Evaluation of Credit Management of Uttara Bank Ltd-A case study from the customers' point of view

Ayrin Sultana, Jesmin Ara & Humaira Begum

Abstract:

Banks play an important role in economic system of a country. The success of a bank depends largely on the efficient credit management. A successful credit management is not only need for a bank's own performance but also it is needed for the smooth development of an economy. In any strategy of economic development, therefore, it is essential to emphasize the evaluation of a sound and well integrated credit management system from the view point of both resources mobilization and efficient allocation of funds. This is an exploratory study. Here discussed so far about the different aspects of credit management of Uttara Bank. From this aspect have selected Uttara bank. UBL plays an important role in the banking sector as well as in our economy.

About Author

Ayrin Sultana, (Corresponding Author) Assistant Professor, Department of Finance and Banking, Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh.

Jesmin Ara, Assistant Professor, Department of Finance and Banking, Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh.

Humaira Begum, Assistant Professor, Department of Finance and Banking, Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh.

664
International Journal of Science and Business
Email: editor@ijsab.com   Website: ijsab.com

Published By

IJSB
International

Introduction

The principal function of a bank is to lend. Lending is a dynamic activity. It is through the medium of lending the banking industry promotes economic activity, instills and encourages, at the individual level, the principal of self-reliance, and yield earnings for the bank. It is lending alone that brings banking into a more meaningful and purposeful contract with public and, therefore, has the greatest impact upon them. Proper utilization of fund is an essential pre-requisite of successful bank management. The procurements of funds supported by an efficient deployment of that procured fund lead a bank to the highest point of profitability. I would try to concentrate on Uttara Bank's nature, pattern, and allocation of invested resources in this chapter. The bank under study has divergence in its investment portfolio, loan programs, advances and recovery rate etc.

Literature Review

A lot of studies have been used on bank credit risk management so there is a treasure of literature available on the subject. Chief Peter Odion Omoijiade(2014) stated in his article is net competitive advantage or disadvantage in credit management. According to Ali Sulieman Alshatti (2015) bank should establish adequate credit risk management policies by imposing strict credit estimation before granting loan to customers. Hakim and Neaime(2001) tried to examine the effect of liquidity, credit and capital on bank performance in the banks of Egypt and Lebanon; they found that there was a sound risk management actions and application of these banks rules and laws. Raad Mozib Lalon(2015) described about the CRM practice and performance of basic bank ltd,Bangladesh.Then analyzed the impact of CRM on financial performance of bank. Ngwa eveline(2010) geared towards looking at how some banks in Sewden go about their credit risk management activities by looking at the qualities which they consider of companies before granting them credits. Aliu Muhamet,Sahiti Arbana(2016) considered the effect of credit risk management on banks profitability in Kosovo.Profitability being measured from two perspectives which were interest income and profit after tax. Konovalova N.,Kristovska I.,Kudinska M.(2016) stated a model of credit risk assessment on the basis of factor analysis of retail clients/borrowers in order to ensure predictive control of the level of risk posed by potential clients in commercial banks engaged in consumer lending. Froot and Stein (1998) examined credit risk management through active loan purchase and sales activity affects banks' investments in risky loans. Treacy and Carey (2000) describes the internal rating systems presently in use at the 50 largest US banking organizations. Banerjee, Prashanta K., &Farooqui Q.G.M. (2009) illustrates the objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management.

Material And Methods

This is a descriptive research which uses the survey approach of data collection with the purpose of credit management of a renowned private bank of Bangladesh. This is also a questionnaire based survey. Primary and secondary data was collected around 20 people. Total number of sample is 20 in every subject. The questions will be about credit management and their opinion. Firstly prepare primary questionnaire and final questionnaire for the respondents after counseling with them. Then used weighted values against the response to find out how much difference is there between the two types of organizations. The study is all about how shorten the procedure of giving loan, how to reduce the volume of

work from top level management, how to delegation of authority of work from top level of management and how to check and balance the operational activity.

Evaluation of Credit Management from the customers' Point of view
The interpretation of the data (at a glance) is given below:
Subject of asking questions:

[1]Image of the Uttara Bank to the customers is satisfactory.
[2]Bank's relation with customers is good.
[3]The formalities followed by the bank providing loan are necessary.
[4]The processing of providing loan is quick.
[5]The bank keeps customers informed about when loans and advances are provided.
[6]The bank's authority tries to provide its services at the same time it promises to do so.
[7]You feel safe in your loan-transaction with UBL.
[8]When problems arising from loan facilities the UBL authority shows sincere concern on it.
[9]The terms and conditions are flexible regarding loan sanction.
[10]The loan interest rate is competitive
[11]The amount of security against loan amount is tolerable.
[12]Circumstances arising from loan default are strict.

Total number of sample is 20 in every subject.

In this table all the attributes are having specific points.

The table ratings are as follows:

Attributes	Points
Strongly agree	5
Agree	4
Neutral	3
Disagree	2
Strongly disagree	1

Table-1: Image of Uttara Bank to the customer is satisfactory

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	2	10
2	Agree	12	60
3	Neutral	4	20
4	Disagree	2	10
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 10*5+60*4+20*3+10*2+0*1 = 370

The weighted average is 370/15 = 24.67

Image of Uttara Bank Limited
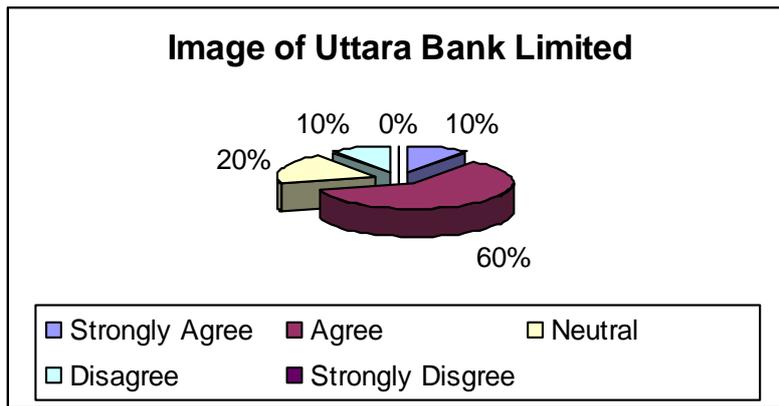
Interpretation of the data

In This point "Image of the Uttara Bank to the customers is satisfactory", 10% of the sample customers strongly agree, 60% agree, 20% neutral, 10% disagree with this.

Table- 2

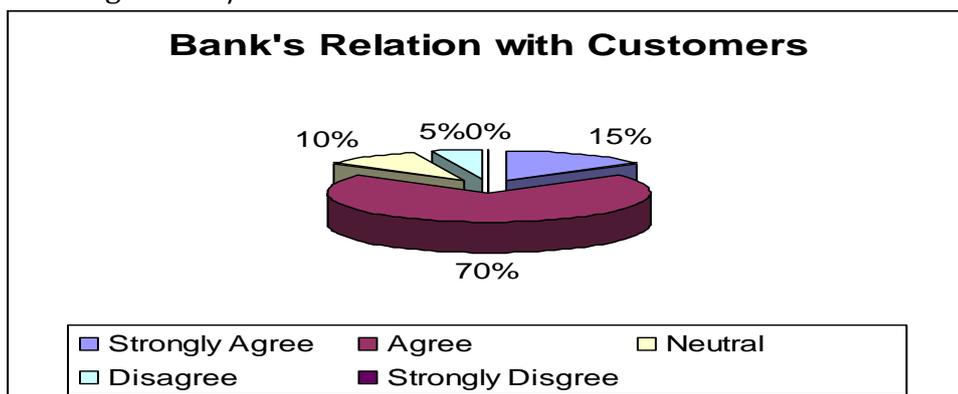Bank's relation with customers is good

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	3	15
2	Agree	14	70
3	Neutral	2	10
4	Disagree	1	5
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 15*5+70*4+10*3+5*2+0*1 = 395
The weighted average is 395/15 = 26.33

Bank's Relation with Customers

Interpretation of the data:
In the point "Bank's relation with customers is good" as answer of this question, 15% of the sample customers strongly agree, 70% agree, 10% neutral and 5% disagree with this.

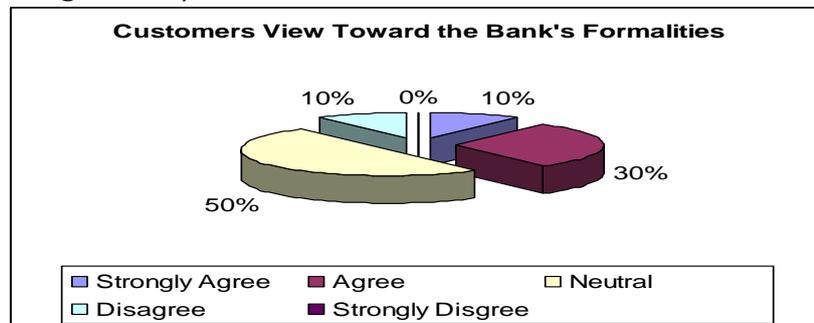Table- 3:The formalities followed by the bank providing loan are necessary

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	2	10
2	Agree	6	30
3	Neutral	10	50
4	Disagree	2	10
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 10*5+30*4+50*3+10*2+0*1 = 340
The weighted average is 340/15 = 22.67

Customers View Toward the Bank's Formalities

Strongly Agree	Agree	Neutral
Disagree	Strongly Disgree	

10% 0% 10%
50%
30%

Interpretation of the data:
In the point "The formalities followed by the bank providing loan are necessary" as answer of this question, 10% of the sample customers strongly agree, 30% agree, 50% neutral, 10% disagree with this.

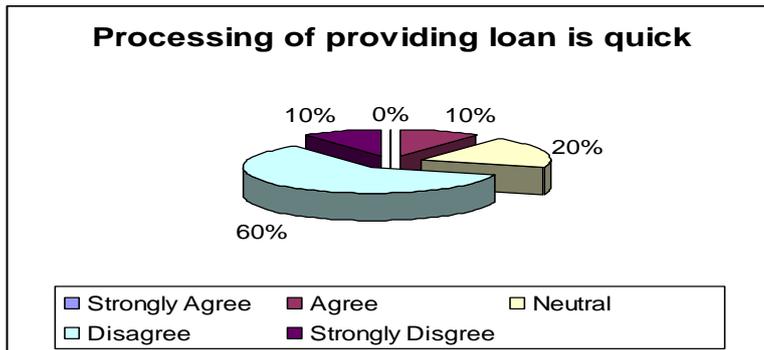Table- 4: The processing of providing loan is quick

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	0	0
2	Agree	2	10
3	Neutral	4	20
4	Disagree	12	60
5	Strongly disagree	2	10

Source: survey of primary data

Calculation:

Total points = 0*5+10*4+20*3+60*2+10*1 = 230

The weighted average is 230/15 = 15.33

Processing of providing loan is quick

10%   0%   10%
              20%

60%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree

Interpretation of the data:

In this point "The processing of providing loan is not quick" as answer of this question, 10% of the sample customers agree, 20% neutral, 60% disagree, and 10% strongly disagree with this.

Table- 5: The bank keeps customers informed about when loans and advances are provided

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	0	0
2	Agree	4	20
3	Neutral	14	70
4	Disagree	2	10
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:

Total points = 0*5+20*4+70*3+10*2+0*1= 310

The weighted average is 310/15 = 20.67

The bank keeps customers informed about when loans and advances are provided

10%   0%   20%

70%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree
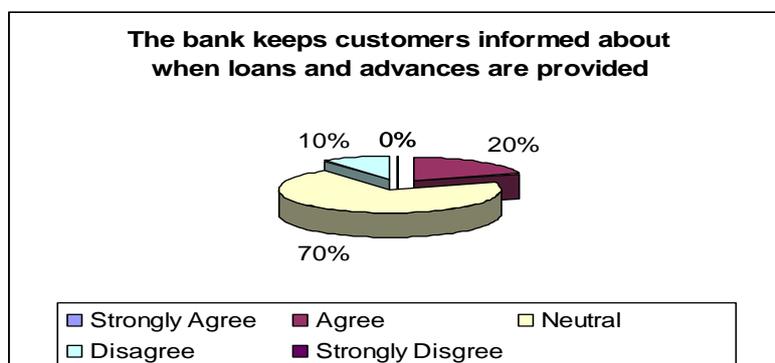
Interpretation of the data:
In the point "The bank keeps customers informed about when loans and advances are provided" as answer of this question, 20% of the sample customers agree, 70% neutral, and 10% disagree with this.

Table-6: The bank's authority tries to provide its services at the same time it promises to do so
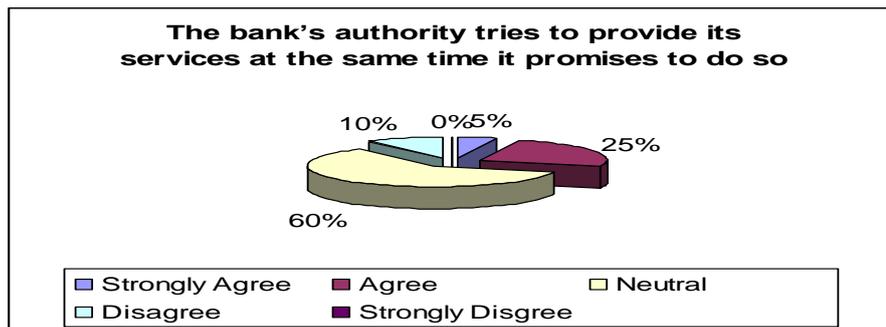
SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	1	5
2	Agree	5	25
3	Neutral	12	60
4	Disagree	2	10
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 5*5+25*4+60*3+10*2+0*1 = 325
The weighted average is 325/15 = 21.67

Interpretation of the data:
In the point "The bank's authority tries to provide its services at the same time it promises to do so" as answer of this question, 5% of the sample customers strongly agree, 25% agree, 60% neutral, and 10% disagree with this.

Table-7: You feel safe in your loan-transaction with Uttara Bank Limited

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	4	20
2	Agree	14	70
3	Neutral	2	10
4	Disagree	0	0
5	Strongly disagree	0	0

 Source: survey of primary data

Calculation:
Total points = 20*5+70*4+10*3+0*2+0*1= 410
The weighted average is 410/15 = 27.33

You feel safe in your loan-transaction with Uttara Bank Limited

10%   0%   20%

70%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree
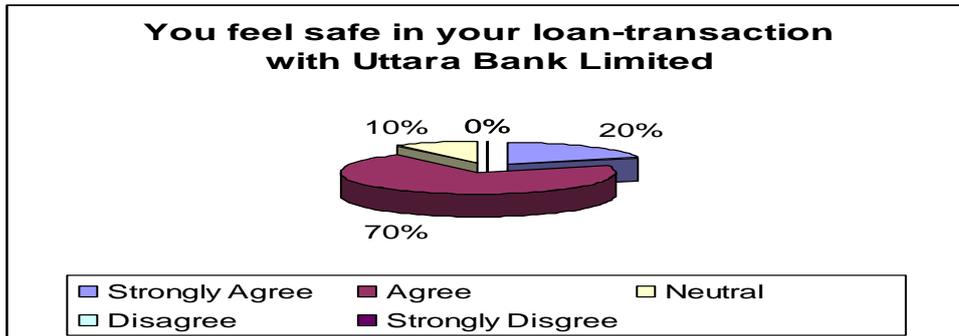
Interpretation of the data:
In the point "You feel safe in your loan-transaction with Uttara Bank Limited" as answer of this question, 20% of the sample customers strongly agree, 70% agree, and 10% neutral with this.

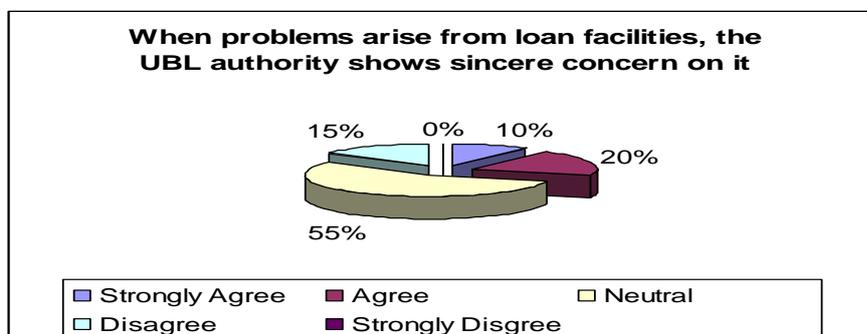Table-8: When problems arise from loan facilities, the UBL authority shows sincere concern on it

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	2	10
2	Agree	4	20
3	Neutral	11	55
4	Disagree	3	15
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 10*5+20*4+55*3+15*2+0*1=325
The weighted average is 325/15 = 21.67

When problems arise from loan facilities, the UBL authority shows sincere concern on it

15%   0%   10%
20%

55%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree

Interpretation of the data:

In the point "When problems arise from loan facilities, the UBL authority shows sincere concern on it" as answer of this question, 10% customer strongly agree, 20% agree, 55% neutral, and 15% disagree with this.

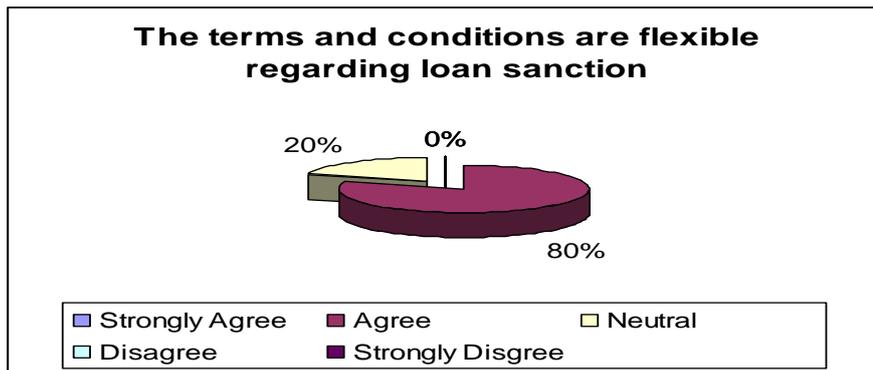Table-9: The terms and conditions are flexible regarding loan sanction

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	0	0
2	Agree	16	80
3	Neutral	4	20
4	Disagree	0	0
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 0*5+80*4+20*3+0*2+0*1 = 380
The weighted average is 380/15 = 25.33

The terms and conditions are flexible regarding loan sanction

Interpretation of the data:
In the point "The terms and conditions are flexible regarding loan sanction", as answer of this question, 80% of the sample customers agree and 20% neutral with this.
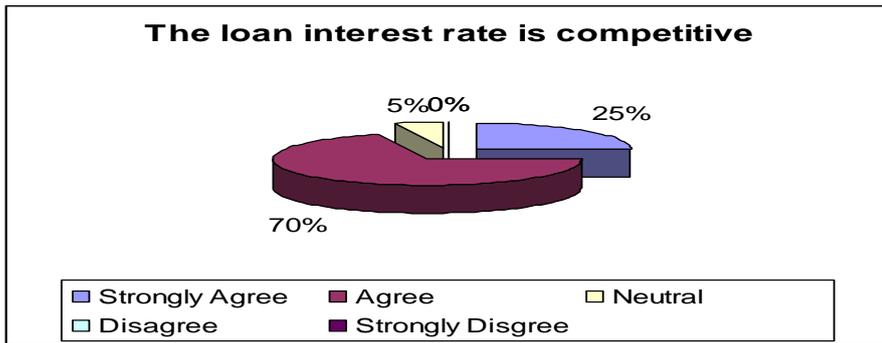
Table- 10: The loan interest rate is competitive

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	5	25
2	Agree	14	70
3	Neutral	1	5
4	Disagree	0	0
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:

Total points = 25*5+70*4+5*3+0*2+0*01= 420
The weighted average is 420/15 = 28

The loan interest rate is competitive

5%0%   25%

70%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree

Interpretation of the data:
In the point "The loan interest rate is competitive" as answer of this question, 25% of the sample customers strongly agree, 70% agree and 5% neutral with this.

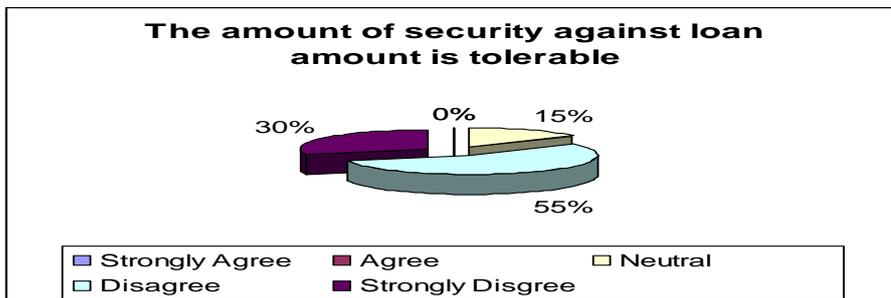Table- 11: The amount of security against loan amount is tolerable

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	0	0
2	Agree	0	0
3	Neutral	3	15
4	Disagree	11	55
5	Strongly disagree	6	30

Source: survey of primary data
Calculation:
Total points = 0*5+0*4+15*3+55*2+30*1 =185
The weighted average is185/15 =12.33

The amount of security against loan amount is tolerable

30%   0%   15%

55%

☐ Strongly Agree   ■ Agree   ☐ Neutral
☐ Disagree   ■ Strongly Disgree

Interpretation of the data:
In this point "The amount of security against loan amount is not tolerable" as answer of this question, 15% of the sample customers neutral, 55% disagree and 30% strongly disagree with this.
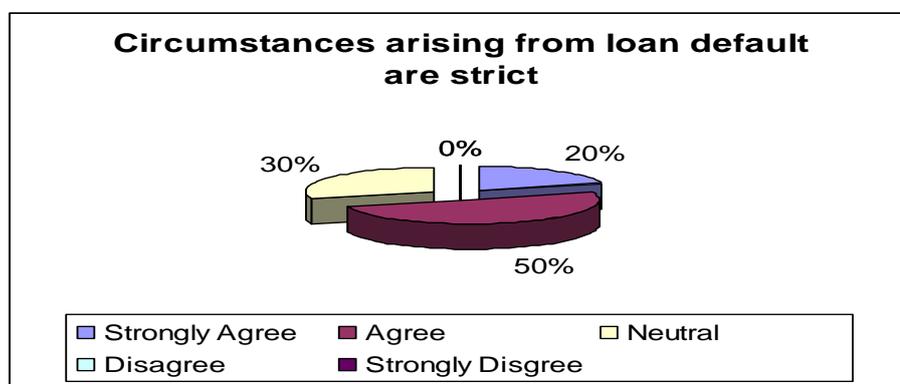Table- 12: Circumstances arising from loan default are strict

SL No.	Parameters	No. of respondents	Percentage
1	Strongly agree	4	20
2	Agree	10	50
3	Neutral	6	30
4	Disagree	0	0
5	Strongly disagree	0	0

Source: survey of primary data

Calculation:
Total points = 20*5+50*4+30*3+0*2+0*1 = 390
The weighted average is 390/15 = 26

Circumstances arising from loan default are strict

Interpretation of the data
In the point "Circumstances arising from loan default are strict" as answer of this question, 20% of the sample customers strongly agree, 50% agree, and 30% neutral with this.

Findings
Every bank has its own credit procedure. Bank under study possesses a standard credit procedure. As the objective of the study is to make a comment on the credit management of Uttara Bank. Based on the data generated during this study period it will sum up the findings here and this will help to achieve the objectives. The objective of Uttara Bank is to earn profit as well as to improve the economic welfare of the people as a whole. Uttara Bank has a significant role in long term project financing in both agriculture and industrial sectors. Again Uttara Bank has a deep concern for rural farmers. Private sector usually concentrates in the urban areas where as Uttara Bank spread their banking network all over the country. With a view to implementing government policies, Uttara Bank has been maintaining its position in extending credit to government bodies, sector corporations and private enterprises. Though bank required both quantitative and qualitative analysis but for big loans bank emphasizes on the lending risk analysis (LRA). But LRA is not a perfect measure of credit analysis. Because businessmen in our society are usually tempted to take resort of window-dressing that means accounts are so manipulated that the vital facts are concealed and facts presented are superficial. So banks have to go through both quantitative and qualitative analysis.
According to the standard and bank's credit procedure, credit operation is started from the customer application to the branch for the loan. But in some cases, few customers go directly

to the directors of the bank and directors send them to the branch offices with his/her reference. In these cases, proper appraisal is not possible as directors the most powerful persons and bank management must give priority towards the decision of the directors. This phenomenon is found in the bank which hampers the spontaneous procedure of credit appraisal. Bangladesh Bank monitors all the policies of all the private and nationalized banks of the country. According to the Bangladesh Bank's strategy, all banks must possess the standard policies which are designed by the central bank. Uttara Bank also possesses a standard credit proposal form. In that form all necessary information are required to fill up. But in practice credit officers do not fill up the proposal form properly. Most of the cases, they use assumption rather than exact figure. This practice might end up with bad or classified one. A standard policy starts from the customer's direct application for the loan in the branch office. But it's a phenomenon that some of the customers directly contact with Head office and Head office choose the branch offices to disburse the loan. It may hamper the normal procedure. Branches always stay under pressure when they get order for disbursement from Head office. When branches get order from the head office, then appraisal system loses its formal track. So Head office should not send any order to the branch office without prior appraisal. Every bank has its own budget and plan regarding loan portfolio. This loan portfolio must be diversified so that bank could diversify its risk. A proper and preplanned portfolio can eliminate the risk of huge classified loan or bad loans as this aspect is very much sensitive toward many external and internal factors. The bank under study i.e. Uttara Bank does not have any proper guide line where to invest; moreover they do not do any future plan to maintain a well-structured portfolio to decrease the possibility of classified loan. This type of practice is working as an obstacle in smooth credit disbursement as well as in credit appraisal system. Most of the loans that Uttara Bank distributes are as cash credit hypothecation and Uttara Bank emphasizes less on demand loan. In many cases bank face this problem because bank's credit officer fails to value collateral property. Proper valuation means collateral will exactly cover the risk of bad loan. Officials must do it with due care. During the fiscal year 2008 15.03% of the total loan of Uttara Bank became classified and this classified loan came down to 09.40% in the fiscal year 2012. Uttara Bank keeps enough provisions against classified loans and advances. Uttara Bank is relatively efficient in processing and executing legal actions against defaulters for their nonpayment of loans and advances in due time.

Conclusion

From the survey, it can conclude that sometimes without proper investigation, the management values the security randomly which is less than the actual value of the security. The customers also criticize the margin rate of the bank. From the survey, It also find that the customers, who are also involved in getting loan from another private bank, complain the loan giving procedure of Uttara Bank. They comment that the procedure of getting loan is slower than the private bank. And the cooperation of the private banks is comparatively better. Though the customers complain the valuation process of security, which is pledged against the loan, they choose Uttara Bank to get loan and advances because of its competitive interest rate. Though the problems are faced by the customers, they prefer Uttara Bank for its comparative lower interest rate, safety of their security, excellent behavior of officers including cooperation of Assistant General Manager and availability of the branches of the bank.

So the decision-making body, i.e. Board of Directors / Top Management should take proper steps in all aspects of loan giving procedures and overall banking systems. The security valuation system must be flexible and accurate and verified by the independent and the efficient persons as well as rate of keeping margin on collateral should be as minimum as possible. The terms and conditions must be flexible from now. The authority may arrange different programs and publish bulletin for the loan providing procedure and which sectors are emphasized more as most of the people do not know the loan procedure of the Uttara Bank.

References

Rose, Peter. S; "commercial Bank Management"; Fourth Edition; Irwin-McGraw-Hill; 1999

Zikmund William, G., "Business Research Methods"; 7th Edition; Thomson South-Western; 2003

Md. Maksudur Rahman Sarder & Prashanto Kumer Banerjee (December 1996*); Journal of Business Studies*; "Break Even Point: A Project Appraisal Technique used in Banking Sector."

Chowdury, L.P; "A Textbook on Banker's Advances"; 2nd Edition; Paradise Printer; 2002

Hussain. S. Masud and Islam. Md. Ashraful, "Banking In Bangladesh: A Historical Perspective", Vol. xxii, No. 2, Page: 309-323, December 2001, *Journal of Business Studies*, University of Dhaka, Dhaka

Economic Division, "Bank O Arthik Protisthansamuher Karjyabalee 2005-2006", Ministry of Finance, Dhaka

Annual Report of Uttara BankLimited, 2008 to2012

www.bangladeshbankorg.com

www.uttarabank-bd.com

Chief Peter Odion Omoijiade, 'A Critical Assessment of Credit Management in the Nigerian Banking Sector' *European journal of business and management*, Vol 6, No 30 (2014)

Ali Sulieman Alshatti,'The effect of credit risk management on financial performance of the Jordanian commercial banks',*investment management and financial innovations*,Volume 12,issue 1,2015.

Raad Mozib Lalon.''Credit risk management(CRM) practices in commercial banks of Bangladesh:Astudy on Basic Bank Ltd."International *journal of Economics ,Finance and Management Sciences*,Vol.3,No.2,2015,pp.78-90

Ngwa eveline,'Credit risk management In Banks As Participants in Financial Markets', A qualitative study of the perception of bank managers in Sweden(Umea region), http://www.diva-portal.org/smash/get/diva2:441943/FULLTEXT02

Hakim and Neaime(2001), Performance and Credit Rating in Banking: A Comparative Study for Egypt and Lebanon',ERF working paper series 0137.

Aliu Muhamet,Sahiti Arbana, 'The effect of Credit Risk Management on Banks'Profitability in Kosovo, *European Journal of economic Studies*,2016,Vol.(18)Is.4

Konovalova N.,Kristovska I.,Kudinska M,Credit Risk Management in commercial banks,*Polish Journal of Management Studies*'June 2016

William F. Treacy, Mark Carey , 'Credit risk rating systems at large US *banks'Journal of Banking & Finance 24 (2000).*

Cite this article:

Published by