

Internship Report
On
Credit Management
Of
Mercantile Bank Limited

Submitted to

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Subject: Submission of Internship Report.

Dear Madam,

With great pleasure, here I submit my internship report on Credit Management of Mercantile Bank Limited that you have approved & assigned as a compulsory requirement of BUS-400 course.

This report is based on the knowledge and experiences I have gained during my internship period at the Mercantile Bank Limited. Hence, I would be extremely delighted and honoured if you accept my Internship Report and recognize hard work and determination I have put together in the preparation and completion of this report. I have tried my best to bring out the original scenario of the Credit Management with full of effectiveness & efficiency.

I would like to thank you for your support, guidelines & observation of my works which made it easy for me as well as provided knowledge of learning in practical.

Yours Faithfully,

Suprio Ranjan Nath

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Acknowledgement

First of all, I would like to express my gratefulness to Almighty for giving us strength to survive. A warm felicitation goes for me to acknowledge the people, who hold the desirability for encouraging, praising, assisting as well as believing me in preparing this report on Credit Management of Mercantile Bank Limited on what I have worked through my internship period. I would like to take the opportunity to thank Ms. Mahtab Faruqui, Senior Lecturer, BRAC Business School, BRAC University, who provided me guidelines, helped in preparing my report. She has supported me with her inspiring personality

The report titled as “Credit Management of Mercantile Bank limited” has been prepared to fulfill the requirements of BUS-400 course at end of BBA program. I am very much fortunate that I have received sincere guidance, supervision and co-operation from various respected people while preparing this report.

I would like to take the opportunity to thank Mr. Swapan Kumar Das, Senior Executive Officer, Credit Department, Mercantile Bank limited (Kawran Bazar Branch) for being my on-site supervisor and providing me time to time information, suggestion as well as procedures to work with my topic.

I also want to thank Ms. Rubia Sultana, Executive Officer, Accounts Department of Mercantile Bank limited (Kawran Bazar Branch) for being so cooperative in my work while I worked with her. I also thank to Mr Mahmood Alam, Head of Branch, Mr. Alliullaha, First Vice President & Mr. Abul Hossain, Additional Vice President, Mercantile Bank limited (Kawran Bazar Branch), for creating a friendly corporate environment and making me feel that corporate working is really enjoyable.

Executive Summary

This report is based on 'Credit Management of Mercantile Bank Limited' which is prepared from experience of working in Credit Department at MBL. Now-a-days, Banks and Financial Institutions are becoming very competitive and various kinds of services and products provided by financial institution are increasing with rapid growth. People need money to accommodate their livelihoods as well as updating with the present world of living, therefore people take 'Credit/Loan' from the bank anytime during life. This report focuses on different credit facilities provided by Mercantile Bank Limited and its overall procedure of lending.

With the clear mission to provide efficient banking services and to contribute socio-economic development of the country, Mercantile Bank Ltd emerged as a new commercial bank and inaugurated its operation on 2nd June, 1999. The bank stood 86 branches all over the country upto 2012. There are 30 sponsors involved in creating Mercantile Bank Limited. The sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The one of principle target of MBL is to make credits available to the poor people & their activities are aimed at multifaceted growth where people from all economic strata will enjoy the benefits of better living standard, dignity of labor and self worth.

The major task for a bank is to survive in the competitive environment of credit service by managing its assets and liabilities in an efficient way. And Mercantile Bank Limited manages the assets and liabilities in effective way and earns success and prosperity consistently. It operates in a disciplined and prudent manner with a focus on driving productivity initiatives with delivering sustainable improvements in business performance.

Abbreviations

FDBP : Foreign Documentary Bill Purchase

FDR : Fixed Deposit Revenue

HBL : House-Building Loan

Hypo : Hypothecation

IBP : Inland Bill Purchase

IDBP : Inland Documentary Bill Purchase

MBL : Mercantile Bank Limited

LTR : Letter Trust Receipt

OD : Over Draft

PAD : Payment Against Document

SOD : Secured Over Draft

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বাংলা ব্যাংক



মার্কেটাইল ব্যাংক লিমিটেড
Mercantile Bank Limited

দক্ষতাই আমাদের শক্তি

Chapter One

Introduction

1.1 Rational for Internship

In today's world only academic education does not make a student perfect to become competitive with the outside world. Internship is a great opportunity to gain ideas, knowledge and experience with applying academic knowledge. Through the internship program, a student gets the opportunity to face with the real business world. It helps to build self-confidence, & interpersonal skills which is important for entrance as a fresher in job market. However, it is also beneficial for both a student & organization to upsurge relationship among them for further opportunities. The program covers a period of 12 weeks of organizational experience.

As a mandatory part of my graduation, I took the opportunity to conduct my internship with one of the renowned private commercial banks in our country, Mercantile Bank Limited. With the help of my supervisor Mr. Swapan Kumar Das, Senior Executive Officer, Credit department, I have performed my internship report on "Credit Management of Mercantile Bank Limited". My academic supervisor Ms Mahtab Faruqi, Senior Lecturer, BRAC Business School approved the topic & allowed me to prepare the report as part of the fulfillment of internship requirement as well as gave me appropriate guidelines.

As an intern, I got the privilege to work at MBL from January 01, 2013 to March 31, 2013. In recent banking sector, MBL has already created a positive image to the customers' mind by providing best banking service. This bank has introduced some modern banking scheme that has gotten high market demand. As the bank is maintaining the pace with the competitive business world, its activities, culture, philosophy and style would help an intern student to be the best at any field of working life.

1.2 Background of Topic

Credit management in a bank is a dynamic sector where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management. The Credit Policy of Mercantile Bank Limited is a combination of certain accepted, time tested standards and other dynamic factors dictated by the realities of changing situations in different market places. MBL aims to become one of the leading banks in Bangladesh by prudence, flair and providing quality of credit operations in the banking sector. MBL intends to meet the needs of their clients and enhance their profitability by providing best credit facilities. I tried to make an overall analysis of credit activities of Mercantile Bank Ltd

1.3 Objective of the report

Objective of the report is divided into two categories. These are: broad & specific objectives.

1.3.1 General Objective

The general objective of the study is to know about the credit/loan management system at Mercantile Bank Limited as well as to view the current status of overall loan condition of MBL.

1.3.2 Specific Objectives

The specific focuses of the study are:

- To find out the overall activities of credit management system.
- To depict the procedures that bank follows for lending to the customers.
- To analyze the performance of Asset Products and Liability products of MBL.
- To describe the detailed operational procedure of different credit facilities along with their associated benefits.
- In which way MBL recovers the bad debts & get back the uncollected advances

1.4 Scope

The report covers the background, functions mostly on credit/loan management system of the bank. Thus report is to acquaint with identification of problems regarding credit policies, types of credit extending and sectors of credit allocation of Mercantile Bank Limited.

1.5 Methodology of the Study

The study requires a systematic procedure from selection of the topic to final report preparation. To perform the study, the data sources are identified and collected, these are classified, analyzed, interpreted and presented in a systematic manner and key points have been found out. The overall processes of methodology are given below-

1.5.1 Selection of the topic:

The topic of the study was suggested by honorable supervisor. Before assigning the topic it was discussed with supervisor so that a well organized internship report can be prepared.

1.5.2 Identifying data sources:

Essential data sources from both primary and secondary are identified which are completed and worked out for the study.

1.5.3 Primary data

- Discussion with officials of Mercantile Bank Limited
- Direct involvement in the credit management activities in MBL
- Direct Observation

1.5.4 Secondary data

- Annual report of MBL
- Credit rating report of MBL by CRISL (Credit Rating Information and Services Limited)
- Monthly published reports and documents
- Office circular and other published papers, documents
- Various type of statements

1.5.5 Findings of the study:

The collected data are scrutinized very well and pointed out. Findings are placed from the analysis of collected data regarding overall credit procedures. Recommendations are also made for the improvement of the current situation according to the findings.

1.6 Limitations

There were certain limitations had to face in order to prepare this report. Some limitations are following –

- ❖ There was a little scope to work at credit division in the bank for an interne student.
- ❖ Limitation of time was one of the important factors that shortened the study. Due to time constraints, many aspects could not be discussed in the present study.
- ❖ MBL does not have rich and wealthy collection of various types of books or journals related to banking activities.
- ❖ Confidentiality of data was another important barrier that was faced during the conduct of this study. Credit Policy is an Internal & Confidential matter to a bank. Alike all other banking institutions, MBL is also very conservative and strict in providing financial information. I tried my best in obtaining required but sensitive information as much as possible.

Chapter Two

Overview of the Organization

About Mercantile Bank Limited

2.1 History

Mercantile Bank Limited was incorporated in Bangladesh as a Public Limited Company with limited liability under the Bank Companies Act, 1991 on May 20, 1999 and commenced commercial operation on June 02, 1999. The Bank went for public issue of shares on in 2003 and its shares are listed with Dhaka Stock Exchange and Chittagong Stock Exchange. The Bank has 84 branches spread all over the country. MBL is a highly capitalized new generation Bank with an Authorized Capital and paid-up Capital of Tk. 8000.00 million and Tk. 4968.90 million respectively. With assets of TK. 116,655,283,665 and more than 1668 employees, the bank has diversified activities in retail banking, corporate banking and international trade.

There are 30 sponsors involved in creating Mercantile Bank Limited; the sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The sponsors happen to be members of different professional groups among whom are also renowned banking professionals having vast range of banking knowledge. There are also members who are associated with other financial institutions insurance Companies, leasing companies etc.

MBL undertakes all types of banking transactions to support the development of trade and commerce in the country. MBL's services are also available for the entrepreneurs to set up new ventures and industrial units. The bank gives special emphasis on Export, Import, Trade Finance, SME Finance, Retail Credit and Finance to women Entrepreneurs. To provide clientele services in respect of International Trade it has established wide correspondent banking relationship with local and foreign banks covering major trade and financial centers at home and abroad.

With the passage of time it has expanded its number of branches and variety of services along with its core business of taking deposits and granting loans. Rising trend of the bank's profitability over the last 13 years is also materialized. The MBL is committed to the delivery of the superior shareholders' value.

2.2 Mission of MBL

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

2.3 Vision of MBL

“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. It has created a cadre of young professionals in banking profession which has helped boosting productivity in the bank.

2.4 Objective

2.4.1 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 segment they serve.

2.4.2 Financial objective

- To achieve 20% return on shareholders’ equity or more, on average

2.5 Product and Services

MBL has launched a number of financial products and services since its inception. These products and services are categorized in five sectors i.e. Retail Banking, Corporate Banking, SME Banking, Foreign Trade Business & E-banking

2.5.1. Retail Banking Service

a) Deposits	b) Loan	c) Cards
<ul style="list-style-type: none"> • Current Deposit Account • Saving Deposit Account • Fixed Deposit Account • Double Benefit Deposit Scheme • Mashik Sanchay Prakalpa • Family maintenance Deposit • Quarterly Benefit Deposit Scheme • 1.5 times Benefit Deposit Scheme • Advance Benefit Deposit Scheme • Special Savings Scheme • School Banking • Educational Planning Deposit Scheme • Super Benefit Deposit Scheme 	<ul style="list-style-type: none"> • Consumer credit scheme • Doctor credit scheme • Rural planning scheme • Lease Financing • Any purpose loan • Educational loan • Car loan • Home loan • House furnishing loan • Cottage loan • Polli loan 	<ul style="list-style-type: none"> • Dual card • Debit Card • Prepaid Card • Supplementary Card • Visa Card

2.5.2. Corporate Banking Service

- Short term finance
- Long term finance
- Real estate finance
- Import finance
- Work order finance
- Export finance
- Structured finance
- Loan syndication

2.5.3. SME Banking Service

- Chaka
- Annaynna
- Chalti Muldhan
- Single payment Loan

2.5.4. Foreign Trade Business

- Foreign correspondents
- Nostro Accounts

2.5.5. E-banking Service

- Online banking
- Mobile banking
- SMS banking
- SWIFT
- Locker Facility

2.6 Departments of Mercantile Bank Limited

In branch level, MBL has three departments. These are-

1. General Banking
2. Credit Department
3. Foreign Exchange Department

■ **Major Functions of General Banking**

- Account opening
- Issuance of Demand Draft/Telegraphic Transfer/Pay Order/Fixed Deposit Revenue
- Interbank Transaction, Inter Branch Credit

■ **Major Functions of Credit Department**

- Credit Proposals and Credit Processing
- Documentation and Loan Disbursement
- Overview on all returns

■ **Major Functions of Foreign Exchange Department**

- Opening of L/C (Back To Back, Local/ Foreign)
- Purchase of foreign bills
- Negotiating of foreign bills
- Payment against Import Bill
- Export guarantees
- Endorsement of Traveling

Chapter Three

Internship Experience

3.1 Prologue

After completion of academic study, all of us will have to enter into professional world. Before facing with real world, to work as an intern in an organization is best opportunity to practice corporate culture and utilize academic learning. I got the privilege to work at Mercantile Bank Limited for a period of 12 consecutive weeks.

I experienced that every desk is assigned with specific jobs and particular persons take responsibility as well as to carry out the jobs. In cooperating with all the persons I worked with, I came to learn a lot of things which will help me not only in professional life but also in my personal life.

I worked at Kawran Bazar Branch from January 1, 2013 to March 31, 2013 and these three month journey of my internship with Mercantile Bank Limited was very delightful. I enjoyed my works and all the stuffs, officers of the bank are very friendly and helpful.

As I worked as an intern there, I was assigned at different desks of all the divisions of bank.

3.2 Accounts Department

At the beginning of internship period, I worked at ‘Accounts’ under General Banking Division and I worked there from 1st January to 12th February 2013. Accounts department is responsible for analyzing all the transactions which are held in bank and keeping records of all transactions. Everyday all transaction lists, vouchers, cheques are received from different divisions. Then the respective officers in Accounts analyze and register all transactions. My principle jobs in accounts were organizing the vouchers, matched the vouchers with transaction lists. There are three types of vouchers and these are categorized as Cash, Transfer and Clearing vouchers. There are automated transaction lists which are called as ‘Supplementary’. My job was to check vouchers and then attach all vouchers with respective Supplementary sheets. After attaching, next job was balancing. Balancing means doing summation and ensuring that value of debit and credit is equal. Then the job was to make a cover where total numbers of transactions are counted and recorded. Then prepare it for binding in an organized format. All of these tasks are day to day activities of accounts department.

3.3 Cash Department

I worked in cash department from 13th February to 23rd February. My duty was to register value of cheques and deposits slips and gave serial (tracer) number to the respective cheques and deposit slips according to the register entry number. Cheques are registered in debit (Dr.) account because bank gives money to customer with cheque which is debit and deposit slips are registered in credit account because with using deposit slip customer deposit money to bank. At the end of the day I had to sum up register entries and checked them with automated transaction list through the computer. Another job I did there was sorting the cheques according to the account number. I had to also sort out the Demand Payable Slip (DPS) according their types. There are three types of DPS such as 3years, 5years and 8 years. From 1st day to 10th day of every month is considered as DPS collection period.

3.4 Foreign Exchange Department

Foreign Exchange is a vast department in MBL and I worked here from 24th February to 28th February 2013. My job was to prepare the Letter of Credit (L/C) files for the clients with corresponding papers (i.e. commercial invoice, pro-forma invoice, L/C opening forms etc.). I had to write and fill up some application forms i.e. IMP (Import) Form, EXP (Export) Form with taking information from different register books. I also sorted out the vouchers of Foreign Exchange Department.

3.5 Credit Department

The last department I was appointed at credit department. My job was to prepare file for applicants with the corresponding papers (i.e. applicant's information, company invoices, TIN, VAT certificate, credit report etc.) and help them to fill up it. I attached stamp in some of the papers like as Demand Promissory Note and then gave some seals like as Signature Verifying seal. I also printed out vouchers and sorted them. Another job was to prepare the data of individual and corporate clients, listed them in a table and synchronized with the framework in MS Excel. I also made entry of the transactions in daily basis in register books.

Chapter Four

Credit Management of Mercantile Bank Limited

4.1 Overview

Mercantile Bank Limited is a new generation Bank. It is committed to provide high quality financial services/products to contribute to the growth of GDP of the country through stimulating trade & commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for the educated youth, poverty alleviation, raising standard of living of limited income group and over all sustainable socio-economic development of the country.

In achieving the aforesaid objectives of a Bank, Credit Management has paramount importance as the greatest share of total revenue a Bank generates from it. Existence of the bank depends on prudent management of its credit operation where maximum risk is centered in it and. In most of cases, the failure of a commercial bank is usually associated with the problem in credit management as well as the result of shrinkage in the value of assets. Therefore, credit management has not only featured domination in the assets structure of the bank but also critically important to the success of the bank.

The standards of credit relate to safety, liquidity and profitability whereas these dynamic factors are also related to different aspects such as interest or margin, credit spread, nature and extent of risk and credit dispersal. In the Kawran Bazar Branch's Credit Department, there are six officials are working continuously with great effort and teamwork and they have quite efficient skills and talent to perform the jobs in this department. The Bangladesh Bank, Credit Division at Head Office of MBL and the respective officers of branch in the section control this credit department. The officers believe in teamwork and extreme hard working. In all business dealings, credit officers are guided by the principles of honesty, integrity and safe-guard the interest of the depositors and credit customers of the bank. Credit officers principally perform credit management task by providing fund (credit) to customers and receiving fund back by charging interest along with installments with obeying rules and regulations of the Bangladesh Bank and Head Office as well as maintaining the best business practices in the Bank. However, the key to safe, liquid, healthy and profitable credit operations lies on the quality of credit management which is performed by the credit officers.

4.2 Industry & Business Focus:

As a general practice, Mercantile Bank Limited principally concentrates its business in Trade Finance/Export–Import businesses and all types of Commercial Loan, Industrial/Project Finance/Syndication and structured Finance/SME Financing and other specialized programs except the businesses are restricted by the Government or indicated as unethical and banned.

The Bank gives emphasis to diversify its business portfolio commensurate with economic and business trend, life cycle of the products, demand supply gap, social and national obligation etc.

The Bank’s policies for financing in different major sectors are summarized as follows:

SL	Sectors	Policies
1)	Textile / Spinning/ Sweater/ Knitting/ Denims & Garments	To expand
2)	Cement	To maintain
3)	Construction / Real estate / House building	To maintain
4)	Telecommunication	To expand
5)	Communication	Selective basis
6)	Information Technology (IT) Project	To expand
7)	Agro-based Industry	To expand
8)	Hospital / Clinic / School / College / University	Selective basis
9)	Healthcare / Pharmaceuticals / Medicine	Selective basis
10)	Electrical / Electronic appliance	To expand
12)	Special Program: Consumer Credit Scheme, SME Financing Scheme, Doctor’s Credit Scheme, Woman Entrepreneurs Development Project, Personal Loan Scheme, Small Loan Scheme, Lease Finance Scheme, Earnest Money Financing Scheme, Car Loan, HBL (General) / Mortgage Loan, Employees House Building Scheme, ATM, VISA Credit Card, EEF, etc.	To expand
13)	Plastic / Packaging	Selective basis
14)	Leather	Selective basis
15)	Steel and Engineering	To expand
16)	Edible oil	To expand
17)	Scrap Vessel	Restricted way
18)	Paper / Pulp / Partex	To expand
19)	Chemicals	Restricted way
20)	Others	Based on merit

4.3 Discouraged business types:

The Bank discourages lending to following areas of the businesses:

- Military Equipment/Weapons Finance
- Tobacco sector
- Companies listed on CIB black list or known defaulters
- Highly Leveraged Transactions.
- Finance of Speculative Investments
- Logging, Mineral Extraction/Mining or other activity that is Ethically or Environmentally Sensitive
- Counter parties in countries subject to UN sanctions.
- Share Lending (Not more than 60% of share value of last 6 (six) months market average or maximum 35 lac whichever is lower or as per guidelines of Bangladesh Bank)
- Taking an Equity Stake in Borrowers
- Bridge Loans relying on equity/debt issuance as a source of repayment.

4.4 Types of Credit Facilities:

The Bank's policy is to introduce diversified / new types of Products / Product derivatives along with usual Banking Products. At present the Bank offers the following facilities:

4.4.1. Trade Finance:

- a) Non-Funded: L/C, Acceptance, Bank Guarantee, etc.
- b) Funded: LTR, PAD, IBP, FDBP, IDBP, Time Loan, Loan (General), etc.

4.4.2. Project Finance (For Large and Medium Industries / Small Industries including Agro-based Industries):

- a) Non-Funded: L/C for import of Machinery, Acceptance, Bank Guarantee, etc.

b) Funded: Time loan, Term loan for retirement of documents of imported machinery / Local machinery / other project fixed costs, Hire Purchase, Lease Finance, Loan (General), HBL (Commercial).

4.4.3.i) Working Capital (For Industrial Finance):

a) Non-Funded: L/C for import of Raw Materials, Bank Guarantee, etc.

b) Funded: Overdraft Cash Credit (Hypo), Cash Credit (Pledge), PAD, LTR, Time Loan, IBP, etc.

4.4.3.ii) Working Capital (For Work Order):

a) Non-Funded: Letter of Credit, Bank Guarantee, etc.

b) Funded: SOD (work order), SOD (General), etc.

4.4.4. Commercial Lending:

a) Non-Funded: L/C for import of goods, Acceptance, Bank Guarantee, etc.

b) Funded: Cash Credit (Hypo), Cash Credit (Pledge), OD, PAD, LTR, Time Loan, IBP, etc.

4.4.5. Specialized Scheme:

Consumer Credit Scheme, SME Financing Scheme, Doctor's Credit Scheme, Woman Entrepreneurs Development Project, Personal Loan Scheme, Small Loan Scheme, Lease Finance Scheme, Earnest Money Financing Scheme, Employees House Building Scheme, Car Loan, HBL (General) / Mortgage Loan, ATM, VISA Credit Card, EEF, etc.

4.4.6. Export Oriented Business:

a) Non-Funded: Back-to-Back L/C, Acceptance, Bank Guarantee, Letter of Credit, etc.

b) Funded: Packing Credit, Overdraft, Hire purchase, Lease Finance, FDBP, and IDBP etc.

4.4.7. Advance against Financial Obligation:

Funded: SOD (FO), SOD (SS), SOD (FDR), SOD (General) etc.

4.5 General System & Procedure Related To Credit / Lending:

To grant advances is one of the most important functions of a bank. The strength of bank depends considerably on the quality of its advances and proportion of bearing to the total deposits. Traditionally bank has been following three cardinal principle of lending in different credit schemes, these are: *safety, liquidity and profitability*. Another determination but not principle, the bank also consider humanity where bank always looks for true entrepreneur who can really support society by establishing own-self. Confidence in the borrower is the basis of secured advances. The confidence is judged by five considerations- Character, Capacity, Capital, Collateral and Condition.

Lending process of MBL goes through different steps with complying terms and conditions of Bangladesh Bank.

Here, the Credit department of MBL follows the following steps in lending-

1. Application for loan proposal:

Firstly, the borrower who willing to make a commitment with bank by taking loan, he must write an application through the ‘Head of Branch’ of bank and submit it to the officer at credit department.

On proper scrutiny of the application, branch will inform the initial decision (acceptable for processing/decline) to the applicant within 3(three) working days from the date of receiving application.

Applicant must present the following additional papers along with application-

- Trade license and TIN Certificate (if any) for businessperson.
- TIN Certificate of applicants for vehicle loan (compulsory)
- Salary certificate for service holders.
- Bank statement of last six month.
- Attested photocopies of current tax receipt, electric bill etc & lease agreement (if any) when the source of income is house rent as a landlord.

2. Selection of borrower:

The selection processes include identifying source of repayment and assessing customer’s ability to repay, expected future cash flows, his / her past dealings with the bank, the net worth and information from CIB. The Bank must identify the key drivers of the borrower’s business as well

as the key risks to their businesses. There is an age limit for borrower, age of the proprietor/partners/directors must be range between 21 years to 60 years.

3. Preliminary screening of credit proposal:

The management committee of credit department of bank gathers different documents and then evaluates all of the papers, documents. The credit management committee obtains these mandatory following documents-

- A. Formal application for financing
- B. Business plan
- C. Personal guarantee
- D. Appraisal of asset to be financed
- E. Personal financial statement
- F. Business financial statement
- G. Purchase agreement
- H. Cash-flow projection
- I. TIN certificate
- J. Bank solvency certificate
- K. Stock report duly verified (where applicable)
- L. VAT certificate
- M. Export license (Applicable for export oriented business)
- N. In case of L/C detailed performance of L/C during last year
- O. Market reputation

4. C I B Inquiry:

The borrower duly filled CIB form and then the bank obtains CIB report from Credit Information Bureau (CIB). The borrower's status must be reflected in the CIB report on regular basis i.e. monthly for Tk. 1.00 crore and above and quarterly for all the facilities outstanding of Tk. 50,000.00 to below Tk. 1.00 crore. Besides, statement for Tk. 10,000.00 to below Tk. 25,000.00 and Tk. 25,000.00 to below Tk. 50,000.00 has also to be reported.

The Bank also obtains the 'Credit report' and opinions from other banks if the client has other bank account.

5. Security analysis:

To make the loan secured, charging security on the credit facilities is very important because it represents commitment of the borrower; it protects the interest and ensures the recovery of the money lent.

The important modes of charging a security are the following:

- i) Lien
- ii) Pledge
- iii) Mortgage
- iv) Assignment
- v) Set-off

Methods used in charging depend on:

- the nature of the advance
- the type of property to be charged
- the degree of control required over the debtor's property

6. Site visit:

The bank management visits at borrower's land, property which is placed as security against credit. Here, Head Office Credit Team assists (on need basis) in site visitation. After site visitation, Branch credit team forwards a detailed site visit report regarding the project to the Head Office of MBL duly signed by the officer and Head of Branch / Operation Manager.

7. Documentation:

Documentation can be described as a process or technique of obtaining the relevant documents. When bank is going to lend to a borrower after inquiring the character, capacity, collateral and capital of the borrower, the bank must obtain proper documents which are executed from the borrower to protect against willful defaults. Moreover, when money is lent against some security of assets, the document must be executed in order to give the bank a legal and binding charge against those assets. Documents contain the precise terms of granting loans and these serve as important evidences in the law courts if the circumstances so desire. That's why proper documentation must be completed prior to the disbursement of the facilities.

Charged documents as required for documentation are mentioned bellow:

1. *Demand Promissory (DP) NOTE signed on revenue stamp*
2. *Letter of arrangement*
3. *Letter of Authority*
4. *Letter of Installment*
5. *Letter of Revival*
6. *Letter of partnership (partnership farm) or Board of resolution (limited companies)*
7. *Letter of hypothecation*
8. *Supplementary Letter of Hypothecation*
9. *Letter of lien and ownership / share transfer form (in case of advance against share)*
10. *Letter of lien (in case of advance against F D R)*
11. *Letter of lien and transfer authority.(in case of advance against P S P, B S P)*
12. *Legal documents for mortgage of property (As draft by legal adviser)*
13. *Valuation certificate of the collateral security in Bank's form with photograph of the security*
14. *Site visit report*

8. Sanction of loans or advances

When a branch manager writes letter to the customer accepting all terms and conditions of loan, it is called loan sanction.

The most important conditions which are taken in loan sanction are given below:

1. Limit of the loan amount
2. Primary securities / Collateral securities
3. Rate of interest of the loan
4. Expire date
5. Repayment
6. Documentation

7. Other conditions (If available)

Time Requirement for Approval of Credit Proposals:

- a) At Branch level : Branch Authority as per their business delegation must take decision within maximum of 3 - 7 days
- b) At Head Office level : The Head Office Credit Committee(HOCC)/Executive Committee of the Board of Directors/Board of Directors take decision within maximum of :
 - 5 – 7 days for simple type of finance facility
 - 15 – 30 days for Project Loan
 - 30 – 60 days for Loans under Syndication / Club finance etc.
- c) Sanction letter to be issued within 1 – 2 days time from the date of approval.

9. Disbursement of loans or advances

Loan disbursement has to be made after completion documentation. Disbursements of loan facilities are made when all documentation is in place.

Here are steps of the disbursement-

1. Finally Credit division at Head Office has completed documentation of the loan that sanctioned by them.
2. After completion of the documentation and sanction, Credit Division sends a copy of “Disbursement Order” along with “Approval letter” to Head of Credit Administration Division (CAD) & the respective branch for disbursement of the loan.
3. Security Documents of the loans sanctioned from Head Office are signed by customer(s) in branch of disbursement and retained original. A set of photocopy of originals is required to be sent to Head Office.
4. A set of photocopy of loan documents is retained by Credit team at Head Office, the disbursement branch retains the originals.

At the time of disbursement, the officer prepares the vouchers and writes the pay order slip that is signed and approved 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 sanctioned the loan amount, the client is to incur some incidental charges for the loan, like stamp fee and service charge and risk fund charge. Accounting treatment of these charges are given below:

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

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

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

Flow Chart of Disbursement

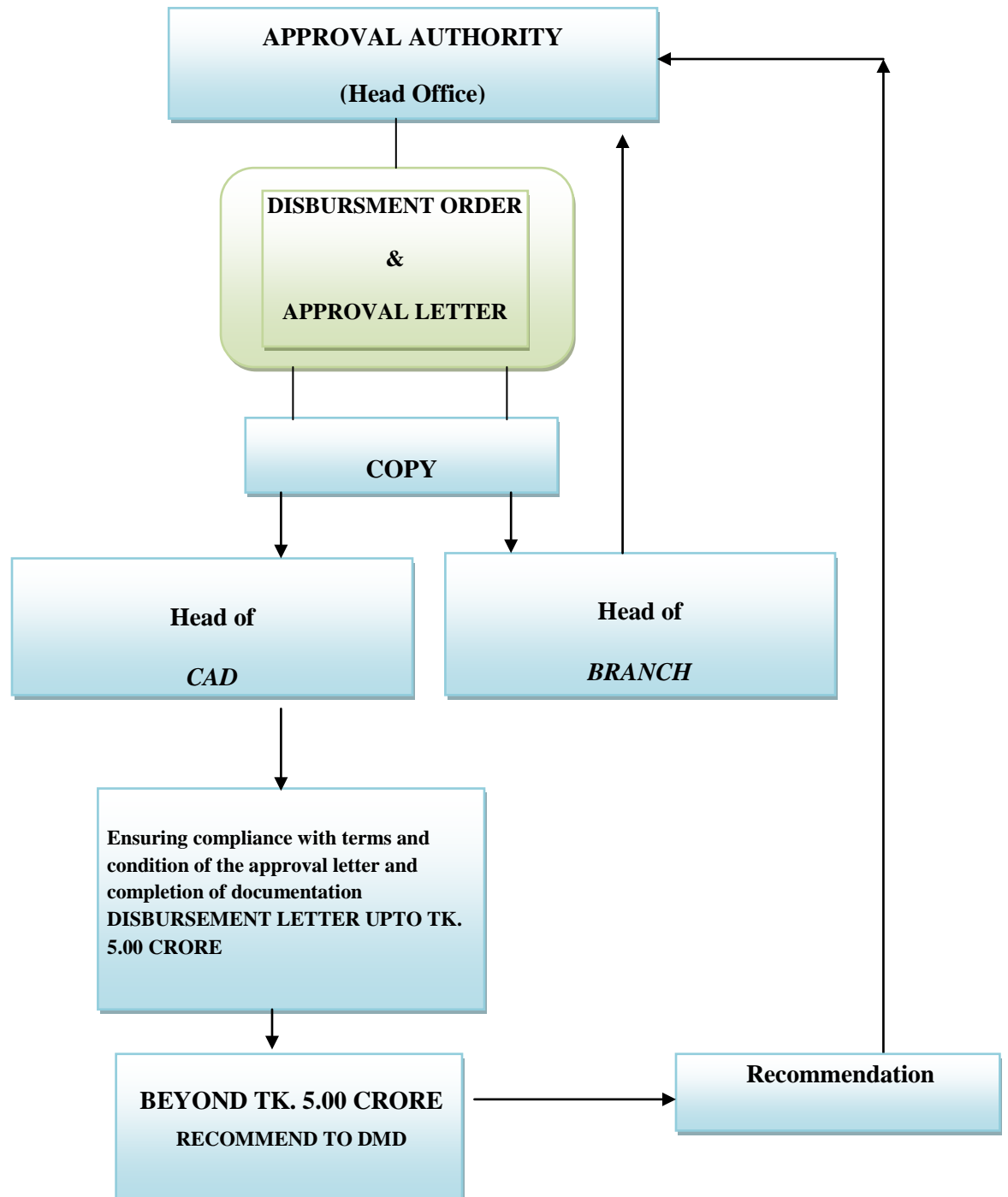


Figure 4.1: Disbursement Processes

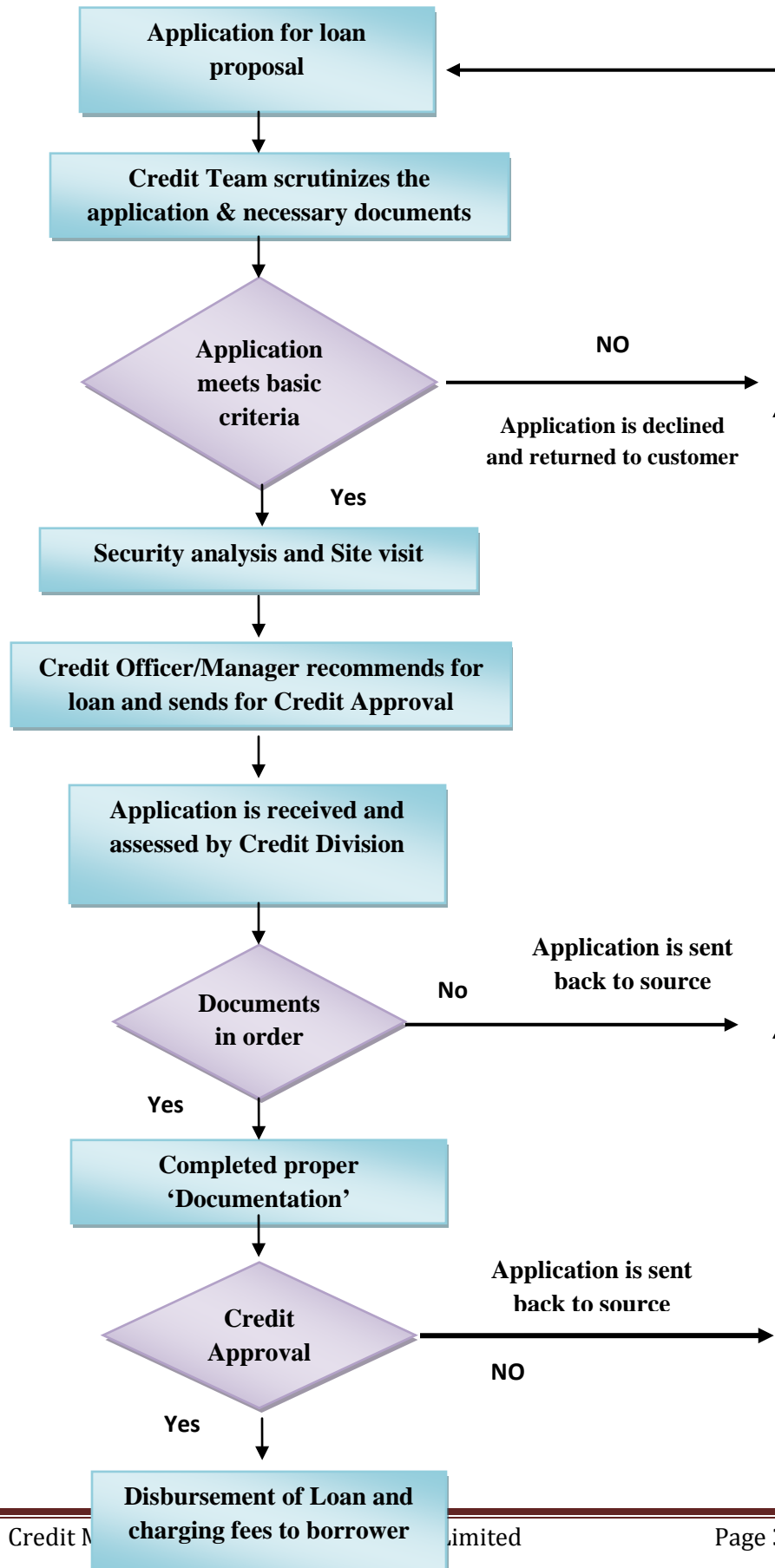
4.6 Credit File Maintenance

After completion of all steps in lending, the bank makes and reserves a 'Credit File' of the respective customer. The maintenance of credit files is disciplined to force the lending officer to obtain all relevant documents and encourages him to consider all relevant information when analyzing customer risk.

Primary items in credit files include:

1. Credit application, Credit approval notes/analysis. The analysis contains information about the borrower, credit purpose, credit repayment sources, details of collateral security with valuation and guarantee. It also contains an assessment of the competence and quality of the borrower's management, the general economic and competitive environment of the borrower's industry and any other pertinent factors, which present the borrower's ability to repay the facility.
2. All supporting data such as financial statements, reference, credit investigation results, CIB & other Bank reports and notes of all discussions with the borrower and other relevant parties with paper clipping.
3. Correspondences, call reports, site visit reports stock reports etc. Each credit file is maintained in a secured location and access restricted to authorized personnel.
4. Evidence of credit approval and data upon which approval was granted together with any comments, if appropriate. Copy of sanction & disbursement letter, a check list along with copies of all Legal & Banking documents.

Figure 4.2: Flow Chart of Overall Loan processing



Chapter Five

Findings

During crafting this report I have gone through different aspects of Credit policies and procedures of Mercantile Bank Limited. By analyzing, I have identified the following findings as importantly:

❖ **Title of Mortgaged property is not free from complexity:**

The bank keeps mortgaged property (i.e. house, land) from borrower against the loan. Before mortgaging any property, the bank reviews all necessary documents related to ownership of property. But sometimes, complexity of mortgaged property has been found after the loan disbursement.

For instance, the property which is given by the borrower to the bank for mortgaging may have partial ownership of another person (i.e. person's brother or sister) who lives outside country. When he/she gets acknowledgement about the mortgaging of his/her property, he/she may go for law-suit action against the bank and borrower. Therefore, the bank faces trouble with law-suit case and other legal difficulties.

❖ **Lack of proper support from valuation company:**

Sometimes it has been found that the collateral security which is kept by borrower shows in higher-value (biased-over) than its actual value. For illustration, before taking collateral security (i.e. land, building) from the client against loan by bank, the bank goes for valuation of the collateral security and they assign this valuation task to a third party i.e. Geometric Survey Co. Ltd. But after valuation, the respective survey company has presented the value

of the security over than actual because the borrower intentionally made influences on survey company to show higher value to bank. As a result, the bank cannot recover reported value of securities if the borrowers become default.

❖ **Political and Social Pressure:**

Often the bank faces pressures from different political, social persons to make consideration in granting loan to their recommended person. Though the person who is applying for loan may fail to satisfy conditions in some cases, for example the collateral security is not matched with demanded loan amount (under-valued). But here the bank grants loan to this person who partially fulfills the requirement for loan because of continuous pressures from respective political person. Some directors of MBL have already involved in political and social activities and it has been found that the directors recommend to the bank's officer on the behalf of their relatives and well-known persons to grant loan without fulfilling all requirements. As a result, here the principle terms and conditions for lending are violated.

❖ **Fund diversion by borrower:**

The loan which is provided by bank for business purpose may be used in personal purposes by the client. Here the bank faces problem of getting installment from client within specific time. For instance, a person applies for the loan for extending his business, the bank evaluates all requirements which are fulfilled by customer. Then the bank authority finds that

the person has capability to do a small profitable business and he also needs financial assistance to extend his business. But after taking loan from bank, the client intentionally invests it in the stock market instead of investing in his business extending purpose. Here, the client violates the conditions of credit. Ultimately, the bank confronts with problems to take installment if the client fails to pay the installment within the specific time.

Chapter Six

Recommendations

While workings at MBL, there were certain things that came in front of my eyes which I have mentioned in findings, I think MBL should consider those criteria for the development of credit management. Perhaps MBL has its own options and strategy to follow in these issues, however I am not fully acknowledged about those. Here are some recommendations as per my findings-

❖ **The bank must analyze all evidences of mortgaged property:**

As title of mortgaged properties may have complexity, so a comprehensive and accurate appraisal of the property in every credit proposal of the bank is important and mandatory.

No proposal can be put on place unless there has been found a complete, accurate evaluation of property. In order to safeguard the mortgage over the entire period of the advance, a comprehensive view of the capital of borrower, adequacy, and nature of security should be compliance with all regulatory/legal formalities and condition of all documentation. It is absolute responsibility of the Credit Officer to ensure that all the necessary documents are analyzed properly before the loan is placed for approval. On the other-hand, where Loans/Advances/Credit facilities are granted against the guarantee of the third party, that guarantor must be subject to the same credit assessment as made for the principal borrower.

❖ **Valuation task should be assigned to confident party:**

Sometimes the bank becomes swindled by valuation party. So the bank must assign property valuation task to that kind of confident party who strictly follows the terms and condition in evaluating proper value of the property, assets as well as maintaining confidentiality.

Enlisted Surveyor Company approved by the bank should make valuation of property and properly assess the quality and priority of the proposed security. The bank should keep a pleasant relationship with valuation party in order to acquire proper valuation.

❖ **The bank should being independent from pressures:**

Credit proposals should not be influenced by any political person whether it is the matter between bank and client. It also should not be affected by the sponsored principal's reputation, reported independent means or by the banks of owner side. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals supported by a systematic financial and credit risk analysis.

❖ **The bank must keep close follow-up after the disbursement:**

The loan should be utilized for the specified purpose for which it has been sanctioned. Furthermore, the bank must be vigilant so that the disbursed funds for a particular purpose are not diverted elsewhere without their knowledge. Otherwise, the aim of the advance would be missing. Here, bank should keep follow-up so that the bank does not lose the fund because of the misuse or abuse of the borrower. Classification of advances may be avoided by properly and timely follow up – so it can be said, “A stitch in time saves nine.” For instance, to follow-up the existing borrowers, the historic performance in meeting

repayment obligations (payment of installments, cheque, interest and principal payments etc.) should be assessed. In this regard the Credit Officer may look into the account turnover like debt summation/credit summation/highest debit balance/highest credit balance (or lowest debit balance), number of debit entries/ number of credit entries for last year (year wise).

Therefore, the bank must accept any difficulties and think of them as objective to pursue future goals by solving the problems instead of blaming other factors and MBL must be able to keep on playing its important roles in our economy.

Conclusion

Conclusion

Mercantile Bank has established credit relationship with many reputed multinational companies, semi-government organization as its customer group ranges from individuals, organizations and small businesses covering all sectors of Corporate and Retail businesses. MBL has aim to contribute in potential sectors like as agriculture, electronics, SME, healthcare etc. by providing not only credit services but also taking essential steps to expand these sectors through participating actively in economic development of the country.

Though MBL has been facing a number of problems regarding to credit service, it has been able to achieve “AA-” credit rating in last two consecutive years which indicates a banking entity with high credit quality, higher safety and have superiority in customer service. In believing, MBL will make a positive attempt to be more outward looking in their goals and emphasize on the domestic scenario more closely and analyze any certain trends and strategies of their competitors.

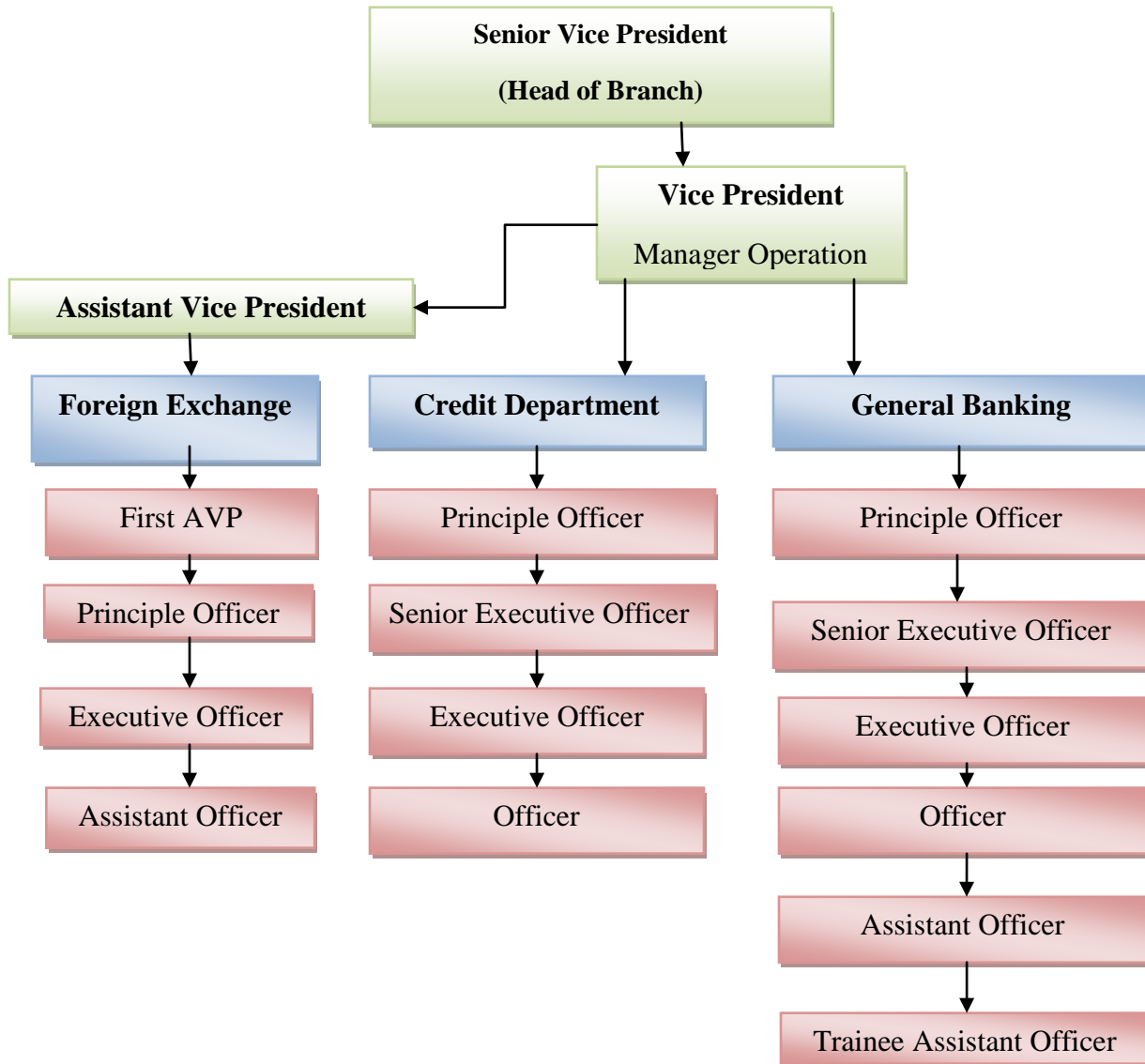
Appendix

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Appendix-I

Operational Network Organogram



Appendix-II

SWOT Analysis of MBL

<u>STRENGTHS</u>	<u>WEAKNESS</u>
<ul style="list-style-type: none"> ➤ Top management ➤ Satisfactory asset quality. ➤ Good internal capital generation. ➤ Satisfactory operating efficiency ➤ Diversified product lines ➤ Low human resource turnover ➤ Experienced Management Team ➤ Favorable reputation in the banking industry ➤ High growth rate ➤ Interactive corporate culture 	<ul style="list-style-type: none"> ➤ No long-term strategies ➤ Failed to provide a strong quality-recruitment policy in the lower and some mid level position ➤ Service quality of this bank is good but not high as the customers' expectation ➤ Having a group of unsatisfied employees. ➤ Low promotional sector
<u>OPPORTUNITIES</u>	<u>THREATS</u>
<ul style="list-style-type: none"> ➤ Merchant banking or diversify into leasing and insurance sector. ➤ Investment in the Secondary market ➤ Opportunity in retail banking ➤ Expansion of its product line to enhance sustainable competitive advantage ➤ Introduction of special corporate scheme for the corporate customers 	<ul style="list-style-type: none"> ➤ Increasing cost of fund ➤ Increased Market competition ➤ Product Risk ➤ The default risks of all terms of loan ➤ The low compensation package of the employees from mid level to lower level position

Appendix-III

Loan Products of MBL

Consumer Credit Scheme

<u>Objectives</u>	<u>Terms & Conditions</u>
<ul style="list-style-type: none"> • Help fixed-income people for buying house hold durable. • For the amount up to Tk. 1,00,000 the period is two years. • Interest rate will be charged quarterly rest. 	<ul style="list-style-type: none"> • Interest Rate 16.00% • Risk Fund 1.00% • Supervision Charge (per year on outstanding balances) 0.25% • Application Fee BDT 200.00 Special Feature • The loan amount is directly credited to the customer's account

Small Loan Scheme:

<u>Objectives</u>	<u>Mode</u>
<ul style="list-style-type: none"> • Extend credit facility to small shopkeepers. • Give collateral-free credit 	<ul style="list-style-type: none"> • Maximum amount of loan Tk. 2, 00,000. • Interest Rate 16.00% & Risk Fund 1.00% • Service Charge 0.25% per year on outstanding balances • Loan Limit BDT 2.50 Lac • Repayment period 3 years & Interest rate will be charged at quarterly rest.

Lease Finance:

<u>Objectives</u>	<u>Terms & Conditions</u>
<ul style="list-style-type: none"> Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc. 	<ul style="list-style-type: none"> Lease period 3 to 7 years Lease rent @ 16.00% Risk Fund 1.00% Service Charge 0.25% per year on outstanding balances.

Doctors' Credit Scheme

<u>Objectives</u>	<u>Terms & Conditions:</u>
<ul style="list-style-type: none"> Help new F.C.P.S. or post-graduate doctors for setting up chambers and buying medical equipment. Help experienced doctors for refurbishing chambers and buying medical equipment. Assist private clinics for acquiring modern medical equipment. Interest rate will be charged at quarterly rest. 	<ul style="list-style-type: none"> Equity» For new doctor 10%» For experienced doctor 15%» For Hospital, Clinic and Diagnostic Center 20% Interest Rate 16.00% Risk Fund Tk. 1.00% Repayment period 5 years Credit limit »New doctor 5.00 Lac.» Experienced doctor 15.00 Lac.» Hospital, Clinic and Diagnostic Center 50.00 Lac. Service Charge / Ledger Fee 0.25% per year on outstanding balances.

Rural Development Scheme

<u>Objectives:</u>	<u>Terms & Conditions:</u>
<ul style="list-style-type: none"> • Raise the standard of living of rural people. • Initiative to break the vicious cycle of poverty. • Enhance the purchasing power of rural people. 	<ul style="list-style-type: none"> • Group formation <ul style="list-style-type: none"> » 30 person in a group 1 group leader » 6 sub-groups consisting 5 person each in a group » 1 sub-group leader in each sub-group • Credit limit <ul style="list-style-type: none"> » Maximum Tk. 5,000 per person. » Gradually enhance able up to Tk. 10,000. • Interest Rate 14.00%. • Risk Fund 1.00. • Service Charge 0.25% per year on outstanding balances. • Repayment period 1 year. • Security: Group guarantee, no collateral

Personal Loan Scheme

<u>Objectives</u>	<u>Terms & Conditions</u>
<ul style="list-style-type: none"> • Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc. 	<ul style="list-style-type: none"> • Lease period 3 to 7 years • Lease rent @ 16.00% • Risk Fund 1.00% • Service Charge 0.25% per year on outstanding balances.

Car Loan Scheme

<u>Objectives</u>	<u>Terms & Conditions</u>
<p>Help fixed-income people for buying car</p> <ul style="list-style-type: none"> • Interest rate will be charged quarterly rest. 	<ul style="list-style-type: none"> • Maximum loan amount is BDT 25.00 lacs. • Tenure of loan is 05 (Five) years • Interest Rate 16.00% • Risk Fund 1.00%

Small and Medium Enterprise (SME) Loan Scheme

<u>Objectives</u>	<u>Terms and conditions</u>
<ul style="list-style-type: none"> •Contribute to the socio-economic development of the country. •Encourage small and medium industry especially agro-based industry of the country. •Participate in reduction of poverty through employment generation and income generating projects. 	<ul style="list-style-type: none"> •Maximum loan amount is BDT 50.00 lacs. • Tenure of loan is 08 (Eight) years • Interest Rate 18.00%/18.50% • Risk Fund 1.00%

Woman Entrepreneurs Development Scheme

Women Entrepreneurs Development Scheme has been introduced to encourage women in doing business. Under this scheme, the Bank finances the small and cottage industry projects sponsored by women.

Home Loan Scheme

To meet the growing need of housing for middle and lower-middle income people, MBL has introduced Home Loan Scheme. The Scheme boosts up the growth of housing sector. Such loan shall be available for purchase or construction of new apartments for self-residing purpose.

Appendix-IV

Loan Facility Parameters of MBL:

The Loan facility parameters for the Bank have been set as under:

- a) The Bank in general will approve / renew trade finance facility for the period of 01 (one) year from the date of approval / last expiry date.
- b) The Bank will extend medium term loan for 3(three) years period.
- c) The Bank will extend long term loan for maximum period of 7 (seven) year including grace period of 6(six) months to 18(eighteen) months (depending on the nature of Project) for project finance but in case of need, in syndication or club financing, the Bank may extend the period of loan up to+ 8(eight) years or as per consensus of the syndicated members. However, in case of House Building Loan (General), the repayment period will be maximum of 15(fifteen) years.
- d) House Building Loan to Bank's employee shall be governed as per policy guidelines of "Employees House Building Loan" scheme.
- e) Besides above, the Bank will extend credit facilities under special program like Consumer Credit Scheme, Small Loan Scheme, SME Financing, Doctor's Credit Scheme, Women Entrepreneurship Development Project, Personal Loan, Car Loan, House Building Loan (General) / Mortgage Loan, NBFIs as per policy set / to be set by the Bank under the policy guidelines of the specific scheme.
- f) The rate of Interest / Commission / Charges / Fees etc. would be as per the approved schedule of charges with variation permissible as per Bangladesh Bank guidelines and with the approval of competent authority.
- g) The interest rate to be charged and to be paid out on quarterly basis except the especial schemes and unless otherwise specified in the approved terms.
- h) Repayment of term loan would be fixed preferably on monthly/quarterly basis.
- i) In general, the cash margin for L/C would be 10% of the L/C amount or on the basis of Banker – Customer relationship subject to the minimum requirement of Bangladesh Bank whichever is higher.

- j)** For the import of Capital machinery, the cash margin for L/C would be 25% - 30% or on the basis of Banker – Customer relationship subject to the minimum requirement of Bangladesh Bank whichever is higher.
- k)** Any exception, as mentioned above, would be specifically approved by the competent authority of the Bank.
- l)** Security accepted against credit facilities shall be properly valued and shall be effected in accordance with Laws of the country in which the security is held. An appropriate margin of security will be taken to reflect such factor as the disposal costs or potential price movements of the underlying assets. Accepted Securities are: Cash/Cash equivalent, Land and Building (in the form of registered mortgage with registered IGPA), hypothecation / ownership of Plant and Machinery, stock of goods, assignment of bills / receivables, book debts, pledge of shares, guarantee / Corporate Guarantee, etc.
- m)** Valuation of the lended property/Building/Machinery/Stock of Raw materials/Finished products shall be done by the Bank’s enlisted professional surveyors duly checked by the Bank officials.
- n)** Mortgage formalities including execution of registered irrevocable power of attorney must be completed as per legal vetting of the Bank’s approved/enlisted Lawyer.
- o)** The value of the mortgage property shall be preferably double of the facility to be extended depending upon other security coverage.
- p)** The security condition may be relaxed depending upon the Credit worthiness of the customer / Banker-Customer relationship / potentiality of the business of the client.
- q)** Any exception of the parameters mentioned above are subject to be approved by the competent authority as per delegated power approved by the Board of Directors

Appendix-VI

Laws relating to the advance:

MBL strictly follows all the laws and regulation for making loan/credit disbursement according to these orders and acts-

- The Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972)
- The Bangladesh Coinage Order, 1972 (P.O. No.83 of 1972)
- The Bangladesh Currency Order, 1972 (P.O. No. 84 of 1972)
- The Bangladesh Banks (Nationalization) Order, 1972 (P.O. No. 26 of 1972)
- The Banking Companies Act, 1991
- The Financial Institutions Act, 1993
- The Securities & Exchange Commission Act, 1993
- The Contract Act, 1872
- The Negotiable Instruments Act, 1881
- The Trust Act, 1882
- The Transfer of Property Act, 1882
- The Bankers Books Evidence Act, 1891
- The Stamp Act, 1899
- The Limitation Act, 1908
- The Registration Act, 1908
- The Public Demand Recovery Act, 1913
- The Insolvency Act, 1920
- The Succession Act, 1925
- The Sales of Goods Act, 1930
- The Partnership Act, 1932
- The Foreign Exchange Regulation Act, 1947
- The Export Import Controls Act, 1950
- The Money Loan Court Act, 1990
- The Companies Act, 1994
- The Customer Act, 1969
- The Income Tax Ordinance, 1984
- The Industrial Relations Ordinance, 1969
- The Criminal Procedure Code, 1898—some important sections
- The Bangladesh Penal Code, 1860—some important sections
- The Law of Evidence, 1872
- The Bankruptcy Act, 1997

Appendix-V

A Sample Case of Loan Creation By MBL

Mr. K.M. Tanvir is the proprietor of 'Kazi Enterprise'. Kazi Enterprise is a toy wholesaling enterprise. It has an own showroom. It has also a warehouse which is run on rent. Mr. K.M. Tanvir has seven (07) years experience in this business. He has a Current Deposit (CD) account in the Kawran Bazar branch of MBL in the name of '**Kazi Enterprise**'. Mr. K.M. Tanvir required a sum of money as working capital because of expansion his business. He applied to the bank for a loan in valued BDT 8.00 lac. Kazi Enterprise is a small enterprise with fixed asset in valued BDT 20 lac and has only ten (10) workers.

Now here is an explanation that how this loan has been processed by the branch and Credit Division of MBL-

Step 1- Firstly, a loan application was submitted by Mr. K.M. Tanvir and received by the bank officials.

Step 2- From this step, proposal preparing process was started. In this step, borrower was evaluated on the basis age of the business, nature, form and legal papers of the business. On these terms, Kazi Enterprise had to fulfill all the requirements.

Mr. K.M. Tanvir submitted the required papers. Some of these are-

- A. Last year's income statement
- B. Last year's balance sheet
- C. Price & list of inventory
- D. Bank solvency certificate

There were also some important documents verified by the loan officer like- trade license, TIN certificate, VAT certificate, rental deed etc.

Step 3- Then loan officer obtains borrower's credit information from Credit Information Bureau send it to Bangladesh Bank for clean CIB report.

Step 4- Kazi Enterprise presented three (03) guarantors on behalf of the borrower. One person of them is a physician and another person is a businessman of his area. Both of them fulfilled all the requirements as guarantor. Another guarantor is Mr. K.M. Tanvir's wife.

Step 5- Then the bank went to the borrower's business site to evaluate the business and its condition.

Step 6- Then loan officer verified all documents. After all verifying, loan officer sent the proposal to the Credit Division, Head Office. After some days, Credit Division sent the sanction letter. Credit Division sanctioned a loan valued BDT 2.00 lac. NPV, IRR, installment amount were calculated by the officer of Credit Division.

General information about the sanctioned loan as follows-

- A. Sanctioned Amount – 8.00 lac,**
- B. No. of installment- 36,**
- C. Rate of interest- 15%,**
- D. Installment amount- Tk. 27,733,**
- E. Processing fee charged- Tk. 500,**
- F. Risk Fund: 1%,**
- G. Service Charge- 1%**
- H. Application Fee- Tk. 200.**

Credit Division also gave the permission to disburse the loan

Step 7- A master file opened and all the related papers were attached with that file. Then, a controlling loan account no. was given by the loan officer.

Step 8- Mr. K.M. Tanvir, owner of the Kazi Enterprise and officers signed the charged documents and loan officer put them in the file. Guarantors also had to sign in charged documents.

Step 9- Loan officer opened the account in the name of Kazi Enterprise and put the limit of amount over there. After that, loan officer issue the check book and gave it to Mr. K.M. Tanvir. The loan officer will receive postdated check leafs each of them is equal to installment amount and one undated check leaf which is equal to the whole loan amount.

Therefore, this is the full sample process of lending to the clients.

Appendix-VI

MBL at a Glance

Name	Mercantile Bank Limited
Status	Public Limited Company
Date of Incorporation	May20, 1999
Date of Commencement	June 02, 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, Dilkhusa Commercial Area, Dhaka-1000
Founder Chairman	Late Md. Abdul Jail
Present Chairman	Alhaj Akram Hussain (Humayun)
Managing Director	M. Ehsanul Haque
Number of Branches	86
Number of Employees	1668
Services Provided	Deposit Scheme, Credit Facility and Foreign Exchange Services
Diversification of Product and Services	Corporate Banking and Retail Banking
Technology Used	Member of SWIFT, Online Banking, UNIX Based Computer System
E-mail	mbl@bol-online.com
Website	www.mblbd.com
SWIFT	MBLBDDH

Appendix-VII

Credit Rating of MBL

Year	Long Term Rating	Short Term Rating
2012	AA-	ST-2
2011	AA-	ST-2

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