



CONSUMER
CREDIT
SCHEME
Of
MERCANTILE
BANK LIMITED



Consumer Credit Scheme Of Mercantile Bank Limited

Submitted to:

Samina Haque
Lecturer
BRAC Business School
BRAC University, Bangladesh

Submitted by:

Rubbaba Noori Prithee
ID: 07104033
BRAC Business School

Date of Submission: July 25, 2011.



25 July 2011

Samina Haque

Lecturer

BRAC Business School

BRAC University, Bangladesh

Subject: Submission of the Internship Report.

Dear Sir,

Here I present my Internship report titled 'Consumer Credit Scheme of Mercantile Bank Limited' with due gratitude and appreciation. As per partial fulfillment of the requirements for the BBA Degree, I have completed the internship from Mercantile Bank Limited, Satmasjid Road Branch.

The internship program has given me the opportunity to learn about different aspects of this well reputed organization. Before facing the corporate world, I have gathered a pre idea about the organization culture.

However, I have gathered all the facts that I could within this short period and have tried my level best to exert all the things as much presentable as possible.

Yours faithfully,

.....

Rubbaba Noori Prithee

ID: 07104033

Acknowledgement:

At the beginning, I would like to express my sincere gratitude to Almighty, the most merciful and beneficial for empowering me to prepare the report within the scheduled time.

I would like to express my profound gratitude and wholehearted respect to my internship supervisor Samina Haque, Lecturer, Department of Business Administration, BRAC University for her inspiring guidelines, valuable suggestion, constructive criticism and constant help through out the work and in preparation of this report.

I also express my warm gratitude and cordial thanks to the management and some officials of Mercantile Bank Limited Satmasjid Road Branch who have given me the opportunity to work with them and help a lot by providing the information and enabling me to prepare this report. I have received their generous help and support. So special Thank to Mr. Arif Md Shahedul Haque, (Vice President) Manager, Mercantile Bank Limited, Satmasjid Road Branch, Mahmuda Akter (Assistant Vice President), Ayesha Numey (Senior Executive Officer) Md. Monirul Islam (Staff Officer), Md. Mamun Hossain (Executive Officer) Satmasjid Road Branch.

I would like to take the opportunity to express my wholehearted gratitude to my fellow friends, near and dear ones who offered encouragement, information, inspiration and assistance during the course of constructing this report.

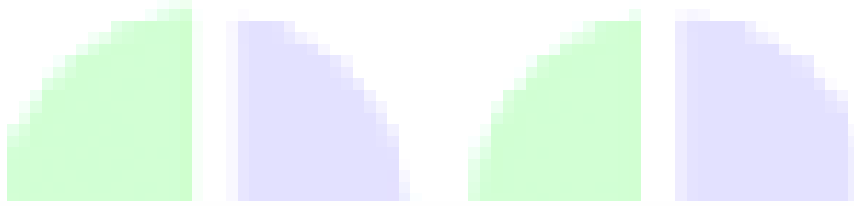
Executive summary:

This report is based on one of the credit schemes provided by Mercantile Bank Limited. Banks and Financial Institutions are becoming very competitive. Various kinds of services and products are introduced everyday. One of the schemes is Consumer Credit Scheme. This report is based on one of the credit schemes provided by Mercantile Bank. Consumer Credit Scheme is becoming very popular among clients. It is for the limited earning people. With the loan they can buy different materials. The demand is very high for this loan. But according to demand Mercantile Bank Limited is not able to fully fill it. Moreover, the terms and conditions of Consumer Credit Scheme loans are also very inconvenient and discourage people. Loan sanctioning and disbursement procedure is not so easy and flexible, being considered the requirements of different classes of people. The effective rate of interest is also very high. If Mercantile Bank Limited looks after it, this loan scheme can earn huge revenue. The major task for banks, to survive in this competitive environment is by managing its assets and liabilities in an efficient way. Hope Mercantile Bank will be also able to manage the assets and liabilities in an effective way and will earn success and prosperity.



Contents

SL No.	Contents	Page No.
1	Overview on MBL	1
1.1	Preface	1
1.2	History	2
1.3	General Information on MBL	3
1.4	Vision, Mission and Objectives	4
1.5	Corporate Structure of MBL	5,6
1.6	Management Hierarchy of MBL	7
1.7	Departments of MBL	8,11
1.8	Establishment of SRB of MBL	11,12
1.9	Products and Service of MBL	13-17
2	Internship experience	18
2.1	Accounts Department	18-19
2.2	Cash Department	19
2.3	Front Desk	20
2.4	Clearing	20
2.5	Foreign Exchange	20-21
2.6	Credit Department	21
3	Description of the report	22
3.1	Summary	22
3.2	Description of the project	22-24
3.3	CCS of MBL in SRB	25-37
3.4	SWOT Analysis	37-39
3.5	Problems of Credit Department	39-40
3.6	Recommendation	41
3.7	Conclusion	42
4	Reference	43

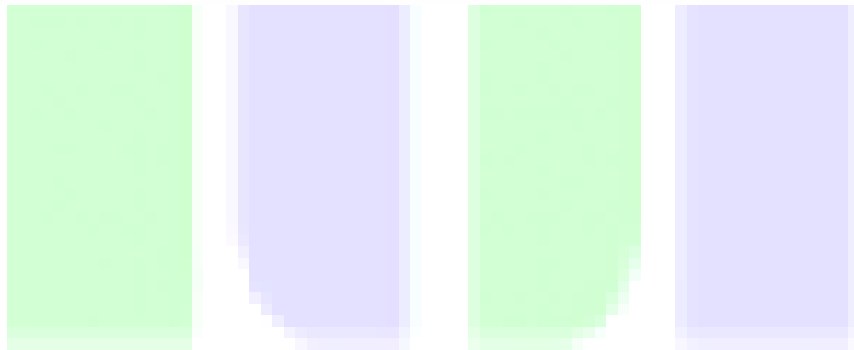


বাংলা ব্যাংক



মার্কেটাইল ব্যাংক লিমিটেড
Mercantile Bank Limited

দক্ষতাই আমাদের শক্তি



1. Overview on Mercantile Bank Limited

1.1 Preface

Mercantile Bank Limited is a quickly growing bank. Their slogan is “A Bank for 21st Century”. The slogan is not a mere slogan. The bank has been manned with talented and brilliant personnel, equipped with modern technology so as to make it most efficient to meet the challenges of 21st centuries. As regard the second slogan of the bank “Efficiency and Strength” is their part of belief.

Credit Rating Information and Services Limited (CRISL) has rated Mercantile Bank Limited with “AA-” (pronounced as double A minus) in Long Term which implies that the bank is adjudged to be of high quality, offer higher safety and have high quality service. This level of rating indicates Mercantile Bank Limited as a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic condition.

In short term basis rated “ST-2” based on financials up to December 31, 2010. This indicates high certainty of timely repayment. Liquidity factors are strong and supported by good fundamental protection factors, where risk factors are very small.

The rating of Mercantile Bank Limited is given below-

Year	Long Term Rating	Short Term Rating
2010	AA-	ST-2
2009	AA-	ST-2
Outlook	Stable	
Date of Rating	29-May-2011	

Table 1.1: Performance Rating

Credit-Mercantile Bank is playing an important role while giving loan for the small and medium enterprises. In the terms of credit Mercantile Bank Limited has introduced new schemes mostly for the business people in Bangladesh. Different categories of loan been provided to the businessman. The total amount of loan has been provided 48295.55 million BDT till its main investing projects are business, garments, micro credit, construction and others. Mercantile Bank has been providing loan to medium and low-income peoples. This policy has gained a great popularity among consumers.

1.2 History

The Mercantile Bank Limited (MBL) has been incorporated in Bangladesh as a public limited company with limited liability under the bank companies act 1991, as on May 20, 1999 and commenced commercial banking operation on June 02, 1999. The company went for public issue of shares on October 21, 2003 and its shares were listed with Dhaka Stock Exchange and Chittagong Stock Exchange in 2004. Now Mercantile Bank Limited Has emerged as a new commercial bank to provide efficient banking service with a view to improving the socio-economic development of the country. . With assets of TK. 66166.52 million, the bank has diversified activities in retail banking, corporate banking and international trade.

1.3 General Information on Mercantile Bank Limited:

Name of the bank	Mercantile Bank Limited
Status	Public limited company
Date of incorporation	May 20,1999
Date of commencement	June 2,1999
Subscription for shares	October 21-22, 2003
Listed in Dhaka Stock Exchange	February 16,2004
Listed in Chittagong Stock Exchange	February 26,2004
Head office	61, Dilkusha Commercial Area, Dhaka 1000
Phone	+88-02-9559333, 9553892, 9561140
E-mail	mbl@bol-online.com
Website	www.mblbd.com
Chairman	Md. Abdul Jalil
Managing Director	AKM Shahidul Haque
Number of Employees	1605
Number of branches	65

Table 1.3: General Information on MBL

There are thirty sponsors involved in creating Mercantile Bank Limited and these sponsors are the leading business personalities and eminent industrialists Bangladesh, having stakes in various segments of the national economy. They are highly regarded for their entrepreneurial competence. Mercantile Bank Limited undertakes different types of banking transaction to support the development of trade and commerce in the country. Mercantile Bank Limited also provide service to the entrepreneurs to set up new ventures and Balancing, Modernization, Replacement and Expansion (BMRE) of industrial units. The bank gives special emphasis on Export, Import, Trade Finance, SME Finance, Retail Credit and loan facility to Women Entrepreneurs. They have special women entrepreneurs dedicated desk.

1.4 Vision, Mission and Objectives

1.4.1 Vision

“Would make finest corporate citizen.”

MBL dreams to become the bank of choice of the general public that includes both the consumer and the corporate clients. They want to build such an image that whenever people will think of a bank, they will think of Mercantile Bank Limited. Mercantile Bank Limited has created a cadre of young professionals (YP) in banking profession. This has helped boosting productivity in the bank.

1.4.2 Mission

“Will become most caring, focused for equitable growth based on diversified deployment of resources and nevertheless would remain healthy and gainfully profitable bank.”

Mercantile Bank Limited aims to become one of the leading banks in Bangladesh by prudence, flair and quality of operations in their banking sector. The bank has some mission to achieve the organizational goals.

1.4.3 Objectives:

a. Strategic Objectives:

- To achieve positive Economic Value Added (EVA) each year.
- To be market leader in product innovation.
- To be one of the top three Financial Institutions in Bangladesh in terms of cost efficiency.
- To be one of the top five Financial Institutions in Bangladesh in terms of market share in all significant market segments it serves.

b. Financial Objectives:

- To achieve a return on shareholders equity of 20% or more, on average.

1.5 The Corporate Structure of Mercantile Bank Limited:

The organization structure and corporate of Mercantile Bank Limited strongly reflect its determination to establish, uphold and gain a stronger footing as an organization which is customer-oriented and transparent in its management.

➤ **Board of Directors**

The Board of Directors consists of 22 members, elected from the sponsors of the Bank. The Board of Directors is the apex body of the bank.

➤ **Executive Committee:**

All routine matter beyond delegated powers of management are decided upon by or routed through the Executive Committee, subject to ratification by the Board of Directors.

➤ **Audit Committee:**

Audit committee consists of 3 members. They observe the whole system whether it is satisfactory or not and help to take decisions.

➤ **Managing Director:**

Managing director is involved in overall supervision and directions on policy matters by the board. The power of general supervision and control of the affairs of the bank is exercise by the president and managing director of the bank who is the chief executive officer.

➤ **Chief Financial Officer:**

Only one person is Chief Financial Officer (CFO) in MBL. CFO is in charged to look after the overall financial activities.

➤ **Company Secretary:**

Supervise all mater relating to the principles, policies, rules, and regulation, ethics etc. for operation and management of the bank are recommended by the Committee to the Board of Directors.

➤ **Auditors:**

Auditors make investigations to ensure good banking process.

➤ **Tax Advisor:**

Tax advisor deals with the tax related matters of Mercantile Bank Limited

1.6 Management Hierarchy of MBL:

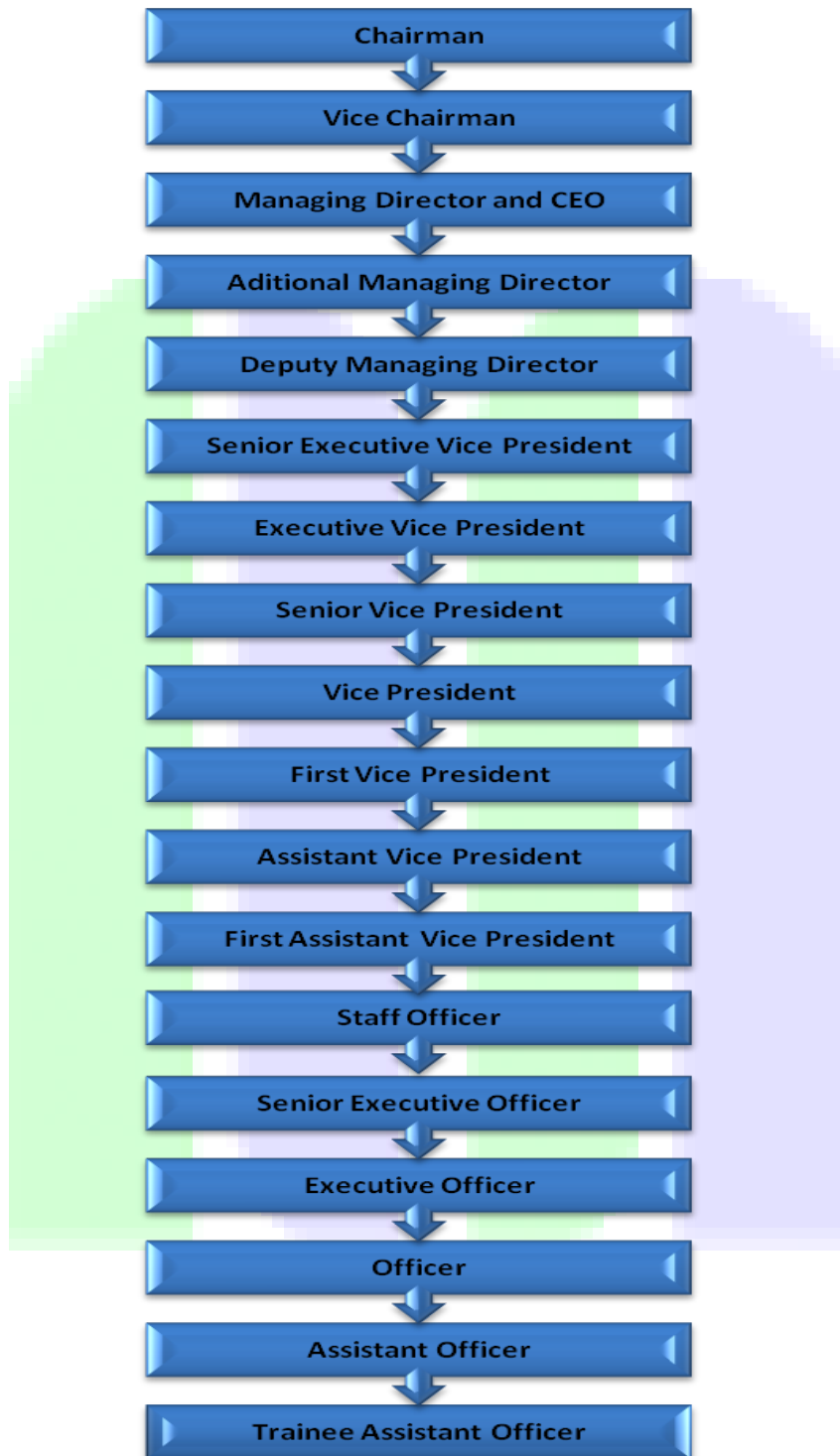


Fig 1.6: Management Hierarchy of MBL

1.7 Departments of Mercantile Bank Limited:

There are basically three basic departments. Under each department there are sub departments. The departments are given below-

1.7.1 General Banking and Deposit Management:

a) Account opening -

This is done by front desk. Their duty is to help customers in opening bank account and providing the customer account related information.

b) Issuance of DD/TT/PO/FDR-

It is also done by front desk. But other desk also does these. Issuing Demand Draft, Telegraphic transfer, Pay Order Issue and Fixed Deposit Receipt is their one of the main job.

c) Inter Bank Transaction-

In general banking inter bank transaction is also done through OBC (Outward Bill for Collection) and IBC (Inward Bill for Collection).

d) Account Section-

This section works on all kind of accounts activity like purchasing things, voucher sorting and salary statement for employee etc.

e) Clearing Section-

It is very important section. This section works with cheque issued from other banks.

f) IT section-

This section deals with the whole networking system, digital activities and computer hardware software related matters.

1.7.2 Credit Department:

a) Credit Proposal processing procedures-

The overall processing to sanction a loan is done by this department.

b) Documentation and Loan Disbursement Procedures-

This department also deals with documentation and loan disbursement material.

c) Overview on all returns-

They also look after the returns from the given loan.

1.7.3 Foreign Exchange Department:

Foreign Exchange works in four sections. Their main job is to L/C related works; dealing with foreign remittance etc. four sections are given below:

a) Cash L/C

- opening of L/C
- Lodgment of Import Bill
- Payment Against Import Bill
- B/E Matching
- IMP Reporting

b) BTB L/C

- Export L/C Checking
- Opening of BTB L/C (Local/Foreign/EDF/EPZ)
- Lodgment and confirmation of maturity date
- Allowing of PC
- Payment against realization of Export Proceeds/ Forced Loan
- B/E Matching
- Reporting

c) Export

- Negotiation/ Send on Collection
- Follow-up
- Realization
- Reporting

d) Foreign Remittance

a) Inward

- FDD
- FTT
- others

b) Outward

- Endorsement of Traveling
- Education/Treatment/Others
- Cash Rebate
- FC Issuing
- FDD/FTT etc

1.8 Establishment of Satmasjid Road Branch of Mercantile Bank Limited:

The Satmasjid Road Branch (SRB) of Mercantile Bank Limited was established in 23 December, 2004 as 25th branch. SRB is situated in the own property of Mercantile Bank Limited. A plot of land measuring 10 Khatas along with two storied building has been purchased on 29 July, 2009 located at Plot no. 735(old), 82/a (new), Satmasjid Road, Road no. 8/A (new), Dhanmondi Residential Area, Dhaka-1209. The cumulative amounts of deposits, advances and profits of SRB of MBL from January 2011 to June 2011 were 10,243,072,833 taka, 6,068,141,021 taka and 20,743,136 taka respectively.

Financial position of SRB for the year 2010 and half yearly ended June 2011 is given below-

(Fig. in Thousand)

Time	Deposit	Advance	Profit
January'10	1,144,826	712,553	2,673
February'10	1,018,136	888,971	3,494
March'10	1,117,396	963,012	3,130
April'10	1,153,865	950,046	3,120
May'10	1,334,435	967,656	2,983
June'10	1,397,351	1,002,851	4,680
July'10	1,516,234	1,049,562	4,187
August'10	1,560,721	1,041,231	4,114
September'10	1,549,051	1,084,443	3,903
October'10	1,591,774	1,083,979	4,064
November'10	1,579,897	1,067,362	3,626
December'10	1,610,454	1,077,828	5,421
January'11	1,657,592	1,033,172	3,731
February'11	1,668,452	1,013,780	3,061
March'11	1,698,215	1,019,895	2,988
April'11	1,698,400	999,604	2,847
May'11	1,705,603	963,830	3,515
June'11	1,814,810	1,037,860	4,601

Table 1.8: Financial Position of SRB

1.9 Products and Services of Mercantile Bank Limited:

The bank does believe that it has differentiated itself from other banks through its products and services. It is banking for the people to fulfill their needs conceptualizing product and services to meet their aspiration and expectations. The bank is proud to have exemplified the true concept as 'Banglar Bank'. The bank launched several financial products and services since its conception. A picture of them is given below:

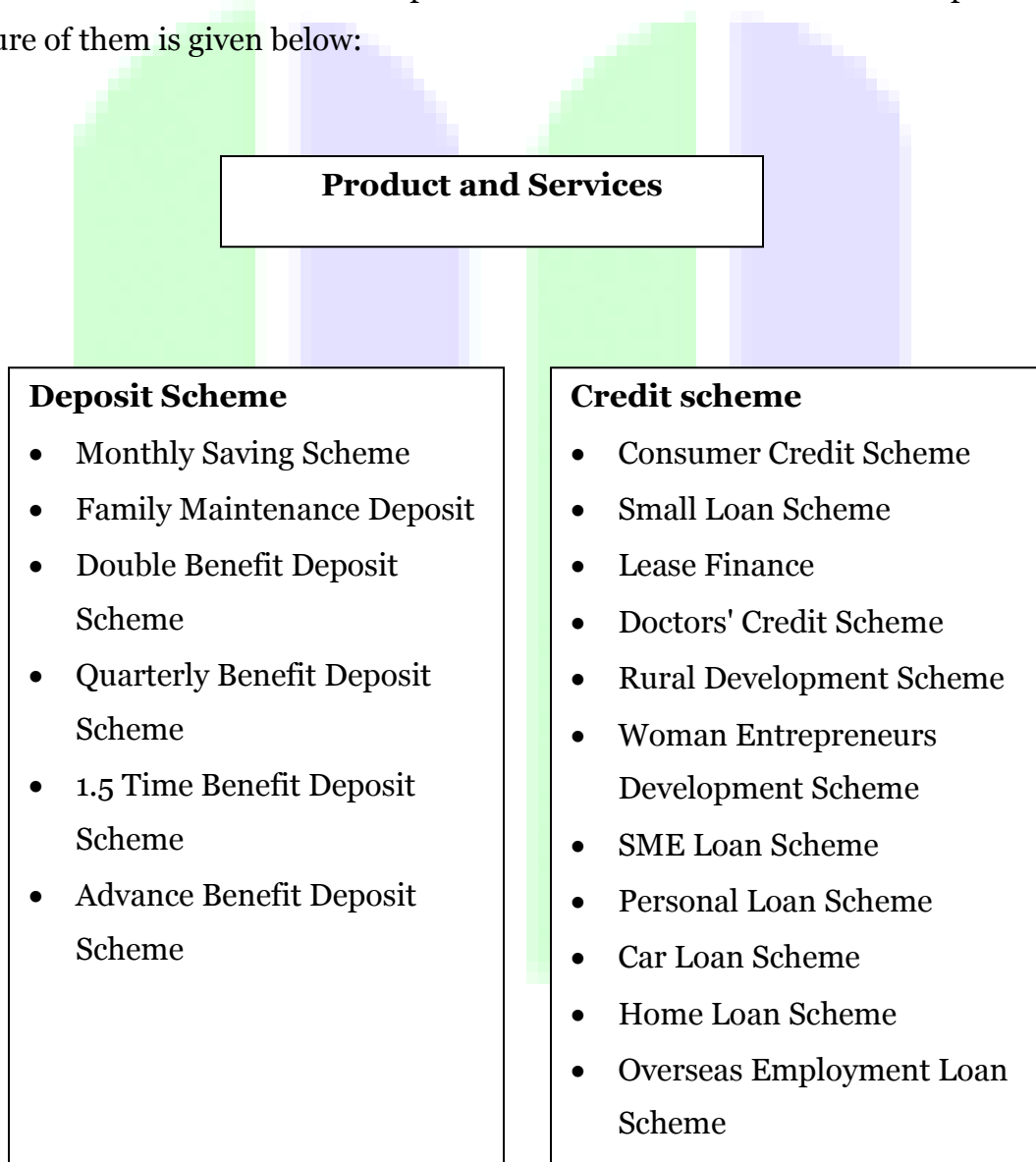


Fig 1.9: Products and Services of MBL

1.9.1 Deposit Scheme

- **Monthly Saving Scheme**

There are three types of monthly saving scheme; five year, eight year and ten year. Under this scheme one can deposit a fixed amount of return monthly and can get lucrative amount of money after five eight or ten years.

- **Family Maintenance Deposit**

In this scheme customer will get benefit for monthly basis against a fixed amount of money deposited in the bank for five years. Customer will also receive the principal amount after the maturity.

- **Double Benefit Deposit Scheme**

Under this scheme customer has to deposit money for six years and after six years customer will be paid back double amount of money.

- **Quarterly Benefit Deposit Scheme**

Under the Quarterly Benefit Deposit Scheme, one can deposit for a period of three years and in return depositor will receive benefits on quarterly basis.

- **1.5 Time Benefit Deposit Scheme**

In 1.5 Times Benefit Deposit Scheme, one can deposit a certain amount of money for 42 months or three and half years. On maturity, the depositor will receive 1.5 time of the deposited amount.

- **Advance Benefit Deposit Scheme**

Under this Scheme, one can deposit a certain amount of money for two years. The depositor will receive the benefit on yearly basis. The benefit amount of first year will be received in advance at the time of deposit.

1.9.2 Credit scheme

- **Consumer Credit Scheme**

Consumers' Credit Scheme is one of the popular areas of collateral-free finance of the Bank. People with limited income can avail of credit facility to buy household goods including computer, television, refrigerator and other consumer durables.

- **Small Loan Scheme**

This scheme has been designed especially for the businessmen who need credit facility for their business and can't provide tangible securities.

- **Lease Finance**

This scheme helps the capable entrepreneurs and professionals with giving financial support to acquire capital machineries, medical equipments, computers, vehicle and other items. This scheme is very flexible and the terms and conditions are easier. Potential Entrepreneurs are attracted by this product especially because they can gradually from earnings on the basis of 'Pay as you earn'.

- **Doctors' Credit Scheme**

This scheme is specialized for the fresh medical graduates and established physicians to acquire medical equipments and set up clinics and hospitals.

- **Rural Development Scheme**

This scheme is operated on group basis. The target customers are the rural people. This scheme is to make them self employed through various project.

- **Woman Entrepreneurs Development Scheme**

This scheme, the Bank finances the small and cottage industry projects sponsored by women.

- **SME Loan Scheme**

Small and Medium Enterprise (SME) loan scheme provides financial assistance to entrepreneurs to invest in small and medium scale industries charging a low interest rate.

- **Personal Loan Scheme**

This is for low and middle income people who can use this loan in any purpose. Government and semi-government officials, employees of autonomous bodies, banks and other financial organizations, multinational companies, reputed private organizations and teachers of recognized public and private schools, colleges and universities are eligible for this loan.

- **Car Loan Scheme**

Car Loan Scheme has been introduced to enable middle-income people to purchase Cars/SUVs/Jeeps. Government and semi-government officials, employees of autonomous bodies, banks and other financial organizations, multinational companies, reputed private organizations, teachers of recognized public and private universities and businessmen are eligible for this loan.

- **Home Loan Scheme**

Such loan is available for purchase or construction of new apartments for self-residing purpose.

- **Overseas Employment Loan Scheme**

This scheme promotes skilled / semi-skilled manpower to different countries across the world as well as to provide support to Government Policy considering priority of this sector.

Besides this there are some other products and services provided by Mercantile Bank Limited are given below-

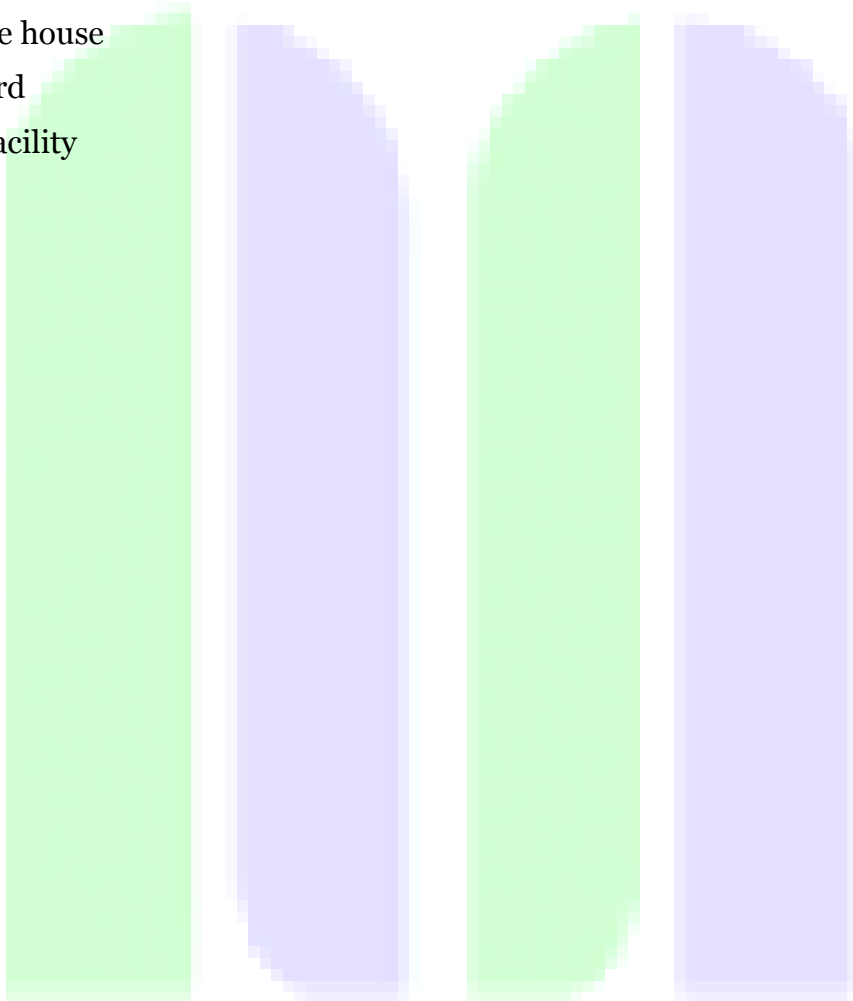
Foreign Exchange Services

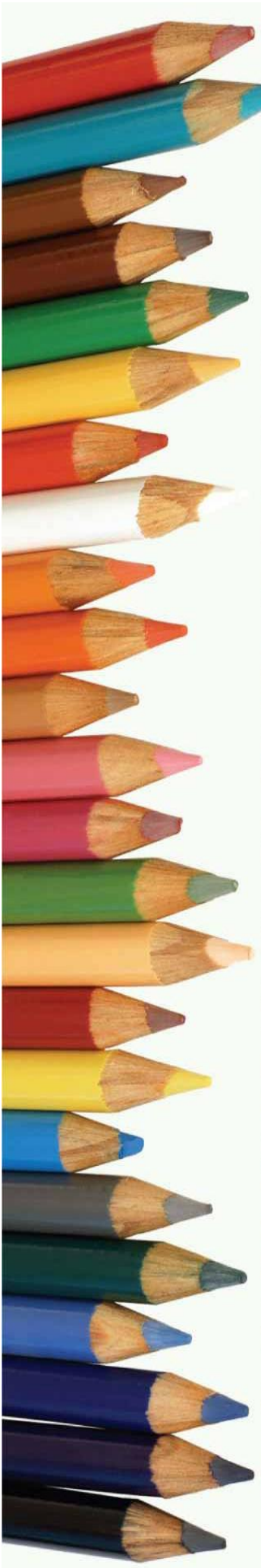
- Export Finance
- Import Finance
- Inward Remittance
- Issue L/C
- Shipping Guarantee

Brokerage house

Credit card

Locker Facility





Internship Experience

2. Internship experience

This report has been done as per the requirement for successful completion of the Internship program. Exposure to the business world and acquiring practical work experience was the primary objective of this report. I was attached with Mercantile Bank Ltd at its Satmasjid Road Branch for my internship. Through internship I got the basic idea about the corporate culture and practices. It was a great experience. April 1, 2011 to June 30, 2011 these three month journey of my internship with Mercantile Bank Limited was very delightful. I enjoyed a lot. All the stuffs of the bank are very friendly and helpful.

I was very lucky to get chance to experience in different departments within these three months. Those are described below:

2.1 Accounts Department:

The first department I worked was accounts. It is under General banking. 1st April to 7th May I worked in accounts. Within that period of time my incharge were changed two times because of their transfer.

So I get the chance to work with three incharge. In accounts first I got Menkarunnesa Chowdhury (Assistant Officer), she was also my onsite supervisor. Then Juboraz Hazera (Officer) was my incharge. At last in accounts Farzana Yesmin (Officer) was my incharge. In accounts there are other people who help me are Nusrat Zahan (Officer) and Shamima Nasrin (Officer).

My main job in accounts is sorting the voucher. After voucher sorting me had to attach them with related supplementary. Voucher is actually prove of the transaction. There are various types of voucher and they are categorized by different number. Which I had to separate and sort group wise. Supplementary is the automated list of all transactions. Each of the transaction has related voucher. My job was to attach them according the number and check the amount of

transaction. In voucher and supplementary the amount will be same. Otherwise there must be some problem which will be identified and revised. After attaching next job was balancing. Balancing means doing sum and ensuring that debit and credit is equal. Next step is to make a cover page which is a brown color hard paper. Then prepare it for binding in an organized format. It is prepared for binding and I did another job was entry the amount date wise in a register.

2.2 Cash Department:

I was in cash department from 9th May to 18th May. My incharge was Laboni Sultana (Assistant Officer). There were also some other staff working in cash are Rownok Jahan (Trainee Assistant Officer), Towhidul Islam (Officer), Toufiq Alam (Trainee Assistant Officer) and Tahera Akhter (Assistant Officer).

My duty in cash was to entry cheque and deposits slips amount and number in registers and give the serial number to the cheque and deposit slip according the register entry number. There were two register one is to entry the cheque number and amount. Another register is for entering deposit slips number. Cheques are entered in debit register because with cheque bank gives money to customer which is debit and deposit slips are entered in credit register because with using deposit slip customer deposit money to bank which is earning for bank and that is why it is credited. At the end of the day I had to sum up register individually and check them with automated amount get through the computer. The amount must be same other wise it will be revised thoroughly and correct the mistake. Another job I did there is sorting the cheque according the prefix of the account number. I had to also sort out the Demand Payable Slip (DPS) according their type. There are three types of DPS; 3yrs, 5yrs and 8 yrs. 1 to 10 of every month are considered as DPS hour. Everyone becomes so busy. I got two days of DPS hour and understand what actually happens. Those days I had to enter lots of cheques, Deposit slips and sort a huge amount of DPS.

2.3 Front Desk

I was there from 19th May to 25th May. My incharge was Jerin Khan (Executive Officer). Selim Islam (Officer), Ruhul Amin Akungee (Executive Officer) and Shah Alam (Officer) are also there to help me to understand my job.

I found Front Desk a little difficult. My job was to attain and help the clients directly. I had to help clients by providing information, helping to fill up account opening, DPS opening, FDR opening forms etc.

2.4 Clearing

May 26 to May 31 I was appointed in clearing department. My incharge was Juboraz Hazera (Officer).

In clearing department cheque from other banks transaction happens. My job was to entry those transactions in a register and at the end of the day sum up the amount and check with the automated amount from computer. The amount must be same.

2.5 Foreign Exchange

Foreign Exchange is a vast department where I worked from June 1 to June 10. My incharge was Farhana Akhter (Staff Officer). There were also Firoz Ahmed (Executive Officer), Shamima Sultana (Senior Executive Officer) and Shamima Nasrin (Officer).

My job was to prepare the L/C files for the client with corresponding papers. Attaching stamp in some of the paper; Like Demand Promissory Note-5tk*5=25tk. than I have to give some seals like signature verifying seal. My job

was also sort out the voucher of Foreign Exchange Department. I had to also give entry of the transaction happens through Western Money Union.

2.6 Credit Department:

The last department I was appointed was credit department. My incharge was Ayesha Numey (Senior Executive Officer) who helped me a lot in making the report. I also get help from Md. Monirul Islam (Staff Officer), Md. Mamun Hossain (Executive Officer)

My job was to prepare file for applicants with the corresponding papers and help them to fill up it. Voucher preparing and sorting was also my job. Another job is giving entry of the transactions in daily basis in a raw register and also had to check the balance of debit and credit.

All the stuffs of Mercantile Bank Limited Satmasjid Road Branch are very helpful that I didn't find any problem. When my internship finished I missed everyone. Even I got help from them about my internship report after finishing my internship. They are always careful about me.



**Description
Of
The Report**

3. Description of the report

3.1 Summary

The report is on Consumer Credit Scheme which has become very popular now a day among the limited income people. This helps people to buy various household goods like computer, television, refrigerator and other consumer durables. Mercantile Bank Limited Satmasjid Road Branch is also giving client this facility. This is becoming a very popular loan scheme in this branch. In this report Consumer Credit Scheme is described. The way it works, its problem, facilities, the formalities to get it etc.

3.2 Description of the project

3.2.1 Objectives of the report:

The present study has been designed to achieve the following objectives:

- The first objective is to know about the Mercantile Bank Limited Credit Policy as a private commercial bank.
- Secondly how Mercantile Bank Limited operates its CCS loan being controlled with rules & regulations
- The basic objective of the report is to see how Mercantile Bank Ltd. is handling the CCS loans
- To find out the overall process of CCS loan

3.2.2 Methodology of the Study:

The study was based on secondary data. In order to prepare practical training report various source & method of data collection was used.

- **Sources of data:**

In this report only Secondary data have been used. For both the Organization part and Project part, quantitative information from the Annual reports of Mercantile Bank Limited and qualitative information from other literature regarding the various divisions and their functions, operations were used. So, only secondary data were utilized. For the project part, primary data were collected by holding informal interviews with the employees to learn about their response/reaction to the change that is occurring in the organization.

While I was conducted the study I collected various types secondary data. Data has been collected through different sources, by interviewing the responsible officers, bank's annual report, and from different circular published by the Bank.

- **Methods of Data Collection:**

There are so many methods of data collection which was relevant & important for the study. The methods used in this report were as follows:-

- **Interview Method:**

To collect information direct interview was taken of the manager of operation, loan in charge, executives, officials etc.

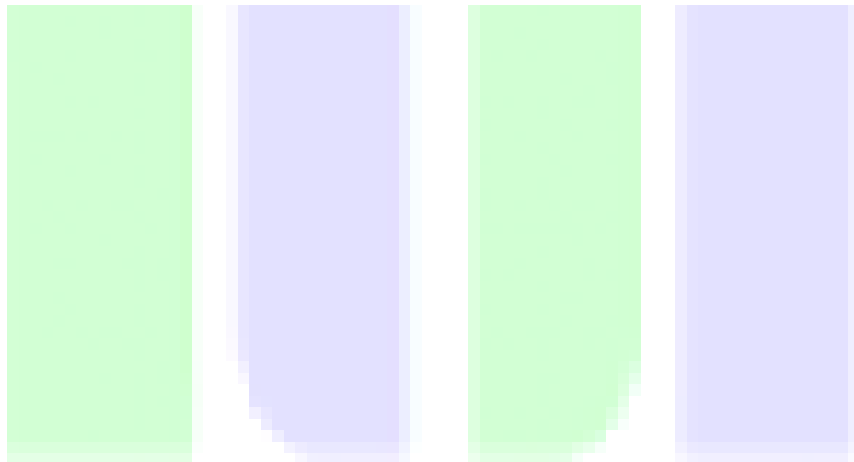
- **Observation Method:**

To collect some information relating to the practice of loans and advances in terms of approval, sanctioning and mode of disbursement an observation was conducted.

3.2.3 Limitations of the Study:

The following limitations are apparent in this report:-

- There was little or no scope of work at credit division of the branch for the internee students. So I could not realize well all the procedures of credit.
- Only CCS loan Scheme, which are highest practiced by the branch have been focused in this report.
- No amount of sector wise allocation of loans and Advances of entire MBL was given. Rather than the figures relating to Satmasjid Road Branch only has been used. Collecting all data of allocated loans of entire MBL was impossible being attached with a branch.
- Credit Policy is the Internal & Confidential matter to every bank. So some information is always secreted.



3.3 Consumer Credit Scheme of Mercantile Bank Limited in Satmasjid Road Branch:

3.3.1 Credit Department of Mercantile Bank Limited in SRB:

The word credit is derived from the Latin word 'credo', which means believe. From the banker's point of view, credit is the confidence of the lender on the ability and willingness of the borrower to pay the debt as per schedule of the repayment.

The Credit division of Mercantile Bank Limited is very efficient, vibrant and profitable one. To remain attractive, competitive and profitable in this banking industry they have been providing different types of loans over the times, among which consumer Credit Scheme (CCS) is comparatively new concept. Small and Medium Enterprise(SME) financing of Mercantile Bank Limited has increased to BDT 781.08 million till December 2010, From that of BDT 260.12 million at the end of 2009. Almost 75% of Bangladesh's total export earnings come from readymade garments. Mercantile Bank Limited also increased total loan to garment sector by 55.91% and amounted to BDT 7,737.41 million at the end 2010 from that of BDT 4,962.85 million at the end of 2009. Mercantile Bank Limited Loans and advances cover other key areas of lending like trading engineering, contractor finance, lease finance, pharmaceuticals, housing, transport, textile, glass and glass product and plastic and plastic material etc. Total loans and advances of MBL increased to BDT 41,993.95 million at the end of 2010 as against that of BDT 31,877.86 million up to 2009 registering 31.73% growth.

The SRB of Mercantile Bank Limited is also very organized and profitable. A picture of recent loan outstanding of SRB is shown below:

Month	Total Loan	Total CCS loan(BDT)
January'11	1,053,894,987.41	5,783,318.71
February'11	1,034,055,235.10	5,676,891.80
March'11	1,040,293,015.80	5,141,110.39
April'11	1,019,596,446.88	4,807,225.93
May'11	983,106,962.72	4,613,807.92
June'11	1,058,616,765.31	4,996,249.58

Table 3.3.1: Total Outstanding Loan of MBL (SRB)

3.3.2 Forms of Credit/Advances in SRB of MBL

SRB of MBL makes advances in different forms. But Loans and advances have primarily been divided into two major groups:

a) Fixed term loan:

These are the advances made by the Bank with fixed repayment Schedules.

The terms of loan are defined as follows:

- Short term : Up to 12 months
- Medium term : More than 12 and up to 36 months
- Long term : More than 36 months

b) Continuous credits:

These are the advances having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance.

All types of credit facilities are given below with their respective interest and maximum time period.

Credit/Advances	Interest Charge	Time Period
Term Loan	15%	2 yrs
Time Loan	16%	4-5 months
Small Ent Loan	15%	3-5yr
Consumer Financing		
Car/Auto Loan	17%	4 yrs
Home Loan	16.50%	7-10 yrs
LTR	14%	4 months
Packing Credit	7%	3 months
PAD	14%	21 days
IBP	14%	7 days
House Building Loan		
House Building Loan-Comm.	14%	7yrs
House Building Loan-Res	16.50%	7 yrs
Lease Finance	15%	4-5 yrs
Hire Purchase	16%	4-5 yrs
Cash Credit Hypothecation	17%	1 yr
Secured Overdrafts		
SOD Agt FDR	FDR Rate+3%	1yr
SOD Agt Work Order	14%	2 yrs
SOD Agt Special Scheme	DPS Rate+3%	1 yr
SOD General/Others	14%	2 yrs
Personal Loan	10%-17%	3 yrs
Consumer Credit Scheme		
Car/Microbus	17%	4 yrs
Television	17%	2 yrs
Computer and Accessories	17%	2 yrs
Refrigerator/ Air Conditioner	17%	2 yrs
H.H Durables (Fur. & Fix.)	17%	2 yrs
Small Loan Schemes(SLS)	16%	3 yrs
Car Loan Staff	5%	7 yrs
Inland Bill Purchased		
I.D.B.P	15%	3 months
Foreign Bill Purchased		
F.D.B.P	15%	3 months

Table 3.3.2: credit facilities of MBL (SRB)

3.3.3 Consumer Credit Scheme in SRB in MBL:

As a newly emerged private bank in Bangladesh, Mercantile Bank Limited is Trying to establish its position in the industry and as a part of that expectation, MBL has offered modern credit scheme (CCS) is a facility designed to help consumer to purchase goods or services for their personal use on the assumption that the consumer has a stable source of income over the next few years.

Along with other loan facilities MBL also provides CCS which is only.50% of total loan products. In consultation with the Branch Manager, it was known that, there are mainly two reasons for introducing CCS. They are:

1. To expand the product line to make the bank more competitive in the industry
2. To remove down payment problem of some reputed home appliance selling companies.

3.3.4 Loan Limit under CCS Loan in SRB in MBL:

CCS loan is small type of loan where the highest loan is 5 lac tk. The time period is also very short.

Consumers Credit Scheme	Interest Charge	Maximum Loan Limit	Clients Equity	Time Period	Service Charge	Risk Fund
Car/Microbus	16%	4 lac	30%	4 yrs	2%	2%
Television	16%	1 lac	30%	2yrs	1%	1%
Computer & Accessories	16%	2 lac	30%	2yrs	1%	1%
Refrigerator/Air Conditioner	16%	3 lac	30%	2yrs	1%	1%
H.H Durables (Fur. & Fix.)	16%	4 lac	30%	2yrs	1%	1%
Washing Machine	16%	5 lac	30%	2yrs	1%	1%

Table 3.3.4: Loan Limit under CCS Loan in SRB in MBL

3.3.5 Sectored Distribution of CCS

In MBL SRB, total number of outstanding accounts of CCS Loan in the year of 2011 till is 61. Sectoral distribution is shown below:

Month	Number of Outstanding						Total
	Car/ Micro bus	Television	Computer	Refrigerator/Air conditioner	H.H Durables (Fur. & Fix.)	Washing Machine	
December'10	10	3	32	4	24	1	74
January'11	10	1	32	4	23	1	771
February'11	10	1	32	3	24	1	71
March'11	10	1	31	3	24	1	70
April'11	9	1	28	3	21	0	62
May'11	9	1	27	3	21	0	61
June'11	10	1	25	4	21	0	61

Table 3.3.5: Sectored Distribution of CCS in MBL (SRB)

3.3.6 CCS Loan due for Recovery and Recovered:

The CCS loan of Mercantile Bank Limited (SRB) which are due and recovered are given below

Month of Disbursement	Amount due for Recovery(BDT)	Amount Recovered(BDT)
January'11	407,025	391,808.29
February'11	382,704	379,081.28
March'11	387,729	381,836.56
April'11	346,323	343,760.57
May'11	3371,77.5	334,991.75
June'11	324,537.59	323,474.72

Table 3.3.6: CCS Loan due for Recovery and Recovered

3.3.7 Necessary Papers for Loan Approval:

1) For approval in the initial stage, loan officer receives the loan application forms submitted by clients, which is known as Party Application and helps the clients in filling up the CIB Undertaking along with the copy of the following papers:

a) Following papers should be available in case of service holder.

- Salary Certificates from the employer
- Last three months Salary Account Statement.
- The client has to submit a guarantee letter from his higher ranked or equal ranked officer to bank. The permanent executive of any private organization or a businessman has to collect and submit a guarantee letter from any reputed and economically sound person of the society. An FDR can be accepted in lieu of guarantee.

b) Following papers should be available in case of Business Person/Self-employed Persons:

- Last six months personal Accounts Statements
- Trade License/Letter of Incorporation
- Tin Certificate
- Tax Return (last three years)

2) One copy of CIB Undertaking and Party Application is kept as office copy in Branch office, one copy is sent to Head office and another copy is sent to Bangladesh Bank in the form of CIB IA (for business) and CIB IIA (for individuals). It takes about 6-7 days for Bangladesh Bank to reply. After verifying all given information, if it is found authentic, then the following steps are followed.

3) Then the applicants will fill up the Loan A/C opening form properly and carefully with required information with the help of loan officer. Documentation of the following papers is also needed along with signature.

- Loan Account Opening Form (TK 200.00 for each application form)
- Office note for Consumer Credit Schemes
- Sanction of loan-only customer
- Forms Showing loans in other banks by the client
- Declaration
- Participation of Guarantee

Officer verifies and make sure that, the client has submitted the price quotation of the items along with the application form and attach the catalog of any particular product from any renowned shop.

4) Applicants have to attach the attested photograph of the applicant and the guarantor on the specific spaces of the form

5) Clients also have to fill up and signature in the following Charge Documents:

- Balance Confirmation Slip
- Depository Promise Note
- Letter of Agreements
- Letter of Authority
- Letter of Disbursement
- Letter of Installments
- Letter of Undertaking
- Letter of Hypothecation
- Supplementary Agreements
- Letter of Guarantee
- Letter of Revival
- General Counter Guarantee (for guarantor)

6) For legal requirements appropriate amount of non judicial stamp is needed. Shown below:

- Balance Confirmation Slip-5tk
- Depository Promise Note-5tk*5=25tk
- Letter of Hypothecation-50tk*3=150tk
- Letter of Guarantee-150tk*3=450tk

3.3.8 Eligibility:

After submission of the application along with required papers, it is the duty of the Loan Officer to verify as to the eligibility of the client with following criteria:

1. When the applicant is a service holder:

Officer/Executives from following organizations having permanent job and getting the salary as mentioned below with minimum length of service of two years within the age between 20-55 years, will be eligible for availing loans under CCS:

- Officer/Executives of any scheduled bank or financial institution or multinational company, getting minimum monthly gross salary of Tk 15,000.
- Officer/Executives of any public limited company and getting minimum monthly gross salary of Tk 20,000.
- Officers of private limited company having corporate structure and getting minimum monthly gross salary of Tk 30,000
- Officers of any government organization and getting minimum monthly gross salary of Tk 8,000
- Teachers of Universities, Colleges and Schools and getting minimum monthly gross salary of Tk 12,000.

2. When the applicant is a Self-employed people:

Doctors, Chartered Accountants, Lawyers or who have their own Business by any nature having minimum income of Tk 35,000 per month may be eligible to get loans under CCS. The length of profession period shall not be less than three years. In this case:

- Applicant will have to submit supporting papers of profession for last 3 years.
- His Business should be established and will be accepted by the bank.

- Applicants working place/business firm must be under Dhaka City Corporation
- working place/business firm of Guarantors must be under Dhaka City Corporation
- Applicant's age limit should be 15-50 years.

3.3.9 Guarantor:

To get the CCS loan, the client must show three guarantors among which one should be spouse in case of married person. The guarantors must be financially sound and have market reputation and need to be acceptable to bank. The Branch Manager is to be satisfied that the event of non payment by the borrower, the guarantor will stand up and meet the borrower's obligation to repay the loan.

3.3.10 Disbursement of CCS Loan:

If all information provided by client is true and authentic, then the bank sanctions the loan with the three signature of Loan Officer, Credit in Charge or Operation Manager and Manager. The bank disburses the loan directly to the supplier of the product by pay order or by crediting client's current or saving accounts. Before disbursement officer prepared the debit voucher and wrote the pay order slip for signing and approving by the Second Officer and the Manager. The accounting treatment of disbursing the loan is given below:

Loan Account.....Dr.

Pay Order.....Cr.

Or

Loan Account.....Dr.

Saving Account.....Cr.

Apart from the sanctioned loan amount, the client is to incur some incidental charges for the loan, like stamps fee and service charges and risk fund charges. Accounting treatment of these charges is given below:

1. Savings Account.....Dr. 200Tk
Miscellaneous earning.....Cr. 200Tk

2. Savings Account.....Dr.
Service Charge on CCS.....Cr

3. Savings Account.....Dr.
Risk Fund on CCS.....Cr.

3.3.11 Recovery Procedure of CCS Loan:

- The borrowers need to submit post-dated A/C Payee cheques (one of each installment) favor of the Mercantile Bank Limited prior to the disbursement of the loan. The borrower has to keep sufficient fund in his account for the purpose. The rest outstanding, if any, is adjusted by the borrower along with the last installment.
- The Loan Officer prepares the credit voucher for specific loan account against each account payee check given by the clients in advance. This check along with the voucher is sent to the clearing section for collection of the amount.

• When the installment amount is collected, the respective loan account is credited by the amount and the account is updated in the computer. The accounting treatment of this procedure is given below:

Cash/Savings Account.....Dr.

Loan Account.....Cr.

And

Cash/Savings Account.....Dr.

Interest Income.....Cr.

3.3.12 Other Rules and Regulations:

There are also some rules and regulations regarding CCS loan. These are:

1. The borrowers have to use the product for his personal use only and can not lend item or transfer the possession to any third person before the loan is adjusted or without prior written permission from the Bank.
2. The borrowers have to maintain the article properly and shall be responsible for loss or damage to it, during the period of the loan he has to pay all the banks dues in full, in case of article is fully damaged, lost or become unusable due to negligence, carelessness or inefficient handling.
3. The client will be bound to permit any authorized representative of the Bank for surprise inspection of the product.
4. If the client changes his work or residence address, he has to let the bank know about the new one.

5. In case of car loan:
 - After the completion of registration and insurance; Bank pays the buyer through a pay-order. The registration to be named after and bank simultaneously.
 - Before the complete repayment, client has to bear all cost including the insurance cost and maintenance cost
 - Photocopy of registration and insurance paper and main copy of insurance money receipt be kept by bank.

3.3.13 Monitoring:

For the Loan Officer monitoring the disbursed loan is also an important activity. Since the credit under CCS is fully supervisory and the success of the scheme depends on proper and persistent supervision, follow-up, persuasion and monitoring, so the branches follow-up and monitor vigorously the accounts to ensure the expected recovery. Therefore, the SRB sends 'Monthly Statement of Loan under CCS' to Head Office Credit Division as per prescribed format.

3.4 SWOT Analysis

SWOT analysis is an important part for evaluating the company's Strengths, Weaknesses, Opportunities, and Threats. It helps the organization to identify how to evaluate its performance and scan the micro as well as macro environment.

As I was engaged to identify the current position of Mercantile Bank Limited in the competitive in the market, it is very necessary to have the SWOT analysis to identify the Strengths, Weaknesses, Opportunities, and Threats of MBL. This is one of the popular way by which one get take necessary action to improve their business because SWOT analysis is completely depend on the market. The SWOT analysis of MBL is given below:

3.4.1 Strength (S)

Mercantile Bank Limited is having the following strengths:

- CCS is exceptional loan scheme
- Transparent and quick decision making.
- Efficient team of performance.
- Satisfied customers.
- Diversification to perform business operation.

3.4.2 Weaknesses (W)

Mercantile Bank Limited is having the following weaknesses:

- Installment period and installment time duration is relatively low.
- Takes comparatively long time in CCS loan sanction
- Long management hierarchy.
- MBL has no promotional tools for their clients.
- Service charge and risk fund is 1% that is too high.
- Low geographical coverage of service
- Lack of success plan.

3.4.3 Opportunities (O):

Mercantile Bank Limited is having the following opportunity:

- Huge demand for the CCS loan from the customer.
- The bank can earn high profit from this sector.
- Further diversification of product.
- As the economic condition of the country is not so good, customers will have need of this loan.

3.4.4 Threats (T):

- Competitors are arising day by day.
- Switching of the customers to the other banks.
- Globalization of banking business.
- Political instability in the country.

3.5 Problems of Credit Department in MBL in SRB:

3.5.1 from Customer Perspective:

- MBL charges 16% interest rate on CCS loan, which is comparatively higher than other loans portfolio. Client feels discouraged in taking their loan from MBL.
- Customer has to pay extra charges like 1% risk fund and 1% service charges, 200Tk form fee and 630Tk for stamp duty. All these costs extra burden on the clients.
- MBL takes an average time of 8-10 days in processing CCS loan which also discourages customers.

- Mercantile Bank Limited provides CCS loan only for few items like; Car/ Micro bus, Television Computer Refrigerator/Air conditioner H.H Durables (Fur. & Fix.) Washing Machine. However some other banks that provide CCS loan like motorcycle, microwave oven, mobile phones etc. as such customers are given less opportunities in this loan facility.

3.5.2 from Banks Perspective:

- Sometimes it is found that the small borrowers of CCS become irresponsible in repaying their loan installment timely. This is may be because; CCS loan is a type of consumption loan which can not regenerate revenue like other loans. As such sometimes bank has to face problems with recovery.

- At the present time, SRB of Mercantile Bank Limited mainly focuses only corporate clients which constitute around 99% of their investment. However CCS loan only forms .05% to 1% of total loan. Therefore the bank doesn't pay much importance on CCS loan.

- Average time and cost expended by the bank in CCS loan is higher than corporate or big loan. It has been found that, corporate clients are more responsible in repaying their loan installments. Whereas, small CCS loan borrower are irresponsible in repaying their loan timely. Therefore, the bank feels that this small CCS loans are problematic.

- The loan division of SRB of Mercantile Bank Limited is facing shortage of personnel. The officers of the loan division have to perform all works from loan processing, disbursement, marketing to recovery.

- It has been observed that sometimes, some dishonest and insincere clients divert this CCS loan to other objectives.

3.6 Recommendation:

- As the interest rate of CCS loan is higher than other loan it is suggested that the bank should rationalize as to whether this interest rate can be reduced.
- Other charges, beside the interest rate are higher on CCS loan, which is burden for the customers. Therefore, MBL also should take into consideration as to whether this burden could be reduced.
- To make CCS loan attractive and also competitive in the market, the product range covered under CCS loan should be extended.
- To make the CCS loan customer friendly MBL should reduce the lengthy processing time under strict supervision and guidance.
- To become competitive and attractive in the market MBL should take into consideration to attract new segment of customer and also to increase investments in CCS loan
- MBL should employ separate team for disbursing, marketing and recovery of the loan effectively and efficiently.
- If the number of the clients in CCS loan increased, subsequently the amount of investment will also increase. As such, the average operating cost on CCS loan will decrease.

3.7 Conclusion

In recent years, Consumer Credit Scheme is one of the most popular Schemes in the banking industry. For Mercantile Bank Limited, there is a huge prospect to increase market share in this sector but due to lack of emphasize, marketing strategy and competitive policy Mercantile Bank Limited still remains far away from the other competitor in the market, consequently loosing prospective customers. Emphasizing on Consumer Credit Scheme also would strengthen Mercantile Bank Limited's position in the market and it can also do important promotions for consumers. Such importance can be an important strategic decision and would help the bank to maintain its stronger position over long term. From the study it has been found that, though Mercantile Bank Limited is facing problems regarding Consumer Credit Scheme recovery, if Mercantile Bank Limited can improve and manage this scheme properly, it will have a lot of opportunity in future. I hope within short period of time with their able leaders, Mercantile Bank will reach the highest level of success very shortly. I wish the bank all success prosperity in their field.

4. Reference:

- Annual Report 2010
- www.mblbd.com
- Mercantile Bank Limited database
- Credit Manual of Mercantile Bank Limited
- Periodic published documents of Mercantile Bank Limited
- Published office circulars of Mercantile Bank Limited
- Interview with Bank Customers and bank Personnel