

Internship Report

On

***Loan Processing, Credit Appraisal, Follow-Up & Recovery
Procedure of IFIC Bank Limited***



IFIC BANK
LIMITED

ইন্টারন্যাশনাল ফাইন্যান্স ইনভেস্টমেন্ট এন্ড কমার্স ব্যাংক লিঃ

Internship Report

On

**Loan Processing, Credit Appraisal, Follow-up &
Recovery Procedure**

Of

IFIC Bank Limited

Prepared For:

Mohammad Tanvi Newaz

Assistant Professor,

BRAC Business School

BRAC University

Prepared By

Nafisa Marzan

ID: 10304087

BRAC Business School

Major in HRM & Finance

BBA (Summer 2014)



Date of Submission: 10September, 2014

Letter of Transmittal

Date: 18th September, 2014

Mohammad Tanvi Newaz
Assistant Professor, and
Coordinator, MBA Program
BRAC Business School
BRAC University

Subject: Submission of Internship Report on “Loan Processing, Credit Appraisal, Follow – up & Recovery Procedure of IFIC Bank Limited”.

Dear Sir,

With due respect and humble submission, I like to state that I have completed my Internship report on “Loan Processing, Credit Appraisal & follow-up Recovery Procedure of IFIC Bank Limited”. The internship program has given me the opportunity to learn about different aspects of this well reputed organization. Before facing the corporate world, I have gathered general idea about the organization culture and activities. Without sincere cooperation and proper guidance of you it was not possible for me to prepare this report. For this act of kindness, I am grateful to you.

I have tried my best to make this report as informative, practical, reliable and relevant as Possible. In preparation of this report, I have reviewed few books, journals, articles from internet, taking few interviews and on the basis of this available information I drew a set of Recommendation which I believe will help the credit department to improve their competence.

Yours sincerely,

Nafisa Marzan

ID: 10304087

Major in HRM & Finance

BBA (Summer 2014)

BRAC Business School

Acknowledgement

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

As a student of BBA Program, Internship is one of the most important partial requirements of the total courses four years BBA program. In this regard I would like to thank all the faculties of BRAC University who helps me to finish my courses. This is a synopsis of my recent study on “Loan Processing, Credit Appraisal & Follow –Up Recovery Procedure of IFIC Bank Limited” as a part of the internship report program.

I would like to thank my honorable teacher and internship supervisor Md. Tanvi Newaz, Assistant Professor, BRAC Business School, BRAC University, for his kind guidance and support in the preparation of this report. I will remain indebted to him for the valuable suggestions and the time he has given in supervising my work on report. I am very much thankful to him because without his support and suggestion my effort would not be materialized. I feel myself very lucky to be in touch of his great faculty. I also thank all the staffs of this department for their sincere support.

I would also like to acknowledge my appreciation toward MD Mehboob Alam Chowdhury (SAVP) senior assistant Vice president of IFIC Bank, Kawran Bazar Branch for being patient and supporting me throughout my 3 months long program. My peers and colleagues at the bank had also been very kind and helpful and they made my internship a more comfortable one. I would like to specially thank Bohnni Saha (Credit Analyst), Habibur Rahman (Credit Analyst) for being there whenever I needed their support.

EXECUTIVE SUMMERY

Banking system of Bangladesh has through three phases of development Nationalization, Privatization and lastly Financial Sector Reform. IFIC Bank Limited has started its journey as a private commercial bank on June 24, 1983. As a part of my under graduation program, have completed my internship in this organization. Throughout the period of my internship, I had been working in several departments. However, I was officially appointed to work in the credit department. The report will reveal the background of the company, description of the loans, findings and recommendations based on the experience gathered.

One of my major responsibilities was to assist the clients in opening new accounts. Alongside, my work was limited to Account opening section, Bills and clearing section. I had been given access to unique software, called MYSIS. I would be required to log in with username and password, and then search for specific clients. In one hand, I was assigned to provide account opening related information to the new customers. Every day, one of my responsibilities was to capture new or existing information related to account opening and then, disseminate those information to the clients who are interested to open accounts in IFIC BANK. On the other hand, I was assigned to keep a database of the information collected. Alongside, I prepared and fill up new and existing files for the department.

The report is based on my critical observation while working in the credit division of IFIC Bank. Lending is one of the principal functions of the bank. Sound lending practice therefore, is very important for profitability and success of a bank. For the sake of sound lending, it is necessary to develop a sound policy and modern credit management techniques to ensure that loans/ advances are safe and the money will come back within the time set for repayment. For this purpose, proper and prior analysis of credit proposals is required to assess the risk. The comparative analysis shows that IFIC is in better position, but there are some obstacles it faces to sustain the position. However, the continuous improvement of the services will certainly place the bank in the best position in one decade.

Table of Content

<u><i>Chapter Name</i></u>	<u><i>Topic</i></u>	<u><i>Page</i></u>
	Executive Summary	
Chapter 1: Introduction	1.1 Background of Study	1
	1.2 Objective of the Report	1
	1.3 Scope	2
	1.4 Limitations	2
	1.5 Methodology of the Report	3
Chapter 2: Company Overview	2.1 Background of IFIC Bank Limited	4
	2.2 Management Structure	5
	2.3 Remittance Arrangement	5
	2.4 Organogram of IFIC Bank Limited	6
Chapter 3: Job Description	3.1 My Job Descriptions	7-8
	3.2 Credit Division	7
	3.3 Creating Spread and updating previous spreads	7
	3.4 Entering reported figures	7
	3.5 Factory visit report	8
	3.6 Other activities	8
	3.7 Experience	8
Chapter 4: Credit Risk Management: A Theoretical Framework	4.1 The Depositors	9
	4.2 The Borrowers	9
	4.3 The Economy	9
	4.4 Credit Risk:	10
	4.5 Objectives Of CRM (Credit Risk Management)	11
	4.6 Credit Risk Management Process	12

Chapter 5: Loan processing Credit Appraisal &Follow-Up Recovery Process of IFIC Bank Ltd.	5.1 Credit flow of IFIC	13
	5.2 Organogram of Credit Risk Management	14
	5.3 Types of Advance on the basis of Security	15
	5.4 Types of advance as per Bangladesh Bank Criteria for classification	15
	5.5 Continuous Loan	16
	5.6 Demand Loan:	19
	5.7 Term Loan	22
	5.8 Unsecured Loan	22
	5.9 Loan Products of IFIC Bank	23
	5.10 Credit Assessment	24
	5.11 General Consideration	25
	5.12 Industry and business segment focus	26
	5.13 Credit Risk Grading (CRG)	31
	5.14 Loan proposal of Small Enterprise & Consumer Finance	32
	5.14 Approval Process	33
	5.15 Credit Administration	34
	5.16 Appeal	34
5.17 Early Alert Process	35	
Chapter 6: Loan procedure of IFIC BANK	6.1 Features	36
	6.2Points to be considered before initiating the proposal	36
	6.3 Security	37
	6.4 Approval	37
	6.5 Mode of Financing	37
	6.6 Charge Documents/ Property documents	38
	6.7 Disbursement	39
	6.8 Record Keeping	39
	6.9 Accounting Procedure	39-40
7.1 Credit Recovery	41-42	

Chapter 7: Follow –Up & Recovery Process	7.2 NPL Account Management:	42
	7.3 Classification & Provisioning	43
	7.4 Qualitative Judgment:	44
	7.5 Assignment of Accounts (Account Transfer Procedures) to RAM Division:	45
	7.6 Persuasion & Follow Up	46
	7.7 Re-Schedulement	48
	7.8 Sale of Pledged Goods, Mortgaged Properties And Filing of Suit	49
	Chapter 8: Findings And Recommendations	8.1 Findings Based on Total credit management system Of IFIC BANK
8.2 Recommendations		50-51
Chapter 9: Findings and Analysis Based On Survey	9.1 Survey Analysis	51-73
	9.2 Findings And Recommendation Based on Survey	74
Chapter 10: Conclusion	Conclusion	75
Chapter 11:	Glossary	76
Chapter 12: Reference	Reference	77
Chapter 13: Appendix	Appendix	78-81

Table of Figures

SL	Chart Name	Page No.
1	Organogram of IFIC Bank Limited	06
2	Organogram of Credit Risk Management	14
3	Loan Products of IFIC Bank	22-23
4	Industry and business segment focus	26-27
5	Approval Process	34
6	Objective criteria for determining the preliminary classification status	43-44
7	Did the Bank get itself credit rated by a credit rating agency, which is on the approved by Bangladesh Bank?	51-52
8	Did the Bank update its credit rating for the last financial year within six months from the date of close of the financial year?	52-53
9	Did the Bank submit the credit rating report complete in all respects to the Bangladesh Bank within seven days of its receipt from credit rating agency?	53-54
10	Did the Bank make public the credit rating report within seven days of its receipt from the credit rating agency?	54-55
11	Did the Bank disclose prominently its credit rating in its published annual and quarterly financial statements?	55-56
12	Q. 6 Did the Bank fully secure itself against all guarantees issued for the conditions mentioned in the Regulation of Bangladesh Bank?	56-57
13	In Bank's view, is the credit rating score of an applicant a valid predictor about future credit loss experience?	57-58
14	Which credit reporting agency does your company use?	58-59
15	What type of Credit rating score does Bank use?	59-60
16	How long has bank been using any form of credit rating score in the evaluation of personal property risks?	60-61
17	When there is more than one applicant, which credit rating score	61-62

	does bank use in the qualification of new business if the scores are different?	
18	Does your company use CIB scores as a factor in deciding whether or not to underwrite or renew a personal property insurance policy?	62-63
19	How is the consent obtained? Select all that apply.	63-64
20	If bank uses a credit rating score that results in an adverse effect on qualification or rating of the applicant, do you advise the applicant?	64-65
21	Does bank provides credit agency information to the applicant so that the applicant can verify the information?	65-66
22	If an applicant has credit information corrected or changed by the credit agency and informs you, will bank make rating changes?	66-67
23	How often is the credit rating score updated?	67-68
24	When your company accesses a CIB score, does its inquiry have an impact on the applicant/policyholder's credit rating?	68-69
25	Is a credit rating score shared with other insurers?	69-70
26	Does factory visits are made before approved the loan?	70-71
27	Does the officers well aware of different business type?	71-72
28	What kind of credit is more profitable?	72-73

List of Abbreviation:

SE-Small Enterprise

HO-Head office

CRM-Credit Risk Management

CRG-credit Risk Management

PPG-Product Program Guideline

RM-Relationship Manager

RRM-Retail Risk Management

CIB-Credit Information Bureau

D.P Note –Demand Promissory Note

CAD-Credit Administration Department

HBL-House Building Loan

NPL-Non performing Loan

NOC-No obligation Certificate

1.1 Background of Study:

A banking institution is crucial at today's modern macro-economic system both for domestic and international perspective (Mr. Toha, personal communication, October 5,2011). Banks play a vital role in the economy by providing means of payment and in mobilizing resources (Mr. Shoel, personal communication, October10, 2011). Now people directly or indirectly are surrounded in the field of banking. Today's modern banks aren't only providing traditional banking but also expanding the many financial services with unique features to their clients both individual and institutional. Credit Banking is one of those innovative services which are operating throughout the world economy (Mr. Sabbir Ahmed, personal communication, October 15, 2011). This new business concept is very recent in respect of banking industry of Bangladesh. The internship program has been conducted in IFIC Bank LTD., one of the reputed first generation private banks in the growing banking sector in Bangladesh. This report on Loan Processing, Credit appraisal, Follow –up & Recovery procedure of IFIC Bank limited: A study on IFIC has been prepared under the guidance, supervision and inspiration of Mehboob Alam chowdhury(SAVP). Moreover, while preparing the report the writer was under the supervision and guidance of Mr. Md. Sharifur Rahman (EVP & Relationship Manager of IFIC Bank Limited Kawran Bazar Branch, Dhaka) .

1.2 Objective of the Report:

Broad Objective:

To acquire knowledge about the entire credit policy and credit risk process of IFIC Bank Ltd.

Specific Objective:

- To plot a clear image of the credit Division and its sub-divisions;
- To know the Credit Risk Management (CRM), Credit Administration Department (CAD).
- To know different Governmental and IFIC policies, terms and conditions regarding the Credit Policy.

- To know about the Documentation process of credit division.

1.3 Scope and limitation of the Study:

Every academic and professional relative research and reporting work has got some scopes and limitations. The scopes and limitations of this research and reporting works are:

Scopes:

- Credit Division and its loan processing, follow up & recovery activities are the prospective topic.
- Data needed for the interpretation is much easier to access in respect of other commercial banking business related issues.
- Supervisors in the workplace are very helpful in case of data collection and interpretation.
- Very realistic problems and questions can be arisen from the respective topics relating to the issues and very helpful for the future career illumination.

1.4 Limitations:

I have tried my best to provide with all the necessary information about IFIC Bank Limited but the main problem faced in preparing the paper was the inadequacy and lack of availability of required data. Besides others I have faced the following limitations for preparing this report:

- Difficulty in accessing latest data of internal operations for security reasons.
- Non-availability of some preceding and latest data.
- Some information was withheld to retain the confidentiality of the bank.
- Since the bank personnel are very busy with their activities, as a result they were not in a position to provide desired level of information about the report.
- I was placed in the credit department for only 1 month of time

1.5 Methodology of the Report:

To find out objectives I have followed some methodologies include;

- Direct observation
- Face-to-face discussion with employees of different departments
- Study of files, circulars and practical work
- Annual Report of 2012 and 2013 etc.
- This study will include both quantitative and qualitative data. However, this report is basically qualitative in nature.

Data Sources:

To carry out the proposed study, I have utilized both primary and secondary data sources.

Primary Data Sources:

For the proposed study, I have collected primary data by taking Interviews of some bank officials in order to get the information regarding Loan Processing, evaluation as well as the real picture of the bank.

Secondary Data Sources:

- I collected the internal secondary data from the bank itself.
- External secondary data had been collected from the website of the bank.
- Study of files, circulars and practical work
- Annual Report of 2012 and 2013 etc.

This study included both quantitative and qualitative data. There are 25 respondents who gave me their opinion regarding loan & credit procedure of the Bank. I used SPSS software to analyze the data which I collected through a questionnaire.

2.1 Background of IFIC Bank Limited:

International Finance Investment and Commerce (IFIC) Bank Limited started banking operations on June 24, 1983. Prior to that it was set up in 1976 as a joint venture finance company at the instance of the Government of the People's Republic of Bangladesh. Government then held 49 percent shares while the sponsors and general public held the rest.

The objectives of the finance company were to establish joint venture Banks Finance Companies and affiliates abroad and to carry out normal functions of a finance company at home.

When the Government decided to open up banking in the private sector in 1983, the above finance company was converted into a full-fledged commercial Bank. Along with this, the Government also allowed four other commercial Banks in the private sector. Subsequently, the Government denationalized two Banks, which were then fully Government-owned.

Vision:

To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

Mission:

- To build IFIC Bank limited into an efficient, market driven, customer focused institution with good corporate governance structure.
- Continuous improvement in business policies, procedure and efficiency through integration of technology at all levels.

2.2 Management Structure

The nine members of the Board of Directors are responsible for the strategic planning and overall policy guidelines of the Bank. Further, there is an Executive Committee of the Board to dispose of urgent business proposals. Besides, there is an Audit Committee in the Board to oversee compliance of major regulatory and operational issues.

The CEO and Managing Director, Deputy Managing Directors and Head of Divisions are responsible for achieving business goals and overseeing the day to day operation. The CEO and Managing Director is assisted by a Senior Management Group consisting of Deputy Managing Directors and Head of Divisions who supervise operation of various Divisions centrally and co-ordinates operation of branches. Key issues are managed by a Management Committee headed by the CEO and Managing Director. This facilitates rapid decisions.

There is an Asset Liability Committee comprising member of the Senior Executives headed by CEO and Managing Director to look into all operational functions and Risk Management of the Bank.

2.3 Remittance Arrangement

There are several exchange houses. Those are as follows;

- IFIC Money Transfer (UK) Ltd
- Oman International Exchange LLC, Oman
- Placid N. K. Corporation, USA (Global)
- Multinet Trust Exchange LLC, UAE
- Al-Fardan Exchange, UAE
- Coinstar Money Transfer Ltd., UK (Global) etc

Table /Chart-1

2.4 Organogram of IFIC Bank Limited

3. My Job Description

3.1 General Banking department:

I started my internship in Kawran Bazar branch Of IFIC Bank LTD. at General banking department. General Banking department generally deals with five sections e.g. Cash, Bills and clearings, remittance, accounts, account opening. However, my work was limited to Account opening section, Bills and clearing section and Local Remittance section. I had been given access to unique software, called MISYS. I had to be logged in with username and password, and then search for specific clients.

3.2 Credit Division:

During my internship, I spend around one month in credit division. During this period, my specific responsibilities were as follows:

3.3 Creating Spreadsheet and updating previous spreadsheet:

In case for a new client, whose financial records has not previously been entered into the system, I had to prepare new spread sheet for specific clients based on the company financials data provided.

3.4 Entering reported figures:

Sometime I assisted the officers concerned in the department to verify their old reports as well as completed those by entering the PIN code, passport and National ID of their clients. I prepared some spread sheet of their loan classification, SOD account information and etc.

3.5 Factory visit report:

Factory visit is part of the process in evaluating client's operational activities and granting credit approval. A general template is used to record information while visiting to a client's factory. I have worked on such template to record information based on the notes taken by an associate of local corporate, while gathering additional information from the client's company websites.

3.6 Other activities

- writing business letters to clients
- checking of draft copy of mortgage deed
- checking of charge documents in accordance with sanction terms
- preparation and checking of CIB (Credit Information Bureau)
- checking of Customers applications
- Entry of Loan Documents in documentations registers
- Checking of credit rating grading system (CRG)
- Conducting Financial analysis of a loan proposals (NPV ,IRR etc)

3.7 Experience:

During the period of my internship, my responsibilities were diverse in nature. At first, I was assigned to learn different phases of work. Then, I started working in different sections. Throughout this internship program, I got a chance to be a part of our corporate sector.

4. Credit Risk Management: A Theoretical Framework

In general, a banking system aggregates a high number of low value deposits to fund enterprises with a smaller number of high value loans. This intermediation through a well-functioning bank helps to achieve some economic benefits for the depositors, the borrowers and above all the economy in the following ways:

4.1 The Depositors

- Higher return
- Lower risk
- Greater liquidity

4.2 The Borrowers

- Availability of fund for all credit worthy Borrowers.
- Thus allow to enterprises grow and expand.

4.3 The Economy

- Economic growth is maximized as the Bank channels the country's scarce financial resources into those opportunities with maximum return
- Thus, profitable enterprises receive funding, grow, and expand
- Loss making enterprises are refused funding and allowed to go out of the business thus saving the economy from drainage of resources.

The Bank must allocate loans effectively for achieving these broad objectives of the Economy and the prerequisites are:

- Banks are able to identify reliably those enterprises that can repay their loans.
- Banks allows loan to those enterprises likely to yield high return and deny loan to those likely to yield low or negative returns. While identifying profitable enterprises, the Bank in fact identifies risks of the borrower and business in order to allow loan in

the context of its risk return profile. In other words, Banks are in the business of risk taking; as such risk management is viewed as a core function of banking.

4.4 Credit Risk:

- a) Credit risk arises from the bank's dealing with or lending to Corporate / Individual and Financial institutions. For most banks, loans are the largest and most obvious source of credit risk; though, credit risk may arise from both on and off balance sheet activities. Besides accounting loss, credit risk is to be viewed in the context of economic exposure of the Bank which encompasses opportunity cost, transaction cost and expenses associated with non performing loans. .
- b) In a Bank's portfolio, losses stem from the outright default due to inability or unwillingness of a customer or a counter party to meet commitments in relation to lending, trading, settlement and other financial transactions.
- c) Thus the objectives of credit risk management are as follows;
 - i. Identifying, measuring, monitoring and controlling credit risks in order maintaining a manageable and quality loan portfolio.
 - ii. Ensuring that expected returns compensate for the risks taken.
 - iii. Ensuring credit risk decisions are explicit, clear and well calculated.
 - iv. Maintaining the overall credit exposure of the Bank at prudent levels consistent with the available capital
 - v. Ensuring top management as well as individual responsible for credit risk management has sound expertise and knowledge to take credit risk and accomplish risk management functions.
- d) Credit Risk Management (CRM) is a dynamic process which enables banks to proactively manage loan portfolios. Four major areas of CRM are:
 - Policy -- Lending guidelines
 - Procedure -- Evaluating viability and associate risks of business enterprises.
 - Organizational structure -- segregation of risk taking and risk approving authority
 - Responsibility -- Decision making and accountability

A clear understanding of the four areas are crucial for maximizing Bank's earning by carefully evaluating credit risks and attempting to minimize those risks.

As a financial enterprise, IFIC Bank is also in business and maximizing stake holders' value (share holders, depositors, borrowers, employees and the public) is Bank's prime objective. The loan portfolio of the Bank is primary source of earnings. It generates most of the interest income, and it also consumes most of resources i.e. deposits. But it may also be Bank's great concern for survival and sustainable growth in an ever changing environment.

Credit Risk Management Policy will be reviewed annually to accommodate necessary changes in respect of risk mitigation. Thus Bank's endeavor shall be to maintain a manageable loan portfolio which is rewarding by taking calculated risk and ensuring quality of loans.

4.5 OBJECTIVES OF CRM (Credit Risk Management)

- i. Maximize Bank's earning from loan portfolio.
- ii. Improve quality of loan portfolio to maximize earnings by:
 - a) To keep non-performing assets below 5%
 - b) Arresting new loans to become classified
- iii. Utmost emphasis on loan sanctioning is to be given in order to improve quality of the loan portfolio. Credit facilities are to be considered solely on viability of business /enterprises / project / undertaking having adequate cash flows to adjust the loans, and management capacity of the borrower to run the business profitably.
- iv. Evaluate credit risks before sanctioning, which may hamper generation of the projected cash flows of the borrower and might delay or hinder repayment of Bank's loan.
- v. Monitor continuously performances of the financed projects/ business / enterprises will be Bank's main thrust for ensuring repayment of the loan, and receiving early warning (EL) for taking timely corrective measures.
- vi. Price the loans on the basis of loan pricing module of the Bank focusing on risk rating of the borrower.
- vii. Strict adherence to Bangladesh Bank's policy guidelines.

4.6 Credit Risk Management Process:

Credit risk management process covers the entire credit cycle starting from the origination of the credit in a financial institution's books to the point the credit is extinguished from the books (Morton Glantz, 2002). It is provided for sound practices in:

- Credit Processing or appraisal
- Credit approval or sanction
- Credit documentation
- Credit administration
- Disbursement
- Monitoring and control of individual credits
- Monitoring the overall credit portfolio (stress testing)
- Credit classification and
- Managing problem credits /recovery

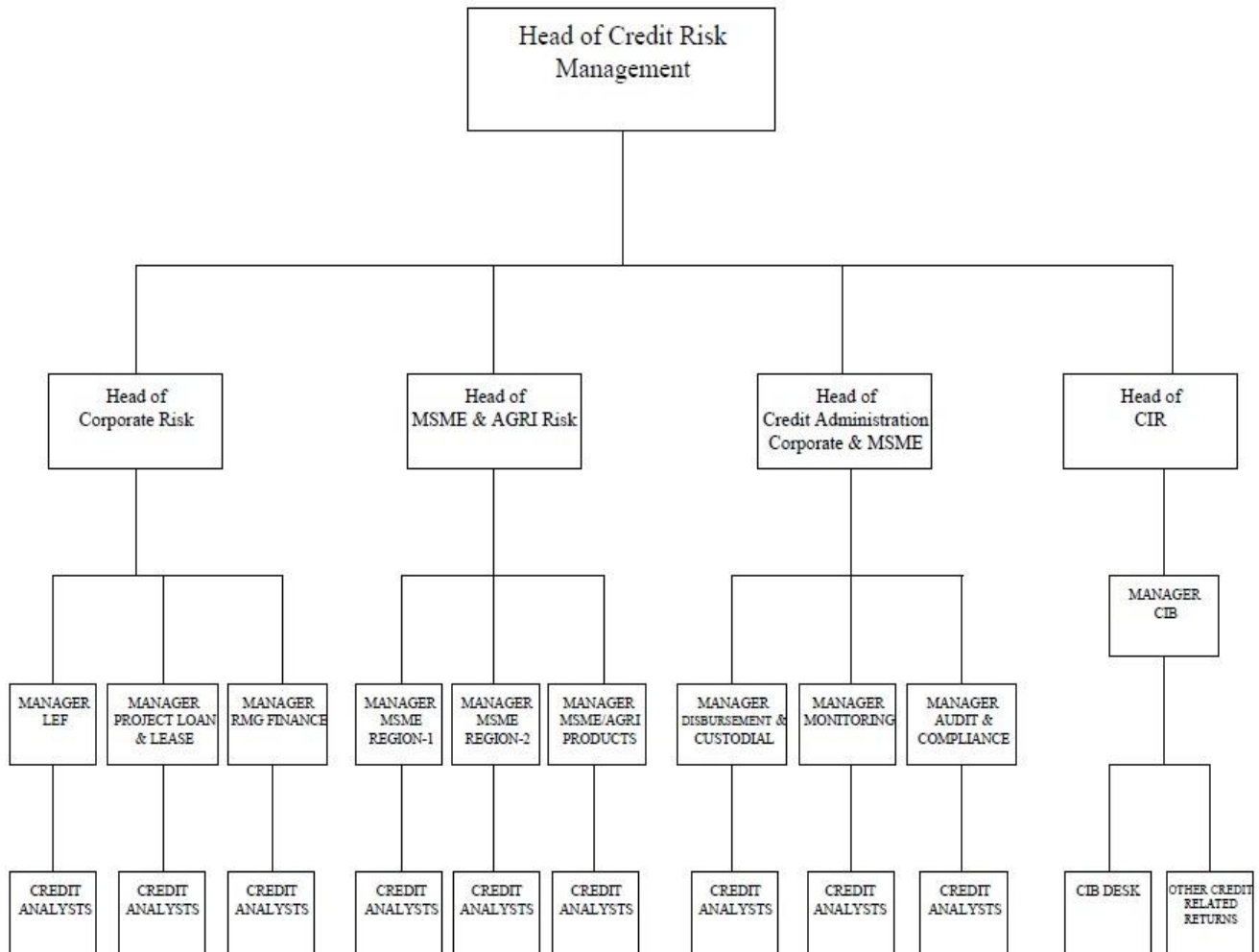
Loan Processing, Credit Appraisal And Follow-up Recovery Process Of IFIC

5.1 Credit flow of IFIC:

Credit Risk Management is basic to risk management and controlling, as it is the major risk factor in most bank business. Therefore, a bank should assess the degree of risk associated with each loan and its profitability. Bangladesh bank has undertaken a project to install a core risk management system in every bank. IFIC Bank Ltd has also installed the same system in respect to asset liability management, foreign exchange management, internal control & compliance, anti money laundering. The bank prudently controls asset allocation through limiting exposure to industry sector & setting client limit. Moreover, the bank approved a new organization structure to accommodate core risk management perspective. In this connection prior assessment of and follow up on a loan transaction constitute essential ingredients of the credit risk control process. An in-depth analysis of the borrower financial conditions, expected usage of funds, ability to repay, willingness to repay and sources of repayment all together constitute step one in the risk control processes. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance.

Table / Chart -2

5.2 Organogram of Credit Risk Management



5.3 Types of Advance on the basis of Security

Secured Advances

- Secured loan or advance means a loan or advance made on the security of assets, the market value of which is not at any time less than the amount of such loan or advance.

- Where the advance is secured the security can be enforced in case of default by the borrower, i.e. the security can be sold and adjusted against the loan account after giving proper notice or taking action through a court.

Unsecured Advances

- An unsecured or clean advance is one, which is granted to a borrower without obtaining any security subject to restriction imposed from time to time.
- It shall not be granted unless the sanctioning authority has full confidence in the ability of the customer to repay it on demand or at its maturity if it is a loan. Definite arrangements for repayments, whether by installments or otherwise, must as a rule be made.

5.4 Types of advance as per Bangladesh Bank Criteria for classification

Loans and Advances have been categorized into four different categories by Bangladesh Bank:

a) Continuous Loan:

The loan which has no particular repayment schedule, but contains date of expiry, credit limit etc. will be termed as Continuous Loan e. g. CC, SOD etc.

b) Demand Loan:

The loan which is considered repayable only after it is claimed by the banks, will be termed as Demand Loan. If contingent or any other liability is converted to Compulsory loan or Forced Loan (i. e. the loan without having prior approval as a regular loan) then it will be termed as Demand Loan e.g. Forced LIM, PAD, FBP, and IBP etc.

c) Fixed Term Loan:

The loan which is repayable within particular period of time as per repayment schedule will be termed as Fixed Term Loan.

d) Short Term Agricultural and Micro-Credit:

Those credits which are enlisted as Short Term Credit under the annual credit program declared by ACD of Bangladesh Bank will be termed as short term Agricultural Credit. It will also include credit extended to agricultural sector and repayable within a period not exceeding 12 months. The short term Micro-Credit will be that which will not exceed an amount of Tk. 10,000.00 and will be repayable within a period not exceeding 12 Months. Such loans may be Non-Agricultural Credit, Swanirvor Credit, Weaving Credit or Bank's self financed Project Loan and whatsoever.

5.5 Continuous Loan:

Secured Overdraft (SOD)

It is a continuous advance facility by this agreement; the banker allows his customer to overdraft his current account he withdraws, to his credit limits sanctioned by the bank. The Interest is charged on the amount, which not on the sanctioned amount. IFIC Bank sanctions SOD against different security.

Types of Secured Overdraft:

Secured Overdraft General SOD (General):

Advance is granted to a client against the work order of government of departments, corporations, autonomous bodies and reputed multi-national / private organization. The clients' managerial capability, equity strength, nature of the scheduled work is judged to arrive at a logical decision. Disbursement is made after completion of documentation formalities. Besides usual charge, documents like a notarized irrevocable power of attorney to collect the bills from the concerned authority and a letter from the concerned authority confirming direct payment to the bank is also obtained. The work is strictly monitored to review the progress at each interval.

SOD (FO):

Advance is granted to a client against financial obligations. The security of advance is granted to the person to whom the instrument belongs. The discharged instrument is surrounded to the bank along with a letter signed by holder /holders authorizing the bank to appropriate the proceeds of the instrument on due date towards the repayment of the advance. The bank's lien is prominently noted face of the instrument under the signature of an authorized bank official. The instrument is issued by another branch of IFIC Bank limited or any branch of some other bank, and then the concerned branch in each intimated to lien mark the instrument.

SOD (Export):

Advance allowed to purchasing foreign currency for payment against L/Cs (Back-to –Back) where the exporter cannot materialize before the date of import payment.

Cash credit:

Cash credit (CC) is an arrangement by which a banker allows his customer to borrow a money up to a certain limit. CC is a favorite mode of borrowings by traders, industrials etc. for meeting their working capital requirements.

Cash credit or continuous credit are those, which forms continuous debits and credits up to a limit and have an expiration date. A service charge that in effect of an interest charge is normally made as a percentage of the value of purchases.

Cash credit is generally allowed against hypothecation or pledge of goods. Hence cash credits are two types:

a. Cash credit hypothecation

b. Cash credit pledge.

Cash Credit (Hypothecation)

Cash Credit (Hypothecation) is a separate account by itself in nature and opened on sanction and cancelled on adjustment. It is operated in a same way as an overdraft account. It is generally allowed against current assets such as stocks of goods, inventories and receivables, etc at a fixed rate of interest for a period of maximum one year. The limit may be renewed upon sa-

tisfactory performance. The stocks held against the credit facility remains under the possession of the borrower and the transactions in the account are allowed on the basis of drawing power. Drawing power is assessed by applying margin on the value of stock subject to maximum of sanctioned limit.

Interest is calculated on the outstanding amount on daily product basis and charged quarterly.

Balance on Cash Credit (Hypo) account may fluctuate. It may increase by withdrawals by the customer and may decrease in payment into the account is made by the customers.

Purpose:

Cash credit (Hypo) is generally given to traders, business houses, industries and farmers for meeting working capital requirements.

Cash Credit (Pledge)

Pledge is the bailment of goods given as security. In other words, there is actual and constructive delivery of goods to the banker with the intention of being treated as security. Under this agreement, Banks reserve the possession of the goods and the customer can only take out the goods from the godown on exclusive permission of the Bank .The Borrower is sanctioned with a limit with certain percentage of margin against pledge of goods.

The account is opened and operated as Cash Credit (Hypo) account but no cheque book to be issued. The drawing in the account is allowed as per request of the borrower to his CD account.

Export Cash Credit

Export cash credits are extended to an exporter to facilitate the export of goods & commodities for which there is export letter of credit or contract on demand. It is a pre-shipment and short-term credit to be liquidated out of the proceeds of export documents which include negotiation or purchase of export documents.

Payment against Documents (PAD)

The importers are to open letter of credit through any bank for importing goods. Most of the time, the banks are to extend credit to the importers, if not prohibited by Bangladesh Bank, for buying required foreign exchange. This loan, on receipt of shipping documents from the negotiating bank, is transferred and lodged to PAD.

Interest is calculated on the outstanding amount on daily product basis and charged at the time of delivery of documents/quarterly.

Purpose:

PAD is associated with import and import financing. The Bank opening letter of credit is bound to honor its commitment to pay for import bills when these are presented for payment provided that it is drawn strictly in terms of the letter of credit.

The foreign correspondent, who negotiates the documents, debits the account of the opening bank and in fact, the amount thus stands advanced on behalf of the importer.

The opening bank on receipt will lodge the shipping documents to their books and will respond to the debit advice originated by foreign correspondent to the debit of “Payment Against Documents (PAD)” account or “Bill of Exchange (B/E) account” and present the bill to the importer for payment/ acceptance.

Loan against Imported Merchandise (LIM)

Opener of the Letter of Credit sometimes request the Bank to clear the goods and store the same at Bank's go down due to temporary financial constrains. When the opener of the credit is not coming forward to retire the import bill, arrangements are also made to clear the goods on payment of import duties, sales tax and other charges through bank's enlisted clearing agent and goods are stored at Bank's godown under forced circumstances. This type of advance is called **Loan against Imported Merchandise** or **LIM** in short as financing is made against imported goods.

Purpose

LIM is associated with import of merchandise and allowed to the borrower as post import financing. Sometimes Bank creates LIM in order to release the consignment under forced circumstances where the applicant does not come forward to clear the consignment.

Foreign Documentary Bill Purchased (FDBP)

Purchasing of bills of exchange denominated in foreign currency drawn in conformity with the terms of export LC is called **Foreign Documentary Bill Purchased (FDBP)**. Documents drawn under a letter of credit governed by UCPDC in force duly authenticated by the advising bank and freely negotiable is purchased to provide financial support to the exporters.

Purpose

This is a post-shipment financing provided to exporters for meeting their working capital need.

5.7 Term Loan

Short Term Loan: up to and including 12 months.

Medium term: more than 12 months up to and including 60 months.

Long term: more than 60 months.

5.8 Unsecured Loan:

Trust Receipts

This is an arrangement under which credit is allowed against trust receipts and imported or exportable goods remain in the custody of the importer or exporter but he is to execute a stamped Trust Receipt (ADVF-17) in favor of the Bank wherein a declaration is made that goods imported or bought with the bank's financial assistance are held by him in trust for the bank.

Purpose:

Trust Receipt is a post import financing allowed to the most trusted importer of the bank.

Table or Chart -3

5.9 LOAN PRODUCTS OF IFIC BANK:

<u>Corporate Banking</u> Working Capital Finance Project Finance Term Finance Trade Finance Lease Finance Syndication Finance	<u>SME Banking</u> <u>Easy Commercial Loan</u> <u>Retailers Loan</u> <u>Transport Loan</u> <u>Commercial House Building Loan</u> <u>Possession Right Loan</u> <u>Contractor's Loan</u> <u>Bidder's Loan</u> <u>Working Capital Loan</u> Project Loan Trade Finance Muldhan Woman Entrepreneur's Loan	<u>Retail Banking</u> Consumer Finance Deposit Product Card NRB Account Student File SMS Banking Mobile Banking
<u>Treasury & Capital Market</u> Money Market Forex Market Brokerage House	<u>Agriculture Credit</u> <u>KrishiSaronjamRin</u> <u>ShechSaronjamRin</u> <u>Poshupokki&MotshoKhamarRin</u> <u>PhalphashaliRin</u>	

5.10 Credit Assessment

The main objective of the Bank is to earn profit by investing its available investable funds remaining within the norms to generate income along with the expectation of getting the principal back within the stipulated period.

Emphasis on appraisal of the loan appraisal process and its administration by the IFIC Bank Management during evaluation of a Loan recognizes that loans comprise the major portion of bank's assets; and, that it is the asset category, which ordinarily presents the greatest credit risk and potential loss exposure to the bank. Moreover, pressure for increased profitability, liquidity considerations, regulatory compliance and a competitive business environment have produced great innovations in credit instruments/Loan products and approaches to lending. Credit Analysts therefore find it necessary to devote a large portion of time and attention to review a loan proposal.

Personnel involved in the loan appraisal function is qualified based on level of education, experience, and extent of formal training. They are knowledgeable of both sound lending practices and Bank's lending guidelines. In addition, they are knowledgeable of pertinent laws and regulations that affect lending activities.

At the time of processing credit proposals the following points are considered IFIC BANK Limited for proper assessment:

- **Sponsors:** IFIC Bank takes into consideration the borrowers' integrity, financial position and status before sanctioning the loan. Besides, identification of the present and business addresses of the sponsors is vital to sanction of loan particularly with regard to tracing out the borrower in case of any eventuality. A responsible officer of the branch is assigned to verify the present and business address of the sponsors/clients and submit report.

- **Purpose:** Purpose of the loan is very important for ensuring proper utilization of fund and maintaining quality of the assets.

- **Liquidity:** It is found the credit analyst of IFIC Bank considers whether the proposal will generate adequate cash flow to repay the loan within the stipulated period.

- **Profitability:** Profit is the main purpose of a commercial bank. Therefore, while considering the proposal the credit analyst considers the profitability of the proposal, which will in turn, ensure the profitability of the bank.

- **Security:** Security is another important principle of Credit. No matter how attractive the interest income or rate is, there is always the possibility of loan default. Security means any form of guarantee that ensures recovery of bank's finance in case of any eventualities in business. In other words, Security is considered as insurance or a cushion to fall back in case of emergency. Apart from the above fact, taking of security serves as a safety valve for an unexpected emergency.

5.11 General Consideration

In assessing the credit proposals properly, the credit analysts consider the following points of the lending guidelines:

Industry and Business Segment Focus

The credit analyst while processing the loan proposal considers Industry and Business Segment Focus as per CRM policy set by the bank under the indicators grow, maintain or shrink.

Lending Guidelines:

As the very purpose Bank's Credit strategy is to determine the risk appetite of the Bank, so Bank's focus should be to maintain a credit portfolio keeping in mind of our Risk absorbing capacity. Thus its strategy will be invigorating loan processing steps including identifying, measuring, containing risks as well as maintaining a balance portfolio through minimizing loan concentration, encouraging loan diversification, expanding product range, streamlining security, insurance etc. as *buffer* against unexpected cash flow.

Considering the above few lending guidelines are elaborated below:

Table or Chart -4
Industry and business segment focus

Agricultural and fishing Professionals	
<p>GROW:</p> <p>Agriculture and fishing professionals</p> <p>i. Agricultural farmers</p> <p>ii. Fishing professionals</p> <p>iii. Dairy farmers</p> <p>iv. Poultry farmers</p> <p>Manufacturing Companies</p> <p>v. Printing & Dyeing Industries</p> <p>vi. Cosmetics & Toiletries Industries</p> <p>vii. Chemical and Chemical Products (Excl Fertilizer Inds)</p> <p>viii. Weaving Mills</p> <p>ix. Rubber & Plastic Industries</p> <p>x. Rice /Flour /Pulse Mills</p> <p>xi. Textile Mills</p> <p>xii. Paper and Paper Product Mfg. Inds.</p> <p>xiii. Wood& Wood Product Mfg. Inds.</p> <p>xiv. Milk Processing Industries</p> <p>xv. Food Processing Inds. (Including Agro based Inds)</p> <p>xvi. Garments Factories</p> <p>xvii. Hosiery Factories</p> <p>xviii. Pharmaceutical Industries</p> <p>xix. Salt Industries</p> <p>xx. Tea Processing Industries</p> <p>xxi. Cement Factories</p>	<p>GROW:</p> <p>xxxix. L.P. Gas Companies</p> <p>xl. Other:</p> <p>a. Solar Power</p> <p>xli. Other Gas Companies</p> <p>Service Industries</p> <p>xlii. Entertainment (Cinema, Amusement Park, etc.) Service</p> <p>xliii. Hospitals and Clinics</p> <p>xliv. IT Services (Including Cyber Cafes)</p> <p>xlv. Courier Service</p> <p>xlvi. Hotels and Restaurant</p> <p>xlvii. Photo Studios</p> <p>xlviii. Travel Agencies</p> <p>xlix. Others</p> <p>Commerce & Trade</p> <p>i. Construction Companies</p> <p>li. Telephone Companies</p> <p>lii. Housing Companies /Societies</p> <p>Private Educational Institutions (Private School, Colleges, Madrasas)</p> <p>liii. Medical and Dental College</p> <p>liv. Private Universities</p> <p>lv. Private Institute of IT</p> <p>lvi. Others</p>

<p>xxii. Ceramic Industries</p> <p>xxiii. Bricks and Sand Factories</p> <p>xxiv. Glass and Glass Wear Product Industries</p> <p>xxv. Soaps & Detergent Factories</p> <p>xxvi. Steel Engineering and Metallic Product Industry</p> <p>xxvii. Assembling Industries</p> <p>xxviii. Fish Processing Industries</p> <p>xxix. Fertilizer Company</p> <p>xxx. Cottage Industries</p> <p>xxxi. Handloom Factories</p> <p>xxxii. Handicraft Factories</p> <p>xxxiii. Jute Industries</p> <p>xxxiv. Leather Industries</p> <p>xxxv. Others:</p> <p>a. Shipbuilding</p> <p>xxxvi. Other Factories</p> <p>Fuel Companies</p> <p>xxxvii. Electricity Companies</p> <p>xxxviii. Oxygen Gas Companies</p>	<p>lvii. Water Transport</p> <p>lviii. Air Transport</p> <p>Individuals</p> <p>lix. Professionals and self employed</p> <p>lx. Other local individuals</p> <p>MAINTAIN:</p> <p>i. Beauty Parlor</p> <p>ii. Road Transport (Including Railway)</p> <p>iii. Cold Storage</p> <p>iv. Edible Oil Mills</p> <p>v. Spinning Mills</p> <p>vi. NBFi</p> <p>SHRINK:</p> <p>i. Saw Mills</p> <p>ii. Other Cooperative Bank /Societies Tobacco Processing Industries /Beverage</p>
--	--

Types of credit facilities

Bank will go for:

- Term financing for new project and BMRE of existing projects (Large, Medium, SE)
- Working capital for industries, trading, services and others (Large, Medium, SE)
- Import and Export Finance
- Lease Finance
- Consumer Finance
- Fee business
- Islamic mode of finance

DISCOURAGED BUSINESS TYPES

In the context of present economic situation vis-à-vis Government Policy as well as market scenario, the following industries and lending activities are considered as disco aged.

- Military Equipment/Weapon Finance
- Highly leveraged Transactions
- Finance of speculative business
- Logging, Mineral Extraction/Mining or other activity that is ethically or environmentally sensitive.
- Lending to companies listed on CIB black list or known defaulters.
- Counter parties in countries subject to UN sanctions
- Share Lending
- Taking an equity stake in borrowers
- Lending to holding companies
- Bridge Loans relying on equity/debt issuance as a source of repayment.

Single borrower / Group Limits/ Large Loan/ Syndication

The limit for single client/group under one obligor concept will be as under:

- The total credit facilities by a bank to any single person or enterprise or organization of a group shall not at any point of time exceed 35% of the bank's total capital subject to the condition that the maximum outstanding against fund based financing facilities (funded facilities) shall not exceed 15% of the total capital.

- Non-funded credit facilities, e.g. letter of credit, guarantee etc. can be extended to a single large borrower. But under no circumstances, the total amount of the funded and non-funded credit facilities shall exceed 35% of bank's total capital.
- However, in case of export sector, single borrower limit shall be 50% of the bank's total capital. But funded facilities in the form of export credit shall not exceed 15% of the total capital. However, the single Borrower exposure limit may be changed as per directives issued by Bangladesh Bank from time to time.

Large Loan

While considering credit proposals large loan ceiling has to be strictly followed. At present loan sanctioned to any individual/ group amounting to 10% or more of bank's total capital is considered as large loan. The total amount of large loan of a bank is dependent on the amount of net classified advance. The credit analyst should consider the overall financial strength of the borrower and assess the need including the finances received from other bank and financial institutions.

Loan Facility Parameters

The credit analyst independently assesses the required need of the borrower and ensures adequate financing for operation of the business concerns. Facility parameters e.g. maximum limit, maximum tenor, and covenant and security requirements are clearly stated.

Syndication

Syndication should be preferred while sanctioning large loan. Syndication means a group of banks pulled together to participate in a large loan transaction for the main purpose of spreading the risk exposures. One bank will usually package the loan transaction and become the 'lead manager' in selling down a portion of the loan package to other banks. The lead bank has defined duties and responsibilities to the other bank participants that are defined in the legal documentation.

CIB

CIB report of the borrower is collected before sanction, renewal or reschedulement to ensure that credit facilities are not provided to defaulters. In case of large loan the CIB report must not be two months old.

Insurance

As regards insurance coverage, full value of goods financed on pledge basis, 110% of the sanctioned limit on hypothecation basis and imported goods may be accepted with risk coverage as per CRM Policy Guidelines. Machinery to be insured covering its full value with transit insurance as per CRM Policy Guidelines. Insurance Policy to be obtained from the enlisted companies and any exceptions should be approved from the competent authority.

Risk identification

Loans and advances are the largest and most obvious source of credit risk for a Bank. The goal of introducing Credit Risk c and Credit Manual is to maximize the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. A credit Officer, therefore, should consider the relationships between credit risk & other risks and address them prudent in the light of Bank's CRM Policy. More importantly, they should have keen awareness of the need to identify, measure, monitor and minimize credit risk to maintain the quality of assets, which ultimately effect the bank's capital requirement. The pricing of individual credit exposure is to be considered on the basis of risk involved and the credit analyst should set the price at a desired level to compensate the risk incurred i.e. in case of high risk exposure the loan should be priced at higher than the prescribed mid rate.

5.12 Credit Risk Grading (CRG)

Bank has already introduced credit risk grading technique in line with the guideline provided by Bangladesh Bank as a uniform approach for assessing the risk grade of an exposure. Bank shall undertake risk grading of the proposed borrower other than loans related to Consumer Finance, Small Enterprise Finance, and Short Term Agriculture & Micro Finance through a number of qualitative techniques following the CRG Manuals.

While assessing a loan proposal, the CRM in all level should identify and evaluate the following key risks, among others, which may inherit or arise during a life cycle of a loan.

i) Financial Risk

Risk that counter parties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

ii) Industry Risk

Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition and barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share and poor industry growth.

iii) Management Risk

Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

iv) Security Risk

Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security and collateral, location of collateral and support.

v) Relationship Risk

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Principal Risk Components	Key Parameters
Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio.
Business/Industry Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business
Management Risk	Experience, Succession & Team Work.
Security Risk	Security Coverage, Collateral Coverage and Support.
Relationship Risk	Account Conduct, Utilization of Limit, Compliance of Covenants/conditions & Personal Deposit.

I. Mitigation of the risk

After identifying risk(s) associated to a Loan, at pre-sanction or post sanction, a Credit Officer must consider the different ways of mitigating the same in consultation with the Borrower. The external risk factors beyond the control of the borrower to be considered for lessening the risk at acceptable level where full mitigation is not possible. Mitigation of a risk to a loan depends on its natures and capability of the Borrower for addressing them effectively in due time for which close contact with the borrower is very important.

5.13 Loan proposal of Small Enterprise & Consumer Finance

IFIC bank has already introduced Product Programmer Guideline (PPG) for Small Enterprise Financing & Consumer Financing prepared in accordance with the prudential regulations provided by Bangladesh Bank in this regard. The credit analyst prepares loan proposals as per

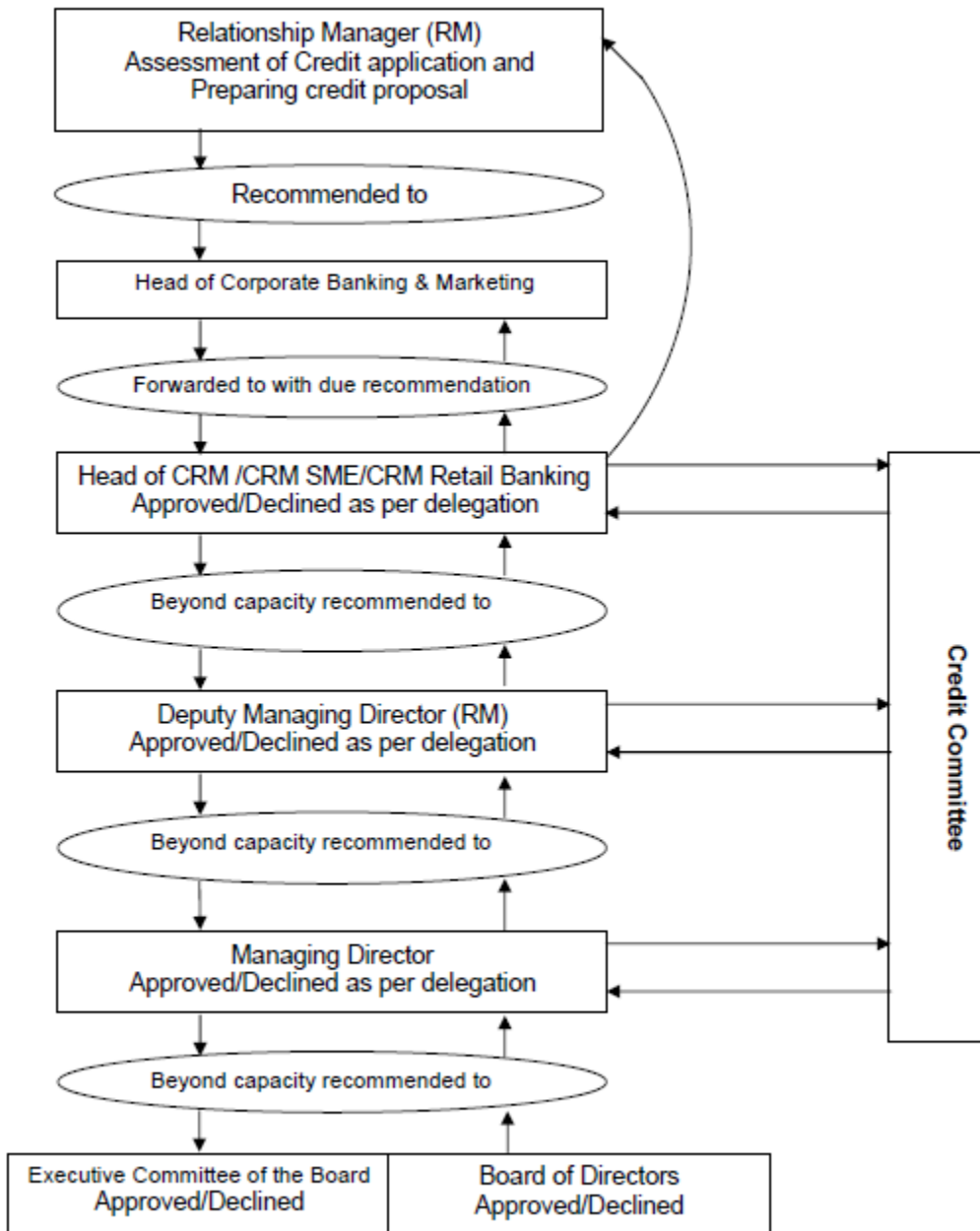
terms and conditions stipulated in the PPGs and use the prescribed format devised for preparation of loan proposals.

5.14 Approval Process

The Branch Manager of IFIC BANK acts as **Relationship Manager (RM)**. The responsibility for preparing the Credit Proposals is rest with the **Credit Officers** at Branch level. Credit Proposals is approved/ declined by the Branch Manager under authority delegated to him/her. The relationship manager recommends credit proposal beyond delegation and send it to Head of Corporate Banking and Marketing Division who will, upon analyzing the proposal, forward the same with recommendation to Head of CRM for approval or decline the proposal and refer it back to the Relationship Manager. Head of CRM Division will distribute the proposals to the Managers of respective departments who will either sanction/decline within their delegated powers or recommend the same to the next higher authority for approval.

Table or Chat- 5

A **Flow Chart** of the Approval Process as mentioned above is as follows:



APPROVAL PROCESS FLOW CHART

5.15 Credit Administration

Upon approval, branch will send for disbursement/ activation authority to the Credit Administration Department, which will perform the following responsibilities:

- Ensure execution of necessary documentation in accordance with approved terms and conditions of the sanction advice.
- Ensure that disbursement is made only after completion of all documentation formalities.
- Ensure continuous monitoring of the performance of the borrower which include compliance of credit terms identifying early signs of irregularity, conducting periodical valuation of collateral, monitoring timely repayment, etc.

5.16 Appeal

The proposal which is declined by CRM may be presented for review to the next higher authority through Head of Corporate Banking & Marketing Division. However, such review is not applicable when the proposal is declined by the Managing Director.

5.17 Early Alert Process

If any symptom of deterioration of the loan account are identified/ noticed branch should immediately start Early Alert Process and report as per CRM Policy Guidelines to Head Office. It is a continuous process to monitor and supervise the accounts having potential weaknesses of a material nature and is prime responsibilities of all Relationship Managers.

6.Loan Procedure:

I furnished below the house building loan processing system of IFIC bank LTD which is one of the products under consumer finance as an example:

6.1 House Building Loan(THIKANA)

House Building Loan is a Term Loan provided for construction of building for commercial/Residential purpose. The Loan is also provided to Developers for completion of their project and construction of factory Building of different industries, purchase of floor space for commercial use. The loan is also provided to purchase readymade flats / completed building for residential/commercial purpose.

Features

1. Loan is disbursed in phases with progress of construction work and utilization of equity portion.
2. Full disbursement of loan at a time is also allowed in case of purchasing of Flat/commercial spaces/ completed building.
3. Upon completion of disbursement only repayment is allowed in the account
4. Grace period may be allowed in the account depending on the cash flow
5. Interest is calculated and charged quarterly on the drawn amount on the daily product basis.
6. Interest rate is fixed based on the rate published from time to time

Points to be considered before initiating the proposal

While initiating the proposal for allowing House Building Loan, the following points are to be considered:

1. Ownership of the land should be undisputed. Which is determined by legal opinion from bank's law division or bank's panel lawyer.
2. Approval for construction and clearance for mortgage from appropriate authority is to be obtained.
3. Financial strength of the borrower for repayment of the loan
4. Realistic cost estimation by a competent engineer
5. Cash flow of the borrower and from the building.
6. Clean CIB Report
7. While purchase of house only construction cost with necessary depreciation to be considered.
8. Approval of plan for construction of building from competent authority as per existing rules of government.

Security

Primary security against the House Building Loan is the land and the building to be constructed on the land. In case of purchase of floor spaces, the security will be the respective floor along with proportionate land.

In case of financing to the Developers, security will be the project land along with building as per power of attorney given by the owner of the land to the Developer.

House Building Loan may be collaterally secured by pledge of financial obligation and/or landed property apart from land as primary security.

Approval

The relationship manager shall recommend credit proposal and send it to Head of Corporate Banking and Marketing Division who will, upon analyzing the proposal, forward the same with recommendation to Head of CRM for approval or decline the proposal and refer it back to the Relationship Manager. Head of CRM Division will distribute the proposals to the Man-

agers of respective departments who will either sanction/decline within their delegated powers or recommend the same to the next higher authority for approval.

Mode of Financing

The House Building loan is termed as “Thikana” under the PPG of consumer financing and as Commercial House Building Loan under Small Enterprise financing.

Charge Documents/ Property documents

1. Acceptance of sanction terms on duplicate copy of sanction advice.
2. Demand D. P. Note :
 - i) Single - Individual/Proprietorship (duly stamped as per Stamp Act.)
 - ii) Joint & several - Partnership (duly stamped as per Stamp Act.)
 - iii) Joint - Limited Co. (duly stamped as per Stamp Act.)
3. Letter of arrangement
4. Letter of Disbursement
5. Letter of Installment
6. Letter of Guarantee Partners/ Directors
7. Mortgage Deed
8. Power of Attorney to sell the property without intervention of court.
9. Pledge of financial instrument i.e. FDR, Share, PSP etc (where applicable)
10. Valid Trade License (where applicable)
11. TIN Certificate
12. Original Deed
13. Bia deed
14. CS, SA, RS & Hal parcha
15. Mutation with DCR
16. Upto date rent paid receipt
17. Site Map
18. Non-encumbrance certificate
19. Approved plan for construction from the competent authority.

20. NOC from the concerned authority for creation of mortgage, where applicable.
21. Estimated cost of construction by a Civil Engineer
22. Board resolution in case of limited company to borrow and execution of loan documents (where applicable)
23. Registered Partnership Deed in case of partnership firm certified by RJSC & firms along with letter of partnership (where applicable).
24. Memorandum & Articles of Association along with certificate of incorporation duly certified by RJSC (where applicable)
25. Certified copy of up to date list of directors (where applicable)

Disbursement

Branch will confirm in writing Credit Administration Department, CRM, Head Office duly signed jointly by Relationship Manager and Credit Administration Officer that all documentation formalities have been completed as per terms of sanction seeking disbursement authority. Branch will also confirm that documents are held with them under joint custody. Copies of all documents shall be sent to the Credit Administration Department along with the letter. After proper scrutiny of the documents with the sanction letter Credit Administration Dept head office shall issue letter authorizing the branch to disburse the advance. On receipt of authority the Credit Officer will open a loan account and the party shall avail the facility in the form of House Building Loan.

Record Keeping

1. Particulars of sanction shall be recorded in the confidential limit sanction register.
2. All charge documents and securities & other important paper should be recorded in the safe-in safe-out register under the initial of the Relationship Manager & Credit Officer or Credit In-charge & Credit Officer and kept in a separate security file with proper index.
3. The file shall be kept under dual control & kept in a locked, preferably fire proof storage.

Accounting Procedure

At the time of disbursement of loan-

Dr- House Building Loan A/c

Cr- CDA/c/PO/DD

At the time of monthly provisioning of interest

Dr-Sundry Asset A/c-Interest Receivable on HBL

Cr-Income A/c- Interest Received on HBL

At the time of quarterly charging of interest-

Dr-HBL A/c

Cr- Sundry Assets A/c- Interest Receivable on HBL

Branch must ensure that at the end of each quarter Sundry Asset A/c interest Receivable on HBL is nil.

At the time of adjustment of loan-

Dr- HBL A/c

Cr-Sundry Asset A/c-Interest receivable on HBL

Cr-Income A/c- Interest received on HBL

(for charging of interest in the middle of quarter)

Dr-CD A/c/Cash

Cr-HBL A/c

7. Follow –Up & Recovery Process:

In case Borrower fails to come forward or shows reluctance, Bank is to take various steps to recover its assets, safeguard its possible losses and overcome crisis of the situation due to non-recovery. IFIC Bank follows some guidelines and procedure to recover its losses and overcome the obstacles. Like followings -

- Close monitoring during validity/repayment period of loan.
- Gear up persuasion right from initial stage of its default/non-payment of installments.
- Understanding reasons of non-payment to obviate the problem.
- Constant follow-up with defaulting borrowers.
- Take effective steps to save the loan from turning it to NPL.

Relationship Manager (RM) must try to identify reasons of default of loan non-payment and find out ways to get the loan recovered/regularized.

Policy objectives of IFIC BANK for recovery of loans and advances are to:-

- i) Ensure normal flow of income by taking appropriate measure so that loans are not converted to Non-Performing Loans (NPL).
- ii) Recover stuck-up loans and advances entirely.
- iii) Maximize Bank's earning by converting Non-Performing Loans (NPL) to regular loans through re-schedulement.
- iv) Reach to an amicable settlement duly protecting interest of the Bank.
- v) Take timely legal steps as per law in enforce to avoid law of limitation.
- vi) Extract maximum benefits from newly enacted ArthaRinAdalatAin for recovery of loans.
- vii) Adhere to Bangladesh Bank's policy guidelines.

7.1 Credit Recovery:

The Remedial Asset Management (RAM) directly manages accounts which sustained deterioration (a Risk Relating to Sub-Standard or worse). Whenever an account is handed over from Relationship Manager to RAM, a Handover/Downgrade Checklist (Appendix-2) shall be completed.

The RAM's primary functions are:

- To determine account Action Plan/Recovery Strategy.
- To pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- To ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- To conduct regular review of Sub-Standard or worse accounts.

The management of Non-Performing Loans (NPLs) must be a dynamic process, and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the *lessons learned* from the experience of credit losses in order to update the lending guidelines.

7.2 NPL Account Management:

All NPLs should be assigned to a Remedial Asset Management Executive (Account Manager) within the RAM, who is responsible for coordinating and administering the action plan/recovery of the accounts, and should serve as the primary customer contact after the account is downgraded to substandard. Some assistance from Corporate Banking/ Relationship management may be sought.

In order to achieve the above objectives, Bank’s policy guidelines on recovery of loans and advances are enumerated in the following chapters.

7.3 CLASSIFICATION AND PROVISIONING

In order to strengthen credit discipline and to improve the recovery position of loans, Bangladesh Bank from time to time, has given broad outline for loan classification. All good loans are treated as unclassified loans and overdue loans have been classified into 4 categories (i) Special Mention (SM) Account (ii) Sub-Standard (SS) (iii) Doubtful (DF) and (iv) Bad-Loss (BL) loan.

Note: Special Mention (SM) Accounts treated as Unclassified Loan.

Table no -6

Objective criteria for determining the preliminary classification status is as under:-

For Continuous Loans and Demand Loans

	<u>Past due / Overdue</u>	<u>Classification Status</u>
a)	Less than 3 months	UC
b)	3 months or more but less than 6 months	SM
c)	6 months or more but less than 9 months	SS
d)	9 months or more but less than 12 months	DF
e)	12 months or more	BL

Term Loans up to 5 years

<u>Past due / Overdue</u>	<u>Classification Status</u>
a) Less than 3 months	UC
b) 3 months or more but less than 6 months	SM
c) 6 months or more but less than 12 months	SS
d) 12 months or more but less than 18 months	DF
e) 18 months or more	BL

Term Loans for more than 5 years

<u>Past due / Overdue</u>	<u>Classification Status</u>
a) Less than 3 months	UC
b) 3 months or more but less than 12 months	SM
c) 12 months or more but less than 18 months	SS
d) 18 months or more but less than 24 months	DF
e) 24 months or more	BL

Short Term Agri. Credit/Micro-Credit

<u>Past due / Overdue</u>	<u>Classification Status</u>
a) Less than 12 months	UC
b) 12 months or more but less than 36 months	SS
c) 36 months or more but less than 60 months	DF
d) 60 months or more	BL

7.4 Qualitative Judgment:

Whether any continuous credit or Demand Loan or Fixed term loan are classifiable or not on the basis of objective criterion but there is doubt or uncertainty for recovery of that loan then the loan will be classified on the basis of Qualitative Judgment (QJ).

If the recovery of the credit becomes uncertain resulting from change of circumstances under which credit was extended or the borrower sustains loss of capital or the value of the security decreases or there may be any adverse situation then the credit will be classified on the basis of Qualitative Judgment. Besides, if the credit is extended without any logical grounds or the credit is rescheduled frequently or the rules of rescheduling are violated or the trends of excess over limit (EOL) is observed frequently or a suit is filed for recovery of the credit or the credit is extended without the approval of the competent authority, then the loan will be classified on the basis of Qualitative Judgment.

Due to the reasons stated above or for any other reason despite possible loss of any credit, there is probability of changing the present situation resorting to proper steps, the credit will be classified as Sub-Standard on the basis of Qualitative Judgment. But even after taking proper steps, if the full recovery is not ensured, the credit will be classified as Doubtful and after rendering all out efforts, if the probability of recovery becomes totally bleak the credits will be classified as Bad Loan.

The Bank will classify the credit on the basis of Qualitative Judgment and if any improvement is achieved, those credits will again be declassified.

Once a credit is classified by Bangladesh Bank (Inspection Team) the credit will remain classified unless its status is changed upon required repayment/reschedulement. The account once classified by the Bank Inspection Team may be declassified with approval from the Board. While submitting such proposal before the Board the Relationship Manager/ Manager of the

concerned Branch vis-a-vis the Managing Director shall give a certification stating that all norms required for declassification of such account has been duly observed. Declassification is to be informed to Bangladesh Bank within 15(fifteen) days from the date of declassification approved by the Board. Bangladesh Bank shall take punitive measure if norms are not followed.

7.5 Assignment of Accounts (Account Transfer Procedures) to RAM Division:

Within 7(seven) days of a account being downgraded as Sub-Standard, a Request for Action and a Handover/ Downgrade Check List shall be completed by the RM and forwarded to Corporate Banking & Marketing (CBM) Division, Head Office, Dhaka. The CBM handover the respective account to Remedial Asset Management (RAM) Division through CRM with their comments and views. Simultaneously, RM will review all documentation, meet the Customer and prepare a Classified Loan Review (CLR) within 15(fifteen) days after the completion of Handover/ Downgrade Check List and forward it to RAM for its approval.

Remedial Asset Management shall ensure that the following steps are carried out when an account is classified as Sub-Standard or worse:

- Facilities are withdrawn or repayment is demanded as appropriate. Any drawings or advances shall be restricted and disbursement/drawing can only be approved after careful scrutiny and approval from appropriate executives within CRM.
- CIB reporting is updated according to Bangladesh Bank guidelines and the borrower's Risk Grade is changed as appropriate.
- Loan loss provisions are taken based on Forced Sale Value (FSV).
- Loans are only rescheduled as per Loan Rescheduling guidelines of Bangladesh Bank. Any rescheduling shall be based on projected future cash flows specifically determined.
- Prompt legal action shall be taken if the borrower does not cooperate.

7.6 PERSUASION AND FOLLOW UP

Recovery persuasion shall start depending upon the nature and merit of advance. In cases of continuous and demand loan, persuasion shall start as soon as operation of the account becomes unsatisfactory, irregular and its validity expires. But in case of Term Loans, persuasion has to be made when the borrowers refrain from paying installments. Nevertheless, persuasion may start any time ahead of these criteria if Bank perceives that a loan account has lost its merit somehow and seems to be difficult for recovery in future.

Persuasion at initial stage of default:

Borrowers become unwilling to repay for various reasons. Some of the borrowers incur loss in their businesses resulting disruption of cash inflow to such a high degree that they cannot repay Bank's loans. Some borrowers divert their fund to businesses/enterprises other than the business for which the Bank loan was sanctioned which is undesirable. Furthermore, there are willful defaulting borrowers as well.

Depending on the nature of the borrower involved, the style and degree of persuasion shall differ from case to case keeping in mind that the ultimate aim is to recover and settle defaulting loan within the shortest possible time with a view to ensuring maximum return for Bank. Various modes of persuasion are as under:

Letters/reminders:

In case of continuous loans like Cash Credit (Hypo), Cash Credit (Pledge), Secured Overdraft etc. letters/ reminders are to be sent two months ahead of expiry date of limit to get response of the borrower whether they are interested for renewal of the limit. In case of unsatisfactory performance of the account, a letter shall be issued to the concerned borrower allowing 30(thirty) days time to repay Bank's dues with interest. In case of Term Loan Accounts, such letters shall be sent to the borrowers as soon as one installment remains unpaid urging them to regularize their account. Copy of such letters shall be endorsed to the Guarantors/mortgagors if any. Reminders are required to be sent on fortnightly/monthly intervals. Constant follow up

through letters shall be made to the borrowers availing Demand Loan, LIM, LTR and for PAD outstanding to regularize their account and to avoid classification.

Inspections/Site-visits:

Concerned Branch / RM shall collect information regarding reasons of default through personal contact / visit etc. Branch Officials shall inspect the shop/godown/factory/residential address of the borrower to ascertain the position of their business and reason of failure. They will submit report along with their findings. On the basis of their report and information provided by the borrower Branch/RM shall ascertain the reasons of default. Branch/RM shall also assess the valuation of securities held against the advance, if such information is not updated.

Negotiation:

Branch/RM will, then, start persuasion/negotiation with the borrower and try to resolve the issue. In the process of negotiation, following measures may be considered subject to approval of the competent authority: -

- a) Possibility of adjustment within a shorter time frame.
- b) Reschedulement of existing limits after realization of required down payment.
- c) Restructuring of the limit with provision for gradual adjustment on monthly/quarterly basis on phased manner. Longer period and period without provision for gradual adjustment shall be declined.
- d) Permitting additional time reasonable and acceptable to both Bank and the borrower.

But in case the borrower does not respond even after all-out persuasion, Bank shall serve Final Notice (Appendix No.1) followed by legal notices upon the borrower and consider the option of encashment of securities and initiating legal proceedings under ArthaRinAdalat Ain-2003.

7.7 RESCHEDULEMENT

Bangladesh Bank has laid down prudential guidelines which are to be followed by the IFIC Bank for reschedulement of loans.

Guidelines for consideration of reschedulement proposal:

- Bank will examine reasons for default. Reschedulement proposal shall not be considered for borrower who diverted fund and for habitual defaulter. Rather, Bank will initiate litigation process for recovery of such loans.
- Borrower's ability to repay loan and liabilities of other Bank shall be taken into consideration.
- Cash flow statement, audited balanced sheet, income projection and other financial statements shall be examined.
- On the spot inspection of Company/Business enterprise shall be done and Inspection Report shall be preserved.
- While fixing repayment schedule it is to be fixed for a minimum realistic period.
- Impact on Bank's income and other implications of reschedulement shall be brought before the notice of the Management/Board.

Down payment requirement:

Requirement of down payment for reschedulement is as under:-

Term Loan:

- Proposal for 1st reschedulement may be considered on cash payment of at least 15% of the overdue installment or 10% of the total outstanding whichever is lower.

- Proposal for 2nd reschedulement may be considered on cash payment of at least 30% of the overdue instalments or 20% of the total outstanding in cash whichever is lower.

- Proposal for reschedulement for more than two times may be considered on cash payment of at least 50% of the overdue installments or 30% of the total outstanding in cash whichever is lower.

7.8 SALE OF PLEDGED GOODS, MORTGAGED PROPERTIES AND FILING OF SUIT:

If the borrower fails to adjust their outstanding liabilities even after all out persuasion, Bank shall sell pledged goods, securities under lien and mortgaged properties if such right has been conferred upon the Bank.

FINDINGS AND RECOMMENDATIONS:

8.1 Findings and Analysis based on Total Credit Management System Of IFIC Bank:

- Online banking system is available in IFIC Bank though it is not improved that is very important to compete to others in the electronic world.
- For credit appraisal, the bank takes some time depends on the client for its authentication.
- All the employees are not professionally trained enough in the computer literacy part.
- Most of the borrower does not pay their payment timely.
- Although all the existing manpower is utilizing their utmost efforts productivity sees not adequate due to lack of utilization of latest technology.
- Heavily dependent on head office decisions delayed the prompt disposal of decisions or service delivery.
- It is observed that the fraud forgery is comparatively very low may also be lower if the employees are poorly motivated towards bank's motive.

8.2 Recommendation Based on overall Credit Management System:

- Need to improve its Online Banking system so that it can compete with other banks.
- Respective personnel's should be trained to overcome the deficiency in regards to increase its productivity of employees.
- There should be reliable efficient personnel in every branch in order to take independent decisions and make prompt service delivery.
- Strict Supervision must be adapted in case of high risk borrowers. Time to time visit to the projects should be done by the bank officers.
- The performance evaluation system is not updated. The organization should follow the 360-degree performance evaluation system. In this case, the superior executives will not be much rude to the subordinates because the top-level employees' performance will be evaluated by the subordinates.

9. Survey Analysis and Recommendation:

9.1 Survey Analysis:

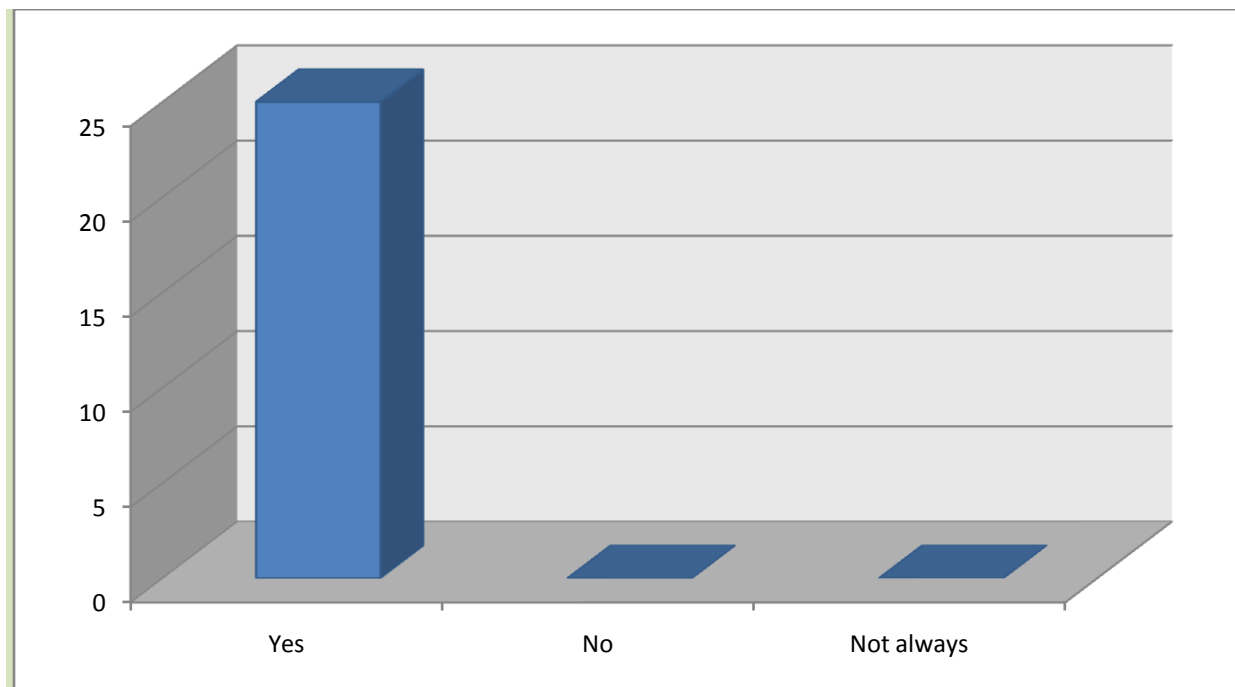
I furnished here under the details on a survey conducted by me on IFIC BANK's employees working in the credit department and queries to my question:

Q 1. Did the Bank get itself credit rated by a credit rating agency, which is approved by Bangladesh Bank?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not Always	0	0	0	0

Source: Field survey data, 2014

From the survey it has been found that all the 25 respondents think that, IFIC Bank get itself credit rated by a credit rating agency, which is approved by Bangladesh Bank. So here 100% of the respondent prefers option 1- Yes.



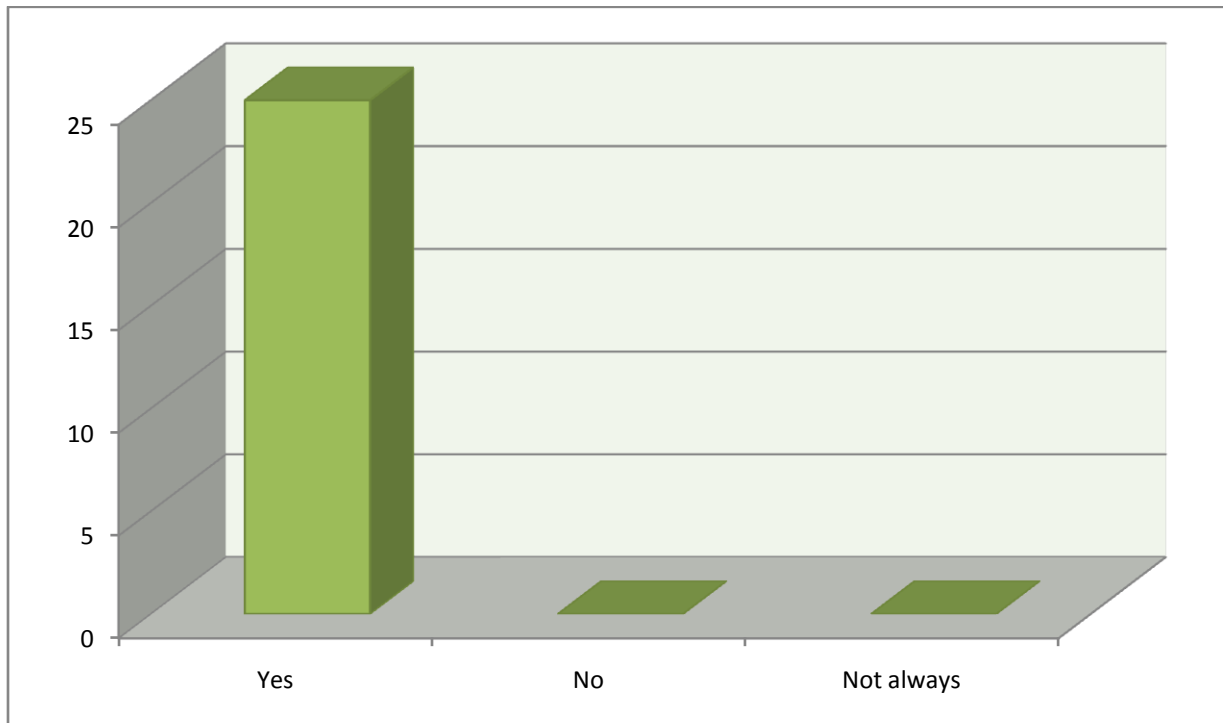
Graphical representation of Question 1

Q 2. Did the Bank updates its credit rating for the last financial year within six months from the date of close of the financial year?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not Always	0	0	0	0

Source: Field survey data, 2014

From the survey it has been found that all the 25 respondents think that, IFIC Bank updates its credit rating for the last financial year within six months from the date of close of the financial year. So here 100% of the respondent prefers option 1- Yes.



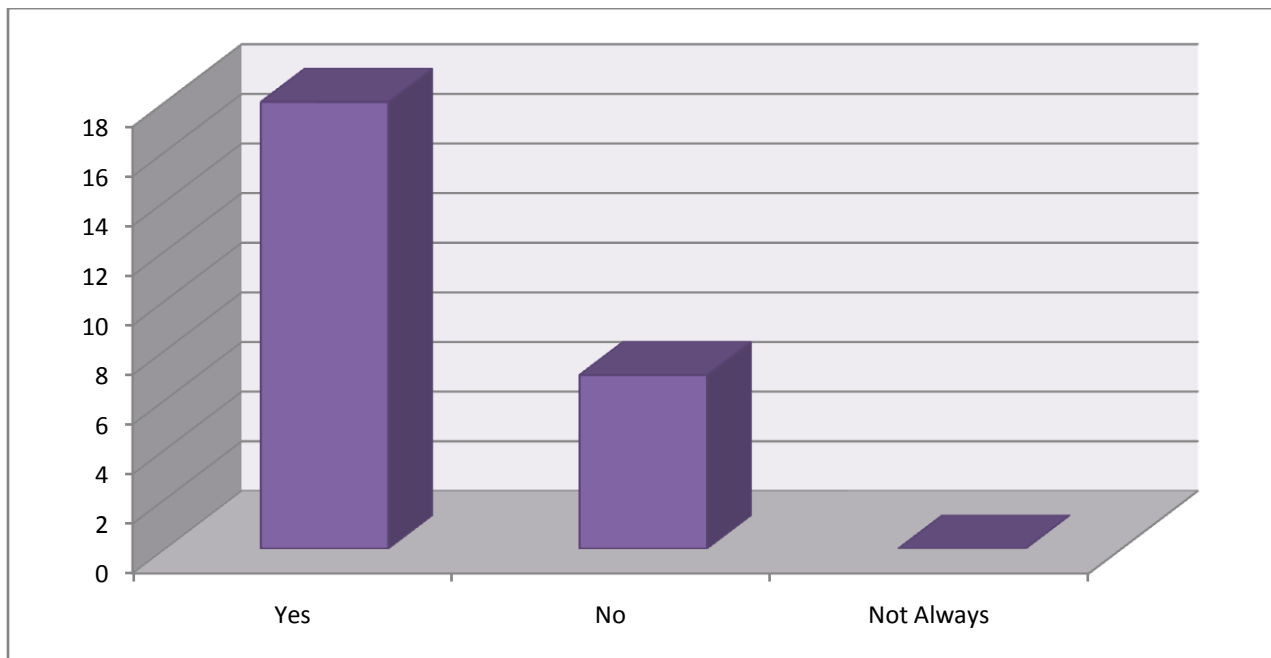
Graphical representation of Question 2

Q 3. Did the Bank submit the credit rating report complete in all respects to the Bangladesh Bank within seven days of its receipt from credit rating agency?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	72.0	72.0	72.0
	No	7	28.0	28.0	100.0
	Not Always	0	0	0	0
	Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found from 25 respondents 72% thinks that, IFIC Bank submit the credit rating report complete in all respects to the Bangladesh Bank within seven days of its receipt from credit rating agency & 28% thinks IFIC bank didn't.



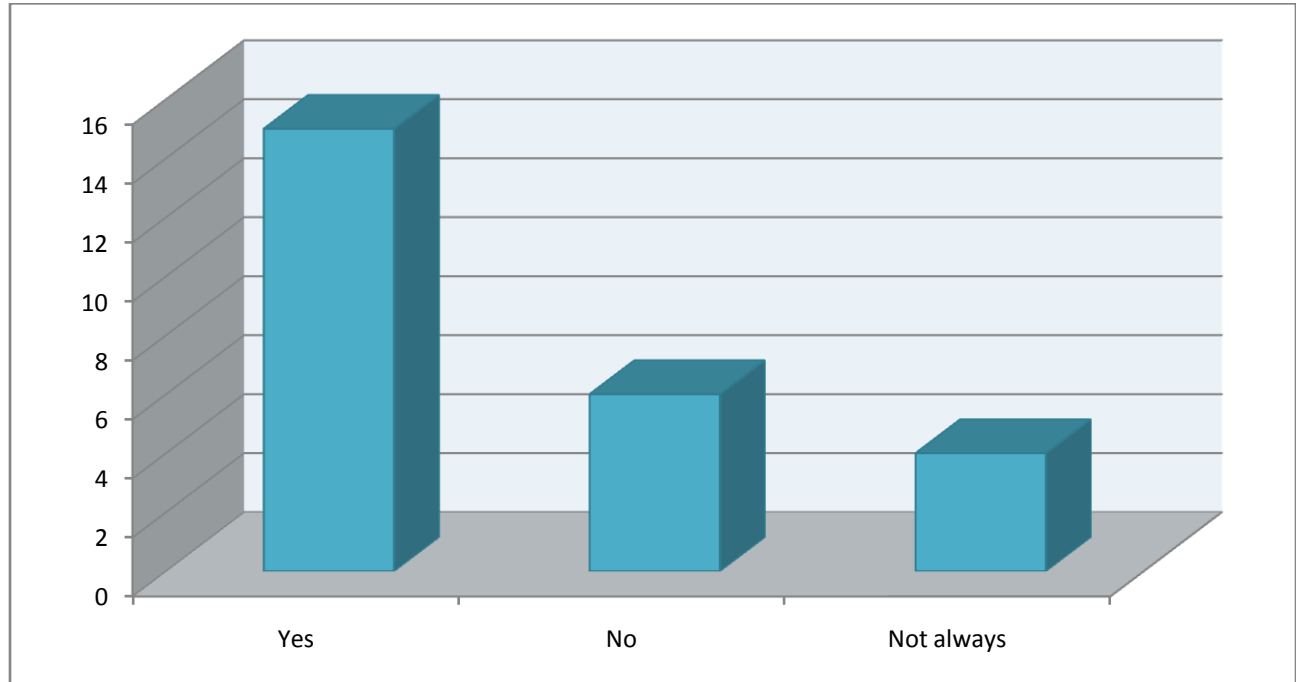
Graphical representation of Question 3

Q. 4 Did the Bank make public the credit rating report within seven days of its receipt from the credit rating agency?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	15	60.0	60.0	60.0
No	6	24.0	24.0	84.0
Not Always	4	16.0	16.0	100.0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found from 25 respondents 60 % thinks that, IFIC Bank make public the credit rating report within seven days of its receipt from the credit rating agency, 24% respondent thinks no, the Bank doesn't do it and 4% respondent thinks the Bank make public the credit rating report within seven days of its receipt from the credit rating agency, but not always.



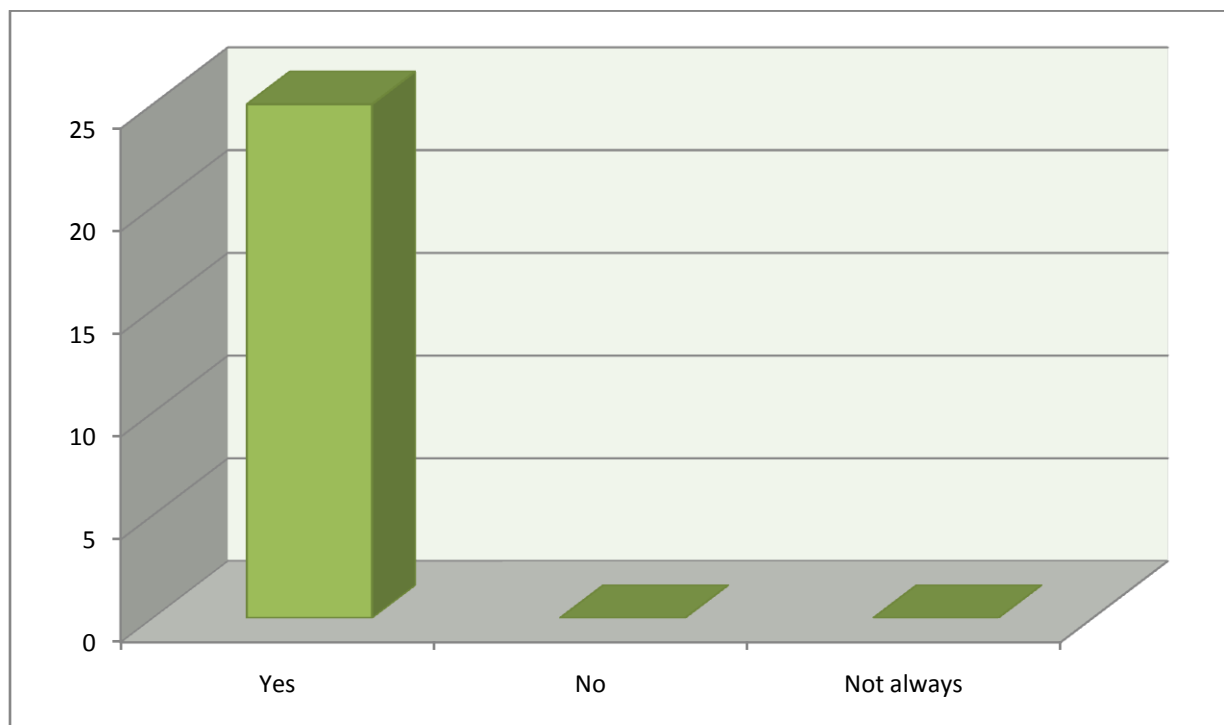
Graphical representation of Question 4

Q.5 Did the Bank disclose prominently its credit rating in its published annual and quarterly financial statements?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not Always	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 100% goes with option 1 – Yes.



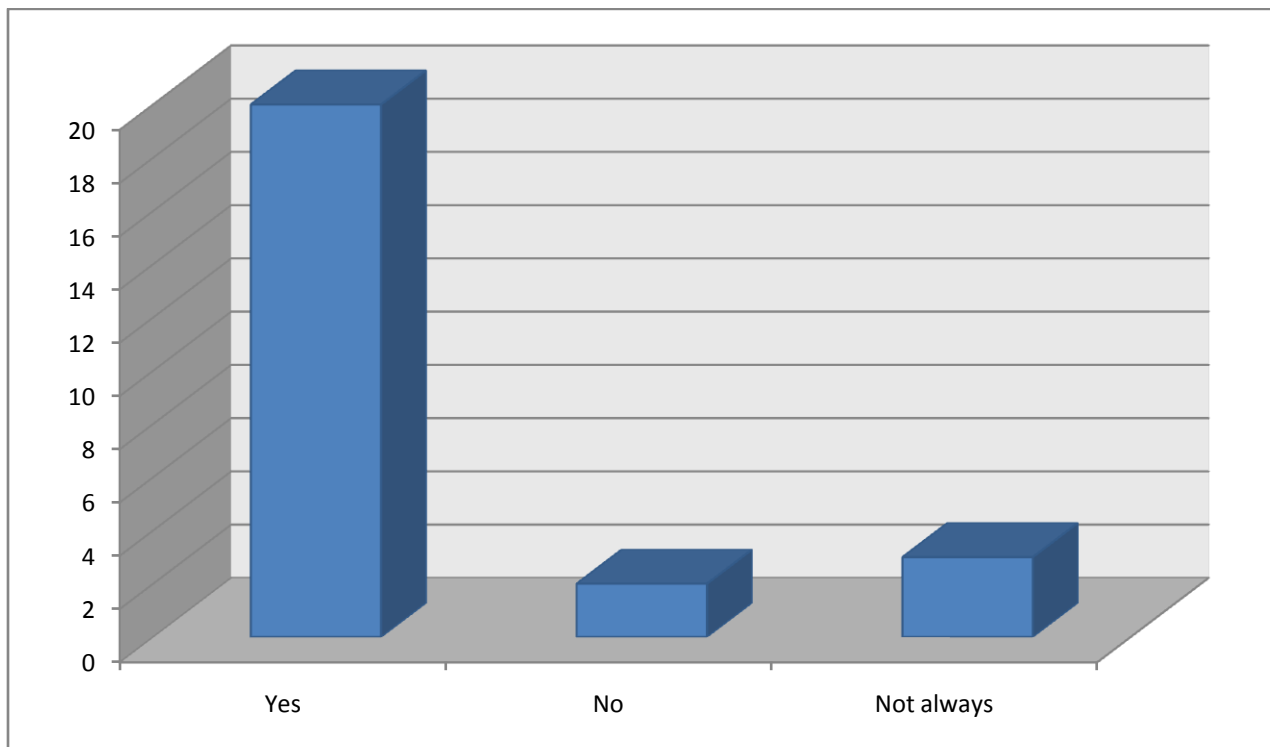
Graphical representation of Question 5

Q. 6 Did the Bank fully secure itself against all guarantees issued for the conditions mentioned in the Regulation of Bangladesh Bank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	80.0	80.0	80.0
	No	2	8.0	8.0	88.0
	Not Always	3	12.0	12.0	100.0
	Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 80% prefer option 1 –Yes, 8% prefer option 2 – No and 12% prefer option 3 – Not always.



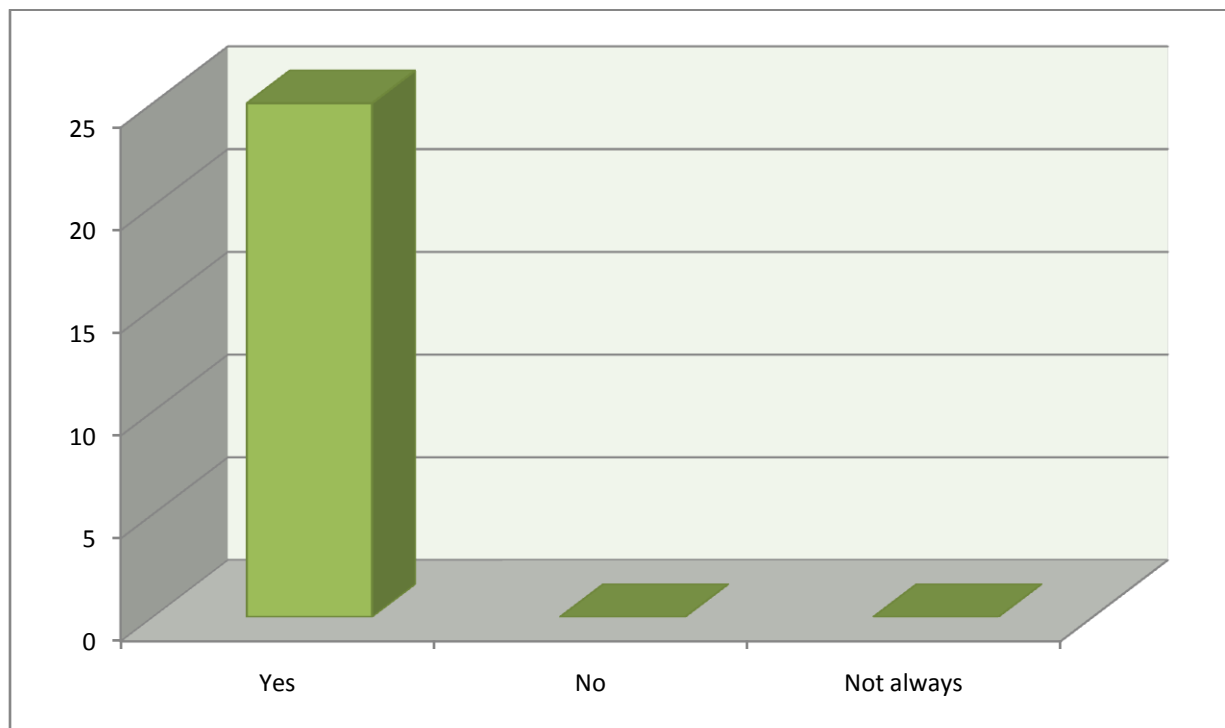
Graphical representation of Question 6

Q. 7 In Bank’s view, is the credit rating score of an applicant a valid predictor about future credit loss experience?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not Always	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 100% goes with option 1 – Yes.



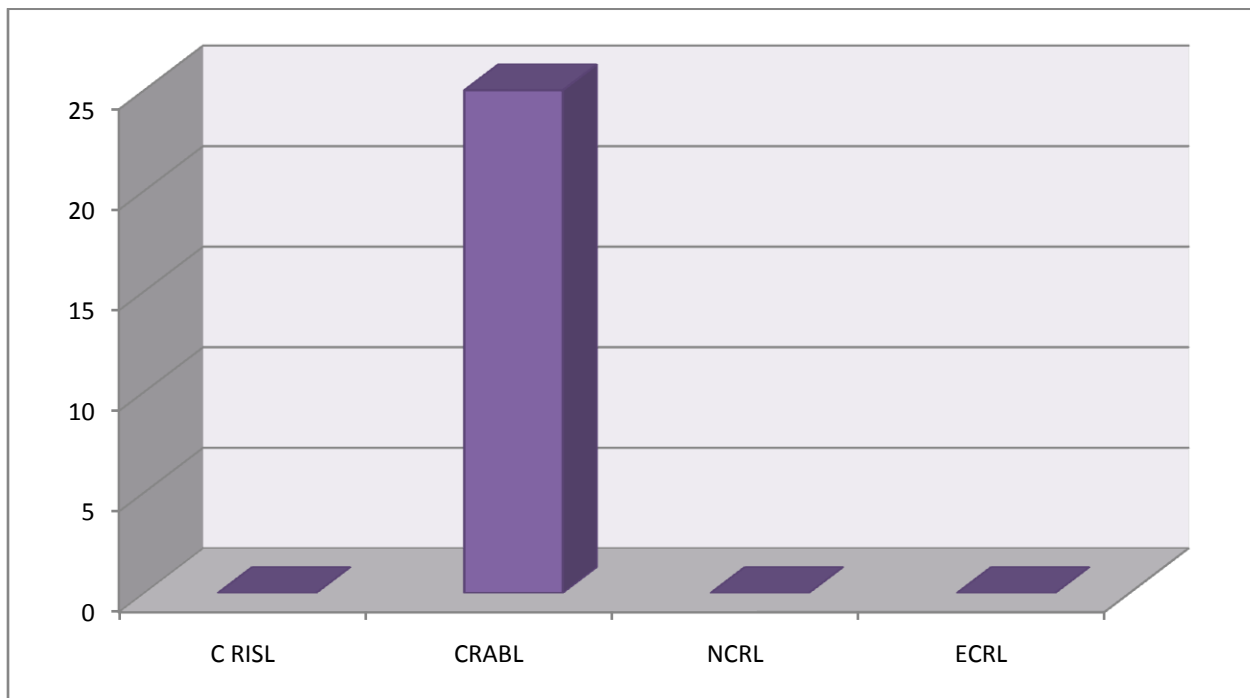
Graphical representation of Question 7

Q. 8 Which credit reporting agency does your company use?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CRISL	0	0	0	0
	CRABL	25	100.0	100.0	100.0
	NCRL	0	0	0	0
	ECRL	0	0	0	0
	Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 100% goes with option 2 – CRABL.



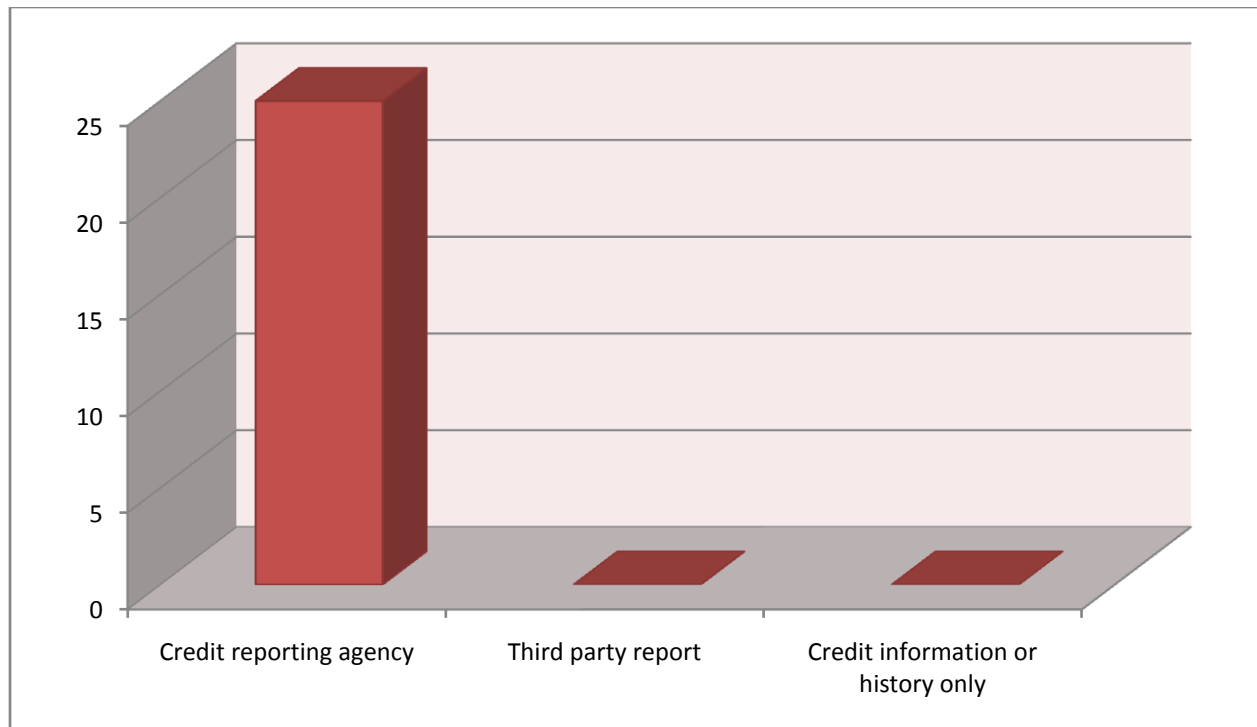
Graphical representation of Question 8

Q. 9 What type of Credit rating score does Bank use?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Credit score provided by a credit reporting agency	25	100.0	100.0	100.0
Third party report	0	0	0	0
Credit information or history only, no credit score provided by a credit reporting agency	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 100% goes with option 1 – “Credit score provided by a credit reporting agency”



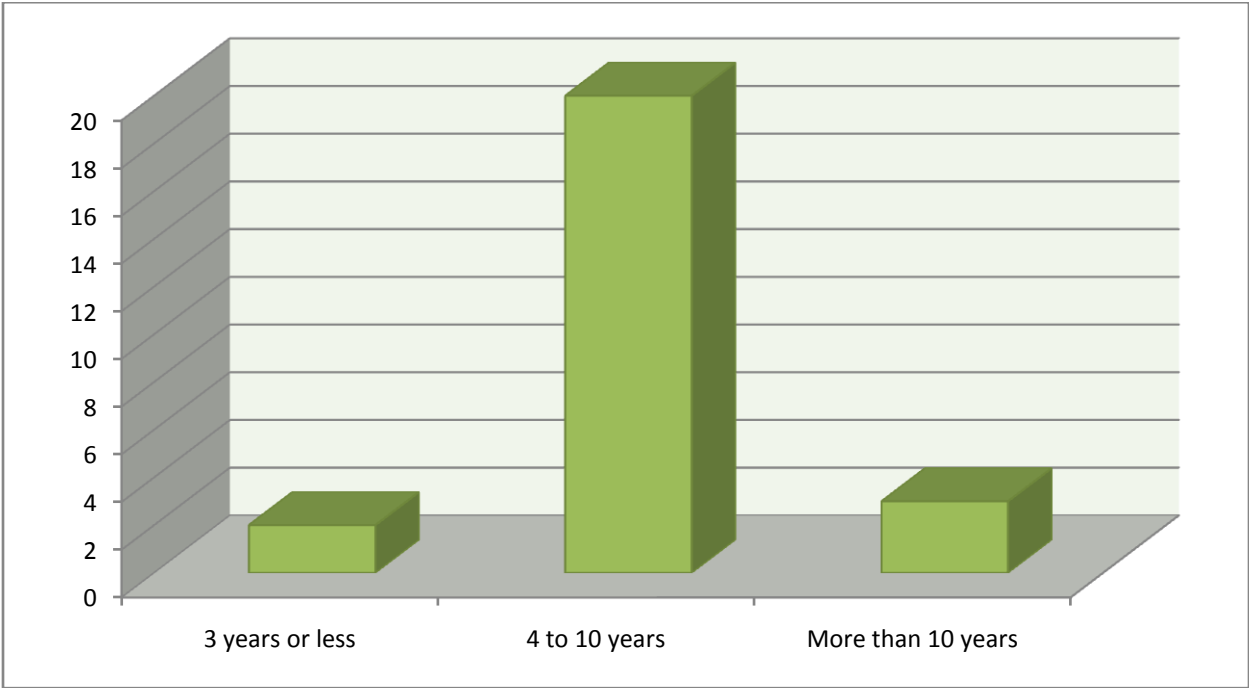
Graphical representation of Question 9

Q. 10 How long has bank been using any form of credit rating score in the evaluation of personal property risks?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3 years or less	2	8.0	8.0	8.0
	4 to 10 years	20	80.0	80.0	88.0
	More than 10 years	3	12.0	12.0	100.0
Total		25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents, 80% of respondent choose option 2 – “4 to 10 years”. 3% of respondent choose option 3 – “More than 10 years” and 2% of respondent choose option 1 – “3 years or less”.



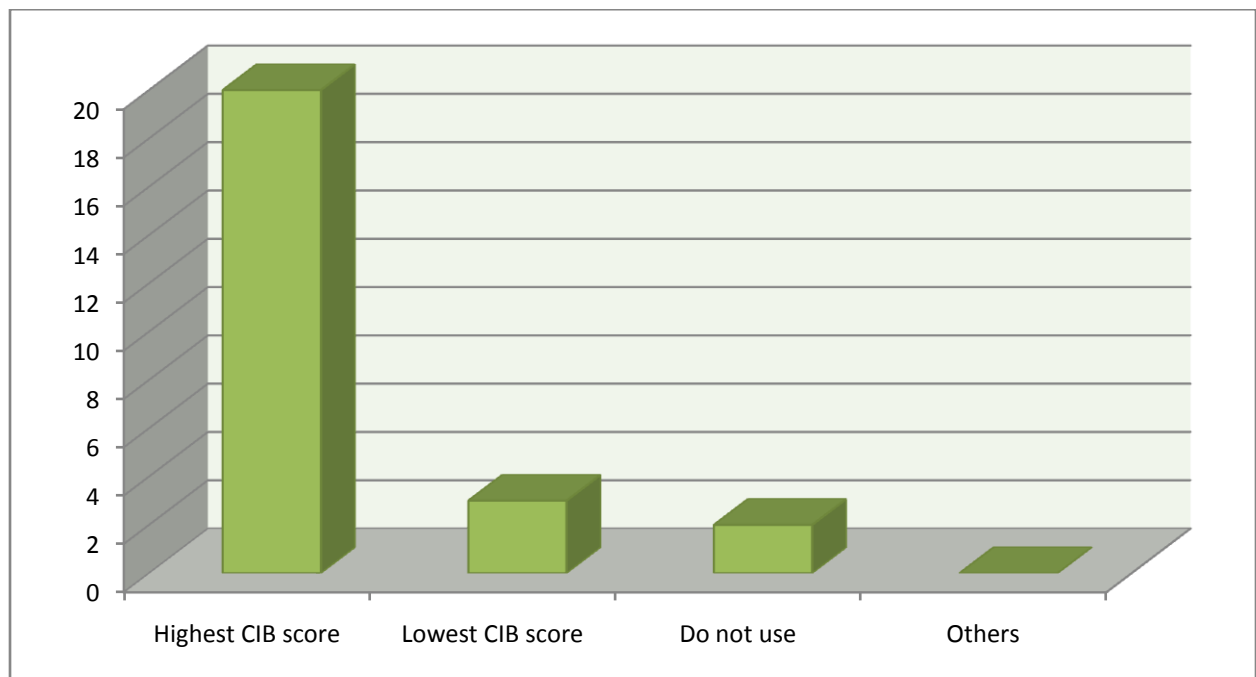
Graphical representation of Question 10

Q. 11 When there is more than one applicant, which credit rating score does bank use in the qualification of new business if the scores are different?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Highest CIB score	20	80.0	80.0	80.0
Lowest CIB score	3	12.0	12.0	92.0
Do not use	2	8.0	8.0	100.0
Others	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents 80% prefer option 1 “Highest CIB score”, 12% prefer “Lowest CIB score”, 8% prefer option 3 “Do not use” and 0% prefer option 4 “Others”.



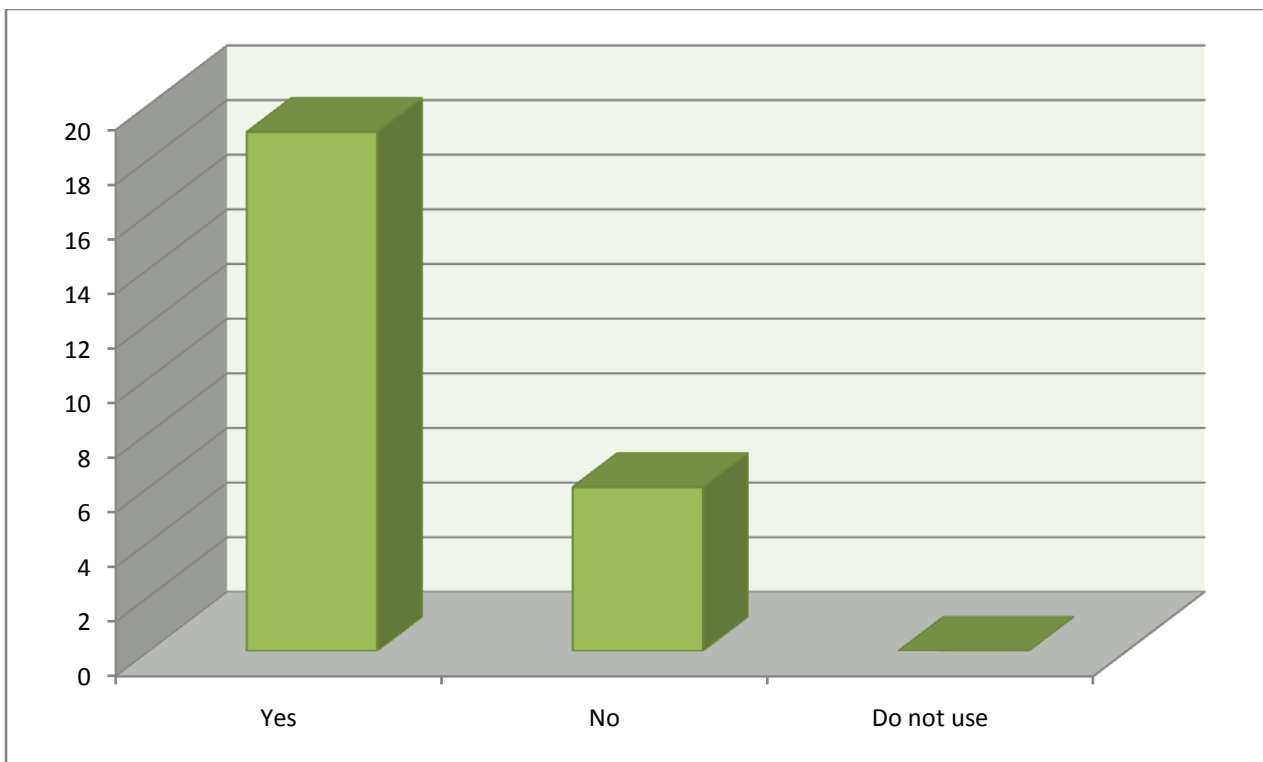
Graphical representation of Question 11

Q. 12 Does your company use CIB scores as a factor in deciding whether or not to underwrite or renew a personal property insurance policy?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	19	76.0	76.0	76.0
	No	6	24.0	24.0	100.0
	Do not use	0	0	0	0
Total		25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that from 25 respondents 76% prefer option 1 “Yes”, 24% prefer “No”, and 0% prefers option “Do not use”.



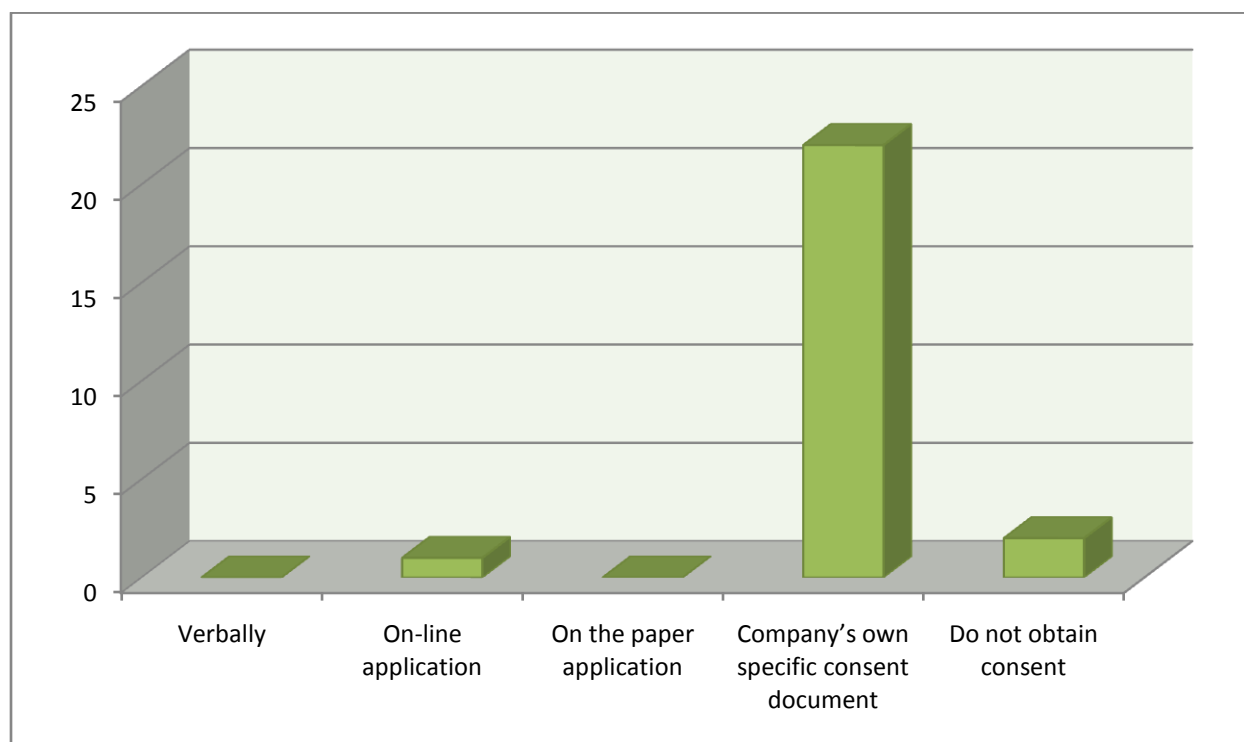
Graphical representation of Question 12

Q. 13 How is the consent obtained? Select all that apply.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Verbally	0	0	0	0
	On-line application	1	4.0	4.0	4.0
	On the paper application	0	0	0	0
	Company's own specific consent document	22	88.0	88.0	92.0
	Do not obtain consent	2	8.0	8.0	100.0
	Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, from 25 respondents 88% of respondent prefer option 4 “Company’s own specific consent document”, 8% prefer option 5 “Do not obtain consent” and 4% respondent prefer option 2 “On-line application”.



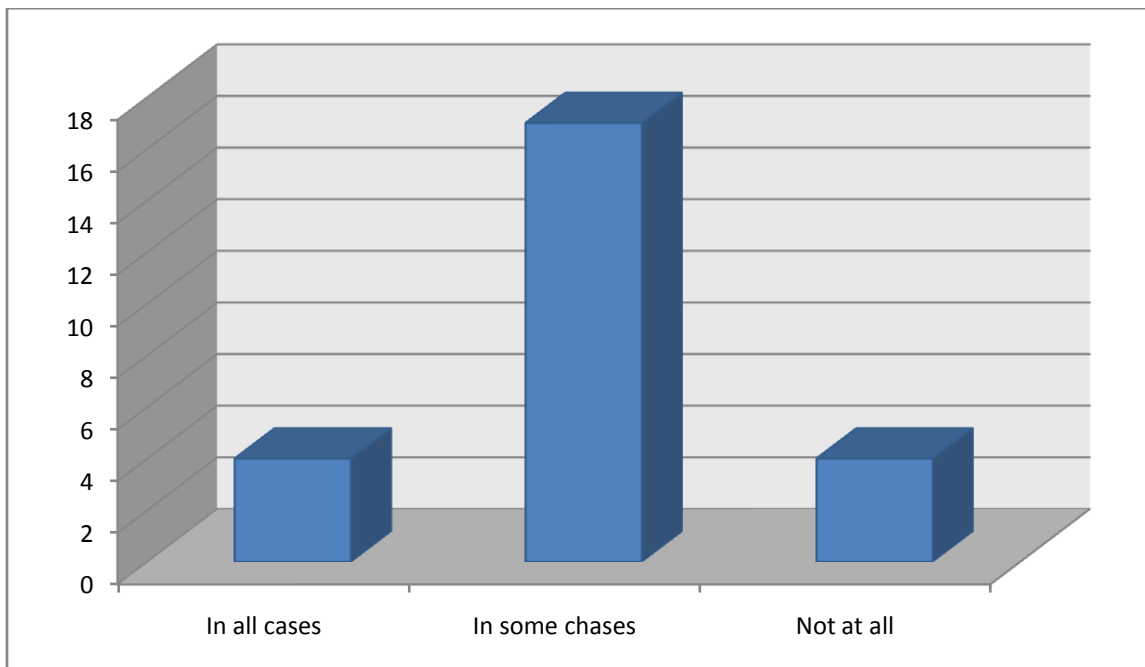
Graphical representation of Question 13

Q. 14 If bank uses a credit rating score that results in an adverse effect on qualification or rating of the applicant, do you advise the applicant?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid In all cases	4	16.0	16.0	16.0
In some chases	17	68.0	68.0	84.0
Not at all	4	16.0	16.0	100.0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that, from 25 respondents, 68% prefer option 2 - “In some cases”, 16% prefer option 1 – “In all cases” and remaining 16% prefer - “Not at all”.



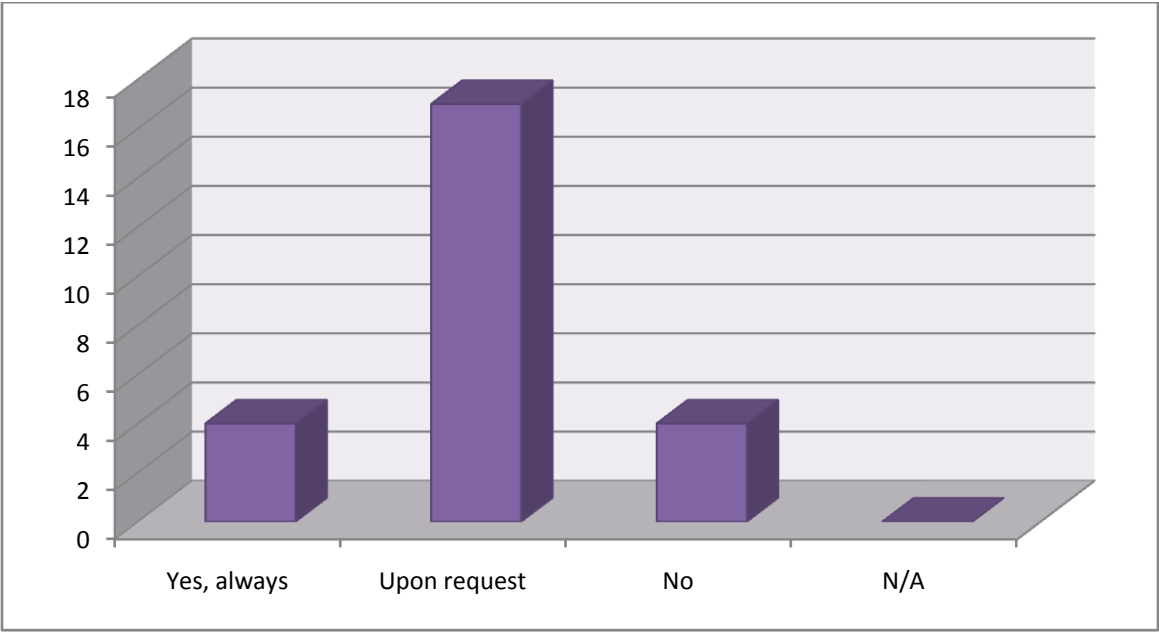
Graphical representation of Question 14

Q. 15 Does bank provides credit agency information to the applicant so that the applicant can verify the information?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, always	4	16.0	16.0	16.0
Upon request	17	68.0	68.0	84.0
No	4	16.0	16.0	100.0
N/A	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

Here the survey shows that, from 25 respondents, 68% prefer option 2 – “Upon request”, 16% prefer option 1- “Yes, always” and remaining 16% prefer option 3 – “No”.



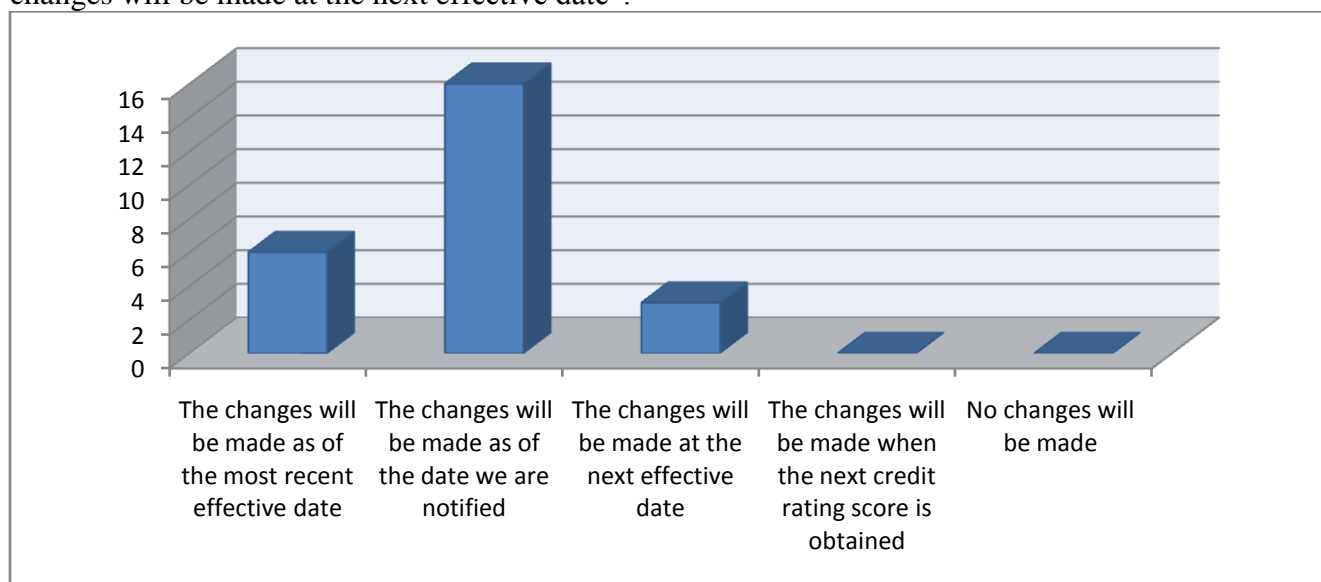
Graphical representation of Question 15

Q. 16 If an applicant has credit information corrected or changed by the credit agency and informs you, will bank make rating changes?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid The changes will be made as of the most recent effective date	6	24.0	24.0	24.0
The changes will be made as of the date we are notified	16	64.0	64.0	88.0
The changes will be made at the next effective date	3	12.0	12.0	100.0
The changes will be made when the next credit rating score is obtained	0	0	0	0
No changes will be made	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, from 25 respondents 64% prefer option 2- “The changes will be made as of the date we are notified”, 24% prefer option – 1 “The changes will be made as of the most recent effective date” and remaining 12% prefer option 3 – “The changes will be made at the next effective date”.



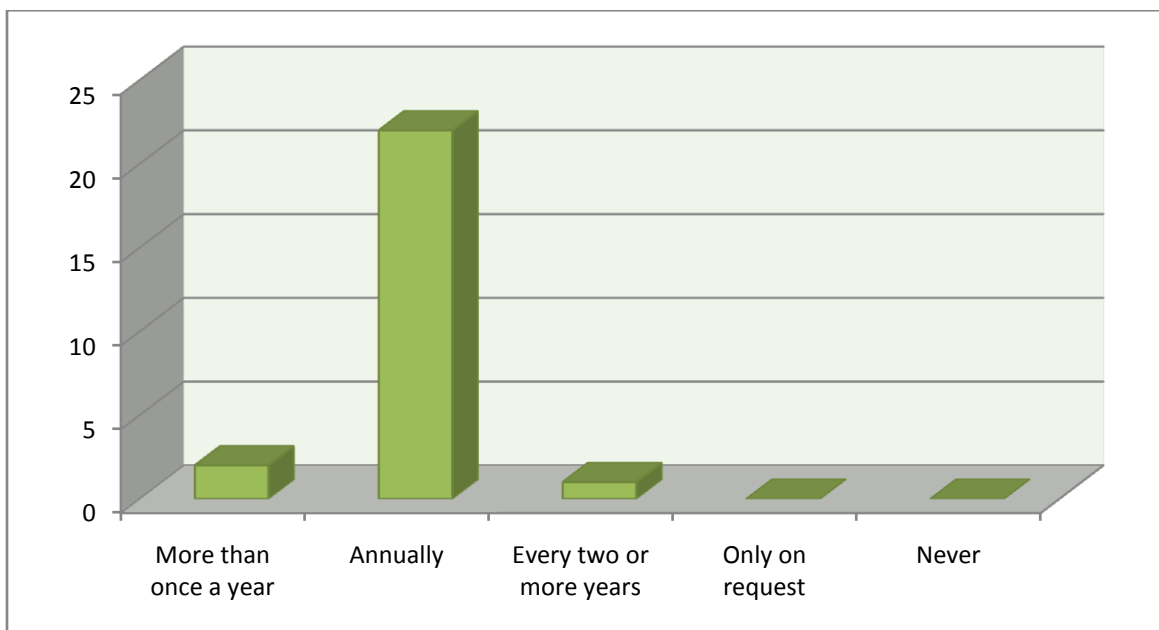
Graphical representation of Question 16

Q. 17 How often is the credit rating score updated?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	More than once a year	2	8.0	8.0	8.0
	Annually	22	88.0	88.0	96.0
	Every two or more years	1	4.0	4.0	100.0
	Only on request	0	0	0	0
	Never	0	0	0	0
	Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, form 25 respondents 88% prefer option 2 - “Annually”, 8% prefer option – 1 “More than once a year” and remaining 4% prefer option 3 – “Every two or more years”.



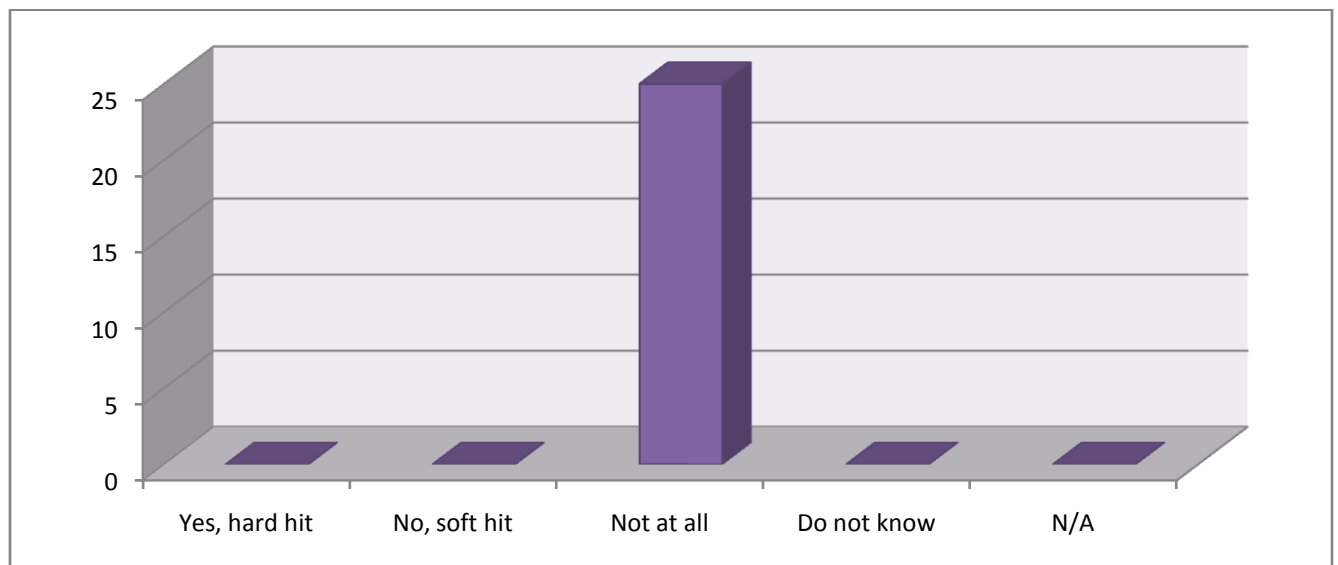
Graphical representation of Question 17

Q. 18 When your company accesses a CIB score, does its inquiry have an impact on the applicant/policyholder's credit rating?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, hard hit	0	0	0	0
No, soft hit	0	0	0	0
Not at all	25	100.0	100.0	100.0
Do not know	0	0	0	0
N/A	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, form 25 respondents 100% respondent prefer option 3 – “Not at all”.



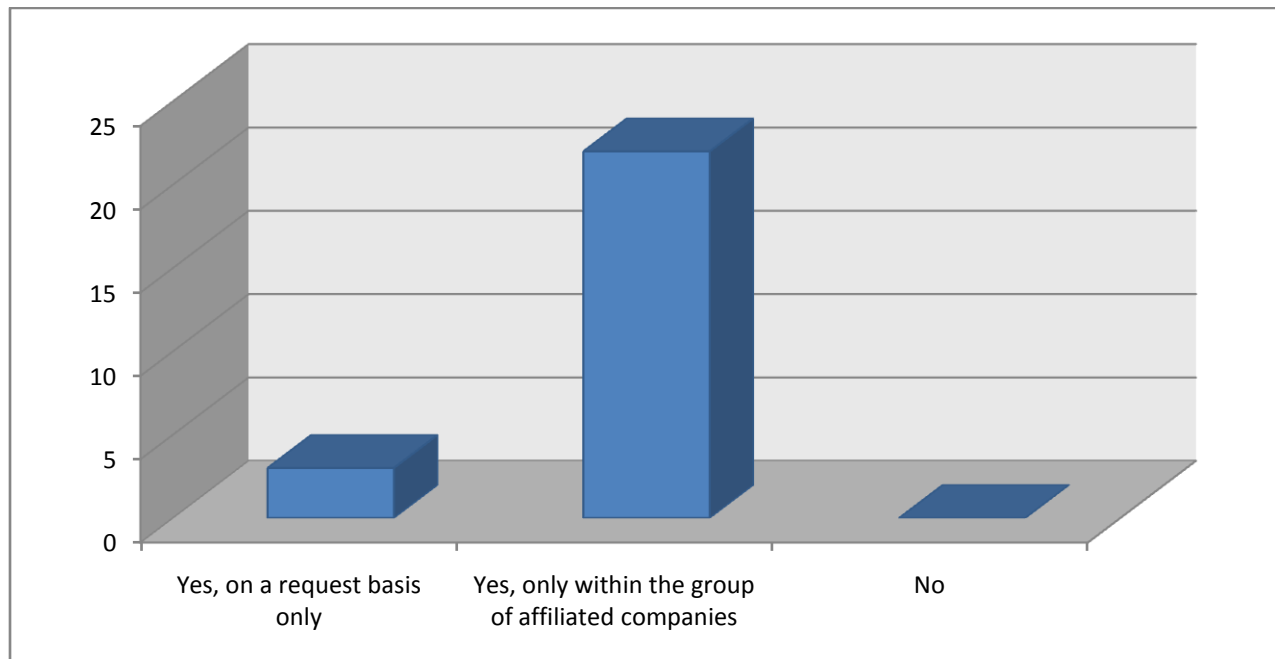
Graphical representation of Question 18

Q. 19 Is a credit rating score shared with other insurers?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, on a request basis only	3	12.0	12.0	12.0
Yes, only within the group of affiliated companies	22	88.0	88.0	100.0
No	0	0	0	
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, from 25 respondents 88% respondent prefer option 2 - “Yes, only within the group of affiliated companies”, and remaining 3% prefer option 3 – “Yes, on a request basis only”.



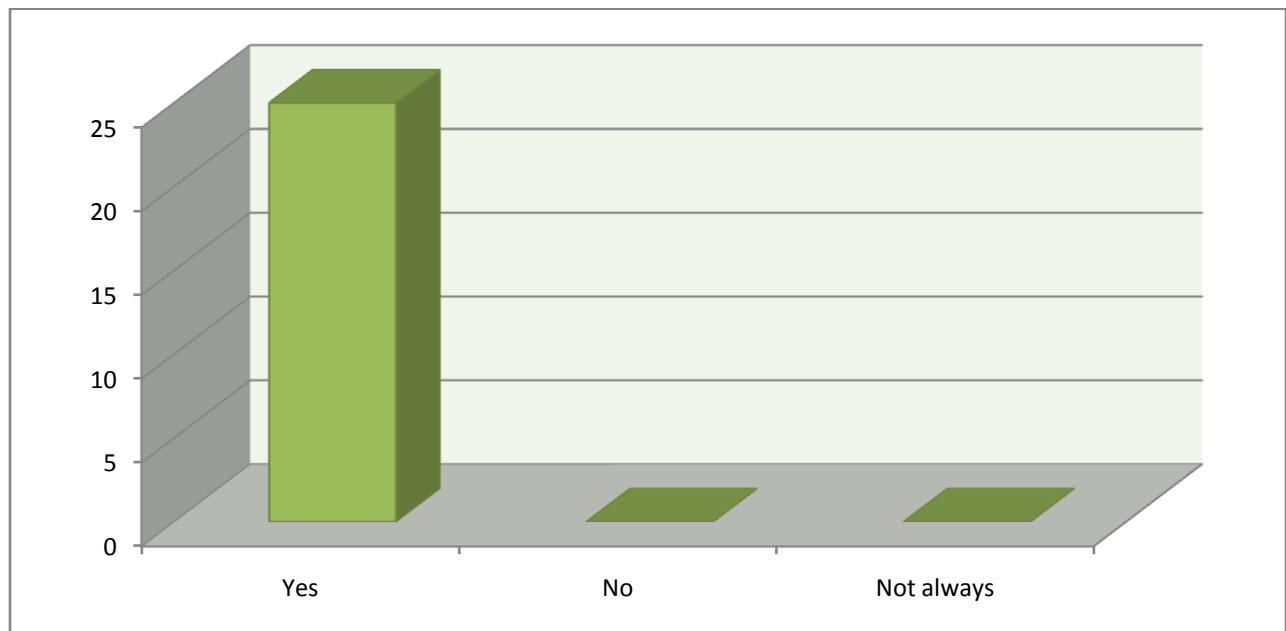
Graphical representation of Question 19

Q. 20 Does factory visits are made before approved the loan?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not Always	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, form 25 respondents the entire 100% respondent prefers option 1 - “Yes”.



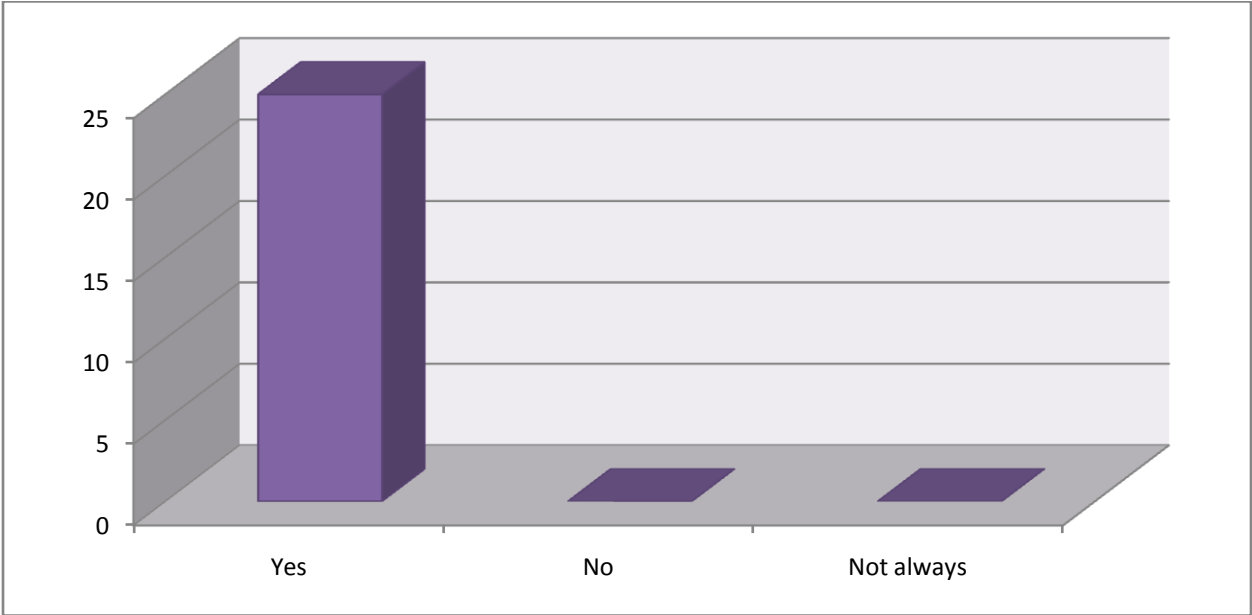
Graphical representation of Question 20

Q. 21 Does the officers well aware of different business type?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	100.0	100.0	100.0
No	0	0	0	0
Not always	0	0	0	0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, form 25 respondents the entire 100% respondent prefers option 1 - “Yes”.



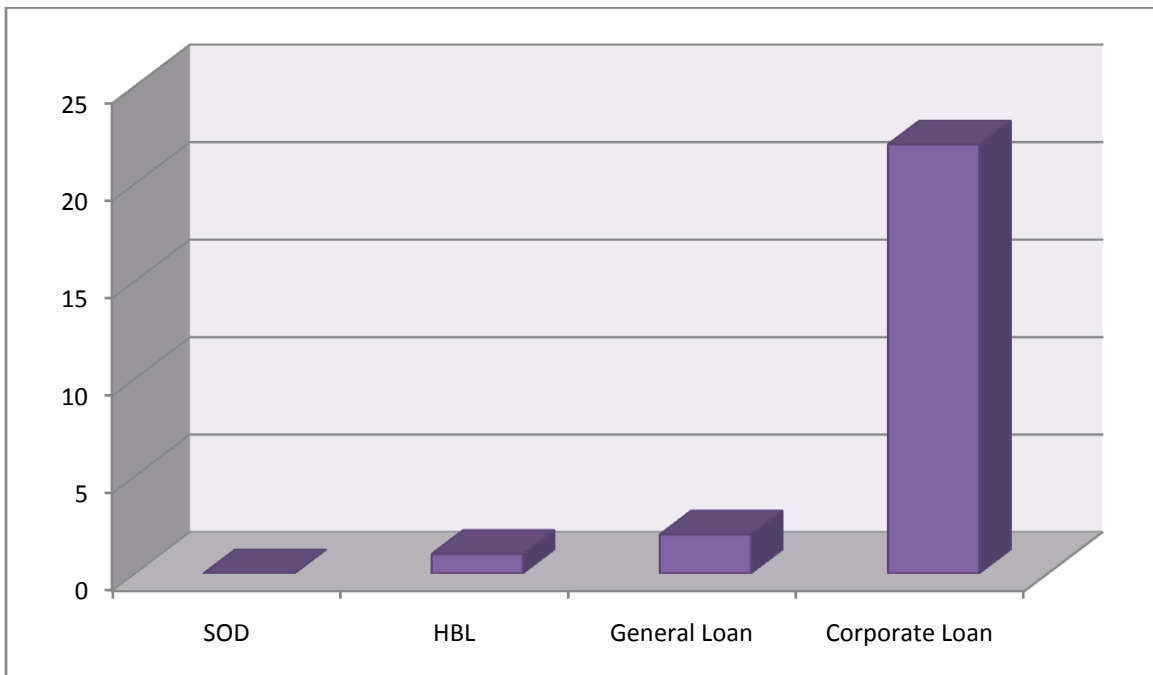
Graphical representation of Question 21

Q. 22 What kind of credit is more profitable?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid SOD	0	0	0	0
HBL	1	4.0	4.0	4.0
General Loan	2	8.0	8.0	12.0
Corporate loan	22	88.0	88.0	100.0
Total	25	100.0	100.0	

Source: Field survey data, 2014

From the survey it has been found that, form 25 respondents 88% respondent prefer option 4 - “Corporate loan”, 8% prefer option - 3 “General Loan” and remaining 4% prefer option 2 – “House Building Loan”.



Graphical representation of Question 22

9.2 Findings And Recommendation based on survey:

Findings:

- The credit risk management is quite commendable, systematic and timely monitoring and appropriate documentation are tried to be maintained.
- Customer satisfaction level is quite good .Informal conversation with some customers reveals that they are quite satisfied with the service in regards to disposals of credit proposals .
- Bank Follow the overall credit assessment and risk grading process according to Bangladesh bank.
- Filing procedure is not maintained in a definite and clear manner .It is difficult to locate the documents in a chronological and sequential manner. A definite practice, though mentioned in the credit policy is not always maintained by the credit officials.
- Though IFIC Bank is a first generation private bank and enjoys highest reputation in the market while profitability is also commendable .It is observed that the bank could not yet fully equipped with all types of online facilities .However ,it is found that the bank recently developing in this area .
- Credit processing and disbursement procedure is comparatively delayed due to non utilization of modern technology which is followed by multinational bank.

Recommendation:

- Respective personnel should be trained to overcome the deficiency in regards to increase productivity of employees. The Bank can organize more training program and workshop to make the employees more efficient in their sector.
- An uninterrupted network system has to be ensured. It will save the officials from much hassle and will save time.
- The credit sanction procedure should be made quicker since competition is very hard in today's business world .People do not want to wait for three to four weeks on an average to get a loan which is even protected by security .
- Decision making process can be made more decentralized .participative approach should be adopted to gain prompt and effective result.
- Filing is very important component of proper documentation .It has to be dealt with importance

10. Conclusion:

Banking sector of Bangladesh consists of several nationalized and private banks. They are doing their activities and highly contribute to the national economy. Among them IFIC Bank Limited also makes significant contribution to the economy. They are performing their activities, as a result not only the bank but also the economy is benefited. The bank is performing general banking, Loan-advance, foreign exchange activities etc, as a result they are mobilizing the money and do well for the economy. Although they have some limitations in their services, they are doing tremendous job for the economy. If they can reduce their limitation and introduce new ideas, they can do better in the banking sector of Bangladesh.

11. GLOSSARY:

PPG - PRODUCT PROGRAM GUIDELINES- where every rules and regulations are mentioned for each and every specifics product, e.g. what types of security will be kept and the document which will be required to keep, eligibility to get the loan, age limit etc .

Mortgage property:

A debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large real estate purchases without paying the entire value of the purchase up front.

Deed:

A legal document that grants the bearer a right or privilege provided that he or she meets a number of conditions. In order to receive the privilege - usually ownership, the bearer must be able to do so without causing others undue hardship. A person who poses a risk to society as a result of holding a deed may be restricted in his or her ability to use the property.

Demand Promissory Note (D.P):

A loan with no fixed term or set duration of repayment. It can be recalled upon the lenders request, assuming the notice required by the provisions of the loan is met.

12. Reference

Bangladesh Bank (2003), *Managing Core Risks in Banking: Credit Risk Management*, Dhaka: Bangladesh Bank, Head Office.

Credit Risk Grading Manual, Dhaka: Bangladesh Bank, Head Office.

Annual report IFIC BANK LTD. 2012, 2013

<http://www.ificbank.com.bd/>

13. Appendix

12.1. Questionnaire:

Dear respondent,

As a student of BRAC University, I am conducting a survey on “**Loan processing, Credit Appraisal, Follow-up & Recovery Procedure system of IFIC bank Limited**”, as a requirement of my three months internship program in IFIC Bank Limited. Kindly note that this is an academic study and the findings will remain confined within academic interests. I am ensuring you that I will use this information only for the purpose of writing my internship report.

Please fill in the questionnaire.

Name of the respondent: _____

1. Did the Bank get itself credit rated by a credit rating agency, which is on the approved by Bangladesh Bank?

Yes No Not Always

2. Did the Bank update its credit rating for the last financial year within six months from the date of close of the financial year?

Yes No Not Always

3. Did the Bank submit the credit rating report complete in all respects to the Bangladesh Bank within seven days of its receipt from credit rating agency?

Yes No Not Always

4. Did the Bank make public the credit rating report within seven days of its receipt from the credit rating agency?

Yes No Not Always

5. Did the Bank disclose prominently its credit rating in its published annual and quarterly financial statements?

Yes No Not Always

6. Did the Bank fully secure itself against all guarantees issued for the conditions mentioned in the Regulation of Bangladesh Bank?

Yes No Not Always

7. In Bank's view, is the credit rating score of an applicant a valid predictor about future credit loss experience?

- Yes No Not Always

8. Which credit reporting agency does your company use?

- Credit Rating Information and Services Ltd (CRISL)
 Credit Rating Agency of Bangladesh Ltd (CRABL)
 National Credit Ratings Ltd (NCRL)
 Emerging Credit Rating Ltd (ECRL)

9. What type of Credit rating score does Bank use?

- Credit score provided by a credit reporting agency.
 Third party report.
 Credit information or history only, no credit score provided by a credit reporting agency.
 Others (_____)

10. How long has bank been using any form of credit rating score in the evaluation of personal property risks?

- 3 years or less
 4 to 10 years
 More than 10 years

11. When there is more than one applicant, which credit rating score does bank use in the qualification of new business if the scores are different?

- Highest CIB score
 Lowest CIB score
 Do not use
 Other (_____)

12. Does your company use CIB scores as a factor in deciding whether or not to underwrite or renew a personal property insurance policy?

- Yes
 No
 Do not use

13. How is the consent obtained? Select all that apply.

- Verbally
- On-line application
- On the paper application
- Company's own specific consent document
- Do not obtain consent
- Other (_____)

14. If bank uses a credit rating score that results in an adverse effect on qualification or rating of the applicant, do you advise the applicant?

- In all cases
- In some cases
- Not at all
- N/A

15. Does bank provides credit agency information to the applicant so that the applicant can verify the information?

- Yes, always
- Upon request
- No
- N/A

16. If an applicant has credit information corrected or changed by the credit agency and informs you, will bank make rating changes?

- The changes will be made as of the most recent effective date
- The changes will be made as of the date we are notified
- The changes will be made at the next effective date
- The changes will be made when the next credit rating score is obtained
- No changes will be made

17. How often is the credit rating score updated?

- More than once a year
- Annually
- Every two or more years
- Only on request
- Never

18. When your company accesses a CIB score, does its inquiry have an impact on the applicant/policyholder's credit rating?

- Yes, hard hit
- No, soft hit
- Not at all
- Do not know
- N/A

19. Is a credit rating score shared with other insurers?

- Yes, on a request basis only
- Yes, only within the group of affiliated companies
- No

20. Does factory visits are made before approved the loan?

- Yes No Not Always

21. Does the officers well aware of different business type?

- Yes No Not Always

22. What kind of credit is more profitable?

- SOD HBL General Loan Corporate Loan

Thanks for your co-operation