Examine the Factors Affecting the Non-Repayment of Granted Facilities of Mellat Bank Branches in Kohgiluyeh and Boyer-Ahmad

Mehrdad Armin Pili and Enayatollah Najibzadeh

Department of Management, Yasouj Branch, Islamic azad University, Yasouj, Iran

Department of Economic, Payamnoor University, Yasouj, Iran

ABSTRACT

Non-repayment of facilities is the most important issues about banking facilities. Various factors effect on the non-repayment of banking facilities that the credit risk of banks can be reduced and controlled by identifying these factors. The purpose of this study was to evaluate the factors affecting the non-repayment of granted facilities of Mellat bank branches in Kohgiluyeh and Boyer-Ahmad in 1393. The research method was descriptive-survey. The population of the study included all employees of Mellat bank branches in Kohgiluyeh and Boyer-Ahmad, that because of the low number of statistical population, sampling was not done and the 28-item questionnaire was distributed between all employees of bank who were 80 patients. The questionnaire reliability is calculated 0/82 by Cronbach's alpha. The Data collected by descriptive and inferential statistics were analyzed by using univariate T test and Friedman test and spss software. The findings showed that from the perspective of the audience, factors such as financial and economic situation, inter-organizational factors, repayment of claims, extra-organizational factors of, economic and environmental conditions and individual circumstances of borrower had a significant effect on the non-repayment of facilities (Mellat bank of Kohgiluyeh and Boyer-Ahmad).

INTRODUCTION

Bank credits are considered the appropriate tool to encourage economic growth, particularly in the early stages of development. This issue is derived from fundamental importance of credits in providing needed capital for performing economic projects in developing countries. The credits also impact on employment, foreign trade and economic growth and development, and thereby help the growth and development in various aspects of industrial, agricultural and service of countries [1] Bank credits develop the field of employment opportunities for job seekers by providing investment opportunities for producers [2] Granting credit from the banking system of any country to the economic sectors is also one of the ways of business financing, so that the principled and correct credits and efficient use of them can play an important role in the economic development. Bank credit in terms of priorities for development purposes is allocated to different economic activities [3] Granting facilities constitute an important part of Bank's operations. In fact, economic growth requires investment and investment requires financial resources. In addition, the receipts and payments of economic units are not always consistent with each other in terms of time, so to use the required facilities and resources, go to the credit and financial institutions, most notably banks, is inevitable. Thus banks provide proper conditions for investments by their credit operations and financing for various economic sectors, and increase capital eventually national production [1] Since the demands of the banking system of country in all sectors has been rising since 2002, the experiences of various countries show that the deterioration of the balance sheets of banks and the banking system was the beginning of many economic crisis in the country and international level. In many countries the most important reasons for deterioration in banks’ balance sheets are, increasing the share of loans to assets of banks, in general, and increasing inappropriate, bad, overdue and doubtful debts, in particular. Such a situation causes to having fewer resources for lending that inevitably leads to a contraction in the national economy. Moreover, the sharp

In the last few years one of the most important challenges facing the banking system of country is the increasing trend of overdue debts the political-monitoring package of banking system. Due to the country's financial and liquidity market is bank-centered and banks have about 90% of the country's liquidity, this has become a national challenge. Increasing the total outstanding debts to increase granted facilities reflects an increase in banks credit risk. Increasing this ratio in surveyed years indicates deterioration in bank balance sheets and the poor performance of the banks in risk management, which can result in a massive financial crisis in certain circumstances. In describing this situation, analyzing the behavior of banks and examining factors causing overdue debts have special importance. The correct relationship between financial and manufacturing systems in each country is the most important factors in economic growth and development. Along with economic development, constantly and growing development of accredited industry has increased the role of credit instruments. Banks as the main part of the financial system play the main role in financing the manufacturing and trading and consuming sectors. Also in Iran, according to the country's economic and financial structures and underdeveloped capital market, country's banks are responsible for financing further economic sectors. Banks throughout their life face with various risks including liquidity, credit, trading, financial, inability to pay, exchange rates, interest rates and inflation risk, etc. that among them credit risk is in special place, because the first and most important role of banks is in the financial markets i.e. collecting deposits and lending. Decreasing banks profit margin is mainly due to the inefficiency in credit risk management and causes that banks tolerate pressures to reduce costs (ibid).

Focus on high-volume lending to a particular individual, company, industry group or economic sector and existence of ongoing challenges are of enhancing factors of these risks and pressures. And it is necessary that banks or other financial institutions consider to control and reduce this kind of risk, that don’t lose a large part of their interests of benefit and principle of assets [4] Banks and financial institutions looking for investment and lending are forced to accept risks which impact on repayment of loans. Factors such as technological changes, changes in the types and tastes of consumers, changes in exchange rates, management mobility, etc., may endanger a part of the bank's resources by increasing the risk of lending. The probability of non-repayment of principle and interest of granted loans is called credit risk. Another definition of the credit risk of the Swiss Ball Committee is as follows: Non-repayment of claims simply is the potential possibility that a borrower from bank or counterparty to him being unable to fulfill his commitment to the bank at a certain time. Generally, the factors

**Affecting the repayment of the facilities include:**

1. Focus Credit
2. The process of supply and supervision on credit
3. The supply of credit to sectors sensitive to liquidity

Focusing high-volume lending to each borrower group (industry, trade, etc.) can consider of increasing factors of the credit risk. Lending to companies and Mother industrial organizations which are as companies with interdependent ownership and are owner of shares of each other, regardless of the credit rating of the parent company and its consolidated financial statements are contains significant risks. Supply and supervision process consisting of measures of the lending process, including the receiving the application, gathering the information, assessing the application, credit expert offers and approving the credit. Doing any of the minor steps of supply and supervision of credit can be contained numerous risks. These risks include the risk of errors, inappropriate expertize, incorrect approval, etc. that all of them are operational risks. If any foreign exchange and related contracts to letters of credit, etc. be profitable, they will lead to sudden shocks in bank's capital. So to protect banks against sudden shocks, existence of an intensive analytical system to verify the customer's vulnerability to Bank's liquidity issues is essential

**Research Methodology:**

The present study is objectively applied and in terms of data collection is descriptive-survey and in terms of data analysis is correlation type. It is descriptive because its purpose is to describe the situation or phenomenon under study and is to better understand the current situation and it is correlation because in this study, the relationship between the variables is of interest. The present study examines the relationships between variables, and seeks to proof this relationship in the current condition. Therefore, it can be classified as causal-ex post facto. In this type of researches, the researcher investigates the cause and effect after the occurrence. In these researches there is a statistical relationship between variables that the goal is to examine this relationship. This study was conducted by descriptive-survey method. The population of the study included all employees of Mellat bank branches in Kohgiluyeh and Boyer-Ahmad, that because of the low number of statistical population, sampling was not done and the 28-item questionnaire was distributed between all employees of bank who were 80 patients. In this study, to have a valid questionnaire referred to specialists and experts and consulted with them in designing the questionnaire. Therefore, before performing preliminary test the proposed
questionnaire with the theoretical framework and the hypotheses were given to teachers and professionals and their points were used in the questionnaire of preliminary test. The questionnaire reliability is calculated 0.82 by Cronbach's alpha. The Data collected by descriptive and inferential statistics were analyzed by using univariate T test and Friedman test and spss software.

Table 1: The reliability coefficients of questionnaire.

<table>
<thead>
<tr>
<th>Components</th>
<th>Cronbach's alpha coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and financial situation of the borrower</td>
<td>0.79</td>
</tr>
<tr>
<td>Individual characteristics of the borrower</td>
<td>0.82</td>
</tr>
<tr>
<td>Inter-organizational factors (Banking factors)</td>
<td>0.89</td>
</tr>
<tr>
<td>Extra-organizational factors</td>
<td>0.85</td>
</tr>
<tr>
<td>Economic and environmental conditions of the society</td>
<td>0.76</td>
</tr>
</tbody>
</table>

Due to the reliability of questionnaire of present study is more than 70% i.e. 82/2%, so we can say that this is a reliable test.

The research findings:

Table 2: Demographic characteristics of samples.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Gender</th>
<th>Education</th>
<th>Work experience (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Diploma</td>
<td>Advanced Diploma</td>
</tr>
<tr>
<td>Frequency</td>
<td>2/5</td>
<td>96/3</td>
<td>2/5</td>
</tr>
<tr>
<td>Frequency percentage</td>
<td>2/5</td>
<td>96/3</td>
<td>2/5</td>
</tr>
</tbody>
</table>

The demographic characteristics of employees are shown in Table 2. The highest frequency percentage belongs to men with Master's degree and work experience of more than 10 years.

Table 3: Output of spss of t-test.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Assumed mean</th>
<th>Obtained mean</th>
<th>T score</th>
<th>degrees of freedom</th>
<th>Level of significance</th>
<th>Confirm the hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- The impact of the economic situation of the borrower on payment of facilities</td>
<td>3</td>
<td>4/42</td>
<td>31/32</td>
<td>79</td>
<td>000</td>
<td>Confirmed</td>
</tr>
<tr>
<td>2- The impact of the individual characteristics of the borrower on payment of facilities</td>
<td>3</td>
<td>4/36</td>
<td>18/47</td>
<td>79</td>
<td>000</td>
<td>Confirmed</td>
</tr>
<tr>
<td>3- The impact of the Inter-organizational factors on payment of facilities</td>
<td>3</td>
<td>4/53</td>
<td>37/81</td>
<td>79</td>
<td>000</td>
<td>Confirmed</td>
</tr>
<tr>
<td>4- The impact of the extra-organizational factors on payment of facilities</td>
<td>3</td>
<td>4/45</td>
<td>20/44</td>
<td>79</td>
<td>000</td>
<td>Confirmed</td>
</tr>
<tr>
<td>5- The impact of the economic and environmental conditions of the society on payment of facilities</td>
<td>3</td>
<td>4/30</td>
<td>19/02</td>
<td>77</td>
<td>000</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

The Steve dent's one sample t-test used to test the above hypothesis. That we see the value of T score and average assumed and degree of freedom of hypotheses in Table (3).

Fig. 1: Conceptual model of research.
Modeling:

The basic objective of the present study was to investigate the most important factors affecting the non-repayment of Banking granted facilities. The theoretical foundations relevant to the research investigated in the second quarter and finally the research conceptual model based on the existing foundations will be explained and presented. After studying the theoretical foundations in the second chapter and explaining the reasons for non-repayment of loans by borrowers and with variables of economic and financial situation of the borrower, Individual characteristics of the borrower, Inter-organizational factors (banking factors), extra-organizational factors, economic and environmental conditions of society are considered as effective factors on non-repayment of the loans. Accordingly, the conceptual model of the study is as Figure (1).

Conclusion:

To test the first hypothesis, the t-test was used. According to the results of Table (3) the obtained mean value is 4/42 that due to the significance level, has a significant difference with the assumed mean i.e. 3. So in the respondents view, the financial and economic situation of the borrower has a significant impact on the non-repayment of loans. In researches by Arence - Arab Mazar and Rooinant achieved these results; concluded that the size of the loan, income, experience of activity, age and level of education have a positive and significant effect on the repayment. And Arab Mazar and Rooinant [5] found that the main factors such as the type of activity, history of cooperation with the bank and the amount of loan have a significant effect on non-repayments of facilities of legal clients of Keshavarzi Bank and these factors are a lot in common with factors affecting the repayment of facilities of legal clients of other bank, that these findings are consistent with the present study. It can be said the business type of the borrower, Short-term bank account of the borrower, loan amount, the disproportion between the income of the borrower with the installment amount, lack of revenue side and out of the project, Inadequacy of financial resources needed for borrower, lack of access to other credit resources for borrower, the repayment period and the current status of the project at the time of take out the loan have an impact on non-repayment of loans.

To test the second hypothesis t-test was used. According to the results of Table (3) the obtained mean value is 4/36 that due to the significance level, has a significant difference with the assumed mean i.e. 3. So in the respondents view, the Individual characteristics of the borrower have a significant impact on the non-repayment of loans. In researches by Arence – Olaguejo and Adeyemo - Oladeebol jo-Oladeebol achieved these results; Arence [6] concluded that the size of the loan, income, experience of activity, age, and level of education have a positive and significant effect on the repayment. Oladeebol jo-Oladeebol [7] found that factors such as age, education, experience, size and type of activity can be considered as contributing factors in the repayment of loans. Olaguejo and Adeyemo [7] in their paper suggest that Experience, area, cost of preparing loans, the number of requests to get a loan and education are of the most important factors in repayment. Results of these studies are consistent with the present research. It can be said that poor education of borrower, early age of borrower and lack of experience in business or economic activity are effective in repayment of bank facilities.

To test the third hypothesis t-test was used. According to the results of Table (3) the obtained mean value is 4/53 that due to the significance level, has a significant difference with the assumed mean i.e. 3. So in the respondents view, the Inter-organizational factors (Banking factors) of the borrower have a significant impact on the non-repayment of loans. In researches by Taqi Nattaj and Najaf Pourkordi - Shabani-Tabatabaei Far achieved these results; Taqi Nattaj and Najaf Pourkordi [8] concluded that many of the issues that cause to outstanding are inter organizational and the need of long-term planning for the education and benefit of new methods of validation is more required. Shabani [9] concluded that in the banking system in Iran, the role of inter-organizational factors in the formation of outstanding is more than extra-organizational factors. In the end, more than thirty strategies stated to deal with the outstanding. Tabatabaei Far (1389) The findings of this study indicate that the weakness in the expertizing processes of lending, the effect of political and economic developments of the country and the world on banking system, lack of monitoring and controlling processes that govern the debt collection, arbitrary interference in granting the credits and the weakness in the process of obtaining collaterals and the correct use of them, have the most effect on the creation of the outstanding claims of Melli Bank of Hormozgan that the results of these studies are consistent with the present research. It can be concluded that such failure to obtain necessary and sufficient collaterals, Pay facilities to individuals with outstanding debts to the banking system, low attention to customer validation, the lack of intelligent system of tracking demands, Forgiveness of late charges, Insufficient accuracy of bank experts to examine the economic and technical justification of projects, lack of a comprehensive accounting computer system to control the content of instruction and existence of some cross-banking institutions have a significant impact on the payment of facilities of bank.

To test the fourth hypothesis t-test was used. According to the results of Table (3) the obtained mean value is 4/45 that due to the significance level, has a significant difference with the assumed mean i.e. 3. So in the respondents view, the extra-organizational factors of the borrower have a significant impact on the non-repayment of loans. In researches by Mahmoudi and Fuladi achieved these results; Mahmoudi (1392),
concluded that to cope with the increasing of overdue demands of Melli Bank branches of Shahrekord, strengthened risk management in banks and in addition to identifying and covering all risks, a strong emphasis on financial assessment process and reliance on the audited financial statements, as well as strengthen the quality and quantity of technical, financial and economic studies and if need using experts outside of the organization be done. Also it is emphasized and recommended to strengthen and create specialized courts to deal with cases of bank credit and more continuing cooperation of judicial organs in the debt collection of banks. Fuladi (1389), concluded that natural factors such as drought and insect damage, obligating the bank to pay loan from the government, increasing official import and smuggling of manufactured goods, prolongation of judicial scrutiny to cases and increasing inflation rate have a significant impact on the payment of the bank facilities.

To test the fifth hypothesis t-test was used. According to the results of Table (3) the obtained mean value is 4/30 that due to the significance level, has a significant difference with the assumed mean i.e. 3. So in the respondents view, the economic and environmental conditions of the society of the borrower have a significant impact on the non-repayment of loans. In researches by Kordbacheh and Pordel Nooshabadi - Heidari et al and Fuladi achieved these results; the research findings of indicated that the macroeconomic situation has a significant effect on outstanding claims in the examined sample. The research findings of Heidari et al [10] showed that economic variables shock that occur from the implementation of monetary and fiscal policy, such as inflation, the growth of non-oil gross domestic, liquidity, Interest rates, which in turn have the greatest impact on the outstanding claims of banking system that the results of these studies are consistent with the present research. It can be said that the situation of market for goods and productive services of the borrower, the slowdown in economic activities and the financial crisis, the increase in exchange rate and its volatility and natural damage such as drought are effective in the payment of bank facilities.

REFERENCES


