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| <b>From:</b> | <b>Report</b>      |   |
|              | <b>Subject</b>     | Credit Appraisal & Monitoring- CC& BDP- Specific Issues |
|              | <b>Date</b>        |   |
|              | <b>Circulation</b> |   |

**Specific issues in respect of Credit Appraisal & Monitoring in respect of CC & BDP.**

| <b>Sr. No.</b> | <b>Specific Issues:</b>   | <b>Action</b> |
|----------------|---|---------------|
|                | <b>Cash Credit:</b>   |               |
| <b>A</b>       | <b>CC Limit:</b>  |               |
| 1              | Cash credit limit should be sanctioned after considering working capital cycle and MPBF. Ideally CC Limit should be minimum of MPBF, DP and 20 % of Turnover.   |               |
|                |   |               |
| <b>B</b>       | <b>Drawing Power:</b>   |               |
| 1              | Stock /Book debt statement should be recorded immediately in DP Register on receipt.  |               |
| 2              | Scrutiny of stock statement should be done at least of large CC borrowers.  |               |
| 3              | Drawing power should be frozen if stock statement is not submitted for 2 months.  |               |
| 4              | Creditors should be deducted to arrive at paid stock. If the borrower does not give creditors figure in stock statement, then creditors should be estimated on based on previous year accounts & projections. |               |
| 5              | Creditors, debtors over 90 days should also be reduced from Stock & Debtors to arrive at DP.  |               |
| 6              | Machinery spares, obsolete stock, expired stock; non-moving stock should also be deducted to arrive at DP.  |               |
| 7              | Signatory of the account should sign stock statement.   |               |
| 8              | Penal interest should be levied if stock & debtor's statement is not given by stipulated date.  |               |
| 9              | Reminders should be sent in case of non-submission of stock statements.   |               |
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| <b>C</b>       | <b>Insurance:</b>   |               |
| 1              | Insurance cover should be adequate.   |               |
| 2              | Burglary risk should also be covered in addition to Fire risk.  |               |
| 3              | Reminders should be sent for renewal of insurance policies.   |               |
| 4              | Insurance policy should include bank clause.  |               |
|                |   |               |
| <b>D</b>       | <b>Renewal:</b>   |               |
| 1              | Reminder should be sent 2 months in advance for renewal of CC Limit.  |               |

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| 2        | Accounts, Audit report, I.T. Return, Tax Audit Report etc. of firm, Directors, Partners, and Guarantors should be obtained in November every year.   |  |
| 3        | Audit report as stipulated by RBI in case of CC limit over Rs.10 Lacs to non-corporate borrower should be obtained.                                  |  |
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| <b>E</b> | <b>Inspection:</b>   |  |
| 1        | Stock inspection / unit inspection should be carried out at least twice a year.  |  |
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| <b>F</b> | <b>Operations:</b>   |  |
| 1        | What is the average utilization of the CC Limit?   |  |
| 2        | Certain borrowers are continuously enjoying TOD limit with a gap of say 1-2 days after TOD period of 3 months. Such practice should be discontinued. |  |
| 3        | Whether Operations in the account in cash / cheque are commensurate as per business?   |  |
| 4        | Credit summations in the account should also be monitored. Credit summations should be at least 5 times of CC Limit.                                 |  |
| 5        | Whether irregular or frequent credits are observed?  |  |
| 6        | Last credit entry generally should not be more than 3 days.  |  |
| 7        | Whether cash withdrawals are excessive as compared with business needs?  |  |
| 8        | Whether cash was withdrawn immediately after sanction?   |  |
| 9        | Whether inter transfer of funds between associate concerns are observed?   |  |
| 10       | Whether payment to parties unrelated to business observed?   |  |
| 11       | Whether frequent bouncing of cheques deposited as well as issued noted?  |  |
| 12       | Whether overdue bills have been cleared by debit to cash credit account?   |  |
| 13       | Balance confirmation should be obtained yearly.  |  |
| 14       | QIS should be obtained from large CC borrowers.  |  |
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| <b>G</b> | <b>Summary of Cash Credit Monitoring</b>   |  |
|          | C ---- Credit Summations   |  |
|          | A ---- Adequacy of Credit summations   |  |
|          | S ---- Stock statement   |  |
|          | H ----HO approval / ratification   |  |
|          | C ----Cash / cheque operations   |  |
|          | R --- Return of cheques  |  |
|          | E ---- Expiry of limit   |  |
|          | D ---- Drawing Power   |  |
|          | I ----- Insurance  |  |
|          | T ---- Better / Tension of recovery  |  |

| Sr. No.                  | Specific Issues:  | Action |
|--------------------------|---|--------|
| <b>Bill Discounting:</b> |   |        |
| 1                        | Separate file should be maintained for paid and unpaid bills.   |        |
| 2                        | Drawee-wise sub-limits should be fixed.   |        |
| 3                        | Status / credit reports of customers of our borrower from their bankers should be obtained every year.  |        |
| 4                        | Whether specimen signatures of drawees are on record?   |        |
| 5                        | Original bills, RR/LR etc. should be obtained from borrower for discounting.  |        |
| 6                        | Bills, RR/LR should be forwarded directly by the branch.  |        |
| 7                        | Bills should be verified & authenticated by the loan officer before discounting.  |        |
| 8                        | Remark to 'To pay Apna Bank' should be noted on the bill.   |        |
| 9                        | Branch should send letter to the purchaser that BD limit has been sanctioned to the party and hence payment should be made directly to Apna Bank as original bills are generally forwarded to the purchaser directly by the borrower. |        |
| 10                       | Bank should obtain the undertaking from customers of our borrower that payment will be made directly to Bank.   |        |
| 11                       | Power of attorney for collection should be obtained from the borrower.<br>The said POA should be registered with purchaser.   |        |
| 12                       | Payment should be received directly from borrower's customers.  |        |
| 13                       | Payment details should be noted on the bills.   |        |
| 14                       | Party wise-bill wise statement should be prepared on monthly basis and tallied with GL.   |        |
| 15                       | Overdue bills should be debited to CC a/c on due date.  |        |
| 16                       | Further bills should not be discounted if earlier bills are overdue or after expiry of due date.  |        |
| 17                       | Penal interest should be recovered on retirement of overdue bill.   |        |
| 18                       | It is suggested that BDP limits should be converted in WCTL due to risk involved and double financing to borrower.  |        |
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