

A Study on ‘Factors hindering loan acceptance, a case on BRAC Bank Limited ’

## **Internship Report on**

‘Factors hindering loan acceptance, a case on BRAC Bank Limited’

### **Submitted to**

Saif Hossain  
Senior Lecturer  
BRAC Business School  
BRAC University

### **Submitted by**

**DilrubaKhanam**

ID #: 13364005

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## Letter of Transmittal

11th January, 2016

To

Saif Hossain

Senior Lecturer

BRAC Business School

BRAC University

**Subject: Submission of the Internship report**

Dear Sir,

I am submitting my internship report titled “*A Study on Factors hindering loan acceptance, a case on BRAC Bank Limited*” as partial requirement of internship program under MBA curriculum. I would like to thank you for assigning this report as it provided me with the opportunity to venture into the real life scenario and to broaden the horizon of my understanding on how syndication is arranged and all the work that goes into it. I sincerely hope that my work will come up to the level of your expectation.

I welcome your query and grateful to answer them.

Sincerely Yours,

-----

DilrubaKhanam

ID: 13364005

Program: MBA

## **Acknowledgement**

At first I would like to say “Shukriya” to my almighty Allah for giving me the patience to successfully complete my internship report. I complete my report by his Mercy within schedule time.

The successful accomplishment of this Internship Report is the outcome of the contribution and involvement of a number of people, especially those who took the time to share their thoughtful guidance and suggestions to improve the report. It’s difficult for me to thank all of those people who have contributed something to this report. There are some special people who cannot go without mention.

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Then, I would like to express my sincere gratitude to all those persons, those who assisted me, providing cooperation, books, and articles. I want to give my special thanks to the Md.ShafiulAlam (Manager, Portfolio Review Underwriting – Small Business) and ShahanaPervin (Head of New Business, Small Business) for their cooperation to manage internship at that bank.

Finally my sincere gratitude goes to my family, friends, classmates and colleagues who helped me whenever I needed.

## **Executive Summary**

Advanced expansion of the Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled manpower in the SME sector. However, the access to financing is still recognized as the leading obstacle to SME growth in Bangladesh, alike most other developing and under-developed countries. Small and medium entrepreneurship have a tremendous potential in empowering potential entrepreneurs and transforming society. To target this sector with huge potentiality BRAC Bank Ltd introduced SME Banking Division in 2001. Tish report consists of three parts those are the organization overview, my job description and project part.

Being the fastest growing bank of the country currently BRAC Bank is operating all over the country having 157 Branches and Krishi Branches, 22 SME Sales and Service Centres, 300+ ATMs, 405 SME Unit offices. This fastest growing bank works on 3P- People, Planet and Profit; ensures sustainable growth and largely focuses on SME financing sector.

BRAC Bank SME division was set up to capture “Missing Middle” and to create socio-economic impact in the country. Within 11 years of establishing it has proved its success through becoming country’s largest SME finance provider and 4th large SME provider in the world in terms of lending volume.

In my job experience I appoint as intern in SME division under new business. Here I have several job responsibility such as data entry, CIB search and convince customer over phone. Under CIB search I search customer CIB state report from Bangladesh Bank website.

Being country’s largest SME provider, BRAC Bank is facing several hinder factors which are identified in analytical part of the report. High interest Rate, high processing fee, business experience, monthly fixed income and quick repayment schedule etc. are the major hinder facing by BRAC Bank. At the same time BRAC Bank has increase SME client at a decreasing rate. In order to reduce credit risk BRAC Bank follows consistent monitoring system upon borrower’s activities. Again if someone turns in to defaulter special wing called SAM works to enforce law.

The recommendation part of the report tried to find out some steps could be initiated by BRAC Bank in order to overcome existing hinder factors in the time of taking loan. Competitive interest rate, reasonable processing fees, quick processing time, and practicable experience could improve BRAC bank’s performance.

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# **PART ONE**

## **ORGANIZATION OVER VIEW**

## *1.1 Introduction:*

Bangladesh banking system has undergone unprecedented changes over the last twenty years. The country moved away from state control to a relatively market-based open economy by adopting a major stabilization, liberalization and deregulation program under the influence of the World Bank and the IMF against the backdrop of serious macroeconomic imbalances in the early 1980s. After the initiation of Financial Sector Reforms Program (FSRP) in 1990, the sector was opened to greater competition by the entry of new private banks and more liberal entry of foreign banks in line with the recommendations of this program.

Where increased adoption of the internet as a delivery channel contributes to a gradual reduction in overhead expenses (Marketing, IT and Staff) of the banks by providing a high level of quality services through ATM, POS (Point of Sale), Online, Internet, Tele-banking, SWIFT and Reuter. These have changed the market structure of Bangladesh banking industry significantly. As a result, in recent years, the state-owned public banks have lost market share to the private commercial banks.

These changes will have vast implications for concentration and competition in the banking and financial sectors. However, increased concentration can intensify the market power of the large banks by fostering collusive behaviour among them and therefore hinder both competition and efficiency. In order to judge the implications of these structural changes and developments, it is imperative to examine current market structure of the banking sector to understand the impact the changes are likely to have on the market structure and the behaviour of banks.

Unshakable trust on the dreams of 160 million, it is not just a place for transactions – BRAC Bank is a place where potentials are realized. Traditionally, banking in Bangladesh has been for the mid to large sized businesses or the professionals in jobs. Ironically, more than ¾th of the economy is out of the reach of formal banking. BRAC Bank took a step to break this tradition of banking and tapped into the true suburb entrepreneurial initiatives. More than half of BRAC Bank's lending is for this small and medium enterprises – popularly known as 'SME'. These businesses are the dreams and achievements of individual Bangladeshis.

## *1.2 History:*

BRAC Bank Limited, one of the latest generation of commercial banks started its journey on July 04, 2001. It is an affiliate of BRAC (Bangladesh Rural Advancement Committee), one of the world's largest non-governmental development organizations founded by Fazle Hasan Abed in 1972. It has been the fastest growing Bank in 2004 and 2005. The Bank operates under a "triple bottom line" agenda where planet profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh. BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shore Cap International, has been the fastest growing Bank in Bangladesh for the last three consecutive

years. In the recent past the bank has gone public with price of shares reaching impressive heights, further showing promising future. BRAC Bank, a fully operational Commercial Bank, focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped within the country. In the last five years of operation, the Bank has disbursed over BDT 102,729 million in loans to nearly 50,000 small and medium entrepreneurs in 2013. And this year Bank's disbursement plan is BDT 180,673 million. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. Since inception in July 2001, the Bank's footprint has grown to 88 branches, more than 400 SME unit offices and 333 ATM sites across the country, and the customer base has expanded to 500,000 deposit and 100,000 advance accounts through 2013. In 2013, BRAC Bank had a \$578 million portfolio consisting of around 65,000 loans with an average loan size of \$20,000. It has around 400 regionally-placed loan processing units offering services in the heart of rural and urban communities and employs over 700 business loan officers – around 70% of total staff. In addition to small business lending, BRAC Bank has fast growing remittance, savings mobilization and consumer lending businesses. In the years ahead BRAC Bank expects to introduce many more services and products as well as add a wider network of SME unit offices, Retail Branches and ATMs across the country.

### **1.3 Business model of BRAC Bank:**

The Business Model innovated was simple: mobilize funds from the urban market towards lending at semi-urban and rural. The bank had to break away from traditional banking, had to develop new ways to assess credit proposals and to reach these people who rarely accesses a bank outside metro areas, but the journey proved a success.

### **1.4 Structure:**

#### **1.4.1 Capital Structure:**

BRAC Bank has started with an initial capital of amount BDT 250 million, while the authorized capital is BDT 1,000 million. Over time the bank has increased its capital base because of its steady growth and within three years of operations, it has doubled its capital base to BDT 500 million. The Bank has planned to go public by the last quarter of this year (2006) and raise its paid up capital to BDT 1000 million. BRAC Bank originated with Local and International Institutional shareholding including BRAC as promoter with IFC and Shore Cap International, UK.

### 1.4.2 Capital Fund:

The authorized and paid up capital of BBL is TK.1000 million and TK.500 million respectively. The paid up capital is one of the strongest in the banking industry. The bank is going to raise its paid up capital in the month September, 2006 by TK.500 million with issuing public share of 5, 00,000 of TK.100 each.

### 1.4.3 Shareholding Structure:

Name of Shareholder	% Of Shareholding
BRAC	44.64%
International Finance Corporation	5.36%
Shore Cap Limited	0.86%
Non-Resident Bangladeshi	0.43%
Mutual Fund	3.22%
Institutions and General Public	46.61%

Source: <http://www.BRACbank.com>

### 1.5 Products and services:

The bank has large range of Product line to suit the most of the people of every stratum. In addition to gathering product both Asset and liability sides the Bank offers special credit products in support of its customer. These are:

- Consumer financing
- Lease Financing
- Small Loan
- Festival Loan
- Housing Loan
- Long-term & Short term loan financing
- Real Estate and Civil Constriction
- SME and Agro Based
- Ancillary services:
  - Brokerage House service under the central bank with membership of bourse.
  - Foreign Currency Remittance.

### 1.6 Corporate Vision:

Building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh”.

## 1.7 Corporate Mission:

- Sustained growth in Small & Medium Enterprise sector.
- Continuous low-cost deposit Growth with controlled growth in retail assets.
- Corporate Assets to be funded through self-liability mobilization. Growth in Assets through syndications and investment in faster growing sectors.
- Continuous endeavor to increase non-funded income
- Keep our debt charges at 2% to maintain a steady profitable growth
- Achieve efficient synergies between the bank's branches, SME unit offices and BRAC field offices for delivery of remittance and Bank's other products and services
- Manage various lines of business in a full controlled environment with no compromise on service quality
- Keep a divers, far flung team fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

## 1.8 Core Values:

Our Strength emanates from our owner - BRAC. This means, we will hold the following values and will be guided by BRAC as we do our work.

- Value the fact that one is a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as team to serve the best interest of our owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do

# **PART TWO**

## **INTERNSHIP EXPERIENCE**

## **2.1 Job Description:**

I joined BRAC Bank as an intern in the Small and medium Enterprises (SME) department on 22th July 2015 under New Business. I was selected after a written exam and an interview with the head of the New Business of the respected department. With the consent of my onsite supervisor my report is over 3 months of internship.

## **2.2 Specific Job Responsibilities:**

During my 3 months of internship I worked under the head of the New Business and Manager of portfolio Review, Underwriting- Small Business. This department is responsible for all kind of internal and external communication and all kinds of marketing activities of SME Banking which are.

- ✚ Find out SME customer
- ✚ Survey
- ✚ Influence customer for taking loan
- ✚ Provide advice to customer for right Business
- ✚ CIB search
- ✚ Monitoring the customer after giving loan
- ✚ Innovate new SME product
- ✚ Collect the repayment

## **2.3 Works involved during internship:**

During my attachment period I was directly involved in the CIB search, phone call, data entry and so on activates of BRAC Bank.

### **2.3.1 CIB (Credit Information Brue) Search:**

Under this work, I search the type of our customer and their status. At the beginning, I was being served two kind of customers list, firstly who want to take loan , Secondly who have above deposit minimum 25 lac balance at the end of the each month. Extract from Bangladesh Bank website, I open the CIB search page and fill up the required information such as loan type, loan amount, Period, enterprise type, business name, business address, owner name, owner permanent address, owner phone number, owner home district, owner's spouse name, sector type, postal code. Then I click search option. There have a pdf file and I download this file. After that I open the file and see the CIB code and the status. In the list of customer now I write the CIB search code and status. If a customer has many loan and grantee then I write the worst status. Like Nill, UC, SS, DF, BL and BLW. If a customer has not any loan, I write nill in status and a customer repay his or her loan amount timely, I write UC that's mean the customer is good.



### 2.3.2 Phone call:

My responsibility is to call the customer who have status nil and UC and convince them to take SME loan or any personal loan. I have the list of customer who CIB statuses nil and uc I call them and try to influence them for taking loan form BRAC Bank. Some of customers whowant to take loan and I write their name and tell my supervisor. She takes further action like CRO visit and other procedure.

### 2.3.3 Data Entry:

Under this I have to entry the CRO survey report about the searching new customer. Also give entry different type of information regarding loan procedure.

### 2.4 Observation:

- ✚ The total number of SME Unit of BRAC Bank around the entire Bangladesh is very low.
- ✚ With a limited number of SMA office.
- ✚ Provide loan without security that is very risky.
- ✚ CRO give many information that is not provided by customer.
- ✚ For fill up target CRO does not consider many requirements for giving loan that is very risky.
- ✚ Customers have the complaint against the CRO and interest rate.
- ✚ A very small team to pull of such a big work load of the entire department.
- ✚ The salary package for the entry and mid-level management is considerably low.
- ✚ Office area is very small for a marketing & communication department.

### 2.5 Recommendation:

- ✚ The number of Unit office should be increased for the increase for product promotion and customer.
- ✚ More campaigns should be introduces so that all the products and offers are more highlighted.
- ✚ More SMA office should be introduced for urban area.
- ✚ The team should be extended for better work efficiency as the work load is massive for a small department.
- ✚ CRO have to punish for giving false information and fake survey report.
- ✚ CRO should need more training about chose the customer.
- ✚ Monitor properly.
- ✚ Marketing activities should be increased to make the potential customers informed.

# **PART THREE**

## **THE PROJECT**

### *3.1 Summary of the project:*

The project part consist of four chapters such as the overview of SME, loan product and procedure, the analytical part and findings, recommendation and conclusion. The objective of the report is to find out the factors that hinder taking loan from BRAC Bank Limited. The data collect from website, annual report and interview with employee and client. This report is only related with SME loan.

Before going to the analysis, it is mandatory to know something about the SME loan, its classifications and the whole of its process starting from loan sanction to recovery and closing of the loan.

That's why; first of all, I made an overview of the SME of BRAC bank Limited. Here I tried to focus the bank's journey start, actual meaning of SME that is "a firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital". Different selection criteria for SME financing of BRAC Bank limited, terms and condition of SME loan, overall target sector for SME financing in Bangladesh, the sector where BRAC Bank do not provide SME loan etc. are focus on first chapter of this report.

Then talked about the details of SME loan product and procedure of SME loan where I delineated the sanction, disbursement, repayment and closing of SME loan.

After talking about the whole process of SME loan, I made an attempt to analyse the factors that hinder for taking loan from the BRAC Bank Ltd. For this end in view, I have collected information about 1500 client who are not interested to take loan from BRAC Bank. It is noted that the supervisor of SME provided me 2,500 client information. Then I try to find out major reason that work as hinder factors in case of taking loan. I found some significant variables like, high interest rate, high processing fee, length processing time, business experience and fixed monthly income of the client which might have an impact on taking loan from the BRAC Bank limited. Also I analyse the present situation of SME loan of BRAC Bank Limited.

Finally I got some factors that hinder of acceptance loan from BRAC Bank Limited. I also find that although the SME loan amount increased, it is at a decreasing rate. It is alarming issue for the organization. Therefore the organization has to overcome their hinder factors. Then I conclude my report saying some recommendation.

### **3.2 Description of the project:**

The report has been prepared in order to provide an idea about the factors that hinder people taking loan from BRAC Bank Limited. The broad objective and specific objectives of the report are given bellow-

### **3.3Introduction:**

BRAC Bank Ltd. was established in 2001 with a focus on the small business sector, operating with a double bottom-line agenda: a combination of profit and social responsibility. The bank also focused on relationship based banking, as it believes that the pursuit of profit and developmental goals are mutually reinforcing. This focus makes the bank to emphasize more on to explore and access market opportunities as well as build asset base to its clients conforming significant contribution to the profitability of the Bank.

### **3.4 Objectives of the project:**

#### **3.4.1 Main Objectives:**

Broad objective of this study is to find out thefactors that hinder people from taking loan at BRAC Bank Limited.

#### **3.4.2 Specific Objectives:**

- ✚ To know the loan criteria of BBL.
- ✚ To know the loan process of BBL.
- ✚ To know the customer opinion about taking BBL loan.
- ✚ To study on current SME loan situation of BBL.
- ✚ To analysis of other issues related to loan.

### **3.5 Methodology:**

Both the primary and secondary data are used to make the report more rich and informative.

#### **3.5.1 Primary Source:**

- ✚ To know the customer opinion about taking BBL loan ‘Conversation with 2500 customers over phone’ (provided by supervisor) and ‘Interview with 20 CRO (Customer Relationship Officer) people’ were done.
- ✚ Interview of my supervisor and different credit officer for knowing about the loan process.

#### **3.5.2 Secondary sources:**

- ✚ Collect data from BRAC Bank ltd.’s website to know the loan criteria of BBL
- ✚ Study the annual report of 2010 - 2014 to study on current SME loan situation of BBL.

### 3.6 Limitation:

- ✚ This report is only related with SME loan of BBL.
- ✚ This study only considers the 2500 customers' opinion about the BBL loan.
- ✚ This study only considers 6 districts of 15 areas.

# **MAIN BODY OF THE PROJECT**

## **CHAPTER ONE: OVERVIEW OF THE SME**

### 4.1 Journey begins from “MISSING MIDDLE”:

BRAC Bank is now 12 years old and pioneered the small and medium enterprise (SME) Banking. If we think of the financial pyramid, there are corporate institutions (local and Multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But SME sector in the middle were missing access to necessary banking services and that’s where BRAC Bank has filled the gap. So, BRAC bank Launched SME loan for lower and middle classes business from the Concept of missing middle.

### 4.2 Define SME:

An SME is defined as, —A firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital. SMEs ordinarily have few accesses to formal channels of finance and depend primarily upon savings of their owners, their families & friends. Consequently, most SMEs are sole proprietorships & partnerships. SMEs have been defined against various criteria. The three parameters that are generally applied by the Governments to define SMEs are: Capital investment in plant and machinery Number of workers employed Volume of production or turnover of business.

#### 4.2.1 Definition of SME as per Bangladesh Bank:

Bangladesh Bank provides some rules and criteria that should maintain the entire bank. Organizations not a public limited company meet the following criteria:

Enterprise	Criteria	Trading/Services	Manufacturing
Small Enterprise	No of stuff (Not more then)	10-25	25-99
	Fixed asset (Except land and building)	BDT 5 Lac – BDT 10 Crore	BDT 50 Lac – BDT 10 Crore
Medium Enterprise	No of stuff (Not	50-100	100-250

	more then)		
	Fixed asset (Except land and building)	BDT 1 Crore – BDT 15Crore	BDT 10 Crore – BDT 30Crore

**Table 1: Criteria of SME as per Bangladesh Bank**

### **4.3 SME financing in Bangladesh:**

Most of the Commercial Banks and Financial Institutions have incorporated SME banking. The incorporation is done by only re-designing and scaling down their current financial products for the SME customer. This does not create expected value addition to SME financing, since it is regular financing under a Different name. SMEs provide low cost employment Opportunities and render flexibility to the economy. Many of the SMEs are engaged in export activities suggesting that they are internationally competitive. Considering the importance of SME sector in the economy of Bangladesh and understanding the constraints under which such enterprises operate, it is evident that policies to support the development and growth of SMEs are necessary.

### **4.4 Selection Criteria for SME loan:**

#### **4.4.1 Enterprise Selection Criteria:**

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

1. The business must be in operation for at least one year
2. The business should be environment friendly, no narcotics or tobacco business
3. The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
4. The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
5. The business must have a defined market with a clear potential growth.
6. The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.



7. Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.
8. The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.

#### 4.4.2 Entrepreneur Selection Criteria:

In order to understand the capability of the management behind the business, the following should be assessed:

1. The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
2. The entrepreneur must have the necessary technical skill to run the business, i.e academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
3. The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building)
4. The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
5. Suppliers or creditors should corroborate that he pays on time and is general in nature
6. Clear-cut indication of source of income and reasonable ability to save.

#### 4.4.3 Guarantor Selection Criteria:

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

- The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth).

- The guarantor should be aware about all the aspect of SEDF loan and his responsibility Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
- Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.
- The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

#### **4.5 SME Banking System:**

- Every SME unit office will have a current account with a designate bank in the area of a unit office. This bank account will be opened and operated by SME head office.
- To meet petty expense such as stationary, entertainment and other incidental expense, all unit office will be allowed patty cash of Tk 2000/=
- The cheque of this patty cash will be issued from SME head office in the beginning of the month. All vouchers relating to such expenses should be sent to the accounts from SME head office
- All the clients must open their account with the same bank account on the same day after receiving those from the borrowers, who should be given a received as prescribed.
- Cheques should be deposited to the SME unit office bank account on the same day after receiving those from the borrowers, who should be given a receipt as prescribed.
- Any loan installment credit should be transferred to the SME head office account in Gulshan, Dhaka on the same day as per agreement with bank.
- Every CRO should have an individual account in the same bank branch for their personal use and to receive their salaries and other benefits.
- Payment of lease rentals, utility bills and cheque drawn on the SME unit office bank account and issued by SME head office should pay other expenses (Large amount). If these bills are small amount, they should be paid from the patty cash and replenished later.

All the financial accounting entries will be passed at the SME head office and will maintain separately on the basis of the unit office.

#### **4.6 Highlights of SME Banking Division:**

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives. Today, with over 220,139 million of loans disbursed till date, BRAC Bank is country's largest SME financier that has made more than 410,817 dreams come true. The performance for SME banking

Number of Unit Offices	: 429
Number of Staff	: 2,104
No. of Loan disbursed (cumulative)	: 220,139
Cumulative Disbursement (in million BDT)	: 84,170.31
No. of Outstanding Account	: 120,685
Portfolio in amount (in million BDT)	: 32,996.18
Amount of Deposit (in million BDT)	: 3,352.6
No. of SME Sales & Service Center	: 30

# **CHAPTER TWO**

# **LOAN PRODUCT AND**

# **PROCESS**

## 5.1 SME loan product:

BRAC Bank providing different type SME loan products for the people those have really need the money to extend the business. The bank starts SME loan on different sectors. These are given below:

Product Name	Eligibility	Loan Amount	Business Type	Special features	Interest Rate	Processing fee
ANONNO (Business Loan)	1.Entrepreneurs aged between 21 to 60 years 2.Entrepreneurs with minimum 3 years' experience in the same line of business	BDT 2 LAC to 10 LAC.	Sole Proprietors hip, Partnership or Private limited company	1.Loan without mortgage 2. For excellent borrowers who have paid or paying in due times, we offer discounted rates.	36% for New Loan	1.Equal Monthly Installment Facility: 3% + VAT on loan amount 2.Single Installment Loan Facility: 1% + VAT on loan amount
APURBO (Term Loan)	1.A business which must be a going concern for 3 years 2.Age minimum 21 years and maximum up to 60 years	BDT 1 million to BDT 30 million	Property/ Land/building	1.Simple loan processing for expanding your business 2.Quick disbursement 2.Disbursement in one or two installment 3.Flexible monthly repayment loan	OD 18%; Term Loan: 18%; Takeover Loan (will be processed as per existing practice).	Processing fee to avail this loan is 1.5% + VAT

PROTHOMA (Term Loan)	Small scaled business operated by woman entrepreneur having 2 or more years of business experience.	Maximum BDT 1 Million	Sole Proprietors hip, Partnership or Private limited company	1. Equated monthly installment loan facility 2. Single installment loan facility 3. Loan tenor for equated monthly installment: 12/ 18/ 24/ 30/ 36 / 48 months. 4. Loan tenor for single installment is 3/9 months.	10%	2% + VAT on loan amount (one time)
SHOKTI (Business Loan)	Entrepreneurs having a minimum of 3 years of some business activities in the same line of business	BDT 1 Million to 10 Million		1. Equated monthly installment loan facility 2. Loan tenor for 10 lac to below 20 lac is 12 to 48 months 3. Loan tenor For 20 lac to 1 Crore is 12 to 60 months	21.50%	1.5% on loan amount + VAT
SHOMPOD	A business loan facility against home or business premise mortgage which has been operating for at least 3 years.	BDT 1 million to BDT 35 million	Sole Proprietors hip, Partnership or Private limited company	1. Term loan with monthly installment repayment facility for maximum up to 10 years. 2. Overdraft facility to meet your working capital need. 3. Loan is also available to purchase business premises.	18%	3% on loan amount + VAT
Shomridh	1. Any kinds of	1.LC	Sole	1. Easy loan	18%	1% + VAT

i	businesses having valid trade license and which has been operating for at least 3years.	Facility: BDT 1 Lac to 2 Core  2. LATR: BDT 1 Lac to 2 Crore 3.Revolving Loan: BDT 10 Lac to 2 Crore.  4. Inland Bill Purchase: BDT 50 thousand to 2 Crore  5. Bank Guarantee : BDT 1 Lac to 2 Crore.  6.OD: BDT 1 Lac to 20 Lac	proprietors hip, Partnership or Private Limited Company.	processing 2.Convenient interest rate 3. Loan payment facility up to 180 days.	on funded limit. 0.25% commission on bank guarantee (Quarterly basis)
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Table 2: The SME loan product of BRAC Bank Ltd

### **5.2 Procedure of SME loan:**

BRAC Bank maintains easy procedure for loan sanctioning and in the period of disbursement.

### 5.3 SME Loan Process Flow:

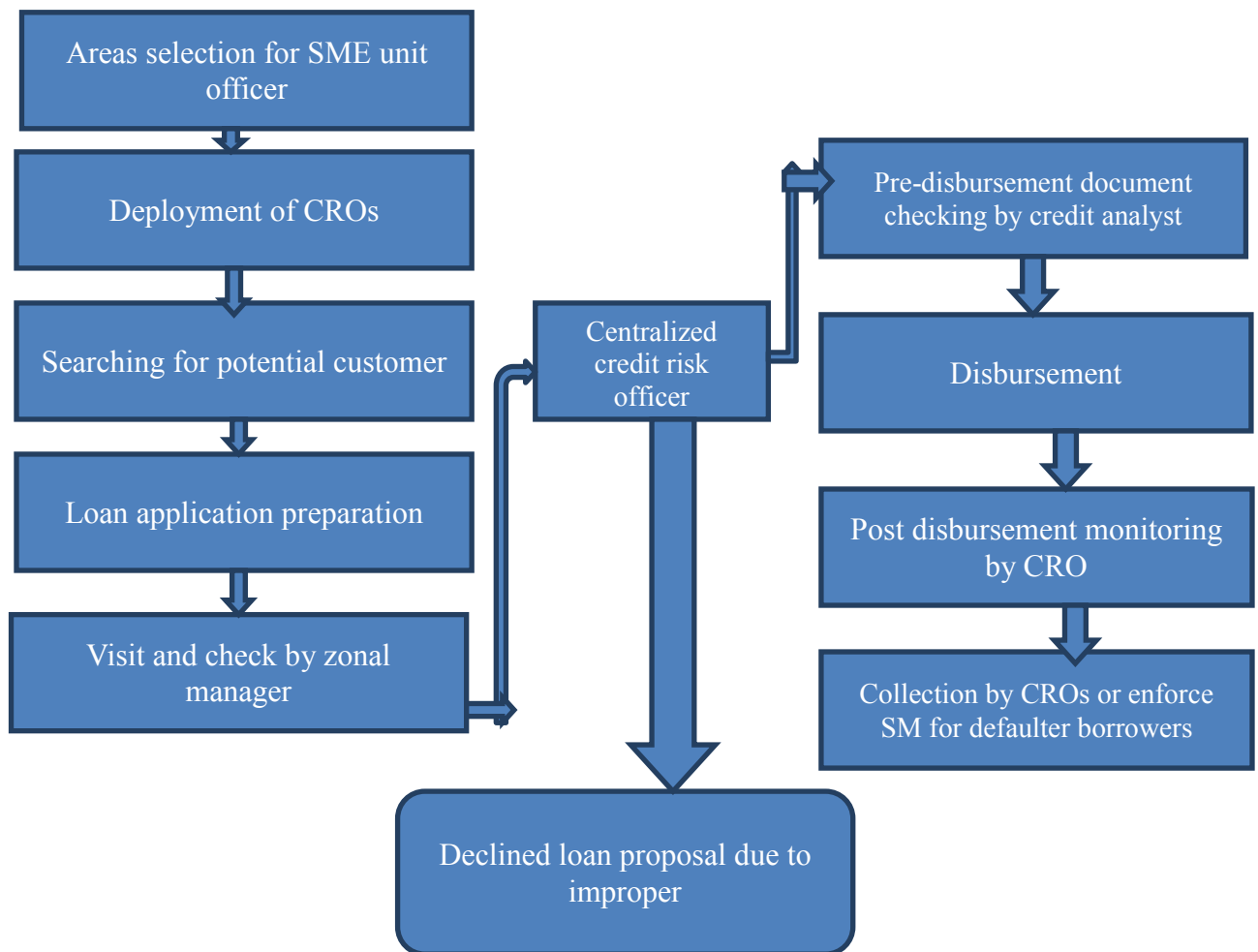


Figure 1: SME loan process

### 5.4 Loan Sanction activities:

#### Select potential enterprise:

For SME loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the SME program.

#### Loan Presentation:

The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their business, land property (Where mortgage is necessary)



### *Collect confidential information:*

Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods or services according to order, various banks where the client has an account, which shows the banks' transactions and the nature of the client.

### *Open clients' accounts in the respective bank:*

When the CRO decides to provide a loan to the client, then he/she helps the client to open a bank account where BRAC bank has a STD a/c. BRAC bank will disburse the loan through this account. On the other hand, the client will repay by this account. Although there is some exception that occurs by the special permission of the authority to repay by a different bank account.

### *Fill up CIB form:*

CRO gives a CIB (Credit Information Bureau) form to the client and the client fills and signs it. In some cases, if the client is illiterate, then the CRO fills the form on behalf of the client. Then CRO sends the filled and signed form to the SME, head office.

### *Sending CIB to Bangladesh Bank:*

The SME, head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank returns this CIB form within 10-12 days with a reference no.

### *CIB report from Bangladesh Bank:*

In the CIB report, Bangladesh Bank uses any of the following reference nos:

- **NIL:** if the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) uses 'NIL' in the report
- **UC (Unclassified):** if the client has any loan facility in any bank or financial institution and if the instalment due is 0 to 5.99 then BB uses UC in the report
- **SS (Substandard):** if the client has any loan facility in any bank or financial institution and if the instalment due is 6 to 11.99 then BB uses SS in the report
- **DF (Doubtful):** if the client has any loan facility in any bank or financial institution and if the instalment due is 12 to 17.99 then BB uses DF in the report

- **BL (Bad lose):**if the client has any loan facility in any bank or financial institution and if the instalment due 18 or above then BB uses BL in the report. This report indicates that the client is defaulter and the bank should not provide loan the client.

#### *Loan decision considering CIB report:*

Considering CIB report, BRAC bank decides whether it will provide loan the client or not. If the bank decides to provide loan then the SME of head office keep all information and send all papers to the respective unit office to apply with all necessary charge documents.

### *5.5 SME Loan Sanction:*

The respective unit office sanctions loan to the client if it is 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the loan administration division for disbursing the loan. If the amount is higher than 5 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanctions the loan and sends the sanction letter including all documents to the loan administration division for disbursement and inform the respective unit office regarding sanction of the loan.

### *5.6 Disbursement of SME loan:*

For SME loan operation, BRAC Bank Limited Ltd has in total 400 unit offices all throughout the country. The department is divided into three regions. Each region comprises of 6 to 7 territories. Territories are divided into zones and zones are further divided into unit offices. Currently there are 20 territories and 142 zones. The frontline employees of small business are called Customer Relationship Officer (CRO). More than 1,500 CRO's are working in the department. These CROs work for the Bank to converge clients for getting the SME loan.

#### *5.6.1 Pre Disbursement Manual Activities:*

##### *Prepare loan file:*

Receiving all documents, Loan Administration Division prepares a loan file with all documents received from the unit office.

##### *Charge documents checking:*

The loan administration division checks all charge documents. Following charge documents are checked:

- Money receipt (Risk fund).
- Sanction letter.
- Demand promising note (With stamp of Tk. 20/=)
- Letter of arrangement (With stamp of Tk. 150/=)
- General loan agreement (With stamp of Tk. 150/=)
- Letter of undertaken (With stamp of Tk. 150/=)
- Letter of stocks and goods (With stamp of Tk. 150/=)
- Letter of hypothecation book debt and receivable (With stamp of Tk. 150/=)
- Letter of disbursement
- Photocopy of trade license (attested by CRO)
- Insurance (Original copy)
- Blank cheque with signature (one cheque for full amount and others same as no of installment on Favor of BRAC bank, no date, no amount)
- Two guarantors (one must be Spouse/parents)
- If the loan provide for purchase of fixed assets or machineries and if the loan amount is over Tk 50,000/= then the stamp of a certain amount is require)

#### *Documents deficiency and problem resolving:*

If there is any error found then it informed to the respective CRO. If the application form is not filled properly then the file send to the CRO to fill the application properly. If any document error found then the loan administration division asked the CRO to send the require documents and the file stored to the loan administration division.

#### *Prepare disbursement list:*

The loan administration division lists all new sanctioned clients' details and send a request to the treasury through internal mail.

#### *Disbursement of the amount:*

Sending the list to the treasury of BRAC bank for disburse the amount, the treasury disburse the amount to the client through the mother account of the clients bank. BRAC bank disburse amount through any of the following banks corporate branch nearer the BRAC bank head

office and the corporate branch of the respective bank send the amount to the client account in the respective branch. These banks are:

- BRAC Bank Limited
- The City Bank Limited
- Janata Bank
- Bangladesh Krishi Bank
- Pubali Bank
- Agrani Bank

*Message sent to the unit office:*

Completing the disbursement, loan administration division sent a SMS to the respective CRO informing the disbursement of the sectioned loan.

*5.6.2 MBS entries for loan disbursement:*

*Initial ID generation:*

After sending the list to the treasury, the loan administration division generates an initial ID against the borrower. Entering required information, the banking software MBS automatically provide a ID no for the borrower.

*Loan account opening:*

According to the ID, the loan administration division opens a loan account in MBS against the borrower. Entering all required information, the MBS automatically give an account no. for the borrower.

*Cost centre assign:*

The loan administration division enter the following information in MBS:

- Security details set-up
- Guarantor details set-up
- Loan other details set-up

*Risk fund collection:*

The loan administration division opens a different account risk fund of the client. This is known as loan processing fees. Receiving the risk fund, the loan administration division

prints voucher and posting the voucher in the MBS. The amount of risk fund is not refundable.

### *Activision of the loan:*

Loan administration divisions do the following tasks to activate the loan

- Loan sanction details set-up
- Repayment schedule set-up and printing
- Loan activation
- Disbursement and CC wise voucher print
- Disbursement voucher posting

### *5.6.3 Post Disbursement Manual Activities:*

#### *Repayment schedule sent to unit office:*

Completing the disbursement of the sanctioned amount the loan administration division prepare a repayment schedule in MBS and send it to the unit office. CRO from the unit office collect it and reached to the respective client. The client repays the loan according to this schedule.

- **Loan details MBS entry:**The loan administration division enters details information regarding the loan in MBS. Each officer has an ID no in MBS and if there is any error found then the respective officer would be responsible for it. So everybody remain alert at the time of MBS entry.
- **Document stamp cancellation:**The loan administration division cancels all document stamps. In future if any client found defaulter and the bank file sued against him then stamps of these document help to get the judgment favor of the bank. But if these stamps are not canceled then the judgment may not on favor the bank.
- **Send the loan file to archive:**completing all activities, loan administration division sends the loan file to the archive for future requirement. In future if any document of the loan account requires then the bank can collect the file from archive and get the necessary document. If the clients take repeat loan then it is not require applying all documents because his all documents stored to the bank.

## **5.7 SME Loan Recovery Procedures:**

The repayment process starts immediately after one month of the loan taken. Suppose if a loan is taken in July 7, 2007 then the repayment process will be started from August 7, 2007 and the borrower will pay his/her first installment in that date. Before that date, the borrowers will be informed about the number of instalments and amount of each installment. He can deposit the installment by himself or by the Customer relationship officer (CRO). Again they can deposit the installments either in any branch of BRAC Bank or in any correspondence bank (where BRAC Bank has no branch). If the borrower cannot pay the installment in the stipulated date, interest will be charged for each day before they pay that installment. Again interest will be reduced if the borrower pays the installment before the date of repayment. Interest will be charged and added to the principal amount for every month or every 3 three months depending on the policy for each loan disbursement.

However, after the borrower repays the loan installments there are number of steps done in the repayment procedure of SME loan. These steps are:

### **5.7.1 Receive SMS/Fax for installment deposits:**

When the borrower repays any installment of the loan then he/she informs it to the unit office/CRO. Then the unit office/CRO sends an SMS through mobile phone or a Fax to the loan administration division informing the repayment. A loan administration division collects these SMS /Fax and takes a paper print of these SMS.

### **5.7.2Entry the installment information to MBS:**

Loan administration division entries the repayment installment information to the banking software MBS.

### **5.7.3 Print Vouchers:**

Completing the entry, the loan administration division takes paper print of all vouchers in a prescribed yellow paper.

### **5.7.4 Check SMS/Fax and solve problems (If any):**

The loan administration is responsible for all entry in MBS. If there is any error found in future then the respective officer who is entering this information in MBS will be liable for it.

User ID will easily identify it. So they are always aware of to ensure the correct entry. Completing the entry of information, they print a hard copy and check it with the SMS/Fax. If there is any error found then it is solved and ensures the correct information entry.

#### **5.7.5 Repayment voucher check and posting:**

If it confirmed that all entering information is correct and there is no error, then the responsible officer of the loan administration division posts it to MBS. If one time posted, it is not rectifiable without permission of the higher authority. So the loan administration is always aware of regarding the recovery procedures of SME loan.

#### **5.8 Monitoring:**

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the build-up of an information base for future reference. The purpose is to know the entire business condition and all aspects of the borrowers so that misfortune can be avoided.

#### **Important of Monitoring:**

Through monitoring a CRO can see whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchase, inventory position, work in process and finished goods etc. This information will help the Bank to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a report between them.

#### **5.9 Closing procedures of SME loan:**

##### **5.9.1 Pre-closing manual activities:**

##### **Receive SMS/Fax requesting for closing:**

The borrowers repay the loan as per repayment schedule. When the repayment is being complete the borrower request the unit office/CRO to close his loan account. The unit office/CRO sends a SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.

**Print the SMS/Fax:**

Receiving the request from the respective unit office/CRO, the loan administration division takes a paper print and takes necessary steps to close the account.

**Bring the loan file from archive:**

The loan account file of the respective borrower is brought from the archive. And the documents of file are checked with MBS record.

**Obtained approval from the concern authority:**

It is require the permission of concerned authority to close the loan. If concerned authority approved the closing of the loan account then next initiatives are taken.

**Checking in MBS:**

The loan administration division checks the loan status in MBS. If there is any difference found with the SMS/Fax from unit office and MBS then deposits sleeps are re-checked. Then the loan administration division calculates the total balance of the loan account (Ledger balance + buffer interest +Excise duty)

**SMS sent to concerned CRO:**

Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.

**Receive and print closing SMS/Fax checking & freezing:**

The concerned CRO send a final SMS to loan administration division informing that the respective borrower cleared all his liabilities regarding the loan. The loan administration division takes paper print of the SMS, check it and finally close the loan account.

**5.9.2 Checking MBS entries for loan closing:**

**Pre closing data entry:**



Completing the manual activities, the loan administration division enters some information to MBS for future requirement and complete following tasks:

- Interest/provision charging & print voucher
- Charges collection & print voucher
- Final repayment entry & print voucher
- Final repayment entry checking
- Repayment voucher posting

#### *Activate account closing in MBS:*

Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

### *5.9.3 Post closing manual activities:*

#### *5.9.3.1 Re-checking with deposit slip:*

Completing MBS activities, the loan administration re-checks all deposit slips of the loan account. If there is any error found then it is immediately resolved, otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan, which will minimize risk. If the client asks to return security then the loan administration releases security completing following tasks:

- Documents photocopy before security release
- Closing certificate issuing and security release

#### *5.9.3.2 Daily MIS updating for loan closing:*

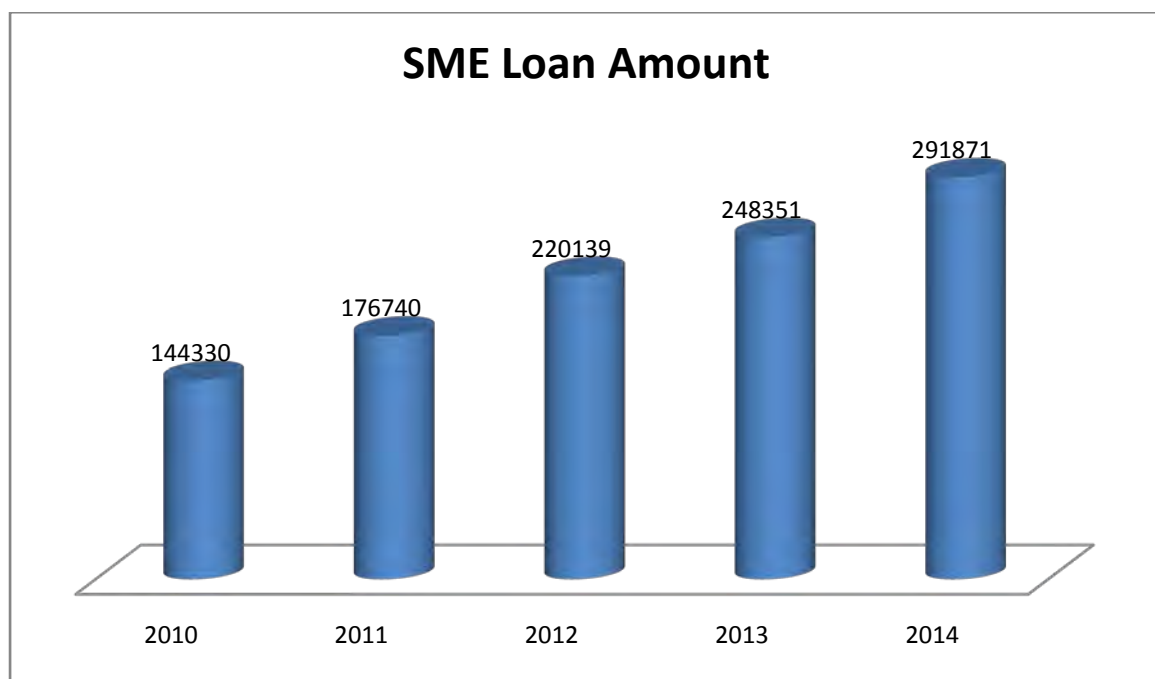
Finally the authorized officer of the loan administration division update the banking software MBS (Millennium Banking System) by closing the respective loan account.

**CHAPTER THREE:  
ANALYSIS OF SME  
LOAN SITUATION OF  
BRAC BANK LTD,  
CUSTOMER OPINION  
ABOUT THE TAKING  
LOAN AND EMPLOYEE  
OPINION.**

## 6.1 Present situation of SME at BRAC Bank limited:

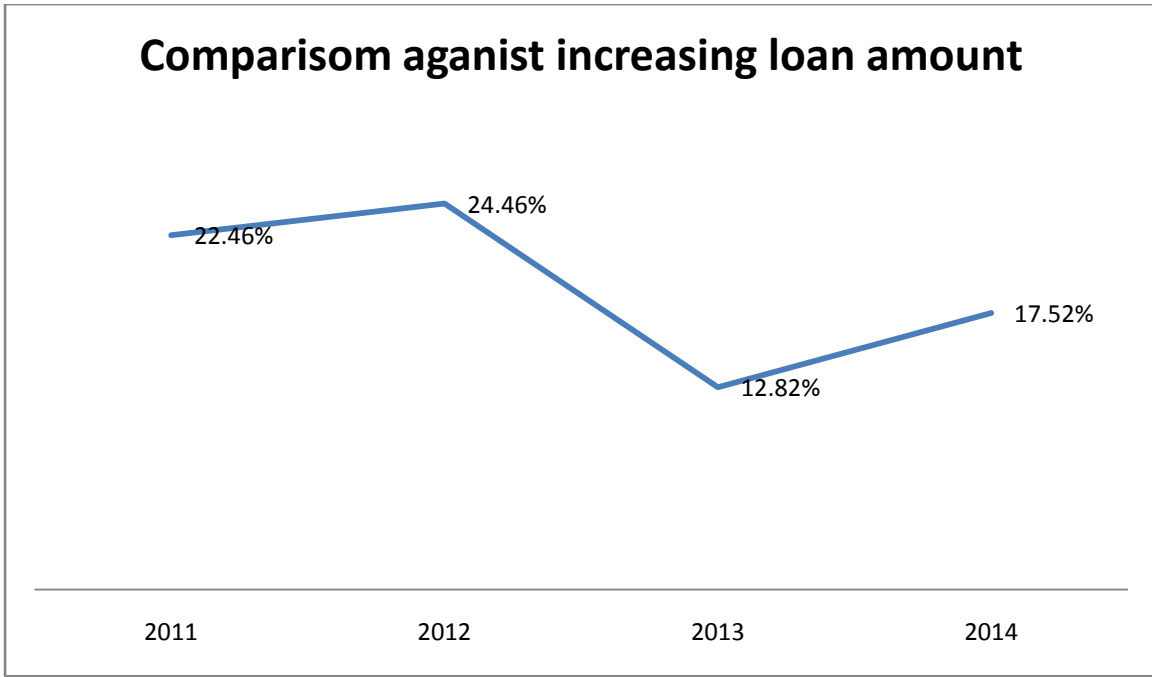
### 6.1.1 Financial Highlights:

- ✓ Portfolio at Risk (PAR) percentage of SME division reduced by 4.30% point from year 2013.
- ✓ Non-Performing Loan of the division came down to 9.04% in 2014 from 11.50 % in 2013.
- ✓ The loan loss provision of SME Banking Division reduced by BDT 350 m in 2014 compared to the previous year.
- ✓ In 2014, SME division disbursed loans to 38,142 SME borrowers which are 85% higher compared to the previous year.
- ✓ 16,878 new SME borrowers were introduced into the SME portfolio in 2014.
- ✓ In 2014, total volume of disbursed SME loan is BDT 43,500 million which is 29% higher compared to the previous year.
- ✓ Total SME deposit reached highest ever position of BDT 26745 m in 2014.
- ✓ Since inception served 471,618 SME borrowers by lending BDT 291,871 Million through 624 customer touch points (SME unit offices, SME sales and service centers, SME Krishi Branches and Branches).



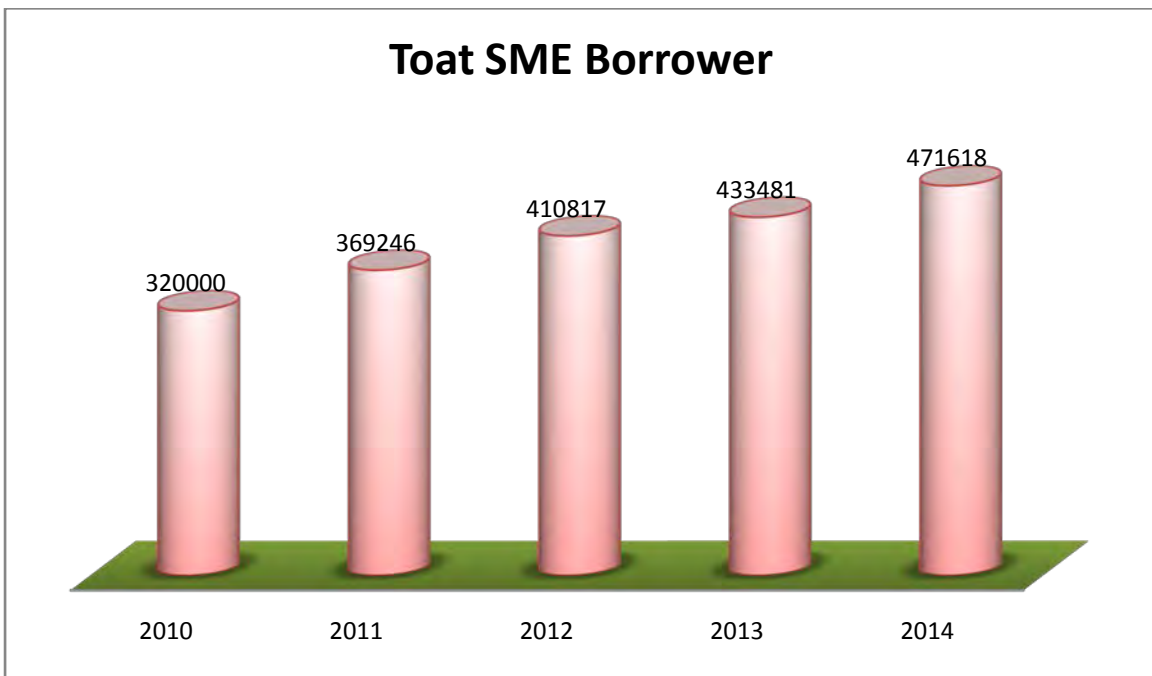
Source: Annual report 2010 to 2014

From the above chart we can see that total SME loan amount increases year by year. Here the loan amount is lowest in 2010 because of less coverage of branches. Now BRAC Bank is almost everywhere and have huge CRO employee. And that's why in 2014 increased their total loan amount.



Source: annual report 2010 to 2014

In above chart shows that SME loan amount increased at decreasing rate. And this rate very low in 2013 because now that time come out many competitor in the market. In 2014 they able to increase their rate of increasing total loan amount.



Source: annual report 2010 to 2014

The graph shows that the borrower of SME loan. It shows that in 2010 to 2014 the customer increased day by day.

### 6.1.2 Business Highlights:

#### New Unit Office Opening

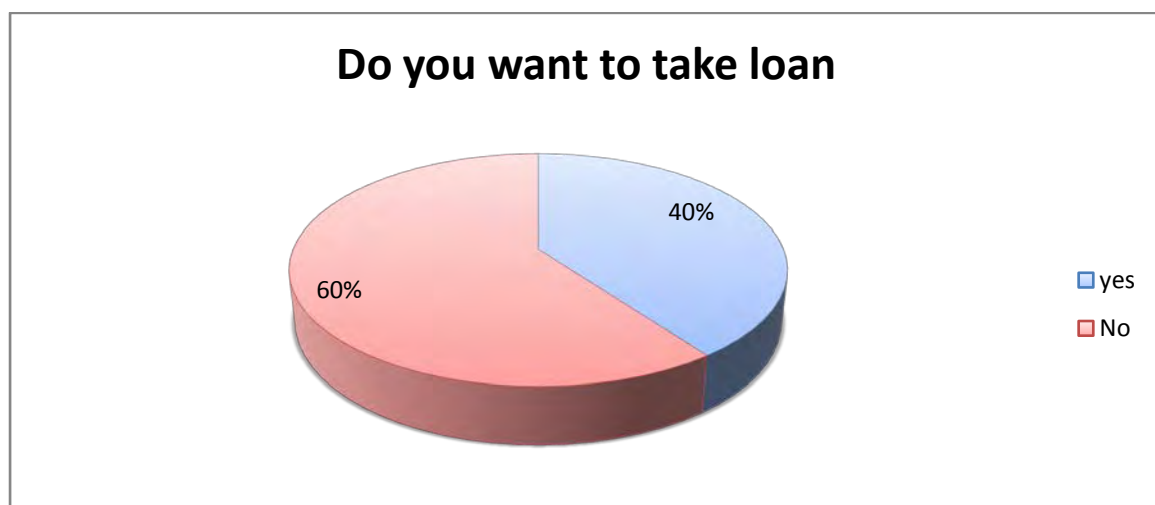
To take the financial services closer to the SME Borrowers across the country the SME Division opened new SME Unit Offices throughout the year 2014. Thirty Four (34) new SME unit offices were opened in 2014 in addition to the existing 430 Offices. With this expansion, BRAC Bank SME has once again established its commitment to serve the small and medium entrepreneurs of the country and achieve the bank's goal of financial inclusion.

#### New CRO Recruitment

To reach-out for the new SME customers and to ensure proper customer services to the SME Business, 551 new Customer Relationship Officers (CROs) were recruited in 2014 and this ensures the huge permanent employment generation in a single year by any Bank. In addition to the recruitment orientation, pre-sales training, field attachment, evaluation and placement were done to successfully get them on board. This recruitment has created a base line for the sustainable and profitable growth of the SME Business for BRAC Bank.

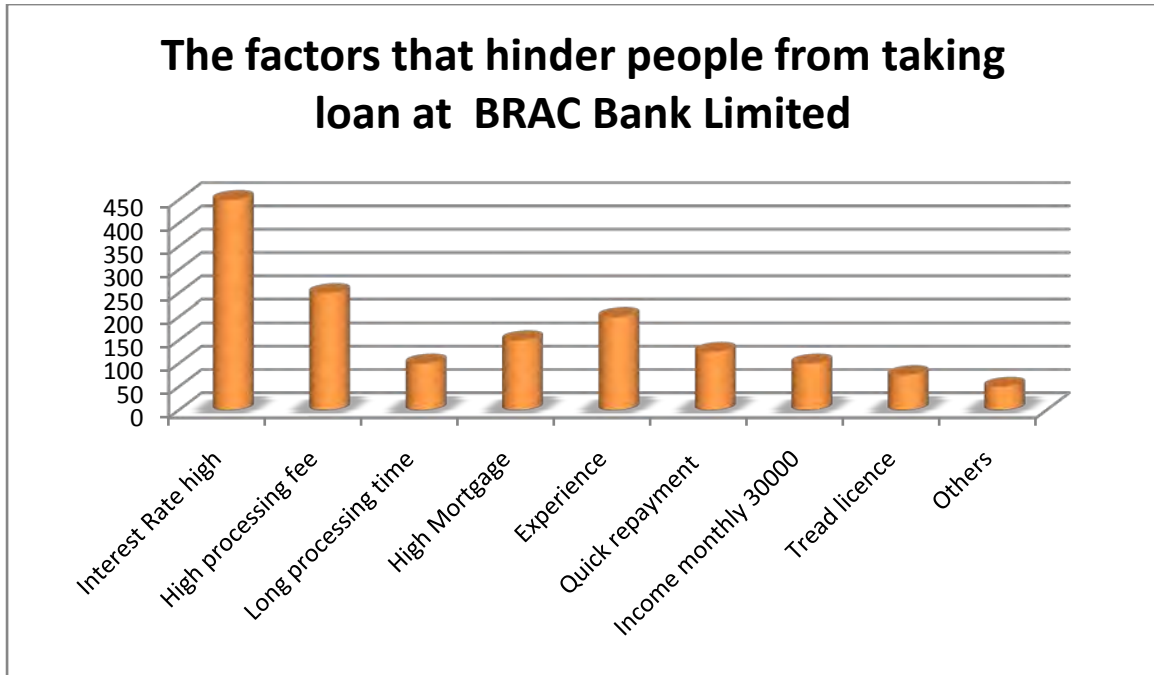
### 6.2 Customer's opinion about the taking loan:

At the time of asking customer they want to take loan from BRAC Bank limited. In terms of survey analysis, it found that 40% of the clients are want to take loan from BRAC Bank limited and 60% of people do not take loan. My study only covers 60% people that means 1500 client.



2. The reason behind hindering loan acceptance:

## The factors that hinder people from taking loan at BRAC Bank Limited

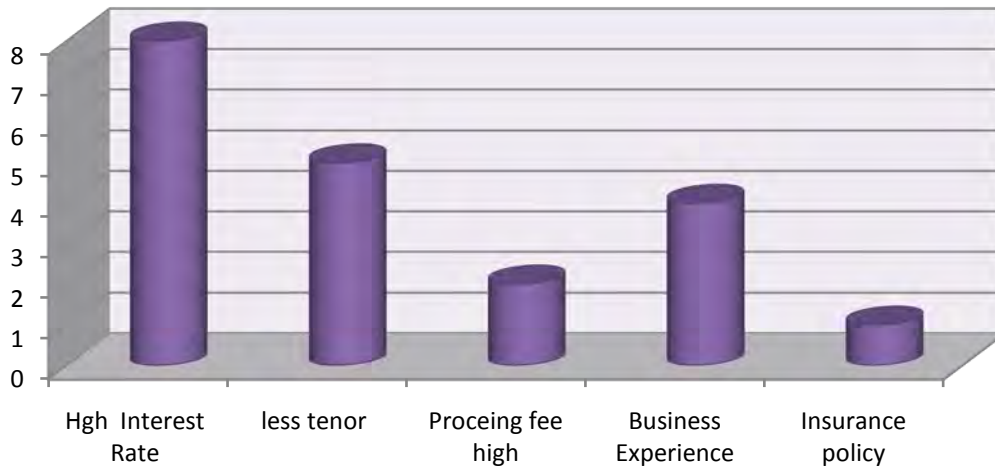


According to the survey about customer opinion, almost 30% customers are told BRAC Bank have high interest rate. It has been found that second highest people who told high processing fee than other bank. For home loan high interest rate, high mortgage and monthly income 30,000 are main reason that factors hinder when they take loan from BRAC Bank. In others factors included CRO (Customer Relationship Officer) do not behave well, customer not interested etc.

### **6.3 Employee opinion about the hinder factors of taking customer:**

When I ask CRO (Customer Relationship Officer) the same question what are the factors that hinder when people take loan from BRAC Bank Limited. Their answers presented same hinder factors for Anonno, Apurbo, Shomriddhi, Shokti and Shompod products that are show in graphically.

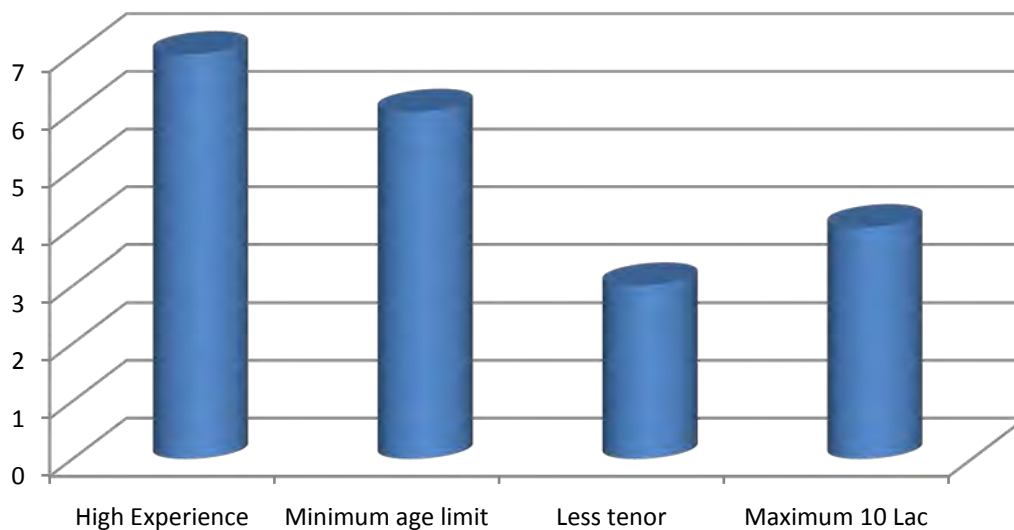
## Hinder Factors for taking loan from BRAC Bank Ltd.



From the graph, we see that CRO reply that most customer do not want to take loan from due to having higher interest rate ,less tenor and high business experience respectively.

*The hinder factors for Prothoma loan product:*CRO findings are presented in charts.

## Hinder factors for Prothoma Loan



From the graph, we see that CRO reply that most respondent do not want to take loan from due to having higher experience, minimum age limit, maximum 10 Lac and less tenor respectively.



**CHAPTER FOUR:  
FINDINGS,  
RECOMMENDATION,  
*CONCLUSION***

## FINDINGS:

- *High Interest rate:*From the above data analysis and survey report states that 30% people think that higher interest is prime hindrance of taking loan from BRAC bank.
- *High processing fee:*About 16.67 percent people give their opinion that high processing fees is another barrier to receive loan from BRAC Bank.
- *Length of processing time:*About 6.67 percentage customers claim that lengthy processing time also demotivate them to apply loan from BRAC Bank.
- *Higher Mortgage:*10 percentage customers complain that higher rate mortgage is hindrance to receive loan.
- *High Experience:*Approximately 13.33 % customers believe that some time bank impose 3-5 years business experience prerequisites for obtaining bank loan.
- *Need Trade license:*About 5 % customers also think that bank always ask for trade license before proceeding bank loan.
- *Quick repayment:*About 8.33% customers consider that quick repayment schedule is another hindrance to take loan from BRAC Bank.
- *Monthly income:*About 6.67 % customers revealed that Bank requires 30,000.00 income limits for precondition to precede loan for customers.

## RECOMMENDATION:

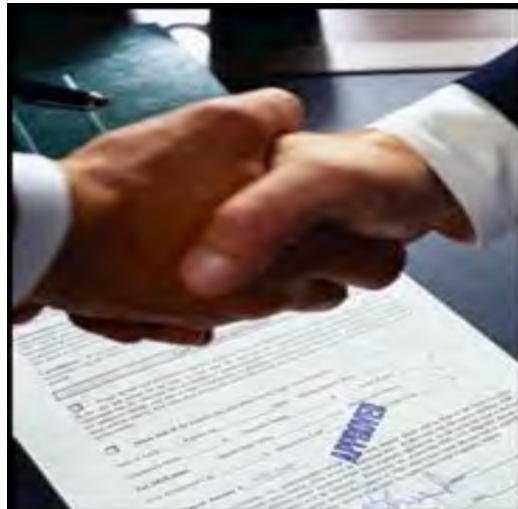
- *Competitive interest rate:* Competitive interest has to be charged against the SME loan so that customer can motivate to take loan.
- *Reasonable processing Fees:* Reasonable processing fees have to be determined, and then customer can realize it easily.
- *Quick processing time:* Processing time has to be as quick as possible, so that customer cannot go to another bank for loan. If the area credit manager has the power to approve of loan application, it takes less time from now.
- *Practicable experience:* Although experience is needed to provide bank loan but it should not be emphasized massively since bank does monitor and give suggestion regularly.
- *Revised repayment:* Reasonable repayment policy has to be made which will be easier for them to back the loan on due time. Since quick repayment is not conducive condition to pay the loan for customer.
- *Monthly Income:* Threshold level of income for customers have to be reduced from 30,000.00. Since the threshold level is higher so many customer can apply for loan.

## **CONCLUSION::**

In current times the Small and Medium Enterprise (SME) Financing has become an important area for Commercial Banks in Bangladesh. To align its corporate policy with the regulation of Central Bank, banks have become more concerned about SME and opened windows to conduct business in this particular area. BRAC Bank Ltd has been established on the visionary to finance “missing middle” in order to bring economic development of the country. With its unique thinking and impressive business strategies it has proven small and medium enterprises as an emerging economic opportunity. Since bank interest is prime source of bank income hence bank has to be very careful to make loan policy for customers.

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*Thank You*