AN OPINION SURVEY ON LOAN DISBURSEMENT AND COLLECTION POLICIES OF MACHHAPUCHHRE BANK LTD.

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RECOMMENDATION

This is to certify that the thesis:

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for degree of

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Banking sector plays an important role in economic development of the country. The role of money in an economy is very important. Proper and well-planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affects the growth of economy. Hence, Money is a subject to manage and banks are the manager there of banks, as a manager collect, disperses and controls the flow of money. "The business of banking is one of collecting funds from the community and extending credit(making loan) to people for useful purpose."[1] Whole infrastructure of national development, direction of economy, rate of progress and even the habit of people are being the function of banking systems. Therefore, the existence of a bank is for the change in every aspect of human beings and its presence is for the upliftment of people.

Banks function of lending ensures required volume of Capital to resources mobilization. Thus, the foundation of resources mobilization is pillared on the bank function of lending. The primary issue of economic development is to increase the investment in productive sector. The increase in investment impacts positively in every sector of economy such as employment, production income, government revenue, international trade etc. The liberalization of economy has posed more responsibility and challenges on commercial banks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to

[1] Edmister, Robert O., ***Financial Institution,*** Mac Grawhill Inc., 1980, p.82.

increase the pace of development. The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry. But the liberalization is not easy game to play, it demands for expert to drive it.

Lending money has always been a basic function of commercial bank. A bank normally seeks to loan as a portion of its deposits and excess capital as it's prudentially can. Loan and advances means providing of the funds for the investors in the certain sectors taking risk in the hope of better return for the investors. Investments that take place or action done in the present and the result can be obtained in the future. So, the loan and advances are very risky assets because the result or effectiveness of it will be found at the future. Due to this, while providing loan bank should be very careful because performing loan only can move towards , the way of success and non-performing loan moves the banks towards the way of failure. In addition, the very essence of people's hope toward the banking system is dependent upon its efficiency to implement its lending and investment function. "The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kind of deposits. Then it provides this money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus, the primary functions of a commercial banker of a broker and dealer in money. By discharging this function efficiency, a commercial banker render a valuable service to the community by increasing the productive capacity of the country and there by accelerating the pace of economic development."[2]

Lending has its different forms. It can be divided into fund based and non-fund based lending. The fund based lending can be further divided into cash credit, overdraft, demand and term loans, bills purchased and discounted and export packing credit, project finance, consortium finance, loan syndication, bridge loan etc. Similarly, non-fund based credit can be classified into documentary credit, guarantees and bill co-acceptance facility.

[2] K.C., Shekhar and Lakshmy Shekhar, ***Banking Theory and Practice***, Eighteenth Revised Edition, Vikash Pub. House Pvt. Ltd., New Delhi, 2000, p.4.

The quality of loan, quality of borrower and quality of securities determines the health of any banker. The efficiency of banker lies in how it multiplies the deposits of depositors. Hence, some basic principles and practices should accompany lending. No, banker would willingly give a loan, unless he/ she has sufficient confidence necessary to seek the help of count for recovery safety of funds, liquidity of funds, purpose of loan, security for loan, profitability, spread of loan portfolio and compliance with national interests are some of the principles that banker should follow while granting a loan. Besides these the character of the person receiving credit, the capacity of the borrower to utilize the fund, the percentage of borrower's stake in the business etc. are the basic elements which measures the quality of the borrower and ultimately the quality of the loan. However, it is very important to be reminded that most of the bank failures in the world due to shrinkage in the value of the loan and advance. Hence, loan is known as risky assets. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital.

Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveler cheques business etc. Nevertheless, the important of lending in banking business is undoubtedly unchanged and remained vital as it was in early days of this business." The classical economic function of bank and other financial intermediaries all over the world have reminded virtually unchanged in modern times. What have been changed are the institutional structure, the instruments and the techniques used in performing these functions."[3]

1.1.1 Introduction to MBL

MBL was registerted in 1998 A.D as the first reginal commercial bank to start banking business from the western region of Nepal with its head office in

Pokhara. Today with a paid up capital of above 820 million rupuees, it is one of the full fledged commercial bank operating in Nepal.MBL is a pioneer in introducing the latest technology in banking in the country. It is the first bank to introduce centralized banking software named GLOBUS BANKING SOFTWARE developed by Temenos N/V, Switzerland.The bank provides modern banking to its valued customer.

The banking is the last few years have really opened up with branches spread all around the country. At this stage,it has its corporate office in Kathmandu and branch offices in other parts of TM,Damauli,Bhairahawa,Birgunj,Banepa and different parts of Pokhara in addition to the headoffice in Nayabazar,Pokhara.A full-fledged banking branch is in operation in Jomsom located high up in the mountain too.The bank aims to serve the people of both the urban and rural areas.

Mission of MBL

MBL strives to facilitate its customer needs by delivering the best services in combination with the state of the art technology and best international practices.

Objectives of MBL

The dawn of the new milliennium her her heralded widespread changes in the way of financial service are delivered and financial markets operate. In light of this fact, Machhapuhhre Bank Limited seeks to identify and exploit the financial opportunities through the products it offers to the benefit of its customer, its community and the country at large.

Capital Structure

The bank has an authorized capital of Rs.1 billion and paid up capital of Rs.715 rupees million. The capital base is sufficient for conducting (Central Bank of Nepal)

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[3] Hrishikes, Bhattacharya, ***Banking Strategy***, ***Credit Apprisal and Lending Decisions- A Risk Return Framework***, First Edition, Oxford University Press, 1998. p.XV.

Table

Capital Structure of MBL

Particulars	Capital
Authorized Capital	1000000000.00
Issued Capital	715000000.00
Paid up Capital	715000000.00

Source: MBL.

1.2 Statement of the Problem

Commercial banks perform various functions, the main one being collection of deposit and giving loans. Lending in correct sector helps in the development of bank as well as the economic growth of the nation. Therefore, commercial banks should make optimal use of the saving collected through various types of deposits. Banks are actually not the owners of the deposit collected but they are its custodians. The loan granted by banks has to be collected efficiently because the depositors at the time of deposit expects that his money will remain safe and secured at the bank and he will get timely withdrawal as needed. So, loan disbursement and collection function has to be carried out prudently by banks.

Loan disbursement and collection is the function of a bank which requires much caution because it is a problem for the commercial banks to disburse targeted loan to the right sector and collect it back as per the target. To achieve the desired objective may prove to be tough work in a competitive environment. Due to cut throat competition. Banks seem to be ready to grant loan, advances and other facilities in excess than required. Unsecured loan and investment increase the possibility of the failure of banks.

Due to competition lending opportunities are divided. This may result in over liquidity. Again, the lending opportunities received should be managed skillfully by finding out any risk factors associated. But this does not mean that lending should be done confined to the profitable areas. NRB directives should be followed by providing loan to priority and deprived sectors. This may pose a challenge to the banks to increase the productive sector lending. Again while disbursing loan it is crucial for the banks to know how to deploy the fund for ensuring intact liquidity, high profitability and low risk.

Normally, every loan is good at the time it is sanctioned. It tends to be problematic with the passage of time. So, while extending loan, a bank has to take care of its ultimate collect ability. Banks sometimes lag behind in monitoring and supervising the loan they have already disbursed. As a result, some of the loans remain delinquent and they create problem to the bank. The bank loans turn into non-performing assets if not recovered in time. Besides, a bank has to incur costs in attempting to recover the loan.

Therefore decision to be taken for the loan disbursement and collection is an important factor for the commercial banking in Nepal. Banks should always be cautions in making an optimum lending without ignoring the liquidity need of the bank. Lending in productive areas without going against the NRB directives about priority and deprived sectors and reducing non-performing assets by taking correct measures of recovery.

1. What is the satisfaction position of the clients taking loan from MBL and on its collection policies?
2. What is the opinion on different aspect of loan disbursement and collection?
3. What is the satisfaction position in loan recovery ?
4. What are the problems and challenges in loan recovery?
5. What is the loan effectiveness of MBL?

1.3 Objectives of the study

All the study has some objective and the study without any objective cannot be imagined. In our concern of the study, the basic objective of the study is to examine views of personnel of credit department regarding factors like satisfaction loan and recovery, challenges, problems and effectiveness of loan.

1. To analyze the satisfaction position of clients taking loan from MBL and on its collection policies.
2. To know the opinion on different aspect of loan disbursement and collection?
3. To analyze the satisfaction position in loan recovery?
4. To identify the problems and challenges in loan recovery?
5. To find the loan effectiveness of MBL?

1.4 Importance of the study

Lending to different sectors is important for the economic development in general and reduction of poverty and unemployment in particular. Due to this need, there are many commercial banks to cater the need of people. So, lending to people and enterprises is very crucial to the country. Disbursement and collection of loan, if done properly and rationally can help reduce unemployment and poverty of Nepal.

In the context of Nepal, there is less availability of research work on " An Opinion survey on loan disbursement and collection policies". There is lots of research work on the loan disbursement and collection policies of commercial banks but this study will be useful for the further researcher to study more on this topic and to find the opinion of Credit Personnel about the loan and its collection policies and helps to formulate appropriate and suitable policies to attract borrowers.

1.5 Limitation of study

This study will be limited by the following factors:

1. Though a commercial bank has several functions, the study concentrates only on "An opinion Survey on Loan Disbursement and Collection Policies of MBL.
2. Sample size is a constraint.
3. Though there are twenty six commercial banks are operating in Nepal,

this study considers only MBL for the study.

4 The main limitation is time constraint, financial problem, lack of research experience and lack of recent information.

1.6 Organization of the study

Since the study carried out to different stages and procedures, as it needed as well the study organized in the following chapters in order to make the study easy to understand.

Chapter one: Introduction.

Chapter two: Review of literature.

Chapter three: Research methodology.

Chapter four: Presentation and Analysis of data.

Chapter five: Summary, conclusion and recommendation.

Chapter one deals with the subject matter of the study consisting background of the study, statement of the problem, objective of the study, limitation of study and organization of the study.

Chapter two deals with review of literature. It includes a discussion on the concept and the previous studies completed in the relevant study such as Books, Journals, thesis and other related materials.

Chapter three deals with research methodology. In this chapter the research design, population and sample of the study, source of data and the major analytical tools and techniques used in this study are defined.

Chapter four deals with the analysis, interpretation of data. While presenting the data, in order to make attractive and to know easily various charts and graphs are used as of the necessary.

Lastly, chapter five deals with summery, conclusion and recommendation of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature deals with the past finding related to the topic. Such findings provide the base for the further research or study. Past studies help to provide the necessary data's and information's to the researcher within time and effort. Many researcher have conducted their research on the field commercial banks especially on their financial performance, and fund mobilization policy, compliance with NRB directives etc. Besides this there are some books, articles, dissertations and some relevant study concerned with loan disbursement and collection policies. Some of relevant studies, and other literature relating to the topic have been reviewed in this chapter. This chapter helps to take adequate feedback to broaden the information base and inputs to my study.

2.1 Conceptual Review

2.1.1 Historical Background of Banking Industry

Banking is of ancient origin though little is known about it before the middle ages. The origin of the commercial banking can be traced in the ancient era of Greeks and Mesopotamians as well as Romans, then the practices of storing precious metals and coins at safe places and loaning out money to the people in interest was prevalent. The traces of rudimentary banking are funds in the Chaldean Egyptian and Phoenician history. According to Alfred Marshall," In Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coin age, and private purposes at interest, though they paid none themselves. Private money exactly, to a common unit of value and went into accept money on deposit at interest and to lend it out at higher interest permitting meanwhile draft to be drawn on them.

Modern banking made its first appearance in medieval Italy, despite strong Christian prohibitions against usury(the charging of interest) according to the canon Law. Florence, Genoa and Luca become the centers of finance and trade in Twelfth and thirteen centuries. The first bank called the “bank of Venice” was established in Venice, Italy in 1157 A.D. to finance the monarch in his wars. Following its establishment the banks established were the bank of Barcelona; even the clergy was enaged in banking, the Germans and Swiss rose to pre-eminence in the 1480s. the bank of Amsterdam was the great bank of the 17th century and it enjoyed a prestigious position, no less important than in held currency by the bank of England, for a ling time in sphere of international commerce.

The concept of modern commercial bank came to into existence by the emergence of Bank of England in 1694 with a capital of £1.2 million by a group of wealthy London merchants and financiers. Since, at that time there was no concept of joint stock company, it was necessary to obtain a special charter from the crown to pool their money in common venture. King William Third was too pleased to grant royal charter to bank of England, because in return a capital subscribed of £1.2 million was lend to him to finance his war against france. The charter also give the new bank right to issue notes, payable on demand upto the amount of the loan to the king.

In spite of the establishment of Bank of England in 1694, the development of modern commercial banking institutions had to wait for another century and four decades until the passage of banking Act of 1833 which provided freedom for the establishment of joint stock banks Chile banking arose far early and rapidly in some countries than in other, it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South America old banking services were transferred to the new world.

2.1.2 History of the evolution of Banking in Nepal

The evolution of the organized banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of “Tejarath Addha” during the period of the premier of Ranoddip singh, the unorganized sectors i.e.Moneylenders, Goldsmiths, Landlords have their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to kathmandu valley and some urban areas of the Tarai.“Tejarath Addha”may be regarded as the father of the modern banking institutions and for a long time it rendered a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at cheaper rates.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under Nepal Bank Act 1936, having elementary function of a commercial bank. Later , in 1956, the first central bank, named as the“ Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955 with and objective of supervising, protecting and directing the functions of commercial banking activities.

Another commercial bank fully owned by the government named as the “Rastriya Banijya Bank” was established in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign bank was to enter into the economy as “Joint Venture”.

This entry of foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank limited in 1984 A.D.under the company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai).

Following this, in 2042 B.S.Nepal Indo-Suez Bank limited(name has been changed to Nepal Investment Bank Ltd.) , in 2043 B.S. Nepal Grindlays Bank Limited(name has been changed to standard Chartered Bank Nepal Ltd.),in 2049 B.S. Himalyan Bank Limited and in 2050 Nepal Bangladesh Bank Limited were established. Now there are more than a dozen commercial banks performing their operation.

This way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been succeeded in bringing change in the economy in society and in people. The large potion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly results in excessively higher interest rate then that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities. Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and qualitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered utmost.

2.1.3 Concept of commercial bank

An institution which accepts deposits, makes business loans and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, saving and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving depsoits and lending of business.

A **commercial bank** is a type of financial intermediary and a type of bank. Commercial banking is also known as **business banking**. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. After the Great Depression, the U.S. Congress required that banks engage only in banking activities, whereas investment banks were limited to capital market activities. As the two no longer have to be under separate ownership under U.S. law, some use the term "commercial bank" to refer to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. In some other jurisdictions, the strict separation of investment and commercial banking never applied. Commercial banking may also be seen as distinct from retail banking, which involves the provision of financial services direct to consumers. Many banks offer both commercial and retail banking services.

The role of commercial banks

Commercial banks engages in the following activities:

- processing of payments by way of telegraphic transfer, EFTPOS, internet banking, or other means
- issuing bank drafts and bank cheques
- accepting money on term deposit
- lending money by overdraft, installment loan, or other means
- providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures

- safekeeping of documents and other items in safe deposit boxes
- sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a “financial supermarket”
- traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities, but today large commercial banks usually have an investment bank arm that is involved in the mentioned activities.

Functions of Commercial Banks

Commercial banks are common in all industrialized countries. Because of the nature of the business and the structure of the industry have change drastically in last decades; the role and importance of commercial banks have grown rapidly. Specially, commercial banks represent the largest group of depository institution measured by the assets size. They perform functions similar to those of saving institution and credit unions. They accept deposits and make loan. There are four major functions of commercial bank. Such as receiving and handling payment for its clients, making loan and investment and creating money by extension of credit.[4]

Accepting Deposits

Accepting deposit is the oldest function of bank and the bankers used to charge commission for keeping the money in its custody when banking was developing as an institution. Now a days, a bank accepts mainly three kinds of deposits from its customers. The first is the ‘saving ’ deposits on which the bank pay interest relatively at low rate to the depositors who are usually small saver. Depositors are allowed to withdraw prescribed by bank. Likewise, another form of deposit is current account. Usually, traders and

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[4] American Institute of Banking, ***Principle of Banking Operation***.,USA.,1972.p.345.

businessman who have good credit worthiness keep their deposits in current accounts. They can withdraw any amount standing to their credit in current deposit by cheque without notice. The bank doesn't pay interest on such accounts but charges certain amount instead of providing services to known as demand deposits. Similarly, a bank accept fixed or time deposits, savers who do not need money for a stipulated period from six months to longer periods ranging up to ten years or more are encouraged to keep it in fixed deposits account. However, there is always the maximum limit of the interest rate on fixed deposit. The bank relatively pays higher interest rate in such deposit.

Advancing Loans

One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate then it pays on such deposits. This is how it earns profits and carries or its business. The bank advances loans in following ways:

Cash Credit- The bank advances loans to businesspersons against certain specified securities. The amount of the loan is credited to the amount of the loan is credited to the current account of the borrower. In case of a new customers a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirement but pays interest on the full amount.

Call loans- They are very short-term loan advanced to the bill, brokers for not more than fifteen days. They are advanced against first class bills or securities. Such loans can be recalled at a very short notice. In normal times they can also be renewed.

Overdraft- A bank often permits businesspersons to draw cheques for a sum greater than the balance lying in his current account. Bank provides the overdraft facility up to a specific amount to the businesspersons. specific amount to the businesspersons. However bank charges interest only on the overdrawn account.

Discounting Bills of Exchange- If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discounting the of the bill in the current accounts of the bill in the current accounts of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the bankers of the debtors who accepted the bill.

Credit Creation- The creation of credit or deposits is one of an important function of commercial bank. By the credit creation, commercial banks become able to grant more loan than it has own capacity. Thus,such credit creation activities fulfill the supply of money that eventually helps to promote trade and industry in the country.[5] Bankers are dealers of money who deals others peoples money. That means banks accept deposits in the different forms and advances loans on credit to customers. The bank usually synchoronizes the withdrawals and deposits from their experiences. When a bank advances loan, it does not pay the current account in cash. However, it opens a current account in his name and allow him to withdraw by cheques. Thus, the granted loan again deposited in the bank. For another customer, also it is repeated the similar process , in which advances loan on credit to customers however open current account in their name maintaining small cash in reserve and allow him to withdraw the required sum by cheques. This process is continued to other customers also. Because there are numerous transitions have taken place. Therefore, it is true that loans are children of deposits and deposits are children of loans. In this way, the bank is able to create credits or deposits by keeping small cash in reserves and lending the remaining amount of deposits. In other words loans by banks create deposits or credit is credited by banks.

Financing Foreign Trade- A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and collecting them from

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[5] Hari Prasad Shrestha, ***Introduction to Finance***, Kathmandu: Ratna Pustak Bhandar,2052.p.106-107.

foreign banks. It also transacts other foreign exchange business buying and selling of foreign currency.

Agencies Services-A bank acts as an agent of its customers in collecting and paying cheque, bills of exchange, drafts dividends etc. It also buys and sells share, securities, debentures etc. For its customers. Further, it pays subscriptions, insurance premium, rent electricity and water bills and other similar charges on behalf of its clients. It also acts as a trustee and executor

2.2 Theoretical Review

2.2.1 Review of Books

H.D Crosse has mentioned in his book "Management Policies for commercial banks", That lending is the essence of commercial banking, Consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan credit worthiness of borrower and asset pledged to security borrowing, interest rate policy etc. Crosse strictly points out that the lending policy must be well spread, it should be of short-term character, repayable on demand, portfolio and it should be with adequate securities.[6]

Klisse.S. Eugene gives his view in his book" Money and banking that in an economy that depends more and more on credit, Banks find themselves lending for a variety of purposes, sometimes directly, sometimes other agencies. This wider use of loan is not due merely to a change in attitude of

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[6] H.D. Crosse, ***Management Policies for Commercial Banks***, Second Edition Englewood cliffs, Prentice Hall Ind., N.J., 1963,p45.

the bank. It reflects also more fundamental changes such as shifts in the public's consumption patterns and in financial investment policies.

He further enlists the four C's credit as character, capacity, capital and collateral. He suggests that most obvious thing for the creditor to investigate is the borrower's past attitude towards his obligations. He calls this attribute 'character'. If the prospective borrower is considered a good risk from the standpoint of character. he still cannot be safely extended credit unless he appears able to make repayment. This clarifies the importance of the borrower's capacity. For larger loans or other extensions of credit, the applicant needs to show that he already has resources of his own. Sometimes, but not always, the debtor fails to his agreement, the creditor sells the collateral and uses the proceeds to cancel the credit.[7]

Hrishikesh Bhattacharya in his book "Banking strategy, credit appraisal and lending decisions" has put the recommendation of Tondon committee from the report submitted by this committee. The committee prepared this report in 1975. However these recommendation still hold a great significance in the sector of credit appraisal and lending. Breaking away from the traditional methods of credit appraisal, the system proposed by the committee enjoined upon the bank to assess the need based credit of the borrower on a rational basis, to ensure proper end use of bank credit by keeping a close watch on the borrower's business, to improve the financial discipline of the borrower and to develop healthy banker-borrower relationship.

The committee examined the existing system of the lending and recommended the credit needs of the borrowers to be assessed on the basis of their business plans. It further recommended that the bank credit should only be supplementary to the borrower's resources and not in replacement of them without having the bank finance one hundred percent of the borrower's required to hold inventory and receivables according to the norms prescribed by the central bank from time to time and credits are to be made available in

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[7] Klisse Eugene. ***Money and Banking***, England: South Western Publishing Co. Ltd., 1978.p.58.

different components only, depending upon the nature of various current assets.[8]

Theodore N. Beckman in his book ‘ Credit And collection ’ writes that the need to borrow is greater today than ever before, partly because of the dependence of people upon complex money and credit economy that is subject to many uncertainties and party as a result of desire for a constantly standard of living.

He has also expressed his view on loan collection. “The weaker the credit granting function is, the greater the task collection end of business.” Writes Beckman. He says that collections arise only because credit has been used. The credit granting and collection functions are not only independent but also interwoven. The more lenient the deliberate policy of risk selection, the more formidable is the collection task and the stricter the granting of credit, the less the burden on the collection function.[9]

Sarita Dahal and Bhuwan Dahal, in their book “A Hand Book to banking”, writes about the credit policy of the commercial banks. They opine that the factors like statutory directives, deposit mix, competition, and quality of lending officials affect a bank’s credit policy. Considering these factors, the credit policy should be carefully established, communicated properly to the lending officers and objectives like having good assets, contributing to the economic development giving guidance to the lending officers, and establishing a standard for control. The proper implementation of such policy is ensured by periodic follow-up. This helps take corrective actions if any drift between actual and standard is seen. The corrective action may vary as per the nature of deviation from proper education to lending officer to amendment of the policy.[10]

Kilborne and Woodworth write in their book ‘Principles of Money and Banking’ that reckless lending endangers the safely of the bank itself. That’s

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[8] Hrishikes Bhattacharya, ***Banking Strategy, Credit Appraisal and lending Decisions-A Risk Return Framework***, Delhi: Oxford University Press, ,1998,p.309.
[9] Theodore N.Beckman, ***Credit and collections***, Prentice Hall Inc., New Jersy,1962.p.78-79.
[10] Sarita Dahal and Bhuwan Dahal, ***A Handbook to Banking***, Kathamandu,1999.p.66-68.

why a bank has to take into account the profitability and liquidity as these govern a bank's investment, though in practice, it is not easy to reconcile them the secret of sound banking lies in the maintenance of adequate reserves and making profits at the same time. Hence there has to be balance in liquidity and profitability. A bank must keep adequate reserve to ensure variability of the customer's borrowing needs and the day-to day fluctuation in the amount of bank's deposits.[11]

2.2.2 Review of Articles and Journals

Dr.Suniti Shrestha in her article,'Lending operation of commercial banks of Nepal and its impact on GDP has presented with the objectives to make an analysis of contribution of commercial banks.Lending to the GDP of Nepal. She has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of commercial service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all variables except services sector lending have positive impact on GDP. Thus, In conclusion she accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sectors of economy except in various sectors of economy except service sector investment.[12]

About the loan, The author suggest that what is largely missing from the research literature related to the field of financial institutions is an analysis of the relationships between problem loans and cost efficiency. Recent empirical literature suggests at least three significant links between these two topics.

First, a number of researchers have found that failing banks tend to be very cost inefficient, that is located far from the best- practice frontiers. Cost –inefficient banks may tend to have loan performance problems for a number

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[11] Kilborne and Woodworth, ***Principles of Money and Banking***, Dydren Press 1973.p.291.
[12] Dr. Suniti Shrestha, ***Lending Operations of Commercial Banks of Nepal and its Impact on GDP***, The business voice of Nepal(The special issue of Banijya sansar),T.U. Kritipur, 2055 B.S.p23-27.

of reasons, For example, banks with poor senior management may have problems in monitoring both their cost and their loan customers, with the losses of capital generated by both these phenomena potentially leading to failure. The authors refers to this as the “bad management” hypothesis. Alternatively, loan quality problems may be caused by an event exogenous to the bank, such as unanticipated regional economic downturns. The expenses associated with the non-performing loans that results could create the appearance, If not the reality, of low cost efficiency. The authors refers to this as the “bad luck” hypothesis.

The second empirical link between problem loans and productive efficiency appears in studies that uses supervisory examination data. A relationship between problem loans and cost efficiency holds for the population of banks as a whole as well as for failing banks.

Third, some recent studies of bank efficiency have directly included measures of non-performing loans in cost or production relationships. Whether this procedure improves or hinders the estimation of cost efficiency depends upon the underlying reason for the relationship between costs and non-performing loans.

Thus, important policy and research issues rest on identifying the underlying relationship between problem loans and measured cost efficiency.

The primary cause of problem loans and bank failures determining the most important supervisory focus for promoting safety and soundness at banks deciding how to estimate the cost efficiency of financial institutions.

The authors test four hypothesis bad luck, bad management, skimping and moral hazard using Granger-causality analysis. The bad luck hypothesis posits that exogenous events can cause non-performing loans to increase and that after time passes the extra expenses associated with these loans will be reflected in lower measured cost efficiency. The bad management hypothesis posits that poorly run banks do bad jobs at both cost control an d at loan underwriting and monitoring and that after time passes this slack leads to increase in problem loans as borrowers fall behind on their loan repayments.

The skimping hypothesis posits that banks might achieve low costs by under-spending on loan underwriting and monitoring in the short run and after time passes this slack results in increase in problem loans. The authors test the moral hazard hypothesis by testing whether equity capital negatively Granger-causes non-performing loans.

The author result suggests that the inter-temporal relationship between loan quality and cost efficiency run in both directions. In creases in non performing loans tend to be followed by decreased in measured cost efficiency, suggesting that problems loans cause banks to increase spending on monitoring, working out, or selling off problem loans. The data favor the bad management hypothesis over the skimping hypothesis decreases in measured cost efficiency are generally followed by increase in non performing loans, evidence that bad management practices are manifested not only in excess expenditure, but also in subpart underwriting and monitoring practices that eventually lead to non performing loans .For a subset of banks that are consistently efficient, however increase in measured cost efficiency precede increase in non performing loans, consistent with the skimping hypothesis that banks trade short-run expenses reductions for long reductions in loan quality. Finally, decrease in bank capital ratios precede increased in non performing loans for banks with low capital ratios, evidence that thinly capitalized banks may respond to moral hazard incentives by taking increased portfolio.

The authors suggest that if these results can be confirmed by future research, their findings have research and policy implications. The intertemporal relationships revealed by Granger- causality techniques are indicative of which among the alternative hypothesis are consistent with the data. Future research might use other statically techniques to reveal the inter-temporal relationship between loan quality and productive efficiency in financial institutions; attempt to decompose the determinants of loan quality into interval versus exogenous factors; or focus on the empirical consequences of controlling for loan quality when estimate efficiency.[13]

Ramesh Lal shrestha in his article“A Study on deposit and credit of commercial banks in Nepal” concluded that the credit deposit ratio would be 51.30% other things remaining the same.In Nepal that was the lowest under the period of review. Therefore, he had strongly recommended that joint venture banks should try to give more credit entering new fields as far as possible, otherwise they might not be able to absorb even the total expenses.[14]

Madhav Lal Pradhan in his article“The importance of loan Information centre and its Activities” published in NRB Annual published in NRB annual publication says that the loan information centre was established to fulfill the necessity of a company related to loan. He further adds that the negative trends like delaying the payment of principal and interest, deficient loan approval procedure, lack of constant inspection of projects, lack of coordination between bank and finance companies have aided in the increase of non-performing loans ultimately affecting the national economy negatively. The author recommends the banks and finance companies to help the loan information centre by following the directives of Nepal Rastra Bank and utilizing the information obtained from the centre so that positive changes can be witnessed.[15]

Dr. A.S.Bhandari in his article“Etiology And Strategy of credit Repayment,” published in Nepal Rastra Bank Annual Publication states that the adoption of liberal strategy can be more meaningful in case of ‘unwillful’ and misguided defaulters who in fact wish to repay loans but due to certain circumstances they are unable to do so. Liberal strategy includes simplification of lending policies and procedures, frequent and strict supervision, renewal of the terms and conditions of loan, rescheduling of

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[13] A.N.Berger and D. Young, ***Journal of Banking and Finance***, Vol 21 1997.
[14] Ram Lal Shrestha, ***A Study on Deposits and Credit of commercial Banks in Nepal***, Rastra Bank Samachar.,pp15.
[15] Madhav Lal Shrestha, ***The Importance of Loan Information Centre and its Activities***. NRB Samachar, Annual Publication. 2004., pp.190-194.

repayment schedules, prolonging due date, refinancing, keeping personal approach, etc.This type of organizational strategy for loan repayment is suggested against sick units and default customers with on objective to provide them an opportunity of maintaining normal lender borrower relationship.

On the other hand coercive strategy is suggested to be employed agains‘willful defaulters who have the capacity to payback the loans but due to their ‘affiliation to power’. ‘association with unnatural gangs’,‘etho-centrism and similar other reasons, they do not repay the loans. Coercive strategy can be adopted by establishing special credit recovery cell, following publicity campaign providing incentives to voluntary agencies, enforcing peer pressure, putting administrative incentives etc. The author suggests that where the liberal measures do not bear fruits coercive measures must be taken as the last resort of receiving overdue loans. Moreover, the commercial banks must always ground their loan collection and disbursement strategies upon the recommendation of professional research reports prepared by internal or external experts.[16]

An Article published in Himalayan Times says that rural areas have poverty. The state and the financial institutions must think about the rural people and offer them financial loans. The rural people need small capital and they cannot borrow it from the conventional banks because they do not have many collateral. It’s a good sign now that many banks are reaching the rural areas but the delivery mechanism has to be efficient. I believe that micro credit can play a pivotal role in alleviating poverty in our country.[17]

Loan structure is an important component of the credit granting process. Loan structure establishes the monitoring relationship between the borrower and lenders, affects accounting choices made by the borrower and influences perception of the riskiness of the borrower and lender. Inappropriate loan structure, particularly those that are too restrictive, are

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[16] Dr.A.S. Bhandari, ***Etiology and Strategy of Credit Repayment***, NRB Samachar Annual Publication,1998.,pp87-91.
[17] Suraj Pradhan, ***An Article on Loans***, The Himalayan Times, Feb 26,2009.

noisy signals that could have economic consequences for the borrowers and lenders. Based on the theory of cost-benefit trade off in decision process selection, this article proposes that the level of decision process effort applied by a lender may affect loan structure restrictiveness. To test this hypothesis, professional loan officers analyzed financial and non financial information of candidate borrowers and set preferred levels of collateral and covenants while their decision processes were captured using computerized process tracing. Consistent with the theory, results showed a negative association between loan structure restrictiveness and two aspects of decision process: the time spent order in which information was examined(i.e. information search pattern). Loan structure restrictiveness was not associated with the amount of information examined, nor with lenders risk preferences or the way loan officers, analyze information. The implications of these findings for lending research and practices are discussed.[18]

Mr. Krishna D. Bhattarai has presented about the non performing Assets(NPA)Management in a seminar paper. According to him, it is equally difficult for a borrower to avail and for lender to recover a loan. From a banker's view it is just like a stone to roll down from the top of the hill while sanctioning, but too difficult to roll back the same stone to the top of the hill while recovery. A loan not recovered within the given time frame either in the form of interest servicing or principal repayment is called non-performing loan(NPL). There are other parameters as well as to quality an NPL. Security not to the extent of loan amount with specified safety margin, value of security not realizable possession not as per the requirement of bank, conflict of charges are the other reason which causes difficulties while recovering the loan.

An NPL of a bank is like a developing cancer in a human body, which will collapse the whole bank if not managed in time. This is an important discipline in banking to prevent whole NPL or avoid situations for a loan to

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[18] Andrew J. Rosman, ***Lending Research and Practices***, University of Connecticut Stores, CT, 19 Aug, 1999.

turn into NPL. The loan for a bank is most important to generate revenue for operational expenses as well as to provide return to the shareholder.

When a loan advanced from good money turns into a bad loan the chance of shareholders return as well as survival of a bank stands in a stake. Ailing bank can't portray its better image in the public. And no bank can operate its business without the deposit from the public. When public start loosing their confidence on the bank and don't keep their deposit in the bank, that the bank will start counting its finger for collapse.

A loan disbursed as good loan does not turn into bad over the night. It has certain course to turn into bad. An efficient bank management can recover the loan before turning it into bad and can save itself from unwanted disaster.

A general survey reveals following reasons why a good loan turns into bad.

Collection of business penetration by other competitors.

Situational Problem

Poor analysis of project and its capital requirement lending to a situation of over/under capitalized.

- Faulty evaluation of loan and security.
- Problem in managing the unit.
- Actual modus operandi is totally different from the projection and unit unable to cope with the situation.
- Sudden change in internal and external environment and project not being run according to its plan.
- Mismatch in demand and supply lending over inventory or under inventory.

Collection of business penetration by other competitors.

Intentional Problem

- Intention to cheat the bank.
- Intention to flee without setting the loan.
- Malicious act of both staff and borrower.
- Intention to auction the property, which is in least requirement, borrower.
- To show other creditors to his bankruptcy this is unmanageable.
- To relieve from other debts.
- To waive interest/ penal interest or avail discount on loan if paid in latter stage when bank offer such facilities.

A borrowing may reflect one or all above signals causing harm to the bank's business. There are few chances of cure to protect bank from an intentional defaulter. But for the defaulter caused by situations we can re-schedule, restructure their facilities and help to meet their debt obligation as per the cash flow they are having.

For a genuine loan which was disbursed with all good spirit may turn into bad if it is not monitored properly and corrective measured are not taken in time. The signals of such failure appear to borrower first and then consequences fall upon the shoulder of a bank. When a good loan with all effort to protect it, turn into bad and borrower ability is not enough to serve from other source, then borrower also tries to hide the information from the bank and wants to be relieved temporarily such situations give some signals to the bank and these signals are called danger signals.

Danger Signals

- Repeated overdrawn in interest.
- Inability to pay debt(Interest and installment)
- Check/cheques return.
- False statement.
- Attitude to give the information.
- Mismatched information.

- Suppliers running behind him for payment.
- Offer of heavy discount to buyers.
- Ready to pay whatever the interest rate applied by banker or creditors.
- Request for additional loan in spite of problem in payment of interest and installment for existing loan.
- Influencing bankers and other suppliers by canvassing.

With the appearance of one or all above signals a banker should arrange meeting regarding the borrower’s business and immediate corrective measures to be initiated. The information given by a borrower must be verified by the facts and figures available in the bank or from the dependable market sources.

A formula knows your customers has to be always taken into consideration. A bank must be clever and must collect information greater then a borrower require for commencement of business and to be more rigid to give the loan than to give his own money without any security. When a borrowing unit isn’t able to serve the debt from the source explored, the documentation are merely a degree(decree) to enforce legal action against him. But what gets realized when everything is lost. A jail and punishment doesn’t satisfy the interest of bank.

A basic know how of NPL management is to prevent a loan to turn into loss. Therefore, every possible measure to be implemented to keep a loan portfolio is intact. Periodic meeting with the borrower and market information is must to check the exposure against a particular business sector. Similarly, if it is due to changes in the business environment and other factors a rescheduling and restructuring approach to be followed to protect both the bank and borrow. A bank never wants to make a borrower, a squatter The bank equally tries to protect its interest by any means. A security given by a borrower may be example for the exposure. But the borrower from other source of business may not be able to generate substantial earning to service the debt. Bank has all options to auction the property and liquidate the loan. While doing so, realization from the auction of property is always less than the value of an asset. This neither serves the purpose of bank nor the borrower, additionally will cause loss both the bank and borrower. A well doing family may turn to squatter if all assets so auction at low value.

A loan can be protected from turning into NPL with following methods:

- Rescheduling –by different the schedule either by the time or by value.
- Restructuring – by modifying the loan and giving more time and option to repay in a confortable manner .
- Early recovery measures- when a loan is downing the tube and chances of revival is not likely, the banker in coordination with the borrower must dispose the property and apply other sources to prevent further interest burden. Upon timely action on the loan both the borrower's and banker's time and money will be saved and will help to continue the relation for further businesses.

2.2.3 Review of Dissertations

Mr.Netra Kumar Khatri expressed his view in his thesis entitled the titled of "A study in investment of NIDC" as supposed of loan as direct loan and least percentage as guarantee loan.Mr.Netra Khatri has studied setting the different objective under the financial performance of NIDC."NIDC has given high priority towards central development region.[19]

Tara Chitrakar in her dissertation entitles 'lending policies of Nepal Bank Limited' explained several aspects of lending policy. She writes the lending business is very risky therefore commercial Banks should adopt policy regarding loan. The loan which are provided by commercial Banks involve several consideration such as the length of time, the types of

[19] Netra Kumar Khatri, ***A Study on Investment of NIDC***. Master diss., TU,1994.

borrowers, the king of security given etc. she says in her thesis that safety of security, liquidity and profitability are there major principles that guided a sound lending policy of bank.

About the first principle she expresses such kinds of opinion that when commercial banks want to lend some money to the borrower direct attention are given toward the security of loan. For security of loan banks examine the economic condition. Capacity of the party. Moreover they for collateral gold and silver and other goods are taken as collateral by Nepal Bank Limited. For such goods bank studies the prevailing market price. To minimize risk, commercial Bank advance loan only after reducing some percentage of the market value of the security i.e. called margin.

About second principle she says the second guiding principle is liquidity which generally means capacity to produce cash in demand for deposits. To maintain confidence, banks must maintain an adequate degree of liquidity in their assets. She also refers that liquidity of bank is generally measured by the ratio of loan to total deposits of the bank. The higher is the ratio, the lower is the liquidity and viceversa.

About profitability she refers it is equally important that of safety and liquidity. She also added "commercial banks don't want to grant long-term loan but sometimes they do so to particular industries in the country on the guarantee of NIDC. The profit of bank partially depends upon the volume of investment the higher of the volume of investment, the greater will be the rate of profit . [20]

Mr. Krishna Ram Bhatarai in his thesis paper,'Financial Performance Analysis of Himalayan Bank Limited in the framework of CAMEL.' Reflect s that bank has been decreasing the proportion on loans and advances during the study period, the bank is advised to give more attention to decrease the level as it can to meet the international standards. For this bank management has to give serious attention towards the recovery and timely follow-up of the

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[20] Tara Chitrakar, ***Lending Policy of Nepal Bank Limited***,, Master diss., T.U.,1989.

disbursed loan and bank management is recommend to formulate a effective powerful loan recovery committee.

The loan loss provision to total and advances is increasing regularly during the study period, which shows there is high probability of loan default in future. So the bank is recommended to lower the proportion of loan loss provision by increasing the quality of assets by strengthing the credit appraisal and follow-up measures.[21]

Mr. Santosh Raj Sharma has concluded his study entitled "Financial Performance Analysis of Nepal SBI Bank Ltd. in the framework of CAMEL" when any loan could not be repaid in time it directly effects to the performance of the banks. The NPA is the factor of worsening income. Though it was stronger assets quality of NSBL in beginning 4 years of the study period the quality of loan is turned down in later years from the perspective of loss loan to total loan percentage. So, the bank should aggressively recover its outstanding loan, as its NPA is a bit higher than the contemporary banks. Adequate loan loss provisions protect the bank from the dangers of consequences arising from the conversion of loan into bad loan.[22]

Ms. Geeta Gurung has found in her thesis the increasing trend of assets management ratios i.e. loan and advances to deposit shows that the capability of the management to deposit loan and advances is increasing with the increase in deposit volume the loan and advances extended is also increasing and the correlation analysis shows that there is positive correlation between deposit and loan and advances.

Bank has been mobilizing major portion of deposits in loan and advances compared to investment as it yield higher return contributing to increase in operating revenues contributing to interest in operating revenues being involvement of high risk in loan and advances. As bank is diverting major deposits in loan and advances during the study period there is high

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[21] Krishna Ram Bhandari, ***Financial Performance Analysis of Himalayan Bank Limited in Framework of CAMEL***, Master diss.,TU,2006.
[22] Santosh Raj Sharma, ***Finacial Performance Analysis of Nepal SBI Bank Ltd. in the Framework of CAMEL***. Master diss.,TU,2007.

probability of loan default in future. So, bank is advertised to maintain up to international standards and increase quality of assets. Besides bank management also has to from recovery committee for credit appraisal examine carefully the maintain equilibrium in the portfolio of loans and efforts to explore new , competitive and high yield opportunities to maximize profit.[23]

Thapa conducted a study on financial system of Nepal with the objective of presenting investment policy and practices of commercial banks of Nepal. The major findings of the paper were that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds.

Similarly, due to accumulated overdue and defaulting loans, profit positions of these banks have been seriously affected on the other hand the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective influences for loan recovery , overdue & defaulting loans have been limited interest income and interest expenses.[24]

Miss Basanti Shrestha in her thesis“A Comparative Study on lending functions of selected joint venture commercial banks in Nepal .”recommended that the high volume of liquidity shows that the high degree of lending strength has been prevailing in all of these banks. The lack of reliabla lending opportunities, due to the adverse developments in the domestic economy resulting from the deteriorating peace and security situation, has been keeping these banks to less oriented towards the lending functions. Hence the government should take appropriate action to bring

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[23] Geeta Gurung, ***Deposit Collection & Mobilization of Nabil Bank Limited***. Master diss., PNC,2007.

[24] G.B.Thapa, ***Financial System of Nepal***(vol.3) Development Division. Master diss., Patan Multiple Campus, 1994.

dynamism in the lending the sustainable development of the compulsions by directives does not create long-term healthy lending practices unless the commercial banks are not contribution in lending.[25]

Bijay Maharjan has concluded that loan and advances are the profitable assets for the banks and also it is very risky too. Due to this reason, the loans and advances should be effectively managed and controlled or increased in the non-performing loans creates the heavy losses the profit but also provide the public which ultimately effects in the collection of the deposits and the image of the bank. Only the proper management of the loans will be profitable in terms of the banks and for the economic development of the country by increasing the deposit collection and to invest the collected amount in the economic development of the country.[26]

Thesis conducted by Mr.Ram Bahadur K.C titled “Investment Policy of NABIL Bank Limited ” in 2005 said, The major source of income of a ank is interest income from loans and investment and fee based income from loans and advances dominated the assets side of the balance sheet of any bank, Similarly earning from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the strinkage in the value of loans and advances. Hence loan is known as risky asset and investment operation of commercial bank. Its very risky one risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non-performing loans erodes even existing capital. Considering the importance of lending to the society it serves, it is imperative that bank meticulously plan its credit operations.[27]

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[25] Basanti Shrestha, ***A Comparative Study on lending commercial Bank in Nepal.(Himalayan Bank Ltd, Nabil Bank Ltd. and Nepal Bangladesh Bank Ltd.)***Master diss.,TU,2005.
[26] Bijay Maharjan, ***Loan Management of Nepalese Commercial Banks***. Master diss.,TU,2005.
[27] Ram Bahahdur Shahi, ***Investment policy of Nabil Bank Limited***, Master diss., T.U, 2005.

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Introduction

"Research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry in to any subject matter, which is an endeavor to discover or find out valuable facts which will be useful for further application or utilization."[28]

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

The chapter includes the research design, total population and selected samples, sources of the data and the data gathering procedure and research variables and the statistical procedures.

3.2 Research Design

Research design is the conceptual structure within the research is conducted. It is the plan. Structure and strategy of investigation conceived so as obtained answer to the research questions and control variance. As a design is the arrangement of conditions for collection and analysis of data in a relevance to the research purpose with economy in procedure. A well settled

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[28] Puspa Raj Joshi, *Research Methodology*,First Edition,Buddha Academic Publisher and distributors Pvt.Ltd.Kathmandu,Nepal,2001,p.4

research design is necessary to fulfill the objectives of the study. It means definite procedure and techniques that guide the study and propounds ways for research viability. The basic elements of a research design are the problem, the methodology, data gathering, data analysis and finally the report writing. For the purpose of the study, it has used survey research design.

3.3 Sources of Data

The study is based on primary and secondary data.

Secondary Data

They refer to those already gathered by others. The sources of secondary data can be divided into two groups internal and external. The internal secondary data are found within the institution. Sources of such data include mainly the annual report and internal publications. External secondary data are collected from sources outside the institution e.g. books, published or unpublished reports, journal etc.

Here, the required data for the analysis are directly collected from annual reports of the concerned bank internal secondary sources besides, various publications dealing with subject matter of the study, relevant articles, published in the daily and weekly news papers, magazines etc. are also used for the study.

Primary Data

Primary data are the original data gathered by the researcher project at hand. These can generally be collected through interviews. The primary data are referred to in this study to make it more reliable. Primary data are collected through direct interview with the staff and ask them to fill up questionnaire in order to get information related to my subject matter.

3.4 Population and Sample

Population refers to the institutions of some nature and their services and product in general. A sample is a collection of items or elements from the population. In this study “An opinion Survey on Loan Disbursement and Collection policies of MBL.“ all the staff of credit department is the population and 25% is taken as sample size and snowball sampling method is used to select sample.

3.5 Data Analysis Tools

Data analysis involves the process of organizing and classifying data to change it from an unprocessed form to an understandable presentation. So that meaningful conclusion can be drawn. All the data after editing, coding and classification has been presented in tabular form.

As per the requirement, results in the tabular form have been presented diagrammatically as well. Along with results have been interpreted as simply and concisely according to their position in credit dept. (i.e. officers and non-officers) to analyze the opinion on loan disbursement and collection policies of MBL.

3.5.1 Tables

A table is a presentation of data in row and column form. The presentation of tables is concerned with labeling techniques to make the content clear. The raw data collected should be tabulated so that it will be revealing. The better the organization and sequencing of the data, the better it will be revealing. If data is displayed in table form, it becomes easier for its analysis. It also helps to make comparative study of two or more variables.

3.5.2 Figures

The term figures usually include graphs and charts. These presentations help clarify and understand the data at a glance. In other words, figures assist the reader in understanding the subject.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Personal Information of Respondents

Personal information about respondent's position in the credit department, gender, age group, educational background, education level, training and working experience are collected which are presented as follows.

4.1.1 Position in Credit Department

Respondents position in credit Department is classified into two group one is officer level and another is non- officer level. The respondents situation is 50% officer and 50% is non- officer.

Table 4.1

Position in Credit Department

Factors	Officers	Non- Officer	Total
No. of Respondents	10	10	20
Percentage	50	50	100

Source: Field Survey.

Fig. 4.1: Position in Credit Department

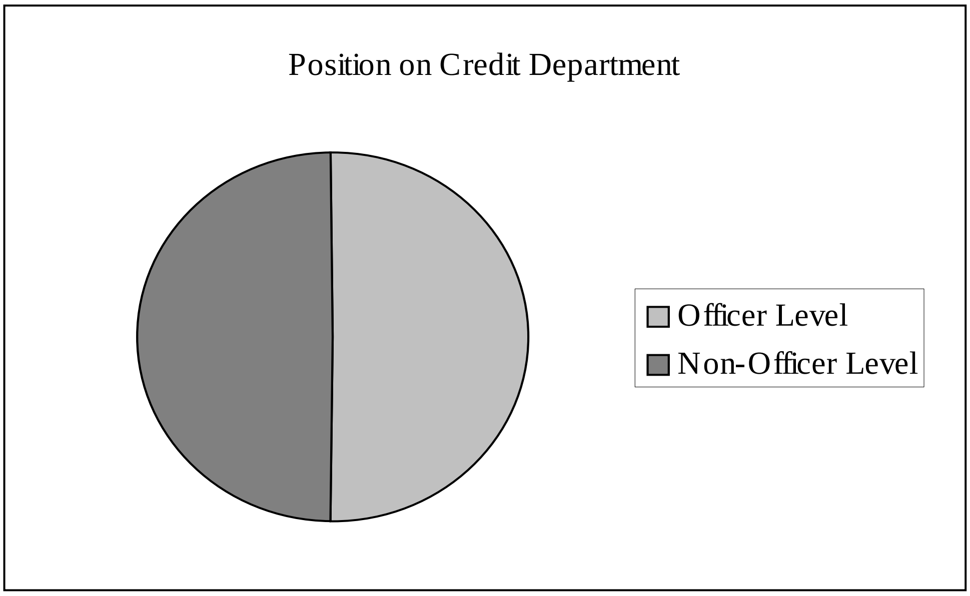


Table 4.1 and Fig. 4.1 shows that among the respondents,10 are in officer level and 10 are non-officer level. Which is in percentage 50% in officer level and 50% in non-officer level.

4.1.2 Gender

In order to collect the require information for my research, respondents status is 85% male and 15% female. It is more clear by the following chart.

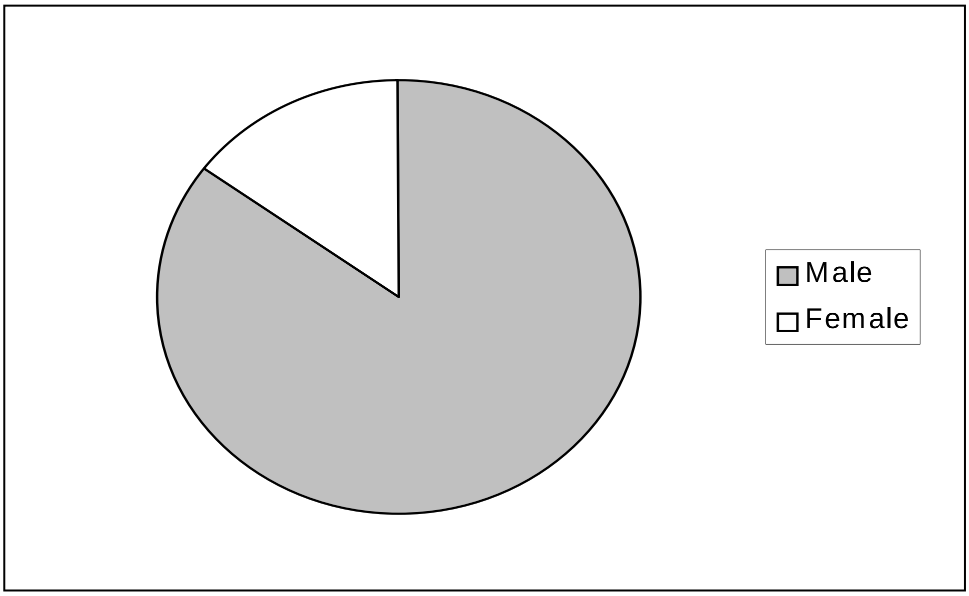
Table 4.2

Gender

	Male	Female	Total
No. of Respondents	17	3	20
Percentage	85	15	100

Source: Field Survey.

Fig. 4.2: Gender



As the Table 4.2 and Fig. 4.2 shows that out of 20 respondents,17 are male and 3 respondents are female. which is in percentage 85% are male and 15% are female.

4.1.3 Age Group

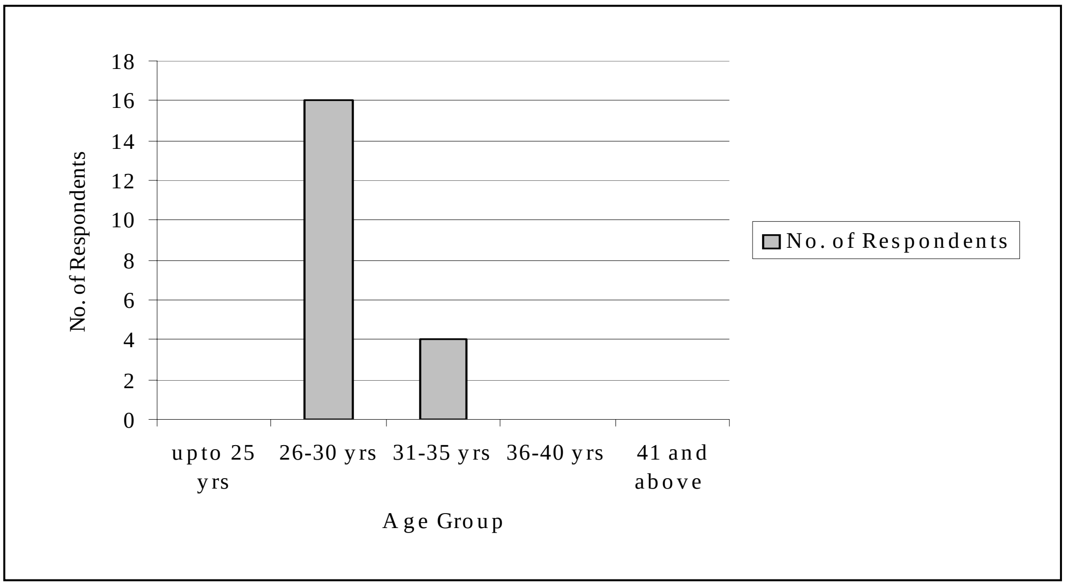
Age group of credit departments is divided into five categories. Age groups of respondents are up to 25 yrs, 26-30 yrs, 31-35 yrs, 36-40 yrs and 41and above.

Table 4.3
Age Group

Age Group	No. of Respondents	in %
upto 25 yrs	-	-
26-30 yrs	16	80
31-35 yrs	4	20
36-40 yrs	-	-
41 and above		

Source: Field Survey.

Fig. 4.3: Age Group



In the above Table 4.3 and Fig. 4.3 which shows the age group of respondents. Out of 20 respondents 16 respondents are belong to 26-30yrs age group,4 respondents are belong to 31-35 yrs age group. In the percentage,80% belongs to 26-30 yrs and 20% belongs to 31-35 yrs age group there is not any respondents from upto 25yrs,30-40 yrs and 41 and above age group.

4.1.4 Education Background

The 100% of sample respondents of are belong to management background

Table 4.4

Education Background

Background	No. of Respondents	in %
Management	20	100
Non-management	-	-
Total	20	100

Source: Field survey.

From the above table 4.4 the educational background of the respondents can be known. All the respondents which is taken for the research purpose is from management background.

4.1.5 Educational Level

Table 4.5

Educational Level

Level	**No. of Respondents**	in %
PCL	-	-
Bachelor Degree	5	25
Master Degree	15	75
Ph.D.	-	-
	20	100

Source: Field Survey.

Table 4.5, The Educational level for the research purpose is classified into four category. PCL, Bachelor degree, master degree and PhD. In 20 respondents, 5 respondents are bachelors degree holder and 15 respondents are master degree holders. There are not any respondents of PCL and Ph.D.

Table 4.6

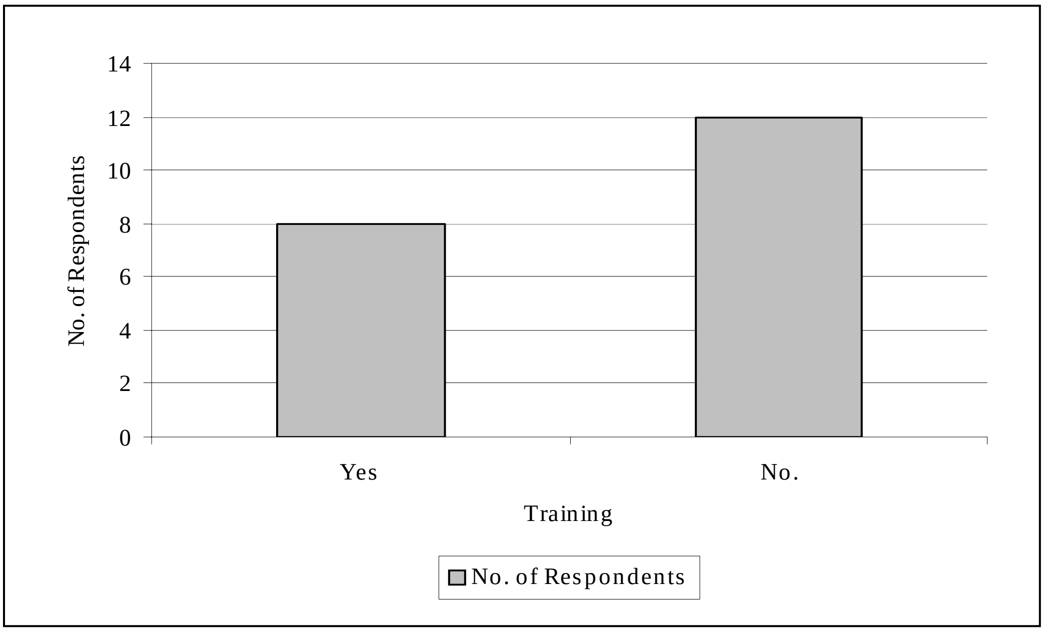
Training before joining Credit Department

Training	No. of Respondents	in %
Yes	8	40
No.	12	60
Total	20	100

Source: Field survey.

Table 4.6 reveals that the credit dept.staff's training situation before joining credit dept. can be known. In 20 respondents 8 respondents has taken training before joining credit dept. and 12 respondents hasnot taken training before joining credit dept.

Fig. 4.4: Training before joining Credit Department



In the above fig.4.5,12 respondents hasnot taken training and 8 respondents has taken training .In percentage,60% has taken training and 40% has not taken training.

4.1.6 Working Experience

Work experience is the experience that a person has working or working in a specific field or occupation.

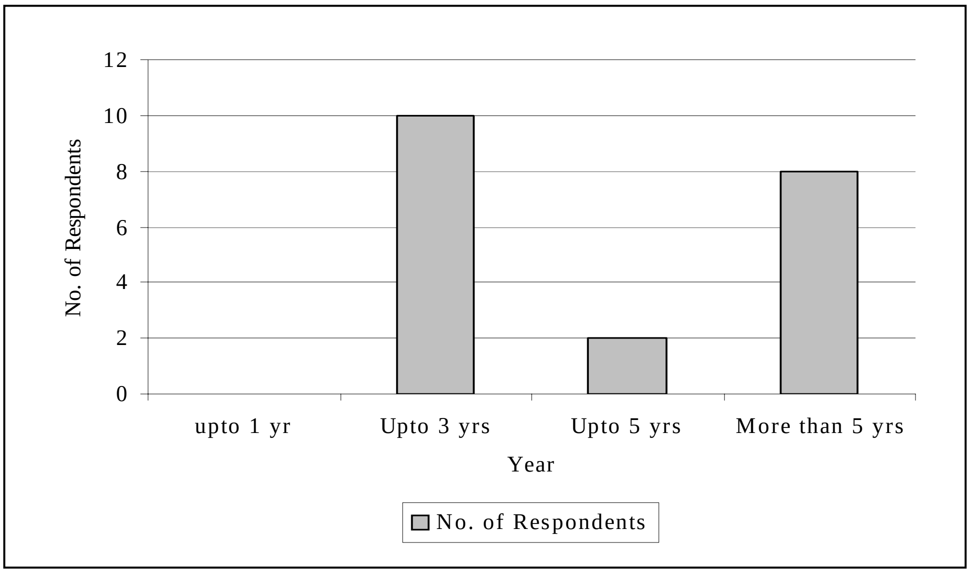
Table 4.7

Working Experience

Year	No. of Respondents	in %
upto 1 yr	-	-
Upto 3 yrs	10	50
Upto 5 yrs	2	10
More than 5 yrs	8	40
Total	200	100

Source: Field survey.

Fig. 4.5: Working Experience



In the above Table 4.7 and Fig 4.5,In 20 respondents,10 respondents have 3yrs of working experience and in percentage 50%, 2 respondents have 5 yrs of working experience and in percentage 10%,8 respondents have more than 5 yrs of working experience and in percentage 40%.

4.2 Opinion Towards Loan

Comparing the opinion of Officers and non- Officer level of credit department of MBL concerning loan

4.2.1 Most Important Factor that Influences in Demand for Loan

Simply demand is the amount of a particular economic good or service that a consumer or group of consumer will want to purchase at a given price. There are various factors that influence demand for loan. The possible factors are low interest rate, Easy or short loan process, flexible repayment policy and effective advertisement. Respondents were asked to choose one among the given alternative and try to understand their opinion.

Table 4.8

Most Important factor influences in demand for loan

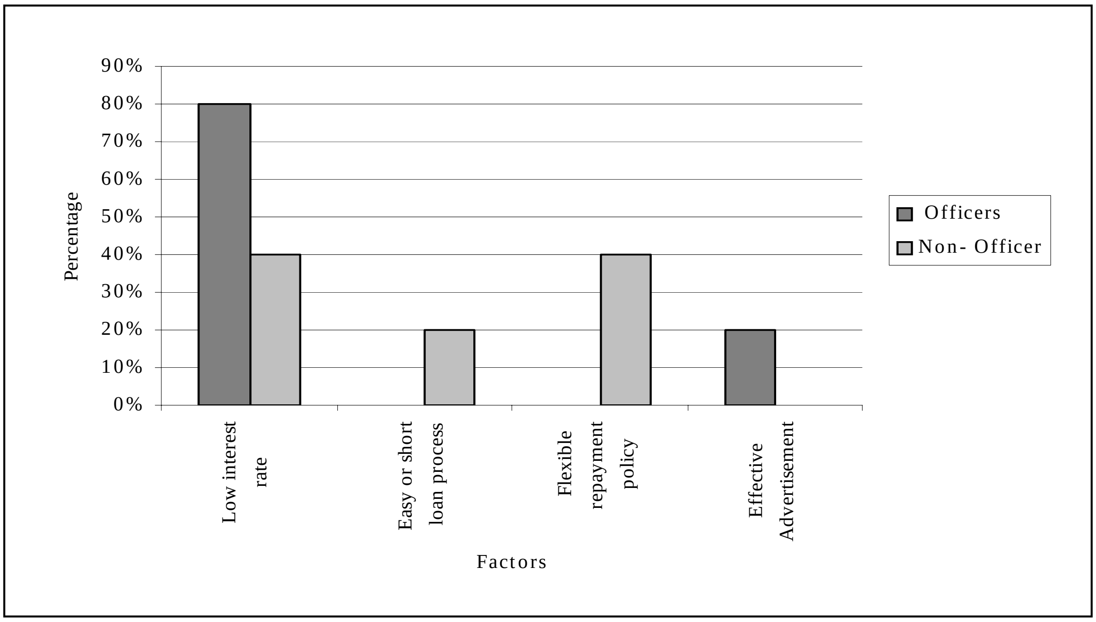
Factors	Officers	Non- Officer
Low interest rate	80%	40%
Easy or short loan process		20%
Flexible repayment policy		40%
Effective Advertisement	20%	

Source: Field Survey.

From the above table in the view of officers most influencing factor that affect in demand for loan is low interest rate. 80% of respondents think if interest rate is comparatively low than other it helps increase demand for loan and 20% of respondents of officer said effective advertisement plays vital role in demand for loan.

In the opinion of non-officer level respondents is quite different from officer’s respondents. In the view of non – officers 40% of respondents said low interest rate is most important, 20% said easy or short loan process and 40% said flexible repayment policy is most important factor for demand for loan.

Fig. 4.6: Most Important factor influences in demand for loan



Most important factor that influence in demand for loan can be known from the above Fig.4.6. In the view of officers, most influencing factor is low interest rate.80% of respondents said it. If interest rate is comparatively low than other it helps to increase demand for loan.20% of respondents of officer level said effective advertisement is most influential factor that influences demand for loan. In the opinion of non-officers, 40% respondents think low interest rate is most important factor that influence in demand for loan,20% of respondents said easy or short loan process and 40% said flexible repayment policy is most important factor for demand for loan.

4.2.2 Factor Influential Sanctions or Approval of Loan

After a person has submitted an application for the loan, the process of sanctioning the loan and actual encasing of the amount is known as a process of approval. The speed at the rate of which the approval of the loan takes place, depends on two major factors. The first factor that is considered by the lenders is the borrower's ability to repay the loan. This capability is measured with the help of credit rating, credit score and credit history. These figures are used to estimate that, in how much time the borrower would be able to repay the loan. Thus, higher the credit rating and score, the higher is the speed of approval of loan. A good credit rating means that the borrower has never defaulted any loan and has maintained a good record of payment of installments. Hence, the better the credit rating, the faster is the approval.

Table 4.9

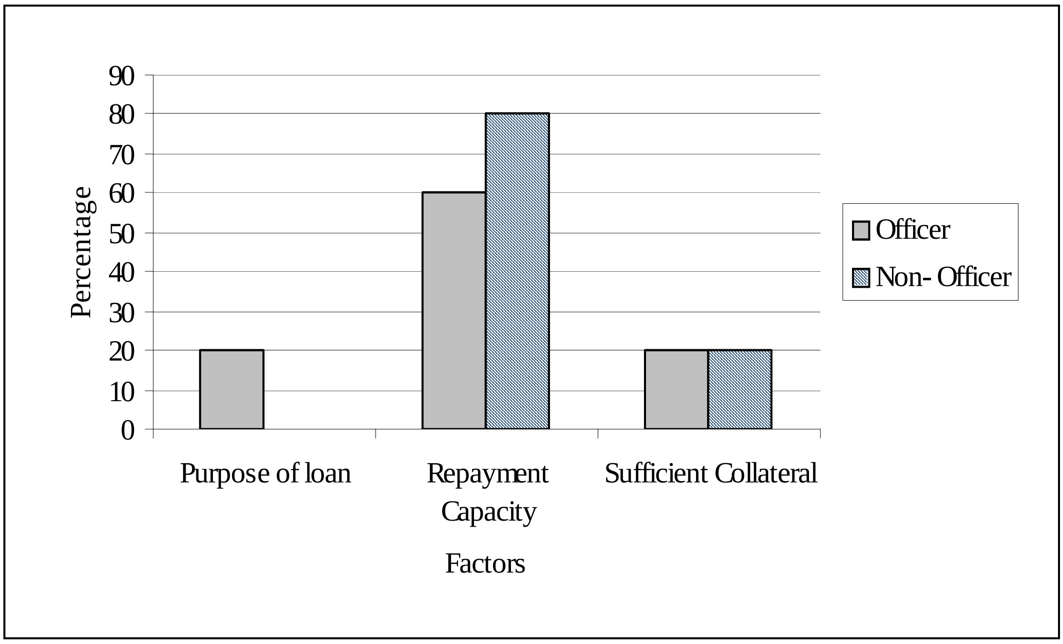
Preferring factor while sanctioning or Approval of Loan

Factor	Officer	Non- Officer
Purpose of loan	20%	
Profitability		
Repayment Capacity	60%	80%
Diversification		
Sufficient Collateral	20%	20%

Source: Field Survey.

Fig. 4.7

Preferring factor while sanctioning or approving loan



It the above Table and Fig in the opinion of Officers 20% of them said they prefer in purpose of loan while sanctioning or approval loan. 60% of them said they give preference in repayment capacity of loan and 20% of them said they preferred in sufficient collateral. From the point of view non-officers, 80% of non-officers said they give prefer on repayment capacity of borrowers and 20% of them think they prefer in sufficient collateral.

4.2.3 Most important one in five C s

Five characteristics that are used to form a judgment about a customer's creditworthiness. Character, Capacity, Capital, Collateral and Conditions. Five factors a lender considers when evaluating whether or not to expand credit to a potential borrower. Importantly the five Cs of credit include both quantitative and qualitative measures. They are character borrowers reputation, capacity a measure of the borrowers ability to repay by comparing his or her debt service to income, capital available , collateral pledged against the loan and the condition of the loan such as the interest, monthly payment and so forth.

Table 4.10

Most important one in five Cs

Five Cs	Officers	Non- Officers
Character		
Capacity	100%	100%
Credit Information		
Collateral		
Condition		

Source: Field Survey.

In the opinion of credit department of Machhapuchhre Bank Limited, both Officer and Non- Officer Opinion seems similar. Both think capacity is the most important factor among the five Cs. Capacity refers to any prospective lender will want to know exactly, how you intend to repay the loan and from what income source's, If you are employed, it is a relatively simple task to identify how much you earn, irrespective as to whether you are employed on a full time, part time, causal or on contract basis, the lender merely has to confirm this information with your employer or through other documents, Often, accepting this income for the purposes of loan repayments will be dependent on how long you have sourced this income and whether it is regular or not.

4.2.4 Opinion in which point client gives priority

In the process of loan approval, client gives priority to different aspects. Personnel of credit dept of MBL were asked to give their view towards in which point client gives priority.

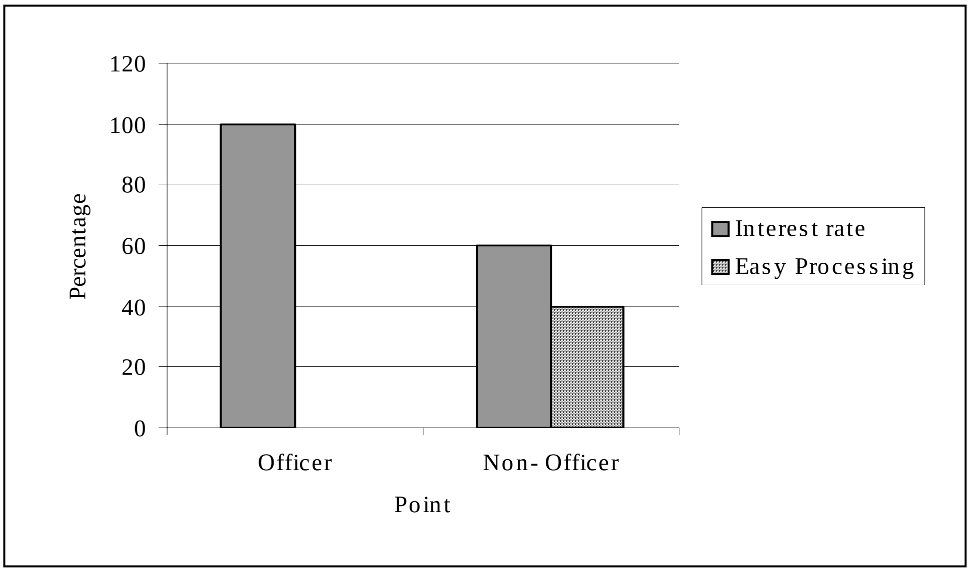
Table 4.11

Point which client gives priority in the perception of credit personnel

Point	Officer	Non- Officer
Interest rate	100%	60%
Easy Processing		40%
Easy repayment		
Others(if any)		

Source: Field Survey.

Fig. 4.8: Point at which client gives priority



As the above table and chart reveals that point in which clients of MBL give priority can be known from the point of view of officers and non-officers. In the opinion of officers 100% of respondents think clients give priority in interest rate of loan and in the opinion of non-officers 60% of the non-officers think clients give priority in interest rate.40% of the non-officers think clients give priority in easy processing of loan approved to loan disbursed.

4.2.5 Opinion about the interest rate and service charge of MBL

Commercial banks give interest to the depositors and charge interest from the borrowers. Interest is the major source of income. MBL charges different interest rate in different categories of loan. Service charge is charged by the bank for administrative expenses. MBL 1% as service charge in approval of loan.

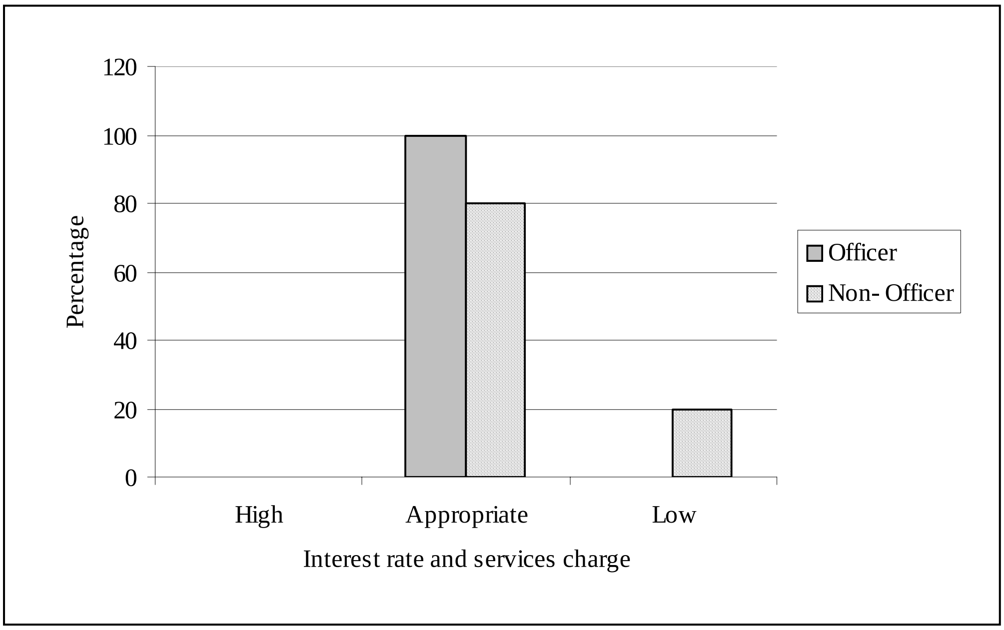
Table 4.12

Interest rate and service charge of MBL

Interest rate and service charge	Officer	Non-Officer
High		
Appropriate	100%	80%
Low		20%

Source: Field Survey.

Fig. 4.9: Interest rate and service charge of MBL



In the above Table and Fig., the view of officers and non-officers about the interest rate and service charge of MBL can be known. All the respondents of officer said the interest rate and service charge of MBL is appropriate. Where as 80% of non-officers said it is appropriate and 20% of them said the interest rate and service charge is low.

4.2.6 Borrowers/ Clients they prefer to deal

There are different types of borrowers. Like consumer/Retail borrowers, small and medium Enterprises, corporate and consortium. Retail borrowers are individual borrowers; corporate borrowers are institutional borrowers that include partnership firms, proprietary concerns, private and public limited companies. Consortium borrowers are a group of organization sharing the same goals, which combine their resources and risk.

Table 4.13

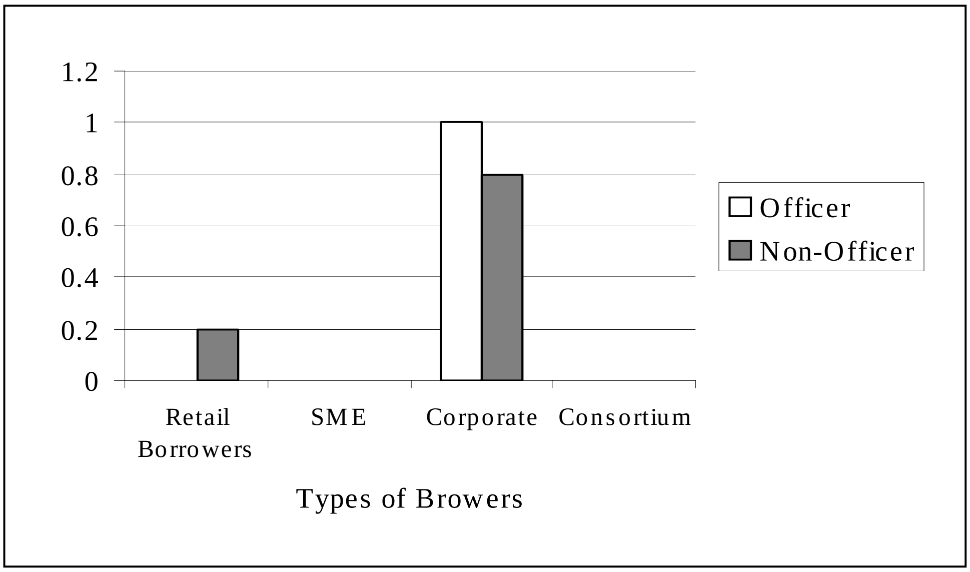
Borrowers/ Clients they prefer to deal

Types of borrowers	Officer	Non-Officer
Retail Borrowers		20%
SME		
Corporate	100%	80%
Consortium		

Source: Field Survey.

From the above table opinion of officers and non-officer about the borrowers they prefer to deal. In the opinion of officers, all the officers prefer to deal with corporate borrowers because they feel easy to deal with corporate borrowers. In the opinion of non-officers, 80% of non-officers prefer to deal with corporate borrowers and 20% of the non-officers prefer to deal with retail customers.

Fig. 4.10: Borrowers/ Clients they prefer to deal



In the Fig 4.10, In the view of officers,100% of respondents prefer to deal with corporate borrowers because they feel easy to deal with corporate borrowers and they think corporate borrowers understand organization policy. In the view of non-officers 80% of respondents prefers to deal with corporate borrowers and 20% of the non-officers prefer to deal with retail customers.

4.2.7 Different between Prime clients and Non- Prime Client

Prime clients are those who have regular relation with the bank. They have created certain images to the bank provide them certain interest rebate in rate considering them the prime clients because of their satisfactory performance. Non- Prime clients are those who have casual relationship with the bank.

Table 4.14

Is there Difference between Prime Clients and Non- Prime Clients?

	Officer	Non- Officer
Yes	100%	100%
No	-	-

Source: Field Survey.

In the above table, there is different in interest rate and service charge between prime clients and non- prime clients. MBL provide concession on interest rate and service charge to its prime client. Because of their performance of the borrowers the bank provides interest rebate to its prime customers and provides certain facilities and discount as prize.

4.2.8 Decision Making Approach followed by Credit Department

Decision Making is identifying and choosing alternatives based on the values and preference of the decision maker .Making a decision implies that there are alternatives choices to be considered and in such a case we want not only to identify as many of there alternatives as possible but to choose the one has highest probability of success or effectiveness and best fits with goals, desires, lifestyle values and so on. Basically in organization there is three types of approaches is used. They are participative, autocratic and hierarchical. In participative or democratic approach top to bottom level personnel all involved in decision making and everyone has right to share their views , opinions, ideas. Autocratic approach of decision making decision making power is centralized in top authority and in hierarchical approach decision is made in the top level management and that decision is followed lower level officers.

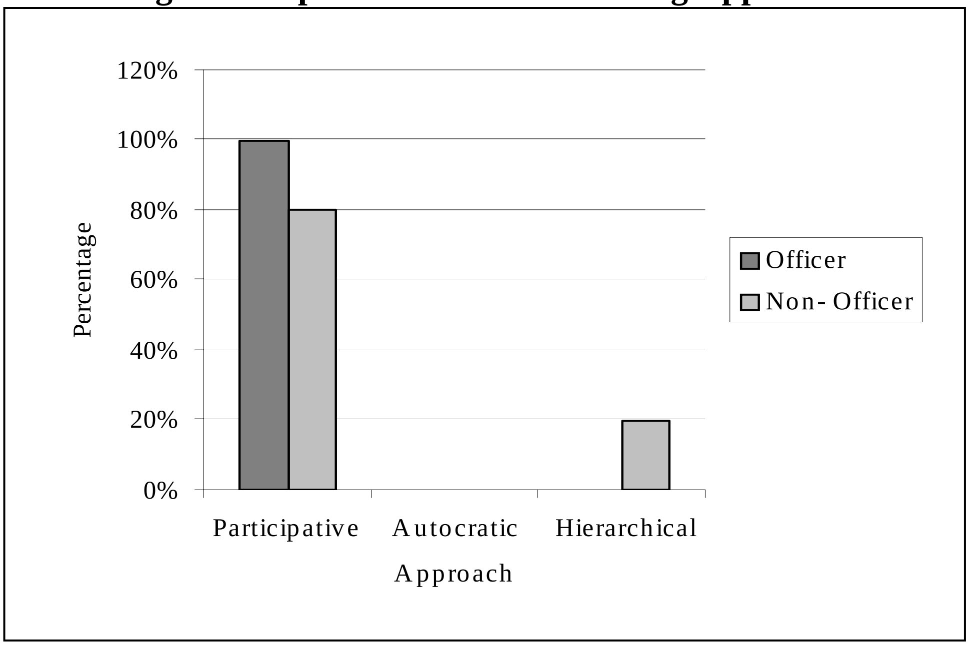
Table 4.15

Opinion on decision making approach of credit department of MBL

Approaches	Officer	Non- Officer
Participative	100%	80%
Autocratic		
Hierarchical		20%

Source: Field Survey.

Fig. 4.11: Opinion of Decision Making Approach



In the Table and Fig., shows in the view of officers and non-officers, 100% respondents of officers said their credit dept. follows participative decision making approach. There is freedom in decision making. In the opinion of non-officers 80% respondents said credit dept. follows participative decision making approach and 20% of respondents said credit dept follows hierarchical decision making approach.

4.2.9 Opinion on easy to handle or manage loan

Loan is classified into short term, term loan and long term loan according to time. STL is provided for day to day operation of business. Duration of STL 6 months to 1 year. STL can be obtained much easier than a long term one and easy in process. TL usually running less than three years, these loans is generally repaid in monthly installments repayment is often tied directly to the useful life of the asset being financed. LTL, these loans are commonly set for more than three years. Most are between three and 10 years, and some run for as long as 20 years. Long-term loans are collateralized by a business's assets and typically require quarterly or monthly payments derived from profits or cash flow.

Table 4.16

Easy to handle or manage loan

Loans	Officer	Non- Officer
STL	40%	20%
TL	20%	60%
LTL	40%	20%

Source: Field Survey.

In the above Table 4.16, opinion of officers and non-officer regarding easy to handle or manage loan can be known. In the view of officer,40% of the respondents think STL is easy to handle and manage.20% of the respondents of officers think TL is easy to handle where as 40% of officers think LTL is easy to handle and manage.In the opinion of non-officers,20% of the respondents think STL is easy to manage,60% of respondents think TL is easy to handle and 20% of respondents think LTL is easy to handle or manage loan.

4.2.10 People becoming Clients of MBL

How mostly people became clients of MBL, there are five possible options is provided and respondents were asked to choose one. The options are Depositors/Customers became client, Good relationship, referred by their friends/relatives and advertisement.

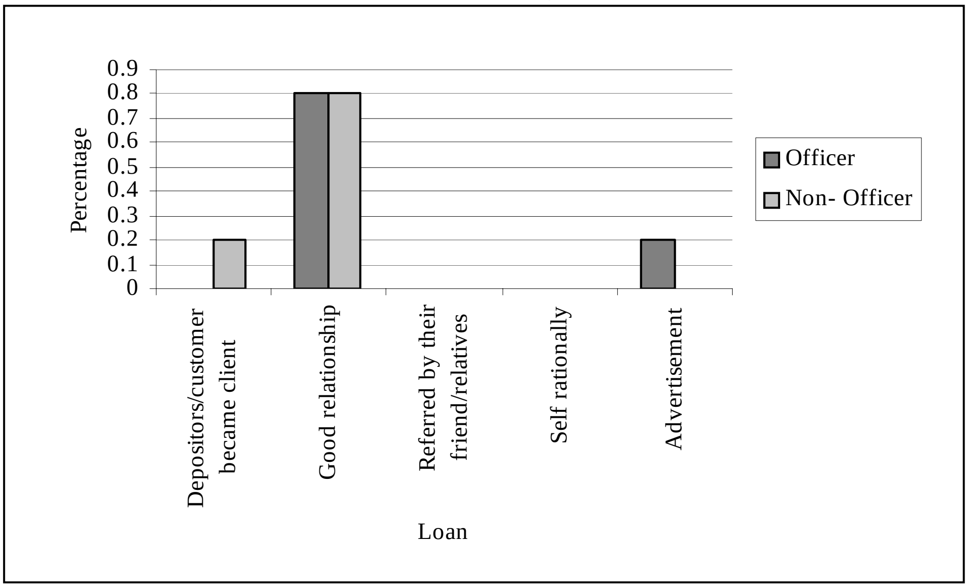
Table 4.17

People becoming client of MBL

Factors	Officers	Non-Officers
Depositors/customer became client		20%
Good relationship	80%	80%
Referred by their friend/relatives		
Self rationally		
Advertisement	20%	

Source: Field Survey.

Fig.4.12: People becoming Clients of MBL



In the Table and Fig reveals how most of people became clients of MBL. In the opinion of officers,80%respondents think most of the people became clients of MBL because of good relationship and 20% of respondents said because of effective advertisement of bank, most of people became clients of MBL.In the opinion of non-officers,80% of the respondents said good relationship of the bank made people to become the client and 20% of the respondents think depositors/customers became their clients.

4.2.11 Collateral mostly used by the borrowers while taking loan

Collateral is an asset pledged to a lender, until the borrower pays back the debt. In case of default the lender has the right to seize the collateral and sell it. Collateral serves to protect the lender against risk, it screens potential borrowers and is an incentive to respect the repayment obligation.. Not all forms of collateral are equally accepted by banks: their preference is determined by present and anticipated transaction costs in establishing and enforcing property rights, the ease of liquidation and the position vis-à-vis other creditors in case of insolvency. Collateral divided into two category Primary and Secondary collateral. Primary collateral means current assets like stock and receivables and Secondary collateral means land, building and P& M.

Table 4.18

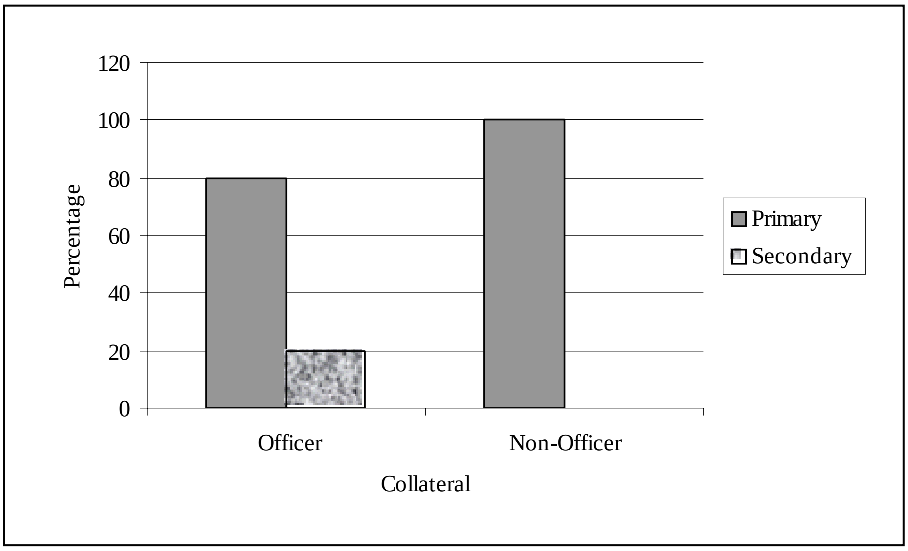
Opinion on mostly used collateral

Collateral	Officer	Non-Officer
Primary	80%	100%
Secondary	20%	

Source: Field Survey.

In the above Table 4.18, opinion on mostly used collateral used by borrowers.80% of respondents of officers said primary collateral is mostly used collateral by the borrowers where as 20% respondents said secondary collateral is mostly used. In the opinion of non-officers,100% of respondents said mostly borrowers pledged primary collateral while taking loan.

Fig. 4.13: Opinion on mostly used collateral



From the above table and chart of opinion of mostly used collateral used by borrowers while taking loan is known. In the opinion officers, 80% borrowers mostly pledged primary collateral and 20% of the officers think borrowers mostly pledged secondary collateral while taking loan.

In the opinion of non- officers, all of them view are similar. 100% of non-officer thinks mostly borrowers pledged primary collateral while taking loan from MBL.

Table 4.19

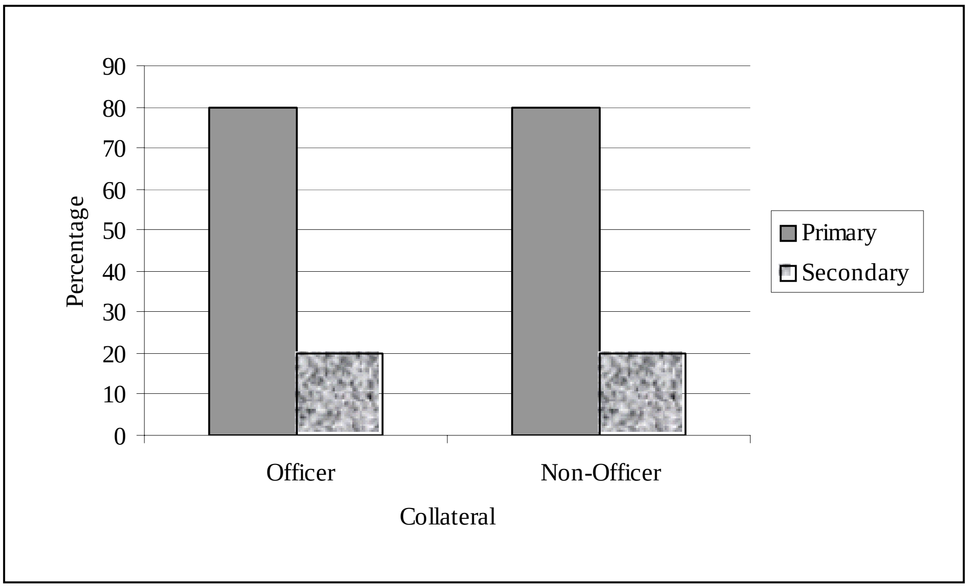
Opinion on Best Collateral

Collateral	Officer	Non- Officer
Primary	80%	80%
Secondary	20%	20%

Source: Field Study.

Table 4.19 shows opinion on best collateral from the point of view of officers and non-officers. In the opinion of officers,80% of respondents said primary collateral is the best collateral where as 20% of respondents said secondary collateral is best one. In the opinion of non-officers, 80% of them said primary is best collateral and 20% said secondary collateral is best collateral.

Fig. 4.14: Opinion on Best Collateral



From the above Fig., opinion of officers and non- officers about the best collateral can be known. Both 80% of officers and non-officers think primary collateral is the best collateral whereas 20% of officers and non-officer think secondary collateral is best one.

4.2.12 Satisfaction position of Clients

Banks are service organization. As a service organization customer's service and customer satisfaction should be the prime concern of any bank. Satisfied clients are the assets of the bank.

Table 4.20

Percentage of Satisfaction of Clients of MBL

Satisfaction	Officer	Non-Officer
Highly dissatisfied		
Dissatisfied		
Neutral	40%	40%
Satisfied	20%	40%
Highly satisfied	40%	20%

Source: Field Survey.

Talking about the satisfaction position of client of MBL.Rating the satisfaction level from 1 to 5 and respondents were asked to mark a number between 1 and 5 that corresponds to solution from “highly dissatisfied” to “highly satisfied.”

In the above Table, opinion of officers and non-officers regarding the satisfaction position of clients can be known.40% of respondents of officer said clients are neutral,20% respondents of officer said clients taking loan from MBL are satisfied and 40% of respondents of officer said clients are highly satisfied. In the view of non-officers,40% of respondents said clients are neutral,40% of respondents said clients are satisfied and only 20% of respondents said their clients are highly satisfied.

Fig. 4.15: Percentage of Satisfaction of Clients of MBL

From the field survey among the 40% of respondents of officer said client taking loan from MBL are neutral, 20% are satisfied and 40% are highly satisfied. In the opinion non-officers 40% of them said clients are neutral they are neither dissatisfied nor satisfied. 40% of respondents said clients are satisfied and 20% of respondents said their clients are highly satisfied from the service, term and conditions provided by credit dept.

4.2.13 Most Effective tool to attract borrowers

There are various effective tools were used in order to attract borrowers to take loan from the bank. The interest rate on loan whether it is higher or lower than other financial institutions. Secondly, rapid processing time span of loan application to approved is shorter than others. Environment provided by MBL is friendly; the staffs of credit dept. behave in friendly manner. The repayment schedule

Table 4.21

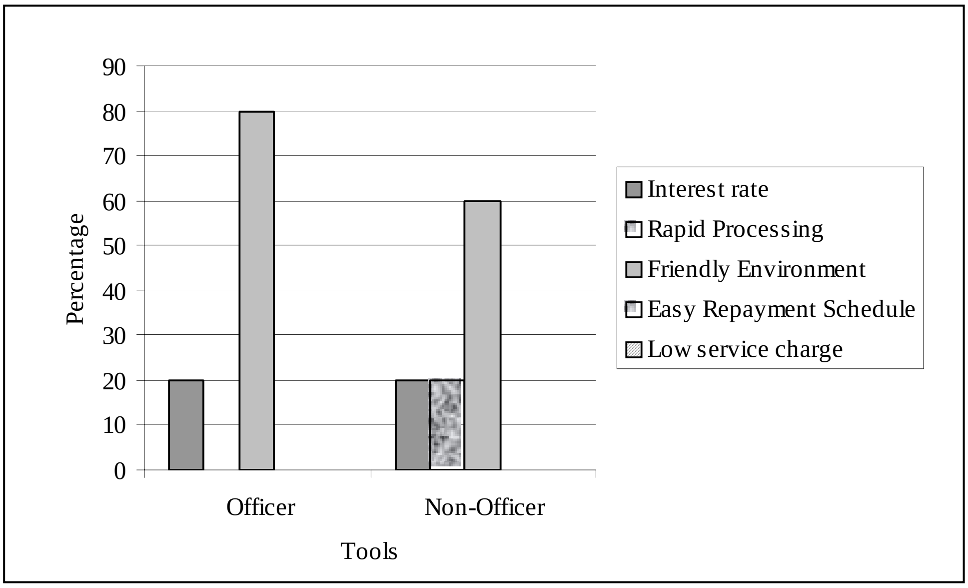
Opinion on Most Effective tool to attract borrowers

Tools	Officer	Non-Officer
Interest rate	20%	20%
Rapid Processing		20%
Friendly Environment	80%	60%
Easy Repayment Schedule		
Low service charge		

Source: Field Survey.

From the above Table 4.21 of most effective tool to attract borrowers. In the opinion of officers,20% of respondents said interest rate is most effective tool, where as 80% respondents said friendly environment is the most effective tool to attract borrowers. In the opinion of non-officers,20% of respondents said interest rate,20% of respondents said rapid processing and 60% of respondents of non-officer said friendly environment is the most effective tool.

Fig. 4.16: Opinion on Most Effective tool to attract borrowers



In the above Fig. in the opinion of officers and non-officer respondents regarding the most effective tool to attract borrowers can be known.20% of respondents of officer said interest rate is the most effective tool to attract borrowers. If interest rate is comparatively lower than other it increase the number of borrowers.80% of respondents of officer said friendly environment of the bank is most effective tool to attract borrowers to take loan.

In the opinion of non-officers 20% of respondent think interest rate is the most effective tool, 20% of respondents think rapid processing of the bank and 60% of them think friendly environment is most effective one

4.2.14 Risk Bearing Capacity

Risk was defined as the variability of possible outcomes from that which was expected. Since future is uncertain, there is always a chance that the returns will be either more or less than anticipated. The greater the variation in return the greater the involvement of the risk factor. The degree of risk may be lower for the conservative one and it is higher for an aggressive one.

From the survey the risk bearing capacity in officer level respondents are high and moderate where as non-officer respondents their capacity of bearing risk is moderate and low. It is clearer by using table and chart.

Table 4.22

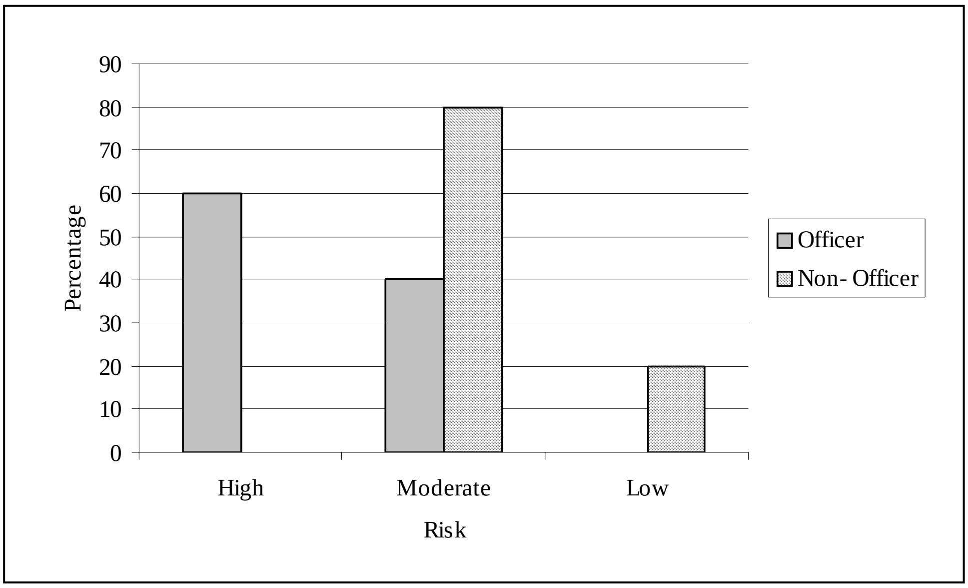
Opinion on Risk Bearing Capacity

Level of Risk	Officer	Non-Officer
High	60%	
Moderate	40%	80%
Low		20%

Source: Field Survey.

Table 4.21 shows the risk bearing capacity of officers and non-officers. In the opinion of officers,80%of respondents said they have high degree of risk bearing capacity and 40% of respondents said they have moderate level of risk bearing capacity. In the opinion of non-officers, 80% of respondents said they have moderate level of risk bearing capacity where as 20% of respondents of said they have low level of risk bearing capacity.

Fig. 4.17: Opinion on Risk Bearing Capacity



The above table and chart show respondents of officer, 60% of the officers capacity of bearing risk is high and 40% of moderate. In non-officer respondents their capacity of bearing risk is moderate and low.80% of the non-officers said their capacity of bearing risk is moderate and 20% of them said they have low risk bearing capacity. By the survey, it shows comparatively risk bearing capacity of officer level respondents is higher than non-officer level respondents.

4.2.15 Credit Monitoring and Supervision

Credit monitoring and supervision is an important facet and on going process relating to post disbursement systems and procedures for maintaining quality of the credit portfolio. Credit monitoring and supervision is done to sustain the relationship with borrower to know the pulses of the Account, timely detection of the smoke signals that may led to deterioration in the gradation of the accounts, to chalk out their strategies including recovery action where considered expedient to safeguard interest of the bank.

Various aspects in Credit monitoring and supervision

- Annual review of credit facilities which should include
- Performance/Business Projections and Financials
- Review of Risk factors.
- Conduct of the accounts- credit turnover adequacy of approved limits/ utilization thereof etc.
- Utilization/ drawing power Income generated.
- Adequacy of insurance coverage.
- Documentation and control of credit files.
- Verification of primary/ collateral security visit to the unit.
- CIC report/ market check.
- Discussion with customers for other business opportunities/ Cross selling of banks products etc.

4.2.16 Challenges/Problems in Loan Recovery

The large intermediation cost and inefficiencies in the financial system have remained the major drawbacks of the Nepalese financial structure. The host of challenges and confront this sector could be categorized, among others, the weak financial position of most of the government-owned financial institutions, negative net worth and huge accumulated losses of the government-owned commercial banks, higher proportions of non-performing assets (NPA), and large interest rate spread between lending and borrowing rates in the formal financial sector. Besides, there is predominance of the informal financial system with high interest rate differentials between the formal and informal sectors of the economy. Nepal has become member of World Trade Organization (WTO) and has committed to open Financial Services Sector (FSS) especially banking services to the foreign bank and financial institutions by 2010. This could be threat as well as opportunities for banking sector of Nepal. The existing level of Non-Performing Assets (NPA) is not that much healthy sign for the smooth growth of banking sector.

Recovery of bad loans by banks and financial institutions has turned into a big issue in the financial sector of Nepal. This has greatly caused negative impact upon Banks' profit, government revenue and the overall financial sector of the country. This calls for an effective system and mechanisms that case the early recovery of debts of Banks and also of bank-like institutions as specified by Nepal Rastra Bank-the Monetary Authority.

Table 4.23

Challenges/ problems in loan recovery

Challenges/problems	Officer	Non-Officer
Competitive Environment		40%
Repayment of loan before the period		
Lack of Political stability		
Not properly analysed borrowers and projects before granting credit facility	100%	60%

Source: Field Survey.

In the above table, in the opinion of officer all of them think the challenges and problems in loan recovery is not properly analyzed borrowers and projects before granting credit facility. In the opinion of non-officers, 40 % of them think competitive environment is challenges in loan recovery and 60% of non-officers think not properly analyzed borrowers and projects before granting credit facility is the challenge in loan recovery.

4.2.17 Satisfaction position in the recovery rate of MBL

Recovery rate refers to the rate percentage of loan that was collected from the loan disbursed. The success of bank does not depend only on the extension of more amount of credit. The recovery of extended credit is equally important. In fact timely recovery of loan is the crucial thing of the lending function of a bank.

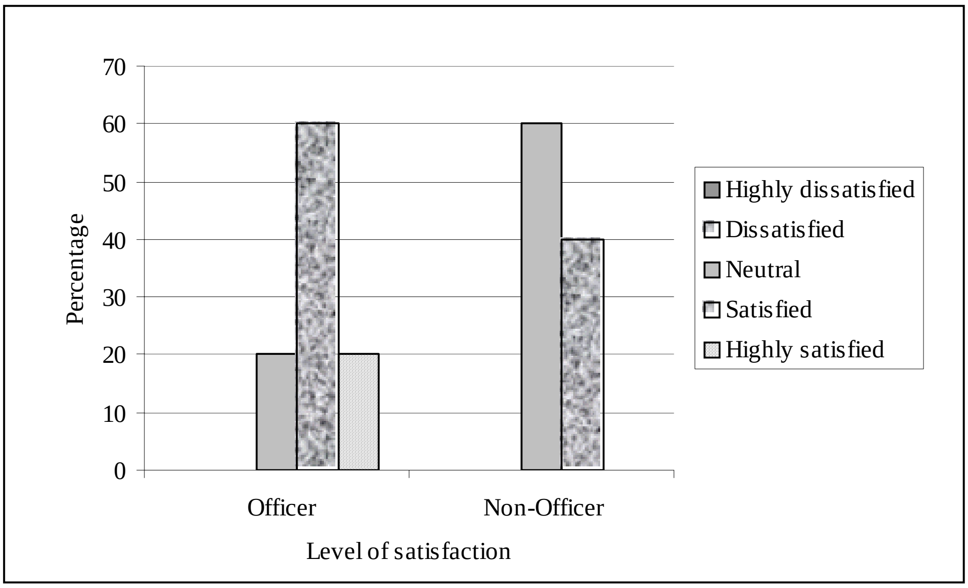
Table 4.24

Satisfaction position in the recovery rate of MBL

Level of Satisfaction	Officer	Non-Officer
Highly dissatisfied		
Dissatisfied		
Neutral	20%	60%
Satisfied	60%	40%
Highly satisfied	20%	

Source: Field survey.

Fig. 4.18: Satisfaction position in the recovery rate of MBL



From the above table and chart of satisfaction position in loan recovery from the point of view of officers and non-officers. In the opinion of officers 20% of officers are neutral with the recovery rate of MBL, 60% of officers are satisfied and 20% of them are highly satisfied in the recovery rate of the loan. In the opinion of non-officers 60% of them said they are neutral neither satisfied nor dissatisfied from the recovery rate of MBL. where as 40% of non-officers said they are satisfied with the loan recovery rate.

4.2.8 Is the efficiency of the credit dept measured by the amount of loan collected?

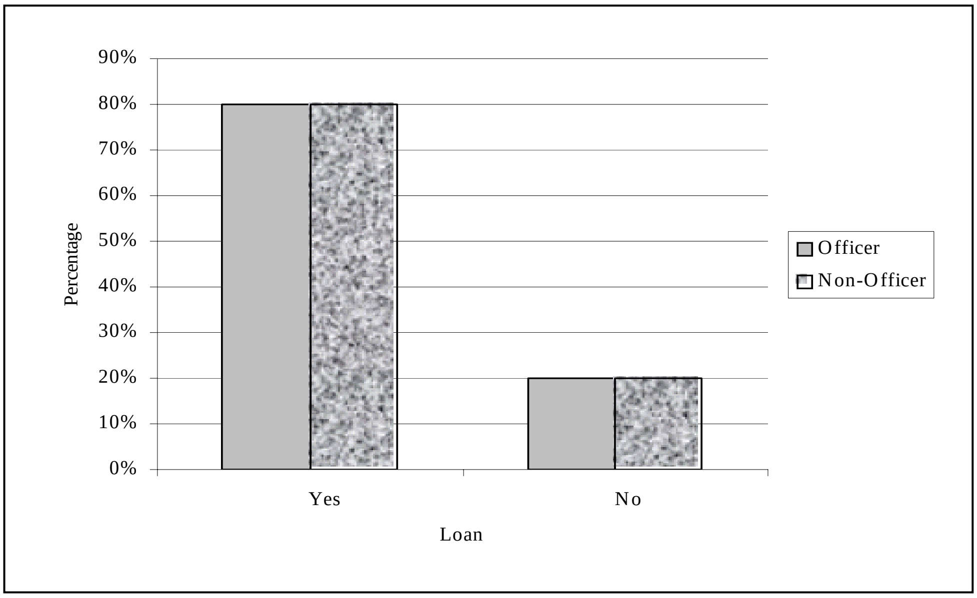
Table 4.25

Efficiency of credit dept. is measured by the amount of loan collected

	Officer	Non-Officer
Yes	80%	80%
No	20%	20%

Source: Field Survey.

Fig. 4.19: Efficiency of credit dept. is measured by the amount of loan collected



From the above Table and Fig. the view of officers and non-officer can be known. It is asked whether the efficiency of the credit dept. is measured by the amount to loan collected. 80% of officer and non-officer respondents think ‘Yes’ it is. Where as 20% of officer and non-officer respondents think ‘No’. The efficiency of credit dept. does not depend on amount of loan collected.

4.2.19 Is MBL established Bad loan recovery committee?

Bad loan is a loan where repayments are not being as originally agreed between the borrower and the lender and which may never be repaid. Bad loan recovery committee is the committee which is established to recover bad loan.

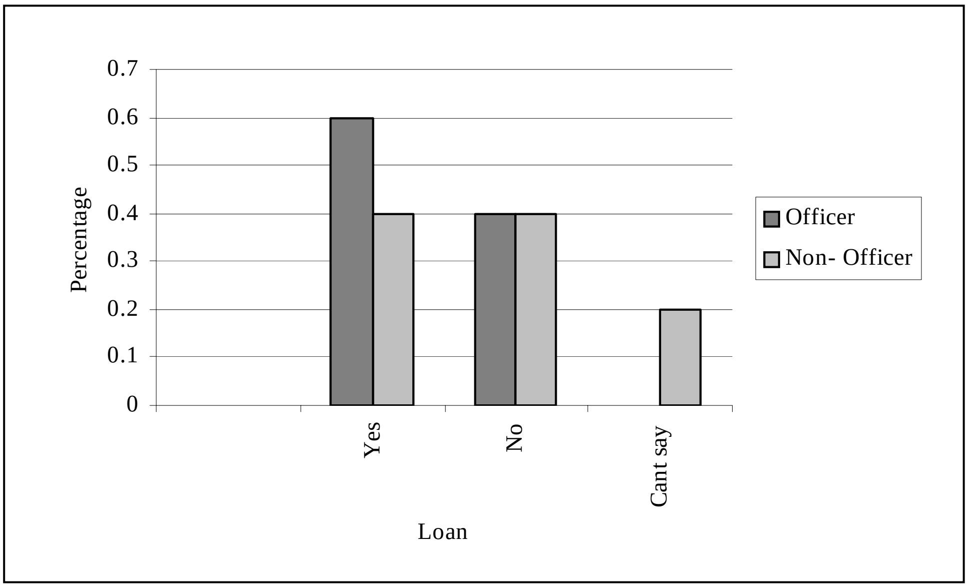
Table 4.26

Establishment of bad loan recovery committee

	Officer	Non-Officer
Yes	60%	40%
No	40%	40%
Cant say		20%

Source: Field Survey.

Fig. 4.20: Establishment of bad loan recovery committee



From the above Table and Fig. Establishment of bad loan recovery committee 60 % of the officer respondents said MBL has established bad loan recovery committee and 40% of officer respondents said MBL hasn’t established bad loan recovery committee. In the view of non-officers 40% of non-officer said, yes. 40% of non-officer said no. and 20% of them said they can't say. Whether MBL established bad loan recovery committee or not.

4.2.20 It is said that most of the bank failures are because of ineffective loan management do you agree?

A bank failure occurs when a bank is unable to meet its obligations to its depositors or other creditors because it has become insolvent or too illiquid to meet its liabilities. More specifically, a bank usually fails economically when the market value of its assets declines to a value that is less than the market value of its liabilities. As such, the bank is unable to fulfill the demands of all of its depositors on time. Also, a bank may be taken over by the regulating government agency if Shareholders Equity (i.e. capital ratios) is below the regulatory minimum.

The failure of a bank is generally considered to be of more importance than the failure of other types of business firms because of the interconnectedness of banking institutions. It is often feared that the effects of a failure of one bank can quickly spread throughout the economy and possibly result in the failure of other banks, whether or not those banks were solvent at the time. As a result, banking institutions are typically subjected to rigorous regulation, and bank failures are of major public policy concern in countries across the world.

100% of the respondents agree in the above statement. Yes, most of the bank failures are ineffective loan management. So it reveals the important of loan management.

4.2.21 Are you agreeing that your bank is effective in loan management?

Table 4.27

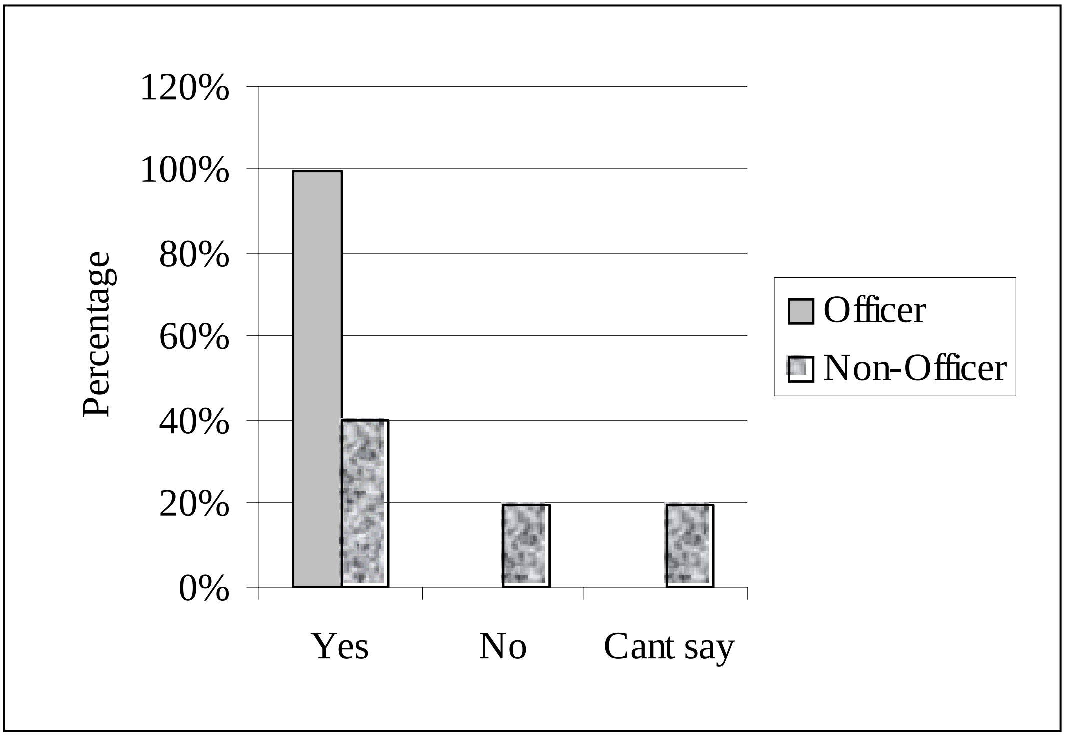
MBL is effective in loan management

	Officer	Non-Officer
Yes	100%	40%
No		20%
Cant say		20%

Source: Field Survey.

From the above table, opinion of officers and non-officers regarding whether MBL is effective in loan management or not can be known. In the opinion of officers, 100% of respondents said 'Yes'. MBL is effective in loan management where as in the opinion of non-officers,60% of respondents said Yes, MBL is effective,20% said No, That means MBL is ineffective and 20% of respondents said they can't say whether MBL is effective or ineffective in loan management.

Fig. 4.21: MBL is Effective in Loan Management



In the above Fig., opinion of officers and non- officers regarding in effective loan management can be known.100% of the officers think MBL is effective in loan management and 40% of the non-officers think MBL is effective in loan management. 20% of them said MBL is not effective in loan management and 20% can’t say. Whether MBL is effective in loan management or not.

4.3 Major Finding

4.3.1 Most important factor that influences demand for loan, majority of officers(i.e 80%) opinioned that low interest rate is most influential factor,20% of them viewed effective advertisement was influential factor. whereas 40% of non-officers viewed that low interest rate was influential factor. 40% of them viewed flexible repayment and 20% of them viewed easy or short loan process was the most important factor that influences demand for loan.

4.3.2 About the opinion on the most influential factor while sanctioning or approval of loan, majority of officers(i.e 60%) and non-officers(i.e 80%) viewed that repayment capacity of loan is most influential factor while sanctioning or approval of loan. Whereas 20% of officers and non-officers viewed sufficient collateral and 20% of officers viewed that purpose of loan is important factor while sanctioning or approval of loan.

4.3.3 100% of officers and non-officers opinioned that capacity of loanee is the important one among the five C's(Capacity, Collateral, Character, Credit information and Condition)

4.3.4 About the opinion at which clients give priority,100% officers viewed that clients give priority in interest rate.60% of non-officers opinioned that clients give priority in interest rate and 40% of them opinioned on easy processing.

4.3.5 Regarding on the interest rate and service charge of MBL,100% of officers and 80% of non-officers opinioned that charges are appropriate. whereas,20% of non-officers opinioned that it is low.

4.3.6 Majority of officers (i.e 100%) and non-officers(i.e 80%) opinioned that they prefer to deal with corporate borrowers.whereas,20% of non-officers opinioned they prefer to deal with retail borrowers.

4.3.7 About the opinion on decision making approach followed by credit dept.100% of officers and 80% of non-officers opinioned that their credit dept. followed participating decision making approach. whereas, 20% of non-officers opinioned that their credit dept. followed hierachical decision making approach.

4.3.8 About the opinion on easy to handle or manage loan,40% of officers viewed that they feel easy to handle STL,20% of them viewed TL is easy to handle and 40% of them opinioned that LTL is easy to handle or manage. whereas, 60% of non-officers opinioned that TL is easy to handle or manage,20%of non-officers opinioned STL and 20% of them viewed LTL is easy to handle or manage.

4.3.9 Regarding the people becoming clients of MBL. Majority of officers(i.e 80%)and non-officers(i.e 80%) opinioned that people are becoming clients of MBL because of good relationship. whereas,20% of officers opinioned that because of advertisement and 20% of non-officers opinioned that because of depositors/customer became client.

4.3.10 Opinion towards best collateral,80% of officers and non-officers opinioned that primary collateral is best collateral and 20% of officers and non-officers opinioned that secondary collateral is best collateral .

4.3.11 About the opinion on satisfaction position of clients taking loan from MBL,40% of officers and non-officers opinioned that clients taking loan from MBL are neutral,20% of officers and 40% of non-officers opinioned that clients are satisfied whereas, 40% of officers and 20% of non-officers viewed that clients are highly satisfied.

4.3.12 Perception about effective tool to attract borrowers,80% of officers and 60% of non-officers perceived that friendly environment is the effective tool whereas,20% officers and non-officers viewed that interest rate and 20% of non-officers viewed rapid processing is the most effective tool to attract borrowers.

4.3.13 It was found that officers had high level of risk bearing capacity than non-officers.

4.3.14 100% of officers and 60% of non-officers opinioned that properly not analyzed borrowers and projects before granting credit facility is the problem/challenge in the process on loan recovery.whereas,40% of non-officers viewed that competitive environment is the problem/challenge in loan recovery.

4.3.15 About the opinion on satisfaction position in the recovery rate of MBL.20% of officers and 60% of non-officers viewed that they are neutral from the recovery rate of loan,60% of officers and 40% of non-officers viewed that they are satisfied whereas,20%of officers viewed that they are highly satisfied with the recovery rate of MBL.

4.3.16 80% of officers and non-officers viewed that efficiency of credit dept. is measured by the amount of loan collected. whereas, 20% officers and non-officers viewed that efficiency of credit department is not measured by the amount of loan collected.

4.3.17 Regarding the bank failures due to ineffective loan management. 100% of officers and non-officers agreed in the above statement.

4.3.18 Opinion towards MBL in effective loan management,100% of officers opinioned that MBL is effective in loan management whereas only 60% of non-officers opinioned that MBL is effective in loan management.20%of non-officers opinioned MBL is ineffective and 20% of them opinioned they can't say, whether MBL is effective or not.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial banks plays an important role for the economic development of a country as they provide capital for the development of industry, trade as well as agriculture by disbursing the saving collected as deposits from public. The primary objective of such banks is to earn profit by granting loan and advance to people associated with various fields like trade, agriculture, industry etc. How well a bank managers, its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade and empower the economic activities of the country.

The research is about "An opinion survey on loan disbursement and collection policies of MBL." The objectives and analyze the satisfaction position of clients taking loan from MBL and on its collection policies, to analyze the satisfaction position in loan recovery to identify the problems and challenges in loan recovery and to find the loan effectiveness of MBL.

Opinion of staffs of credit dept is not static or can never be static. Opinion of staffs of credit dept of MBL is directly related with psychology. It is rather dynamic and keeps changing at all times. In order to present the opinion of officers and non-officers of MBL this study was conducted.

As per the nature of study survey type of research design is followed and snowball sampling method was used to select sample and collected necessary data. This study mainly based on primary data and it focus to a case study of MBL. The primary datas were taken from the selected personnels of credit dept, where as the secondary datas were taken from the published or unpublished reports, articles, journals etc. Out of 80 personnels of credit dept of MBL, only 20(i.e. 25%) staffs of credit dept were selected for the sample and categorized in two different groups according to their position is credit dept as officer level and non-officer level. Questionnaire were made according to the objective and distributed.

The collected information was tabulated as per the requirement and than analyzed the collected data. Percentage analysis has been used to analysis the response to entire questions from the personnel of credit dept.

From the analysis, it was found that out of 20 respondents, 50% of them were belong to officer level and 50% respondents were belong to non-officer level. Out of total respondents 85% were male and 15% were female. Most of the respondents (80%) were 26-30 yrs, 20% were 31-35 yrs, there were no one from the age group of upto 25 yrs, 36-40 yrs and 41 and above. 100% of respondents were belong to management background. Most of respondents (60%) had not taken training before joining credit dept and 40% of respondents had taken training before joining credit dept.

Opinion on satisfaction position of clients taking loan from MBL. 40% of officers and non-officers opinioned that clients taking loan from MBL are neutral, 20% of officers and 40% of non-officers opinioned that clients are satisfied whereas 40% of officers and 20% of non-officers viewed that clients are highly satisfied. About the opinion on satisfaction position in the recovery rate of MBL. It is found 20% of officers and 60% of non-officers viewed that they are neutral, 60% of officers and 40% of non-officers viewed that they are satisfied whereas 20% of officers viewed they are highly satisfied with the recovery rate of MBL. 100% of officers and 60% of non-officers opinioned that properly not analyzed borrowers and projects before granting credit facility is the problem and challenge is the process on loan recovery. Regarding the effectiveness of MBL in loan management, 100% of officers and 0% of non-officers opinioned MBL is effective, 20% of non-officers viewed MBL is not effective and 20% of non-officers viewed they can’t say whether MBL is effective or ineffective.

5.2 Conclusions

5.2.1 Most important factor that influences demands for loan, majority of officers opinioned that low interest rate is most influential factor. Where as 40% of non-officers viewed that low interest rate was influential factor, 40% of them viewed flexible repayment and 20% of them viewed easy or short loan process was the most important factor that influences demand for loan.

5.2.2 About the opinion on the most influential factor while sanctioning or approval of loan, majority of officers and non-officers viewed that repayment capacity of loan is most influential factor while sanctioning or approval of loan.

5.2.3 100% of officers and non-officers opinioned that capacity of loanee is the important one among the five Cs.

5.2.4 On point of which clients gives priority, 100% officers viewed that clients give priority in interest rate. 60% of non-officers opinioned clients give priority in interest rate and 40% opinioned on easy processing.

5.2.5 Regarding on opinion the interest rate and service charge of MBL, 100% of officers opinioned that charges are appropriate. Whereas, 80% of non-officers opinioned charges are appropriate and 20% opinioned it is low.

5.2.6 Majority of the officers and non-officers opinioned that they prefer to deal with corporate borrowers.

5.2.7 About the opinion on decision making approach followed by credit dept. Majority of officers and non-officers opinioned that their credit dept. followed participating decision making approach.

5.2.8 About the opinion on easy to handle or manage loan.40% of officers viewed that they feel easy to handle STL, 20% of them viewed TL is easy to handle and 40% of them opinioned that LTL is easy to handle or manage. Where as majority of non-officers opinioned that TL is easy to handle or manage.

5.2.9 Majority of the officers and non-officers opinioned that people are becoming clients of MBL because of good relationship.

5.2.10 Opinion towards best collateral,80% of officers and non-officers opinioned that primary collateral is best collateral and 20% officers and non-officers opinioned that secondary collateral best collateral.

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5.2.14 Majority of officers (100%) and non-officers (60%) opinioned that properly not analyzed borrowers and projects before granting credit facility is the problem\ challenge in the process on loan recovery.

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5.2.16 Majority of officers and non-officers viewed that efficiency of credit dept. is measured by the amount of loan collected.

5.2.17 Regarding opinion on the bank failures are because of ineffective loan management.100% of officers and non-officers agreed in the above statement.

5.2.18 100% of officers opinioned the MBL is effective in loan management where as only 40% non-officers opinioned that MBL is effective is loan management.

5.3 Recommendations

5.3.1 The satisfaction position of clients taking loan from MBL does not seem satisfactory. There is always positive relationship between clients satisfaction and success of bank. So, the credit dept is recommended to conduct research on how MBL can increase client's level of satisfaction.

5.3.2 In 21st century, Advertisement is the mostly used, powerful and effective tools to attract borrowers and customers. From the research, majority of people are becoming clients of MBL because of good relationship and MBL does not seem effective in advertisement. So, it is recommended that MBL should use effective advertisement policies to attract borrowers.

5.3.3 It is found that there is the difference between prime clients and non-prime clients regarding the interest rate and service charge. MBL should transparent in service charge and interest rate and there must not be variance in such charges between borrowers, which helps to attract general public.

5.3.4 Now, 26 commercial banks are in operation. In these days the banking sectors are facing cut-throat competitions. Therefore, it is suggested to MBL to follow the new and very innovative approach to banking marketing. MBL should increase their training and skill development programmes for the effective loan management.

5.3.5 For mobilizing the loan, there should be available of sufficient fund in the bank. MBL is suggested to explore the new deposit products to attract the deposit.

5.3.6 The success of the bank does not depend only on the extension of loan disbursed. The recovery of extended loan is equally important. It seems that personnels of credit dept. are not highly satisfied with the recovery rate of loan. So, it is recommended that MBL should take corrective actions for the recovery of loan and formulate powerful recovery committee.

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