



**An Assessment on “Security documentation
against SME Loan and its loan process” of BRAC
Bank Limited**



An Internship Report

On

“Security documentation against SME Loan and its loan process” of BRAC Bank Limited

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Declaration

I hereby declare that this report entitled “Security documentation against SME Loan and its loan process” of BRAC Bank Limited is my original work done by me under the guidance of Riyashad Ahmed, Assistant professor and MBA Coordinator, BRAC Business School, BRAC University, in partial fulfillment of the requirements of degree of Bachelor of Business Administration at BRAC University.

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I also want to thank Monira Khaleque, Senior Executive of SME & Retail Banking, for helping me to fit in the new work environment, for co-operating me endlessly during my attachment period. I am also grateful to entire SME Division working in the Head Office, who in fact taught me about SME banking service, described products and important documents.

The intelligence, expertise, and labor of all the staff members of BRAC Bank Limited worked behind this study and invaluable contribution to its success. I take this privilege to thank them all. Without their support I was not be able to prepare this report.

Finally, I would like to say that working within the amicable environment of BRAC Bank Limited was a wonderful experience and this report is an outcome of the joint and cordial efforts of all referred to above.

Letter of Transmittal

2 August, 2018

Riyashad Ahmed

Assistant Professor and MBA Coordinator

BRAC Business School

BRAC University

Subject: Submission of Internship Report

Dear Sir,

I have conducted my Internship on Security Documentation of SME Loan of BRAC Bank Limited under your supervision. I am glad to submit my Internship Report on “Security Documentation against SME loan and its loan process” of BRAC Bank Limited”.

I tried my best to make this report as reflective as possible. I will be grateful to you if you accept this report. Thank you for your consideration.

Sincerely Yours,

Tuli Rahman

ID: 14104164

BRAC Business School

Executive Summary

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through providing all sorts of support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh. SME loan is a way of providing help to developing country like Bangladesh. The Small and Medium Enterprises worldwide are recognized as engines of economic growth. BRAC Bank's SME Banking cuts across small, medium and emerging business segments with customized solutions. Today it has been considered as the engine of country's economy. SME Loan is provided to Microenterprises, Small enterprises and medium enterprises. For getting SME loan, proper documents are needed. Basic charge documents are, sanction Letter, demand Promissory Note (DP Note), letter of Continuity, letter of Arrangement, general Loan Agreement, letter of Disbursement, letter of Undertaking, letter of Hypothecation of Goods & Stocks and Book Debt and Receivable. When all the documents are properly been checked then disbursement of loan takes place. Disbursement procedure requires 2 steps, pre-disbursement procedure and post disbursement procedure. In short, this is the SME loan process, first the documents are checked then loan is disbursed after all the legal formalities. After gathering all the information of SME loan, I tried to find out some steps could be initiated by BRAC Bank in order to overcome existing weakness. Lowering interest rate, more effective loan approval system, strong monitoring activities, and entrepreneurs meeting arrangement could improve BRAC bank's performance. It is a great pleasure for me to have practical exposure in BRAC Bank Limited because without practical exposure it couldn't be possible for me to compare the theory with practice and it is well establish that theory without practice is blind.

1.1. Origin of the study

This Internship Report is prepared as a partial fulfillment of the requirement of BBA (Bachelor of Business Administration) program from the BRAC Business School of BRAC University. The study paper is based on the security documentation of SME banking. To fulfill the report properly I have discussed about overview of the company and industry, and documentation process of SME loan. Also I have discussed about the monitoring system and sources of SME fund. Based on the analysis and my close observation I come across with some finding and tried to give recommendations accordingly. I hope the report will serve its best purpose.

Through this report an individual can expect to have a good knowledge and understanding on the various methods of operation performed by BRAC Bank Limited particularly in the area of Financial Institutional Services. I have tried my level best to put more emphasis on the security documentation of SME loan. Since it is the topic of my project program, this report is to be used only for the academic purpose. I have collected all the necessary and relevant data from various primary, secondary and territory sources. After long hard labor, it has become possible for me to make the report comprehensive and factual. The data is truly and strictly confidential and no one can use its components in full or partial. I would like to give thanks to everyone who has helped.

1.2. Scope of the Study

This report has been prepared on the basis of practical learning on BRAC Bank Ltd. At the same time, huge chunk of data has been collected from several research papers, publications and newspapers. For that reason, this report becomes a source of valuable information related with BRAC Bank and its SME division. Moreover, findings of report will give an overview of Bangladeshi SME sector. Explanatory research on SME, more publications and expert advice could enrich this paper. This paper could be used for further research by students or any researcher.

Scope of the study is quite clear. Since Asset Operations Department is dealing with all types of loan activities in the bank, opportunities are there to learn other aspects of SME matters. The study will provide the scopes of knowing the following:

- Concept of SME and its impact in overall economy of Bangladesh
- Importance of SME banking in the context of Bangladesh
- Security documentation against SME loan

1.3 Significance of the Study

This study will provide a brief idea about the SME financing scenario of Bangladesh from the perspective of BRAC Bank Ltd. The role of Small and Medium Enterprises (SMEs) is indispensable for overall economic development of a country particularly for developing countries like Bangladesh. Since this sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment. We can see SME sector has played a vital role in economic development of some prosperous countries of Asia. Our neighboring countries have also given due importance on SME. Terming SME as ‘employment generating machine’ they stressed on SME development for higher economic growth, narrowing the gap of income inequality and poverty alleviation. Government has also put much emphasis on the development of SME sector considering it as ‘the driving force for industrialization’. At the end we can say SME can play a significant role in the economic development of our country. This study will say how BRAC Bank provides SME loan, what is the loan security document what is their disbursement procedure and also what is their limitations.

1.4 Objectives of the study

We can divide the objective into two parts- 1) Broad Objective 2) Specific Objective

1.4.1. Broad Objective

The broad objective of the study is to know the details of SME Banking practices in BRAC Bank Ltd and analysis the SME scenario of Bangladesh to assess the performance of BRAC Bank Ltd in context of highly competitive market. Along with that the report will justify how SME is contributing in socio-economic development of the country.

1.4.2. Specific Objective

The report will work on some specific objectives. Those are as follows-

1. To provide a brief overview of BRAC Bank Ltd-

- Background of BRAC Bank Ltd
- Different divisions, wings, and subsidiaries of BRAC Bank Ltd.

2. To present an overview of SME division of BRAC Bank Ltd-

- To know the SME loan products of BRAC Bank Ltd.
- To know the terms and conditions of SME loans
- To know the disbursement and recovery procedures of SME loans
- To make some recommendations to develop SME loan products of BRAC Bank Ltd

And Risk management process and collection process of BRAC Bank Ltd.

1.5. Limitations

I have faced the following hinders while preparing the report-

- Data from BRAC Bank Ltd. is highly confidential for the outside people and I had no authority to use the core banking software.
- BRAC Bank Ltd. has very recently migrates from its core banking software, Millennium Banking System to Finacle. That's why all the employees are very busy with their works; sometimes I had to wait more than one week for a piece of information.
- I have to go under my day to day job responsibility which I am supposed to do. So I could get few more time to spend in collecting data for preparing my internship report.

2. Overview of the company:

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through providing all sorts of support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh. BRAC Bank becomes a unique organization in Bangladesh.

BRAC Bank's SME Banking cuts across small, medium and emerging business segments with customized solutions. With its unique network of 448 SME Unit offices and dedicated CROs and RMs, the bank takes financing solutions to the doorsteps of the SME entrepreneurs in rural and semi-urban Bangladesh. BRAC Bank is one of country's fastest growing bank with a network of 181 Branches, 469 ATMs, 81 CDMs, 448 SME Unit Offices and 229 remittance delivery points, the bank has got the basic foundation in place for future growth. With more than 1 Million Customers, the bank has already proved to be the largest SME financier in just 17 years of its operation in Bangladesh and continues to broaden its horizon into Retail, Corporate, SME, Probashi and other arenas of banking. In the year: 2010, BRAC Bank has been recognized as Asia's most Sustainable Bank in Emerging Markets by the Financial Times and IFC.

BRAC Bank is surviving in the large banking arena through its unique and competitive products and it is the only local bank providing 100% integrated on-line banking services. BRAC Bank Limited consists of four major business divisions namely Corporate Banking Division, Retail Banking Division, Small and Medium Enterprise (SME) and Foreign Trade & Treasury.

Within this short time the bank has been successful in positioning itself as progressive and dynamic financial institution in the country. It has able to create a unique image for itself and earned significant solution in the banking sector of the country as a bank with a difference. 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.

BRAC Bank has achieved the International award for “Excellence in Retail Financial Services”.

BRAC bank Limited, with institutional shareholding by BRAC, International Finance Corporation (IFC) and ShoreCap Exchange, has been the fastest growing bank for last several years.

BRAC Bank Limited consists of four major business divisions namely-

1. Corporate Banking Division
2. Retail Banking Division
3. Small and Medium Enterprise (SME)
4. Foreign Trade & Treasury

The supportive wings of BRAC Bank are -

- Credit risk management (CRM)
- Finance department
- Technical department
- Human resource department
- Company Secretary and Legal Regulatory (CS & LR) department
- Research and Development (R&D)
- Corporate affairs
- Service quality
- Card division
- IT department

2.1 Organization's Vision

Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a just, enlightened, healthy, democratic and poverty free Bangladesh".

2.2 Organization's Mission

- Sustained growth in 'small & Medium Enterprise' sector
- Continuous low cost deposit growth with controlled growth in Retained 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 fee based 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 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.

2.3 Values of BRAC Bank Limited- CRYSTAL

BRAC Bank Ltd. strength emanates from their owner - BRAC. This means, it will hold the following values and will be guided by them as it do its jobs.

C stands for being Creative, Be a person of innovative ideas in solving issues, thinking different ideas to reach one destination; do new associations between existing ideas or concepts for the organization's overall growth.

R stands for being Reliable, Be worthy of reliance or trust at work so everyone could depend on you.

Y stands for remaining Youthful, Be a person of freshness and vibrant characteristic at work. Feel young at HEART and project enthusiasm during performing duties.

S stands for being Strong; be a person of willing to move forward and apply conscious choice, willpower, discipline and passion at work.

T stands for being Transparent, Be transparent at work at all level both internally and externally. Show openness and honesty through communication to bring transparency

A stands for being Accountable, Be accountable for own actions and take responsibilities for the outcome of the actions; be responsible and answerable towards customers, organization, regulatory bodies as well as the society.

L stands for being Loyal, Be loyal to the organization by being compliant at work, taking ownership and create belongingness which will carry your brand as your pride.

2.4 LOGO



The logo of BRAC Bank has been prepared keeping in mind the goal of the organization. The Square structure of the logo means solid and strong. The Golden Color in the lower portion of the logo means that ‘Golden Bangladesh & her fertile land’. The Blue color in the upper portion means ‘the sky with enormous & unlimited opportunity’. The white colored curve means ‘Growth and Progress’. White circles in the blue color mean the flashing sun that gives light to everywhere.

2.5 Subsidiaries of BRAC Bank Limited

BRAC Bank has different subsidiaries to support its banking system. All those subsidiaries are related with financial activities and serving to reach a broad number of customers. The subsidiaries are as follows-



bKash Limited (a subsidiary of BRAC Bank) operates with an objective to ensure access to a broader range of financial services (mobile fund transfer facility) for the people of Bangladesh. It has a special focus to serve the low income masses of the country to achieve broader financial inclusion by providing services that are convenient, affordable and reliable.



BRAC SAAJAN Exchange Limited mainly provides remittance services to the large Bangladeshi Communities living in UK. Apart from its remittance services the Company also caters to the investment needs of the NRBs through its parent organization BRAC Bank.



BRAC EPL Stock Brokerage Limited is one of the leading stock brokers in the country. BRAC EPL Stock Brokerage Limited has membership at both of the country's stock exchanges; the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).



BRAC EPL Investment Limited delivers a whole range of Investment Banking services including traditional merchant banking activities such as Issue Management, Corporate Advisory, Corporate Finance, Underwriting and Portfolio Management.

Share Holding Structure

The shareholding structure of BRAC Bank Limited consists of different group with institutional shareholdings by BRAC, International Finance Corporation (IFC), Shore cap International and general public is also included through IPO. The Present Share Holding Structure Of BRAC Bank Limited is given below –

Shareholding Structure of BRAC Bank Limited			
Sl. No.	Name of sponsors/promoters and directors	Status (Sponsor/Promoter/Director/Sponsor Director/Nominated Director/Independent Director/Depositor Director etc.)	Shareholding of (Sponsor/Promoter/Director/Sponsor Director/Nominated Director/Independent Director/Depositor Director etc.)
01.	BRAC	Sponsor	379,918,141
02.	Sir Fazle Hasan Abed (Nominated by BRAC)	Sponsor/Nominated Director	8,424
03.	Late A. S. Mahmud	Sponsor	7,046
04.	Mr. Faruq A. Choudhury	Sponsor	7,046
05.	Dr. Saleh Uddin Ahmed	Sponsor	5,790
06.	Mr. Shib Narayan Kairy (Nominated by BRAC)	Nominated Director	6,409
07.	Ms. Nihad Kabir (Nominated by BRAC)	Nominated Director	31,046
08.	Mr. Kaiser Kabir	Nominated Director	1,10,000
09.	Dr. Ahsan H. Mansur (Independent Director)	Independent Director	Nil
10.	Mr. Kazi Mahmood Sattar (Independent Director)	Independent Director	Nil
11.	Ms. Zahida Ispahani (Independent Director)	Independent Director	Nil
12.	Mr. Asif Saleh (Nominated by BRAC)	Nominated by BRAC)	Nil

3.1 SME(Small And Medium Enterprise):

An SME advance stands for the Little Medium Venture advance which implies that it is the credit which is given to the little or the medium ventures so that there's credit stream in this segment as well. Subsequently, this advance is given fundamentally for the credit stream of the ventures which is either little or medium in nature and not any other undertakings. There are different challenges that these divisions confront, which can be unraveled or looked into with the assistance of these credits, subsequently, these credits offer assistance them either recuperate from the misfortunes that they have been enduring or offer assistance them grow and regulate the venture that they have been running.

3.2 To whom is the SME loan provided?

SME stands for the Small Medium Enterprise loan as the name suggests it is meant to target the micro, small and medium enterprises and to whom the loan is provided is given below:

Microenterprises

Micro Endeavors are those ventures which are locked in within the fabricating of merchandise and administrations in which not more than 25 lakh rupees contributed within the plants and machinery. On the off chance that at all the microenterprise may be a benefit segment venture at that point up to Rs.10 lakh will be contributed within the gear and not more. Therefore these endeavors are not tremendous scale undertakings which involve a parcel of venture within the plants and the machinery.

Small enterprises

Small undertakings are those enterprises whose investment within the plants and apparatus will extend some place between Rs.25 lakhs to Rs. 500 lakhs, and where the little undertaking may be

a benefit segment venture at that point the speculation within the plant and machinery will be in between Rs.10 lakhs to Rs.200 lakhs.

Medium enterprise

Medium Venture is a venture which the speculation for the plant and apparatus will be extending between Rs.500 lakhs to Rs.1000 lakhs and in the event that the medium venture could be a benefit segment.

3.3 Documents Required for Getting an SME Loan Approved from the Bank

From the Bank this portion of the blog bargains with the different archives required for the endorsement of the SME credit from the bank. The records are partitioned into two categories, in which one is the typical report structure and the other is the Office particular report. Within the to begin with one, all the archives that are common in nature and will be required by any bank to provide endorsement to an SME will be specified and within the moment category records, as it were Records Required For Getting an SME Credit Affirmed those records will be specified which the SME needs it to be particular office accessible to them.

General Documents

This area of the archives list down those archives which each bank would require the SME's to record and show up some time recently them. Added underneath are the records of the reports beside the reason of them being given or recorded with the bank.

Application Shape – the primary shape that ought to be filled in ought to be the application frame which ought to contain all the fundamental and obligatory fields filled in without which

the application frame would not be acknowledged. After the recording of the application frame, the affirmation ought to be given to the client with respect to the gathering of the application.

Self-Attested Duplicates of the Know Your Client (KYC) Records – These are the second kinds of records that each bank will require to be given to them which implies that these Know your client duplicates contain all the archives that deliver verification with respect to the title, age, sex, address verification and the other vital subtle element

Financial Documents:

These reports are required to keep a check on the endeavor as to its well-being and to preserve transparency and effectiveness within the working of the endeavor. These sort of archives by and large incorporate the following:- Last three a long time audit/provisional financials which include the balance sheet, profit and loss sheet in conjunction with the plans and notes to the accounts, charge review reports and the statutory review report. These reports are required in arrange to keep a check on the endeavor as to the fakes and the deception of the accounts and the adjust sheet conjointly the capacity to pay back the credit. In this manner, the accommodation of these archives gotten to be a imperative portion within the handle of SME credit grant. Also, where the financials are temporary in nature VAT returns are too required to be recorded, in arrange to guarantee that the charge has been legitimately filed. Another record that's required beneath the same head is the Current year execution and anticipated turnover

3.4 Security documentation against SME loan:

Documentation could be a composed articulation of facts and a confirmation or prove of specific exchange between parties included. Some time it is required to check legitimate reports of the borrower carefully.

3.5 Purpose of Documentation and Its Importance:

Documentation is fundamental for the affirmation of a obligation and its terms and conditions to the borrower and the creation of charge on the securities in favor of the bank by the borrower. Correct and proper documentation allows a bank to take legal actions against the default borrowers. If a suit is filed against a default borrower, the court will first review all documents. If any of the documents is found to be defect or incomplete, the purpose of security documentation will be defeated and rule may not go in favor of the bank. Proper care should be taken while completing security documentation.

Following precautions should be taken at the time of execution of the security documents:

- The signature on the papers needed to be made in front of the CRO. The CRO ought to be signed as witness on all the security documents.
- The documents are to be filled in with permanent ink or typed.
- If the document consist more than 1 page, the borrower should sign on each page.
- If the signature of any third party is required to be obtained whose specimen signature is not available, then the main applicant should verity the specimen signature of the third party.
- There should not be any blank document.
- As far as possible there should be no erasure, cancellation or alternation in the document. If, however, there is any correction, overwriting or alteration, then that must be authenticated by a full signature of the signatory.

3.6 Type of Securities to be documented:

If anyone needs loan, following documents are needed as security, either exclusively or in a combination. It is truly up to the bank what they would like to acknowledge as security from the borrower.

1. One can mortgage land and other immovable property as security
2. Lien of Fixed Deposits receipts with banks and other non-banking financial institutions can be another type of security.
3. Lien of Pratirakshay sanchay patra, Bangladesh sanchay patra, ICB unit certificates and wage worker advancement bond, all considered Semi or close cash things can be securities that can be documented.
4. Moreover, Lien of shares can be used as securities but this is not acceptable all the time.
5. Pledge of goods can be used as securities but most banks are likely to stay away from such securities now days.
6. Charge on fixed assets of a manufacturing enterprise.
7. Lien of cheque, Drafts.
8. Lien of work orders, payment to be routed through the bank and confirmed by the issuer.
9. Shipping documents of imported goods.

3.7 Land Related Securities Documentation Process:

Each SME unit offices are links with at least two local lawyers who will work on behalf of the bank. Any one of the lawyers will be provided with photocopies of all the relevant land related documents and while handing over show the original documents to them, the lawyers will carry out checks of the originals and if satisfied returned to the borrower. The documents generally provided are:

Title Deeds or Deed of conveyance otherwise known as ‘Jomeer Dalil’, which signifies ownership of a particular land. Then comes Baya Dalil or Chain of Documents, which ensures that the titles has been proper and legal. Mutation Certificate for Khatian which implies that the title of the land has been properly enrolled within the Government/Sub-registrar’s records. Duplicate Carbon Receipt or DCR is also included in the documents. Moreover, latest Khajna receipt or land rent receipt can be an important part of the documents. Mouja Map is also included in the documents which shows the location as well.

The lawyer will at that point carry out a look at the Sub-registrar of land’s office to check in the event that the proffered arrive is really enrolled within the title of the proposed mortgagor and whether the said land is free from any problems. The legal counselor will at that point provide his supposition. The CROs must guarantee that the receipt for the first contract deed must be marked off (Released) at the back of the receipt so that the bank may get the firsts within the future. The borrower will bear all the charges and will pay straightforwardly at the Sub-Registrar’s office counting the taken a toll of the stamp paper required. The fetched of the attorney will moreover be realized from the borrower by an account payee cheque in favor of the lawyer and given over to the lawyer straight absent.

3.8 Mortgage

1. Equitable Mortgage or Memorandum of Deposit of Title Deeds

It is made by a basic store of title deeds upheld by a Memorandum of Deposit of Title Deeds along with all the important land reports. All the searches and verification of documents as stated above must be carried out to validate the correct ownership of the property. This deed also provides the bank power to register the property in favor of the bank for further security, if needed.

2. Registered Mortgage

It is made by an execution of a Contract Deed enrolled unavoidably in favor of the bank at the Sub-Registrar of land's office. This essentially gives the bank the proper to have and a enlisted permanent control of lawyer to offer the property executed by the proprietor of the property, in case of default.

3.9 Basic Charge Documents:

1. Sanction Letter:

Once a loan is confirmed, the borrower is ensured by a 'Sanction or offer letter' which states the terms and conditions beneath which all credit facilities are offered and which shapes an fundamentally portion of their security documentation. In case the borrower acknowledges, then a contract is formed between the bank and the borrower and which both party are committed to perform. In like manner, all other charge records and securities are drawn up and gotten. A standard endorse letter is connected herewith. All documents might be stamped accurately and enough some time recently or at the time of execution.

2. Demand Promissory Note (DP Note):

It could be a written promise by a borrower to pay the full sum of existing or future advances/ credit offices on request. It too gives the banks control to inquire the borrower to reimburse the credit amount with interest without any earlier take note. Area 4 of the Debatable Instrument Act 1881 characterizes a promissory note as an instrument in composing, marked by the producer, to pay a certain entirety of cash as it were to, or the arrange of, a certain individual, or to the carrier of the instrument. Before planning a promissory note, the following actions are taken.

3. Letter of Continuity:

This instrument is utilized in conjunction with the request promissory note. Usually to secure rights of recuperation for existing and future credit office, which are progressed in parts or on a recovery basis. Credit accounts may from time to time be diminished or indeed the adjust within the said advance account may be in credit so this instrument, approves the said Request Promissory Note, for making encourage drawings beneath the office persistently conceivable.

4. Letter of Arrangement:

Typically a right is given by the borrower to the bank to cancel the facility at any time without having to allot any reason. In addition, an assertion by the borrower that the credit office has been approved in his favor and the borrower must execute all fundamental reports to have credit facility.

5. General Loan Agreement:

A credit understanding is an agreement of contract expressing the common terms for the expansion of a credit or credit facilities. The Common credit agreement sets out the common standard terms and conditions administering the existing or future expansion of credit or intellectual facilities to the borrower.

6. Letter of Disbursement:

This is a simple letter requesting disbursement of the loan/credit facilities at the agreed rate of interest.

7. Letter of Undertaking:

This is a Deed of agreement executed by the borrower concurring to commit to carry out any or a specific commitment to profit of loan/credit facility.

8. Letter of Hypothecation of Goods & Stocks and Book Debt and Receivable: These hypothecations are really two diverse sets of documents but as both have similarities, these are being clarified together. These documents make an impartial or floating charge in favor of the bank over the merchandise and administrations and/ or book obligations and receivables that are being financed where not one or neither the other possession nor the ownership is passed to the bank. This agreement states that, the borrower embraces to keep the percent stock of products which , which may increment from time to time in great condition in future. This hypothecation gives the bank the control to have and offer the desired stock and stocks or claims the book commitments to settle the borrower's requirements to the bank.

9. Letter of Hypothecation of Plant & Machinery:

This agreement states that, the borrower embraces to keep the present plants and machineries at its location in great condition and which gives the bank the control to have and offer the specified plant and apparatus to meet the borrower's levy to the bank. In case of limited company, both private and public, these letters of hypothecation with plans are as a rule enrolled with the Registrar of Joint Stock of Companies (RJSC) that gives more security to the banks. In case of any limited company, both private and public, these letters of hypothecation with plans are as a rule enrolled with the Registrar of Joint Stock of Companies (RJSC) that gives more security to banks.

10. Letter of Lien

A lien means the rights of one individual to hold property in his hands having a place to another until certain lawful requests against the proprietor of the property are fulfilled. In this way a bank who has in its ownership a lien over the goods in regard of the money due by the borrower, as a common run the show has the proper to work out certain powers to hold on to the security. In expansion, in case the bank has right to set off the esteem of the said products or instrument its

ownership, at that point the bank can offer the merchandise or the instrument to exchange the levy by the borrower.

11. Right of Set Off

This deed of understanding gives the bank the right to balance the esteem of the goods or money related instrument in its ownership and which has been released by the proprietor of that resource, against dues possessed by the borrower.

12. Letter of Disbursement

This agreement states that, the bank has the right to have merchandise and other resources in leased or rented premises of the borrower.

13. Personal Guarantees

Personal guaranty is basically a guarantee of a person or any other person who is not the directly taking the loan/credit facility but he is equally liable for that loan. It is a way to minimize the risk because the third party creates additional pressure on borrower to repay the loan. If the borrower fails to repay the loan for any reason, the guarantor has to pay the entire outstanding loan and interest as well.

3.10 Guarantor Selection Criteria:

Guarantor selection is very important. There are some criteria of guarantor selection.

- a. The guarantor must have the ability to repay the entire loan.
- b. The guarantor should know about all the conditions of SME loan and his responsibility.
- c. Guarantors can be Govt. and semi-government officials for example, schoolteacher, college teacher, doctor etc.

d. Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be in the list of guarantor.

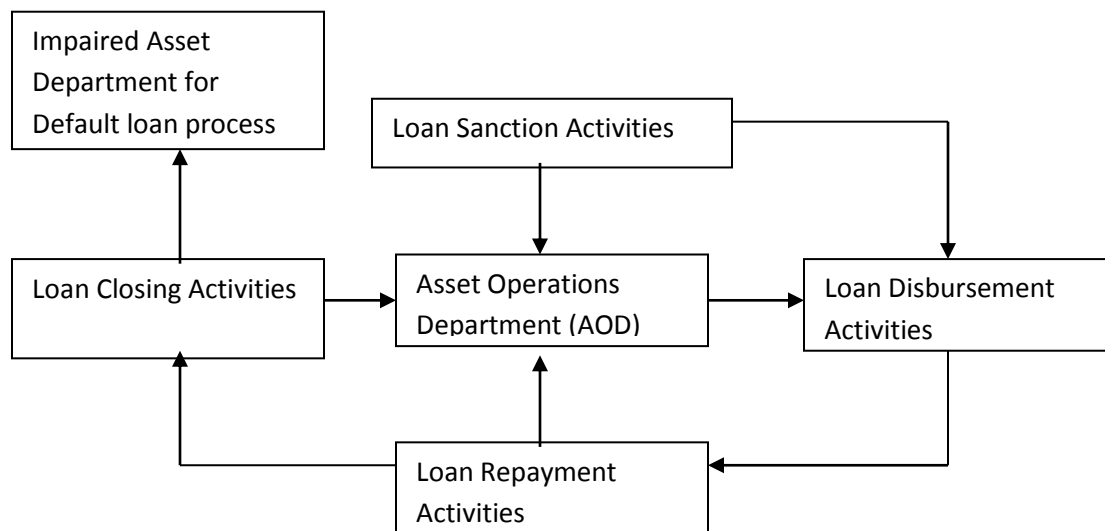
3.11 Risk Factors:

- Amount Related Risk: Amount related risk includes any type of incorrect loan amount, interest rate, tenure or charges are posted in vouchers.
- Approval Related Risk: Amount related risk occurs when any loan is disbursed without having permission or approval from the loan officers who are in charge of the loan approvals.
- Security Document Checking Risk: Security document checking risk occurs when the important security documents such as blank Cheques, FDR slips, DP notes are not checked properly before disbursing the loan.
- Manual Error Risk: Error risk is involves preparing MIS reports manually.
- Land Related Documentation Risk: This type of risk occurs when someone use fake documents or when someone does not do proper valuation of the land and then create mortgage documents according to wrong valuation.
- Repayment Collection Risk: This type of risk occurs when repayment of SME loans are credited in wrong Bank accounts. Deposit slips should be sent through automated process from the unit offices.
- Loan Provision Risk: Loan provision risk occurs when exact amount of loan that borrowers need cannot be determined properly.
- Fake Document Risk: Fake document risk arises when security documents that are provided against the loan are fake.
- Risk for Disbursement: In disbursement risk, there are risks of absence of Automated Data Template.

- Time-bar Risk: Science service level agreement with other departments is not established yet failure of time schedule risk arises as all services are provided on demand.
- Credit Matrix Risk: This type of risk arises when there is insufficient support from Finacle automation for updating credit matrix.
- Lease Module Risk: This type of risk exists because there is no automated lease-financing module, which is most urgent requirement.
- Legal Risk: As there is no in house lawyer, legal risk is involved with day-to-day document preparation and checking.
- Lack of Skilled Manpower Risk: Loan administration needs skilled manpower to smoothen the whole operational process.
- Disbursement Pressure Risk: This type of risk arises when corporate loans are sometimes disbursed for the pressure of business unit without regularizing documentation requirements and deferral cases are not regularized in time.
- Lack of Knowledge of Finacle Risk: Adequate knowledge and absence of training on Finacle arises operational risk for Loan Administration department. Besides Finacle operational manual should be available to all employees.
- Fire Accident Risk: This risk exists because there is no fireproof file cabinet in the vault; moreover fire extinguishments equipments are not sufficient.
- Documents Movement Risk: SME documents are frequently moving from the vault for the business analyzing part of the file; which is a risk because documents may misplace.

3.12 SME loan processing activities:

There are several steps to perform for processing a SME loan; starting with loan Sanction activities and ending by closing the loan A/C. these steps are briefly described in below-



3.13 Loan Sanction Activities of SME Loan:

Once a loan is endorsed, the borrower is advised by a ‘Sanction or offer letter’ which states the terms and conditions beneath which all credit offices are advertised and which shapes an fundamentally portion of the security documentation. If the borrower accepts, then a contract between the bank and the borrower is formed and which both party are obligated to perform. Accordingly, all other charge documents and securities are drawn up and obtained. A standard sanction letter is attached herewith. All documents shall be stamped correctly and adequately before or at the time of execution. All SME loan files are approved by Credit Risk Management (CRM).

3.14 Selection of Potential Entrepreneur:

At first CROs conducts a survey and identifies potential enterprise in his or her territory. Then they communicate with entrepreneurs and discuss the SME program and pursue the potential customers to borrow.

3.15 Enterprise Selection Criteria:

The success of SME largely depends on enterprise selection criterion. In terms of any business, the following points should be checked:

1. The business cannot be a new one, minimum one year operation is needed..
2. The business cannot be a business tobacco business which can harm the environment.
3. The business should be able to follow the legal rules and need to be legally registered. For example, before starting the business it needs to have valid trade license, income tax or VAT registration.
4. The business including smuggling is not allowed or any other socially unacceptable business will not be allowed.
5. The business must identify clear potential growth.
6. The market needs to be closed to the business so that raw materials can be sourced easily.

3.16 Entrepreneur Selection Criteria:

To know how capable the management is, one should assess following criteria:

- a. The entrepreneur's age should be in between 21-60 and should be in sound health and mentally prepared. If the entrepreneur is above the age of 60, his past records should be checked whether he has succeeded in his business or not.
- b. The entrepreneur must have experience in the related field must have technical skills which have helped him to run the business. For example, his academic background and skills should be checked.
- c. The entrepreneur must be a renowned person and should have a stand in the society. He cannot cheat anyone and should be a source of helping hand.
- d. The business should be in control of the entrepreneur and he needs to be enthusiastic. He should enjoy taking challenges.
- e. He should be able to pay suppliers or creditors on time Suppliers or creditors should confirm that the amount correctly and before the mentioned time.
- f. He should have savings and he should mention the source of his income.

3.17 Loan Presentation:

Preparing loan presentation is one of the important functions that CRO needs to perform. The loan presentation is done based on the information collected and provided by the entrepreneurs about the business and property land as well. It is necessary for those loans where mortgage is needed.

3.18 Collect Confidential Information:

Collect confidential information about the respective client from different sources is the another important function that CRO needs to perform. The sources of information can be collected from

suppliers when the client is paying on time or not, information can be collected from customers regarding the delivery of goods or services according to order and also can collect information from banks how many accounts the client has , to see shows banks transactions. These information can provide the overall nature of the client.

3.19 Open Clients Account in the Respective Bank:

If the CRO decides to provide loan to the client, he or she needs to open a bank account and CRO helps him or her to open the account. This account is known as loan account. The loan will be disbursed through this account by BRAC bank Ltd. The loan will also be repaid by this account by the client. If someone wants to repay by another account, a special permission is needed for that repayment.

3.20 Loan Sanction Decision Based on CIB Report:

BRAC Bank Limited decides whether the client will get the loan or not will be decided by the CIB information provided by Bangladesh bank. after checking all the documents when the bank chooses provide loan at that that the SME head office keep all information and send all papers to the person unit workplaces to apply with all the charge reports.

Disbursement Procedures of SME loan:

There are two types of disbursement procedure.

1. Pre disbursement procedure
2. Post disbursement procedure

3.21 Pre-Disbursement Manual Activities

a. Prepare loan file: When a loan is approved, a loan file is prepared by AOD by the documents received from the SME head office.

b. Documents Checking: All the documents which include proper application form, charge documents and security documents are checked by The Loan Documentation unit of AOD. AOD checks the following common documents according to loan nature.

- Sanction letter.
- Demand Promissory Note
- General Loan Agreement
- Letter of Undertaking
- Letter of Arrangement
- Letter of Installment
- Letter of Disbursement
- Letter of Disclaimer (If applicable)
- Personal Letter of Guarantee
- Letter of Hypothecation
- Memorandum of Deposit of Securities
- Letter of Encashment
- Letter of Continuity
- Letter of Lien & Set off over Deposit/Margin Account
- Photocopy of trade license (attested by CRO)
- Insurance (Original copy)

- Two guarantors (one must be Spouse/parents).

In terms of registered mortgage loan the following documents are needed along with the above mentioned documents.

- Satisfactory Lawyer opinion which means lawyer opinion about the land is needed.
- Land valuation report which means the present market value of the land is needed.
- Deed of mortgage which shows the mortgage amount, date and mortgagors and mortgagees information & irrevocable general power of attorney which is done right after the day deed of mortgage is prepared.
- Title deed is important. Some of the title deeds are sell deed, gift deed, attorney deed etc.
- Bia deed is needed if required. It is not mandatory.
- Mutation along with DCR is needed.
- Most recent ground Rent Receipt is needed.
- khatians/Parcha related all types of receipts are needed.
- Mouza map is needed if required.
- Title search report is also needed.
- Mortgage and Sale permission is needed before mortgaging or selling.
- Mutation Order is also necessary.
- Rajuk Letter is needed.
- Recent Holding Tax paper is always necessary to have.
- NEC with money receipt is needed.

- Warishan certificate is needed if anyone gets any land as a gift from their father, mother or grandfather.

Following are the required licenses of various types of business-

- If it is a Medicine Business, drug license is required for financing.
- In terms of Pesticide Business, pesticide license is needed for financing.
- In terms of Gas cylinder or related business, explosive license is required.
- For Petrol pump or related business Form-K, Form-J, Form-M is needed.
- For any kind of hospital clinic or diagnostic center, License from DG health is needed.
- For any kind of bakery item producers, BSTI License is needed.
- In terms of sawmill business, license from forestry is needed.
- License and fitness certificate from BITWA is needed in terms of financing of shipping business.
- For any kind of poultry farm, License is needed from district livestock officer.
- If it is a fertilizer business, license from Bangladesh Fertilizer Association is needed
- In terms of any kind of Rice Mill business, Environmental certificate is needed for financing.
- In terms of Iron hardware or Ispat business, a certification is needed from Bangladesh Govt. Commerce Division.
- License from DC is required for any kind of Gold Jeweler Business.

- Sanitary License For Restaurant or Hotel business, Sanitary License is required for financing.

c. Documents Deficiency and Problem Resolving: If there is any mistake found then AOD illuminates it to the individual CRO. If the application form isn't filled legitimately at that point the record send to the CRO to fill the application legitimately. If any document error found then the loan administration division asked the CRO to send the require documents and the file stored to the AOD.

d. Prepare Disbursement List: The AOD lists all new sanctioned clients' details are listed by the AOD and a request is sent to the treasury through their internal mail.

e. Disbursement of the Amount: After getting the response from the AOD, the loan amount is disbursed by the treasury through the mother account of the client's bank. The loan amount is disbursed through the corporate branch nearer the Head office of BRAC Bank Ltd and corporate branches of the following banks. These banks are:

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

f. Message Sent to the Unit Office: Loan administration office sends a SMS After the completion of the disbursement to the respective CRO for letting him know about the loan disbursement.

g. Initial ID Generation: When treasury gets the list of the disbursed loan, an initial ID is generated by the AOD against the borrower. The ID is provided by Finacle for the borrower.

h. Loan Account Opening: the ID which is opened by the AOD is basically a loan account against the borrower and the account is opened in Finacle. The account requires all the information of the borrower and then Finacle provides a loan account number for the borrower.

i. Risk Fund Collection: The AOD then opens another account as is risk fund of the client. Basically it is called loan processing fees. After Opening the risk fund, voucher is printed by the AOD prints and he posts the voucher in the Finacle. Risk fun is refundable.

j. Activation of the Loan: The activation of the loan is done by the AOD.

3.22 Post Disbursement Activities of SME Loan

- a. **Repayment Schedule Sent to Unit Office:** After Completing the disbursement of the sanctioned amount, a repayment schedule is prepared by AOD in Finacle and then he sends it to the unit office. It is then collected by CRO from the unit office and goes to the respective client. After that the client repays the loan according to the schedule mentioned.
- b. **Loan Details Finacle Entry:** loan regarding detailed information is provided by AOD in Finacle. There requires an ID for each officer in Finacle and if there is any error regarding inputting the information in Finacle then the respective officer will be responsible for the error. So, everyone very carefully enters information in Finacle.
- c. **Document Stamp Cancellation:** AOD cancels all record stamps so that in future in case any client found defaulter and the bank record case against him. After that the stamps helps the bank to get the judgement in favor of the bank. But the judgement won't be in favor of the bank if the stamps are not cancelled
- d. **Send the Loan File to Archive:** when all the necessary formalities are done, the files are sent to the archive and if necessary one can get the loan files out from the archive.

3.23 Major Findings

BRAC Bank Ltd. is one of the fastest growing banks in Bangladesh. SME banking which has made the performance of this bank so high is the heart of BRAC Bank Ltd. In fact, no businessman could think ever before that they could take loan so easily, without any collateral and without going to bank. But BRAC Bank Ltd. has made this impossible process successful through SME banking. However, from the observation and analysis of SME loan products and repayment behavior I can make the following findings:

- Interest rate of SME loan is very high in BBL.
- Among all the loan products of BBL the demand for Anonno loan is very high.
- Repayment process starts immediately after one month of the loan taken. If a borrower cannot pay the installment money in due date, interest will be charged for each day before they pay that installment.
- If a borrower fails to pay the scheduled installment, the bank goes for legal action against the defaulter at the final phase.

3.24 My contribution to BRAC Bank as an Intern:

I started my internship at BRAC Bank on 15th April, 2018. I was appointed to operational division and under operational division my department was CAD(Credit Administration Department). There are four segments of CAD.

1. Corporate segment
2. Commercial segment
3. Monitoring segment
4. Disbursement segment

Basically the interns were hired for a project of Bangladesh Bank. The deadline of the project was 30th April. Firstly I was appointed to corporate segment. My supervisor assigned me with that project work. The project was basically to update mortgage related information to a software which is CSMS(Collateral Security Management System). The purpose of this project was to update mortgagor's information and land related information so that there cannot be any illegal use of any land. I worked in corporate segment almost for 10-12 days. Corporate segment's work was done for that project by that time. Commercial segment was left with a lot of files so I was then appointed to commercial segment. Commercial segment is now called SME big ticket. I worked there for 1 and half months. There I did same mortgage related work. The deadline of the project submission was postponed to 31st may. I worked in that segment till the middle of June. After that I was appointed to Monitoring segment. Monitoring segment basically visit factories of the clients who do loan application. They visit mortgaged factories to check the assets of the clients. After that they prepare visit reports. In this segment I started inputting client's information to database. After that I prepared few visit reports. I learned a lot of things from monitoring segment and also from corporate segment. It is a great pleasure for me to have practical exposure in BRAC Bank Limited because without practical exposure it couldn't be possible for me to compare the theory with practice and it is well establish that theory without practice is blind.

3.25 Recommendation:

Broad-based participation in the Bangladesh economy is promoted mainly by BRAC Bank Limited by providing high quality and modern banking services. SME loan is one of the medium of providing quality product which helps Bangladesh as it is a developing country and helping small and medium entrepreneurs by providing through which they earn profit. The recovery rate of this loan is 97% which is extremely good in comparison to any other bank's recovery rate. BRAC Bank Ltd. has made it possible as the loan is given to the experienced, small and medium entrepreneurs most of whom are middle aged, slightly educated and having moderate income and this class of people is very loyal. But they can serve this class of customers with more commitment and loyalty and they can turn the recovery rate to 100%. For this they can make the following policy implications:

1. BRAC Bank Limited should reduce interest rate on SME loan products to increase the demand for SME loans.
2. As there is a chance of lost the files and documents, BBL should increase awareness to all staff regarding the importance of documents and have to ensure that all documents are attached with loan files properly.
3. Frequently check that clients are performing all the terms and conditions of SME loan or not.
4. Implement strict and continuous monitoring system of the whole recovery and repayment process.
5. Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
6. Risk Management department's audit report should be more strict and reliable so that possible defaulter may not get the loan.
7. BRAC Bank Limited should use software where proper information of the loan documentation can be stored. After the loan is disbursed, if needed the documents can be checked from software.

4.1 Conclusion:

It is a great pleasure for me to have practical exposure in BRAC Bank Limited because without practical exposure it couldn't be possible for me to compare the theory with practice and it is well establish that theory without practice is blind. There are number of commercial banks operating their activities in Bangladesh. The BRAC Bank Limited is one in them. For the longer term arranging and the fruitful operation in accomplishing its prime objective in this current competitive environment this report can be used. An evaluation of the Credit Department and the Reason of Default Rate was the basic concern of my study and I completed this report on this basis Credit Administration Department of BRAC Bank Limited. A retail loan files evaluate & approved by this department before disbursed a loan. Day by day, BRAC Bank increasing its business, that reason BBL Credit Department approved more loan files every day to its retail customer and my study was find out few factors from which we can assumed a good or defaulter borrower and place few recommendations by which they can mitigate their risk. Banks always contribute towards the economic development of a country. BBL compared with other banks is contributing more by investing most of their funds in fruitful projects and risk-free individual. It is clear that the correct considering of the bank counting setting up a successful network over the nation and increasing resources will be able to play a considerable part within the portfolio of improvement of financing within the creating nation like our own.

4.2 Implications of the study:

This study will provide a brief idea about the SME financing scenario of Bangladesh from the perspective of BRAC Bank Ltd. The study will provide a brief idea about the role of Small and Medium Enterprises (SMEs), how it is being useful for the small and medium entrepreneurs. SME loan is the medium of the development of our country. From this study one can know about the SME loan, the conditions of taking SME loan, what documents are needed to get loans and pre and post disbursement procedures as well. In our country, there are a lot of people who need loan but do not know the proper procedure. This study will definitely help them. It is a great pleasure for me to have practical exposure in BRAC Bank Limited because without practical exposure it couldn't be possible for me to compare the theory with practice and it is well establish that theory without practice is blind. Banks always contribute towards the economic development of a country. BBL compared with other banks is contributing more by investing most of their funds in fruitful projects and risk-free individual. After doing this report, I have got to know about loan taking procedures and I will be able to use in my real life when needed. Now I know proper documentation process as well. This is a very important and necessary thing. This study will help everyone who is a business graduate like me.

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