



THE IMPACT OF CORPORATE BAD DEBTS ON BANK LENDING EFFICIENCY:
THE CASE OF LENDERS' RISK IN CAMEROON

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ABSTRACT

The central objective of this article is to provide an answer to a question: Can the development of a relationship between a bank and a borrowing firm -have an impact on the risk of loan? In other words, this relationship can affect the risk of non-repayment of loan by corporate borrowers? From the study of 128 records of loans by a Cameroonian bank granted to some enterprises, we try to answer the questions by mobilizing a single probit model. Our results plead in Favour of the laxism hypothesis of banks towards some major customers and long duration of Mostly. This could be laxism, at least in one way, because of the risk of increase of non-repayment of loans granted by banks in Cameroon.

Keywords: Banking relationship - Risk of loan - hard information - soft information

JEL Classifications: C25; D23, I10.

1. INTRODUCTION

To survive in an environment increasingly uncertain, financial institutions, including banks, must prudently manage the risk (Greenbaum and Thakor, 2007). It is true; risk management has been the subject of much research in recent years highlighting the multiplicity of banking risks. The bank is thus exposed to a variety of risks classified into four categories: financial risk, operational risk and accident risk (Greuning and Bratanovic, 2004). Credit risk as part of financial risks, is considered the main risk that a bank faces (Campbell, 2007). It is the inability of the borrower to pay the interest due or repay the principal according to the terms specified in the Credit Agreement (Greuning and Bratanovic, 2004). It is manifested by the importance of non-performing loans or bad debts (Louzis et al. 2012). Webb (1992) and Eber (1999), attempted to minimize these risks, banks should, inter alia, reduce information asymmetry between them and borrowing firms. Indeed, through the bank account, the bank accumulates information because of repeated interactions with the company. Informational asymmetry is thus reduced and the production costs and control information reduced. It also gives the bank a monopoly power. This power derives from the amount of information it holds (Boot, 2000). The credit assessment is thus maximized.

Although the nature of the banking relationship has been the subject of several theoretical and empirical researches, the study of this relationship from the perspective of the

lender has attracted little attention. The majority of research in this context, examines the impact of this relationship on financing conditions in terms of credit availability (Scott, 2006; Behr et al. 2011), the collateral requirement (Degryse and Van Cayseele, 2000; Matias et al, 2010), the cost of credit, namely the interest rate charged by banks (Ferri and Messori., 2000; Berger et al, 2007).. To our knowledge, only Ferri and Messori (2000), La Porta et al. (2003), and Saurina Jiménez (2004), and Menkhoff Suwanaporn (2007) and Chang et al. (2009) studied the link between the development of a banking relationship and the risk of ex post credit, ie d., the risk of non-repayment of the loan.

In addition, we also noted the lack of consensus around the few existing studies. These studies dealt mainly on developed countries and were not much interested in developing countries (and Menkhoff Suwanaporn, 2007). However, the banking relationship is established more easily within a financial system based on undeveloped, where transparency and legal protection are low (Egli et al. 2006) economies. However, studies conducted in sub-Saharan Africa are more interested in the identification of the determinants of credit (Bellemare, 2000). In the Cameroonian context especially, a few isolated studies have had the merit of questioning the reasons for the rejection of most applications for funding productive investment by SMEs (Anne Joseph, 2004. Wamba and H .D tchamanbe 2002) by applying some statistical models and other simple probit models with microeconomic data. Unfortunately, none of them wanted to study the link between the banking relationship and the risk of non-repayment of loans. This article therefore seeks to address this deficiency by examining the credit risk of banks in Cameroon. To achieve this, it involves a probit model on a sample of 128 cases of investment loans, medium and long term. The put option on the probit model is because it takes into account not only the qualitative data relating to the relationship between banks and firms, but it also allows us to calculate the probability of non-repayment of loans and the marginal effects.

The purpose of this article is therefore to answer a fundamental question: developing a long-term relationship between the bank and the borrowing firm can it influence the credit risk of banks in Cameroon? In other words, the article seeks to highlight the impact of the banking relationship on the development of non-performing loans in the Cameroonian context? He thus tries to contribute to the debate on the determinants of bank credit risk, and, through an empirical study.

2. LITERATURE REVIEW

In order to overcome the informational problems of borrowers, banks may register their funding relationships over time. Indeed, like Boot (2000), we consider in this paper that there is a bank relationship between the firm and the bank when investing to obtain a specific private confidential information on the firm and assesses the profitability of its investments through repeated interactions that are part of the duration and the various banking products offered. This definition highlights two important aspects of the banking relationship: the multiple interactions between the bank and the borrower and the nature of the information produced. To this end, recent research on risk management in banks distinguish two types of information collected, processed and produced: hard information type and a soft kind of information.

2.1 *Hard Information Versus Soft Information And Risk Of Loan*

Hard information is information obtained from an instrumented analysis on accounting and objective data from the balance sheets and income statements. This type of information has a low cost since its technological process is easily automated (Petersen, 2004). In addition, it is easy to store and comparable. Since its independence from the

context in which it was produced, his delegation and its transmission to the participating agents in credit decision-making are easier and faster (Godbillon Camus and Godlewski, 2006). However, the only use of hard information in the process of decision making, leads to a loss in accuracy and depth of information. To increase the risk the diagnostic accuracy, the bank may use soft information. This is information gained through informal relationships based on trust. To be efficient in their function, loan officers will be required to accumulate share capital while putting strict professional relationships with borrowers to develop friendly and informal relationships with their customers and other economic actors (Ferrary, M, 1999). Its main feature remains its strong connection with the environment and context in which it occurred. In the banking system, this environment is none other than the banking relationship, through multiple interactions, provides access to private and confidential information more valuable than public information. This close relationship develops through frequent discussions between the loan officer and the head of the firm (Boot, 2000). Because of the close relationship with the firm, the bank generates and accumulates qualitative information. This is the soft information.

Baker et al. (1994) argue that decisions based on subjective assessments can improve credit agreements. The integration of subjective qualitative factors in risk prediction models of default, for example, more accurately attributed to these models (Grunert et al., 2005). This information is used to better assess the risk of the borrower and improve credit decision. The soft information plays a key role in the banking relationship. It reduces informational frictions between the bank and the borrower, when hard information, financial and public service does not allow (Wang and Shen, 2012). Nevertheless, the soft information is largely based on the subjective judgment of the collecting officer. This type of information is easy to handle during its production and processing involves the establishment of a particular organizational structure. Berger and Udell (1995) and Berger et al. (2001) note that the production of soft information depends on the organizational structure of the bank. Petersen (2004) explains that small banks produce more soft information while large banks are more interested in hard data. Similarly, Berger and Udell (2005) find that large banks lend more impersonal way and are less willing to treat soft information. However, the hard and soft information is complementary in terms of decision-making and evaluation of the credit risk of the borrower in the bank (Akhavain et al. 2005).

2.2 Long Relations, Information Production And Improvement Of Credit Risk

Banking relationship involves the production of information through the various stages of control developed by the bank, mainly ex-ante control, which aims to assess the risk characteristics of the project of the borrower (Aoki, 1994). Similarly, the firm seeking some privacy informational exchange to the bank prefers to reveal private information (Yocha, 1995). The information conveyed by financial market is accessible to all and can be exploited by competitors. As part of the bank relationship, the bank is guaranteeing certain confidential information (Lewis, 1992). In addition, the long-term relationship based on multiple interactions makes an important information exchange between the bank and the firm. This should result in better control of borrowers, thus better management of credit risk.

In addition, information collected by the bank during a prior credit agreement can be reused to assess new credit applications. The bank realized so, cost savings in the production of information insofar as the exploitation of past information is less expensive than finding new (Chan et al. 1986). Boot (2000) states that the bank relationship facilitates the reuse of information across time in evaluating new applications of its clients. Repeated interaction with the firm enables the bank to assess risk of loan more accurately. The long lasting relationships are used to create an informational capital for the bank. They assure her of

economies of scale (Chan et al. 1986). The cost of collection and information production attenuates the multiple interactions between banks and borrowers. Moreover, the multiplicity of financial services provided to the borrowing firm (management of payment, account savings...) is the source of cross-checking information. These are used by the bank to assess the creditworthiness of the borrower in the credit agreement and allow better control of the inherent activity of risk loan.

2.3 The Effects of Laxity Banking

Hellwig (1977) was the first to highlight the argument of laxity banking. It suggests that, in the context of a bank relationship, the bank is able to secure funding for his former clients even if they are in trouble. She supports them even though they have become poor and very risky. Hoping to get some of the old defaulted loans, the bank gives them extra money. Thus, the probability of repayment of the borrower in difficulty increases.

Banks are often forced to renegotiate credit agreements. Indeed, in default, a firm may request financial assistance from the bank through additional credits. The bank has already lent to the firm agrees to assign additional funding in the hope of a return of previous loans. It considers that the financial distress of the firm is only temporary and that its future profits cover their debts. However, this additional commitment often leads to an increased risk of non-repayment of loans (Dewatripont and Maskin, 1995).

3. MATERIALS AND METHOD

This methodology will revolve around the field of the study, assumptions, choice of variables, the presentation of descriptive statistics and the econometric model.

3.1. Data Source And Sample

From a methodological point of view, we have found it difficult to test the impact of the bank relationship that is established between the bank and the borrowing firm on credit risk ex post Cameroonian banks, i.e. of the risk of non-repayment. Indeed, we have not been able to access, despite our attempts on the database on loans granted by credit institutions of Cameroon at the BEAC, the data is marked as confidential. We opted for the study of credit files. Indeed, as part of a research program conducted by the author of the article, we spoke in September 2011 several banks in the cities of Douala and Yaounde. This survey was primarily to obtain authorization to access and count the records of credit extended by the bank. Unfortunately, one located in the city of Douala, after completing the academic objective of our research, has agreed to cooperate with us and hosted in its premises. An agreement was obviously drawn regarding the confidentiality of information that we deal throughout our presence in the premises. We promised that the information relating to corporate social reasons as well as the bank will not be disclosed in our research. For a month, the bank received us in the commercial and corporate loans department, which is responsible for the study, implementation and monitoring of credit files. It allowed us to examine the records of credit and administer a questionnaire to loan officers, on officially consulted records, to provide us information on our study.

The bank of our study is one of the few banks in Cameroon in which the state continues to hold a significant portion of its share capital. It ranks second in terms of market share and granted credits amounts of customer deposits in 2007 and 2008. In 2005-2009, she is ranked third Cameroonian banks in terms of the rates of not performance credit. It has, in 2010, 157 bank branches covering the whole territory of Cameroon.

The bank provided us with a random sample of loans. The initial sample was composed of 149 credit files. We were constrained not to take into consideration 21 cases because of insufficient financial information. Finally, the sample consists of 128 cases of investment credits, medium and long term, maturing in 2011. These credit records are managed by 18 credit officers. Our methodology joined the work of Krahnert and Elsas (1998) and Machauer and Weber (1998) are based on a sample of credit files, selected at random, and granted by German banks.

3.2. Testable Hypotheses

In situations of asymmetric information, the bank is unable to assess the borrower and intentions. In this perspective, the bank relationship allows the bank to accumulate information on the credit quality of the firm and thereby mitigate the problems associated with risk of default (Boot, 2000).

H1: The relationship banking allows the bank to accumulate information on the credit quality of the firm, thus reducing the risk of default by the customer.

In default, a firm may request financial assistance from the bank through additional credits. The bank has already lent to the firm agrees to assign this additional funding in the hope of a return of previous loans. But this lax behavior on the part of the bank to his former clients may explain the increased risk of non-repayment of loans (Dewatripont and Maskin, 1995) risk.

H2: bank relationship involves an increased risk of non-repayment of loans to the extent that banks engage in a partnership with their older clients.

3.3. Selection And Definition Of Variables

a) The independent variable

The independent variable is the credit risk (RISK). This is a binary variable that takes the value 1 in case of default or failure of credit due, and 0 if not. We judge the quality of credit (paid or not) at the time of data collection, namely the month of September 2011. We consider a default of credit if at least three months after the due date of credit has not been repaid.

b) The explanatory or independent variables

The indicators refer to hard information (size, age, debt of the firm reduced liquidity of the firm, guarantees provided by the firm, personal guarantee of the leader / owner), the soft information (head office contact with firm, mutual trust, loan officer turnover, communication, bookkeeping, exclusive of the bank, length of relationship with the bank) and control (business, legal form of the firm). The following table summarizes the explanatory variables used.

3.4. Descriptive Statistics

Before presenting our results, we return to a rapid descriptive analysis of our statistics. In the following table, showing the descriptive statistics for continuous variables

used in our empirical study, the average size of firms that have applied for a credit from the bank is 8.060. The average age is in the range of approximately 9 years. Its standard deviation, high enough, lets out that the age of the firms in our sample is variable. It includes newly created firms and businesses, including the years of operation exceed 9 years. The debt ratio is on average around 0.6505. While the average reduced liquidity reaches 1.0357 for corporate borrowers.

Table 1: Definition of bank relationships variables

Variables	Designations	Measure	Impact expected
SIZE	Size of the firm	Natural logarithm of total assets	-
AGE	Age of the firm	The number of years of operation of the business during the credit application	-
LEV	Debt of the firm	Debt / equity	+
LQR	Reduced liquidity of the firm	(current assets - inventories)/current liabilities	-
MGR	Guarantees provided by the firm	Binary variable equal to 1 if the firm provides to several bank guarantees, 0 otherwise	-
MNGR	Personal guarantee of the manager / owner	Binary variable equal to 1 if the credit is secured by a personal guarantee of the leader/ owner, 0 otherwise	-
SOCIA	Social contact with the firm	Binary variable that takes the value 1 if the loan officer assigned 4 or 5 in the social contact binding Chief/business owner, 0 otherwise. The weighting of the loan officer is on a scale of 1 (low touch) to 5 (high contact).	-
CONF	mutual trust	Binary variable that takes the value 1 if the loan officer assigned 4 or 5 on the mutual trust binding Chief/business owner, 0 otherwise. The weighting of the loan officer is on a scale of 1 (low confidence) to 5 (high confidence).	-
WTURN	Rotation of loan officer	Binary variable that takes the value 1 if a single loan officer traitor file credit application.	-
COM	Communication	Binary variable equal to 1 if the loan officer is based on face to interact with the firm and its agent and 0 otherwise (If the mode of communication is the telephone, email or fax).	-
ANC	Length of the relationship with the bank	Binary variable that takes the value 1 if the duration is longer than the average duration of the relationship in our sample, 0 otherwise.	-
EXC	The exclusivity of the bank	Binary variable that takes the value 1 if the firm is financed by a single bank, 0 otherwise.	-
CE	Bookkeeping	Binary variable that takes the value 1 if the manager/ owner of the firm has a savings account in the bank, otherwise	-
SEC	Industry	Binary variable that takes the value 1 if the firm belongs to the service sector, industry	-
SJ	Legal form of the firm	Binary variable equal to one if the firm is and if SA is a limited liability	-

We present in table 2 the descriptive statistics for dichotomous variables. It reveals that 20, 20% of the funds studied were not repaid on time, and more than 52% of the firms belong to the service sector, 47.47% in the industrial sector. Our study credits were granted to majority limited (on average more than 58%). Corporate represent almost 41%. 80.80% of the loans were secured by several guarantees and 52, 52% of them are even personally guaranteed by the owner / managers of firms borrowing. We also note that 21.21% of the firms in our sample build relationships with the bank that lasts more than three and a half years or so. 51.51% of the firms are financed exclusively by the bank. The latter manages the savings accounts managers /owners of 18.18% of them. Similarly, the majority of credit files (73.73%) were treated with a single loan officer.

Table 2. Descriptive statistics of variables continuous binary relation

Variables	averages	Min	max	Standard Deviation
SIZE	8.06	4.5325	13.2533	2.0641
AGE	8.616	1	34	10.1606
LEV	0.6505	0	2.4862	0.6432
LQR	1.03097	-2.3097	12.5972	1.91

Table 3. Descriptive statistics for dichotomous variables bank relationship

Variables	RISK	MGR	MNGR	ANC	EXC	CE
Modality	0	0	0	0	0	0
	1	1	1	1	1	1
Frequency	79,79%	19,19%	47,47%	78,78%	48,48%	81,81%
	20,20%	80,80%	52,52%	21,21%	51,51%	18,18%

3.5 The Econometric Model

We explain in the following paragraphs our empirical approach. Us to prove the use of the probit model and present the model to estimate.

a) Justification For The Choice Of The Probit Model

The analysis is conducted cross-sectional for 2011. We coded the credit risk (Risk) by a binary variable that takes the value of 1 in case of default or failure of credit and 0 otherwise. We wanted to explain it by a vector of explanatory variables reflecting the effect of hard and soft information on the credit risk of banks. Thus, we estimate a binary choice model. We seek to an alternative model ($y_i = 0$ or 1) and thus to estimate the probability associated with the event P_i ($y_i = 1$). Given the nature of our dependent variable, we use a qualitative model namely probit regression.

b) The Empirical Model

This model is used to define the probability of default of credit due to the variation of a set of qualitative and dichotomous independent variables. X_i is the vector of independent variables for each credit i . Thus, we consider the following general model:

$$\begin{cases} \text{Prob}(y_i = 1 | x_i) = P_i = F(x_i\beta) \\ \text{Prob}(y_i = 0 | x_i) = 1 - P_i = 1 - F(x_i\beta) \end{cases}$$

With $F(x_i)$ the distribution function of the normal distribution resulting from the statistical distribution of the error term ϵ_i . It takes the following

$$F(x) = \frac{1}{\sqrt{2\pi}} e^{-x^2/2}$$

form:

Achieving y_i (observable) from a model underlying expressed by the (unobservable) latent variable y_i (in our case, the probability of default of credit). Achieving y_i follows a decision rule (controlled by x_i) such that:

$$P(y_i=1)=F \left(\begin{array}{l} \beta_0 + \beta_1 SIZE_i + \beta_2 AGE_i + \beta_3 LEV_i + \beta_4 LQR_i + \beta_5 MGR_i + \\ \beta_6 MNGR_i + \beta_7 SOCIA_i + \beta_8 CONF_i + \beta_9 WTURN_i + \beta_{10} COM_i + \beta_{11} ANC_i + \beta_{12} EXC_i + \\ \beta_{13} CE_i + \beta_{14} SEC_i + \beta_{15} SJ_i \end{array} \right)$$

4. RESULTS AND DISCUSSION

The following table presents the results of the probit regression model. In addition to the signs and significance of the coefficients, the table contains the marginal effects associated with β parameters. These effects determine the sensitivity of the probability of the event ($y_i = 1$) or ($y_i = 0$) with respect to variations of the independent variables (Thomas, 2000). More specifically, they determine the change in the probability of non-repayment of loans due to a variation of the independent variables.

4.1 The Long Relationship Allows The Bank To Accumulate Objective Information To Reduce The Credit Risk.

The significance of the variable size implies that it is a determinant of the risk of non-repayment of loans in our study. The negative sign of the coefficient attached to the firm size is consistent with that expected. The calculation of the marginal effects indicates that increasing the size of the firm decreases by 1% 2.25% probability of non-repayment of the loan. Large firms are less financially fragile, so less risky than smaller ones. These are more opaque and highly dependent on bank credit to finance their long-term investment cycles and ensure their short-term exploitation. Indeed, banks provide a large part of the funding of these companies. This should foster a poor estimate of the risk of default and a higher credit risk.

Specifically, the risk of defaults is more important for Cameroonian SMEs, our study, relatively large companies, because of informational opacity. The small business activities are limited, they lack experience and are unable to diversify their risks. By cons, large firms have a greater financial capacity, making them more credit worthy. We may think that the bank is more conservative to SMEs. In this sense, we are witnessing in recent years aversion increasingly pronounced Cameroonian banks against small businesses, especially SMEs (TAKA, 2010).

Faced with these difficulties financing the Cameroonian government project from a few years the establishment of a bank for financing SMEs (BFSME). It will aim to facilitate access to funding for the creation and expansion of SMEs and assist promoters throughout the life cycle of the project. Our result is consistent with that of Berger and Udell (1995), and contradicts those of Menkhoff and Suwanaporn (2007).

Our results reveal that the age of the firm has a significant and negative impact on the probability of non-repayment of the loan. The negative sign of the coefficient attached to the variable related to age is consistent with that expected. Specifically, older firms are easy to evaluate by the bank and are less risky than newly established firms. More the firm is under its most credit history is important. Over the years of operation, the firm gains experience and skills to the bank greater visibility regarding its risk. If the age of the company increased by 1% probability of non-repayment of the credit reduces 1.37%. Growing up, the Cameroonian company is proven and produces more information. While new firms are financially vulnerable and difficult to assess by the bank. This vulnerability exposes them to significant credit risk. Our result confirms that of Menkhoff and Suwanaporn (2007).

Table 4. Results Of Econometric Regression

Independent variables	Coefficients	Marginal effects
hardInformations		
SIZE	-0.2214* (-2.43)	-0.0225
AGE	-0.1350*** (-3.45)	-0.0137
LEVR	1.9769*** (3.68)	0.2010
LQR	-0.2325** (-2.46)	-0.0236
MGR	1.7544** (2.46)	0.0929
MNRG	-0.6261 (-1.36)	-0.6847
soft Informations		
SOCIAL	-2.0058 (-1.94)*	-0.4591
CONF	-3.4002*** (-5.58)	-0.8525
ANC	1.5908*** (2.87)	0.3012
EXC	0.2973 (0.66)	0.0302
CE	-1.2980** (-2.36)	-0.0748
WTURN	-0.2450 (-0.43)	-0.0274
COM	3.5850*** (3.73)	0.1671
Control variables		
SJ	-0.0020 (-0.00)	0.0002
SEC	-0.3967 (-0.72)	-0.0401
Constant	0.8896 (0.66)	-
Number of Observations	128	
Pseudo R ²	0.5001	
LR	49.823***	
Log-Likelihood	-24.90	
Air under the ROC curve	0.92	
% Of as correctly classified	88.89%	

Notes: The marginal effects are calculated for the midpoint of the continuous explanatory variables, and for a discrete change from 0 to 1 for binary variables. ***, ** And * correspond to significance levels of 1%, 5% and 10%. Values in parentheses are the t-student.

As expected, we note that debt affects the probability of non-repayment of loans in our study. More debt the firm is important, the greater the probability of default of credit. Increased debt by 1% increases the probability of default of 20% credits. The firm leverage seems a determining factor of credit risk of the Cameroonian bank. It tells us about the ability of the company to repay the credit due. Similarly, it is an indicator of possible problems that can alert the loan officer. More debt the firm is, the more it is likely to find it difficult to meet its obligations to the bank. Therefore, the risk of failure of these firms is more important. By positioning relative to previous empirical studies, our finding is that of Cole (2011) who find that firm leverage is negatively related to credit quality. Similarly, our results confirm those of Chang et al. (2009) and contradicts those of Menkhoff and Suwanaporn (2007) who advocate neutrality of debt on the probability of default loans.

The sign of the coefficient attached to the variable reduced liquidity appears consistent with our expectations. More non-repayment capacity of the firm in the short term, the higher the probability of non-repayment loan is low. The calculation of marginal effects shows that the probability of non-repayment of the loan decreases 2.36% for an increase in the reduced 1% of firm liquidity. More specifically, the most creditworthy firms are less risky. The reduced liquidity allows the firm to assess the creditworthiness of the firm. Denotes high liquidity and good financial health of the firm, allowing it to repay its term loans. We may think that the Cameroonian firm whose ability to repay short-term is important is considered less risky for the bank. Our result differs with that of Menkhoff and Suwanaporn (2007) and that of Chang et al. (2009).

In addition, it is clear from our results that the safeguards appear to be a determinant of the probability of default of the loans in our study. It is a discriminating factor to distinguish between good and bad borrowers. However, the positive correlation between the variable and the dependent variable warranty does not meet our expectations. When the canvasser credit company provides a range of bank guarantees, we find that the probability of not fulfilling its commitments rose 9.29%. Our result calls into question the assumption of signal and confirms the hypothesis of the observed risk highlighted by Boot et al. (1991). In other words, the bank requires more guarantees when it considers the firm as risky. On the other hand, our results demonstrate that the personal guarantee of the directors of the company has no impact on the probability of default loans. This type of warranty is not a good signal quality and credibility to the bank. Thus, our conviction vis-à-vis the observed risk hypothesis proves supported. Warranties do not seem to play a signaling role, but rather reflect the quality of the borrowing firm.

4.2 The Effect Of Social Contacts Between The Bank And The Firm

As expected, we find that the relationship between social contact and credit risk has the expected negative sign. More specifically, a high social contact between the loan officer representing the bank and the borrowing firm to better understand the risk of the latter on the basis of private information confidential and not publicly available. It seems that an important social contact reduces the probability of default credit of 45%. Thus, the social contact enables loan officers to extract useful information for the evaluation of Cameroonian firms. Risk of loan is thus reduced. This result confirms the hypothesis of informational advantage enjoyed by the bank by forging a lasting relationship with the borrowing firm. Our result confirms that of Scott (2004) which predicts that the accumulation of soft information through social contact enables the bank to better assess the risk of the borrower.

We note that the relationship between the confidence index and the probability of default of credit has the expected sign. If the relationship between the loan officer and the head of the firm thrives in a climate of mutual trust, the likelihood that the loan will not be repaid is attenuated by 85%. We note that this variable has the largest marginal effect.

Mutual trust between the bank and the borrowing firm appears to play an important role in the development of the bank relationship. An important trust allows the loan officer to acquire confidential information private and more public information. Thus, the moral hazard is mitigated and the credit risk is reduced. We can pretend that the accumulation of information by the charge of credit in a context of mutual trust, to better assess the credit risk of the firm.

The length of the relationship between the bank and the borrowing firm appears to be one of the main determinants of credit risk in our study, but the effect we find is contrary to that expected. We find that the probability of repayment of credit is relatively more important for an old bank account for a new one. When the length of the relationship is greater than 3 and a half years on average (the average value of the length of the relationship of our sample) the probability of repayment of credit is growing by 30%. This result underlines the commitment of the bank to its older customers that the bank provides financing even if clients have financial difficulties. Although the strength of its informational advantage, the bank seems captured by its commitment to the firm. It behaves rather lax towards his oldest clients. It also seems, in light of these factors, our results indirectly support the hypothesis of informational capture. Information rents provide the bank with market power in the future. She is ready to finance its old relationships even if they are risky to the extent that it can offset its losses by charging high interest rates. Anything that still allows increasing the risk of loan.

Contrary to our expectations, the exclusive bank relationship seems to have no impact on the probability of default loans in our study. A credit for being a main bank does not seem to have any impact on risk of loan. We can predict that the Cameroonian bank behaves similarly, as regards the management of credit risk, both main bank or not. This confirms the results of Menkhoff and Suwanaporn (2007).

The savings account held helps explain the probability of default loans. The negative sign of the coefficient attached to this variable is consistent with that expected. Specifically, the probability of default of credit is lower when the manager / owner of the borrowing firm have an account in the bank. The probability of non-repayment loan decreases about 7%. The activity of the bank accounts of the firm has information content and the bank uses this personal information to manage its credit risk. Therefore, in accordance with the hypothesis of the checking account, the audit allows the bank to monitor the financial condition of the borrower and mitigates the risk of credit default. Our results confirm those of Norden and Weber (2010).

Contrary to our expectations, a small rotation of the loan officer does not add any significant power to our model. This variable is not a determining factor in the probability of default loans. More specifically, the fact that the credit is processed by one or more responsible does not affect the production of soft information or the continuity of the bank relationship. This result is simply explained by the fact that the rotation of the loan officer does not allow interruption of the relationship between the banks to corporate borrowers. The loan officer collects information establishes an opinion on the creditworthiness of borrowers and transmits this information to his superiors. Contrary behavior may be detrimental to the rest of his career.

Our conviction vis-à-vis the banks' commitment to their clients is confirmed by the result of the variable communication. It appears from the regression that face to face communication has a significant and positive impact on the probability of default loans. Communicate in a more personal way than impersonal (mail, fax, contact) increases from 16% to roughly the probability that the borrower fails to meet its obligations to the bank. Intense relationship between bank loan officer and head of the firm through frequent personal contact is likely to develop a climate of trust and commitment of the bank to its customer. The bank would be willing to fund insolvent in significant default risk firms

because they have a relationship of engagement with them. Our results support the lax behavior of the bank to its customers, following the establishment of a banking relationship.

Finally, the industry and the legal form of the company do not appear to be key determinants of credit risk. Although our sample is heterogeneous, industries such as service undergo the same situation in Cameroon and therefore have the same risk profile. We can conclude that there is no sectoral impact on the probability of non-repayment of loans. Similarly, we do not reveal a significant effect of legal status. The distinct characteristics of Corporate and Limited are neutral and do not affect the probability of defects credits.

5. CONCLUSION AND RECOMMENDATIONS

This article was designed to answer a question: developing a bank relationship between the bank and the borrowing firm it may influence the risk of non-repayment of loans? To answer, we based on 128 records credit granted by a bank to a Cameroonian business customer. The data collected from these credit records have enabled us to mobilize a probit model. Our results show a significant and negative relationship between the sizes, age, leverage, liquidity and reduced the risk of non-repayment of loans granted by the bank in our study.

Multiple social contacts and mutual trust resulting allow the bank not only to collect relevant information, but also to reduce its credit risk. It appears that the bank, through its loan officer, acquires information privacy and confidentiality in the context of a relationship based on trust. Furthermore, our results confirm that the banking services such as bookkeeping are reliable sources of information to understand the quality of borrowers.

Nevertheless, this study indicates that the closeness of the relationship can be an aggravating factor the credit risk to the extent that the bank is committed to its existing customers and provides them support even if the repayment of loans is impaired. The intensification of the bank relationship and the trust that is established between the bank and the borrower firms mitigate the control exercised by the charge of credit and its ability to discern the risk of default loans.

The bank shall, therefore, lax behavior. It grants loans to risky firms if they are old and important clients to retain and preserve the viability of the relationship. Our empirical study shows that banks generate private information networks and confirms the hypothesis that the bank account has the virtue of reducing information asymmetry and allow a better assessment of the non-repayment capacity of the customer and maximizing assessment of credit risk. However, our results it appears that the effect of engagement dominates the effect of reducing information asymmetry.

In other words, the bank relationship involves an increased risk of non-repayment of loans, to the extent that banks engage in a partnership with their older clients especially in times of financial difficulties. In order to improve the process of managing credit risk of banks in Cameroon, it would be wise to put in place effective systems to identify internal control, measure, monitor and control the credits. More specifically, the monetary authorities should monitor the process of allocation of bank loans including loan officers to prevent deviant likely to generate a significant risk of loan behaviors.

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