

Credit Monitoring

Introduction

- Credit Monitoring is an important part of Credit Management.
- Banking means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, pay order or otherwise.

Credit Management

- Loan scrutiny & sanction.
- Documentation.
- Disbursement.
- Monitoring the Loan account.
- Review.
- Recovery.

Loanable Funds

- Bank can sanction Loans up to 75 % of Own Funds, 70 % of Deposits & 100 % of borrowing.

Types of Loan

Cash credit	Overdraft	Bill discounting	Deposit loan	NSC loan
Term loan	Shares loan	OSLN	Gold loan	Housing loan
B-49 loan	Surety loan	Scheme loans	UBLN	CCC

Period wise classification Loan

Short Term (0-15 months)	Medium Term (15-60 months)	Long Term (>60 months)
CC	Term loan	PMLN
CCC	B-49 Loan	LBLN
Over draft	Surety loan	Housing loan
Gold loan	UBLN	
	Gold loan	
	Scheme loan	
	OSLN	

Security wise classification Loan

Secured	Unsecured
CC	CCC
Overdraft	B-49 loan
Gold loan	Surety loan
Term loan	UBLN
Housing loan	Scheme loan
OSLN	

Loan Registers

Loan applications received	Inspection register	Due date diary:
Loans sanctioned register	Security register	---Bills discounted
Stock statement register	Bill discounting register	-- Loan installment
Drawing power register	Multiple limit register	--- Renewal of CC
Insurance register	Excess OD / TOD register	
	Suit filed register	Processing charges register

Stages of Credit Monitoring

- Stock statements.
- Insurance.
- Operations in the account.
- Inspection of security.
- Review & Renewal of limit.
- Balance confirmation.

Scrutiny of stock Statement

- Whether it is submitted in the format prescribed by Bank?
- Whether it is complete in all respect?
- Whether authorized official of the company has signed it?
- Whether declaration contained below the stock statement format is reproduced without any alterations and signed by authorized person?
- Whether there is any major deviation in the level of inventory declared by the borrower

in the stock statement from the level assessed by the Bank?

- Whether trend of the level of inventories with the earlier months shows major variation?
- Whether inventory level is proportionate with the level of activity?
- Whether Sundry creditors are deducted from stock?
- Whether slow moving & non-moving stocks are indicated separately?
- Whether opening balances are tallying with the closing balances of corresponding items in the previous months stock statements?
- Whether classification of debtors below 90 days and above 90 days has been indicated?
- Whether value of bills discounted with bank have been deducted from debtors?
- Whether list of debtors relate to only trade debtors?
- Whether advance received against specific order is deducted for calculation of DP?
- Whether 'expired stock' has been included in the statement? If yes, the same should be deducted

Stock & BD Statements

- Recording in DP register.
- Up dating of Computer records.
- Reminders to defaulters.
- Stock statement format.
- Verification of signature.
- Scrutiny.
- Date of receipt.
- Penal charges.
- Creditors for stock.
- Discontinuing DP.
- RBI circular.

Tondon Committee 1st Method

	<u>Rs'000</u>
➤ Current Assets	600
➤ Less: Current Liabilities	200
➤ -----	
➤ Working capital gap	400
➤ Less: Promoter's Con. @25 %	100
➤ -----	
➤ MPBF	300
➤ -----	
➤ Drawing Power	210

Tondon Committee 2 nd Method

➤		<u>Rs'000</u>
➤	Current Assets	600
➤	Less: Promoter's Con. @25 %	150
➤	-----	
➤	Working capital gap	450
➤	Less: Current Liabilities	200
➤	-----	
➤	MPBF	250
➤	-----	
➤	Drawing Power	210

Drawing Power

		Rs.
➤	Stock	300000
➤	Less: Creditors	30000
➤	-----	
➤	Paid Stock	270000
➤	Less: Margin @ 50 %	135000
➤	-----	
➤	Drawing power or Limit	
➤	whichever is less	135000
➤	-----	

Drawing Power

		Rs.
➤	Debtors	200000
➤	Less: > 90 days	50000
➤	-----	
➤	Paid Stock	150000
➤	Less: Margin @ 50 %	75000
➤	-----	
➤	Drawing power or Limit	
➤	whichever is less	75000
➤	-----	

Bill Discounting

- Periodic balancing
- Statement of party wise o/s & overdue
- Expired limits
- Due date diary of bills discounted
- Overdue bills should be debited to CC account.

- How payment is received?
- Documents of title
- Latest credit report of drawees.
- Specimen signatures of drawees
- Whether signature is verified with signed challans?
- Whether power of attorney is registered with drawees?
- Whether sub-limits for various drawees have been fixed?
- Penal interest on overdue bills.

Insurance

- Types of Policies:
- Shopkeeper's policy.
- Fire Policy.
- Marine policy.
- Burglary policy.
- Money policy.
- Banker's indemnity policy.
- Fidelity policy.
- Mediclaim.

Insurance Terminology

- Insurer
- Insured
- Sum insured
- Banker's clause
- Under insurance
- Proposal
- Average clause
- Policy conditions
- Exclusions
- Warranties
- Premium
- Premium rating
- Endorsement

- Co-insurance
- Reinstatement

Risks covered

- Fire
- Lighting
- Explosion
- Aircraft damage
- Riot, Strike, Malicious & Terrorism damage
- Earthquake
- Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood & Inundation
- Impact damages
- Land slide
- Bursting and / or overflowing of water Tanks, Apparatus and pipes.
- Missile testing operations
- Leakage from Automatic Sprinkler Installations.
- Bush fire
- Burglary
- Money in transit
- Material loss in transit
- Hospital expenses
- Frauds by staff

Scrutiny of policy

- Sum Insured
- Expiry
- Property covered
- Risks covered
- Location
- Bank clause
- Reminders for submission of policy.
- Reminders for renewal of policy.
- Updating of Insurance register.

Operation in the account

- Average utilization.
- Minimum balance.
- Maximum balance.
- Credit summations.
- Whether O/S exceeds limit?
- Frequency of credit entries.
- Return cheques.
- Number of visits for balance/cheque enquiry.
- Debit entries -Cash / cheque
- Tendency of the depositor of depositing cash after cheque is presented to Bank.
- Whether up country cheques/DD are deposited.
- Submission of stock statements.
- Insurance cover.
- Borrower's behavior with staff.
- Diversion of funds.

▪ **Operations in CC Account**

- Whether turnover in the account is adequate compared to the turnover of the business?
- Whether turnover is inflated by cash withdrawal and cash deposits?
- Whether cash withdrawals are excessive compared to business needs?
- Whether cash was withdrawn immediately after sanction?

- Where cheques payments are not substantial, whether stock is fully paid for?
- Whether inter transfer of funds between associate concerns are observed?
- Whether diversion of funds for purchasing fixed assets noted?
- Whether payment for off balance sheet items such as lease are observed?

- Whether payment of loan installments to other banks or institutions or private parties is observed?
- Whether payments to parties unrelated to business observed?
- Whether frequent bouncing of cheques deposited as well as issued noted?
- Whether cash deposits sufficient to clear cheques issued noted?

- Whether irregular or infrequent credits observed?
- Whether overdue bills have been cleared by debit to cash credit account?

Inspection

Points to be covered:

Borrower	Position of security	Inspection of stock	Inspection of:
Location	MPBF	General points	---Fixed Assets
Loan O/S	Insurance	Storage	--- Premises
Overdue	Licenses & other statutory payments	Stock records	
Classification		Verification of stock	

Review & Renewal

- Reminder for renewal.
- Obtaining of renewal application, Accounts & Projections.
- Renewal / RBI circular.
- Fresh documentation.
- Whether withdrawals should be allowed if renewal application is not given in time?

Balance Confirmation

- Frequency.
- Coverage.
- Method.

Misc. points

- Verification of Security documents.
- Noting of Lien on TDR, NSC etc.
- Obtaining of Audited accounts every year.
- Audit queries.

Unit Inspection

Credit Monitoring Tools

- **Indirect tools:**
- QIS, Stock statement, market reports, Accounts, Operation in the account etc.
- **Direct tools:**
- Unit Inspection, stock inspection etc.

What is Unit inspection?

- Unit inspection means ensuring that the unit to which the bank has lent its funds is being run in a satisfactory manner.
- Its scope goes beyond stock statement scrutiny or even stock inspection.
- Unit inspection goes beyond arithmetical or physical correctness of the stocks.
- The scope of unit inspection covers ensuring whether there are orders on hand, licenses are renewed and taxes & statutory dues have been paid in time etc.

What is the Aim of unit inspection?

- **To ensure that the security charged to the Bank: -**
- Tallies with the statement.
- Is adequate to cover the advance.
- Is easily marketable at the value stated.
- Proper inventory control is exercised to avoid excessive stock.

- **The unit which is being inspected is: -**
- Run in a proper manner.
- For the prescribed activities.
- In a profitable way.
- Observe all the stipulations of the business.

Modalities of unit inspection

- The person undertaking the inspection has to remember that he is representing the Bank.
- Before the inspection

- During the inspection
- After the inspection

Preparation before the inspection

- **Studying of:**
- Stock statements
- Annual accounts
- Projections, QIS
- Operations in the account
- Correspondence with the party
- TOD limits sanctioned during the year
- Projections submitted at the time of availing of advance.
- Scrutiny note
- Comparison of projections with stock statement and annual accounts etc.
- Whether documents are in force?
- Whether any compliance is pending?
- Insurance policy.
- To conduct analysis of variance during the inspection.
- To study whether the assumptions underlying the business plan were appropriate.
- Compliance of terms of sanctions by the borrower.
- Whether any amount is overdue?

At the time for inspection

- Whether all licenses have been renewed?
- Whether all statutory payments have been made on due dates?
- To confirm the proper upkeep of the various securities charged in favor of the bank such as machinery, equipment, furniture & fixture, premises etc.
- In case of pledged goods, ensure that they are stored in godowns as per the Bank's requirement.
- Whether Bank's hypothecation board has been displayed?
- Confirm the security arrangements at the premises, insurance, fire fighting arrangements etc.
- Observe the working atmosphere in the unit.
- To verify stock register, Returns and other relevant records.
- To verify order booking position. (UEOB)

- To verify production records, ascertain capacity utilization.
- Verify level of stock holding at various stages. I.e. RM, WIP, FG.
- Whether stock of machinery spares is adequate?

After the inspection.

- As soon as the inspection is over, the representative should finalize the report based on notes prepared before undertaking the inspection and observations made at the site.
- All the positive and negative angles should be brought out in the Report without fear or favor.
- The process of inspection should help in assessing the merits and weaknesses of the unit, the deviations if any and justifications thereof.
- This will also help the Bank in knowing the risk factors in a particular finance, and decide the credit rating.

Inspection Report

- **Points to be covered:**
- Borrower.
- Location.
- Loan O/S.
- Overdue.
- Classification.
- Position of security.
- Max. Permissible Bank Finance.
- Insurance.
- Licenses & other statutory payments.
- Inspection of stock-general points.
- Storage.
- Stock records.
- Verification of stocks.
- Inspection of Fixed Assets.
- Inspection of premises.

Conclusion

- This handout aims to highlight some of the important points for conducting unit inspection.
- It is not possible to prepare a model guide of unit inspection due to complex factors such as nature of business, industry norms & practices, quantum of advance, relationship of the borrower with the bank etc.
- The performance of the borrowal unit is a major factor for the success of any Bank and unit inspection is one of the tools to gauge the performance.