# Internship Report

# On

## "Credit Management System" of

## International Finance Investment & Commerce (IFIC) Bank Limited

### A Study on Setabganj Branch


**SUBMITTED BY:**

**MD. ABU ZAFAR**
Student ID: E130502091
2nd Batch, Semester-v
MBA (Evening), Major in Finance
Faculty of Business Studies
HSTU, Dinajpur.


*This Report is submitted to the Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur for the Fulfillment of the Degree "Masters of Business Administration (Evening)" Program.*

***Date of Submission: May 09, 2016***


**Faculty of Business Studies**
**Hajee Mohammad Danesh Science and Technology University**
**Dinajpur**

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**SUBMITTED TO:**

**ABUL KALAM**
Assistant Professor & Chairman
Department of Marketing
HSTU, Dinajpur.

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**Approved by:**


**Supervisor**

**ABUL KALAM**
Assistant Professor & Chairman
Department of Marketing
HSTU, Dinajpur.

**Co-supervisor**

**DR. MD. ZAHANGIR KABIR**
Associate Professor & Dean
Faculty of Business Studies
HSTU, Dinajpur.

**Faculty of Business Studies**
**Hajee Mohammad Danesh Science and Technology University**
**Dinajpur**

# TITLE OF THE REPORT

## "Credit Management System" of

### International Finance Investment & Commerce (IFIC) Bank Limited

### A Study on Setabganj Branch

**Dedicated to My Parents**

# LETER OF TRANSMITTAL

April 22, 2016

**Abul Kalam**
**Assistant Professor & Chairman**
**Department of Marketing**
**HSTU, Dinajpur.**

**Subject: Submission of Internship Report.**

**Dear Sir,**

With the passage of time, I have completed my report under your guidance as a part of my internship program requirement. I have finalized the report on the topic **"Credit Management System" of International Finance Investment & Commerce (IFIC) Bank Limited, A study on Setabganj Branch.** My contribution will be best evaluated on your sharp scale of acceptance and remarks. Consequently, I am transmitting my report to your very concern.

Hopefully, you will appreciate my well-researched, informative approach. In case of any further clarification, I would be honored to consult with you.

Thanking You,

With best regards,

______________________

**Md. Abu Zafar**
Student ID-E130502091
MBA (Evening), Major in Finance
HSTU, Dinajpur

**Hajee Mohammad Danesh Science and Technology University**
**Dinajpur, Bangladesh**

Phone: +88-0531-61355
Web: www.hstu.ac.bd

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## Certificate From Supervisor

This is to certify that Md. Abu Zafar, Student ID- E130502091, a student of Master of Business Administration (MBA)-Evening, major in Finance under the faculty Business Studies of Hajee Mohammad Danesh Science and Technology University, Dinajpur. He has successfully completed comprehensive internship program which is approved and suitable in eminence. During the period of his internship in International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj Branch, he acquired practical knowledge as well as showing satisfactory overall performance to study and work on the title **"Credit Management System" of International Finance Investment & Commerce (IFIC) Bank Limited, A Study on Setabganj Branch.**

I wish him all success in life.

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**Abul Kalam**
**Assistant Professor & Chairman**
**Department of Marketing**
**HSTU, Dinajpur.**

**Hajee Mohammad Danesh Science and Technology University**
**Dinajpur, Bangladesh**

Phone: +88-0531-61355
Web: www.hstu.ac.bd

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# Certificate From Co-supervisor

This is to certify that Md. Abu Zafar, Student ID- E130502091, a student of Master of Business Administration (MBA)-Evening, major in Finance under the faculty Business Studies of Hajee Mohammad Danesh Science and Technology University, Dinajpur. He has successfully completed comprehensive internship program which is approved and suitable in eminence. During the period of his internship in International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj Branch, he acquired practical knowledge as well as showing satisfactory overall performance to study and work on the title **"Credit Management System" of International Finance Investment & Commerce (IFIC) Bank Limited, A Study on Setabganj Branch.**

I wish him all success in life.

______________________

**Dr. Md. Zahangir Kabir**
**Associate Professor & Dean**
**Faculty of Business Studies**
**HSTU, Dinajpur.**

**SETABGANJ BRANCH, DINAJPUR**
CABLE FININVEST TEL: (05325) 73202, FAX: 88-05325-73203
Email: alhelal@ificbankbd.com

**IFICB/SETAB/2016/363** **April 20, 2016**

# TO WHOM IT MAY CONCERN

This is to certify that Mr. Md. Abu Zafar, a student of MBA (Evening) Major in Finance, Faculty of Business Studies of **Hajee Mohammad Danesh Science and Technology University (HSTU)** bearing student ID-E130502091 has been completed 45(Forty Five) days **"Internship Program"** at our Branch with effect from 06.03.2016 to 20.04.2016. The participation of Md. Abu Zafar, interns in the Internship Program at our Branch has also been found impressive, praiseworthy & enthusiastic.

We wish him every success in life.

**Md. Al Helal Chowdhury**
**AVP & Manager**
**IFIC Bank Ltd.**
**Setabganj Branch**
**Setabganj, Dinajpur.**

# ACKNOWLEDGEMENT

First of all I would like to thanks almighty Allah who has given me the energy, efforts, ability of patience for whose mercy, I have been able to complete my internship program and to prepare the internship report. I also like to thanks the family of Hajee Mohammad Danesh Science and Technology University, International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj Branch & my family members who are help me for completion MBA.

I would like to take the opportunity to express my gratitude to my honorable Supervisor Mr. Abul Kalam, Assistant Professor & Chairman, Department of Marketing, HSTU, Dinajpur. I would like to extend my gratitude to him for his familiar guidance, expert supervision and inspiration during the preparation of the report.

I am also grateful to Co-supervisor Mr. Md. Zahangir Kabir, Associate Professor & Dean, Faculty of Business Studies, HSTU, Dinajpur for his/her continuous support, feedback & guidance to complete the report.

Finally, I offer my special thanks to the supervisor of this internship program and who has assigned me the title **"Credit Management System" of International Finance Investment & Commerce (IFIC) Bank Limited, A Study on Setabganj Branch.** I am really satisfied with my assigned title and to my supervisor.

**Md. Abu Zafar**
Student ID-E130502091
MBA (Evening), Major in Finance
HSTU, Dinajpur.

# ACRONYMS AND ABBREVIATION

| | |
|---|---|
| IFIC | : International Finance Investment & Commerce (Bank Limited) |
| CC(H) | : Cash Credit (Hypothecation) |
| BG | : Bank Guarantee |
| PG | : Personal Guarantee |
| EM | : Earnest Money |
| SOD | : Secured Overdraft |
| SME | : Small & Medium Enterprise |
| RSys | : Retail Credit Loan Processing System |
| FO | : Financial Obligation |
| HO | : Head Office |
| CAD | : Credit Administration Division |
| CRG | : Credit Risk Grading |
| CRM | : Credit Risk Management |
| RRM | : Retail Risk Management |
| BSB | : Bangladesh Shilpa Bank |
| DFI | : Development Financing Institution |
| PCB | : Private Commercial Bank |
| NCB | : Nationalized Commercial Bank |
| BB | : Bangladesh Bank |
| BMRE | : Balancing Modernization Rehabilitation and Expansion |
| GEN | : General |
| ECC | : Export Cash Credit |
| LTR | : Loan Against Trust Receipt |
| LIM | : Loan against Imported Merchandise |
| PC | : Packing Credit |
| FDBP | : Foreign Documentary Bill Purchased |
| IDBP | : Inland Documentary Bill Purchased |
| PAD | : Payment against Document |
| DBR | : Debt Burden Ratio |
| CPV | : Contact Point Verification |
| EMI | : Equal Monthly Installment |
| NID | : National Identification Number |
| TIN | : Tax Identification Number |
| LOI | : Letter of Introduction |
| BATCH | : Bangladesh Automated Clearing House |
| RBD | : Retail Banking Division |
| RAT | : Retail Assessment Team |
| CNG | : Compressed Natural Gas |
| CIB | : Credit Information Bureau |
| ROI | : Return on Investment |
| ERR | : Effective Rate of Return |

# CONTENTS

# Chapter-01

## 1.1 Introduction

Across the country, there are 56 number of commercial bank are providing their services to the customer where some bank are domestic & some foreign bank. Customer demand for unsecured & secured loans has increased substantially in recent years. With positive domestic changes and increase in income, it is expected that this growth will continue at pace**.** So competition between commercial bank has made the situation so difficult. In this regard, International Finance Investment & Commerce (IFIC) Bank Limited has tried to provide services to the customer so quickly.

In our banking industry some banks have been offered same loan facilities in same rate of return. Customer has to choose where he will take the most comparative offer with lowest cost. In this situation, IFIC Bank has make difference from other commercial bank. IFIC Bank has always made the focus on customer satisfaction through services. Here IFIC Bank has offered various retail loan under consumer financing like Easy Loan, Consumer Durable Loan, Parua(Educational) Loan, Home Loan, Peshajeebi Loan, Auot Loan, Festival Loan, Any Purpose Loan, Marriage Loan, CNG Conversion Loan, Renovation/Interior Decoration Loan, Medical Loan, Holiday Loan, Salary Loan etc, SME loan under SME financing such as CC(H), Term Loan (Short/Long Term), Easy-Comm. Loan, IFIC Shiplo Shahay, IFIC Shilpo Shanjog, Woman Entrepreneur Credit, and Agricultural Loan such as IFIC Krishi Shilpo, IFIC-Suborno Gram-Crop/Live Stock, Poshupokkhi & Matsho Khamr Rin, Krishi Saranjam Rin, Phalphasali Rin, IFIC Green Financing such as IFIC-Bio Gas, IFIC-Souro Shakti, 10 Taka A/c holders loan, & Loan General (Bidders), BG, PG etc for the contractual customer. IFIC Bank has established a Women Entrepreneur Dedicated Desk in every branch for women entrepreneur.

IFIC Bank has individual loan processing and disbursement system for retail, SME & SOD loan. Branch & SME Centre make the proposal through assessment of the customer financial stability, growth, security value & requirement of fund. Then branch input all the information in prescribed format for SME Loan & CF (Consumer Financing) for retail customer. Branch can make sanction letter only for SOD loan & send the request for limit & disbursement to the CAD (Credit Administration Department), Head Office after completion loan documentation Check List (LDCL). Branch cannot provide any sanction letter or disburse retail loan and SME loan without prior sanction letter of CAD (Prior approval of CRM of SME) & RRM of retail risk management of Head Office.

After sanction any kind of retail loan & SME loan, branch prepare a loan document check list (LDCL) format provide by Head Office, branch sanction and sending request letter to CAD (both SME & retail credit). Before sending request letter to Head office, branch has been scanning all the relevant document & attached credit disposal system. After satisfaction of document officer of CAD, he/she make a memo & send it to the Limit Input Unit of CAD. Limit Input Unit has input the limit (sanction amount) in credit disposal system & pass the file to disbursement unit where they make a loan ID. All that happened in a shortest possible time.

## 1.2 Importance of the study

The purpose of the study to know the loan processing system & recovery of loan of IFIC Bank Limited. IFIC Bank Limited is the pioneer bank in Bangladesh to introduce consumer loan, SOD(Easy), SOD(LM) etc. This study is useful to both borrower & employee who are intended to work in credit division.

The economy of Bangladesh is growing faster. The bank industry of Bangladesh is come to adjust with the change. In this situation, all the activities of IFIC Bank Ltd. try to present to the customer newly.

This study is useful to the student for their study, consumer & businessman for their requirement of fund. In the bank perspective, this study is useful to the potential & future customer of IFIC Bank Limited because of any customer try to get his/her facility without any barrier where he will get benefit.

Students who are commerce background have to know the credit system of commercial bank. This study will helpful for those student how driven the loan processing system & recovery of the loan by IFIC Bank Limited. This type of student may be chose his/her career as banker or businessman. So this study will also help the potential customer.

On the other hand, who are already working in credit desk of IFIC Bank Limited this study will help to them. Every customer has tried to get smooth service from bank. So every officer of credit desk has to clean & clear concept regarding eligibility of loan customer. Finally the finding of the study would provide data base for further research work.

## 1.3 Objectives

There are certain objectives of the study. These are:

I. To know/analysis factors considered to sanction the loan;
II. To know the loan sanction process of IFIC Bank Limited, Setabganj Branch;
III. To analysis the problems facing by the IFIC Bank Limited to recovery the loan;
IV. Proving recommendation to solve the problem related to disbursement and recovery the loan.

## 1.4 Limitation of the Study

The report is not free from limitations. Some of them are:

I. **Shortage of Time:** Due to the time limit, the scope of the study has been curtailed. For an analytical purpose adequate time is required.

II. **Secrecy:** There are a lot of secret matters in the bank. So I could not provide more & more information in the study.

III. **Lack of Knowledge:** My assigned job for retail loan. So I am providing more information regarding retail loan. But the SME & others loan I have not enough knowledge.

IV. **Budget:** Though the data collection & gathering data is expensive but as an employee of IFIC Bank Limited data collection & processing the data on this study is not difficult for me.

# Chapter-02

## 2.1 History of Banks in Bangladesh

After the Liberation War and the eventual independence of Bangladesh, the Government of Bangladesh reorganized the Dhaka branch of the State Bank of Pakistan as the central bank of the country, naming it Bangladesh Bank. The banking sector had to start a fresh journey in the war-ravaged Bangladesh after independence in 1971. The government took over all banks under a nationalization order in 1972 **[Rahman, Sajjadur (19 February 2010)]** and the Bangladesh Bank came into existence retroactively from 16 December 1971.

Bangladesh Bank acts as a central bank for our country and it controls, supervises, and looks after the scheduled banks in the private commercial banks as well as the nationalized commercial banks formed by amalgamating the business of the twelve banks doing business in Bangladesh before liberation as per schedule given below:

| Existing Bank | New Bank | Authorized Capital (Lac Tk.) | Paid-up Capital (Lac Tk.) |
|---|---|---|---|
| The National Bank of Pakistan, The Bank of Behawalpur Ltd. | Sonali Bank | **500** | **200** |
| The Premier Bank Ltd., The Habib Bank Ltd., The Commerce Bank Ltd. | Agrani Bank | **500** | **100** |
| The United Bank Ltd., The Union Bank Ltd. | Janata Bank | **500** | **100** |
| The Muslim Commercial Bank Ltd., The Standard Bank Ltd. | Rupali Bank | **500** | **100** |
| The Austrasia Bank Ltd., The Eastern Mercantile Bank Ltd. | Pubali Bank | **500** | **100** |
| The Eastern Banking Corporation Ltd. | Uttara Bank | **500** | **100** |

**Source: http://www.assignmentpoint.com/business/banking/history-banking-bangladesh.html**

The Bangladesh government initially nationalized the entire domestic banking system and proceeded to reorganize and rename the various banks. Foreign-owned banks were permitted to continue doing business in Bangladesh. The government's encouragement during the late 1970s and early 1980s of agricultural development and private industry brought changes in lending strategies. Managed by the Bangladesh Krishi Bank, a specialized agricultural banking institution, lending to farmers and fishermen dramatically expanded. The number of rural bank branches doubled between 1977 and 1985, to more than 3,330 **[Heitzman, James; Worden, Robert, eds. (1989)].**

Bangladesh Shilpa Bank (BSB) established under the Bangladesh Shilpa Bank Order 1972 **(Presidential Order No. 129 of 1972)** on 31 October 1972, to provide credit facilities and equity support to industrial enterprises in Bangladesh. It is the International Finance Investment & Commerce (IFIC) development financing institution (DFI) in the country for extending financial assistance for industrialization. Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Songstha (BSRS) were merge into Bangladesh Development Bank ltd (BDBL) at 16th November 2009 and come to effective at 3rd January 2010.

In the meantime, the policy of the government towards banking industry regarding economic management has changed since 1976. That year private sector had been entrusted to play a bigger role in the economy than before. Accordingly, in order to provide more credit to local investors the private sector banking had been introduced. Government decided to allow setting up of local Private Commercial Banks (PCB) in addition to Nationalized Commercial Banks (NCB) operating in the country.

**There are 56 number of schedule Banks and there establishment year are as follows:**

## State-owned Commercial Banks

There are six State-Owned Commercial Banks in Bangladesh:

| SI No. | Name of Bank | Establishment Year |
|---|---|---|
| 01 | Sonali Bank Limited | 1972 |
| 02 | Janata Bank Limited | 1972 |
| 03 | Agrani Bank Limited | 1972 |
| 04 | Rupali Bank Limited | 1972 |
| 05 | BASIC Bank Limited | 1999 |
| 06 | Bangladesh Development Bank Ltd. | 2009 |

**State-owned Specialized Banks**

There are two State-Owned Specialized Banks in Bangladesh:

| SI No. | Name of Bank | Establishment Year |
|---|---|---|
| 07. | Bangladesh Krishi Bank Limited | 1973 |
| 08. | Rajshahi Krishi Unnoyon Bank (RKUB) | 1986 |

**Private commercial banks**

There are thirty two Private Commercial Banks in Bangladesh:

| SI. No. | Name of Bank | Establishment Year |
|---|---|---|
| 09. | Pubali Bank Limited | 1972 |
| 10. | IFIC Bank Limited | 1983 |
| 11. | AB Bank Limited | 1982 |
| 12. | National Bank Limited | 1983 |
| 13. | The City Bank Limited | 1983 |
| 14. | United Commercial Bank Limited | 1983 |
| 15. | Eastern Bank Limited | 1992 |
| 16. | NCC Bank Limited | 1993 |
| 17. | Prime Bank Limited | 1995 |
| 18. | Mercantile Bank Limited | 1999 |
| 19. | Mutual Trust Bank Limited | 1999 |
| 20. | One Bank Limited | 1999 |
| 21. | Southeast Bank Limited | 1995 |
| 22. | Dhaka Bank Limited | 1995 |
| 23. | Dutch Bangla Bank Limited | 1996 |
| 24. | Bangladesh Commerce Bank Limited | 1997 |
| 25. | Bank Asia Limited | 1999 |
| 26. | Standard Bank Limited | 1999 |

| | | |
|---|---|---|
| 27. | The Premier Bank Limited | 1999 |
| 28. | Trust Bank Bangladesh Limited | 1999 |
| 29. | BRAC Bank Limited | 2001 |
| 30. | Jamuna Bank Limited | 2001 |
| 31. | The Farmers Bank Limited | 2012 |
| 32. | Meghna Bank Limited | 2013 |
| 33. | Midland Bank Limited | 2013 |
| 34. | Modhumoti Bank Limited | 2013 |
| 35. | NRB Bank Limited | 2013 |
| 36. | NRB Commercial Bank Limited | 2013 |
| 37. | NRB Global Bank Limited | 2013 |
| 38. | South Bangla Agriculture and Commerce Bank Limited | 2013 |
| 39. | Uttara Bank Limited | 1972 |

**<u>Private Islamic Commercial Banks</u>**

There are eight Private Islamic Commercial Banks in Bangladesh:

| SI. No. | **Name of Bank** | **Establishment Year** |
|---|---|---|
| 40. | Islami Bank Bangladesh Limited | 1983 |
| 41. | ICB Islamic Bank Limited | 1987 |
| 42. | Al-Arafah Islami Bank Limited | 1995 |
| 43. | Social Islami Bank Limited | 1995 |
| 44. | First Security Islami Bank Limited | 1999 |
| 45. | Export Import Bank of Bangladesh Limited | 1999 |
| 46. | Shahjalal islami Bank Limited | 2001 |
| 47. | Union Bank Limited | 2013 |

**Foreign commercial banks**

There are nine Foreign Commercial Banks currently operating in Bangladesh. These are:

| SI. No. | **Name of Bank** | **Establishment Year** |
|---|---|---|
| 48. | Citibank NA | |
| 49. | Standard Chartered Bank | |
| 50. | State Bank of India | 1975 |
| 51. | Habib Bank Limited | 1976 |
| 52. | Bank Al-Falah | 1992 |
| 53. | National Bank of Pakistan | 1994 |
| 54. | HSBC (The Hong Kong and Shanghai Banking Corporation Ltd.) | 1996 |
| 55. | Commercial Bank of Ceylon | 2003 |
| 56. | Woori Bank | 2001 |

**Source: https://en.wikipedia.org/wiki/List_of_banks_in_Bangladesh**

## 2.2 History of IFIC Bank Limited, Setabganj Branch

International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj Branch was started business as on December 15, 2010 with 09 (nine) no. of employee vide Bangladesh Bank approval letter no. -110/2010 dated August 10, 2010 at Holding No.-521, School Road, Mushidhat, Ward no.03, Paurashava-Setabganj, Thana- Bochaganj, Dist.-Dinajpur.

At the time of opening Mr. Md. Al Helal Chowdhury, Senior Staff Officer (SSO) is the manager of this branch. By the passage of time he is appreciated, awarded & promoted to SSO to Assistant Vice President (AVP) for his outstanding performance of the branch. At present his continuing his job at the same branch.

After a challenging journey of 04 (four) years IFIC Bank Limited, Setabganj Branch have stand on strong financial back ground. Branch has only one time face his negative position due to huge opening & operating cost. From 2010 the branch has always running with profit due to highly successful leadership by the branch managers, tremendous performance by the officers and policy, product & support by the Head office. Now branch has BDT 640.00 million credit portfolio & total deposit of BDT 240.00 million. There are about 5000 nos. of various account maintain by the customer with us.

**2.3 <u>Type of Loan</u>**

Generally IFIC Bank Limited, Setabganj Branch performing or offering three type of loan to the borrower. There are:

a) Commercial Loan
b) Consumer Financing &
c) Agricultural Loan

**a) Commercial Loan:** Commercial Loans are two types. There are

**I . Term Loan:**

* Short term: Up to and including 12 months
* Medium term: More than 12 months up to and including 60 months
* Long Term: More than 60 months

**II. Continuous Loan:**

* No fixed repayment schedule,
* Have a limit and
* An expiry date at which it is renewable on satisfactory performance

Term loan & Commercial loan have various modes. These are:

**Demand Loan**

Repayable on demand by the bank and no fixed installment or repayment schedule are laid down. If any contingent or other liabilities are turned to forced loans (i.e. without any prior approval as regular loan) those too will be treated as Demand Loans.

**Agriculture**

- Loans to primary producers:
- This sub-sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or livestock.
- Loans to processors or traders of agricultural products are not to be categorized as agricultural loans
- Loans to tea gardens for production are treated as agricultural loan, but loans to tea gardens for export will be treated as "Export Credit"
- Similarly medium and long-term loans to tea gardens are categorized as industrial term lending

**Term Loan to Large & Medium Scale Industry**

- Advances accommodate the medium and long term financing for capital formation of new Industries or for BMRE of the existing units who are engaged in manufacturing of goods and services.
- Term loan to tea gardens may also be included in this category depending on the nature and size.
- Financing under this category have fixed repayment schedule it may fall under the heads Loan (Gen)/Hire-Purchase/Lease Financing etc

**Term Loans to Small & Cottage Industries**

- Medium and long term loans allowed to small & cottage manufacturing industries.
- Small industry is presently defined as those establishments whose total investment in fixed capital such as land, building, machinery and equipment (excluding taxes and duties) does not exceed BDT 30 million and investment in machinery and equipment (excluding taxes and duties) does not exceed BDT 10 million. Cottage industries also fall within this definition
- No short term or continuous credits will be included in this category

- Medium & Long term loans to weaver are also included in this category
- Like the Large & Medium Scale Industry it is also allowed in the form of Loan (Gen)/Hire Purchase/Lease Financing etc.

**Working Capital**

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size - big, medium or small, fall under this category. These are usually continuous credits and as such fall under the head "Cash Credit".

**Export Credit**

Credit facilities allowed to facilitate export of all items against Letter of Credit and/or confirmed export orders fall under this category. It is accommodated under the heads "Export Cash Credit (ECC)", Packing Credit (PC), Foreign Documentary Bill Purchased (FDBP), Inland Documentary Bill Purchased (IDBP) etc.

**Commercial Lending**

- Short term Loans and continuous credits allowed for commercial purposes other than exports fall under this category.
- It includes import financing for local trade, service establishment etc.
- No medium and long term loans are accommodated here.
- This category of advance is allowed in the form of (I) Loan against Imported Merchandise (LIM, (ii) Loan against Trust Receipt (LTR), (iii) Payment Against Documents (PAD), (iv) Secured Overdraft (SOD), (v) Cash Credit etc. for commercial purposes.

**Others**

Any loan that does not fall in any of the above categories is considered under the category "Others". It includes loan to-

- Acquire transport equipments,
- Complete construction works including housing
- Execute work/supply orders,
- Consumers, etc.

**Source: IFIC Bank Ltd. (Mrs. Shahina Akhter, SAVP, CRM)**

# Chapter-03

## 3.1 Methodology of the Study

International Finance Investment & Commerce (IFIC) Bank Ltd. is the leading bank in banking industry of Bangladesh. They are present the report in publicly which are highly satisfactory. Their record keeping systems are appreciable. Methodology is contain of sample size, sample selection procedure, process of collecting data, interpreting data, analyzing the data & other relevant activities. The methodology developed for this study is presented below in a sequential manner:

### 3.1.1 Sample of Data

For the study, Credit Risk Management Division, Credit Administration Division, Limit Unit & Disbursement Unit which are related to credit policy of IFIC Bank limited are considered as the sample for the study. I have also considered branch management, some good customer & defaulted customer.

### 3.1.2 Sample Area

The area of the study covered the operational area, particularly Investments & Credit, and financial aspects of IFIC Bank Limited, Setabganj Branch.

### 3.1.3 Sample Size

Departmental heads and other concerned officials, particularly those associated with the credit division and CRM, CAD Department of the bank & credit officer of other branches were consulted to get the required data & information.

### 3.1.4 Sample Selection Method

As a credit officer of IFIC Bank Limited I have imposed direct observation to select sample to develop the study. Sometimes I have contact with my senior colleague & through question over phone to develop the study. This study is completely operational & IFIC Bank Limited has the policy for loan procedure system. So I have not any chance to by pass the policy.

### 3.2 <u>Data Collection Method</u>

The study was conducted on the basis of both primary and secondary sources of information.

#### 3.2.1 Primary Data

Primary data were collected through over phone with bank's officials and direct observation on making loan proposal, disbursement & recovery loan from the customer.

#### 3.2.2 Secondary Data

Different types of secondary data are included in this study. Sources of secondary information are given as follows:

- Study of Relevant documents.
- Observing the operations of credit department of IFIC Bank Ltd.
- Discussion with the supervisor.
- Annual reports of IFIC Bank Ltd.
- Internet, Web site of IFIC Bank Ltd. & BB.
- Credit Policy Manual.
- Different books and periodicals related to the banking sector.
- Bangladesh Bank Report.

### 3.3 <u>Some Terminology used by the IFIC Bank Limited, Setabganj Branch</u>

There are some technical points/systems which IFIC Bank Limited, Setabganj Branch is duly considered at the time of loan processing or preliminary stage. These are:

I. **<u>Background:</u>** Preliminary stage of loan processing IFIC Bank Ltd., Setabganj Branch is try to know about education, parents & family status of the borrower.

II. **<u>Job/Business Standing:</u>** IFIC Bank Ltd., Setabganj Branch also try to know about borrowers job profile, nature of business (details) like producer, major items, annual sales, receivables, payables etc.

III. **Life Style:** Marriage record, children, travel record, quality of life, taste of cars, dress & residence are the sign of life style of the borrower.

IV. **Loan behavior & Willingness to repay:** Loan repayment record, cheque return history & commitment to repay the proposed loan are found on assessment of the bank statement of the borrower.

V. **Net Worth of the applicant:** Cash, deposit, ownership of shop, vacant land & investment in business follow the borrower's net worth.

VI. **Guarantor's Status:** Social standing, willingness & ability to stand as guarantor is the point to asses a loan.

VII. **Security:** Security which offered by the borrower against his loan it may be collateral or primary.

VIII. **Safety:** Safety depends first upon (i) the security and its value offered by the borrower and (ii) the repaying capacity and willingness of the borrower to repay the loan with interest.

IX. **Liquidity:** It refers to the ability of an asset to be converted into cash without loss and within a short time to meet depositor's demand for cash.

X. **Profitability:** IFIC Bank Ltd. must employ its fund in such a way that they will bring adequate return for the bank, which should be more than cost of the funds.

XI. **Purpose:** The purpose for which IFIC Bank Ltd., Setabganj Branch will provide loan should be productive so that the money not only safe but also provides a definite source of repayment.

Considering these points IFIC Bank Ltd., Setabganj Branch can get the concept about the borrower & they have made a score on the above mentioned point.

# Chapter-04

## 4. Findings

### 4.1 Factors Considered to Sanction a Loan:

I. **Considering 5 C'S:** First of all when a customer come to bank to borrow money, the bank will consider 5 C's (Character, Capacity, Collateral, Capital & Conditions) of the borrower. This 5 C's determine the credit worthiness of the borrower.

II. **Type of Business:** At the time of sanction loan bank must consider where he invest his money.

III. **Age Limit:** Applicant (Proprietor) age 20-22 years at the time of application & not exceed more than 65 years (New business). If the business is older & applicant age is over 65 years bank could consider this age bar subject to second line.

IV. **Performance Evaluation Through Bank Statement:** Bank must observe his bank statement for repayment record or any check return record. Bank also calculating his credit turn over in year to understand his business size or demand of amount loan.

V. **Business Experience:** The borrower have to sound experience in the relevant business line/industry.

VI. **Market Demand of the Business:** Bank must consider current market demand of the product which related to the business.

VII. **Security Offered by Borrower:** Which type of security put as mortgage by borrower against the loan.

VIII. **Second Line of Business:** Bank have consider successor regarding discontinuing of proprietor of the business.

IX. **Size of Business:** Size of business is the factor to sanction a loan.

X. **Age of Business:** The borrower must have minimum 2-3 years of business experience.

XI. **Backward & Forward Linkage:** The business has smooth supply of the product & have good distribution channel.

XII. **Owner's Equity:** Bank must consider owners equity in the business at the time of sanction loan.

XIII. **Competitor:** Who are the competitor & range of the competition faced by the borrower/business consider by the bank.

XIV. **Raw Material Availability:** Product of the business must be available in the market.

XV. **Transport System:** Which transport used by the borrower to make his business is considered by the bank.

XVI. **Guarantor/Guarantee:** In general bank wants reputed person (successful businessman, have strong social standing etc) as well as member of family as guarantor of the proposed loan.

XVII. **Avoiding PEP's:** Those who are PEP's (Politically Exposed Person) banks is not interested to provide any loan to them.

XVIII. **Profitability:** Finally banks will be look after his profit in every business relation as a commercial bank. So bank wants that every business must earn profit

## 4.2 Loan Sanctioning Process:

### 4.2.1 Application for the loan

The loan process has started with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides following information:

- Personal detail of applicant
- Nature of business

- Amount and duration of the loan
- Purpose of the loan
- Details of the collateral

### 4.3 Preparation of Loan Proposal

Based on financial and management analysis and need of the client and his capability to conduct the business, credit officer shall design the credit proposal keeping in mind on the following issues:

- Purpose of the credit
- Experience in the similar business
- Risk, Remuneration
- Ancillary business
- Validity Loan Period & Business Profitability
- Debt Equity Ratio
- Repayment capacity & Production capacity
- Market demand of the product

### 4.4 Pre-step of Preparation of Loan Proposal

There are pre-step to make a loan proposal. These are very important to evaluate the loan proposal. These are:

- Evaluating project and proposal
- Collecting Information About Client About project
- Legal Assessment of security through panel Lawyer
- Evaluating Project by Agent

### 4.5 SME Credit Proposal Processing Flowchart

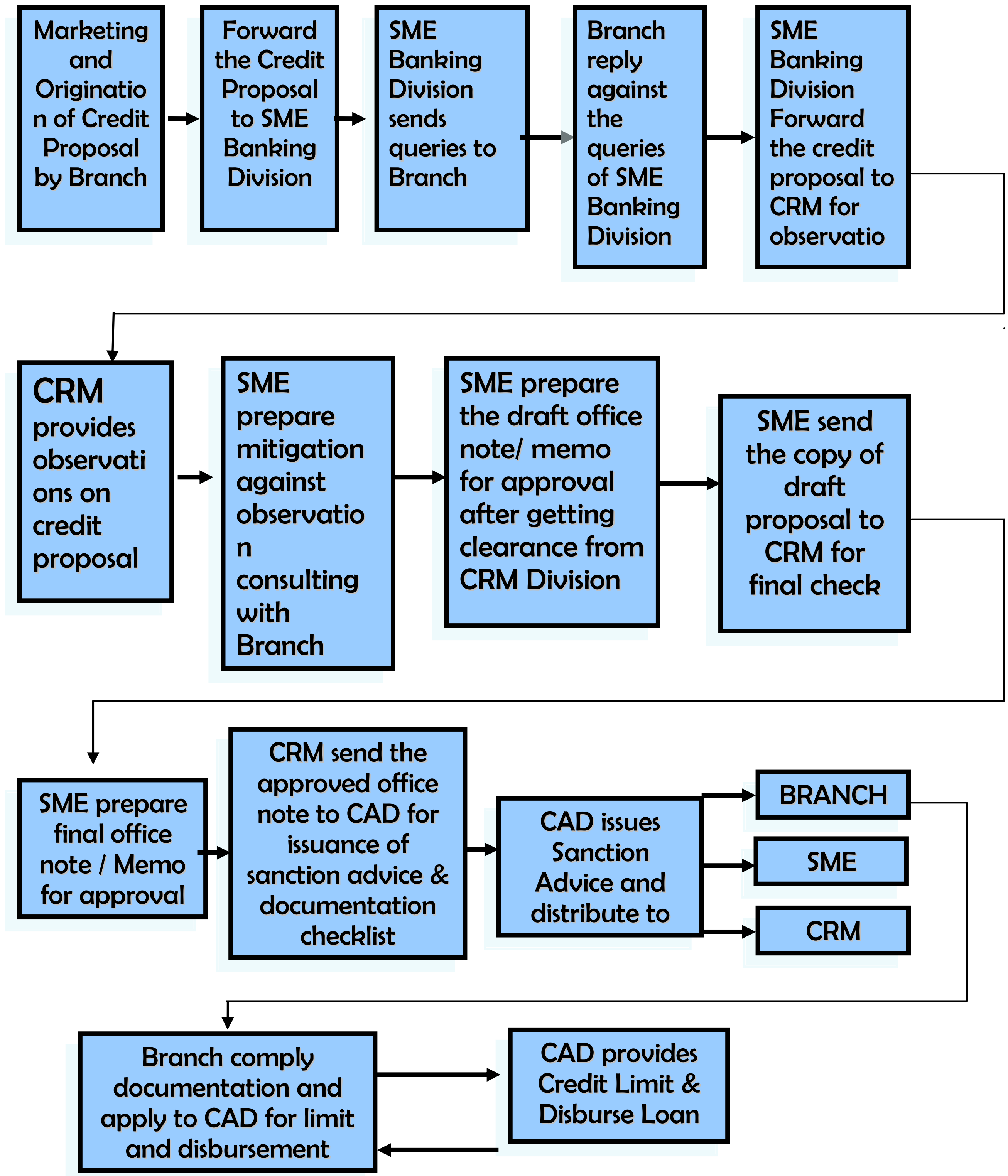



**Fig 01: Flowchart of SME Credit Proposal Processing**

**Source: IFIC Bank Ltd. (Mrs. Shahina Akhter, SAVP & Manager, CRM)**

## 4.6 Factors/Subject of Approval of Loan Proposal

There are several issues related to the loan proposal. Credit Officer should be more concentrated to make this type of loan proposal. The following issues are found in the prescribed loan proposal format:

- ✓ **Point-01:** Loan amount, nature of loan, expiry date, interest rate, cost of deposit of branch, type of financing & purpose of loan are mentioned in the point one.
- ✓ **Point-02:** Description of the security such as amount of land, type of security, security value etc.
- ✓ **Point-03:** Performance of the business of borrower for last 02 or 03 years.
- ✓ **Point-04:** All loans are associated with risk. So IFIC has the main intension to measuring risk to sanction or making any credit proposal. All the concern officers who are working in credit desk have to assess credit risk first.

### Credit Risk

Credit Risk is the possibility that a borrower or counterparty will fail to meet obligations. Credit risk arises from the bank's dealings with or lending to the corporate, individual and other banks or financial institutions. To minimize losses, banks should have comprehensive credit risk management policies and procedures.

### Credit Risk Management

- To select Good Credit Risk
- CRM – Steps
  - Risk Identification
  - Risk Assessment
  - Risk Grading
  - Risk Pricing
  - Risk Monitoring

Risk Factor are 02 (Two) type:

| Internal Risk Factors | External Risk Factors |
|---|---|
| ▪ Risk in Planning<br>▪ Risk in Execution/Implementation<br>▪ Marketing Risks<br>▪ Financial Risks<br>▪ Managerial Risks | ▪ Input/Utility Availability<br>▪ Govt. Policies<br>▪ Natural Calamities<br>▪ Technological Obsolescence<br>▪ Political Situations |

**<u>Risk Grading Chart</u>**

| NUMBER | GRADING | SHORT NAME | SCORE |
|---|---|---|---|
| 1 | Superior | SUP | Fully cash secured, secured by government guarantee/international bank guarantee |
| 2 | Good | GD | 85+ |
| 3 | Acceptable | ACCPT | 75-84 |
| 4 | Marginal/Watchlist | MG/WL | 65-74 |
| 5 | Special Mention | SM | 55-64 |
| 6 | Sub Standard | SS | 45-54 |
| 7 | Doubtful | DF | 35-44 |
| 8 | Bad & Loss | BL | <35 |

**<u>CRG Assessment Procedure</u>**

**Step-I: Identify all the Principal Risk Component**

- Financial Risk: Probability of failure to meet obligation due to fin. distress

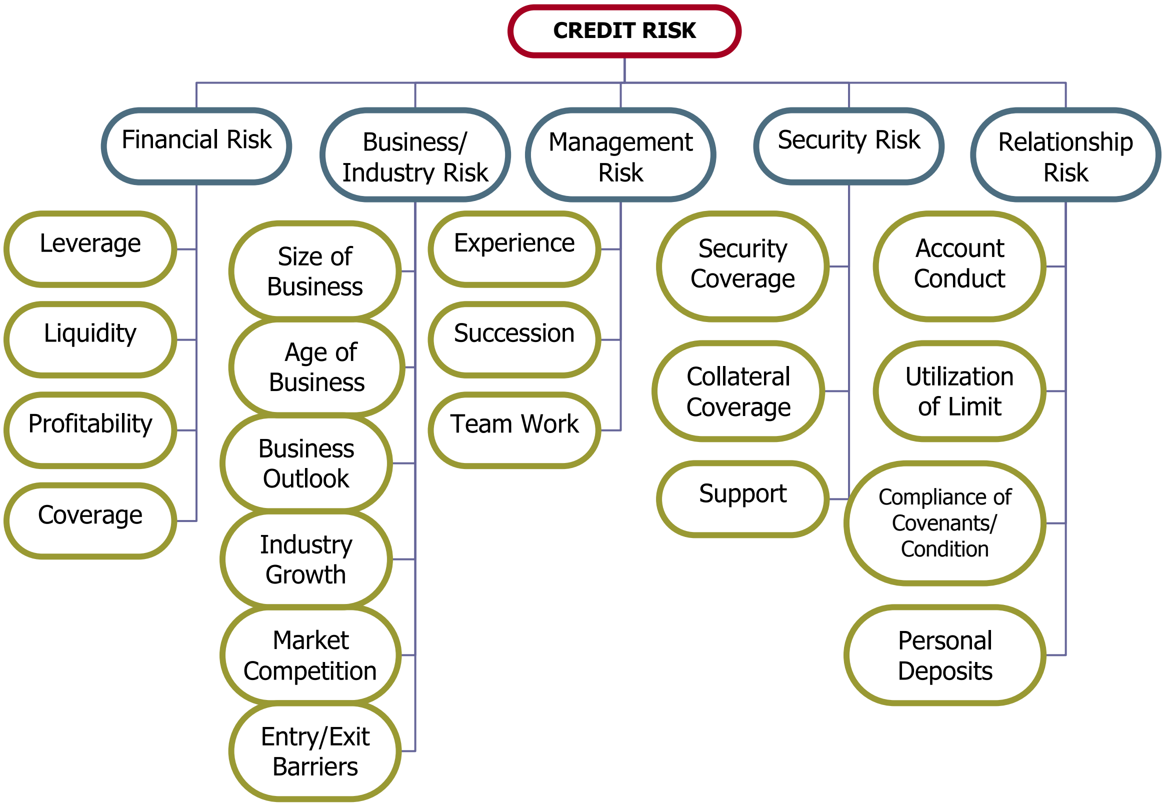
  - High Leverage
  - Poor Liquidity
  - Low Profitability
  - Insufficient Cash Flow

- Business/ Industry Risk: Adverse Ind. situation/unfavorable business condition to impact repayment
- Management Risk: Probability of Default due to poor managerial ability
- Security Risk: Probability of Default due to poor quality of security
- Relationship Risk: Risk areas in terms of Borrower relationship

**Step-II: Distribution of Weight age to Risk Components**

| **Risk Components** | | **Weight** |
|---|---|---|
| * Financial Rist | --- | 50% |
| * Business/Industry Risk | --- | 18% |
| * Management Risk | --- | 12% |
| * Security Risk | --- | 10% |
| * Relationship Risk | --- | 10% |

**Step-III: Credit Risk Components and Key Parameters**




- ✓ **Point-05:** Details of facilities with IFIC Bank Limited in the name of the customer & its concerns.
- ✓ **Point-06:** Details information regarding customer such as background of the customer, name of business, address, status, phone number, customer ID, TIN, investment in business, time of relation with us, paid-up capital, net worth, sales, net profit & approach of the customer etc.
- ✓ **Point**-07: Owner's information like name, residence address, stock, cash in hand, liabilities & real estate (Encumbered & Non-encumbered) are described at this point.
- ✓ **Point-08:** Proposed and existing facilities are described at this point subsequently the security which offered by the borrower is mention in this point.
- ✓ **Point**-09: Checking like CIB report, trade checking & audit objection.
- ✓ **Point**-10: Group's other liabilities& Group's total exposure with IFIC Bank limited and group's other liability with other financial institution.
- ✓ **Point**-11: Audited or un-audited financial position of the business organization.

- ✓ **Point-**12: Assessment of working capital. i.e how many amount needed for the business organization which calculative based on his present worthiness and required amount.

| Item | Tied up period (Days) | Present Year | | Projected Year | |
|---|---|---|---|---|---|
| | | Per day requirement | W.C. Requirement | Per day requirement | W.C. Requirement |
| **(i)** | | | | | |
| **1. Cost of Goods Sold (Less: Depreciation )** | | | | | |
| **2. Receivables** | | | | | |
| **3. Total W. C. Requirement** | | | | | |
| **4. Less: Account Payable** | | | | | |
| **5. Less: Advance Receipt** | | | | | |
| **6. Working Capital Requirement** | | | | | |
| **7. Proposed Bank Finance** | | | | | |
| **8. Customer's equity** | | | | | |
| **Debt : Equity Ratio** | | | | | |

**Source: IFIC Bank Ltd. (Mrs. Shahina Akhter, SAVP & Manager, CRM)**

- ✓ **Point-13:** Analysis of Financial information such as ratio analysis, cash flow statement, income statement & balance sheet of the organization. The following ratio are very important:
    - Current Ratio
    - Quick Ratio
    - Profitability Ratios
    - Gross Profit Margin
    - Net Profit Margin
    - Asset utilization Ratios
    - Receivable Turn over (in days)
    - Inventory Turn over (in days)
    - Sales to Working Capital
    - Debt utilization Ratios
    - Debt to Equity Ratio

- ✓ **Point-14:** Details of the business of the customer like size of the business premises, store room & office, manpower and Management's key person and successor's skill and their experience etc.
- ✓ **Point-15:** Sales forecast, marketing prospectus, price verification, environmental due-diligence, performance of bank statement & existing loan facilities.
- ✓ **Point-16:** ROI & ERR must be calculated by the credit officer & that should be positive. This calculation should be on present year & projected year.

| Sl. No. | Particulars |
|---|---|
| 1 | Total Funded Facility |
| 2 | Average Utilization |
| 3 | Interest Income @ 0.00%. |
| 4 | Add: Non-interest Income |
| 5 | Gross Income (3+4) |
| **6** | **Effective Rate of Return on Funded Facility (5÷2)** |
| 7 | Less: Average Cost of Fund @ 0.00 % |
| 8 | Net Income (NOCF) (5-7) |
| **9** | **Return on Investment (ROI) % (8÷2)** |

- ✓ **Point-17:** Justification, declaration, deviation and recommendation.

### 4.7 Retail Loan

IFIC Bank Limited have offering 14 (Fourteen) types of retail loan to the borrowers. These are:

| SI. No. | Product Name | SI. No. | Product Name |
|---|---|---|---|
| 01. | Easy Loan | 08. | Any purpose Loan |
| 02. | Cosumer Durable Loan | 09. | Marriage Loan |
| 03. | Parua Loan | 10. | CNG Conversion Loan |
| 04. | Home Loan | 11. | Interior Decoration Loan |
| 05. | Peshajeebi Loan | 12. | Medical Loan |
| 06. | Auto Loan | 13. | Holiday Loan |
| 07. | Festival Loan | 14. | Salary Loan |

**Source: PPG (Retail Asset)**

### 4.7.1 Retail Credit Proposal Processing Flowchart

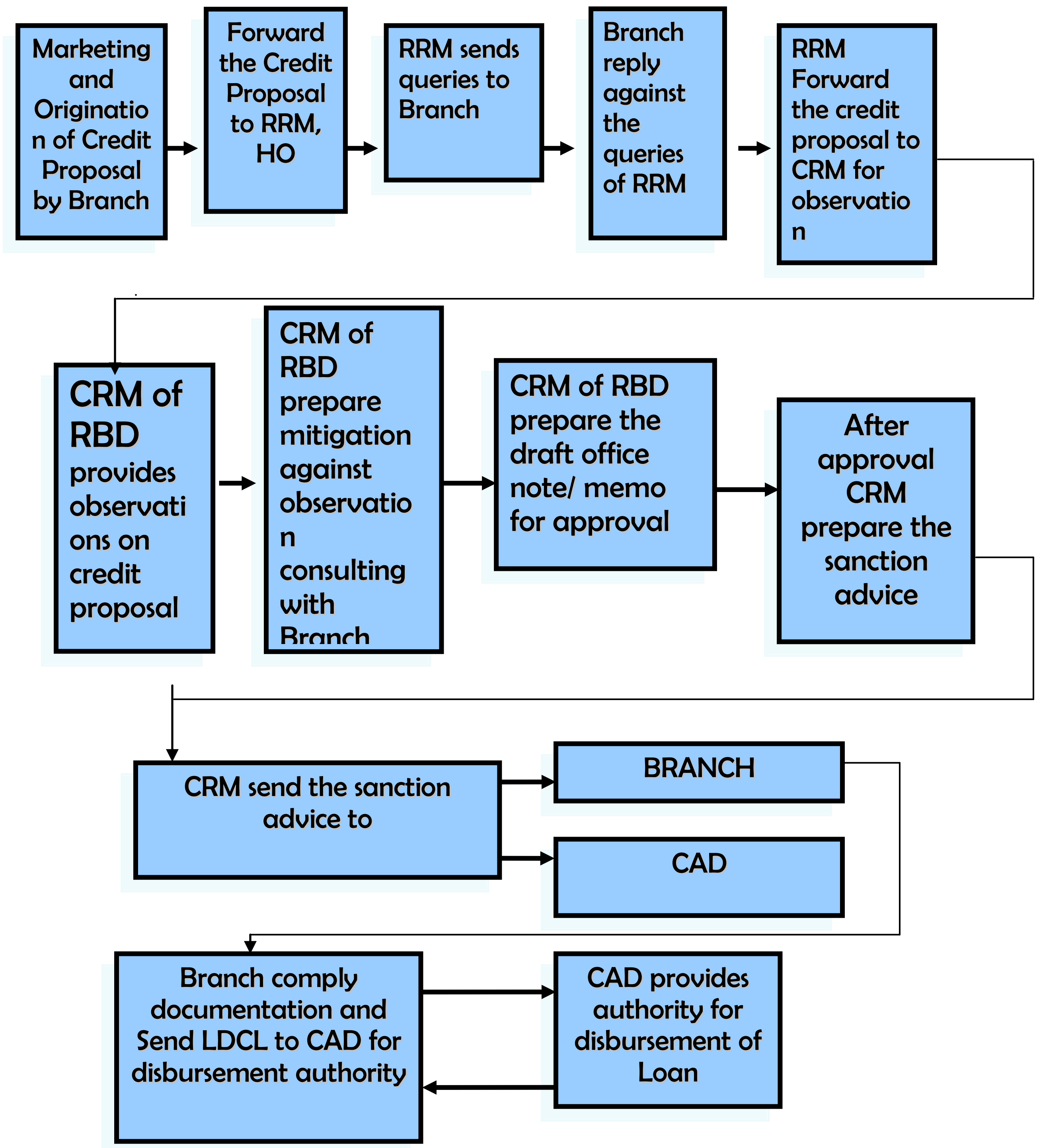



Fig-02: Flowchart of Retail Credit Proposal Processing

### 4.7.2 Factors are Contributing to Sanction a Retail Loan

I. **Age Limit :** Applicant age must be 22 years at the time of application & not exceed more than 65 years up to the maturity period of the loan.
II. **Nationality:** Bangladeshi only.
III. **Minimum Income:** Income have segment for various loan amount.
IV. **Purpose:** Follow Bangladesh Bank policy.
V. **DBR (Debt Burden Ratio):** IFIC Bank Limited follow DBR policy of each loan. This will vary from customer to customer & loan product.
VI. **Loan to Price Ratio:** Each loan have each price ratio.
VII. **Maximum Tenure:** Every retail loan have expiry date.
VIII. **Grace Period:** Customer enjoy grace period only for home loan.
IX. **Personal Guarantee:** Every retail loan must be valuable personal guarantee.
X. **Co-Applicant:** Co-Applicant will be eligible only for home loan.
XI. **Disbursement Mode:** Home loan will be disburse more than one phase.
XII. **Insurance Policy:** Insurance required in retail only for Home Loan & Car Loan.
XIII. **Early/Partial Adjustment:** Retail loan may be adjusted through early/partial amount.
XIV. **EMI (Equal Monthly Installment):** Repayment of retail loan will be monthly installment.

International Finance Investment & Commerce (IFIC) Bank Limited has introduced a software known as Loan Approved for retail loan proposal. In this system Branch can play the role of In putter, Authorizer, CPV, Document Manager & Disbursement Manager.

### 4.8 Documentation

Today documentation is an important issue for the commercial banks. IFIC Bank Ltd. follow the circular of Bangladesh Bank vide letter no. BRPD(BIC)661/14B(P)/2014-2925 dated May 21, 2014. According to the guideline, risks to be covered under SRP are residual risk, concentration risk, and interest rate risk in the banking book, liquidity risk, reputation risk, strategic risk, settlement risk, appraisal of core risk management practice, environmental and climate change risk as well as other material risks. Among them residual risk is one of the most important risks are considered under Internal Capital Adequacy Assessment Process (ICAAP). As per the revised guideline each bank shall develop its own checklist in its ICAAP document and classify documents as material and less material considering the importance of the documents.

"**Documentation**" should be viewed as a process of ensuring shield against risk of non-repayment of loan comprehensively in 03 (three) dimensions:

i) The Type of Borrower
ii) The Type of Loan or credit facilities &
iii) The Type of Security Arrangement

**General Documents**

In General, required papers and documents to be obtained/ maintained irrespective of type of borrower, loan and security are:

| Sl. No. | **Material effect in case of failure for Documentation** | **Reasons for selecting as Material Documents** |
|---|---|---|
| 01 | • Copy of National ID<br>• Photograph of the Borrower<br>• Up to date CIB Report<br>• Demand Promissory Note<br>• Letter of Authority<br>• Letter of Arrangement<br>• Letter of Disbursement<br>• Letter of Revival<br>• Credit Approach in Business Pad of the Borrower<br>• Credit Application in prescribed format duly filled in<br>• Post-dated cheque covering the credit facility<br>• Acceptance of the Borrower to the Sanction Letter<br>• Proper Stamping | These documents are vital for disbursement of any loan. Without obtaining these documents Bank may lose right to claim for financial losses in case of defaulter of borrowers. |

| Sl. No. | Immaterial effect in case of failure for Documentation | Reasons for selecting as Immaterial Documents |
|---|---|---|
| 01 | • Personal Net worth statement<br>• Credit report of the Borrower/Supplier<br>• Liability Declaration of the borrower along with an Undertaking that they have no liability with any bank or financial institution excepting as declared.<br>• Undertaking stating that, they will not avail any credit facility from any other bank or financial institution without prior consent of the bank.<br>• Undertaking stating that customer does not have any relationship as Director or Sponsor with the bank.<br>• Undertaking stating that customer shall not sell or transfer the ownership of the business/factory/shop until bank dues are fully paid or without NOC of the bank.<br>• Credit Risk Grading Score Sheet (CRGS) | All documents are important to Bank for sanctioning any loans and advances to Borrowers. We obtain some documents only for assessing financial strength of the customers. However, we consider the mentioned in left side documents are less important due to such documents are related to assessment only. |

**Specific Charge Documents and Papers to be obtained**

## A. As per type of Borrower

| Sl. No. | Type of Borrower | Material effect in case of failure for Documentation | Reasons for selecting as Material Documents |
|---|---|---|---|
| 01 | Individual Borrower | • Letter of Guarantee of a Third Person<br>• Letter of Guarantee of the Spouse of the Borrower | By obtaining these documents can be secured Bank's financial interest. |
| 02 | Proprietorship Firm | • Trade License (up to date) | It is legal document for doing any business in country. |
| 03 | Partnership Firm | • Trade License (up to date)<br>• Partnership Deed (Registered)<br>• Letter of Guarantee of the partners<br>• Letter of Partnership.<br>• Partnership Account Agreement. | These documents are legally important to a Bank for sanctioning any loans & advances in favor of the Borrowers. |
| 04 | Limited Company | • Trade License (up to date)<br>• Memorandum & Articles of Association (Certified by RJSC)<br>• Board Resolution in respect of availing loans & execution of document with Bank<br>• Letter of Guarantee of the Directors<br>• Deed of Mortgage & Hypothecation for creation of Charge on fixed & floating assets (existing & future) with RJSC<br>• Modification of charge with RJSC through form 19.<br>• Certified copy of charge creation certificate from RJSC | These documents are legally important to a Bank for sanctioning any loans & advances in favor of the Borrowers. |

| Sl. No. | Type of Borrower | Immaterial effect in case of failure for Documentation | Reasons for selecting as Immaterial Documents |
|---|---|---|---|
| 01 | Individual Borrower | • Personal Net-Worth Statement (PNS) of Guarantor<br>• Personal Net-Worth Statement (PNS) of the Borrower | Documents are required only for assessing financial capabilities of the Borrowers. |
| 02 | Proprietorship Firm | • Personal Net-Worth Statement (PNS) of Proprietor | Documents are required only for assessing financial capabilities of the Borrowers. |
| 03 | Partnership Firm | • Personal Net-Worth Statement (PNS) of Partners | Documents are required only for assessing financial capabilities of the Borrowers. |
| 04 | Limited Company | • List/Personal profile of the Directors<br>• Certificate of Incorporation<br>• Form XII Certified by RJSC (Particulars of Directors)<br>• Personal Net-Worth Statement (PNS) of Directors<br>• Undertaking stating that the borrower shall not make any amendment or alteration in Memorandum & Article of Association without prior approval of Bank.<br>• Approval of the Bank for any inclusion or exclusion of Directors in & from the company<br>• Certificate of Commencement (In case of Public Limited Company)<br>• Joint venture Agreement (In case of Joint Venture company)<br>• BOI Permission (In case of Joint venture company) | Documents are required to verify the authenticity of the Borrower company. Documents are also important for assessing financial capabilities of the Borrowers |

## B. As per type of Loan / Credit facility

| Sl. No. | Type of Loan / Credit facility | Material effect in case of failure for Documentation | Reasons for selecting as Material Documents |
|---|---|---|---|
| 01 | CC (Hypo) | • Letter of Hypothecation of stock in Trade<br>• Supplementary Letter of Hypothecation<br>• IGPA to sale Hypothecated goods<br>• Letter of Disclaimer form the owner of rented Warehouse<br>• Insurance Policy cover note | These are important documents to a Bank for approval of any Loans and Advances. |
| 02 | CC (Pledge) | • Letter of Pledge<br>• IGPA to sale Pledged goods<br>• Letter of Disclaimer form the owner of rented Warehouse<br>• Insurance Policy cover note | |
| 03 | Overdraft (General) | • Letter of Continuity<br>• Insurance Policy cover note | |
| 04 | SOD (Work Order) | • Letter of Awarding<br>• Assignment of Bills against work order | |
| 05 | SOD (FO) | • The Financial Instrument duly discharged on the Back<br>• Lien on the Financial Instrument | |
| 06 | SOD (Scheme Deposit) | • Lien on the Scheme Deposit | |
| 07 | Term Loan | • Term Loan Agreement<br>• Letter of Undertaking | |
| 08 | Home Loan for purchase of Flat or Floor Space | • Power of attorney for developing the property<br>• Tripartite Agreement among Purchaser, Developer and Bank (If | |

| | | | |
|---|---|---|---|
| | | under construction)<br>• Undertaking of the borrower to the effect that he will mortgage the flat/floor space favg the Bank at the moment the same is registered in his name by the seller. (If Under construction)<br>• Copy of approved plan of construction from concerned authority. | |
| 09 | Consumers' loan/ Personal Loan | • Letter of Guarantee of the Guarantor<br>• Letter of Guarantee of the Spouse of the Borrower | |
| 10 | SME/Small Loan | • As per type of borrower & nature of security | |
| 11 | Lease Finance | • Lease Agreement<br>• Lease Execution Certificate<br>• BRTA Registration Slip (In case of Motor Vehicle)<br>• Insurance Policy cover note | |
| 12 | Hire Purchase Loan | • Hire Purchase Agreement<br>• BRTA Registration Slip (In case of Motor Vehicle)<br>• Insurance Policy cover note | |
| 13 | House Building Loan | • Letter of Undertaking<br>• Approved Plan form the competent authority | |
| 14 | House Building Loan(To Developer) | • Power of Attorney for development of property<br>• Agreement between Land owner & Developer<br>• Sharing Agreement between Land | |

| | | | |
|---|---|---|---|
| | | owner & Developer<br>• Copy of approved plan of construction from concerned authority<br>• Letter of Undertaking<br>• Copy of Title deed of the property on which construction will be made | |
| 15 | IDBP | • Acceptance of L/C issuing Bank (duly verified)<br>• Letter of Indemnity | |
| 16 | Guarantee Facility | • Counter Guarantee | |
| 17 | Syndicated Loan | • Pari-passu Sharing Agreement<br>• Facility Agreement<br>• Escrow Account Agreement<br>• Creation of Pari-passu Sharing charge with RJSC<br>• Participation Letter | |
| 18 | LTR | • Letter of Trust Receipt<br>• Insurance Policy Cover note | |

| Sl. No. | Type of Loan / Credit facility | Immaterial effect in case of failure for Documentation | Reasons for selecting as Immaterial Documents |
|---|---|---|---|
| 01 | CC (Hypo) | • Letter of Continuity<br>• Periodical Stock Report | These documents are not less important to a Bank. This is secondary documents for Banks. |
| 02 | CC (Pledge) | • Letter of Continuity<br>• Periodical Stock Report | |
| 03 | Overdraft (General) | | |
| 04 | SOD (Work Order) | • Bid Document/ Tender Notice | |
| 05 | SOD (FO) | • Letter of Continuity | |
| 06 | SOD (Scheme Deposit) | • Letter of Continuity | |
| 07 | Term Loan | • Amortization Schedule<br>• Insurance Policy cover note | |

| | | | |
|---|---|---|---|
| | | • Letter of Instalment | |
| 08 | Home Loan for purchase of Flat or Floor Space | • Letter of Instalment<br>• Letter of Undertaking<br>• Amortization Schedule<br>• Letter of Allotment of Flat or Floor Space<br>• Agreement between Land Owner & Developer<br>• Sharing Agreement between Land Owner & Developer | |
| 09 | Consumers' loan/ Personal Loan | • PNS of the Borrower<br>• PNS of the Guarantor<br>• Insurance Policy cover note | |
| 10 | SME/Small Loan | | |
| 11 | Lease Finance | • Quotation / Price Offer duly accepted by borrower | |
| 12 | Hire Purchase Loan | • Quotation / Price Offer duly accepted by borrower | |
| 13 | Home Loan | • Amortization Schedule<br>• Letter of Instalment | |
| 14 | House Building Loan(To Developer) | • Letter of Instalment<br>• Amortization schedule<br>• Copy of Bia deed (previous deed in support of Title deed) | |
| 15 | IDBP | | |
| 16 | Guarantee Facility | • Bid Document or the document where requirement of Guarantee stated | |
| 17 | Syndicated Loan | • Subordination Agreement<br>• Deed of Floating charge on the Balance for Escrow Account<br>• Accepted Mandate Letter | |

| | | | |
|---|---|---|---|
| | | • Information Memorandum<br>• Participant's Commitment Letter | |
| 18 | LTR | • Letter of Continuity<br>• Periodical Stock Report | |

### C. <u>As per Type of Security</u>

| Sl. No. | Type of Loan / Credit facility | Material if the Documents are not obtained | Reasons for selecting as Material Documents |
|---|---|---|---|
| 01 | Corporate Guarantee | • Corporate Guarantee of Guarantor Company on Non-Judicial Stamp<br>• Resolution of the Board of the Guarantor Company (Memorandum of the Guarantor company must permit to do so.) regarding Guarantee | These are the important security instruments for the Bank. |
| 02 | Hypothecation of Stock/Receivable | • Letter of Hypothecation<br>• IGPA to sale hypothecated Stock / Receivables<br>• Letter of disclaimer form the owner of Rented Warehouse | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |
| 03 | Pledge of goods in Trade | • Letter of Pledge<br>• IGPA to sell pledged goods<br>• Letter of disclaimer form the owner of rented Warehouse | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |
| 04 | Assignment of Bill | • Assignment of Bill by the beneficiary through IGPA<br>• Letter of Acceptance of Assignment by the work giving authority<br>• Original Work Order | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |
| 05 | Lien on Financial | • The Instrument duly discharged | These documents are essential |

| | | | |
|---|---|---|---|
| | Instrument like FDR etc. | on the back of it.<br>• Letter of Authority to encash the instrument as & when needed by the Bank<br>• Confirmation of Lien (Marking of Lien) from the issuing Bank. | for recovery of outstanding loan if the borrower fails to pay in due time. |
| 06 | Lien on Demated Stock/Shares | • NOC of the Company in case of Sponsor's Share<br>• Confiscate Request Form (Form19-1) duly signed by the pledgor.<br>• Pledge Request form (Bye Law 11.9.3) duly signed by the holder of the share.<br>• Pledge setup Acknowledgement from Brokerage House<br>• CDBL generated copy of Pledge Setup | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |
| 07 | Pari-Passu Security | • Pari-Passu Security Sharing Agreement among lenders.<br>• NOC from existing lenders if the property/assets are already under pari-pasu sharing.<br>• Certificate of RJSC on creation of charge on Fixed & floating assets of the company.<br>• Form XIX for modification of charge on Fixed & floating assets with RJSC | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |
| 08 | Mortgage of Landed Property | • Certified copy of Purchase Deed along with Deed - Delivery receipt duly endorsed | These documents are essential for recovery of outstanding loan if the borrower fails to pay in due time. |

| | | | |
|---|---|---|---|
| | | (In absence of original Title Deed)<br>• Registered Partition Deed among the Co-owners (if required)<br>• Mortgage Deed duly Registered along with Registration Receipt duly discharged<br>• Registered IGPA favoring Bank to sale the property<br>• Certified Mutation Khatian along with DCR<br>• Record of Rights i.e. CS, SA, RS Parcha, Mohanagar Jorip parcha (if within Mohannagar Area) B.S. Khatian<br>• NOC of the competent Authority for Mortgage.<br>• NEC along with search fee paid receipt<br>• Original Title Deed of the property<br>• Original Lease Deed (In case of Lease hold property)<br>• Allotment Letter favoring Lessee (in case of Leasehold Property)<br>• Mutation letter favoring Lessee (in case of Leasehold Property) | |

| Sl. No. | Type of Loan / Credit facility | Immaterial if the Documents are not obtained | Reasons for selecting as Immaterial Documents |
|---|---|---|---|
| 01 | Corporate Guarantee | N/A | N/A |
| 02 | Hypothecation of Stock/Receivable | N/A | N/A |
| 03 | Pledge of goods in Trade | N/A | N/A |
| 04 | Assignment of Bill | N/A | N/A |
| 05 | Lien on Financial Instrument like FDR etc. | • Letter of Lien ('1st Party Lien' - if the Borrower is the owner of the Instrument, '3rd Party Lien'- if the Owner of the Instrument is one other than Borrower) | Letter of Lien is important documents but Bank's may not be hampered to claim its outstanding if the borrower is fail to pay his debt. |
| 06 | Lien on Demanded Stock/Shares | N/A | N/A |
| 07 | Pari-Passu Security | N/A | N/A |
| 08 | Mortgage of Landed Property | • Bia Deeds of the mortgaged property<br>• Affidavit to be sworn by the owner of the property before 1st class Magistrate that he has valid title in the property and not encumbered otherwise<br>• Up to date Rent Receipt<br>• Up to date Municipal Tax Payment Receipt (if property within Municipal Area)<br>• Up to date Union Parishad Tax Payment Receipt (if property within UP)<br>• Approved Plan of Construction from | These are the supporting documents of Mortgaged land/ property, by which bank cannot suit against the borrowers. |

| | | | |
|---|---|---|---|
| | | concerned authority (if there is any construction upon the land)<br>• Board Resolution of the Mortgagor company duly supported by the provision of Memorandum & Article of Association (when one company Mortgage for the loan of other company)<br>• Photograph of the Mortgaged Property<br>• Location Map<br>• Survey Report from professional Surveyors<br>• Physical Visit Report by Bank Officials<br>• Lawyer's opinion in respect of acceptability of the property as collateral security<br>• Lawyer's satisfaction certificate regarding appropriateness of mortgage formalities | |

**Source: BRPD (BIC)661/14B(P)/2014-2925 dated May 21, 2014**

## 4.9 <u>Problems Facing by the IFIC Bank Limited to Recovery the Loan</u>

International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj SM/Krishi Branch have shortest business age & close monitoring loans are not so much classified. Most of the retail loan are fallen in overdue. There are several problem to recovery the loan. In this situation IFIC Bank Limited, Setabganj SM/Krishi Branch faces some problem. These are:

I. **Willingness to Pay:** We all know this is one of the most common reasons behind default culture in Bangladesh. It can happen in some situations like when security-backing loan is weak; customer feels that defaulting the loan will not harm him much. In that case he tends to default.

II. **Lack of Supporting Facilities:** Sometimes business need support from other sources. When cash flow is lean and the project is in lull, it needs feeding. Without further feeding company may become sick and incur loss in consecutive time periods.

III. **Non-attractive Industry:** Sometimes non-attractive industry acts as primary cause of loan default. Dinajpur is an agro base area where only automatic rice mill are only operating their business.

IV. **Poor management capability:** Before sanctioning a loan banks look into the matter that how the management of the organization is. Managerial capability plays vital role in repaying bank loan. The more professional the management is, the less is the probability of defaulting loan.

**V.** **Poor Financial Performance:** Definitely poor financial performance is the most important cause of loan default. Once a business organization is not solvent, it is unlikely to repay its loan.

VI. **Lack of Taking Proper Action:** Setabganj is a very small town. Everyone is knowing other. When the loan comes non performing than bank take various action. Due to close relation various pressure come to the branch.

VII. **Frequent Policy Change by the Government:** Government is changes his policy very frequently. That’s why banks as well as borrower are facing some problem regarding conduct his business.

VIII. **Fund Divert:** Most of the people of Dinajpur District who have small business or service in different organization have a trend to purchase land. Most of the borrower who enjoying continuous loan try to purchase land from loan amount.

IX. **Intention to go abroad:** Some customer who are not likely stay in Setabganj town, they have try to get a loan anyhow. After taking a loan they go abroad & the borrower become faulty.

X. **One customer, several loan:** If any customer enjoying several loan from more than one financial institution the repayment of the loans will be discontinued.

XI. **Over valuation:** Some asset valuing agency are intentionally estimate over valued of mortgage security. In that case customer does not pay loan willingly & he/she suggested to the bank to sale his property to adjust the loan.

# Chapter-05

## 5. Recommendation

I have experience of 03 (Three) years of performing in credit division of Dinajpur & Setabganj Branch. So I have a practical knowledge regarding loan sanction & disbursement of loan. There are some problem has been found from our end & some of them from customer. I want to put some suggestion which will be help IFIC Bank Limited to sanction, disburse & recovery of Loan. These are:

I. I think C (Credit) for Sincerity, so credit official must be intelligent regarding credit issue. Credit official must be collect each & every information of borrower before sanction any loan facilities.

II. In the credit department, strict supervision is necessary to avoid loan defaulters. The bank official should do regular visit to the customer/projects/business place.

III. The bank/branch should focus more on existing customers in order to build strong and loyal relationship with them. It is said that "One satisfied customer brings more customer".

IV. Gathering & sharing knowledge among branch officials of policy, circular, instruction which are customer & product related for smooth service.

V. Without any training/workshop it is quite impossible to provide standard service to the customer. So, Head Office must be arranged various training program.

VI. Workload on the same level employees is not same; in this case management should distribute the work more carefully.

VII. Credit Official must be gain knowledge about every business sector to smooth bargaining with the borrower.

VIII. The bank has to increase their advertisement and also increase their social activities. They have to go with the people's needs and demands. They have to explore their name to the people that everyone can know about International Finance Investment & Commerce (IFIC) Bank Ltd.

IX. Loan processing system should be faster. Without any hastle or unnecessary queries should not adopt by the officials.

X. Before signing on sanction letter branch manager should be confirmed about security whether it is collateral or primary. Because branch manager is solely liable of any credit facilities.

XI. Monitoring is needed to every credit facilities whether it is performing well. Because any loan facilities may be become faulty at any stage.

XII. Fund divert is the business practice by the borrower of Setabganj. So it is carefully handled by the branch official.

XIII. Before completion of mortgage deed security must be checked from relevant office such as Record Room, Tohosil Office, Land Office & Local Govt. Authority etc.

XIV. Credit Official must be visit to the borrower's residence address as well as business address.

XV. Loan related document such as NID, TIN Certificate, Birth Certificate, LOI, bank statement which provide by the borrower must be examine of authentication by the credit officials.

## Conclusion

Earlier in 1976 International Finance Investment & Commerce (IFIC) Bank Limited was set up as a joint venture finance company at the instance of the Government of the People's Republic of Bangladesh, IFIC Bank Ltd. started banking operations on June 24, 1983. After passing over 33 years IFIC Bank Ltd. is the finest bank due to superior service quality, brand image, strong corporate governance and corporate culture. IFIC Bank is a top-tier bank in Bangladesh and reputed among regulations as distinctly 'compliant'.

Now and then every business sector of Bangladesh is very vulnerable. It is very difficult to take decision to invest anywhere. Because any kind of wrong decision of loan disbursement the branch or bank may be suffer. In this situation, IFIC Bank Limited have reverse the loan processing system. IFIC Bank Limited have confirmed clear direction in every step whatever loan proposal format, loan approval process, loan disburse & recovery. IFIC Bank Limited has a entire credit policy which is fully match with present environment. Presently IFIC Bank

Limited have given emphasis on the asset quality. For this reason IFIC Bank Limited have decrease his total credit portfolio, but achieved quality asset & security.

The banks always try to maintaining efficient deposit mix as well as maintaining adequate capital against overall exposure of the bank. IFIC Bank Limited is always try to provide effective & competitive financial solution and services to its customer.

International Finance Investment & Commerce (IFIC) Bank Limited, Setabganj Branch is always performing to achieve target set by the authority. IFIC Bank Ltd. Setabganj Branch has proved that they will change the financial environment with the help of superior service quality, best technology & new software developed by IT team and dynamic leadership of branch manager.

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