

**Internship Report**  
**On**  
**Credit Management of Mercantile Bank Limited**



**Submitted To**  
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**Submitted By**  
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ID: 10204094

Date of Submission: 19<sup>th</sup> February, 2015

## **Letter of Transmittal**

19<sup>th</sup> February, 2015

Mr. Tahsan Rahman Khan

Senior Lecturer

BRAC Business School

BRAC University

Subject: Submission of Internship Report.

Dear Sir,

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

This report is based on the knowledge and experiences I have gained 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,

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Kamrul Hasan Nahid

ID: 10204094

### **Letter of Acceptance**

This internship report is entitled “Credit Management of Mercantile Bank Limited” is prepared with thoughtful and relevant document under my direct supervision. This report is submitted by Kamrul Hasan Nahid a student of Bachelor of business Administration (BBA), BRAC University, ID No: 10204094 has been accepted.

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Mr. Tahsan Rahman Khan

Senior Lecturer

BRAC Business School

BRAC University

## *Acknowledgement*

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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 Mr. Tahsan Rahman Khan, Senior Lecturer, BRAC Business School, BRAC University, who provided me guidelines, helped in preparing my report. He has supported me with his 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-operative from various respected people while preparing this report.

I would like to take the opportunity to thank Md. Ata Rabbani Chowdhury (Vice President & Head of Branch) for giving me a chance to do internship in his branch. And also want to thank Shanaz Begum (Assistant Vice President & Manager Operation) for giving me opportunity to do work in every desk.

I would like to take the opportunity to thank Md. Khairul Amin Patwery, Principal Officer, Credit Department, Mercantile Bank Limited (Narayanganj 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. Naznin Ahmed, Principle Officer, General Banking Division of Mercantile Bank Limited (Narayanganj Brance) for being so cooperative in my work while I worked with her. I also thank to Dipankar Sarker (Trainee Assistant Officer), Md. Shahidul Hoque (Trainee Assistant Officer), Md. Mosharof Hossain (Cash in Charge officer), Razon Kumar (Trainee Assistant Officer) for creating a friendly corporate environment and making me feel that corporate working is really enjoyable.

## *Executive summary*

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This report is based on “Credit Management of Mercantile Bank Limited” which is prepared from my experience of working in Credit Department at Mercantile Bank Limited. Bank’s most important works are collecting deposit from clients and giving loan to clients. Through this process banks are making their revenue. The employees of Mercantile Bank Limited are very serious about their work. They maintain a protocol to establish a good relationship with existing clients and new clients. For their good services every month MBL collected big amount deposit from clients. Managing those deposit money is very important work for any bank. MBL believe that about 80% to 90% of deposit money must be invested in loan section. This report focuses on different credit facilities provided by Mercantile Bank Limited and its overall procedure of lending.

With the clear mission provide effective banking services and to contribute socio-economic development of the country, Mercantile Bank Limited emerged as a new commercial bank and launched its operation on 2<sup>nd</sup> June, 1999. The bank has 100 branches all over the country upto 2014. Those branches are always ready to provide good services for their clients. I did my internship in MBL Narayanganj Branch, address- H. R. plaza, 64(old), 90(new), Ukilpara, Narayanganj.

First 2 month I worked in General Banking Division. Here I learned how to open an account, how to provide quick services because customer wants quick and good quality service. I also learned how to arrange supplementary, remittance process, write pay order, and register inward & outward. Last 1 month I worked in Credit and LC department. I got chance to site visit. I also learned to fill up IMP form. And gain clear idea about loan process and LC.

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

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## Chapter One

### Introduction

## **A) 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. 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 bank in our country, Mercantile Bank Limited. With the help of Md. Khairul Amin Patwery (Principal Officer) and Md. Sohel Rana (Assistant officer), Credit Department, I have performed my internship report on "Credit Management of Mercantile Bank Limited". My academic supervisor Mr. Tahsan Rahman Khan, 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.

I got the privilege to work at MBL from November 10, 2014 to February 10, 2015. 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 an intern student to be the best at any field of working life.

## **B) 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 sectors. 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 Limited.

## **C) Objective of the report:**

Objective of the report is divided into two categories. There are: general and specific objectives.

### **C.1) General Objective:**

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

### **C.2) Specific Objective:**

The specific focuses of the study are:

- To find out the overall activities of credit management system.
- To represent the procedures that bank follows for lending to the customers.
- To describe the detailed operational procedure of the different credit facilities.
- In which way MBL do site visit.
- How they recover the bad debts and get back the uncollected advances.

#### **D) Scope:**

In this report I shared my real life experience. General banking division & credit department are most important part for any bank. Here I will show you what types of worked I did in GB (General banking division) & credit department. My report is based on credit management of MBL, so I will cover the background and functions mostly on credit management system of the Mercantile Bank Limited.

#### **E) Methodology:**

The study requires a systematic procedure from selection of the topic to final 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-

##### **E.1) Selection of the topic:**

Md. Khairul Amin Patwery (Principal Officer, credit department, MBL) sir suggested me to work on this topic. He gave me support and valuable information to prepare this report. Before assigning the topic I was discussed with my academic supervisor so that a well organized internship report can be prepared.

I used both primary and secondary data to complete my report.

##### **E.2) Primary data:**

- Direct observation
- Discussion with officials of MBL
- Discussion with customer
- Direct involvement in the credit management activities in MBL

##### **E.3) Secondary data:**

- Website of Mercantile Bank Limited
- Annual report of Mercantile Bank Limited
- Office circular and other published papers and documents

#### **F) Findings of the study:**

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

#### **G) Limitations:**

There were certain limitation 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 intern student.
- ❖ Limitation of time was one of the important factors that shortened the 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 at a bank. Alike all other banking institutions, MBL is also very conservative and strict in providing financial information.

## Chapter Two

### Overview of the Organization

## **Mercantile Bank Limited**

### **1) History:**

Mr. Md. Abdul Jalil, M.P was the founder and chairman of the Mercantile Bank Limited. At present, Morshed Alam, M.P is the chairman. 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. It was listed in Dhaka Stock Exchange and Chittagong Stock Exchange on February 16, 2004 and February 26, 2004 respectively. The Bank has 100 branches spread all over the country. MBL is a highly capitalized new generation Bank with an Authorized Capital and paid-up Capital of Tk. 12,000 million and Tk. 6,599.61 million respectively. With assets of TK. 145,102,377,756 and more than 1,814 employees, the bank has diversified activities in retail banking, corporate banking and international trade.

There are 28 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 has been able to establish itself as a leading third generation private commercial bank by dint of its prudent policy guidelines coupled with proper execution, wider range of banking products and excellent customer services. The core activities of the Bank are to provide all kinds of commercial banking services including deposits mobilization, providing loans, discounting bills, foreign exchange business, off-shore banking, treasury function, card business and mobile banking. MBL caters card services to its customers by VISA dual prepaid card, VISA Dual Hajj Card, Credit Card and Debit card, and International/ Dual cards with various -to-date facilities. MBL is continuously expanding its ATM network and inking contract with the other banks with a view to making its card service more attractive and convenient to all. Except these, MBL is also providing other services through its (02) two subsidiary companies

MBL has 2 (Two) subsidiaries namely Mercantile Bank Securities Limited (MBSL) and Mercantile Exchange House (UK) Limited. MBSL formed on 27 June 2010 to deal with

stock dealing and broking. MBSL started its commercial operation on September 14, 2011 through obtaining stock dealer and broker license from concerned authorities.

Mercantile Exchange House (UK) Limited, another subsidiary company of MBL incorporated as private limited company on December 01, 2010. It commenced its business operation at Birmingham in UK on December 06, 2011. Currently, it is operating with two branches; one in Birmingham and another in London with a view to providing faster, easier and safer remittance services to the Bangladeshi expatriate living and working in UK.

MBL has broad network coverage across the country. It has 100 (Hundred) branches including 5 (Five) SME/Krishi branches as on December 31, 2014. The Bank has 2 (Two) Off-shore Banking Units (OBU) operating at Gulshan and Chittagong EPZ areas. MBL has 120 ATM booths and 20 CDMs (Cash Deposits Machine) as on December 2014 covering important locations across the country. Mercantile Bank Securities Limited (MBSL), a subsidiary company of MBL dealing with stock and broking has 7 (seven) branches across the country. Mercantile Exchange House (UK) Limited, another fully owned subsidiary company of MBL is facilitating inflow of remittance with 2 (two) branches in Birmingham and London, UK.

Number of Employee	1,814
Number of Branches	100
Number of ATMs	120
Number of Credit Cards	5,500
Number of Debit & Prepaid Cards	70,000
Total Assets (Crore)	145,102,377,756
Number of Subsidiaries	02

MBL has strong and stable credit rating over the last couple of years. Credit Rating Information and Services Limited (CRISL) has reaffirmed the long term rating of MBL to 'AA-' and short term rating to 'ST-2' based on its financial up to December 31, 2013 and other qualitative and quantitative information up to the date of rating. CRISL also placed the Bank with "Stable Outlook".

Year	Long Term Rating	Short Term Rating
Rating based on financial up to December 31, 2013	AA-	ST-2
Rating based on financial up to December 31, 2012	AA-	ST-2
Rating based on financial up to December 31, 2011	AA-	ST-2
Rating based on financial up to December 31, 2010	AA-	ST-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”.

## 3) Vision of MBL:

“Would make finest corporate citizen”

## 4) Strategic objectives:

- ❖ To increase shareholders' value
- ❖ To achieve economic value addition
- ❖ To be market leader in product innovation
- ❖ To be one of the top three financial institutions in Bangladesh in terms of efficiency
- ❖ To be one of the top five financial institutions in Bangladesh in terms of market share in all significant market segments we serve.

## 5) MBL Product & Services:

MBL has launched a number of financial products and services since its inception. These products and services are given below:

### A) Deposit Product:

- ❖ Current deposit (CD) Accounts
- ❖ Savings bank deposit (SB) Accounts
- ❖ Fixed deposit receipt (FDR)
- ❖ Scheme deposit
  - Monthly savings scheme (MSS)
  - Double benefit deposit scheme (DBDS)
  - Family maintenance deposit scheme (FMDS)
  - Quarterly benefit deposit scheme (QBDS)
  - Special saving scheme (SSS)
  - Education planning deposit scheme (EPDS)
  - Super benefit deposit scheme (SBDS)
- ❖ School Banking

### Current Deposit:

It is popularly known as Current Account. Any individual, companies, firm, are eligible to open this type of account in its own name. This is non-interest bearing account. The account holder can deposit or withdraw money from his or her account any time he or she wants. The code for CD account is 111. To open current account a customer needs:

- 2 copy picture of account holder
- 1 copy picture of nominee
- Account holders voter id card photocopy, trade license photocopy, company seal
- Nominees voter id card photocopy

### Savings bank deposit:

This is an interest bearing account and only individuals can open this type of accounts. The code for SB account is 121. Customers can deposit or withdraw money from their SB account ten times in a month.

SB account is essential if anyone wants to apply for a debit card in MBL.

### **Fixed deposit receipt:**

Individuals, Firms, Companies, Associations may open this account. The deposit is taken for a specific fixed period of time, such as 3 months, 6months, 1-year etc.

At present FDR rate is 8.75% in MBL.

### **Monthly saving scheme:**

MSS is one of the popular deposit schemes of MBL. The prime objective of this scheme is to encourage the people to develop their habit of saving. Under this scheme, monthly installments are in various sizes and one can adopt the schemes for a period of 03 tears, 05 years, 08 years or 10 years. Total outstanding balance against MSS account was BDT 26,704 million as on December 2013 registering 10348% growth over the year.

মেয়াদ/মাসিক কিস্তি	২৫০	৫০০	১,০০০	১,৫০০	২,৫০০	৫,০০০	১০,০০০	১৫,০০০	২০,০০০	২৫,০০০
০৩ বছর	১০,৫২৭	২১,০৫৫	৪২,১১০	৬৩,১৬৫	১০৫,২৭৪	২১০,৫৪৭	৪২১,০৯৪	৬৩১,৬৪১	৮৪২,১৮৮	১,০৫২,৭৪৪
০৫ বছর	১১,৫০৫	২৩,০০৯	৪৬,০১৮	৬৯,০২৮	১১৫,০৪৬	২৩০,০৯০	৪৬০,১৮০	৬৯০,২৭০	৯২০,৩৬০	১,১৫০,৪৫০
০৮ বছর	১২,১৩৫	২৪,২৭০	৪৮,৫৪০	৭২,৮১০	১২১,৩৫০	২৪২,৭০০	৪৮৫,৪০০	৭২৮,১০০	৯৭০,৩৫০	১,২১৩,৫৫০
১০ বছর	১৩,০১০	২৬,০২০	৫২,০৪০	৭৮,০৬০	১৩০,১০০	২৬০,২০০	৫২০,৪০০	৭৮০,৬০০	১,০৪০,৮০০	১,৩০১,০০০

### **Super benefit deposit scheme:**

Under this scheme, one can earn BDT 1,000 on monthly basis by depositing BDT 125,000 for one year provided that he/she up-to-date TIN certificates. Benefit start right from the first month of opening an account under the scheme and continue up to one year.

### **Double benefit deposit scheme:**

Under this scheme, deposit amount will be double in tenure of seven year. Minimum deposited amount is BDT 10,000.

### **Family maintenance deposit scheme:**

Under this scheme, one can deposit a certain amount of money for 3 or 5 years and in return he/she will receive benefits on monthly basis.

### **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.

### **Education planning deposits scheme:**

This scheme aims to meet the education expenses of depositor's children. A person aging 40 years or less can open this scheme for 10 or 15 years for is children. At maturity he will paid 200% of the installment for further 10 years for 10 years; scheme and 350% of the installment amount for further 15 years for 15 years' scheme.

### **School banking:**

Student can open Savings account. After the age of 18, this account will close automatically. In this time, bank will not take any charges. Cheque book will not provide. Student can use debit card.

### ***B) Loans & Advances:***

#### **• Retail Loans**

- Consumer credit scheme
- Lease finance
- Car loan scheme
- Home loan scheme
- Doctors' credit scheme
- Any purpose loan ( personal loan scheme)
- House furnishing loan
- Overseas employment loan scheme

- Cottage loan
- Education loan
- Rural development scheme
- **Corporate loans**
  - Short term finance
  - Long term finance
  - Real estate finance
  - Import finance
  - Construction business
  - Export finance
  - Structured finance
  - Loan syndication

**SME Financing:**

- Chaka (Term loan)
- Samriddhi (Continuous loan)
- Mousumi (Short term seasonal loan)
- Anannya (Women entrepreneur's loan)

**Agriculture loan:**

- Nabanno (Polli loan)
- Sakti (Solar energy loan/Bio gas)

***C) MBL Card:***

- ✓ Debit card
- ✓ Credit card (Local card, international card, Dual currency card)
- ✓ MBL pre-paid card (Student card, hajj card, travel card)

***D) E-banking services:***

- Online banking
- Mobile financial services (My Cash)
- NRB banking
- Locker services

### **Online banking:**

Online Banking has been activated in all Branches of the Bank from January 01, 2006. Online service is now available for all customers - Both Cash deposit and withdrawals, Cheque Deposits and Transfer in CD, SB, STD, Loan accounts (Cheque Bearing within limit) and Monthly Savings Scheme (MSS). Most customers are like MBL because of its suitable online banking services. Charges for online banking is free. MBL is using PCBank2000 software, but now 78 branches using TEMENOS T24 software. In Narayanganj MBL Branch, they are using PCBank2000. Within 2015, MBL all branches will cover by TEMENOS T24. TEMENOS T24 is more secured then PCBank2000.

### **My Cash:**

MBL launching its own mobile banking services “My Cash” in a bid to fulfill its vision of “Inclusive Banking”. In mobile banking system, basic mobile handsets are being used as bank accounts and will serve as a wallet for the transaction of money. This service will cater the much needed domestic and international money transfer services through mobile phones for all categories of people. MSS deposit holder can easily deposit their money in bank by using My Cash.

### **NRB division:**

Remittance is the largest sources of earning net foreign currency, appreciating this importance to the cause of national economy, since inception MBL has given utmost priority to pave the way of remitting hard earned foreign exchange by the expatriate Bangladeshi worker in a safe and speedy manner using banking channel.

During the year 2014, MBL has executed money transfer arrangement with as many as 28 Overseas Exchange Companies based in USA, UK, CANADA, ITALY, UAE, QATAR, OMAN & MALAYSIA. Apart from this, MBL has established institutional relationship with 10 reputed global web based companies namely

- Western Union
- Money gram
- RIA financial services
- X press money
- Placid express

- Trans fast remittance
- Prabhu money transfer
- Al ansari
- NEC
- Instant cash worldwide

### **Locker services:**

Some branches are providing locker services. MBL Narayanganj Branch does not provide locker services.

### **6) Corporate social responsibility:**

Being a corporate citizen, MBL plays an important role for well-being of the society where it conducts business, MBL believes that, true success does not consist in profit maximization only rather in doing something for the betterment of deprived part of the society. With this consideration, MBL has established a foundation in the name and style, “Mercantile Bank Foundation” in 2000. MBL contributes 1% of its Operating Profit to the Mercantile Bank Foundation every year but not less than BDT 4 million. Poor children get education facilities through Mercantile Bank Abdul Jalil Education Scholarship. In this winter, Narayanganj branch MBL distributed 350 blankets to the poor people.



## 7) Department of MBL

In branch level, MBL has three departments. Those are:

1. General banking
2. Credit department
3. Foreign exchange department

### Major function of general banking:

- Account opening
- Interbank transaction
- Remittance

### Major function 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

## Chapter Three

### Internship Experience

## **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 Narayanganj Branch from November 10, 2014 to February 10, 2015 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.

### **A) General banking division:**

At the beginning of internship period, I worked in General banking division about 2 months. Naznin Ahmed (PO), Dipanker Sarker and Razon Kumar help me best to learn general banking work. Every banker must need to keep knowledge about General banking division. It is the introduction of banking service. Now I will explain my experiences in bellow:

#### **1) Account opening:**

when a customer want to open a savings account, I told him/her to bring his/her 2 copies picture, nominee's 1 copy picture, their voter id card's photocopy, if they have no voter in card then we need their birth certificate photocopy. Then I register his/her name under a number. This is known as account number. Such as, 015012100013882 is an account number. Here 0150 in the branch code, 121 is the savings account code and 00013882 is the serial number. After register the number, then I am writing all information in account opening form, then I told to customer to sign in form. A customer will give 3 signatures in signature card, 2 signatures for cheque requisition, 1 signature in a letter, 4 signatures in account form (1 signature is under the nominee information, which verify that nominee's information is correct, another signature is under the account holder information, which verify that account holder's information is correct, another signature I under the transfer payment information,

which represent that account holder is agree with TP, at the last page account holder gave a signature, which represent account holder is accepting all rules and regulation of MBL) . If customer want debit card, then they will give a signature in debit card form.

After took all information I am opening this account in PCBANK2000 and update all information, then I am sending this form to Principal officer (Nazneen Ahmed), madam check all information, if she found any missing then she back this form to me for further collection and if all information is correct then she send this form to Assistant vice president (Shanaz Begum). After verifying by AVP, she will send this form to Vice president (Md. Ata Rabbani Chowdhury). After verifying by Sir then this form will keep in safe place

## **2) Inward & outward:**

Every day many file, letter was came from outside office and many file, letter we were send to other bank, individual, organization from my branch. Bank is keeping this all record through inward & outward. When any file, letter came from outside then we were record this in inward. And when we send any file, letter from my branch, we were keep record in outward.

## **3) Supplementary:**

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.

### **B) Clearing Department:**

A bank is collecting money in 3 ways. By Cash, transfer and clearing, bank is collecting money. The main job of clearing department is collecting money from other bank. Here Bangladesh bank is the middle man. There are 2 types of cheque came in clearing department.

- 1) **Outward:** Such as, a customer has account in Mercantile Bank. This customer got a Dhaka Bank cheque from his customer (Dhaka bank account holder). Now MBL customer gives this cheque in clearing department. At this time clearing officer send this cheque to the Bangladesh Bank. Then Bangladesh Bank will send this cheque to the Dhaka Bank. Then Dhaka bank will Debit his customer account and send this money to Bangladesh Bank and then Bangladesh Bank send this money to MBL. Then MBL will Credit his customer account and give this money to his customers.
- 2) **Inward:** Such as, MBL customer **A** gives his cheque to his customer **B**. **B** has an account in Dutch Bangla bank. **B** gives this cheque in Dutch bangle bank clearing department. Dutch bangle bank clearing officer will send this cheque to Bangladesh Bank, and then will send this cheque in MBL. MBL will debit **A**'s account and send this money to Bangladesh Bank and Bangladesh Bank will return money to Dutch bangle bank. Then Dutch bangle bank will credit **B**'s account and give money to **B**.

### **C) Cash Department:**

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. From 1<sup>st</sup> day to 10<sup>th</sup> day of every month is considered as DPS collection period. From 1<sup>st</sup> day to 5<sup>th</sup> day of every month our branch receive IPO share from customers. After receiving IPO share, I gave them serial number, my signature and received seal. Then I was posting IPO share in MS Excel. After posting those share, branch cash in charge printed 2 set of MS Excel file. One set send to IPO issuing company and another set he send in Head office.

**D) Credit Department:**

I worked 2 week in this department. My job was to prepare file for applicants with the corresponding papers (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 fill up some SME (Small Midterm Enterprise) forms. This form is different from savings account form. I also fill up some personal loan forms. I also write CIB (Credit Information Bureau) form. One day I went to site visit with my sir (Md. Khairul Amin Patwery, Principal Officer). I was visit 3 customers business area. I saw their business and visited their property which they want to give mortgage.

**E) Foreign exchange department:**

Foreign exchange is a vast department in MBL. Last 3 weeks I worked in Foreign exchange department. My job was to prepare the Letter of Credit (L/C) files for the clients with corresponding papers (commercial invoice, pro-forma invoice, L/C opening forms etc.). From 29<sup>th</sup> January to 4<sup>th</sup> February I completed 24 IPM form. I know the whole process of IMP submission. My sir (Md. Shahidul Hoque) was give me instruction who to fill up IMP (Import Permission) form. I also gained knowledge about Letter of Credit, Master L/C, Back to Back L/C. MBL Narayanganj branch is an AD branch. AD means authorized Dealer. Banks need permission from Bangladesh Bank to do foreign exchange trade (open LC, Import, Export). Those bank have this permission, they are authorized dealer of Bangladesh Bank. MBL narayanganj branch AD code is 1762 and swift code is MBLBBDDHO17.

## Chapter Four

### **Credit Management of Mercantile Bank Limited**

### **Loans & Advances:**

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 reduction 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 MBL Narayangonj Branch's Credit Department, there are 3 (Three) 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 loan (credit) to customers and receiving loan 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.

Mercantile Bank Limited provides different types of loan. Those loan products are given below:

- **Retail Loans**

1. **Consumer credit scheme:** Consumer's credit scheme is one of the popular areas of collateral free finance of the bank. People with limited income can avail the credit facility to buy household goods including computer and other durables. Maximum loan limit is 1 lac.
2. **Lease finance:** This scheme has been designed to assist and encourage the genuine and capable entrepreneurs and professionals for acquiring capital machineries, medical equipment, computers, vehicle and other items.
3. **Car loan:** Car loan has been introduced to enable middle income people to purchase cars. MBL maintain some condition in car loan. Such as, a car price is 20 lac. Here bank will provide 10 lac, because in car loan bank will give loan 50% of the car. Maximum car loan limit is 20 lac.
4. **Home loan:** To meet the growing need of housing for middle and lower income people, MBL has introduced home loan scheme. Such loan will be available for purchase or construction of new apartments for self residing purpose. Bank will take mortgage against home loan.
5. **Doctor's credit scheme:** Doctor's credit scheme is designed to facilitate financing to fresh medical graduates and established physicians to acquire medical equipments and set up clinics and hospitals.
6. **Any purpose loan (personal loan scheme):** Personal loan scheme has been introduced to extend credit facilities to cater the needs of low and middle income group for any purpose. Maximum loan limit is 15 lac. Bank will not take any mortgage against this loan.
7. **Overseas employment loan scheme:** This scheme is designed to facilitate the Bangladeshi youths seeking employment abroad but who are unable to meet the expenses to reach the workplace from their own sources. By availing loan under this scheme, the active youths of middle and lower class can get overseas employment by avoiding borrowing from the mohajon at high cost or selling their paternal properties.
8. **Cottage loan:** 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.

**9. Rural development scheme:** This scheme is targeted for the rural people of the country to make them self employed through financing various income generating projects. This scheme is operated on group basis.

- **Corporate loans**

**A) Short term finance:** Short-term loans are used to finance inventory, account receivables or other current assets to finance the working capital requirement. The time period of short term loan is 1 month to 1 year. Forms of short-term loan are given below:

- **Cash Credit (CC):** Cash credit account is like a current account with a limit up to which one can withdraw from the bank. Cash credit is normally sanctioned for a period of one year where a regular limit is sanctioned against goods to meet day to day expenses of business.
- **Secured overdraft (SOD):** When overdraft is allowed against lien of FDR or other financial instruments, it is termed as Secured Overdraft (SOD). Secured Overdraft (SOD) facility to the borrower may be allowed generally in the following ways:
  - i. Overdraft against guarantee
  - ii. Overdraft against FDR in the name of borrower
  - iii. Overdraft against savings certificate
  - iv. Overdraft against DPS
- **Bill discounted and purchased:** Mercantile Bank gives advances to customers by discounting or purchasing their bills of exchange. Such bills of exchange arise out of commercial transactions both in inland trade and foreign trade.

**B) Long term finance:** Long-term loans are used to finance equipment, real estate and other fixed assets. The forms of long-term loan are given below:

- **Lease financing:** Under lease financing we cover equipment/vehicle financing. It is a term financing repayable through lease rental in the form of equal monthly installments. Ownership of the leased out vehicle under the lease agreement covering comprehensive risks belongs to the Bank.
- **Hire purchase:** This is also given to procure equipment/vehicle. Ownership of the equipment/vehicle to be purchased under the hire purchased agreement covering

comprehensive risks belongs to both the banker and customers. Hire purchase facility is repayable by depositing equal monthly installments (including principal and interest amount).

- **Term loan:** This facility is used to meet the expenditure of civil construction and other infrastructure development. Term Loan facility is repayable by depositing equal monthly installments.

**C) Real Estate finance:** This form of credit facilities is allowed to individual's /groups/ Developers for construction of building and completion of finishing works to be used for commercial purposes.

**D) Import Finance:** Importers are given this sort of facility to import different commodity items, capital machinery and any other permissible items. L/C related shipping document is kept as primary security. Cash margin and counter guarantee are obtained from the customer to secure its position. Two types of L/C facility are provided:

- Sight L/C- payment should be made just after receiving the documents
- Deferred L/C-the beneficiary allows the importer time to pay the documents

**Loan against trust receipt:** Loan against Trust Receipt (LTR) is a funded facility provided to importer to retire L/C related shipping documents. Advance against a LTR obtained from the customer is allowed when the documents covering an import shipment are given without payment. The customer holds the goods or their sale proceeds in trust for the bank until the LTR is fully paid off. Letter of Trust Receipt is kept as primary security, which creates the banker's lien on the goods. LTR facility is adjusted from sale proceeds of Imported goods or cash from own sources of the customer within the validity. Validity of the LTR A/C vary from 30 to 180 days depends on the nature and amount of items imported or as per Bangladesh Bank guidelines.

**E) Export finance:** Mercantile Bank always gives priority to its export-oriented customers. Export finance constitutes an important part of an exporter's requirement of finance. Exporters require finance at two different stages of their export operation. At each phase, exporter's need different types of finance:

- **Back To Back L/C:** The export letter of credit backs a second letter of credit which is used to pay a supplier. When the exporter received a export letter of credit from the overseas buyer for export of goods, but the concerned exporter are not the actual

manufacturer/ producer of the exportable goods. He is required to collect the goods/ raw materials from the actual producer/ manufacturer. In such a situation the exporter request his bank to open a letter of credit in favor of the actual producer against the export letter of credit he has obtained. In this situation bank open a letter of credit in favor of the actual producer of the goods keeping the export letter of credit as security. Since the letter of credit on the strength of and backed by the export letter of, the second letter of credit called back to back letter of credit. Bank may provide pre-shipment credit facilities up to 90% of export order including BTB LC. However banks are generally not in favor of back-to-back letters of credit as a means of financing export transactions due to risk they are exposed to.

Papillon knit composite ltd is the main exporter customer of MBL narayanganj branch. When papillon found a LC from foreign importer, then papillon take loan against this LC. This whole process is called export financing. Papillon also give loan to other manufacturers against this L/C, it's called Back to Back L/C.

- **SME Financing:**

Product program guidelines for SME financing of MBL are designed and developed to meet up all types of justified business requirement of SME customers. However, the features of the products so far developed may be changed, revised, while new products can also be developed to cope with the market demand as per guidelines for Bangladesh bank and banks own policy. The existing products are:

- 1) **Chaka (Term loan)** : The purpose of this loan are:
  - a) For expansion & smooth running of the existing business.
  - b) To purchase capital machinery or fixed assets of the business.
  - c) To purchase light or heavy vehicles for business use.
  - d) To set up financially, economically and commercially viable and justified new business.
- 2) **Anannya (Women entrepreneur's loan):** About 50% of our total populations are women their active role as entrepreneur in not at all significant. For balanced & sustainable economic growth with inclusiveness of all classes people of the society, active involvement of women in the business in immediately required and our bank has given highest priority for financing to the women entrepreneurs offering a loan facility under the name "ANANNYA".

- 3) **Samriddhi (Continuous loan):** Small and medium entrepreneurs need working capital at anytime to penetrate into prevailing business opportunity and to run the existing business smoothly. For the purpose of helping SME customers to operate their business uninterruptedly, MBL has introduced “SAMRIDDHI”.
- 4) **Mousumi (Short term single payment loan):** Seasonal products or crops as well as religious and cultural festivals create short term additional business opportunity for small and medium entrepreneurs of our country. To fulfill SME customers demand MBL provides MOUSIMI loan.

SME financing product at a glance:

Subject	CHAKA	ANANNYA	SAMRIDDHI	MOUSUNI
Size	Tk .50-70 lac for SE	Tk .50-50 lac for SE	Tk .50-50 lac for SE	Tk .50-50 lac for SE
	Tk 50-100 lac for ME	Tk 50-100 lac for ME	Tk 50-100 lac for ME	Tk 50-100 lac for ME
Tenure	1-5 years			
Grace period	Maximum 6 months	Maximum 6 months	Nil	Nil
Interest rate	15%-16%	10%	15%-16%	15%-16%
Penal interest	2% higher on overdue amount	16% on overdue amount	2% higher on overdue amount	2% higher on overdue amount
security	PG, cheques plus others as applicable	PG, cheques plus others as applicable	RM, IGPA, PG, cheques plus others as applicable	RM, IGPA, PG, cheques plus others as applicable

- SME= Small & Medium enterprise
- SE=Small enterprise
- ME=Medium enterprise
- PG=Personal guarantee
- RM=Registered mortgage
- IGPA= Irrevocable general power of attorney.

❖ **Agriculture loan:**

- Nabanno (Polli loan)
- Sakti (Solar energy loan/Bio gas)

MBL started agriculture credit disbursement since 2010 by formation of a separate and dedicated department namely “Agriculture credit department”. From the beginning Agriculture credit department is opening Agriculture credit activities of the bank as per Bangladesh Bank’s Agricultural & Rural policy and Guideline. MBL disbursed agriculture credit under the following ways:

- Through partnership with NGOs
- Through contract farming with reputed companies
- Directly to farmers

The new circular of Bangladesh Bank is that each bank must be give agriculture loan. The minimum loan limit is 50 lac.

**Discouraging loan area:**

MBL 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
- Activity which is ethically or environmentally sensitive.
- Bridge loans relying on equity/debt issuance as a source of repayment.

### **General system & procedure related to credit:**

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. 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 for business
- ✓ Voter id card or birth certificate
- ✓ Details papers of business
- ✓ Salary certificate for service holders
- ✓ Bank statement of last six month
- ✓ Attested photocopy of current tax receipt, electric bill & lease agreement when the sours 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-

- I. Formal application for financing
- II. Business plan
- III. Personal guarantee
- IV. Appraisal of asset to be financed
- V. Personal financial statement
- VI. Business financial statement
- VII. Purchase agreement
- VIII. Cash flow projection
- IX. TIH certificate
- X. Bank solvency certificate
- XI. Vat certificate
- XII. Export license (applicable for export oriented business)
- XIII. Market reputation

### **4) CIB (Credit Information Bureau) Inquiry:**

A bank does not know full information about a customer. But knowing the customer's whole information is very important before giving loan. A customer all information is store in Bangladesh bank. Such as a customer kept loan from BRAC Bank. This customer came to MBL and applying for loan. When MBL filled CIB form and send to the Bangladesh bank, then Bangladesh bank will send all information about this customer and MBL will know that this customer has loan in BRAC Bank. A customers CIB report need to update after 2 month basis. When customers want to loan above 5 lac, those customers need CIB report. Below 5 lac customers do not need CIB report.

## 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:

- Lien: Here, bank will give loan against customers' assets or properties.
- Pledge: A bank will give loan against customers' products. Bank is Bailee and customer is Bailor.
- Mortgage: A bank will provide loan against customer's land, building, properties etc. it is famous in MBL. To make the loan secured, MBL charging mortgage.

## 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.

Patwery Sir gave me an opportunity to go with him in site visit. We went Ponchoboti, Narajangonj. Here we visit 3 borrower's land. At first we analyses the business condition, the products, products market price and inventory. Then we were analysis the mortgage land and tried to calculate land's market value.

## 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 note signed on revenue stamp
2. Letter of arrangement

3. Letter of undertaking
4. Letter of installment
5. Letter of authority
6. Letter of disbursement
7. Balance confirmation slip
8. Letter of revival
9. Letter of hypothecation
10. Letter of continuity
11. Letter of guarantee
12. Legal documents for mortgage of property
13. Valuation certificate of the collateral security in Bank's form with photograph
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:

- Limit of the loan amount
- Primary securities of the loan
- Rate of interest of the loan
- Expire date
- Repayment
- Documentation

#### **Time requirement for approval of credit proposal:**

- Branch authority as per their business delegation must take decision within maximum of 3-7 days.
- The head office credit committee, executive committee of the board of director, board of directors take decision within maximum of 5-7 days for simple types of finance facility, 15-30 days for project loan, 30-60days for loans under syndication
- Sanction letter to be issued within 1-2 days time from the date approval.

## 9) Disbursement of loans:

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

- Finally Credit division at Head Office has completed documentation of the loan that sanctioned by them.
- 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.
- 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.
- 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.	Or
Pay order.....Cr.	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:

Savings Account or Current Account.....Dr.
Risk fund.....Cr.
Service charge.....Cr

### **Credit file management**

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:

- a) 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.
- b) 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.
- c) Correspondences, call reports, site visit reports stock reports etc. Each credit file is maintained in a secured location and access restricted to authorized personnel.
- d) 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.

### **Credit risk management:**

There are many reasons to default a loan. Uncertainty, political bad condition, natural disaster can create huge losses for any business. Sometime loan holder willingly breaks the installment rules. When a loan holder failed to pay monthly installment, in this time bank take some steps:

- Such as the installment date is 30<sup>th</sup> January. But loan holder did not pay the installment. After 3 days of the installment date (2<sup>nd</sup> February) bank officer will call the loan holder and ask him to pay the installment immediately.
- If the loan holder did not pay after telephone him. Then MBL send (10-15 days later) an official letter and call him again.
- After all those process, if the loan holder did not take seriously then MBL will go to the loan holder organization(1-2 month later) and give him 2 days extra time for installment payment.
- If the loan holder failed to installment payment or do not want to pay the installment then MBL will take a lawyer and go to the organization and take the mortgaged property. Then MBL can sale this property for cash.

But if the loan holder is good person and he personally come to bank and discussed his business problem with credit officers. At this time, credit officer will send a letter in Head Office for requesting extend some time for installment payment. Head Office will discuss this issue in board meeting. In this condition, bank will give opportunity of 3 month to the loan holder. In this 3 month loan holder will focus in his business and try to earn profit. After 3 month the regular installment payment will continue. If the loan holder did not make any success in 3 month then bank will take his mortgaged property and can sale any time for cash.

## 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:

### **1) Mortgage property:**

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.

### **2) 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 (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 . 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.

### **3) 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.

#### **4) 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-

- 1) **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.
- 2) **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.
- 3) **Bank need to hire best lawyer to justify the mortgage land**
- 4) **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.
- 5) **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.

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.

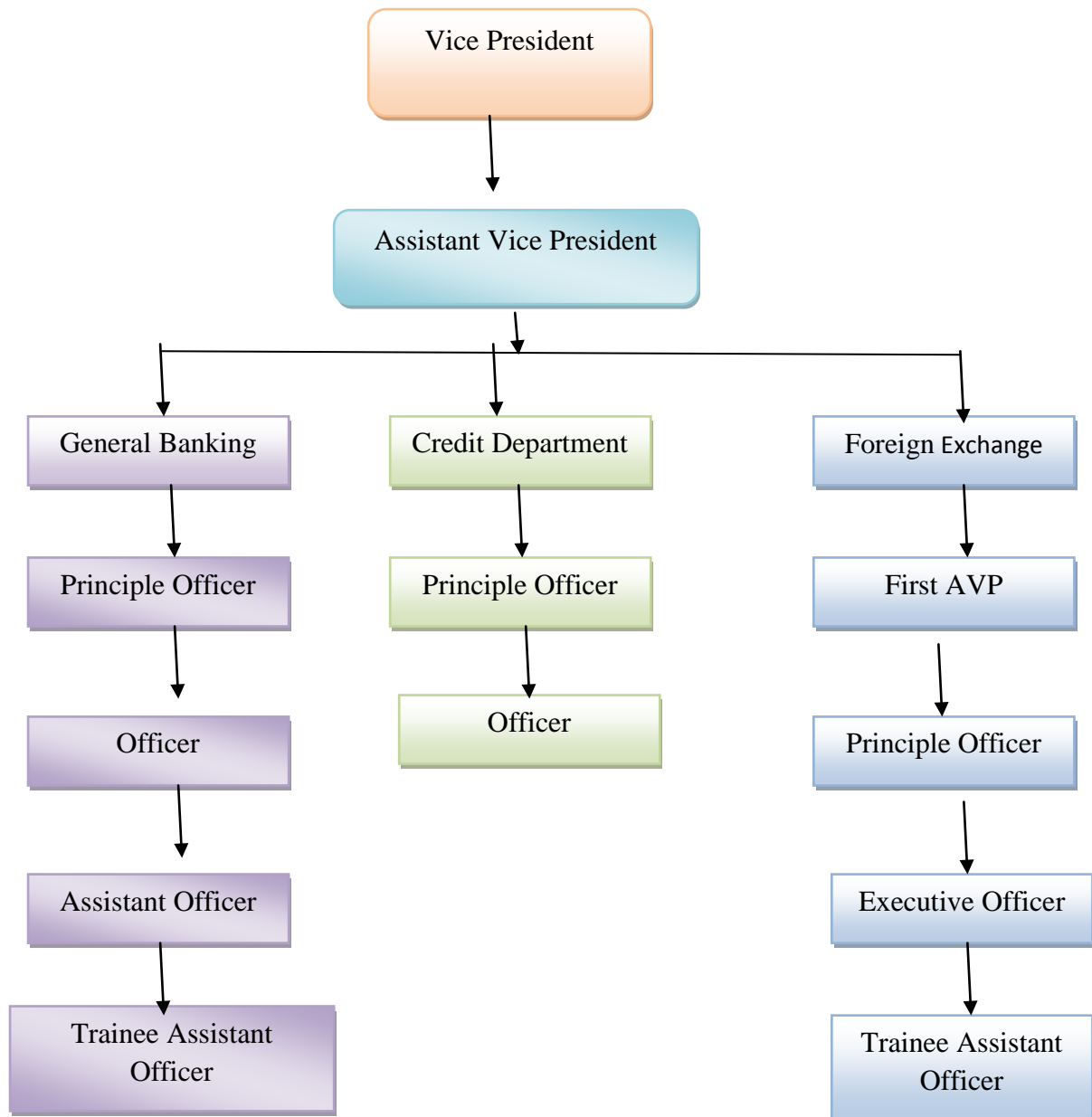
Though MBL has been facing a number of problems regarding to credit service, it has been able to achieve “AA-” credit rating in last two consecutive years which indicates a banking entity with high credit quality, higher safety and have superiority in customer service. In believing, MBL will make a positive 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

***1) Mercantile Bank Limited at a glance***

Name	Mercantile Bank Limited
Status	Public Limited Company
Date of Incorporation	May 20, 1999
Date of Commencement	June 02, 1999
Subscription for Share	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 Jalil
Present Chairman	Morshed Alam M.P
Number of Branch	100
Number of employee	1,814
Services provided	Deposit Scheme, Credit Facility and Foreign Exchange Service
Diversification of product and services	Corporate Banking and Retail Banking
Technology used	Member of SWIFT, Online Banking, UNIX based computer system
E-mail	<a href="mailto:mbi@bol-online.com">mbi@bol-online.com</a>
Website	<a href="http://www.mblbd.com">www.mblbd.com</a>
SWIFT	MBLBDDH
Address of MBL Narayangonj Branch	H R Plaza, 64(old), 90(new) Bangabandhu road, Narayangonj Phone:02-7648241, 7648243 SWIFT:MBLBDDH017 AD Code: 1762

## 2) MBL Narayangonj Branch Organogram



### 3) SWOT Analysis of MBL

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> <li>▪ Experienced management team</li> <li>▪ Internal communication is good</li> <li>▪ Diversified product line</li> <li>▪ Low human resource turnover</li> <li>▪ Interactive corporate culture</li> <li>▪ Employee salary is high then other bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low promotional activities</li> <li>▪ Service quality of this bank is good but not high as the customers; expectation</li> <li>▪ Online network is not so good</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>▪ Investment in the secondary market</li> <li>▪ Opportunity in retail banking</li> <li>▪ Introduction of special corporate scheme for the corporate customers</li> <li>▪ Diversify into leasing and insurance sector</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase market competition</li> <li>▪ Less number of ATM booth</li> <li>▪ Increase cost of fund</li> </ul>

#### 4) MBL interest rate on Loan & Advances

The board of Director of the bank in its 246<sup>th</sup> meeting held on 24.09.2014 and they little bit change the interest rate. The revised rate on lending will be effective from **01.10.2014** and will remain in force until further instructions.

Agricultural Loans	Interest rate
Term loan (Both short & long term)	11.50%

Term loan	Interest rate
Industrial/Manufacturing project	13.50%
Other term loans	13.50%

Working capital financing	Interest rate
Industrial/Manufacturing project(IDBP)	13.50%
Supply order	14.50%
Export loan	7.00%
Trade financing/Business loan	13.50%
Import financing of rice, wheat, edible oil, pulse, peas, onion, dates, sugar	13.00%

Financing to small and medium enterprise	Interest rate
Lease finance	14.00%
Loans against FDR	FDR rate+2.00%
Loans against scheme deposit of the bank	Scheme rate+2.50%

Special credit schemes	Interest rate
Doctors' credit scheme	
• Interest rate	16.00%
• Loan processing fee	1.00%
Any purpose loan(personal loan)	
• Interest rate	16.00%
• Loan processing fee	1.00%

• Risk fund	1.00%
Car loan	
• Interest rate	16.00%
• Loan processing fee	1.00%
Home loan	
• Interest rate	14.00%
• Loan processing fee	1.00%
Women entrepreneurs development scheme	10.00%
Rural development scheme	15.00%
Overseas employment scheme	15.00%

### 5) *Loan facility parameters of MBL:*

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

1. 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.
2. The Bank will extend medium term loan for 3(three) years period.
3. 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.
4. House Building Loan to Bank's employee shall be governed as per policy guidelines of "Employees House Building Loan" scheme.
5. 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, NBFI's as per policy set / to be set by the Bank under the policy guidelines of the specific scheme.
6. 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.
7. 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.
8. Repayment of term loan would be fixed preferably on monthly/quarterly basis.
9. 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.
10. 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.

11. Any exception, as mentioned above, would be specifically approved by the competent authority of the Bank.
12. Security accepted against credit facilities shall be properly valued and shall be affected 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.
13. Valuation of the landed 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.
14. Mortgage formalities including execution of registered irrevocable power of attorney must be completed as per legal vetting of the Bank's approved/enlisted Lawyer.
15. The value of the mortgage property shall be preferably double of the facility to be extended depending upon other security coverage.
16. The security condition may be relaxed depending upon the Credit worthiness of the customer / Banker-Customer relationship / potentiality of the business of the client.
17. Any exceptions of the parameters mentioned above are subject to be approved by the competent authority as per delegated power approved by the Board of Directors.

### Case study-01

M/S. Hoque Iron Mart is represented by its proprietor Mr. Md. Abdul Hoque Mozumder at 3804/A Sagorika Road, Pahartoli; Chittagong is engaged in trading of scrap iron & manufacturing of MS product. The firm was established in the year 2007. They sale scrap to different re-rolling mills over the country. They have one branch office Lamapara, Pitalirpool, (Near Shibu Market) Fatullah, Narayanganj and one liaison office at 70, Shahid Syed Nazrul Islam Swarani, North South Road, (Premier Bank Bhaban 1<sup>st</sup> Floor), Dhaka.

Mr. Md. Abdul Hoque Mozumder, owner of this firm has been engaged in this line of business for the last 23 years. During his 23 years business life, he has been able to develop business network in this sector and he has vast knowledge about this sector. He started with banking with MBL from 2010. He has current account in MBL narayanganj branch. Now he want loan from MBL for expending his business.

He has landed property with 2 storied building and market value is 2 crore 70 lac tk. Now Mr. Md. Abdul Hoque Mozumder want to 1 crore 25 lac tk loan against this land. He wants this loan for 3 years. The loan is a repaid loan for 36 equal monthly installments.

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. Md. Abdul Hoque Mozumder 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 M/S. Hoque Iron Mart had to fulfill all the requirements.

Mr. Md. Abdul Hoque Mozumder submitted the required papers. Some of this are-

- ✓ Last year's income statement
- ✓ Last year's balance sheet
- ✓ Price & list of inventory
- ✓ Bank solvency certificate
- ✓ Trade license
- ✓ TIN certificate
- ✓ VAT certificate
- ✓ Rental deed

**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-** Bank collect all papers related on business and mortgaged land. Bank has personal lawyer and he will analysis all the papers. And he will give a statement that all papers are right and risk free.

**Step 5-** Then bank officer physically visited the Narayanganj premises of M/S. Hoque Iron Mart and business premises of M/S. Shahjalal Re-Rolling Mills and found that they have well reputation in this locality & also they have sufficient stock of Scrap iron and different M.S. products.

**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. *General information about the sanctioned loan as follows-*

- Sanctioned amount- 1 crore
- Rate of interest- 16%
- Processing fee charged- tk. 500
- Risk fund- 1%
- Service charged- 1%
- Application fee- tk. 200
- Stamp in hand- tk. 1200

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 9-** Loan officer opened the account in the name of M/S. Hoque Iron Mart and put the limit of amount over there. After that, loan officer issue the check book and gave it to Mr. Md. Abdul Hoque Mozumder. 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.

## Case study-02

**M/s Motalib General Store** a proprietorship concern situated at Mondal Bari, (Near president Bari) Banglabazar, Kashipur, Narayanganj is engaged in trading of stationery & Grocery Items. .

The firm was established in the year 1997. However, Mr. Md. Motalib Mondal, proprietor of **M/s Motalib General Store** has been engaged in this line of business for the last 16 years. During his 16 years of business life he developed good client relationship.

Since Mr. Md. Motalib Mondal has gathered sufficient experience and skills in this line of business he is able to deploy his expertise in the expansion of business. So, he has applied for this loan facility about 3 lac tk. The future prospect of the business is good. He wants this loan for 3 years. The loan is a repaid loan for 36 equal monthly installments.

It also mentions that borrower is our existing customer and payment was very sound.

**Step 1-** Firstly, a loan application was submitted by Mr. Md. Motalib Mondal 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 M/s Motalib General Store had to fulfill all the requirements.

Mr. Md. Motalib Mondal submitted the required papers. Some of this are-

- ✓ Last year's income statement
- ✓ Last year's balance sheet
- ✓ Price & list of inventory
- ✓ Bank solvency certificate
- ✓ Trade license
- ✓ Rental deed

**Step 3-** Mr. Md. Motalib Mondal presented three (03) guarantors on behalf of the borrower. One person of them is his cousin and another person is a businessman of his area. Both of them fulfilled all the requirements as guarantor. Another guarantor is Mr. Md. Motalib Mondal's wife.

**Step 4-** Then the bank went to the borrower's business site to evaluate the business and its condition.

**Step 5-** 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. *General information about the sanctioned loan as follows-*

- Sanctioned amount- 3 lac
- Number of installment- 36
- Installment amount- tk. 9850
- Rate of interest- 16%
- Processing fee charged- tk. 500
- Risk fund- 1%
- Service charged- 1%
- Application fee- tk. 200
- Stamp in hand- tk. 1200

Credit Division also gave the permission to disburse the loan.

**Step 6-** 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 7-** Loan officer opened the account in the name of M/s Motalib General Store and put the limit of amount over there. After that, loan officer issue the check book and gave it to Mr. Md. Motalib Mondal. 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.

## 7) 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                | ✓ The Public Demand Recovery Act, 1913      |
| ✓ The Bangladesh Coinage Order, 1972             | ✓ The Insolvency Act, 1920                  |
| ✓ The Bangladesh Currency order, 1972            | ✓ The Succession Act, 1925                  |
| ✓ The Bangladesh Banks order, 1972               | ✓ The Sales of Goods Act, 1930              |
| ✓ The Banking companies Act, 1991                | ✓ The Partnership Act, 1932                 |
| ✓ The financial Institutions Act, 1993           | ✓ The Foreign Exchange Regulation Act, 1947 |
| ✓ The Securities & Exchange Commission Act, 1993 | ✓ The Export Import Controls Act, 1950      |
| ✓ The Contract Act, 1872                         | ✓ The Money Loan Court Act, 1990            |
| ✓ The Negotiable Instruments Act, 1881           | ✓ The Companies Act, 1994                   |
| ✓ The Trust Act, 1882                            | ✓ The Customer Act, 1969                    |
| ✓ The Transfer of Property Act, 1882             | ✓ The Income Tax Ordinance, 1984            |
| ✓ The Bankers Books Evidence Act, 1891           | ✓ The Criminal Procedure Code 1898          |
| ✓ The Stamp Act, 1899                            | ✓ The Bangladesh Penal Code, 1860           |
| ✓ The Limitation, 1908                           | ✓ The Law of Evidence, 1872                 |
| ✓ The Registration, 1908                         | ✓ The Bankruptcy Act, 1997                  |

