THE EFFECT OF CREDIT MANAGEMENT ON LOAN RECOVERY IN THE BANKING SECTOR

A CASE STUDY OF DIAMOND TRUST BANK, UGANDA MAIN BRANCH KAMPALA

BY

THON BUL AROK

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DECLARATION

I **Thon Bul Arok** hereby speak out that this research proposal is original and had never been submitted in any other institution for any award.

Thon Bul Arok

Sign..

Date ....09/02/2012..........................

APPROVAL

The proposal by **Thon Bul Arok** entitled 'the effects of credit management on loan recovery in the banking sector' a case study of Diamond Trust Bank Uganda Main branch Kampala, has been prepared under my supervision and is approved for submission to Kampala International University.

THON BUL AROK

Signature: ....

SUPERVISOR

Mr. MUTUMBA GEOFFREY

Signature: ....

Date 09th feb 2011

DEDICATION

This piece of work is dedicated to Mr. Bul Thon Arok my father, Abuk Chol Malual my mother, Mai Arok Thon my cousin, Aluel Bul Thon my sister, Gabriel Wal Yai my brother in law and lastly my lovely fiancé Nakyanzi Babra whose support and assistance of any kind has made this research a success. Thank you so much.

May God reward you abundantly.

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God bless you all.

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ABSTRACT

Credit Management in any society depends on how planning and provided adequate management of credit through the application of relevant recovery procedures.

This is supported by various economically active approaches which are applied to create adequate levels of investments within the financial institutions. The study researched the aspects of credit management and credit acquisition in enhancing development in Uganda.

The purpose of the study was to establish the relationship between credit management and loan recovery within the banking sector, case study carried out at Diamond Trust.

The study was prompted by the changing trends in the key issues of credit management across the globe and the relevance of loan recovery schemes within the financial institutions.

The study examined the impact of credit management within the banking sector and provided a comprehensive analysis of the relevance of the process within which loans are acquired, sustained and managed.

In gathering information the research study employed both primary and secondary sources. The primary source was mainly the questionnaires and interview guides while the secondary sources were the library work and internet.

The study used descriptive survey as its research design. Four research areas in this project were identified and these provided the overall study area as a number of sampling techniques were applied to obtain relevant data. Frequency tables, charts and graphs, means as well as Spearman's correlation coefficient were used to analyze collected data.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

This Chapter consists of the background of the study, statement of the problem, purpose of the study, research objectives, and research questions, scope of the study and the significance of the study.

"Credit is the money given to an individual or corporate business by a financial institution which is to be paid back at a later date under terms and conditions applied" Bomfim A. 2005. Credit management is the process of controlling and collecting payments from customers under terms and conditions applied in the loan agreements. Lopholes in the credit management system has aroused abuses in lending in different ways, for example ***Predatory lending*** is an internal form of abuse in the granting of loans. It usually involves granting a loan in order to put the borrower in a position that one can gain advantage over him or her. ***Usury*** is a different form of abuse, where the lender charges excessive interest. In different time periods and cultures the acceptable interest rate has varied, from no interest at all to unlimited interest rates. Credit card companies in some countries have been accused by consumer organizations of lending at usurious interest rates and making money out of frivolous "extra charges".

Currently, Loan defaulting is a growing problem as the Bank of Uganda to curb inflation, moved to tighten liquidity through raising lending rates to commercial banks who in turn raised theirs to borrowers (customers).

Abuses can also take place in the form of the customer abusing the lender by not repaying the loan or with an intent of defraud the lender. According to Varghese Thambi, the Managing Director Diamond Trust Bank, "the main cause of loan default is either unwillingness to pay or inability to pay due to business failure or other constraints that inhibit businesses to generate enough cash flows to meet loan repayments. Sometimes loan proceeds are diverted and not deployed for the intended projects. He adds that other causes of loan defaults are loss of income, over borrowing and high cost of borrowing, high inflation and mismatch of credit facility."

According to Mr. Fabian Kasi, the managing director of Centenary Bank Limited a default occurs when a debtor has not met his or her legal obligations according to the debt contract, for example has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract.

Since Credit management is concerned with making sure that organization, who buy goods or services on credit, or individuals who borrow money, can afford to do so and that they pay their debts on time. There is great concern and need to analyze the correlation between credit management and loan recovery. A good credit management will help one reduce the amount of capital tied up with debtors and minimize exposure to bad debts. It is important for financial institution to have a credit policy that suits the objects of cost effective schemes and one that minimizes costs associated with credit while the benefit from it. As with all other activities of bank activity. There is need to ensure uniformity in lending practice through the formulation of a formal lending policy and the main objective of the policy is to have an optimum investment in debtors.

Crouhy M, Galai D, Mark R. 2000 in their Journal of Banking and Finance 24, 59-117 defined Loan recovery as the attempt by financial institution to fully achieve repayments of loans in regards to the principal and the interest in the stated period of time. Banks have cautions with the lending of fund inform of loan recovery and the increasing number of non performing loans according to Sheng (1992). Loans must be payable on demand as applied to terms and conditions of the agreements when obligation is to be met at a specified period of time.

1.2 STATEMENT OF THE PROBLEM.

Diamond Trust Bank is one of the banks in Uganda which has emphasized on formulation of credit policy by amending a loan recovery programme through adequate follow up of the clients. Despite above plans, Diamond Trust Bank is still facing problem on Loan recovery from borrowers as stated on Bank of Uganda report 2000. It is therefore necessary for a researcher to evaluate how credit management leads to loan recovery.

1.3 PURPOSE OF THE STUDY.

To establish the solutions to credit management and Loan Recovery

1.4 OBJECTIVES OF THE STUDY.

i. To assess the Credit Management in Diamond Trust Bank

ii. To examine the Causes of loan defaulting in Diamond Trust Bank

iii. Establish the solutions to Credit management and loan recovery.

1.5 RESEARCH QUESTIONS.

i. How is credit management conducted in Diamond Trust Bank?

ii. What are the causes of defaulting Loans in Diamond Trust Bank?

iii. What are the solutions to credit management and loan recovery?

1.6 SCOPE OF THE STUDY

1.6.1 Geographical scope:

The research was carried out in Diamond Trust Bank, Main branch located in Kampala

1.6.2 Subject scope:

In the research approach, I considered Diamond Trust Bank to review literature on solutions to credit Management and loan recovery as well as works by other researchers on credit Management and loan recovery.

1.7 SIGNIFICANCE OF THE STUDY.

The research helped the researchers doing the same topic in future time fill in the knowledge gaps and add to the quantum of existing knowledge.

It helped students at the University and other institutions who are undertaking financial management and those who are specializing in financial options with up to date information on credit management and loans

It helped Diamond Trust Bank and other financial institutions to design a suitable credit policy that will enable effective credit management.

1.8 HYPOTHESIS

The research hypothesis show that effective credit management systems lead to better loan recovery dividends

1.9 LIMITATIONS OF THE STUDY.

Poor Co-operation

It was arising from the respondent who became suspicious and could not review the information in fear that the researcher might be spying on his financial status, hence, this had to be resolved by the researcher introducing the recommendation letter from the University to identify her as a student.

Financial constraints

The study requires finances to facilitate the typing, printing, editing, internet, transport, which is quite expensive.

Questionnaires sent to respondent some of them were not all answered and returned.

This limited the study and some vital information of the financial report was given.

Time constraint

Limited time with the ongoing lectures, course works. It is not easy doing them at the same time at a balance.

1.10 STRUCTURE OF THE REPORT

CHAPTER ONE

This chapter involved the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, significance of the study and the Structure of the report.

CHAPTER TWO

This chapter reviews and analyses the existing literature of different scholars in Credit Management in relation to Loan recovery with the objective of revealing weaknesses and gaps.

CHAPTER THREE

This Chapter provides a description of how the study was conducted, the research design, source of data, data processing and presentation, limitations and solutions to limitations.

CHAPTER FOUR

This chapter summarizes key issues from theoretical and empirical literature, contracts findings systematically and identifies any new inferences and insights in the process of fulfilling the overall objectives of the study.

CHAPTER FIVE

This chapter presents the conclusions drawn from findings and recommendations which are practical, theoretical and issues from the future study.

CHAPTER TWO: LITERATURE REVIEW

2.0 INTRODUCTION

This chapter covered the literature regarding the study variables amongst which included the study objectives, the credit Management in Diamond Trust Bank, level of loan defaulters and the solutions to credit Management and loan recovery in Diamond Trust Bank.

The main sources of information included newspapers, Magazines, Business journals and publications, Diamond Trust Bank publications, internet publications among others

As of November 2011, the Diamond Trust bank is a fast-growing, medium-sized, banking institution, providing commercial banking services to individuals and small-to-medium-sized corporate clients (SMEs). As of December 2010, the total asset valuation of the bank was approximately 127 million dollars equivalent to 292 billion shillings, representing approximately 3% of banking assets in Uganda at that time.
The bank is a member of the Diamond Trust Bank Group, which has operations in all over East Africa.

The history of Diamond Trust Bank (Uganda) Limited dates back to 1945, when it was operating as the Diamond Jubilee Investment Trust, with its head office in Dar es Salam, Tanzania and branches in Mombasa, Kenya and Kampala, Uganda which later decentralized, and split into three entities.
The company was initially established as a community-based finance house, dedicated towards the extension of credit to the East African Ismailia Community; and the mobilization of their savings.
In 1972 Diamond Trust (Uganda) Limited (DTU) commenced operations as a non bank financial institution. In 1995 the institution was recapitalized with the participation of the Agha Khan Fund for Economic Development owning 49% share and Diamond Trust Bank (Kenya) Limited

(DTBK) owning 51% then became a full-service commercial bank and was renamed Diamond Trust Bank (Uganda) Limited (**DTBU**).

Among the product line, are loans "the borrower initially receives or *borrows* an amount of money, called the *principal*, from the lender, and is obligated to *pay back* or *repay* an equal amount of money to the lender at a later time". Diamond Trust Bank loans are classified in two categories "the secured" a loan in which the borrower pledges some asset (like a car or property) as collateral and "unsecured" are monetary loans that are not secured against the borrower's assets (like credit card debt, personal loans, bank overdrafts, corporate bonds). The interest rates applicable to these different forms may vary depending on the type and the borrower. However, all these processes are handled through the credit management systems.

Credit management as a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables according to Das S, Hanouna P, 2007. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable. Therefore a good credit management system will help you reduce the amount of capital tied up with debtors (people who owe you money) and minimize your exposure to bad debts.

2.1 Conceptual framework

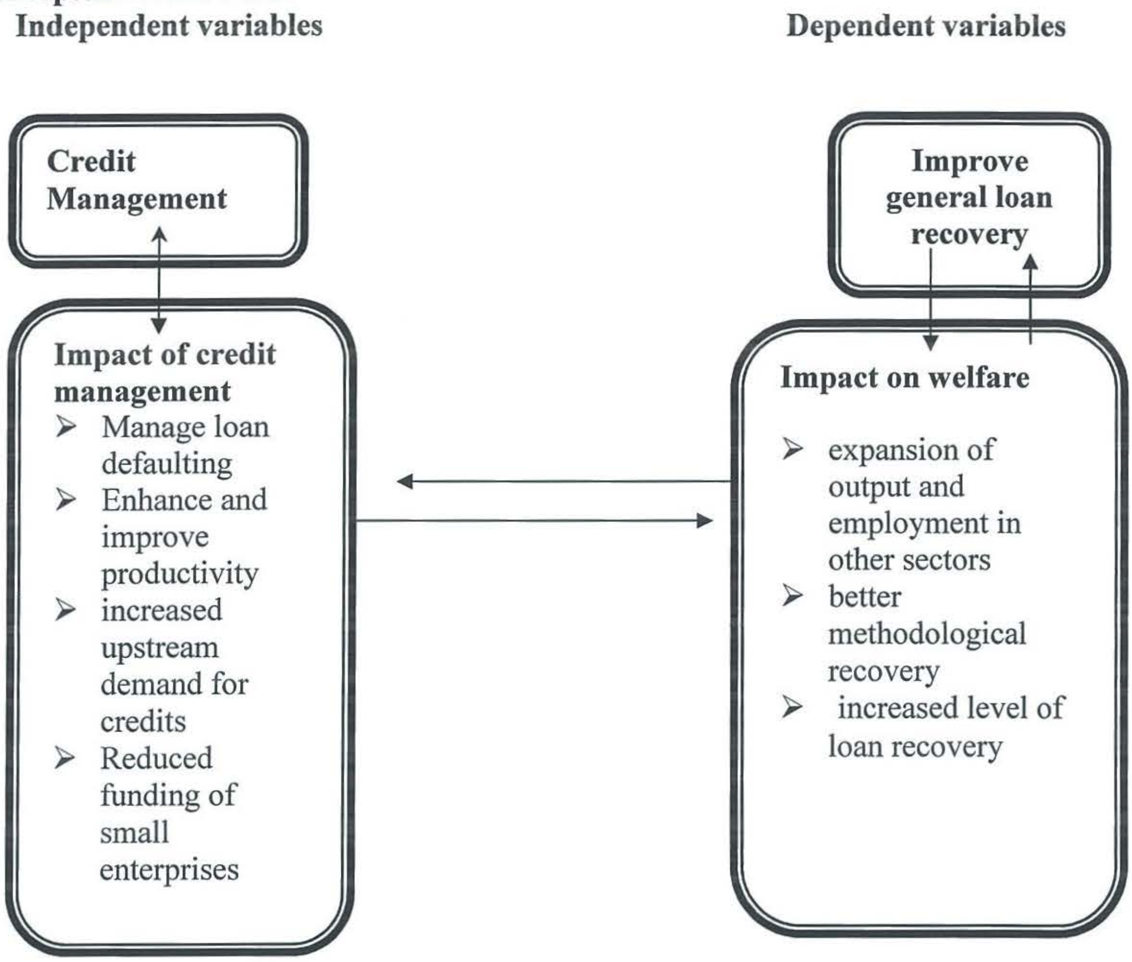


Figure 1: The figure above indicates that interventions to assure credit management are concerned with sustainably increasing money management aspects. It is clear from this perspective that credit management and economic growth are very inter-dependent. Credit management contributes to growth through: lowering the borrowing rates and ensuring that a substantial level of attaining loan recovery has been adequately obtained.

In this perspective, this will help to create adequate potential within which the level of creating adequate loan recovery is being attained at Diamond Trust Bank.

2.2 Theoretical framework

The existence of financial institutions is relatively associated with the emergence of small lending initiatives to small scale businesses, originally designed to uplift the very poor in the society. The general impact of loaning or credit at the middle level entrepreneur system was to critically eradicate poverty. The initial definition of a credit management aspect was based on an organized lending system (Oyen, 1996) aimed at elevating the vulnerable from their poverty positions to a more robust financial level. However, this theoretical perspective was further extended to bring a universal impact on both low and middle level business setups. Diamond Trust Bank performs loaning services to the poor and this continuously strives to reduce the poverty gap among the underserved (Vargas, 2008). The service provision within lending and credit management angle is designed to service the poor through flexible loaning structures that are devoid of long application procedures. The means through which acquisition and loan payback strategies are being harnessed at the borrowing level is measured by the applications content procedure. The key objectives of Diamond Trust Bank across the developing world are based on the financial patterns of locations through which these financial bodies operate. Binger A, 2004 argued that credit management and loan recovery is an important principle that if well maintained, will ease the process of recovering the loans. The rapid growth of credit management at Diamond Trust Bank has been acclaimed by the diverse market trends and the availability of friendly business environments (Henry, 2008) in the book Record of Social and Economic Success. These have additionally been upgraded by the flexible technological advances that have boosted the variable market estimates that project future market trends (Ellis, 2000).

2.3 RELATED LITERATURE

2.3.1 CREDIT MANAGEMENT IN DIAMOND TRUST BANK.

The process of credit management in Diamond Trust Bank begins with accurately assessing the credit-worthiness of the customer base. This is particularly important if the company chooses to extend some type of credit line or resolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

After establishing the credit limit for a customer, credit management focuses on providing the client with accurate and timely statements or invoices. The invoices must be delivered to the customer in a reasonable amount of time before the due date, thus providing the customer with a reasonable period to comply with the purchase terms. The period between delivery of the invoice and the due date should also allow enough time for the customer to review the invoice and contact the vendor if there are any questions or concerns about a line item on the invoice. This allows all parties concerned time to review the question and come to some type of resolution.

When the process of credit management functions efficiently, everyone involved benefits from the effort. The vendor has a reasonable amount of assurance that invoices issued to a client will be paid within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong rapport with the vendor and thus create a solid credit reference.

2.3.2 CREDIT APPLICATION PROCESS IN DIAMOND TRUST BANK

According to Kakulu a credit analyst Diamond Trust Bank over the years, it is sometimes possible to increase sales by granting credit to selected clients who may choose to do business with us because of the convenience and benefits offered by our credit facilities. If you choose to provide this option be sure to develop a sound credit application process which includes a thorough check of client credit ratings before granting approval. Allowing some clients to purchase on credit is like offering them an interest free loan, and you are not obliged to provide credit to risky clients. Allowing clients to defer payments increases the risk of bad debts occurring and draining your cash flow, so it's vital that you identify good customers and screen businesses with a poor credit history to minimize bad debts and avoid cash flow problems. Develop a credit application form and have the draft checked by your lawyer. The credit application and approval process could include, but is not limited to the following steps:

The completion of a credit application form which requests full business and personal contact details, trading name, credit guarantors, referees, and the number of years in business, asking for details of suppliers who can be contacted as referees and then checking the client's payment habits with the referees, requesting bank references, asking the client to sign a directors' guarantee which makes the directors of a company personally liable for any debts incurred with your business, checking the client's business registration ,obtaining a credit report to determine whether the client is credit worthy, periodically evaluating the credit rating of your existing credit clients.

Alternatives to providing Credit

You may find it necessary to reject credit applications in some cases. Rather than risk losing the client entirely, you might suggest alternative payment methods while your client establishes a trading history with you. Review the client's situation after a specified volume of trade, number of orders, or period of time.

The alternative methods may include: requesting cash on delivery for new clients until a trading history is established, collecting a deposit before making a supply to cover costs of materials and overheads, and as an indication of their ability and intention to pay, collecting progress payments that are linked to achieving major milestones.

Terms and conditions used in Credit management

Diamond Trust Bank Clearly states in writing the terms and conditions of trade and their credit policies . Draft terms and conditions that suit your business. It is strongly advised you seek legal advice before finalizing the document to ensure it has internal consistency and covers all the key issues. It's also important to ensure the document does not contain any illegal terms and can be relied on in the event that court action is necessary to recover a loan. Include your terms on all quotes, estimates, contracts, agreements, purchase orders, and related documentation. Obtain a written acceptance of the agreement along with written approval of any variations to the original agreement. Some terms and conditions to consider include, but are not limited to penalties for late payment – you must specify the exact fees and rate of interest, retention of title' clause where the seller retains title to the goods until payment is made, your policy on returns and refunds, your policy on refund of deposits, incentives for early payment and whether a fee is charged for payment by cash. The amount in shillings or the percentage to be charged must be disclosed.
Include accurate details on your invoice for the goods or services supplied, the amount due along with the date and preferred payment method. Always try to resolve invoice queries or disputes quickly.
Maintaining debtors' records to identify any due or overdue debts. Developing a good records management system and keep records up to date so they can quickly identify who owes them money and how much is owed.
Taking a proactive approach to credit management by contacting clients a few days before the due date to remind them a payment is due and ask if they foresee any problems with meeting their payment.
Implementing debt collection practices the minute a debt becomes overdue and ensure clients do not exceed their credit limits.

2.4 LOAN RECOVERY IN DIAMOND TRUST BANK

Definitions of loan recovery

Account receivable previously written off as uncollectible is now collected. The entry is to reverse the original write-off by debiting accounts receivable and crediting allowance for bad debts. A second entry is required for the collection by debiting cash and crediting accounts receivable. A high ratio of recoveries to write-offs may signify to the analyst that the firm writes off uncollected debts too quickly according to Carty, L. (2000)

Loan recovery is the attempt by financial institution to fully achieve repayments of loans in regards to the principal and the interest in the stated period of time. Remember, a debt from a loan, credit line or accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt. Because it generally generates a loss when it is written off, a bad debt recovery usually produces income. (Grossman, 2001)

You may still incur bad Loan even with sound credit management policies and procedures. There are a several methods with escalating degrees of severity that you can use to recover these bad debts. It is advisable to use a measured approach and select the most appropriate method to recover the debt while maintaining the relationship with your client.

Essentially, an unpaid invoice is a breach of contract. Disputes arise when parties to a contract don't do what they agreed - in this case - paying for products or services supplied. You can learn more about the options available to resolve your contract dispute. Generally, your Loan collection options include: personal communication and consultation with your client, a written request to settle the debt (letter of demand), a debt collection agency, legal action, Communication.

Chase overdue invoices immediately. Contact your client by phone or email the day after the invoice is due. This lets your client know that you keep close track of your accounts receivable. Sometimes invoices get lost or overlooked, so maintain positive relationships with your client and be polite and friendly.

Ask if the client is experiencing a short-term problem or if there's a valid reason for not making the payment. Decide how valuable the client is to your business. You may be willing to temporarily extend their credit terms, or you might cancel the client's credit agreement if late payments become a persistent problem.

Letter of demand

If communication and consultation with the client does not result in payment of the Loan, you may decide to send a letter of demand. This gives your client the opportunity to pay the Loan without spending the time and money associated with legal proceedings. Keep a copy of the letter of demand you send the client as it may be required as evidence that you tried to recover the Loan if you proceed with legal action. Either you or your lawyer can draft a letter of demand. When drafting a letter of demand you should not harass the debtor or design it to look like a court document. These Loan collection practices are illegal.

The letter of demand should state details of the Loan (dates, agreements, amounts due, and days overdue),include copies of applicable quotes or invoices, request that payment be made by a certain date, warn that debt recovery options will be pursued if payment is not received by the nominated date.

Loan recovery options

In looking at your Loan recovery options consider the real chances of recovery, the time taken away from your business in pursuing the Loan, Loan collector agency costs, the legal and court costs, whether costs will be recoverable from the debtor, the need to obtain legal advice, Hire a Loan collector-A Loan collector recovers payment on behalf of another person for outstanding Loan that individuals or businesses are legally obliged to pay. Demands for payment can be made in writing, verbally over the telephone, or in person, Legal proceedings-Be prepared to follow through with any warning about legal action in your letter of demand. Some legal proceedings may become complex and expensive.

The Value of recovery

Valuing the real secured loan recovery also includes estimating what can be wrung from recourse parties, including guarantors. On the legal side, this part of the estimation begins at the question whether a deficiency judgment or judgment on a guaranty can be obtained under applicable law. The scenarios for legal analysis may include: selecting among different foreclosure methods offering differing time-lines for liquidation, 10 weighing options under loan documents as they may be affected by the laws of more than one jurisdiction, choosing the safest

The Value to the Lender of the Security

Estimating the value of a secured loan recovery includes business and legal aspects. The task starts in all cases with estimating the value to the lender of the real estate security. The typical approach is to have the collateral appraised by a professional appraiser, and to update the appraisal periodically. That method results in an indication of value for the property in the hands of the borrower. In the rubric of appraisal, the borrower is presumed to be a willing seller on an open market. Therefore under the customary loan enforcement scenario in which the borrower is not cooperative, the standard appraisal does not conclusively indicate how to value the property as part of the loan recovery. To derive an indication of value to the lender, two principal adjustments probably need to be made

The determinants of bank loan recovery rates

The factors that affect loan recoveries may differ from those that influence bond recoveries, however. For instance, bank loans are more likely to be secured than bonds and secured lenders recover more, on average, than unsecured creditors. Bank loans also are typically senior to bonds in a company's capital structure. According to the absolute priority rule, which establishes priority of claims in liquidation, bank lenders should generally recover more from defaulted debt than bondholders. Also, theory and evidence argue that bankers have a comparative advantage over bondholders in monitoring borrowers' financial and operational behavior (Diamond, 1984). When resolving defaults, bankers tend to be more involved in the restructuring process by becoming major stockholders or appointing new directors than bondholders (Gilson, 1990). This should result in lower agency costs and higher expected recoveries for loans. Finally, bank loans are more likely to be restructured privately than publicly and private resolution tends to result in higher recoveries (Franks and Torous, 1994). These differences between loans and bonds loans appear to warrant an investigation focused solely on loan recovery rates.

Firm size influences recoveries differently across different types of loans. A variety of loan contract features are strongly related to the ultimate payoff to creditors. Secured loans have higher recoveries than unsecured. Prepackaged bankruptcy reorganizations increase actual settlements. Loan recoveries are nonlinearly related to the length of time to emergence. Recoveries improve with macroeconomic conditions. The probability of default measured at the time of loan origination is unrelated to ultimate recoveries.

On a descriptive level, several empirical studies on defaulted loans show that the recovery rates exhibit a bimodal distribution (Araten et al. (2004). That is, many defaults result in full recovery, while the weight of others has zero or very low recovery rates. Dermine and Neto de Carvalho (2006) find a similar distribution for loans in a sample drawn from one bank. Other studies do not confirm bimodality, but instead show that loan recovery rates are skewed to the right, while bond recoveries are skewed to the left. The inconsistent results in these studies may be due to differences in datasets and/or time periods.

Emery (2007) finds the recovery rate on bank loans averages 80% at resolution, compared to only 65% for bonds. Edwards (1995) present a univariate analysis of bank loan default data on 831 commercial and industrial loans and 89 structured loans3 made by over 24 years and find an average recovery of 65% for C&I loans and 87% for structured loans. The higher recovery rate on structured loans reflects the fact that such loans are heavily collateralized and contain many restrictive covenants. Srinivasan (2007) report a recovery rate of 81.12% for bank loans, 59% for senior secured bonds, 56% for senior unsecured bonds, 34% for senior subordinated bonds, 27% for subordinated bonds, and 18% for junior subordinated bonds for the period from 1982 to 1999.

Altman (2006) notes that collateral values, which theory suggests and evidence shows affect bond and loan recovery rates, decline as economic conditions deteriorate, while at the same time the number of defaults increases. Altman, Brady, Resti, and Sironi (2005) find a negative relation between aggregate default rates and recovery rates on bonds over the period 1982-2002. They show that previous studies, which ignored this correlation, understated both expected and unexpected losses. Perraudin (2002) find that aggregate issuer-based default rates are negatively related to recovery rates (-22% for post-1982 quarters and -19% for 1971-2000 quarters).

On the theoretical front, a number of models have recently been developed that explicitly investigate the default-recovery correlation. In a model for implied recoveries, Hanouna (2007) use a Merton (1974)-based technique for extracting recovery rate term structures from credit default swap spread curves and empirically find that the recoveries over the period 2000-2002 exhibit a strong negative correlation with default probabilities.

2.5 CAUSES OF LOAN DEFAULT IN DIAMOND TRUST BANK.

According to Lando, David (2004), One major problem which the banks are facing is the problem of recovery and overdue of loans. The reasons behind this may vary for different financial institutions as it depends upon the respective nature of loans. Here an attempt is made to find out the some causes of default of loans due to which financial Institutions are facing the problems of overdue of loans. The recovery officers of different banks are interviewed for finding out the causes of defaults. These reasons may be useful for the and Banks for the better recovery of loans in future. After surveying different banks, the following can be said to be some of the main causes of default of loans from Diamond Trust Bank.

Improper selection of an entrepreneur: Selection of the right Entrepreneur is one of the major factors in the profitability of Banks. Two major criterions namely the intention to repay and the capacity to repay should be properly dealt with in Credit Evaluation. The entrepreneurs who have the willingness, capabilities, qualities and the requisite expertise for successfully setting up and running an industrial unit, should be identified with proper prudence and judiciousness. This is the best way of safeguarding the investment of a bank, thereby ensuring proper and timely repayment. Unbiased survey reports of the site and capability of the Entrepreneur must be verified by the surveyor. In other words the credit worthiness of the entrepreneur as well as the project should undergo very careful scrutiny before the sanctioning of the loan. Strict measures and security should be taken before the sanctioning of the loan. Kenneth J. Singleton (2003)

Deficient analysis of project Viability: One of the important reasons for poor recovery of loan is attributable to wrong selection of projects. Success of any project depends upon the viability of the project, and the viability in turn, depends upon the easy availability of raw material, transportation, railways, skilled labour, communication facilities, markets etc. If any of the above is not easily available to the entrepreneur it results in an increase in the cost of the project and also in delay of production. This inevitably causes default in repayment of loans. There are many examples where the banks accede to finance projects deficient in one or more of these areas. In usual practice, when an entrepreneur approach for a loan he presents his project in such a way that no one can easily comprehend the non-availability of the primary prerequisites. All the weak points are camouflaged and only strong points of the project are highlighted - Dubois & Anderson (2010).

Inadequacy of Collateral Security/Equitable Mortgage against Loan: Collateral Security by way of mortgage of immovable property or other fixed assets, thereby creating a charge, trains the mind of the borrower to be prepared to pay the dues to the lenders. But when he is free from this fear of losing his encumbered asset in the event of his defaulting in the payment of dues to banks, he often takes the liberty, and tends to weigh the pros and cons vis-à-vis default. Security against loan, though at times may fall harsh on the borrower, serves a worthwhile purpose in that it creates promoters' stake in the borrowers and thus, disciplines the borrower to be more committed in paying the dues to Banks. Samavati, Dilts (1995)

Unrealistic Terms and Schedule of Repayment: Occasions are not few when there develops a tendency on the part of the financers to paint a rosy picture of the project at the time of appraisal. If the sanctioning authority is guided by considerations of personal interests, many things may happen. The breakeven point of a project may be shown at an unrealistically low level of operation, or profitability may be shown at an unduly high level just to brighten the chances of acceptability of the project by the financial institution; or cash inflow may be shown in an unduly optimistic manner and, therefore, Debts Service Coverage Ratio (DSCR) worked out incorrectly, fixing unrealistically high installments and conservative schedule of repayments. These inner pulls and pressures may find reflection in fixing excessive amounts of installments in order to show an early period of repayment. The borrower at this stage finds himself in an unenviable position of a 'Yes Master' and nods his head at whatever conditions are attached or whatever repayment schedule is fixed by the financial institutions, in all probability, covering up his design to evade payment of the future dues. And, the real problem surfaces when repayment of installment/payment of interest falls due and the borrower conveniently and blissfully ignores calls for clearance of the said dues, not so much due to his intention to defraud the loans, as due to him already bleeding white to keep his concern going - Steven M.Sheffrin (2003).

Lack of Follow up Measures: "A stitch in time saves nine". Follow-up measures taken regularly and systematically keep the borrowing unit under constant vigil of the banks. Many ills can be checked through such follow-up measures by keeping the borrowing units on their alertness and guiding them to rectify their mistakes in the first opportunities or extending them a helping hand in tiding over their tight times. Normally, such close follow-up programs are conspicuous by their absence. In the result, the borrowing units not only ignore payment of their dues to banks but also often tread on wrong tracks, much to the detriment of their own financial health and that of the banks. Performance of the borrowing units, if carefully and systematically monitored through regular inspections by scrutiny of returns, annual balance sheet and inspection of site, can be significantly improved. Naturally, such inspections prevent the borrowers from deviating from the terms and conditions of the loan or from diverting any fund for purpose other than those earmarked in the sanction letter and keep the financial health of the units in good order – Sullivan Arthur (2003).

Labour problems: The labour situation in Uganda can be broadly classified into two categories namely availability and welfare related problems. Skilled labour is in shortage for many specialized industrial units particularly because of the geographical situation of such units. Shortage of labour results in unwarranted deceleration of production thereby hampering the profitability of the concerned unit. On the other hand labour welfare is grossly neglected by industrial units leading to a feeling of dissatisfaction and disgruntlement among the working force. However, it would be pertinent to mention here, that there are numerous instances where political and vested interests tend to instigate labour problems – Rahnama Moghadam (1995).

Default due to natural calamities: A certain proportion of default can be attributed to natural calamities such as floods, earthquakes, storms, etc. Prima-facie this would seen to be a factor beyond human control. A more detailed insight, would however, suggest that certain precautionary preventive measures such as proper meteorological and topographical analysis of the industrial site can go a long way in reducing this element of risk. Natural calamities not only affect the unit directly but also exert additional burden on the Government in terms of relief measures, waivers etc. A further fraction, albeit nominal, is of such borrowers who tend to take undue advantage of such natural calamities in order to avoid repayment, thereby increasing the magnitude of default - Olivier Renault (2004)

2.6 THE LEVEL OF LOAN DEFAULTERS IN DIAMOND TRUST BANK

The level of loan defaulters in diamond trust bank can be divided into four factors namely individual/borrowers factors, firm factors, loan factors and institutional/lender factors. Several studies show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not. Besides characters of the borrowers, collateral requirements, capacity or ability to repay and condition of the market should be considered before giving loans to the borrowers.

Carvalho (2006 classify factors that should affect loan recoveries into four groups: 1) loan characteristics, 2) recovery process characteristics, 3) borrower characteristics, and 4) "external" factors, such as macroeconomic conditions and industry characteristics. We also examine whether the probability of default is related to recovery. We will discuss the prospective roles of factors within each group, including references to existing empirical evidence, where relevant.

Loan characteristics:

Loan size and Loan type could be some of the loan characteristic that influences the level of loan defaulters. Dermine and Neto de Carvalho (2006) find, for example, that loan size has a negative association with actual recovery rates accumulated 12 to 48 months after default. The authors argue that banks are likely to delay foreclosure on large loans because other clients of the bank who conduct business with the large borrower would be adversely affected by foreclosure and perhaps default on their own loans. This "spill-over effect" results in lower recovery rates when these large loans eventually do enter the default state. However, Acharya et al. (2007)

contend that larger loans should have higher recoveries because larger borrowers have greater bargaining power in bankruptcy.

Loan types may affect how much creditors recover when borrowers default. Our Moody's data, which contain loans to commercial and industrial companies only, permit two classifications: term loans and revolving credits. A term loan is normally used to finance long term projects such as the purchase of fixed assets or building a manufacturing plant. A revolving credit is typically short term in nature, smaller in size, and more often granted without collateral than a term loan. Covitz, (2004),

Borrower characteristics:

Borrower characteristics are commonly included as explanatory variables in research involving bond recoveries according to Covitz and Han, 2004. However, existing loan recovery studies include only a limited number of firm characteristics. The question at hand is: Thorburn (2000) studies debt recovery rates from Loan defaults without specifying whether the focus is on bonds or loans and includes size and profit margins as the only two firm characteristics. Firm size. The impact of firm size on recoveries is ambiguous ex ante. On the one hand, large firm size may proxy for high bankruptcy costs, which may in turn result in lower recovery rates. Franks and Torous (1994) find that larger firm size represents greater complexity of bargaining, which increases the write-downs creditors make of their claims in exchange for debtors' speedy repayments. Thorburn (2000) studies recovery rates in small firms going through auction bankruptcies and finds they are negatively related to firm size. On the other hand, larger firms presumably present less severe information asymmetry problems to investors (Jensen and Meckling, 1984). If this is the case, the restructuring process is likely to occur more quickly for large firms than for small ones, which may in turn improve recoveries for lenders. Cash flows, asset tangibility, and leverage, Like Acharya et al. (2007), we include cash flows, asset tangibility, and firm leverage one year before default as borrower-related explanatory variables in the recovery model. Higher cash flows, which we measure as the EBITDA one year before default scaled by total book-value assets, should positively affect recoveries. Acharya et al. (2007) argue that more cash-rich firms can attract higher prices for their assets from potential buyers, holding other variables constant. In addition, more operationally sound firms that enter the default state are more likely to negotiate outside of court systems to resolve distress than firms with weak cash flows before default (Ryan, 2008; Frank and Torous, 1994), which lowers costs and enhances recovery.

Higher asset tangibility should potentially increase recovery value for creditors. Williamson (1988) argues that debt holders' recovery depends on the degree to which the borrower's assets are not designated to specific uses or are re-deployable. We measure asset re-deployability or tangibility as the sum of net property, plant, and equipment as a ratio of total assets one year before default. Conditional on the impact of any assets pledged as collateral on recovery, this variable should enter our model with a positive coefficient, reflecting the marginal effect of tangible assets on which lenders can exercise a claim. However, a significant negative relationship between leverage and recovery (Acharya et al., 2007; Varma and Cantor, 2004).Acharya et al. (2007) argue that higher-leverage firms tend to have greater dispersion of debt ownership. This complicates restructuring negotiations to resolve the default and results in lower recovery rates.

Macroeconomic conditions:

Loan defaulters are lower during recessions than during economic expansions. Business cycles, not surprisingly, are also linked to the probability of default (Gersbach and Lipponer, 2003). Frye (2000), estimates that recoveries during downturns decline 20% to 25% relative to normal-year recoveries. Covitz and Han (2004) find a nonlinear relationship between economic conditions and loan recoveries. Recovery at default increases as economic conditions improve, but then decreases as the economy becomes robust. They argue that in robust economic conditions, firms must have experienced significantly bad shocks before they defaulted, which in turn reduces recoveries. Querci (2008) use a large sample of 11,649 loans to households and small and medium enterprises (SME) from the five largest Italian banks between 1990 and 2004 and find that LGD depends on various macroeconomic variables.

2.7 LOAN RECOVERY PROCESS IN DIAMOND TRUST BANK

A default can usually be resolved in two ways: restructuring (or reorganization) or liquidation. Restructuring/reorganization can be public or private. A private reorganization is often referred to as a private workout or out-of-court settlement. Time to emergence, "The time it takes a defaulting borrower to emerge from bankruptcy or restructuring should also affect recovery rates". The shorter this time horizon, the lower will be the costs the firm incurs in its legal battle for a new life. Also, a longer time to emergence may indicate that different stakeholders are having difficulty identifying the fair value of the defaulting firm's assets relative to its liabilities. Carty (1998) argues that uncertainty about the eventual settlement date makes bankrupt debt less attractive to investors, who demand a premium on such investments. He also points out that both secured and unsecured claimholders may not be paid interest during the workout period, so neither would prefer a long, drawn-out path to resolution.

Wilson (2006) find that recovery rates from 1983 to 2002 are nonlinearly related to the time in default. In particular, they document that bond recovery rates increase with time in default for the first one and a half years post-default, but then start to decrease. Since the current study involves only bank loans, we are aware that the effect of this quadratic term may be different from that in bond studies. Bank holders are not as dispersed as bondholders, so negotiations with defaulting firms may proceed more quickly in the case of loans.

2.8 THE SOLUTIONS TO CREDIT MANAGEMENT AND LOAN RECOVERY IN DIAMOND TRUST BANK.

The growth of various banking institutions has largely contributed to an increase in lending to borrowers. It is vital to note that, today's economic growth poses a big challenge to lenders to predict borrowers' performance in recessionary conditions. Which calls for Credit assessment procedures to be put in place for Diamond Trust Bank and the following are some of the solutions to credit management and loan recovery in Diamond Trust Bank.

Credit scoring

The bank should evaluate whether customers should or should not be granted credit through loan screening aids such as advances in data technology, changes in regulatory environment, the firm's future profitability, the amount of the owners equity in the business (Lewis, 1992) Banks and micro finance institutions often rely on information to screen loan applicants and for monitoring borrowers through repeated interaction with their customers. Darmad, (2002) pointed out considerations such as candidates' work experiences, collecting data from candidates' employers and establishing how long the business has been in existence. In view of the above remarks and fact findings, it is significant to appreciate the complexity of the problem and hence a need to design a suitable system to address the related problems

Screening and Monitoring

Typical screening techniques of micro clienteles receiving individual loan services involve credit officers making personal reference checks about prospective borrowers with informed individuals in the communities, with suppliers in the markets, and with other informal as well as formal lenders. Inspecting the business premises and the borrower's residence are also important means of verifying information and marking permanent locations for the borrowers. Cash-flow analysis of the business and expenditure flow documentation of the household establishes the parameters within which feasible loan repayments can be scheduled. These business and household analyses of cash flow are essential features of the lending methodology given that collateral is less important in screening these clients. In most cases, this screening process is done on an individual basis Srinivasan, (2007)

Repayment, Disbursement, and Collateral

According to Altman, (2006) similarities between Commercial banks and micro loans is the frequent repayment schedule that Commercial Banks seem to have adopted for their micro loans. Bi-monthly, weekly, and even daily repayments are associated with micro loans in a number of institutions, in addition to the more traditional monthly repayments. This shorter time period facilitates monitoring and is usually calibrated to the cash flow in the business. At the other end of the loan process is the significantly shorter time spent in processing micro loans, ranging from one to seven days.

Operational cost ratios

Examiners also review and compare operating cost ratios to assess trends in profitability. Operating cost ratios in microfinance institutions are higher than most banks given the high transactions costs of small loans. This facilitates in compensating for the unrecovered loans through charging of higher interest rates (Sironi, 2005)

On-site examination and loan documentation

Commercial Bank examiners such as Diamond Trust Bank examiners usually review 30 percent of a bank's loan portfolio to ensure asset quality, accuracy of reports, and adequacy of loan approval procedures. This of course makes sense for Banks with in that guidelines on what documentation should exist for each loan, which examiners frequently spot check (such as credit history records, mortgage documents, financial statements, business plans), are also inappropriate for micro loans (Basel, 2006)

Legal reserve requirements

Varshney, (2004), suggested that deposits of important documentation especially one equivalent to the value of the secured loan should be availed as security for the loan for example bonds and land tittles.

Reporting requirements

Bank authorities generally require frequent and detailed reports from clients. These reporting requirements for the Bank keep track of the borrowers and their performance to recover the loan Because Commercial bank programs tend to have thousands of loans, reporting data on each loan is important (Basel 2004)

Loan classification and provisioning

In most Commercial Bank institutions require to establish reserves based on the quality of their loan portfolio. A number of Commercial Banks executives spoke of the difficulties encountered with bank examiners as they sought to classify hundreds of tiny, short-term, and unsecured loans. Invariably the tendency of the examiner is to push for greater provisioning of the unsecured micro loans, despite the fact that delinquency levels are to or better than the rest of the bank's portfolio.

2.9 CONCLUSION

There are a few academic studies on recovery rates on defaulted debt instruments. In addition, much more research has been devoted to default than to recovery, it is important to understand the factors that influence recovery as well as default. Diamond Trust Bank ltd should implemented the system of credit Management and lending procedures by stricter separation of responsibilities between risk Management , lending decisions and monitoring functions to improve the quality and soundness of loan recovery and portfolio.

Loan defaulting is one of the critical issues of Commercial banks that concerns all stakeholders (Maata, 2004; Godquin, 2004) where the high loan default rate is the primary cause of the failure of Commercial banks (Woolcock, 1999; Marr, 2002). The agency problem, adverse selection and moral hazard that appear as a result of information asymmetries are the main reason why these happened. This is because the lenders cannot observe the behaviors of their clients either they are honest and dishonest. The lenders can only observe the outcome of their loans either the clients repay or not. Therefore, to mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can introduced reward system to those that paid on time such as rebate or discount.

CHAPTER THREE: METHODOLOGY

3.0 INTODUCTION

This chapter covers the description of the research design, type of data, methods of collecting data, scope of the study, data processing, data presentation and analysis of the findings.

3.1 RESEARCH DESIGN

The study was analytical and descriptive in nature basing on qualitative data. The researcher also used longitudinal research design where by each Variable will be analyzed after the other to investigate the problems and come out with solutions to credit management and loan recovery in Diamond Trust Bank.

3.2 TYPE AND SOURCE OF DATA

The study adopted both primary and secondary sources of data which includes journals, articles, textbooks, internet and magazines which had relevant information that were related to the Variables.

3.3 AREA OF THE STUDY.

It focused on the recommendations to loan recovery and credit management .The study was conducted in Diamond Trust Bank, Main Branch Kampala. Being the branch bank, it was appropriate for the intern students, since it has all the relevant information and it is convenient.

3.4 METHODS OF COLLECTING DATA

The data was collected through documentary review and abstract. Documents were received and information abstracted in order to get relevant data on the two variables of the study. Data from electronic sources were obtained through consulting internet.

3.5 DATA PROCESSING

The Researcher used longitudinal data collected from documentary review whereby it was decoded then readjusted to the correct tense in order to come out with recommendations to credit management and loan recovery in Diamond Trust Bank.

3.6 DATA PRESENTATION AND ANALYSIS.

The Findings were presented in a comprehensive and summarized form and analysis of findings was through comparing and contrasting opinions of different authors of literature as qualitative techniques.

3.7 DATA COLLECTION.

Questionnaires

This was through designed questionnaires which were both opened and closed .They were constructed and given to clients to fill it.

Interview

The Researcher conducted the interview separately with one staff member to acquire the information on measures to control defaulters.

3.8 SAMPLE SIZE, SELECTION PROCEDURE AND POPULATION

A Random population was taken with in Diamond Trust Bank and was concerned with the administrators and Clients within Diamond Trust Bank Main branch.

The 2 administrators were the assistant branch manager and loan officer. 24 clients who have been consistently doing business with Diamond Trust Bank

It was carried out in order to get information about their dealings with the bank in loan issuing, out of the 24 questionnaires which were randomly given out, only 15 were returned.

Purposive sampling method was used to acquire the final information from clients and Administrators.

SAMPLE	SIZE
Administrators	2
Clients(given questionnaires)	
Male	13
Female	11
Clients (Returned Questionnaires)	
Male	7
Female.	8

3.9 LIMITATIONS OF THE STUDY.

Poor Co-operation

It was arising from the respondent who became suspicious and could not review the information in fear that the researcher might be spying on his financial status, hence, this had to be resolved by the researcher introducing the recommendation letter from the University to identify her as a student.

Financial constraints

The study requires finances to facilitate the typing, printing, editing, internet, transport, which is quite expensive.

Questionnaires sent to respondent some of them were not all answered and returned.

This limited the study and some vital information of the financial report was given.

Time constraint

Limited time with the ongoing lectures, course works. It is not easy doing them at the same time at a balance.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.0 Introduction

This chapter presents and explains the findings of the survey of the respondents. The presentation is guided by the research objectives in chapter one. The findings are summarized from the primary sources of data presented in tables showing frequencies, graphs and percentage contribution. This chapter presents the demographics of the samples and the results on credit management and loan recovery in Diamond Trust Bank

This Chapter seeks to set out a discussion on interpretation of the findings in line with the research objectives which include:

i. The credit Management in Diamond Trust Bank
ii. The Causes of Loan Default
iii. The solutions to credit Management and loan recovery

4.1 Descriptive statistics

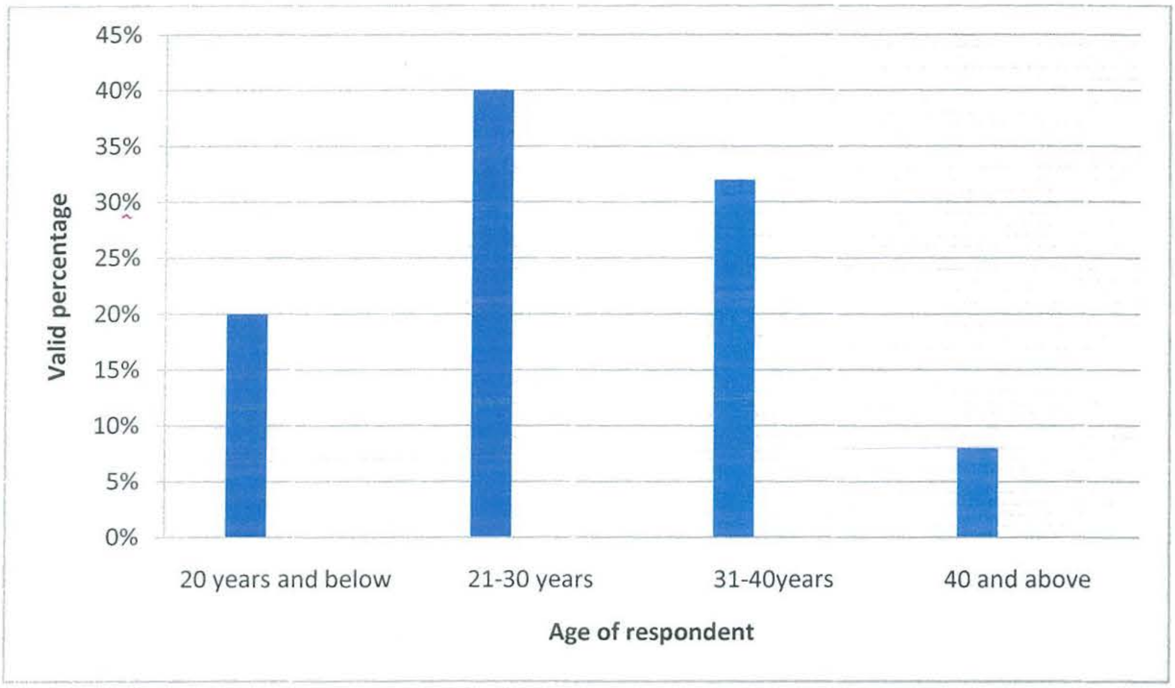
Information was explored in form of age, sex, level of education, marital status years of experience and qualification of employees.

Table 4.1.1: Findings on age of respondents in Diamond Trust Bank

Age of respondents	No of Respondents	Valid %
Below 20 years	5	20%
21-30 years	10	40%
31-40	8	32%
40 and above	2	8%
Total	**25**	**100**

Source: Primary data

Figure 4.1.2: Graph illustrates findings on the age of respondents in Diamond Trust Bank.



Source: Primary data

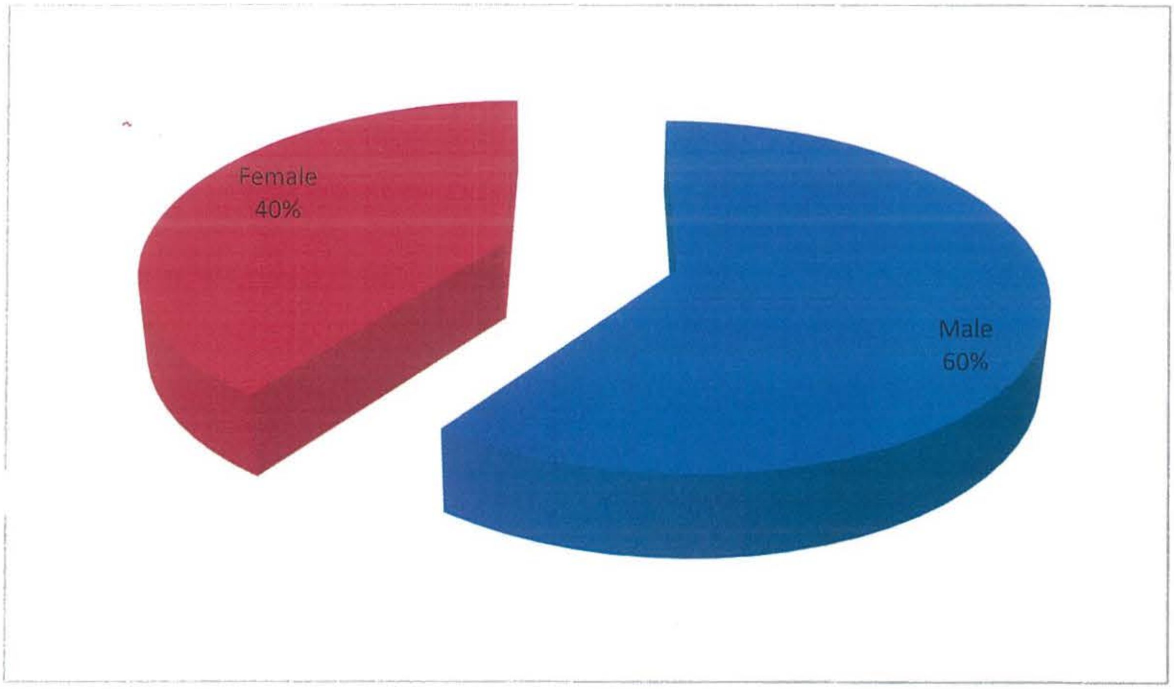
The age brackets that dominated the survey were between (21-30) contributing 40% .This is because such employees are equipped with skills of doing such kind of work. In addition such employees are energetic for example Loan officers sometimes go the field in such of customers. Employees above 40 years got less score due to Uganda laws regulating workers and the kind of work requires young and fresh graduate.

Table 4.2.1: Findings on sex of respondents in Diamond Trust Bank

Sex	No. of respondents	Valid Percentage
Male	15	60%
Female	10	40%
Total	**25**	**100**

Source: Primary Data.

Figure 4.2.2: Pie Chart showing findings on sex of respondents in percentage in Diamond Trust Bank.



Source: Primary Data.

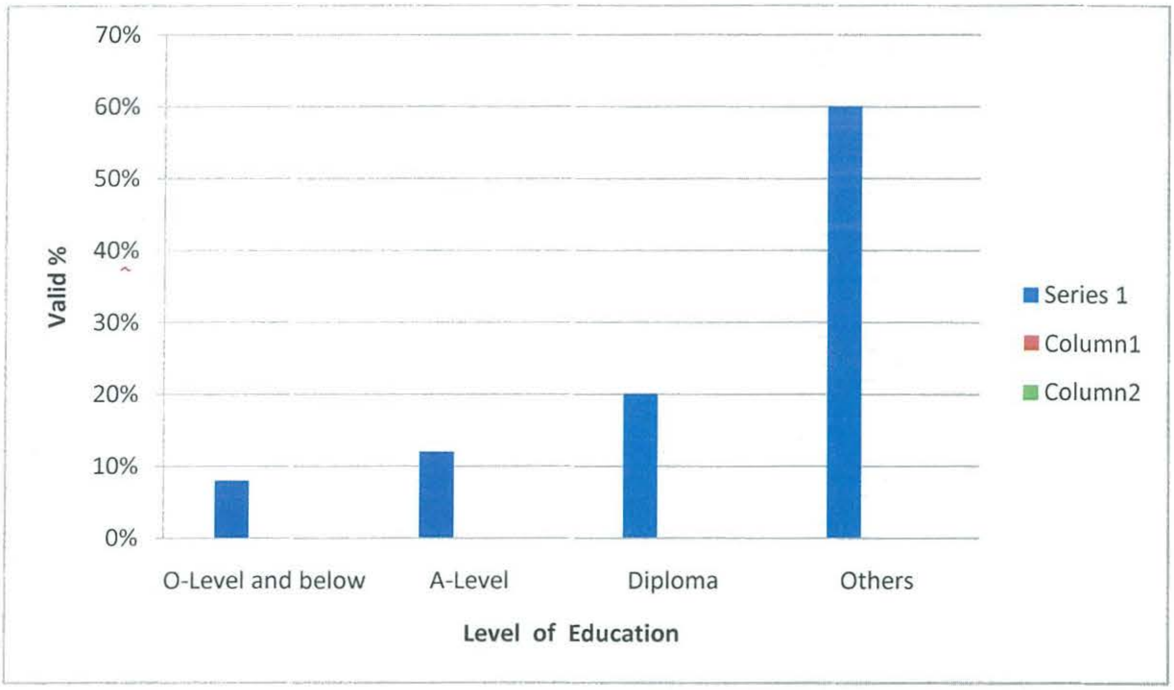
Table 2 shows that majority of the respondents were Male contributing 60% while Females contributed only 40%. This is due to the nature of work which requires a lot of Flexibility and risks involved to it.

Table 4.3.1: Findings on Qualification of employees in Diamond Trust Bank

Qualification	No. of Respondents	Valid Percentage
O-Level and above	1	8%
A-Level	3	12%
Diploma	6	20%
Others	15	60%
Total	**25**	**100**

Source: Primary data.

Figure 4.3.2: Graph Illustrate Findings on Qualification of employees in Diamond Trust Bank.



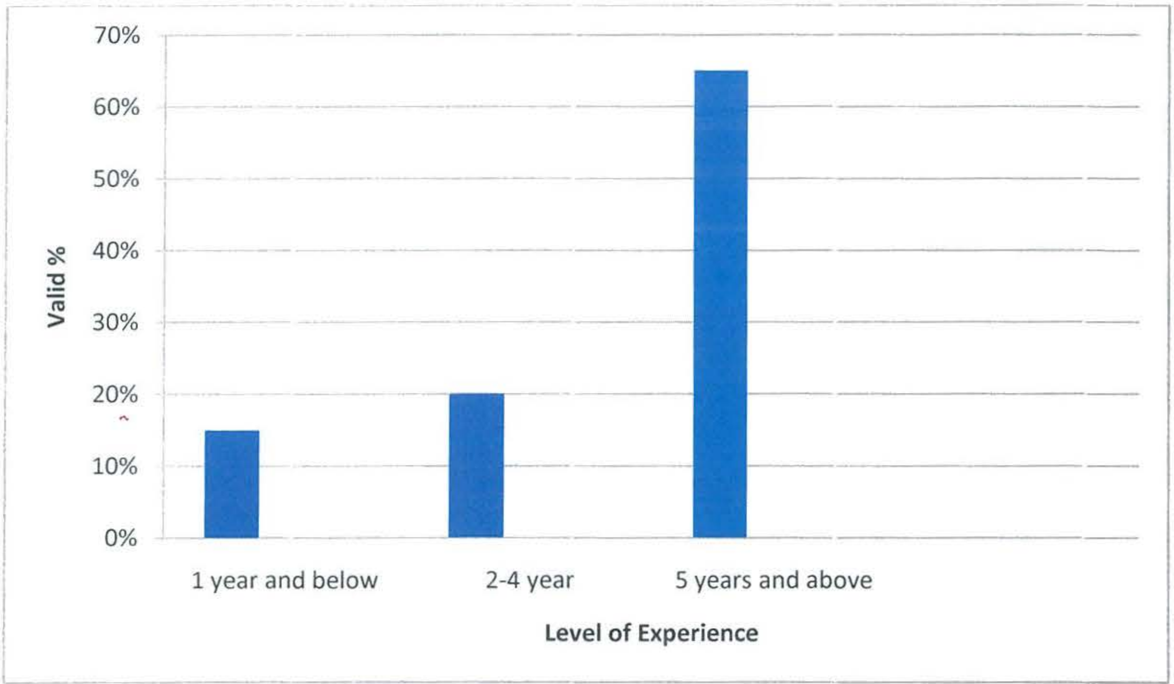
From the table above it shows that most of the respondents are either degree holders or have attained more than that to give the required responses, this is represented by 60%,followed by diploma holders who work as loan officers, Drivers who are A-level holders represented by 12% and the O-level graduate work as cleaners.

Table 4.4.1: Findings on the level of experience of employees in Diamond Trust Bank

Response	**No. Respondents**	**Valid Percentage**
1 year and below	3	15%
2-4 years	5	20%
5 years and Above	17	65%
Total	**20**	**100**

Source: Primary data

Figure 4.4.2: Graph Illustrates level of experience of employees in Diamond Trust Bank



Source: Primary Data.

The years of employment dominated the survey was 5 years and above contributing to 65% this implies that they are more experienced in execution of work, and have desire for promotion while the remaining 35% are less experienced by the fact that they are new in the organization.

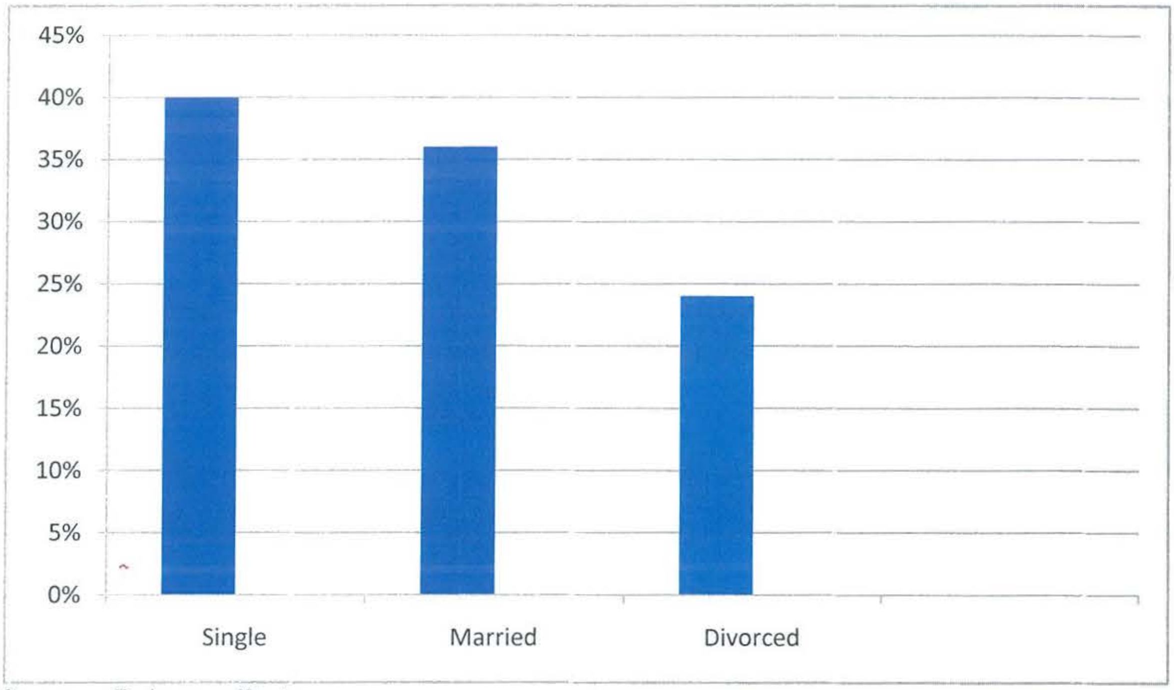
Table 4.5.1: Findings on Marital status of Respondents in Diamond Trust Bank

RESPONSE	FREQUENCE	PERCENTAGE
Single	10	40%
Married	9	36%
Divorced	6	24%
Total	**25**	**100%**

Source : Primary data.

From the table above majority of the respondents are not married representing 64% and the rest are married representing 36%.

Figure 4.5.2. Graph representing Marital status of Respondents in Diamond Trust Bank.



Source: Primary Data.

4.6.1 Findings on Credit Management in Diamond Trust Bank

This was meant to establish the responses of the different respondents about Credit Management in Diamond Trust Bank. The responses are tabulated following a closed ended and open questionnaire where the frequencies and the percentages of the outcome are used to derive meaning by the researcher.

Table 4.6.1: Finding on Credit Management in Diamond Trust Bank.

Response	Frequency	Percentage
Agree	18	75%
Disagree	5	20%
Not sure	2	5%
Total	**25**	**100%**

Source: primary data

The findings in the above table 4.3.1 represents that majority of the respondents (75%) agree that there is Credit Management in Diamond Trust Bank although some respondents (20%) disagree.

Figure 4.6.2: Graph showing Credit Management in Diamond Trust Bank.

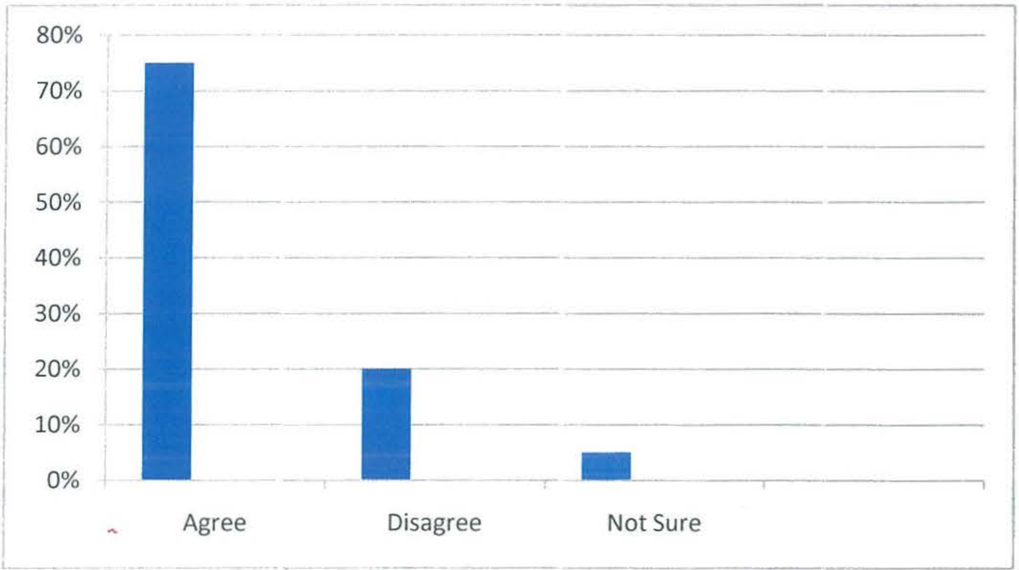


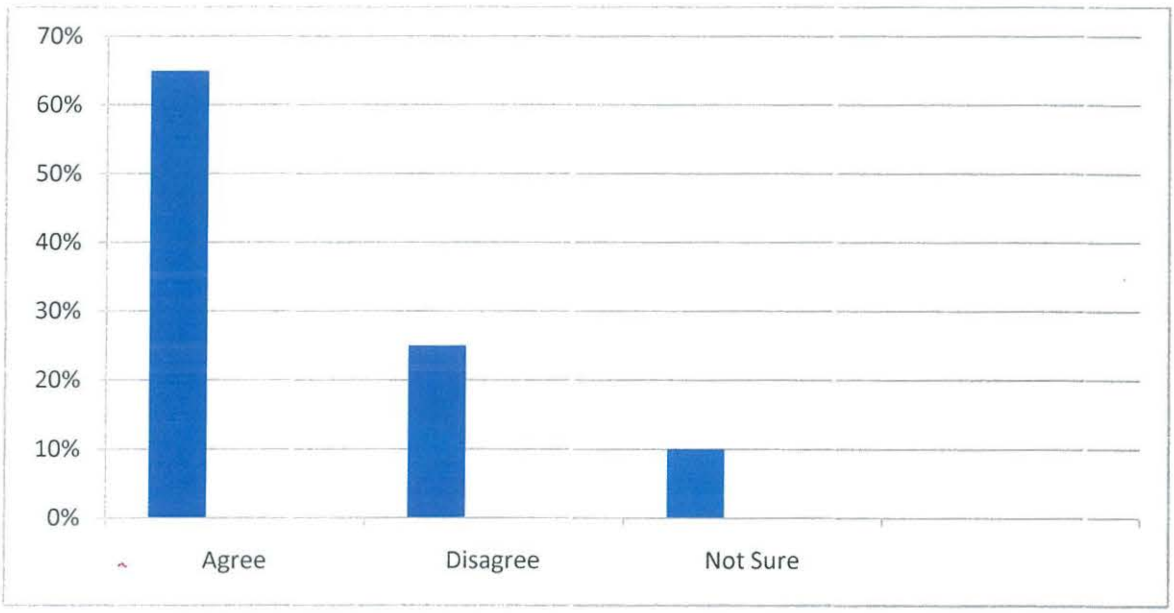
Table 4.7.1: Findings on Loan Default in Diamond Trust Bank Due to Inadequacy of Collateral security.

Response	**Frequency**	**Percentage**
Strongly agree	10	40%
Agree	6	24%
Disagree	5	20%
Strongly disagree	4	16%
Total	**25**	**100%**

Source: primary data

Inadequacy of Collateral security, monitoring and poor appraisal of applicants contributes to loan defaults in Diamond Trust Bank. The table above indicates that 40% strongly agree, followed by 24% who agree, 20% disagreed and 4% strongly disagreed.

Figure 4.7.2: Graph Showing Loan Default in Diamond Trust Bank Due to Inadequacy of Collateral security



Source: Primary Data.

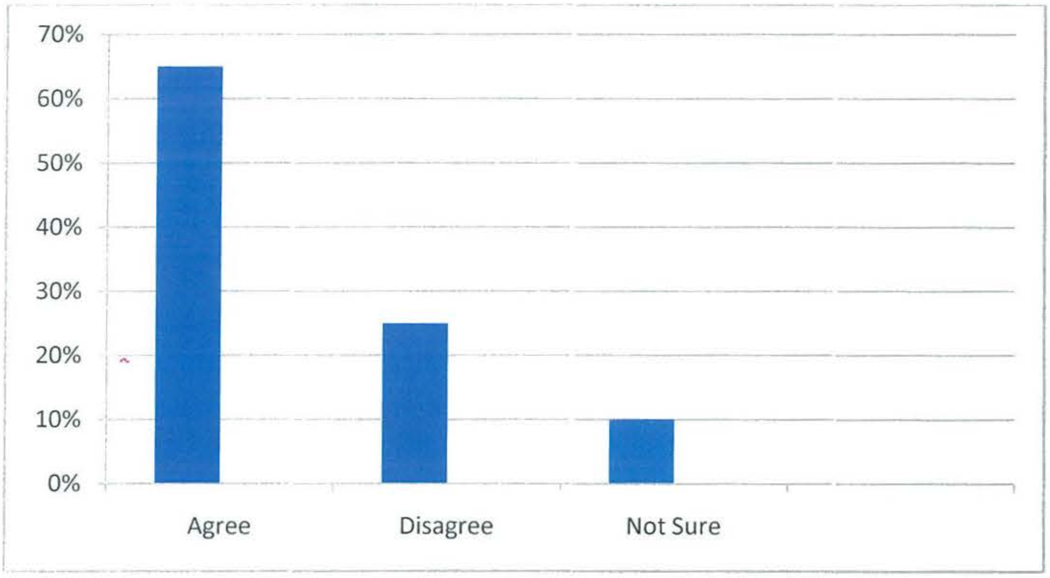
Table 4.8.1: Findings on Loan Default Due to Natural Calamities in Diamond Trust Bank

Response	Frequency	Percentage
Agree	18	65%
Disagree	5	25%
Not Sure	2	10%
Total	25	100%

Source: Primary Data

From the table above 65% of the Respondents Agree that Loan default is due to natural calamities like Drought while the 25% Disagree implying that there are other Causes of Loan Default in Diamond Trust Bank like Labour Problems

Figure 4.8.2 showing Default Due to Natural Calamities in Diamond Trust Bank



Source: Primary Data.

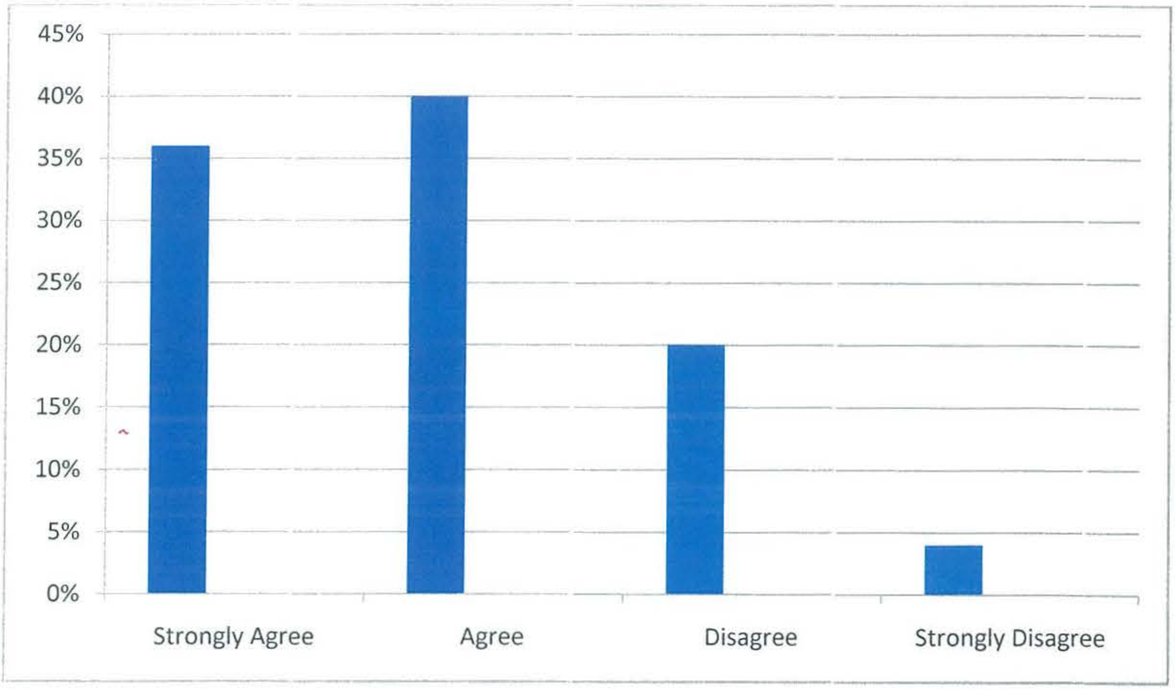
Table 4.9.1: Findings on Loan recovery Options in Diamond Trust Bank

Response	Frequency	Percentage
Strongly agree	9	36%
Agree	10	40%
Disagree	5	20%
Strongly disagree	1	4%
Total	**25**	**100%**

Source: primary data

Credit Scoring is one way of recovering Loans in Diamond Trust Bank where 76% of the respondents strongly agreed with the statement implying Diamond Trust Bank has applied some element of Credit scoring to recover loans while 24% disagree with the statement.

Figure 4.9.2: Graph showing Findings on Loan recovery Options in Diamond Trust Bank



Source: Primary Data.

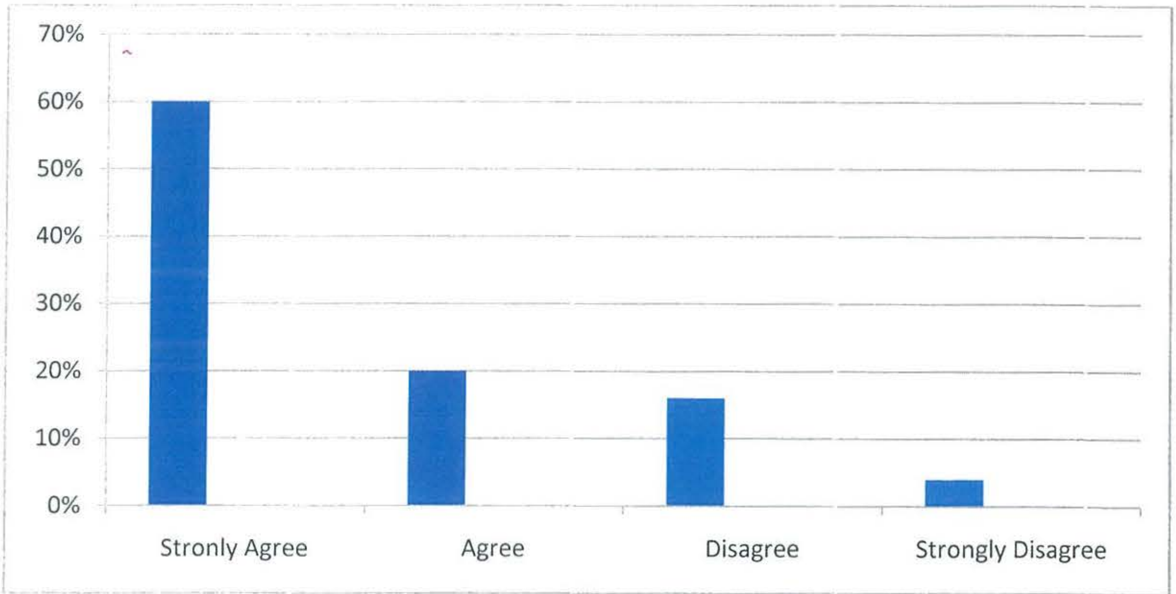
Table: 4.10.1 Findings on the Use of Traditional methods to recover loans in Diamond Trust Bank

Response	**Frequency**	**Percentage**
Strongly agree	15	60%
Agree	5	20%
Disagree	4	16%
Strongly disagree	1	4%
Total	**25**	**100%**

Source: primary data

Traditional methods are used by Diamond Trust Bank to recover Loans of which 80% of the respondents agreed implying that Diamond Trust Bank should always assess the Traditional methods. While 20% disagreed this indicates that modern methods are also used to recover loans in banks.

Figure 4.10.2: Graph showing the Use of Traditional methods to recover loans.



Source: Primary Data.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 INTRODUCTION:

This Chapter represents the summary of findings, Conclusions and recommendations. The conclusions and recommendations of the findings are made basing on the findings of the previous chapters.

5.1 SUMMARY OF FINDINGS.

Basing on the findings, it was revealed that Diamond Trust Bank employs people between the ages of 21-30 years of age. it also revealed that more males are employed than Female.

Most employees of Diamond Trust Bank are of degree holders than other awards like O-level, A-Level, diploma, and other forms of Qualifications.

It was also from the findings that most of the workers are not married and most of the employees have worked for the company for 5 years and above..

My research was intended to investigate Credit management and Loan recovery in Diamond Trust Bank (Lira Branch) and the findings revealed Credit Management focuses on providing the client with accurate and timely statements or invoices and that Credit management process have challenges to clients who want to apply for loans.

The research also revealed that Credit application has led to increase in loan application. it also revealed that Quantitative growth in lending have led to increase in loan application.

The Study was also set up to determine Credit management in Diamond Trust Bank.

My findings indicated that, The alternatives for giving credit include: requesting cash on delivery (COD) for new clients until a trading history is established, collecting a deposit before making a supply to cover costs of materials and overheads, and as an indication of their ability and intention to pay, collecting progress payments that are linked to achieving major milestones.

Findings on the Causes of loan defaulting in Diamond Trust Bank showed that majority of the respondents agree that individual/borrowers factors, firm factors, loan factors and institutional/lender factors are the major causes of loan defaulting in Diamond Trust Bank.
The research established that Credit management and Loan recovery are closely related where majority of the respondents represented by 80% agreed that there is a relationship between the two variables and the 20% disagreed

5.2 RECOMMENDATIONS

The Researcher recommends Diamond Trust Bank to do effective screening and monitoring before granting a loan to Customers.
The owners of Diamond Trust Bank should make sure that the value of the collateral security is higher than the Loan taken so that when the customer fails to pay back the loan, the bank can sell and recover the money.
Restructuring (or reorganization) or liquidation should also be implemented as a way of recovering Loan.
Banks should also take into account of Micro economics where by Loan defaulters are lower during recessions than during economic expansions.
The Researcher also recommends Banks to take on electronic banking as opposed to manual banking.

5.3 CONCLUSION

Basing on the literature and findings above, Credit Management is essential for Loan Recovery in Diamond Trust Bank. Therefore Diamond Trust Bank ltd should implement the system of credit Management and lending procedures by stricter separation of responsibilities between risk Management, lending decisions and monitoring functions to improve the quality and soundness of loan recovery and portfolio.

5.4 AREAS SUGGESTED FOR FURTHER STUDY.

Basing on the gaps identified by the researcher in the study. The researcher suggests further research in the following areas:

- Credit Assessment and Loan recovery
- Electronic banking.
- The causes of Default in Micro Finance Institutions.
- The Impact of Book keeping in Small Business Firms on the Acquisition of Bank Loans
- It is important for future research to make a follow up on how Banks do credit Management for future reference.

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APPENDICES

APPENDIX A

THE RESEARCH QUESTIONNAIRE

Questionnaires to the staff and management of diamond trust bank.
Dear respondents, I am **THON BUL AROK,** a student of Kampala International University, pursuing a **Bachelors Degree in Economics.**
As required by the university, I am carrying out a research on credit management and loan recovery. I kindly request you to spare some time to respond to these questions by ticking in the boxes that responds with the answers.
All the information you prove to me will be used for academic purposes only and it will be accorded the utmost confidentially as it deserves. Your contribution towards filling in this questionnaire will be of great value to my research report.
Thank you in advance.

SECTION A

Instructions

Tick or fill the appropriate option in the box provided

1) What age group do you belong

a) 20 years and below ☐

b) 21-30 years ☐

c) 31-40 years ☐

d) 40 years and above ☐

2) Gender

Male ☐ female ☐

3) Highest level of education attained

   a) 0-level and below ☐

   b) A-level ☐

   c) Diploma ☐

   d) Degree ☐

   e) Others ☐

4) Marital status

   Single ☐ married ☐ divorced ☐

5) How long have you worked in the organization?

   a) one year and below ☐

   b) 2-4 years ☐

   c) 5 years and above ☐

6) Position held in the organization

   a) Operation manager ☐

   b) Accountant or credit officer ☐

   c) Loan officer ☐

   d) Sales manager ☐

SECTION B

THE MAIN RESEARCH STUDY INFORMATION ON CREDIT MANAGEMENT

For each question, tick the box that indicates the extent of your agreement with the statement. Provided say, agree, not sure, disagree.

O	DETAILS	AGREE	DISAGREE	NOT SURE
	Credit management process have challenges to clients who want to apply for loans			
	Credit application have led to increase in loan application			
	Quantitative growth in lending have led to increase in loan application			
	Effective Credit Management and Methodology are key factors to full Loan recovery from Clients			
	Loan recovery is profitable to the financial institutions			
	Alternatives to providing credit to clients are one tool of achieving major milstones in Credit Management.			
	Credit Management focuses on providing the client with accurate and timely statements or invoices			

SECTION C

STUDY INFORMATION ON THE CAUSES OF LOAN DEFAULTING

	DETAILS	AGREE	DISAGREE	NOTSURE
	Poor management ,monitoring and poor appraisal of applicants contributes to loan defaults			
	Natural calamities like floods storms can lead to loan default			
	The degree at which loans are recovered determines the bank returns			
	Inadequacy of Collateral security/equitable mortgage against loan can also lead to loan default			
	At times, banks incur losses due to unrealistic terms and schedule of repayment given to clients			
	Deficient analysis of project viability may also lead to loan default			

SECTION D

SOLUTIONS TO CREDIT MANAGEMENT AND LOAN RECOVERY

	DETAILS	AGREE	DISAGREE	NOT SURE
	Banks must exercise tight control over loans granted for fully recovery of loans disbursed to clients			

	Loan recovery is profitable to the banks			
	Credit scoring through loan screening aids like advances in data technology			
	Provision of legal reserve requirements by clients to the banks			
	On site-examination and loan documentation by banks			
	Banks can also resolve credit management and loan recovery through loan classification and provisioning			
	Repayment, disbursement and collateral is also a tool used in resolving loan recovery.			

APPENDIX: B

BUDGET

TIME	QUANTITY	PRICE	TOTAL
Pens	2 pens	400/=	800/=
Typing		5000/=	50,000/=
Transport		60000/=	60,000/=
Printing		500/=	30,000/=
Paper	1 ream	16000/=	16,000/=
Supervision fee		20000/=	20,000/=
Binding		20000/=	20,000/=
Total			**196,800/=**