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SIGNS OF BAD LOANS TO AVOID IN ENHANCING THE NIGERIAN ECONOMY

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ABSTRACT

Loans can be a business booster if it can be obtained as at when due and on terms that may not be too harsh on the borrower. The financial institution is the main driver of the commerce and industrial sector and if the sector is sick every other sectors of the economy will be sick as well. For some years now the rating of the Nigerian financial Institutions has been wonderful, but in spite of the Nigerian banking sector rating it has not actually stabilize the banks. The bane of this has been the issue of *toxic and non-performing loans.* This has made loan become scarce for the average Nigerian to obtain. What are the signs to look out with respect to these bad loans? That is the focus of this paper to know when a loan is a bad loan and to avert such.

Keywords: Financial Institution; Sectors; Nigeria Banks; Non-Performing Loans

INTRODUCTION

In 2007, The Banker magazine, a subsidiary of the Financial Times of London, in a publication titled TOP 1000 World Banks, ranked Intercontinental Bank Plc as the biggest bank in Nigeria, fifth biggest in Africa and the 355th biggest bank in the world "by first tier capital." The Nigerian bank therefore became the first to be rated among the world's top 500 banks.

African Business Research Limited, a research-oriented consultancy specializing in Africa, ranked First Bank Nigeria Plc 34th among Africa's top 200 companies in 2009, Zenith Bank followed in the 61st position, then Ecobank Nigeria plc in the 62nd position, Bank PHB Nigeria Plc came in at number 73 and Wema Bank came in at number 78 from its 126th position in 2008. Oceanic Bank ranked 83, Guarantee Trust Bank at 85, Union Bank of Nigeria 88, Intercontinental Bank 110, Afri Bank 139, Fidelity bank 143, Stanbic IBTC 150, FCMB 156, Spring bank 167, Access Bank at168, Diamond bank 173. The banks were rated according to their market value in dollars. The three Nigerian banks which made the Forbes list of the world's 2,000 biggest companies are First Bank of Nigeria Plc, United Bank for Africa Plc and Intercontinental Bank Plc.

Agusto and Co in its 2009 bank rating report rating banks in Nigeria, revealed that the country's biggest 10 banks are large banks on the basis of balance sheet size and control more than 75 per cent of the Industry's assets, earnings and capital. The banks, according to the agency, are: Zenith Bank Plc, United Bank for Africa Plc, Intercontinental Bank Plc, First

Bank of Nigeria Plc, Oceanic Bank Plc, Access Bank Plc, Platinum Habib Bank Plc, Guaranty Trust Bank Plc, Skye Bank Plc, and Union Bank of Nigeria Plc.

In spite of the above rating of the performances of our banks by some international organizations, the banking sector in Nigeria is not on a sound footing following statements that have been issued from the apex bank (Central bank of Nigeria) in the recent past.

NIGERIAN BANKS SITUATION

Nigeria banks are still reeling under the burden of heavy toxic waste. As at yesterday, the Federal Government said the toxic waste in the banking system was N1.35 trillion. The Federal Ministry of Finance, which disclosed that the total bank toxic waste in the country stood at N1.35 trillion through its Permanent Secretary, Ochi C. Achnivu, said the government was set to address the non-performing loan syndrome (Ogbodo, 2010).

In a dramatic move, Nigeria's Central Bank Governor, Lamido Sanusi, on Friday sacked the CEOs of five banks and announced a N400 billion bailout to the respective banks. Since the collapse or near collapse of many of the world's foremost financial institutions last year, there has been much talk about the health of Nigeria's Banking Sector (Maritz, 2009). Excessively high level of non-performing loans in the five banks which was attributable to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank's credit risk management practices. Thus the percentage of non-performing loans to total loans ranged from 19 per cent to 48 per cent. The five banks will therefore need to make additional provision of N539.09 billion. The huge provisioning requirements, have led to significant capital impairment. Consequently, all the banks are undercapitalized for their current levels of operations and are required to increase their provisions for loan losses, which impacted negatively on their capital. Indeed one is technically insolvent with a Capital Adequacy Ratio of (1.01 per cent). Thus, a minimum capital injection of N204.94 billion will be required in the five banks to meet the minimum capital adequacy ratio of 10per cent (Chiakwelu, 2009 and Oguah et al, 2010).

SIGNS OF BAD LOAN

According to Seun (2010), Corruption still plays an all important role in the recent problem discovered about the Nigerian banks. Of course, all other causes stem from corruption itself. It is a two-way thing, i.e. the borrowers who felt not to return the loan amount with interest at due date and the corrupt banks (bank chiefs and directors) who will accept non servicing of the loan in as much as their pockets are filled.
According to Drach (2005), here are some loans conditions that should make you think twice:

MONEY UPFRONT

Money upfront is a really bad sign. "Possibly even of fraud." One nominal application fee is fine. But the point of a loan is that they are supposed to be giving you money, not the other way around.

CHANGING INTEREST RATE

An adjustable-rate mortgage can be a good thing for some borrowers. If you have a rate that can change, you have to ask some questions. Realize that a changing rate makes the loan a much riskier proposition for you.

TOO MUCH MONEY

More is not always better. So raise the red flag if a lender is trying to talk you into a larger loan. Two red flags if your home is the collateral. If you have to borrow, take the least amount for the shortest time period with the lowest.

EXCESSIVE FEES

Some fees are truly legitimate; some are backdoor fees that don't appear in the disclosure. What you want to watch out for is excessive or hidden fees. Add everything up yourself. The sum of the terms you shopped should equal what's in the loan documents. If it doesn't, you need to ask some questions.

ADDITIONAL SERVICES YOU DON'T WANT OR NEED

Some loans are bundled with insurance policies to pick up payments or pay off the loan if you die or become disabled. Assuming you want the coverage (and can't get it cheaper from your insurance company), the problem is that many times you pay for the entire policy upfront and it's rolled into the loan with interest.

REQUIRES A VALUABLE ASSET AS COLLATERAL

The issue of collateral is very important in obtaining a loan. When the bank is more interested in the collateral than the business proposal of the borrower it is big trouble and you have to watch out.

BINDING MANDATORY ARBITRATION CLAUSE

What is this? Before you sign for the loan, you forgo any rights to sue for any reason and instead agree to binding arbitration. The problem: Many consumer advocates believe that arbitrators' decisions tend to favor the lenders and deny borrowers the right to due process.
This should be freely entered into at the time of dispute, not as a condition for obtaining the loan, by agreeing to this provision if a dispute should arise; the table is tilted toward the lender.

PREPAYMENT PENALTIES

For the borrower, this fee adds to the cost of credit. Reason: If your financial situation or credit improves, you can't refinance your loan at a better rate. It's one of the features we find particularly bothersome in loans. Some credit experts advise avoiding prepayment penalties altogether. Others caution that one year is fine. Still others recommend keeping it to three years or less.

THE LENDER SOLICITED YOU FOR THE LOAN

Face it, you get the best terms when you shop around and compare. If you're just accepting what was offered, you probably could do better.

HIGH PRESSURE TACTICS

Are you being urged to sign immediately? Don't do that. Instead, have a third party look through the paperwork. Some possible candidates: an accountant, lawyer or someone at your local bank (if they aren't making the loan).

TERMS YOU DON'T UNDERSTAND

Loans have gotten a lot more complicated. And with the addition of concepts like interest-only loans, adjustable rates and negative amortization, you might feel like you need an economics degree just to shop around. The truth is you might be better off with a more standard loan. Borrowers have to be asking a lot more questions than they were before. Especially tricky: What's the payment, how often will that change and what's the worst that it could get? And if increases are capped, does that mean the lender will add payments to the end of the loan?

CONCLUSION

Loans can be a business booster if it can be obtained as at when due and at terms that may not be too harsh on the borrower. The availability of this loan to the Nigerian entrepreneur has been limited due to the toxic and non-performing loan thing. Mortgage loans that are suppose to last for years (long term) before repayment are a thing of the past, banks prefers loans on short terms and at exorbitant interest rates. The signs to know if a loan is a bad one have been summarized in the above. The effect can be seen in the fact that the small and medium scale businesses have not been thriving the way they should.

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