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The Role of Consultants in Resolving Loan Interest Charges Between Banks and Civil Servants in A Depressed Economy

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Abstract
The study is aimed at providing advisory services to both banks and consumer loan beneficiaries on the need to engage financial consultants in appraising loan documents before consummation with a view to resolving disputes that may arise from interest charges computations. This research is necessitated by the growing number of complaints both by banks of loan beneficiaries' unwillingness to pay accrued interest on one hand and the constant complains of borrowers of excess bank charges on their facilities. The methodology adopted for this research work was the case study approach in that after a general overview of the situation, case study of a cooperative society with a consumer credit facility with one of the Deposit Money Banks was selected for in depth analysis using secondary data made available by the bank, the cooperative society and documents from regulatory bodies. Findings indicate that both parties are causative agents of excess charges. Most borrowers do not stick to their repayment plans, given room for the introduction of new charges known as default and penalty fess. Banks on the other hand uses this opportunity of delay or skipped installment payments to introduce various forms of charges at cut throat rates far above regulated rates in some cases and multiple rates and non-existing charges at other times. In conclusion, the issue of excess bank charges is real, a popular case attracting national and global attention at the court of appeal is the ongoing dispute between Innoson Motors vs Guaranty Trust Bank Plc, Based on this, it is recommended that banks should play by the rules as set out by the regulatory bodies and borrowers should engage consultants for professional advice before committing themselves in addition to complying with repayment plans to avoid undue conflicts.
Keyswords: loan Interest charges, banks, civil servants, consultants, depressed economy

Introduction

American Statesman, philosopher, and scientist Benjamin Franklin once observed: "if you would know the value of money go and try to borrow some" (Rose and Hudgins, 2013:593). Over the past couple of generations, millions upon millions of consumers (individuals and families) have tried to do just that-borrow money in order to supplement their income and enhance their lifestyle. Consumer debts become one of the fastest growing forms of borrowing money around the globe.

Just as consumer borrowing has become a key driving force in the financial market-place today, so have lenders choosing to make these loans. Bankers have emerged in recent decades to become dominant providers of credit to individuals and families, aggressively advertising their services through "money shops", "money stores," and other enticing sales vehicles. Of course, things did not start out that way, for most of their history banks largely ignored household borrowers, allowing credit unions, savings associations and financial companies to move in and capture this important marketplace, while banks concentrated on their business customers.

Despite the fact that consumer credit is one of the most profitable services of deposit money banks, it can also be among the costlier and risky financial products because the financial condition of individuals and families can change quickly due to illness, loss of employment, delay or none payment of salaries or other family tragedies. The global financial meltdown between 2007 and 2009 has demonstrated how many consumer loans can go bad due to poor lending decisions, bringing in a major recession in the economy. Lending to households therefore, must be managed with sensitivity to the special challenges they represent.

As banks and their principal competitors make a variety of consumer loans to civil servants for different purposes ranging from purchasing automobiles and buying new furniture, taking dream vacations, or pursuing college education to constructing homes and office buildings, it is advisable that borrowers seek proper information and interpretation of loan agreements by engaging financial consultants skilled in consumer loan administration. This becomes most critical at a time of economic recession where earning capacity and ability to repay loans are drastically affected due to delay in payment of salaries by employers, reduced salary payments or outright loss of employment. Banks should also ensure that the judgmental technique of an applicant's creditworthiness is based on 6 C's namely character, capacity, cash, collateral, conditions and control (Rose, 1993).is no longer, hence they should rather adopt a more effective method of assessing customers as such as credit scoring method. Credit scoring methods produce more precise classifications in comparison with subjective judgmental assessments by loan officers. Rosenberge et al. (1994) in Theodoros (2015) argue about the credit scoring method advantages over the judgmental technique in that it is more precise and accurate. Credit scoring system is a computerized process producing a score according to various relevant characteristics of borrower, such as income, profession, age, wealth, previous loans, etc. the final score is obtained by summing the individual borrowers score. Credit will be granted

if the score is higher than a predetermined bank's cut-off-level'. Therefore, the objective of this study is to examine the role of financial consultants in resolving loan interest charges between banks and civil servants in a depressed economy. Some specific objectives are: to examine if there are excess bank charges on loans consummated with civil servants and the causes of this excess charges and those responsible. The paper is divided into five parts consisting of: introduction, literature review, research methodology, findings and discussion, conclusion and recommendations.

Literature Review

Theory of Financial Intermediation

Despite the seeming short coming of Deposit Money Banks, according to Otiti (2010:47), commercial banks have over the years proved to be the most important financial intermediaries. They have facilitated the rapid transformation of the economy. Kirkwood, (1966) in (Ezirim, 2007), The traditional and age long definition of what a bank is, has been established in the case of Unions Dominion Trust Ltd. Vs Kirkwood, the banks and other financial institutions decree of 1990 has equally given statutory definition of what a bank is. In all, both statutory and case law definitions defined a bank as an institution that possesses the following characteristics namely: the acceptance of money from, and collection of cheques for, customers and placing of them to the customer's credit: the honouring of cheques or order drawn the bank by their customers when presented for payment and the keeping of some form of current or running accounts in their books in in which credits and debits are entered.

The theory of financial intermediation gives much attention to banks. According to Gorton and Winton (2003), they placed much emphasis on the review of the theory to banking models and observed that for many countries like Germany, France and other European countries, it would be difficult to distinguish between banks and other types of intermediaries, since banks offer insurance, investment, brokerage and other services in addition to their deposit and credit functions. In other countries (e.g. U.S.), due to the legislative barriers that exist there, which inhibit banks from exercising non typical banking activities, and the broader term "financial intermediation" is used to describe financial institutions as a whole.

Bond (2004) presents a framework which examines why banks and nonbank financial intermediaries continuously coexist; considers banks as the only [generalized] form of financial intermediation. Moreover, assumes that banks perform only two types of activities which are to acquire deposits and grant credits.

Another important element of the system of financial intermediaries is a regulatory authority. Three pillars of the regulation exist in the literature on financial intermediation, which are: (1) structural regulation, (2) insurance regulation, and (3) prudential regulation. Structural regulation deals with the competitive environment between different types of intermediaries as well as between intermediaries of one type. Insurance regulation deals with deposit insurance schemes and with insolvency resolutions. Prudential regulation imposes a system of administrative standards with regard to capital adequacy, depreciation rules, accountability etc. in order to guarantee or determine the soundness of financial intermediaries.

Financial intermediaries provide the economy with risk-return combinations for borrowers and investors that are superior to those without intermediaries and augment an economy's production potential. Intermediaries achieve this by pooling capital and spreading risk. Deposits are collected from agents wishing to invest money, and these funds are subsequently made available to agents seeking capital. Theoretical in banking intermediaries promote economic efficiency through linking savers (lenders) and producers (borrowers). A very important part of the definition is that the banks (financial intermediaries) provide the economy with better investment opportunities than those available without banks. This active role of the intermediation was absent in the early banking theory. For borrowers, intermediaries provide huge sums of capital at low transaction costs. For lenders, intermediaries reduce two of their specific types of risk: investment (portfolio) risk and liquidity risk.

Types of Loans

Despite several loan facilities by banks to various sectors of the economy for different reasons, loans to individuals and corporative societies (Consumer Loans) will be our focus in this article. Loans in this category includes credit to finance the purchase of automobiles, mobile homes, appliances, and other retail goods, to repair and modernize homes, and to cover the cost of medical care and other personal expenses, and are either extended directly to individuals or indirectly through retail dealers. (Peter and Hudgins 2013: 522). Despite the high profitability index of consumer loans, they are however associated with high risk of default on the part of beneficiaries in times of depression of the national economy as most of them are not collateralized. While the level of interest rate is often not a significant conscious factor among household borrowers, it's significantly high compared to other sectors of the economy. In addition, individuals' borrowing is often viewed as a tool to achieve a desired standard of living rather than as a safety net to be used only in emergencies. The impact of this high interest rate on borrowers in times of economic depression is also of concern in this research. Financial intermediaries such as banks should observe the following principles of lending for effective loan management: liquidity, safety, diversity, stability, and profitability.

Economic Depression

The Economy is said to be in depression if recession is in a prolonged period characterized by high unemployment, low output and investment, depressed business confidence, failing prices and widespread business failure. Economic recession is a period of significant decline in total output, income and employment, usually lasting from 6 months to a year and marked by widespread contractions in many sectors of the economy. Samuelson (2010:672)

According to Dwivedi (2008:513), during the phase of depression, economic activities slide down their normal level. The growth rate becomes negative. The level of national income and expenditure declines rapidly. Workers lose their jobs. Debtors find it difficult to pay off their debts. Demand for bank credit reaches a low ebb and banks experience mounting of their cash balances.

During economic depression, most families find it difficult to sustain their household, hence the need for external support and assistance. This assistance can be in form of fresh consumer loans or skipping repayments of existing loans. It is however, imperative to state that at times like this, you need the service of a consultant to advise you on the implications of either skipping repayment or benefits of taking fresh loans and at what terms.

Financial Consultants

Williams (2018) in his article **'HOW TO SUCEED AS A FINANCIAL CONSULTANT** postulated that in the present economic market, becoming a financial consultant is considered one of the most lucrative career opportunities because any job that has to do with money and finance carries a high premium. Financial consultants are professionals that provide independent and expert opinion on financial decisions to clients based on their financial situations. Financial consultants help clients accomplish financial objectives by assessing financial situation; developing and presenting financial strategies and plans; monitoring changes in financial status and life circumstances. Consultants are persons with professional qualifications, an analytical mind logical thought process and certainly some work experience in her chosen area.

Cohen (2001) in Aroh (2006) stated that it is pertinent for a firm to visit a consultant when the following symptoms are noticed: lack of a well written business plan or feasibility studies, low sales turnover, consistent increase in costs, regular cash shortages, chronic delays or late deliveries of products, and loss of market position.

Excess Bank Charges

Although, complaints by bank's customers cut across various issues, the CBN in its various Annual Economic Reports confirmed that most of the complaints bordered on 'excess bank charges'. Bank's customers, for many years, had been complaining, to no avail, that the practice of banks deliberately and illegally imposing excess charges on them should be stopped. Their interest is not in CBN or any other organ recovering excess charges but to have the problem completely stopped. They believe that the CBN can stop banks from continuing the perpetration of the unwholesome practice if it wants to, that no matter what efforts the CBN devotes to recovering excess bank charges, bank customers would still be at the losing end given time value of money and the fact that it is not all the excess charges that banks make that are usually recovered. Some causes of excess bank charges include: failure of banks to apply agreed interest rates on credit facilities, increase in rates of interest and other fees without notice and consent of the customers, multiple charges for a single service and charging fees that outside those recognized in the Guide to Bank Charges and duplication of telephone text messages.

Unfortunately for the banks, the issue of their unethical and unprofessional practices of collecting excess charges from customers is no more an accusation but a reality that has been confirmed by CBN and NDIC – regulatory and supervisory bodies, Ogubunka (2018). Currently, the case of Innoson Motors Vs Guaranty Trust Bank Plc is ongoing and its of global interest. In most cases such excesses are discovered by financial consultants engaged by borrowers to review their loan accounts, in a paper presented by Okorafor, and captured by Ogubunka in his article Excess bank charges (2016), the CBN Acting Director, Corporate Communications, noted that the apex bank had in three years recovered over N50 billion as excessive charges on bank customers by DMBs.

Non-Performing Loans

Greater part of disagreement between borrowers and banks on interest calculation or charges are as a result of nonperforming loans. Nonperforming loans according to Peter and Hudgins (2013:138) are credits that no longer accrue interest income or that have had to be restructured to accommodate a borrower's changed circumstances.

It is public knowledge that many 'bank borrowers' are finding it difficult, if not impossible, to repay the money they borrowed, especially civil servants who are paid either half or delayed salaries as a result of the depressed state of the economy during the last quarter of 2015 up the first quarter of 2017. Incidents of non-performing and outright bad credits are on the increase in banks. This has created tension in borrowers as alerts of heavy default charges and huge debit balances keep hitting their phones and mails boxes. This situation has also given room for manipulation by some bankers thereby leaving a sour taste of excess charges in the accounts of most borrowers. This has created a new industry of consultants that specialize in reviewing customers' accounts and recovering excess bank charges.

Research Methodology

This chapter examines research methodology and design, which provides commonly accepted rules and procedures to develop corresponding methods and techniques for effective research. Essentially, methodology deals with research design, sampling procedures, data collection methods, operational measures of the variables, data analysis techniques in order to provide an objective, systematic and organized method of conducting the study (Baridam, 2008).

The method of investigation used for this study is experimental research design because the work relied mostly on secondary data consisting of Bank Statements, Repayment schedule, offer letter and related documents of a given financial institution concerning the cooperative society under review. The study used ex-post factor research design.

Findings and Discussion

As stated earlier, greater part of disagreement between borrowers and banks on interest calculation or charges are as a result of nonperforming loans. Nonperforming loans according to Peter and Hudgins (2013:138) are credits that no longer accrue interest income or that have had to be restructured to accommodate a borrower's changed circumstances.

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At this juncture, we shall be looking at civil servants' consumer loans using one of the civil service cooperative in Bayelsa State as a case study. For purpose of confidentiality, the identity of the corporative and the lending bank will be denoted by alphabets. One of the corporative societies of the nonacademic staff union of one of the higher Institutions in Bayelsa denoted by XYZ corporative society approached a bank (denoted by ABC Bank Plc) for a consumer loan of Thirty-Eight Million (N38,000,000.00) Naira only in 2014.

The bank, probably after due assessment granted the facility in September 2014 under the following terms as encapsulated in the offer letter.

Facility amount N38,000.000.00, Interest Rate: 25% per annum, Management Fee:1% of facility, Commitment Fee 50% of facility, Tenor 36 months, Due date: 24 of each month, Equal monthly installment: N1,510,873.38, Source of repayment, monthly salaries deducted at source by employer on behalf of beneficiaries.

The corporative was funding the facility as and when due until the first quarter of 2016 when salaries became irregular and paid at 50% in some instances as the State was hit by reduced FAAC allocation as a result of economic depression suffered at the national level.

This scenario aroused the consciousness of the corporative to ask for their loan balance and bank statements towards the end of 2016.

Your guess is as good as mine, the bank statements came with huge debit balances and default charges. this was distasteful to the members hence they wanted to know the make-up of the debit balances and the huge default charges. Consequently, series of meetings were held between the corporative and the bank with the researcher in attendance as a freelance consultant engaged by the corporative, as at the time of this publication truce cannot be reached as both parties are justifying their positions. However, as a professional in the field, I took an independent appraisal of the facility with its accompanying documents and bank statements, below are some of my findings:

1. The facility was skewed to attract penalties and default charges throughout its life as repayment was booked for 24th of every month over the life of facility of despite the fact that civil servants receive their salaries between 30th to the 2nd week of the next month at the time.
2. No amortization schedule nor offer letter was presented initially, however the corporative was asked to remit N1,551,958.22 monthly, against N1,510,873.38 on the offer letter.
3. Despite the monthly repayment of the agreed amount for eighteen (18) months before the recession, penalty charges started from the very first month as evidenced by the bank statement as shown in the appendix.
4. As a result of the delinquent nature of facility, the loan was restricted in March 2017 but without the consent of the corporative
5. The research covered commencement to the point of restructure
6. The claims of the cooperative that they are not aware of any default charge as it is not contained in the offer letter is not tenable as this charges are a universal practice.
7. However, computations and reconciliations showed that the bank had over charged the corporative close to Four Million Naira (N4m) as shown in the appendix arising from excess charges and unethical booking of the facility.

Conclusion and Recommendation

After a painstaking study on the subject matter, the following conclusions were arrived at: Excess Bank charges are real, both parties are causative agents of excess bank charges. The Cooperative Society could not meet the repayment schedule with evidences of skipped, delayed or half payments during the period of the recession, the bank on its part did not apply high ethical standards expected in her relation to the timing of repayment from the onset in addition to taking advantage of the Cooperative's inability to meet repayment schedule to introduce unjustified interest rates, charges and computations. To avoid such situations in the future and to engender a win-win business relation, the following recommendations are proffered.

1. Borrowers are advised to seek the services of consultants to analyze their loan repayments where repayment schedules are in doubt as the principles of restoration, retribution, deterrent and equity shall be given priority as provided for in the Code of Ethics if the claim is successful.
2. Borrowers are also advised to meet up with their repayment plans as bank are profit making organizations and not charity homes.
3. Borrowers and lenders should scrutinize the ability to repay and lend within that limit.
4. Banks should not take the ignorance of their clients for granted while drafting offer letters as regulatory bodies and financial consultants will come to their rescue in times of need.
5. Banks are advised to use the Credit scoring system in appraising the credit worthiness of their potential borrowers rather than the old subjective approach.

NO OF INST	DATE/YR	Principal (N)	INST Paid (N)	Principal Portion (N)	Balance C/D (N)	DAYS	RATE %	INTEREST Per Excel 2016 version (N)	Interest in B/S (N) 2014-2017	CBN appvd penalty 1% flat (PM)	Penalties in Bank statement	Outstanding interest bal
1	Oct 24-14	38,000,000	1,551,958	771,136	37,228,864	30	25	780,822	780,822	0	10,120	
2	Nov 24-14	37,228,864	1,551,958	761,482	36,467,381	31	25	790,476	791,356	0	7,022	
3	Dec 24-14	36,467,381	1,581,815	832,486	35,634,896	30	25	749,330	751,051	0	987	
4	Jan 24-15	35,634,896	1,581,815	734,388	34,900,508	31	28	847,427	851,156	0	4,197	
5	Feb 24-15	34,900,508	1,581,815	751,853	34,148,655	28	28	829,963	834,130	0	10,110	
6	Mar 24-15	34,148,655	1,581,815	848,321	33,300,334	31	28	733,494	737,664	0	6,326	
7	Apr 24-15	33,300,334	1,581,815	789,906	32,510,428	30	28	791,909	796,975	0	13,691	
8	May24-15	32,510,428	1,581,815	833,630	31,676,798	31	28	748,185	753,543	0	18,011	
9	Jun 24-15	31,676,798	1,581,815	828,515	30,848,283	30	28	753,300	759,325	0	21,337	
10	Jul 24-15	30,848,283	1,581,815	871,882	29,976,401	31	28	709,933	716,231	0	25,471	
11	Aug 24-15	29,976,401	1,581,815	868,952	29,107,449	31	28	712,863	719,871	0	26,011	
12	Sep 24-15	29,107,449	1,581,815	889,616	28,217,832	30	28	692,199	699,724	0	30,047	
13	Oct 24-15	28,217,832	1,581,815	932,314	27,285,519	31	28	649,397	657,191	0	31,715	
14	Nov 24-15	27,285,519	1,565,163	916,291	26,369,228	30	28	648,872	657,459	0	42,940	
15	Dec 24-15	26,369,228	1,565,058	958,204	25,411,024	31	28	606,853	615,316	0	78,453	
16	Jan 24-16	25,411,024	0*	0	25,411,024	31	28	604,295	611,950	6,043	75,882	604,295
17	Feb 24-16	25,411,024	0	0	25,411,024	29	28	604,295	588,867	6,043	86,123	1,208,590
18	Mar 24-16	25,411,024	0	0	25,411,024	31	28	565,308	529,172	5,653	125,039	1,773,898
19	Apr 24-16	25,411,024	0	0	25,411,024	30	28	604,295	541,051	6,043	171,244	2,378,193
20	May24-16	25,411,024	0	0	25,411,024	31	28	584,802	500,050	5,848	212,484	2,962,995
21	Jun 24-16	25,411,024	0	0	25,411,024	30	28	604,295	491,412	6,043	267,054	3,567,290
22	July 24-16	25,411,024	0	0	25,411,024	31	28	584,802	450,873	5,848	315,338	4,142,092
23	Aug 24-16	25,411,024	0	0	25,411,024	31	28	604,295	474,361	6,043	373,800	4,756,387
24	Sep 24-16	25,411,024	0	0	25,411,024	30	28	604,295	457,124	6,043	421,623	5,360,682
25	Oct 24-16	25,411,024	0	0	25,411,024	31	28	584,802	413,501	5,848	462,968	5,945,483
26	Nov 24-16	25,411,024	474,440	0	25,411,024	30	28	604,295	396,300	1,299	506,301	6,075,339
27	Dec 24-16	25,411,024	474,719	0	25,411,024	31	28	584,802	353,090	0	558,272	6,219,422
27	Dec 24-16	25,411,024	474,442	0	25,411,024	0	28		0	0	0	5,744,980
28	Jan 24-17	25,411,024	0	0	25,411,024	31	28	604,295	332,967	6,043	564,749	6,349,275
29	Feb 24-17	25,411,024	474,442	0	25,411,024	31	28	604,295	300,012	1,299	419,317	6,479,127
	TOTAL							19,388,195	17,562,547	68,095	4,886,632	6,479,127

Source: Bank Statement of XYZ corporative society issued by ABC Bank Plc (2014-2017) and secondary data by researcher,

SUMMARY

FINDINGS	N
OUTSTANDING LOAN BALANCE AT POINT OF RESTRUCTURE	25,411,024.00
ADD: OUTSTANDING INTEREST (DEBIT BALANCE)	6,479,127.00
DEFAULT/PENALTY FEES	68,095.00
TOTAL OUTSTANDING	31,958,246.00
LESS RECOVERABLES: MANAGEMENT (TWICE)	190,000.00
UNDISBURSED LOAN NET OF UPFRONT CHARGES	
(WITHDRAWN THROGH INTERNAL TRANSFER)	874,500.00
AMOUNT TO BE RESTRUCTED	30,893,746.00
AMOUNT RESTRUCTURED BY BANK AS AT MARCH 2017	34,632,764.00
AMOUNT IN DISPUTE (RECOVERABLE/OVER CHARGE)	3,739,018.00

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