From:	Report	
	Subject	Credit Appraisal & Monitoring –Common Issues
	Date	
	Circulation	

Common issues in respect of Credit Appraisal & Monitoring.

Sr. No.	Common issues:	Action
A		
1	**Principles of good lending:**	
	Safety, Liquidity, Profitability, Spread, Purpose, End Use, Need based finance, Viability oriented instead of security oriented lending, Own stake, National priorities.	
2	**Banks should scrutinize the following areas:**	
	Income generation from the loan / viability of the project / business should be prime consideration rather than primary / collateral security offered.	
❖	Technical feasibility:	
	Infrastructure, Land & Building, Raw Material, Plant & Machinery, Technology, Personnel, Government permissions, licenses.	
❖	Economic viability:	
	Product	
❖	Financial viability:	
	Project cost & Means of Finance, Projected profitability statements, Funds Flow statements, Break-even analysis & margin of safety, capacity utilization, Debt service coverage ratio, Debt-Equity ratio, and Sensitivity analysis.	
❖	Managerial competence:	
	Family reputation in the market, Family reputation, Credit worthiness report from their bankers, scrutiny of IT & WT Returns, health status, successor etc.	
3	**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.	
4	**Security should meet the following criteria:**	
	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.	

5	Caution needs to be exercised when TL is to be sanctioned to a party who operates in rented premises and leave & license agreement period is less than repayment period of the loan.	
6	Specific enquiry should be made for approaching Apna Bank and whether loan application has been simultaneously submitted to other banks.	
7	Apart from obtaining usual credit report from existing bankers, it is also necessary to find out from other sources about the borrower's operation with that banker as it is quite likely for any banker to give normal report if they do not wish to retain account.	
8	Bank should prepare S (Strength) W (Weakness) O (Opportunity) T (Threat) in case of advances of say Rs. 15 Lacs & above.	
9	When ever borrower submits IT Return then it should be ensured that it has been filed every year rather all a time or in a short span of few months. It is obvious from such so-called compliance that IT Return has been filed just to meet the stipulation for processing of loan application.	
10	Loan should not be granted on the basis of income affidavit submitted by borrower. Reasons for not filing IT Return should be enquired.	
11	Net worth of sureties should be ascertained to confirm that he has the capacity to pay the loan in case of default by borrower.	
12	Bank should stipulate the condition that unsecured loans should not be withdrawn till currency of Bank Loan.	
13	Bank should stipulate the condition that expansion plans would be executed only after consulting bank.	
14	Bank should stipulate the condition that Key personnel appointment will be approved / confirmed by Bank.	
15	Collateral security should be taken to the extent possible. e.g. Residential flat, LIC, Shares, NSC, KVP etc. More so when effective / economical life of the asset hypothecated is less than repayment period of loan.	
16	Bank's nameplate should be given to borrower and his acknowledgement should be taken, followed by his letter confirming the affixing the nameplate.	
17	Bank should stipulate that borrower should submit Monthly Information as per the format stipulated by Bank.	
18	Undertaking to deal exclusively with our bank is obtained and borrower blindly executes the same. In fact we are aware that borrower is operating with other banks. In such case, in case he can not close the account with other banks as the same may be required for ST, Excise etc. then we should specifically give permission & bank statements should be obtained monthly of such accounts. Otherwise account closure certificate should be obtained.	
19	Disbursement should be directly made to Builder, Vendor etc. depending on type of loan. In case the same is to be reimbursed to borrower, then stamped receipt, bills, installation report, inspection report, insurance policy, valuation report etc. should be available on record.	

20	Post dated cheques (payable fortnightly) should be taken from large borrowers (New) as well as from existing borrowers not repaying the loan regularly.	
21	Insurance policy of adequate sum should be taken covering the appropriate risks such as Fire, Burglary etc.	
22	Security documents should be verified periodically to confirm with entries in Security Register.	
23	Valuation report should be obtained say once in three years of security offered such as Land, Machinery, Gala, Flat, Vehicle etc.	
24	Accounts, Audit report, I.T.Return etc. of Borrower, Directors, Partners and Guarantors should be obtained in November every year.	
25	Assets & Liabilities statement of Borrower, Directors, Partners and Guarantors should be obtained every year.	
26	Term Loans should be reviewed every year.	
27	Caution is called for whenever lump sum payment is arranged by borrower to regularize the loan account.	
28	Bank should avoid the temptation of ever greening / window dressing the CC / Loan account.	
29	Recovery notice should be sent whenever overdue is noticed.	
B	**Additional requirements in case of Loan is granted to Company:**	
1	Search Report of ROC records should be obtained in case loan is proposed to be given / given to Pvt. Or Public ltd. Company.	
2	Company Secretarial Compliance Report should also be obtained in case loan has been given to Pvt. Or Public ltd. Company.	
3	Board resolution for making loan application to a Bank should also be obtained along with Loan application.	
4	Board resolution for acceptance of terms & conditions of sanctions and for execution of documents should be kept on record. The said resolution should be typed on Company's letterhead and authenticated by chairman of the meeting and not by any director.	
5	Common seal of the company should be affixed on all documents executed by the company.	
6	Form 8 & Form 13 should be filed with ROC within 30 days of loan documentation.	
7	Bank should stipulate the condition that dividend should not be declared without approval of Bank.	
8	Promoter's contribution should be brought in the form of Capital. If Authorized capital is not adequate to accommodate promoter's contribution, then borrower should be requested to enhance authorized Capital clause immediately.	
9	List of shareholders & their relationship with the promoters / management of the company should be ascertained.	
10	Details of Shareholding should be obtained.	
11	Copies of various forms filed with ROC should be obtained such Annual Audited Accounts, Annual Return, Allotment of Shares, Agreements, Resolutions etc. should be obtained.	

C	**Additional requirements in case of Loan is granted to Firm:**	
1	Certified true copy of Partnership Deed should be obtained. Original deed should also be referred to confirm the xerox copy.	
2	Partnership deed should be referred to confirm as to whether firm could do banking operations with Co-operative bank and how bank account will be operated?	
3	Partnership should be registered with Registrar of Firms. Relevant registration certificate and other papers filed should be kept on record.	
4	Bank should stipulate condition that say 25 % profit & Salary due to partner should be retained in the business.	

D	**Registers:**	**Action**
1	HO should prescribe the format of various loan registers to be maintained by branches.	
2	HO should arrange to print these registers or procure them on behalf of branches to ensure uniformity.	
3	Security register (computer) should be up dated regularly.	