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EFFECT OF CREDIT MANAGEMENT AND BAD DEBT ON THE GROWTH OF NIGERIAN DEPOSIT MONEY BANKS

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ABSTRACT

This research work examined the effect of credit management and bad debt on the growth of Nigerian deposit banks. Credit administration is the most important function of the banking industry. It is the most risky and difficult and at the same time the most profitable function performed by banks but bad debt and credit mismanagement has been the problem militating against the growth of banking industry. The main objective of this study is to examine the effect of credit management and bad debt on Nigerian deposit money banks. The study employed ex-post facto research design secondary source of data were also employed using CBN statistical bulletin and national bureau of statistical ordinary least square of simple regression model were used to establish the relationship between the dependent variables (liquidity and profit before tax of deposit money banks growth) and independent variables (bad and doubtful debt and bank credit). The result shows that bad debt has negative effect but significant effect on the profitability and liquidity of deposit money banks, while bank credit has a positive and significant effect on the growth of deposit money banks in Nigeria. The study recommended among others that management should analyze the nature of risk carefully before extending credit.

Keywords: Liquidity, credit, management, debts, loan

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1.0 INTRODUCTION

Lending operations are core banking activities and the most profitable asset of credit institutions. In many markets, banks have to operate in the economic environment that is characterized by the existence of obstacles to good credit management. Where credit is not properly channeled, controlled and administered, it leads to a devastating effect on the banks, reducing its performance, profitability and further into bank distress and failure (Berger and Christa, 2009)

The impact of liquidity position in management of banks have remained fascinating and intriguing, though very elusive in the process of investment analysis vis-à-vis bank portfolio management. There appears to be an interminable argument in the literature over the years on the meaning, role and determinants of liquidity and credit management. Acharya and Naqvi (2012) refer to liquidity as the speed and certainty with which an asset can be converted back into cash whenever the asset holder desires. A liquid bank stores enough liquid assets and cash together with the ability to raise funds quickly from other sources to enable it meet its payment obligations and financial commitment in a timely manner. Ngwu (2006) views liquidity management as the act of storing enough funds and raising funds quickly from the market to satisfy depositors, loan customers and other parties with a view to maintaining public confidence.

In spite of the measures put in place and aimed at protecting depositors and other public interest, the incidence of bank distress and failure has been on the increase in deposit money banks in Nigeria. This is as a result of increased probability of bank default, reduced performance and bulk charge against profits emanating from ineffective credit and liquidity risk management. Hence, for a bank to be viable and profitable; there must be strategic credit and liquidity risk management policies formulated and implemented in full. The tools for effective implementation of these policies will be anchored on the philosophy and mission of the bank, the overall credit risk strategy, and the credit policies adopted in the realization of strategic goals and objectives of the banks as well as the expansion prospects of such bank.

The problem for this study is to evaluate the lending and credit management policies of deposit money banks with a view of finding the causes, consequences of bad debts in banks. Year after year, banks suffer much from the part of full loan extended which has for one reason or the other proved unrecoverable. Banks lose millions of Naira in various bad debts yearly and despite efforts by bank management, committee of chief inspectors and the bankers committee on the other hand, the wave of bad debts in banks is still on alarming proportion. Due to this, banks find it difficult to lend to the borrowers and this affect both the banks and the borrowers

1.1 Objective of the Study

The main objective of this study is to examine the effect of credit management and bad debt on the growth of Nigerian deposit money banks. The specific objectives include:

1. To examine the effect of bad debt on Nigeria deposit money banks Profitability.

2. To determine the effect of bank credit on the performance of deposit money banks.

3. To evaluate the effect of bad debt on the liquidity of deposit money banks in Nigeria

1.2 Hypotheses

H_0: There is no significant relationship between bad and doubtful debt and Banks profitability.

H_0: There is no significant relationship between bank credit and performance of Deposit money bank.

H_0: There is no relationship between bad and doubtful debt and liquidity of Deposit money banks in Nigeria.

Literature Review

2.1 Conceptual Framework

Process of Credit Management

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed 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 12 current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner. When the process of credit management functions efficiently, everyone involved benefits from the effort. The financial institution such as banks has a reasonable amount of assurance that loans granted to a client will be paid back 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 creditor and thus create a solid credit reference

2.1.2 Bad Debt and Doubtful Debt

It can be simply said that a debt is what is owned to another. A debt can also be described as an obligation to make future payment. A debt has been also defined as money, goods, service owing to another by the virtue of an agreement expressed or implied giving rise to a legal duty to pay.

More technically put, a debt is a credit received by a borrower by a pure lender who may be formal or informal institution against the borrower promise to make future payment. Credit is usually given be the lender to the borrower in anticipation for the borrower abiding by the agreement in the transaction that he will satisfy his obligation to the lender. Due to one of quite a number of reason (which are latter discussed) the debtor might fail to meet his obligation thus creating a bad debt. However, competent manager is in his lending practice, there is a doubt that from time to time, a bad debt will arise on their payment of their advance and will become doubtful. According to Nwachukwu (1993) average performance, measure as a provision for bad and doubtful debt total loan outstanding increased from 12.91 in 1992

to 13.34 percent in 1993 for the money deposit bank. This means that in 1993 for example, thirteen out of one hundred Naira worth of loan in considered unrecoverable. In addition, Anayo, (1994) said across various money deposit bank, provision for bad debt account as a proportion of net income has risen from about 50% to 90% from 1992 to 1993. This scenario indicates that the role of non-recovered loan and advance has been raised at an alarming rate. Some recent result depict a groper trend and suggest that this undesirable situation will probably continue unless positive steps are taken to arrest it by enhancing the quality of banking lending decision process. However, the ability of the commercial industry to attain to this objective required understanding of the nature of lending decision task under the condition of uncertainty. As well as the factor, which may influence the bank loan officer in the process of some decision aid that could enhance the degree of professionalism and thus the judgment accuracy of the bank loan officers. Most bad debt pass through the doubtful stage prior to a real loss of money occurring and there is a lot of reason for the lending becoming unsatisfactory. In most cases the doubtful debt become bad and they are not repaid. The dictionary for accountant offers a more technical explanation for bad debt as follows:

(a) An uncollectable receivable.

(b) Specific receivable determine to be uncollectable either in whole or in part because of the debtor cannot pay or the creditor find it impracticable to enforce and is charge to profit and loss or he is charge to a reserve allowance in bad debt. More of such of reserve maintained.

(c) The account to which it is charge periodically, usually with an offsetting credit to a reserve or allowance to a bad debt, the estimate loss form uncollectable account base for example a percentage of (credit) sale for the period, a percentage of the outstanding account at the end of the period or the review of the individual account in each cases, any balanced remaining in the rest from the past periods taken into consideration is a provision for the bad debt. Asechemic in his comment on the potential guideline for the license banks made the following consideration. The fifth schedule of the banking decree of

2.1.5 Constraints of Lending

Economic factors: when the economic condition is not favourable

Liquidity constraints: when there is inadequate liquidity in bank

Regulatory framework: when there is change in regulatory policy it affects banks

Interest rate constraint: when interest rate is high bank lending is discouraged Government consent required for mortgage of land it takes time and excessive change for it to be obtained.

Delay in administration of justice

Under technicalities and requirement for taking security

2.1.6 Forms of Credit

Credit can be classified into the following forms:

i. **Overdraft** – An overdraft is an open ended credit facility which is repeatedly used until the balance on the account reaches a certain pre-arranged borrowing limit. Theoretically, it is payable on demand but in practice, it may run from year to year without being called in. it is used mainly to finance working capital requirement of raw materials, payment of pressing current liabilities like salaries, creditors and taxes. According to Onanuga (1998) overdraft can be issued to overcome difficult periods like payment of school fees, medical bills, expenses during festivals etc. It is created by allowing the account holder to withdraw a certain amount in excess of the amount standing to the credit of his account. It is short term in nature, non-specific and normally made available to meet general trading requirements.

ii. **Advances** – Nwanko (1987) defined advances as any facility apart from overdrafts and loans, granted to a customer for a short period of time by means of which the customer obtains cash or credit in advance of collection by the bank of relative counterpart funds from another bank's third party. It is a short term credit extension which is granted for a definite period usually 30 and 180 days. Advances are usually granted for a specific purpose, for example, payment of various collections, refinancing of maturing loans, project bridging finance, refinancing of letters of credit for project equipment imported etc. The exact maturity date of an advance is normally determined at the onset and this makes it possible for the project to have a lower interest charge on the advance due to the reduced risk.

iii. **Loan** – According to Agene (1995), a loan is regarded as a financial assistance rendered by a bank to its customers in monetary term and repayable over a specific period of time with interest element. Unlike overdraft facility which is a short term credit, loan may be medium or long term for the finance of fixed assets acquisition. Loans and advances are important sources of bank revenue as it yields the bulk of the bank's revenue. They constitute the highest percentage of the total assets of a bank as can be seen below from an extract of Zenith Bank's financial statement.

2.1.8 Canons of Lending

Character: The character of the borrower is a paramount factor to be considered in any lending decision. It is a total factor, which is sometime considered to be superior to the other Cs for lending. It is highly subjected to the extent that it rests on ethics. Character is said to encompass other virtues like honesty, liability, and integrity, trust worthiness, morality and courage. The extent to which the borrowers pose this good virtue would determine whether or not a loan decision would be in his favour.

Capital: Capital is an essential requirement for nay business. It is importance that bank customers or borrowers do not have mistake in their own business before going to the bank for loans. This is because customers who have none of his money to lose is likely to be more careless than one who have capital (probably his life saving) is tied to the business. Capital is the measures of credit that may be granted to those have the right to borrow.

Capacity: The past performances of customer will give an insight into whether he has technical and management capacity to execute the project for which credit is being requested. Establishing the capability of the loan seeker involves the credit officer's perception of the liability of the proposed project in mobilizing enough fund for repayment in establishing the possibility of the project being self-liquidation

Condition: This consider the external micro-environment and the attendant force over which the borrower has no control. This can render a good credit today bad in future if condition becomes in favorable to business. For example, government policy reversal, technological change, terrorist attack etc. can jeopardize the objective of taking loan.

Duration: This is the length of time for which the customer require the loan. Bank is expected to be liquid on demand. This is the reason why some banks cannot afford to lend on long term. It is therefore very germane for any banking institution in performing its lending function to consider liquidation, cost, profitability, convenience and confidence since all these serve as coeds with which customer are tied to their bankers.

Collateral: This means any security (other than the personal security such as the guarantee) taking by the bank when making an advance to a borrower or customers and what it is entailed to claim in the event of default.

2.2 Theoretical Framework

2.2.2 Arbitrage Pricing Theory (APT)

A more interesting alternative was the Arbitrage Pricing Theory (APT) of Ross (1976). Stephen Ross's APT approach moved away from the risk vs. return logic of the CAPM, and exploited the notion of pricing by arbitrage to its fullest possible extent. As Ross himself has noted, arbitrage-theoretic reasoning is not unique to his particular theory but is in fact the underlying logic and methodology of virtually all of finance theory. This theory subscribes to the fact that an estimate of the benefits of diversification would require that practitioners calculate the covariance of returns between every pair of assets. In their Capital Asset Pricing Model (CAPM), Morris (2001) solved this practical difficulty by demonstrating that one could achieve the same result merely by calculating the covariance of every asset with respect to a general market index. With the necessary calculating power reduced to computing these far fewer terms (betas), optimal portfolio selection became computationally feasible.

2.3 Empirical Framework

The transaction motive theory of trade credit suggests that businesses should provide trade credit by reducing the cost of administering invoices between suppliers and buyers undertaking regular exchanges of goods and services (Nilsen, 2002). Manufacturing firms face strong seasonality and uncertainty in the demand for their products and may have to build up large inventories in order to maintain their production levels. By offering credit, firms may be able to manage their inventory positions better and reduce warehousing costs. Financing advantage theories on the other hand suggest that the firm that provides credit to its customers has an advantage over other credit providers in assessing the credit worthiness of his customers (Chee & Smith, 1999; Nilsen, 2002).

It may be noted that credit policy is a rare area of research. Kalunda et al. (2012) carried out a study on pharmaceutical manufacturing companies in Kenya and their credit risk management practices. They used a semi structured questionnaire to solicit information from finance managers or credit controller. They found that the most important factors considered in establishing a credit policy is the financial stability of the customer and existing credit policy. Most widely used credit risk management practices are debt collectors, letter of credit,

and credit insurance and factor of debt. When dealing with difficult customers' accounts are put on hold and stop future sales till the account is settled

Ojeka (2012) studied four manufacturing companies in Nigeria. He used annual reports and accounts of selected companies as well as questionnaire. His findings revealed that when a company's credit policy is favorable, liquidity is at a desirable level. He further found that the companies that monitor and regularly review their credit policy and reduce cash discount allowances perform quite well in terms liquidity position and profitability.

Uremadu, Egbido and Enyi (2012) carried out a study in Nigeria on working capital management, liquidity and corporate profitability in the manufacturing firms that were quoted. The study used a cross sectional time series data for the period 2005 - 2006. Debtors‟ collection period was used as proxy or credit policy and represented the length of time it takes the companies to collect proceeds of sales from their debtors. The study established a distorted and non-significant relationship of debtors‟ collection period with the level of corporate profitability cum liquidity among quoted companies in Nigeria.

The study critically examines the relationship between credit management, liquidity position and profitability of some selected banks in Nigeria using annual data of ten banks over the period of 2006 to 2010. Time series properties of all variables used in the estimation were examined through Augmented Dickey Fuller (ADF) test in order to obtain reliable results. It shows that all the variables were stationary and significant at first differences. The results from Ordinary Least Square (OLS) estimate found that current ratio is positively related to debt ratio and significant at 1% level. This confirms the alternative "risk absorption" hypothesis, which stipulates that efficient credit management enhances firms' ability to create liquidity. In addition, the result shows that ROA has significant positive effect on current ratio confirming the "financial fragility – crowding out" hypothesis which stipulate that the ability of firms' to maintain certain degree of liquidity reduces firms' profitability enhancement. This conclusion has important policy implications for emerging countries like Nigeria as it suggests that when a company's credit policy is favourable, liquidity is at a desirable level and lastly, the findings revealed that companies should ensure the monitoring and regular review of their credit policy and the allowance of cash discounts should be minimized as much as possible.

2.4 Gap in Literature

From the review of related literature, it is evidenced that the research efforts were focused on the effect of credit management and bad debt on the growth of Nigerian money deposit banks, contributions of credit management and management of debt to economic growth and development. It is also evidenced that these research studies used secondary data to arrive at the conclusion. The aim of this study is to fill the gap by focusing on the impact of credit and debt management in the growth of banks and their profitability. Other researchers were focusing on the impact of credit management and some on the management of debt but in this work, the researcher were able to bring out the principles the bank should apply to avoid bad debt and a better management of credit in the banks.

METHODOLOGY

3.1 Research Design

A research design is a blue print for the collection, measurement and analysis of data. Research design is a master for executing a research project. It is an outline or a scheme that serves as a useful guide to the researcher in his effort to generate data for the study. The expost facto research design was employed for this study. It involves the use of data of variables which the researcher cannot change or manipulate.

3.2 Sources of Data

The data used in this research work was mainly secondary data for the study effects on credit management and bank debt on the growth of Nigeria deposit money bank from the period of 2005 – 2022. The data were collected from CBN annual reports and statement of account, CBN statistical bulletins, text books and internet. The choice of secondary data was made since it is more accurate and time saving. However, there is no doubt to conceive on the reliability of secondary data used, but the possibilities of random errors were not neglected.

3.3 Model Specification

Model is a mathematical means of expressing real life situations, using equations, alphabets and signs. A model tries to show the relationship between dependent and independent variables. The study investigated the effect of credit management and bad debt on the growth of Nigeria deposit money banks using simple or linear-regression analysis. The model is derived from the research objectives adopted from Ichu (2003), which was modified to suit the present study. The adopted model is as belows:

$PBT = \beta_0 + \beta_1 BDD + \mu t$ ……………. 3.1

Then modification however was to enable the researcher measure the quantitative relationship between the variables. The modified model is specified below as:

PBT = f (BD) ……………………….. 3.2

PBT = (f (BC) ……………………..…… 3.3

LIQ = f (BD) ………………...……… 3.4

Where

PBT= Profit before tax

DMBG = deposit money bank growth

LIQ= Liquidity of the deposit money banks

BD = bad debt

BC = bank credit

However, these equations are converted to an econometric model as follows:

$PBT = \beta_0 + \beta_1 BD + \mu t$ ……………….. ..3.5

$PBT = \beta_0 + \beta_1 BC + \mu t$ ………………… 3.6

$LIQ = \beta_0 + \beta_1 BD + \mu t$ ………………. …3.7

Where:

β_0 = slope of the regression line (constant)

$\beta_1 - \beta_3$ = parameters estimator

$-\mu t$ = error term

Model 1: examined the effect of bad and doubtful debt (independent variable) on the profitability of deposit money banks (dependents variable).

Model 2: examined the effect of bank credit (independent variable) on the growth of deposit money banks (dependent variable).

Model 3: examined the effect of bad and doubtful debt (independent variable) on the liquidity of deposit money banks (dependent variable).

3.4 A Priori Expectation

This the pre-expectation of the researcher, subject to confirmation or rejection after the model has been actually tested. This predicts the expected relationship that could exist between the dependent ad independent variable. When the relationship is positive, it posits than an increase in the dependent variable will cause a responding increase in the dependent variable. It is therefore expected that bad and doubtful debt will have a negative relationship with deposit money banks profitability and liquidity, while banks credits will have a positive relationship with growth and performance of deposit money banks.

3.6 Methods of Data Presentation and Analysis

The data for this study was presented in tables and study adopted analytical method of data analysis based on the research questions and hypotheses earlier established for the study. The analytical tool consisted of ordinary least square (OLS) regression. It was chosen because the alternative econometric techniques such as two stage least squares (2SLS) give give limited information. The computer software application E views 8.0 was used for the analysis.

DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Data

The data below shows the data for determining the effect of credit management on the growth of Nigerian deposit money banks (2005-2022)

YEAR	PBT	LR	BC (₦000)	BD (₦ 000)
2005	81.63	50.2	1,976,711.2	1,799,400.1
2006	181.01	55.7	2,524,207.9	2,667,876.7

2007	379.75	48.8	4,813,488.8	806,234.1
2008	658.10	44.3	7,799,400.1	1,754,234.3
2009	1,333.3	40.9	9,667,876.7	542,908.8
2010	607.34	30.5	8,906,234.1	71,042.73
2011	-6.71	25.0	7,754,234.3	412,626.96
2012	458.04	30.0	10,542,908.8	4,799,400.1
2013	484.78	30.0	10,042.73	3,667,876.7
2014	564.0	30.0	12,626.96	1,806,234.1
2015	604.65	30.0	13,941,175	1,754,234.3
2016	607.34	30.0	13,987.79	2,542,908.8
2017	432.71	30.0	14,656.91	810,042.73
2018	646.04	30.0	14,945,675	812,626.96
2019	484.78	30.0	15,072.71	1,799,400.1
2020	764.0	30.0	15,726.53	667,876.7
2021	704.65	30.0	15,543,125	1,806,234.1
2022	807.34	30.0	15,042.92	1,754,234.3

Source: CBN Statistical Bulletin

Key: Profit before tax (PBT), liquidity ratio (LR), Bank Credit (BC), and Bad debt (BD).

4.2 Data Analyses

The data in table 4.1 shows an increase in profit before tax from 2005 to 2022 which started declining in 2011, but the increase continued from 2012 to 2022.

Liquidity ratio was high from 2005 but declined in 2010 and later increased till the end of 2022.

A bad debt decreased from the year 2005 to the year 2010 and increased very high in 2009 and continued declining in 2010 till the end of 2014 and increased again in 2015.

It was also observed that in the year 2009, profit before tax and bad debt were at their peak and both failed drastically in 2010.

4.3Test of Hypotheses

Hypothesis one

H_O: Bad debt has no significant effect on the profitability of the deposit money banks in Nigeria.

H_I: Bad debt has significant effect on the profitability of the deposit money banks in Nigeria.

Dependent Variable: PBT
Method: Least Squares
Date: 06/10/23 Time: 07:02
Sample: 2005 2022

Included observations: 19

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.792813	150.2238	1.859102	0.0960
BDD	-19.47243	10.73883	1.813273	0.1032

R-squared	0.267576	Mean dependent var	485.9900
Adjusted R-squared	0.186195	S.D. dependent var	359.6930
S.E. of regression	324.4831	Akaike info criterion	14.56531
Sum squared resid	947603.6	Schwarz criterion	14.63765
Log likelihood	-78.10920	Hannan-Quinn criter.	14.51971
F-statistic	3.287958	Durbin-Watson stat	2.931142
Prob(F-statistic)	0.003198		

Source: regression result, 2023

The result shows that a percentage increase in bad and doubtful debt of the banks will lead to a decrease in the profitability of the banks by 19%. The R-squared of 0.26 shows that the regression line is not well fitted. The adjusted R-squared shows that only 18% variation in the dependent variable is caused by a variation in the independent variable. The Durbin-Watson coefficient of 2.9 is above 2.0, which shows that the variables are free of autocorrelation problem.

The F-statistics of 0.003 is less than the significance value of 0.05, hence we reject the null hypothesis and accept the alternate that Bad debt has significant effect on the profitability of the deposit money banks in Nigeria.

Hypothesis two

H_O: Bank credit has no significant effect on the profitability of the deposit money banks in Nigeria.

$H_{I:}$ Bank credit has significant effect on the performance of the deposit money banks in Nigeria.

Dependent Variable: PBT
Method: Least Squares
Date: 06/10/23 Time: 07:03
Sample: 2005 2023
Included observations: 19

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	372.1747	191.3605	1.944888	0.0837
BC	1.72E-05	2.35E-05	0.730402	0.4837

R-squared	0.055959	Mean dependent var	485.9900
Adjusted R-squared	0.148934	S.D. dependent var	359.6930
S.E. of regression	368.3885	Akaike info criterion	14.81912

Sum squared resid	1221391.	Schwarz criterion	14.89146
Log likelihood	-79.50515	Hannan-Quinn criter.	14.77352
F-statistic	0.533488	Durbin-Watson stat	2.451687
Prob(F-statistic)	0.004833		

Source: regression result, 2023

The result shows that a percentage increase in bank credit of the banks will lead to an increase in the profitability of the banks by 1.7%. The R-squared of 0.05 shows that the regression line is not well fitted. The adjusted R-squared shows that only 14% variation in the dependent variable is caused by a variation in the independent variable. The Durbin-Watson coefficient of 2 4 is above 2.0, which shows that the variables are free of autocorrelation problem.

The F-statistics of 0.004 is less than the significance value of 0.05; hence we reject the null hypothesis and accept the alternate that bank credit has significant effect on the profitability of the deposit money banks in Nigeria.

Hypothesis three

H_O: Bad debt has no significant effect on the liquidity of the deposit money banks in Nigeria.

H_I: Bad debt has significant effect on the liquidity of the deposit money banks in Nigeria.

Dependent Variable: LR
Method: Least Squares
Date: 06/10/23 Time: 07:05
Sample: 2005 2023
Included observations: 19

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.41145	4.920067	6.994102	0.0001
BDD	-5.315784	0.351714	0.897843	0.3927

R-squared	0.082206	Mean dependent var	37.76364
Adjusted R-squared	-0.419771	S.D. dependent var	10.52381
S.E. of regression	10.62733	Akaike info criterion	7.727701
Sum squared resid	1016.462	Schwarz criterion	7.800046
Log likelihood	-40.50236	Hannan-Quinn criter.	7.682098
F-statistic	0.806123	Durbin-Watson stat	3.358788
Prob(F-statistic)	0.026754		

Source: regression result, 2023

The result shows that a percentage increase in bad and doubtful debt of the banks will lead to a decrease in the liquidity position of the banks by 5.3%. The R-squared of 0.08 shows that the regression line is not well fitted. The adjusted R-squared shows that only 41% variation in the dependent variable is caused by a variation in the independent variable. The Durbin-Watson coefficient of 3.3 is above 2.0, which shows that the variables are free of autocorrelation problem.

The F-statistics of 0.026 is less than the significance value of 0.05, hence we reject the null hypothesis and accept the alternate that Bad debt has significant effect on the liquidity of the deposit money banks in Nigeria.

4.4 Discussion of Findings

The results of the analysis test shows that bad and doubtful debt significantly affects the profitability of the deposit money banks. The relationship is negative in nature, in the sense that an increase in the bad debt of the banks causes their profitability level to decrease. The finding confirms the Apriori expectation of the study, while it disagrees with the findings of Uremadu, Egbido and Enyi (2012).

It was also found that bank credit significantly affect the bank performance. The relationship is positive in nature, as an increase in the volume of bank credit will lead to a corresponding increase in the performance of the bank. When the bank extends more credit to borrowers, they earn more income from interest charged on the loan and advances, and so long as the loans do not go bad, they performance of the bank will witness a positive effect. The finding confirms the apriori expectation of the study.

The result also shows a positive and significant relationship between bad debt and the profitability level of the banks over the period studied. It shows that increase in bad debt erodes the banks its ability to meet up with their maturing obligations as at when due. The finding was in line with apriori expectation of the study, while it confirms the work of Erun (2010).

4.5 Conclusion

In conclusion, lending involves more risk than virtually any other banking activities. Not all loans should be granted. A profitable loan, which is not safe, should not be granted. The attitude of most borrowers towards loans and advance granted to them should not be ignored –as they regard such credit facilities as their own share of the national cake. Moreover, some fraudulent bank officials receive bribe before approving loans, some officials still bargain the percentage of the credit to be given to them before the approval is made. These eventually lead to poor appraisal of such facility and as well in danger of becoming a doubtful debt because such a bank officials will lack the moral justification to pursue and recover the loan.

4.6 Recommendations

- Management should analyze the nature of risk carefully before extending credit. Efficient and effective credit management remains a hidden treasure the exact value of which undiscerning boards may be unaware. Efficiency should be predicated on a high quality credit management and adherence to professional banking ethics.

- Banks Management should establish sound lending policies, adequate credit administration procedure and an effective and efficient machinery to monitor lending function with established guidelines.
- Reduction of interest rates on lending. The character and financial statement of the borrower must be properly studied. The Central Bank of Nigeria should re-introduce interest rate regulation on banks.

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