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APPLICATION OF LINEAR PROGRAMMING MODEL TO UNSECURED LOANS AND BAD DEBT RISK CONTROL IN BANKS

AGARANA M. C., ANAKE T. A. & ADELEKE O. J.

Department of Mathematics, College of Science and Technology, Covenant University, Ota, Ogun State, Nigeria

ABSTRACT

Most banks fail as a result of mismanagement of credit risk. In this paper, the management of credit risk as it affects loan portfolio management and proactive strategy to seek out relative value opportunities are considered. An operational research technique, linear programming, is applied to the management of loan portfolio of banks. With the results obtained, using Simplex method, an answer is provided to the question of how to avoid possible occurrence of non-performing loans, bad and doubtful debts in banks when some percentage of the loans they give out are not secured.

KEYWORDS: Bad Debt, Linear Programming, Loan Portfolio, Credit Risk, Sensitivity Analysis, Simplex Method, Unsecured Loan