

Consumer loan: these loans are only guaranteed to salaried people for the purchase of household goods equipment, etc.

Automobile loan: loans that are guaranteed for acquiring automobiles for personal use, etc.

**2.1.9 Loans eligibility criteria**

It is a criteria the Bank established customers to fulfill to apply for a loan and advance in order to qualify for a loan.

1. The applicant should submit the basic documentary requirements which should include: application letter valid business license article and memorandum of association audited financial statements for all share companies power of attorney perform invoice sales agreements contract lands holding certificates and vehicles ownership booklet.
2. The purpose of the request should be clearly stated.
3. Evidence should be submitted that would show the profitability of the business which is sufficient to provide the owner with adequate returns while meeting loan obligations within reasonable period of time.
4. In the investment of projects, financial and economic rates of return should be set and tested against national parameters for their accept ability.
5. The business should have at least one year of operational experiences unless treated exceptionally, sufficient collateral acceptable to Bank is offered (Tilahun Hailu, 2005).

**2.1.10 Loan evaluation**

Personal and business loans are initiated with an application and an interview with loan officers, who sometimes give a more congenial title, such as “relationship”. The loans officers’ responsibility is to acquire information about the customer, the purpose of the loan and the likelihood of its repayment.

**2.1.11 Steps to be follow on loan processing**

Loan processing which needs exertion of maximum effort in order to avoid faulty loans has to follow the following steps according to the training manual prepared for credit staffs.

**2.1.11.1Credit analysis**

Credit analysis is the evaluation of borrower’s capacity of properly servicing the loan proper credit analysis the core part of quality loan in a Bank in doing this.

There are factors considered in credit analyze is those factors are well known by 6c this are:, are capital , capacity ,condition, collateral, consultancy and consequence.

* Capital: the level of capital will have to be evaluated to insure that the risk is shouldered by the party with ownership interest.
* Capacity: capacity of the borrower can be seen in three forms. One, it represent the debt repayment of the borrower. The second form of the capacity of the borrower is the indebtedness of borrower. The third form of the capacity is the borrower legal capacity it might be explained as age.
* Condition: the environment surrounding theme affects borrowers for instance climate disasters is one factor that affects the agricultural sector.
* Collateral: is the securitized to backup the loan in the event of possible default. It can be anything of value which is readily sealable.

In addition, based on the financial statements presented analysis regarding the following is made. Profitability of the business capital structure and the debt servicing capacity sales are asset turnover sustainability and growth. (Tilahun Hailu, October 2005).

Consultancy: consulting the applicant on the outcome of evaluation that is made based on the information, data and documents submitted.

Consequence :providing loan over the total capital of the firm or business entitles providing loan with out sufficient back up adequate safety of collateral or security providing loan with out sound credit principles and appraisals, providing loan to unfamiliar borrowers and with out adequate information about the borrowers, providing loan with the quality and dependability of the personal guarantee providing loan /large sum/ with out audited fiscal system of borrowers firm company providing additional loans with out the expertise of engineering appraisals and with out consideration of depreciation and current fair value

of the property of the borrowers providing with nonexistence merchandise.

**2.1.11.2 Approval**

This is the loan processing stage where decision is made on the loans requested based on outcomes of the evaluation and analysis conducted.

**2.1.11.3 Disbursement of loans**

After having ascertained completion of formalities required to be meet prior to disbursement the branch will disburse the loan. Receipt of written instruction of the borrower to effect the disbursement important, and conditions set at a time of approval regarding the made of disbursement have to be strictly observed.

**2.1.12 Risks faced in lending**

It is post disbursement activity that enforces the recovery of the loan advanced. When the fund is disbursed the end user should be controlled to avoid diversion from the intended purpose. As the magnitude of loan disbursed in the banking sector becomes greater and greater hand the risk associated with uncollectable becomes higher and higher above signal digit ration of nonperforming loan to total loans is symptom of poor credit analysis and follow up in order to minimize the risk associated with credit (national Bank of Ethiopia memorandum ref.No SD/290/04, dated October 26, 2004).

**2.1.13 factors that affect loan processing and collection**

Corporate planning and development department of Dashen Bank on its October 2005 issue classified the causes in two broad groups

1. Internal factors: are lack of continuous follow up of repayment due to man power shortage lack of consultation and communication with defaulter over stating the collateral value at the time of estimation lack of credit information to be gathered from other commercial banks and agency problem.
2. External factors: are diversion of the borrowed found to other purpose unavailability of demand and price fluctuation on both local and international market country economic and political condition impacts of change in fiscal and monetary policy insufficient credit awareness unwilling customers to disclosed the information

Literatures reviewed so far emphasized the importance of loan and advance management system.

As those different scholars stressed, focused and point out how banks loans and advance are a vital role and essential to the existence bank, hence constantly and persistently revising checking and enhancing the loans and advance management system of the bank. Unquestionable and advisable in line with the socio-economic and technological development of the nation.

Generally after having resources for deposits banks lend money to customers (purpose is satisfying customer’s investment, financial deficit, problem, storage or for other need).

**2.2 Empirical Review**

Nuru and Aleme (2012) studied on the loan and advance procedure and practices employed by banks and their role on loan repayment performance in commercial bank of Ethiopia ,Hawassa branch they concluded that the success of loan repayment for a particular Bank significantly depends on the bank ability to set and follow sound and applicable policies and regulation in granting loans .

Assefa,et al , (2005)studied that training about the rule and regulation of the loan is one of the important requirements for the success of lending institutions and they also develop it is needed not only for client but also for loan officers .Thus, the study tries to find the contribution of training to the repayment rate .

According to Owino (2012) credit granting procedure and control system are necessary for the assessment of loan application ,which then guarantees a bank's total loan as per the bank's overall integrity. It is necessary to establish a proper credit risk environment ,sound credit granting processes, appropriate credit administration, measurement, monitoring and control over credit risk, policy and strategies that clearly summarize the scope and allocation of bank credit facilities as well as the approach in which a credit portfolio is managed.

Mulualem,et talk, (2013) the size of the lending institutions this is very vital in determining the size of the loan to lend .Further, it also restricts the potential market for borrowers such that if a financial institution is small and therefore its geographical coverage is small, its lending decision will differ from multinational financial decisions. Its loaning decisions will also depend on the business potential on the area of its coverage. .The small financial institutions should therefore consider their local community and immediate environment when drawing up the lending decisions .

**CHAPTER THREE**

**3. Methodology**

As most other researchers do, the study under consideration attempts to apply the research design and data collection methods which are suitable for the successful accomplishment of the research .This study see various loan processing and advance training manual Jan, 20009.

**3.1. Research design**

The research design would plan in such a way that would provide for proper performance of the research. It helps for analyzing the data that would be collect by using various methods of collecting data. Based on the data which are relevant for the study, the research design use for the study is descriptive method, because descriptive type of research design would be employed this study. The ground for selecting descriptive research design is that, it is clear that would be simply described the available data which already exist. The other research for selecting this study design is that we would describe in the characteristics of particular events, which it ensures the maximization of the reliability of data and minimization of bias. It tries to answer the questions such as how many, how and what is happening.

**3.2 Population and sample size**

The populations of the study deals about employees and customers of the company. Because of the difficult to get all necessary information from the whole population the study would conduct by taking sample of credit customer and employees.

Employees: from the total of 23 employees in Arba Minch Dashen Bank 5 employees who are representative of the total population are selected.

Customers: from total of 30 credit customers 10 of them are selected.

**3.3 Sampling method**

The sampling method that would be select in survey of the data is purposive sampling. Purposive sampling is one type of non random sampling that conforms to certain criteria. In other words it is occur when the researcher select sample members or respondents to conform some criteria.

**3.4 Data sources**

The research was get full information collect necessary data which enables to achieve the objective of the research. The primary data would be collected through questionnaires, unstructured interviews that directed to concerning bodies. In addition, secondary data would be collected from different sources, books, and internet.

**3.5 Data collection methods**

Both primary and secondary data would be to undertake the study. In small scale study the most commonly used methods are interview and questionnaires(Kothari,2007).

**3. 5 .1 interview.**

The interview part would be make through prepare questions which would be conduct with credit analyst, some credit customers and managers,

**3. 5. 2 Questionnaires**

The questioners at most effort try to translate research objectives in to specific questions the respondent can answer and try to motivate the respondent to operate with survey and to provide information correctly.

**3.5.3 Secondary data**

Secondary data would be collect from internal reports such as credit manual, quarterly and manual report of the bank, some other related books and internet.

**3.6 Method of data analysis and presentation**

The primary data obtain through questionnaires were analyzing simple descriptive statics that is, percentages and are present in a tabular form. Secondary data would be analysis through appropriate explanation.

**CHAPTER FOUR**

**Data Analysis and Presentation**

**4.1.Overviews**

This chapter deals with the interpretation of data. The data analysis tried to answer the assessment of loan and advance processing system of Dashen Bank. To do the analysis, the researcher had distributed questionnaires to credit customer and staff employees of Dashen Bank and conducted interviews with the Bank manager.

Demographic characteristics of staff employees and credit customer

**Table 4.1. Profiles of customers**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sex | Age | | | | | | | | Educational level | | | | | | | | | | | | | |
|  | 18-24 | | 24-30 | | >30 | | Total | | Ilite  rate | | 1-12 | | Certific  ate | | Diplo  ma | | De  gree | | >De  gree | | Total | |
|  | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % | N  o | % |
| Male | 2 | 2  0 | 3 | 3  0 | 2 | 2  0 | 7 | 7  0 | 1 | 1  0 | 1 | 1  0 | - | - | 2 | 2  0 | 1 | 1  0 | 1 | 1  0 | 6 | 6  0 |
| Female | 1 | 1  0 | 2 | 2  0 | - | - | 3 | 3  0 | - | - | - | - | 1 | 1  0 | 2 | 2  0 | 1 | 1  0 | - | -1  0 | 4 | 4  0 |
| Total | 3 | 3  0 | 5 | 5  0 | 2 | 2  0 | 10 | 10  0 | 1 | 1  0 | 1 | 1  0 | 1 | 1  0 | 4 | 4  0 | 2 | 2  0 | 1 |  | 10 | 10  0 |

*(Source: Data collected through questionnaires)*

From the above table the respondents response indicates that 3 (30%) of the respondents age is ‘’between’’ 18-24, from these 2(20%) are male and 1(10%) of the respondents are females and also 5(50%) of the respondents are between the age of 24-30. The others are above 30 that means 2(20%) of the respondents are above 30. When we conclude this, most of the respondents are males that means from the total respondents 7(70%) of the respondents are males and 3(30%) of the respondents are females.

In addition to this information the respondents (customers) education levels are appropriately presented. From the above table, 1 (10%) of the respondents are male illiterate and complete grade 12 ,while 1 (10%) of the respondents are female take certificate.4 (40%) of the respondents are diploma from those 2 (20%) are male and 2 (20%) are females,2 (20%) of the respondents are degree from those 1 (10%) are male and 1 (10%) are female,1 (10%) of the respondents are above degree holder. The researcher conclude that most of the respondents are diploma holders.

**Table.4.2. Profile of Employees**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sex | Education level | | | | | Work experience | | | | | | | | | |
| Degree | |  | >Degree | | 1-3 year | | 3-5 year | | 5-10  year | | >10 | | Total | |
| No |  | % | No | % | No | % | No | % | No | % | No | % | No | % |
| Male | 2 | 40 | 2 | 40 | - | - | - | - | 1 | 20 | 2 | 40 | 3 | 60 |
| Female | 1 | 20 |  | - | - | - | - | 1 | 20 | 1 | 20 | 2 | - | 2 | 40 |
| Total | 3 | 60 |  | 2 | 40 | - | - | 1 | 20 | 2 | 40 | 40 | 40 | 5 | 100 |

*(Source: Data collected through questionnaires)*

From the above table, the respondents answers indicates that 2 (40%) of the respondents have male and 1 (20%) are female and also 2(40%) of the respondents have above degree.

From the above table, the respondents answers indicates that 1(20%) of the respondents have 3\_5 years of work experience and 2 (40%) of the respondents have above 10 years work experience, but there is no respondent that has work experience less than three years (1-3 years ).

**4.2 .Data Analysis of Credit Customers Response**

Table.4.3. the evaluation of service of Dashen Bank on getting loan

|  |  |  |
| --- | --- | --- |
| Types of response | No- respondents | Percentage(%) |
| Excellent | 1 | 10 |
| Very good | 2 | 20 |
| Good | 4 | 40 |
| Fair | 3 | 30 |
| Need improment | - | - |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

From the above, table the respondents answer indicates that, most of the respondents, 4(40%) of the respondent said the evaluation of service on getting loan from Dashen Bank is good and 2(20%) of the respondents said that the evaluation service on getting loan is very good and only 1 (10%) of the respondents said the evaluation service on getting loan is excellent. And also 3(30%) of the respondents said that the evaluation of service on getting loan is fair. This information indicates that there is no need of improvement in the evaluation of service of Dashen Bank on getting loan.

Table.4.4. Evaluation of loan& advance processing system of Dashen Bank compared to other similar commercial bank.

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage(%) |
| Very good | 3 | 30 |
| Good | 5 | 50 |
| Fair | 2 | 20 |
| Poor | - | - |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

From the above table, the respondents answer indicates that the evaluation of the loan and advance processing system compared to other similar commercial banks is mostly positive response that means 3(30%)said very good, 5(50%) said good and2(20%) said fair. so the evaluation of loan& advance processing system of Dashen Bank compared to other similar Bank is excellent .

Table.4.5 .Getting advisory services from the bank

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage(%) |
| Yes | 6 | 60 |
| No | 4 | 40 |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

In the above table the respondents answer indicate that 6 (60%) of the respondents said yes and 4(40) of them are said no on getting advisory service from the bank.

From the above table the research conclude that most of the customers of the Dashen banks have received advisory service from the bank, but some customer did not get advisory service from the bank. In this case, there are some limitations in the Dashen Bank in the process of giving advisory service to its customers.

Table 4.6. Time taken to approve& to disburse approved loan

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage |
| From 1-7 | 6 | 60 |
| From 7-15 | 3 | 30 |
| From 15-30 | 1 | 10 |
| >30 | - | - |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

As per the above table, the respondents (customers) response indicates that 6(60%) said that time taken to approve & disburse the approved loan is 1-7 days, 3(30%) said that time taken to approve & to disburse approved loan is 7-15 days &1 (10%) of them said time taken 15-30 days. From this researchers understand that the time taken to approve & disburse approved loan mostly takes 1-7 days time, but in some cases the approved loan taken time up to 15-30 days. Therefore, the time taken to approve& disburse approved loan needs improvements. Generally, the researcher conclude that the appropriate time taken was 1-7 day the others came by both parties that means by customers and staff employees. Customers did not present in the real time when the loan staff employees assessed and employees' performance was not sufficient to given the appropriate time.

Table.4.7 .observation of the problem on speed, courtesy and cooperativeness of front line the offices of the loan section of Dashen Bank.

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage(%) |
| Yes | 2 | 20 |
| No | 8 | 80 |
| Total | 10 | 100 |

(Source: Data collected through questionnaires)

From the above table 2 (20%)) of the respondents said yes and 8 (80%) of them said no. From this information the researcher conclude that almost all of the respondents response indicated there is no the problem of speed, cooperativeness of front line officers of the loan section, but in same extent sometimes showed this problem. To eliminate this problem the loan section of the Dashen Bank hold high responsibility.

Table 4.8 Employee listens to the customers compliant.

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage(%) |
| Yes | 7 | 70 |
| No | 3 | 30 |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

From the above table the respondents of 7(70%) said yes & the rests 3(30%) said No. From this the researcher conclude that even though, some employee did not listen to the customers compliant most of the employees listen to the customers compliant. Therefore, to improve the loan & advance processing system of Dashen Bank all the employees have to listen to the customers compliant.

Table 4.9 .Types of service received from Dashen bank.

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondents | Percentage(%) |
| Saving current | 4 | 40 |
| Time deposit account | 1 | 10 |
| Saving&time deposit | 2 | 20 |
| Saving &current account | 2 | 20 |
| Current account | 1 | 10 |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

As the respondent disclosed that the 4(40%) customers got saving account, 1(10%) current account, 2 (20%) saving& time deposit account and 2 (10%) saving and current account and 1(10) time deposit account .

As clearly stated most of the customers of Dashen Bank got saving account and few customers got current account& time deposit account as well.

Table.4.10. Interest paid on the loan compared to other banks

|  |  |  |
| --- | --- | --- |
| Types of response | No-of respondents | Percentage(%) |
| High | 2 | 20 |
| Normal | 8 | 80 |
| Low | - | - |
| Total | 10 | 100 |

*(Source: Data collected through questionnaires)*

From the above table the respondents answers indicated that 2 (20%) of the respondent said high, 8 (80%) of them said normal and there is no low. Generally, the researcher conclude that interests paid on the loan compared to other Bank as nearly as similar because most of the respondents answered normal means the same as others. Even though it has some limitations because some respondents answered high, so the employees or staff officers must be related to other similar banks.

**4.3. Analysis of employee respondents response**

Table 4.11 .department of the Bank approved credit facility request by perspective *borrowers.*

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondent | Percentage(%) |
| Branch credit committee | - | - |
| Executive management  Credit committee | - | - |
| Manager credit committee | 2 | 40 |
| Board committee | 3 | 60 |
| Total | 5 | 100 |

*(Source: Data collected through questionnaires)*

As table 4.11.clearly stated 2 (40%) of the respondents said that, department of the Bank approved credit facility request by perspective borrowers are manager credit committee and 3 (60%) of the respondents said that the Bank approved credit facility request by perspective borrowers board committee.

Table 4.12. Is there a willingness of the customer to disclose every information the Bank need for loan and advance processing?

|  |  |  |
| --- | --- | --- |
| Types of response | No- of respondent | Percentage |
| Yes | 5 | 100 |
| No | - | - |
| Total | 5 | 100 |

*(Source: Data collected through questionnaires)*

As table 4.12 the respondents said that 5 (100%) said yes so that there is no information barrier between the customer and the staff employees of Dashen Bank because all customers disclose information necessary to the Bank to made different decision making.

**Table 4.13 What are the services given by your bank?**

|  |  |  |
| --- | --- | --- |
| *Service given* | *No- of respondent* | *Percentage(%)* |
| *Domestic banking* | *-* | *-* |
| *International banking* | *-* | *-* |
| *Money transfer* | *-* | *-* |
| *Total* | *5* | *100* |

(Source :data collected from questionnaire )

For the question asked to know what loan services are providing by the bank, all of the respondents answered by choosing all types of loan services (domestic banking, international banking and money transfer ) .

From the above question what types loan it is ?

All the respondents confirm that all the loan and advance offered by the bank are based long term and short term basis.

The bank offers all all types of loan services on short term and long term basis .

4.4.Analysis of open- ended questionnaire collected from staffs of Dashen Bank and interview questions .

4.4.1 Requirements expected from loan applicant

The respondents say that there are different requirement expected from the applicant to get loans. Like:-renewed trade license, TIN certificate, collateral and application letter.

4.4.2 Evaluation of worthiness of customers

The respondents say that bank evaluate the worthiness of customer by visiting his business, collecting information from central Bank of Ethiopia, & interview the Bank related to his customer’s credit payment capacity.

4.4.3 Internal and External factor of non performing loan

As the respondents said that the rate of non performing loan is high in Business diversification and agricultures for retail business and whole sales.

As the respondents said that, the major external factors that aggregate the concurrence of non-performing loan are inflation, unfair competition, natural disasters and governmental policy.

As respondents said that the major internal factors that aggravate or intensify the occurrence to non-performing loan are vehicle damage, business diversification, negligence and lack of good management.

4.4.4 Problem and recommended solutions of loan customer repayment

As the respondents said that the problem of the customers to repay the loan was market problem, inefficient use of the borrowers, unexpected occurrence that affect the business of borrowers shortages of capital and lack of awareness.

As the respondents said that, to solve this problem the bank create awareness and design and follow the best strategy to collect the amount of loan from the borrowers. And the bank clearly identifying the borrower ability to pay their loan before giving the loan to the borrowers.

**4.4.5 Guarantee /collateral did you receive in order to gives loan**

The respondents said that the guarantee/collateral was vehicle, building Bank and share, but band are share did no reality show in our country. In other way the vehicle it used to collateral not more than 10 years after manufacturing.

**CHAPTER FIVE**

**5.Conclusion and Recommendation**

* 1. **CONCLUSION**

Generally , this chapter give a conclusion in relationship with the assessment of loan and advance processing system of dashen bank Arba Minch branch .To this end credit issues are discussed and relevant data are analyzed .The researcher conclude that loan is beneficial to both lender as well as to the borrowers. The evaluation services of dashen bank on getting loan is very good .Because the respondents conclude by their response . Evaluation of loan and advance professing system compare to other commercial banks is very good.

Most of Dashen bank customers got advisory service from the bank; while Dashen bank staff member employees listen the customer's compliant to increase relationship and to minimize contradiction. Customers of Dashen bank got all of service existed in other bank that means saving deposit, current deposit and fixed deposit.

When I see the interest paid on the loan compare to the other bank is similar to the other commercial banks .The department of which bank approved credit facility request by perspective borrowers are manager credit committee and board committee. This indicates that up to 1million approved by credit committee and 1 million and above are approved by board committee. The bank offer all types of loan on long term and short term basis .Majority of employees have between 3-5 years work experience.

**5.2 .Recommendation**

Based on the findings of the available data and personal observation, the following recommendations are forwarded with the belief that is will be helpful for the betterment of the Bank performance in the process loan and advance processing system.

√ On the basis of the assessment, Dashen Bank S.C Arba Minch branch should take the following measures to improve its credit activity and to maintain its customer from switching other banks.

The bank work hard to increase number of customers because the large the customers the higher the profit .

The Bank should give advisory service to its customers .

The Bank should approve& disburse the approved loan in appropriate time that means the time taken is only 1-7 days.

When the customers should asked the loan from the Bank they should bring renewed trade license and all requirements in the bank .

The bank should work to maintain its good comment from the customers since customer is the greatest asset of any business and financial institutions.

The bank should give loan for potential debtors and recollect the loans through other means first rather than applying to court .

The bank should always collect the loans from the customers.

The Bank should decide on lending of money to customers as much as possible with a maximum of seven (7) days after receiving and necessary documents.

Generally Dashen Bank in Arba Minch branch improve its facilities& loan system to attract the other similar commercial Bank in its location.

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***QUESTIONNAIRES TO BE FIELD BY DASHEN BANK LOAN CUSTOMERS***

I am graduating student in Arba Minch University at the Department of Accounting & Finance. As a partial fulfillment for BA degree in accounting and finance, the researcher conducting a research entitled "To A**ssessment of loan and advance processing system in dashen bank**”. The researcher confidently promise that the data collected will be for research purpose and kept confidently.  
**Remark:** please respond to the questions frankly and honestly, your feedback is very important. Use ( √ ) to answer closed ended questions & use the space provided to answer open ended questions.

**Part 1; Personal information**

1. Sex : male 🞏 female 🞏

2 .Age : 18-24 🞏 24-30 🞏 above 30🞏

3 . Educational background; Illiterate🞏 Certificate 🞏 1-12 🞏

Diploma 🞏 degree 🞏 above degree 🞏

**Part 2 ; Main Questions**

1. How do you evaluate the service of Dashen Bank on getting loan?

Very good 🞏 good 🞏 fair 🞏 need improvement 🞏

1. How do you evaluate the loan and advance processing system compared to other similar commercial banks?

Very good 🞏 good 🞏 fair 🞏 poor 🞏

1. Have you got advisory services from the bank?

Yes 🞏 No🞏

8. How long does it take to approve and to disburse the approved loan?

From 1-7 days 🞏 from 15-21days 🞏

From 7-15 days 🞏 above 30days 🞏

1. Do you observe the problem on speed, courtesy and cooperativeness of front line offices of the loan section?

Yes 🞏 No 🞏

1. Does the employee listen to the customers compliant?

Yes 🞏 No 🞏

1. How do you rate general services quality of the bank?

Excellent 🞏 very good 🞏 good 🞏 week 🞏

7. What types of service do you receive from the bank? You can tick more than one box.

Saving account 🞏 current account 🞏 time deposit account 🞏

Saving and time deposit account 🞏 Saving and current deposit account 🞏

8. How do you see the interest you pay on the loan compared to other commercial banks?

High 🞏 Normal 🞏 Low 🞏

*Arba Minch University*

*College of Business and Economics*

*Department of Accounting and Finance*

*QUESTIONNARIES TO BE FIELD BY DASHEN BANK STAFFS OF CREDIT DEPARTMENT*

* I am graduating student in Arba Minch University at the Department of Accounting & Finance. As a partial fulfillment for BA degree in accounting and finance, the researcher conducting a research entitled "To **Assessment of loan and advance processing system in dashen bank.** The researcher confidently promise that the data collected will be for research purpose and kept confidently.  
  **Remark:** please respond to the questions frankly and honestly, your feedback is very important. Use ( √ ) to answer closed ended questions & use the space provided to answer open ended questions.

**Part 1; Personal information**

1 .Sex .male🞏 female 🞏

2 . Educational background

Diploma 🞏 degree 🞏 above degree 🞏

3 . Work Experience

1-3 years 🞏 3-5 years 🞏 5-10 years 🞏 above10 year 🞏

**Part 2; Main Questions**

1. Which department of the bank approved credit facility request by perspective borrowers? You can tick more than one box if it is needed.

Branch Credit committee 🞏 Executive management credit committee 🞏

Manager Credit committee 🞏 Board committee 🞏

2. Are the customers willing to disclose every information the bank need for loan and advance processing?

Yes 🞏 No 🞏

3. What are the services given by your bank ?

Domestic banking (loan and deposits ) 🞏 International banking (import, export, letters of credit ) 🞏 money transfer 🞏

4 . If your answer for the above question is 'Domestic banking (loan and deposits ',what type loan it is ?

Long term loan 🞏 Short term loan 🞏 Both of them🞏

5 .What is the requirement expected from the applicant to get loan from the bank and mention\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6 . How does the bank evaluate the credit worthiness of the customers ?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

7. Please indicate in which form of the business ownership the rate of non performing loan is high ? What are the reason you mostly observed ?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

8 . Mention the major external factors that intensify the occurrence of non performing\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

9.Mention the major internal factor that aggregate the occurrence of non performing loan ?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Interview question**

1. What is the problem of the customers to repay the loan ?

2 . What are the recommended solutions to resolve those problems?

3 . What guarantee/collateral did you receive in order to give loan to customers?