

## **Process of Lending**

### **3 'C's of the borrower**

- Character implies honesty, integrity, and reputation in the market, business morality and dependability.
- Capacity means knowledge of the borrower about his business and ability to conduct the affairs successfully.
- Capital is the funds to be employed by the borrower in the business.
- In case of partnership/ proprietary concerns the banker should also anticipate the problem of succession, sharing of work amongst themselves.
- In case of a limited company, a study of the directors/ key men, managing the unit is essential.

### **Sources of information available to assess the borrower**

- Loan application
- Market reports
- Operation in the account
- Report from other Bankers
- Financial statements, IT Return etc.
- Personal interview
- Unit inspection prior to sanction

### **Project / Financial Appraisal**

#### **Obtain and study the following:**

- Past performance.
- Projections with assumptions.
- Sensitivity analysis.
- Funds Flow statement.
- Ratio analysis.
- Break-even & margin of safety.

### **Security Appraisal**

- Primary & collateral security.
- Security should be 'MASTDAY'
- M - Marketability
- A - Easy to ascertain its title, value, quantity and quality.

- S --- Stability of value.
- T --- Transferability of title.
- D- Durability - not perishable.
- A -absence of contingent liability. I.e. the bank may not have to spend more money on the security to make it marketable or even to maintain it.
- Y -Yield. The security should provide some on-going income to the borrower/ bank to cover interest & or partial repayment.

### **Terms & conditions**

- The note covering above aspects namely 3 Cs, Project appraisal and security appraisal should be forwarded by the branch to Loan dept and then to Loan scrutiny committee and Board of directors for their consideration, stipulating the terms and conditions of the advance.

### **Documentation**

#### **Objectives:**

- To create charge on the securities provided, as cover for the advance.
- Stipulate terms & conditions to be complied with by the borrower.
- These documents have to be properly stamped, executed, duly attested and registered.
- The documents should be completed carefully.
- Borrower / surety should be made member of the bank.

### **Disbursement**

- Disbursement should be made as stipulated in sanction letter.
- Visit to the unit prior to the inspection is a must.
- Bills, receipts, installation & commissioning reports of machinery, trial run reports etc. should be obtained.

### **Credit Monitoring**

- Watching the progress of the project in terms cost and time over-runs.
- Reviewing operations in the account.
- Obtaining QIS, stock statements, insurance policy etc.
- Confirm end use of the advance.
- Watch against diversion of funds.
- Obtaining Annual financial statements, Audit report, IT return and to conduct annual review of the limit. Renewal of documents.

