DOI : 10.36347/sjebm.2015.v02i01.017

Scholars Journal of Economics, Business and Management e-ISSN 2348-5302
Saddy NK; Sch J Econ Bus Manag, 2015; 2(1B):117-127 p-ISSN 2348-8875

(An International Publisher for Academic and Scientific Resources)

Loan Practices: A Comparative Study of Lending Practices of Public and Private Sector Banks

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Abstract: All the banks develop their own loan policy based on guidelines given by RBI. All of them, generally, concentrate on similar issues although the internal provisions sometimes vary from bank to bank. In deepness comparison highlights that public sector banks have detailed and more exhaustive lending policies as compared to private sector banks. The bank staff involved in sanctioning the advances is trained about proper documentation and charge of securities, and motivated to take measures in preventing advances turning into Non Performing Assets (NPAs). Public sector banks are now paying greater attention to improve their functioning in order to be more competitive in the market. The study shows that there are more risks in fund based lending than non fund based lending due to depletion of actual liquidity immediately. On the contrary, the experience of the banks, in general has been that the risk exposure in non-fund based credit facilities has been much higher than the fund based credit facilities.
Keywords: Lending Practices, Deposits, Credit Risk, RBI.

INTRODUCTION

Banks all over the world run by setting limits on how much credit they are willing to give to individual clients. Given that clients differ extensively in their needs for credit, even conditioning on size and industry, it is obvious that the setting of the limit could very easily lead to some borrowers being credit constrained. Whether or not and to what extent this is the case depends on the willingness of the loan officers to try and tailor these limits to the genuine credit needs of individual borrowers. This is complicated by the fact that borrowers who are likely to default often have the greatest need for credit, which makes it difficult to rely on the borrower's stated needs to decide on the limit.

Loan officer therefore need to target loans to those with legitimate needs while avoiding those who are likely to default. Of course the extent to which they need to be careful in lending depends on how secured the loan is: In theory at least, working capital financing is supposed to be substantially secured by the firm's inventories and therefore relatively unlikely to face default. However even in such cases there is a significant amount of risk arising, for example, from the fact that some firm's "fudge" their accounting numbers. To help the loan officers assess these risks in a more scientific fashion, banking experts and accountants have come up with a number of models that try to predict default using what was known about the firm in the period just prior to the default.

While banks in India occasionally provide longer-term loans, financing fixed capital is primarily the responsibility of specialized long-term lending institutions such a Industrial Finance Corporation of India. Banks typically provide short term working capital to firms. These loans are given as a credit line with a pre-specified limit and an interest rate that is set at a few percentage points higher than prime. The gap between the interest rate and the prime rate is fixed in advance based on the bank's credit rating and other characteristics but cannot be more than 4%. Credit lines in India charge interest only on the part that is used up and, given that the interest rate is pre-specified all borrowers should want as large a credit line as they could get.

Public Sector Banks in India are nominally independent entities they are subject to intense regulation by the Reserve Bank of India (RBI). This includes rules about how much the bank should lend to individual borrowers—the so-called "maximum permissible bank finance". Until 1997, the rule was based on the working capital gap, defined as the difference between the current assets of the bank and its total current liabilities excluding bank finance (other current liabilities). The presumption is that the current assets are illiquid in the very short run and therefore the firm needs to finance them. Trade credit is one source of finance, and what the firm cannot finance in this way constituted the working capital gap.

REVIEW OF LITRATURE

Arora and Kaur reviewed the performance of banking sector in India during the post-reforms period. A comparative appraisal of banks has been undertaken on the basis of seven key indicators of financial performance for the period from 1994 to March, 2005. It is found that though Public Sector Banks have improved considerably and their performance is comparable with banks in other sectors yet they are lagging behind in thrust area such as business per employee, profitability and asset quality. Suggestions have also been given for improving the performance of public sector banks in India[1].

Murali and Krishna observed that there has been a spirit in the lending activity of banks, in the recent past. This is due to two factors, viz. availability of huge surplus funds with the banks and the losses suffered by the banks in investment and treasury activities. While credit growth is needed for survival, it is imperative to ensure that the credit growth does not result in non-performing advances later. For this, banks have to resort to effective pre-disbursement as well as post-disbursement monitoring. The authors concluded that negligence in monitoring a loan was less excusable than an error at the appraisal stage [11].

Krishna and Surya pointed out that the NPAs of Indian commercial banks much above the international standards. Researchers made an attempt to examine the problems of NPAs and evaluate its intensity on different bank groups. There is a review of strategies adopted by banks to manage NPAs[5].

Kaur and Silony highlighted the role of public and private sector banks in priority sector lending. For the purpose of their study, secondary data has been collected from Statistical Tables relating to Banks in India, Report on Trend and Progress of Banking in India, etc. The period from 1990-91 to 2007-08 has been chosen for the study. The study revealed that priority sector advances and agricultural advances of both the types of banks had improved manifold over the study period. But they were still lacking behind to achieve the targets set for them by RBI in agriculture sector. It was also observed that the performance of private sector banks in respect of all the parameters was better than that of public sector banks. The study suggested increasing the attention of both the public and private sector banks on the priority sector of the economy [6].

Chatterjee *et al* revealed that today the Indian banking system has gone through significant transformation following financial sector reforms. Several prudential, payments, integrating and provisioning norms have been introduced to bring down the NPAs for improving the efficiency and financial health of the banking sector. NPAs adversely affect the overall profitability of the banks. The issue of mounting non-performing assets is giving jitters to banking sector particularly in many a developing economy. This article attempts to focus mainly on the causes and consequences of NPAs, policy directives of RBI, and the initiatives taken by the Indian government to control the menace of NPAs in India [2].

CREDIT PRACTICES OF PUBLIC AND PRIVATE SECTOR BANKS

A commercial bank is usually defined as an institution that both accepts deposits and makes loans; there are also financial institutions that provide selected banking services without meeting the legal definition of a bank. Many banks offer ancillary financial services to make additional profit; for example, most banks also rent safe deposit boxes in their branches. Currently in most jurisdictions commercial banks are regulated and require permission to operate. Operational authority is granted by banks regulatory authorities who provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. For the purpose of the study two banks each from public and private sector banks have been selected.

LOAN POLICY OF PUBLIC SECTOR BANKS

Loan policies of the selected public sector banks, viz. Oriental Bank of Commerce (OBC) and Punjab National Bank (PNB) have been discussed below. The necessary information required for this purpose has downloaded from the respective websites of the banks under study.

Loan Policy of Oriental Bank of Commerce (OBC)

Oriental Bank of Commerce is Basel II compliant in terms of the New Capital Adequacy Framework guidelines issued by the Reserve Bank of India and Capital to Risk Weighted Assets Ratio (CRAR) of the Bank stood at 12.04% (with Tier I ratio of 9.18%) which is well above the minimum requirement of 9% as stipulated by RBI. The Bank has put in place adequate Risk Management Systems which are reviewed and updated periodically in the light of guidelines received from Reserve Bank of India from time to time.

Credit Risk Management: The Bank has constituted Credit Risk Management Committee (CRMC) which reviews the Policies, Procedures and Systems relating to Credit Administration and monitoring at periodic intervals. The Bank's Credit Risk Management process is articulated through various Board approved policies viz. Loan Policy, Credit Risk Management Policy, Loan Review Mechanism Policy, Credit Monitoring Policy, and Policy of Delegated Powers for Lending etc.

Loan Review Mechanism: Loan Review Mechanism (LRM) has proved to be an effective tool for constantly evaluating the quality of loan book, effectiveness of loan administration, maintaining the integrity of credit rating process and to bring about qualitative improvement in credit administration.

Credit Risk Management Policy and Processes: Management of credit risk in the Bank is governed by Board approved Loan Policy, Credit Risk Management Policy and Recovery Policy. The Bank is exposed to credit risk on account of its lending operations. Credit risk is the risk of loss that may occur from the failure of counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments. The broad objectives of credit risk management process are to meet the following goals: (i) Adhere to the guidelines/policies enunciated by RBI and other regulatory authorities. (ii) Be the preferred bank for Corporate, Government, Small and Medium Enterprises, Rural/Micro banking, Agriculture and Retail customers. (iii) Maintain cordial business relationship with all customers by servicing their needs promptly and efficiently. (iv) Build a diversified good quality asset portfolio through risk based lending and active churning of the portfolio. (v) Optimize risk return profile with adequate exit options.

Bank evaluates the qualitative and quantitative aspects of borrower by considering: (i) The financial position of the borrower by analyzing the financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy. (ii) The borrower's relative market position and operating efficiency (iii) The quality of management by analysing their track record and conduct of account, etc.

The Bank evaluates industry risk by considering: (i) Certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, and cyclicality and government policies relating to the industry. (ii) The competitiveness of the industry and, (iii) certain industry financials, including return on capital employed, operating margins and earnings stability.

Policy on Collection of Dues: The debt collection policy of the bank is built around dignity and respect to borrowers. The policy is built on courtesy, fair treatment and persuasion. The bank believes and is of the opinion in following fair practices within legal parameters with regard to collection of dues and repossession of security and thereby fostering borrower confidence and long-term relationship. The repayment schedule for any loan sanctioned by the bank is fixed taking into account cash flow pattern and paying capacity of the borrower. The bank explains to the customer upfront the method of calculation of interest and how the Equated Monthly Installment (EMI) or any other mode of repayment will be appropriated against interest and principal due from the customers. The bank would expect the customer to adhere to the repayment schedule agreed to and approach the bank for assistance and guidance in case of genuine difficulty in meeting repayment obligations. Bank's Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the bank for follow up and recovery of dues and repossession of security will be in consonance with the laws of land / practices and procedure of Banking Industry.

A. Giving notice to borrowers

While telephonic reminders or visits by the bank's representatives to the borrowers' place or residence will be used as loan/ recovery follow up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. Such notice will be sent upon default by the borrower or when telephonic reminders or personal visits fail to yield result giving 10 days time to clear and/or regularize the entire dues and also recall the entire dues and such notice will, as far as possible, will contain giving details of the amount and security including power and authority to repossess security under the contract/ loaning document. Such notice shall be acknowledged by the Borrower / Notice. In the event of the failure of the borrower to acknowledge the notice and to respond by way of payment of dues within the time period, i.e. 10 days from the date of notice, it will be considered that the customer/ borrower/ notice is deliberately avoiding acknowledgement or establishing contact with the Bank and the Bank will be free to initiate such recovery measures including repossession of security under the contract /loan document as deemed fit.

B. Repossession of Security

In case there is deliberate avoidance in acknowledging the notice or establishing contact with the Bank, the Bank upon giving notice may proceed to go for repossession of property. Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Due process of law will be followed while taking repossession of the property. The bank will take all prudent measures for ensuring safety and security of the property after taking custody at the expense of the borrower.

C. Valuation and Sale

It repossessed by the bank will be carried out as per law and in a fair and transparent manner. A separate notice for sale of property shall be given and each notice shall contain the basic information as may be required in law to enforce each such notice. The borrower mortgager shall also be given notice of the time, date and venue of the auction. The bank will have right to recover from the borrower the balance dues, if any, after sale of property. The Bank's right to "General Lien" and its implications will be made clear to the customer at the time of financing. Excess amount, if any, after having satisfied the outstanding dues of the Bank from the money obtained on sale of property will be returned to the borrower/ mortgager after meeting all the related expenses provided the Bank is not having any other claims against the customer / mortgager etc.

D. Opportunity for the borrower

It take back the security, as indicated earlier in the policy document, the bank will resort to repossession of security only for the purpose of realization of its dues as a last resort and not with intention of depriving the borrower of the property. Accordingly, the bank will be willing to consider handing over possession of property to the borrower any time even after repossession and before concluding sale transaction of the property, provided the bank dues are cleared in full. If satisfied, with the genuineness of borrower's inability to pay the loan installments as per the scheduled repayment programmed, which resulted in the repossession of security, the bank may consider handing over the property after receiving the installments in arrears [13].

Loan Policy of Punjab National Bank : The main objectives of Loan Policy of Punjab National Bank are to evolve a balanced and healthier Credit Portfolio, to improve the yield from Lending Activities, to increase exposure to prospering Industries/Sectors/Segments, to reduce exposure to High Risk Areas, to strengthen Credit Risk Management practices followed by the bank, to optimize Credit Deposit Ratio and Risk dispersion through Retail Lending.

A. Pre-Sanction Follow Up

(i) Strengthening of Pre-Sanction Appraisal

To ensure that quality of loan portfolio, pre-sanction appraisal continues to be given special attention. Over the years, the bank has developed useful credit appraisal methodology, which is constantly toned up in the light of the experience gained. During the year, induction/intensive training on Credit Management and Risk Mitigation will be provided to officers, which will bring improvement in the quality of appraisal.

Based on the· broad guidelines on the "Fair Practices Code for Lenders" advised by RBI, the bank has introduced Fair Practices Code in a bid to refine standard of customer services and transparency in the lending activities. The code contains various important declarations which should be followed in letter and spirit. In case of fresh borrower accounts where aggregate credit limits are Rs. 10 lakh and above and value of immovable property to be mortgaged/charged is Rs. 20 lakh and above, branches shall get valuation of such immovable property done from a valuar on the Bank's panel approved by Zonal Managers.

(ii) Opening of Specialized/Corporate Branches

The bank continues to market healthy corporate credit through its Large and Mid Corporate branches. The bank has already opened 2 Large Corporate Branches and 7 Mid Corporate Branches and bulk of the bank's credit is handled by these specialized branches where skilled officers are posted. The purpose of opening such branches is to ensure prompt credit dispensation and improving credit risk management practices.

(iii) Improving Methods of Lending

(a) Working Capital: Various systems continue to be followed for assessment of working capital requirements of the borrowers. Simplified method based on turnover for assessing working capital finance up to Rs. 2 crore (up to Rs. 5 crore in case of SSI units) continues. Cash Budget system continues to be followed in sugar, tea, IT and film production accounts. The bank endeavours to introduce the same selectively in other areas also. Borrowers will have freedom to decide the proportion of Cash Credit and Loan Component of working capital limits, period of such loans and renewal/rollover of loan component. Assessment of non-fund based facilities shall be subjected to the same degree of appraisal, scrutiny as in the case of fund based limits, interalia, because outstanding in these facilities attract capital adequacy norms and are to be reckoned at 100% for exposure purposes. Therefore, need based requirement of a borrower should be assessed after reckoning the lead-time, credit period available, source of supply, proximity of supplier, etc.

(b) Term Loan: In case of infrastructure/mega projects, proper appraisal will be made by utilizing the services of specialized/ technical officers. Further, in respect of sanction of such term loans, services of outside consultants from the list approved by IDBI, SBI CAPS etc., may also be utilized for necessary appraisal, whenever required.

Further, all proposals for infrastructure financing shall continue to be sanctioned by GM & above at Head Office only.

(iv) Loaning Powers

Sanction of limits/facilities in anticipation of approval by Board shall continue to be considered The officials shall exercise the vested loaning powers diligently and shall not exceed the vested powers, However, in exceptional circumstances and for bonafide exigencies, whenever such powers are exceeded, the existing system of reporting the same immediately to the controlling authority for confirmation by the competent authority, but in any case not later than 7 days from the day of the transaction, shall continue to be followed.

(v) Adherence to Exposure Norms

The bank has fixed exposure ceiling lower than those prescribed by RBI as a trigger point as under:
For Individual Borrowers: 12.5% of capital fund (15% provided additional exposure of 2.5% is on account of credit to infrastructure projects). For high-risk categories (i.e B,C & 0) , 10% of capital fund.

For Group Borrowers: 30% of capital fund (40% provided additional exposure of 10% is in case of infrastructure). For high-risk categories (i.e. B, C & 0), 20% of capital fund.

In order to reduce concentration risk in a few accounts, Substantial Exposure Limit (i.e. sum total of exposures assumed in respect of those single borrowers enjoying credit facilities in excess of capital funds of a threshold limit of 10% of capital fund as on 31.03.2004) fixed at 400% of capital funds with following sub-ceilings may continue:

Private Sector Borrower: 100% of capital funds

Public Sector Borrower: 300% of capital funds.

The credit exposure in respect of large borrowal accounts having limits/outstanding exposure of Rs. 1 crore and above in a particular industry will be restricted to 10% of bank's total credit.

B. Post-Sanction Follow Up

(i) Ensuring End-use of Funds

As a matter of prudence, bank needs to ensure end-use of funds it has lent. It is necessary to ensure that the bank does not depend entirely on the end-use certificates issued by the Chartered Accountants but strengthen its internal controls and the Credit Risk Management System to ensure end-use of funds which would enhance the quality to the loan portfolio. Some of the illustrative measures that could be taken by the branches to ensure end-use of funds are:
(a) Meaningful scrutiny of quarterly progress reports/operating statements, balance sheets of the borrowers; (b) Regular inspection of borrowers' assets charged to the bank as security. (c) Periodical scrutiny of borrowers' books of accounts; (d) Periodical visit to the assisted units; (e) System of periodical stock audit, in case of working capital finance.

(ii) Loan Review Mechanism

In terms of RBI guidelines, at least 30-40% of the credit portfolio should be subject to loan review mechanism in a year. In order to maintain the integrity of the Credit Risk Rating, appraisal mechanism and to comply with RBI guidelines on Loan Review Mechanism, a separate independent division known as "Credit Audit & Review Division" (CARD) has been set up.

(iii) Preventive Monitoring System (PMS)

PMS shall be the basic monitoring system of borrowal account in future. PMS has been implemented in all large corporate borrowal accounts having sanctioned fund based and non-fund based limits of Rs. 12 crore and above. The system shall be extended to cover all accounts having sanctioned fund based limits and non-fund based limits of above RS.1 crore.

(iv) Stock Audit

The bank has a policy to conduct annual stock audit (including book debts) for all accounts availing a fund based credit limit of Rs. 5 crore and above, which shall be followed by the branches. However, relaxations in this regard can be allowed by head office on merit of the case in terms of extant guidelines. Further, in respect of borrowers enjoying fund based limits of less than Rs. 5 core, the extant guidelines for getting the stock audit done in emergent cases and / or, wherever bank's interest demands, with prior concurrence of Zonal Management shall continue.

(v) Monitoring of Weak irregular Accounts

All weak accounts under standard category with outstanding of Rs. 50 lakh & above having weaknesses such as units incurring operating/cash losses and accounts with 'C' & '0' risk rating etc shall be monitered CARD, head office shall also conduct on-site review/audit of such borrowal accounts with credit limits of Rs. 1 crore & above. Further, all irregular loan accounts having outstanding of Rs. 3 crore and above shall also be monitored properly.

DOI : 10.36347/sjebm.2015.v02i01.017

(vi) Legal Compliance Certificate

Under this system, for all credit limits of Rs. 10 lakh and above, branches will submit legal compliance certificate, certifying the compliance of all the formalities contained therein. Pending formalities, if any, shall also be reported in terms of extant guidelines. The same is to be submitted in respect of all fresh sanctions/ enhancement/renewal, to the respective controlling office, within the stipulated time.

(vii) Documentation - Legal Audit

The bank has in plakhe a legal audit system which provides for drafting/vetting/audit of the loan documents in case of borrowal accounts, with sanctioned limits of Rs. 25 lakh & above (both fund based and non-fund based). The system is followed meticulously.

(viii) Recovery of Loans

After the introduction of NPA norms and capital adequacy requirements, Recovery has assumed greater importance. Further, in terms of RBI instructions, banks have switched over to 90 days norms for recognition of loan impairment from the year ending 31.03.2004. Hence, at all levels, meticulous follow up needs to be continued to ensure that the recovery is made in terms of sanction and the targets fixed for recovery are achieved.

C. Thrust Areas

(i) Retail Segment

Retail lending will continue to be a thrust area for the bank and the aim of the bank shall be to achieve accelerated growth of credit and increase its contribution to 25% of overall credit in a phased manner with focus on financing traders, housing loans, education loans:

- Loans to Professionals, i.e., Doctors/Architects/Accountants
- Loans against future lease rentals
- Loans to Pensioners
- Loans against Gold/Silver-Jewellery/Ornaments.
- Other segment specific loan products.

(ii) Priority Sector Credit

The bank will continue to strive for achieving the national goals in Priority Sector Lending and sub-targets under this segment, viz. agriculture, SSI, weaker sector, women beneficiaries, etc. Within priority sector, agriculture in general and direct agriculture in particular shall be the thrust area and within agriculture focused attention shall :'e paid for increasing loans under: (a) Small & Medium Enterprises, (b) Kisan Credit Card, (c) Kisan Sampuran Yojana (Holistic approach to take care of investment, production and consumption needs of farmers), (d) Advance against warehouse and cold storage receipts, (e) Advance for purchase of tractors and other agricultural implements, (f) Farm mechanization (combine harvester), (g) Minor irrigation with emphasis on drip and sprinkler irrigation, (h) Loan for construction of Rural Godowns/Cold Storages, (i) Dry Land Farming, (j) Contract Farming, (k) Green Houses, (l) Agriculture infrastructure like cold chains, refrigerated vans, etc. for transport and preserving perishable goods. (m) Export of vegetables/fruit/meat and processed meat products

Linking Self-help Groups and financing Micro-finance Projects shall continue to be areas of priority. Financing Micro-finance Projects especially agriculturists and Self-employed Persons shall be the thrust area. More emphasis will be given in states where the scheme is yet to gather momentum.

(iii) Export Credit

Export credit also continues to be the thrust area of the bank and its endeavour will be to achieve the ratio of export credit to net bank credit of 12 % 8S prescribed by RBI.

D. Watch List

Keeping in view the bank's substantial exposure in certain industries -nrl in view of NPA level and uncertain prospects leading to higher default risk, a number of industries have been kept under watch, which include. iron & steel, textiles, engineering, paper, dyes & chemicals, solvent oil extraction, real estate. exposure to capital market, entertainment / film production, sofware industry, sugar and hotel industry. The watch list is reviewed time and again, depending upon prospects of upcoming industries.

E. Non-Fund Based Business

Non-fund based business shall be increased so as to augment non- interest/fee based income. In consortium advances, efforts shall be to secure atleast pro-rata business.

F. Optimizing Credit Deposit Ratio

Bank's credit deposit ratio as on 3103.2004 is 57.11 % During the current year, it shall be the banks's endeavour to improve the ratio further.

G. Pricing of Loans

In view of the Risk Management guidelines as well as to make a beginning in the area of risk based pricing mechanism, pricing linked to Credit Risk rating has been adopted w.e.f. 01.04.2004 in respect of large corporate borrower’s accounts. The bank endeavours to progressively link interest rates the risk rating in respect of other borrowers after reviewing the implementation of 'Pricing linked to Risk Rating' in Large Corporate borrower's Accounts.

H. Restructuring of Accounts/Corporate Debt Restructuring (COR)

Restructuring of accounts is one of the means available to restore an account back to rails. It is, therefore, essential to apply this prescription well in time as the delay may erode the basic viability of the account. In order to save the potential accounts from slippage to NPAs category, bank will go for restructuring of these accounts within the frame work of RBI guidelines.

I. Other Issues

(i) Group Approach

For identification of a group, the guiding principle is "Commonality of J.1anagement and Effective Control". In case the accounts of any unit belonging to a Group become irregular 2nd the concerned promoters do not co-operate with the bank and financial institution to settle their dues, the Group will not be provided accommodation from the bank. While dealing with cases involving extension of fresh facilities .0 such units belonging to a group, the under mentioned basic point shall be kept in view:

"Financial support for setting up of new ventures or expansion should it be extended to a unit belonging to an industrial group which is willful defaulter or non-cooperative so as to ensure that no amount lent to a healthier unit of a group for its working capital requirements is transferred to another unit within the group by reducing the Current Ratio of transferor unit".

(ii) Consortium Arrangement

In case of borrowers enjoying aggregate fund-based limits of Rs. 50 :rore and above from more than one bank, consortium arrangement should be considered.

(iii) Multiple Banking Arrangement

Under Multiple Banking Arrangement each bank is free to negotiate terms and conditions, including margin, rate of interest etc. Based on the communication received from IBA, the common code for financing under Multiple Banking Arrangement particularly in respect of sharing of information as well as common securities has been adopted by the bank.

(iv) Validity of Credit Limit Sanctioned

Sanctions in respect of working capital and term loan facilities shall be valid for 6 months, from the date of sanction. Facilities not availed within the above period should be treated as lapsed and borrower be advised accordingly. Unless a lapsed sanction is revalidated by the competent authority within a maximum period of 12 months from the date of sanction, no facility should be released.

(v) Selective Credit Control

Based on the guidelines issued by RBI from time to time, credit limits will be sanctioned to borrowers dealing in sensitive commodities.

(vi) Wilful Defaulters and Action There Against

No additional facilities should be granted by any bank/FI to the listed willful defaulters. In addition, the Entrepreneurs/promoters of companies where banks/Fls have identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions, should be debarred from institutional finance from the scheduled commercial banks, development financial institutions, Government owned NBFCs, investment institutions etc. for floating new ventures for a period of 5 years from the date its name appears in the list of wilful defaulters of Rs. 25 lakh and above published by RBI on quarterly basis.

(vii) RBI's List of Defaulters

In cases where name of a company appears in the RBI list of defaulters and the director(s) of such company are also director(s) in another company seeking credit facilities from another bank, such case should not ally be considered. However, if considered necessary, the same should be put up to the competent authority for consideration. Information to this effect should be incorporated in the loan proposal and justification for granting credit facilities to such company should be discussed therein. Further, while doing so the guiding principle shall be "Commonality of Management and Effective Control".

(viii) Sanction of Proposals beyond the Purview of Loan Policy

In case of business exigencies, Management Committee may sanction proposals beyond the purview of above policy and such deviations shall be "sported to Board by CAD at the end of every quarter.

Thus, it may be concluded in the end that the loan policy of Oriental Bank of Commerce mostly aims at making systems and controls effective and striking the balance between underwriting assets of high quality and customer oriented selling. However, loan policy of Punjab National Bank aims at proving the yield and reducing exposure to high risk areas. Still the loan policies of both these banks, which are in a way representative of the banking sector in India focus on a number of issues which are similar in nature [14].

DOI : 10.36347/sjebm.2015.v02i01.017

LOAN POLICY OF PRIVATE SECTOR BANKS

Loan policy of private sector banks is discussed below:

Loan Policy of IndusInd Bank

A. Fund Based Services

(a) Working Capital Finance: The bank offers working capital facilities - both fund-based and fee-based. Fund-based working capital products include cash credit, overdraft, bill discounting, short-term loans, and export financing (pre-shipment as well as post-shipment). Fee based facilities include letters of credit and bank guarantees.

Working Capital facilities are provided to finance the day-to-day business requirements. Funding requirements are structured to finance procurement of raw materials/stores and payment towards manufacturing costs and other overheads. Sales are financed against sundry debtors/ receivables. The Bank offers a combination of operative cash credit and working capital demand loan to meet the domestic working capital requirements of its clients.

(b) Short-Term Finance: The Bank offers short-term loans for a period ranging from 3 months to 12 months to sound corporate for meeting their specific short-term working capital requirements. The funds are provided with interest rates either linked to banks Benchmark Prime Lending Rate (BPLR) or at a fixed rate with varying repayment patterns.

(c) Bill Discounting: This product enables corporate to fund their operating cycle right from the stage of procurement to sale. Bill Financing is extended by IndusInd Bank to its clients at competitive rates. Letter of credit backed bill discounting and clean bill discounting are the convenient mode of financing for domestic trade transactions. Bill of exchange could be broadly classified into Demand bills and are further classified into clean and documentary bills.

(d) Export Finance: As an important incentive to the exporters community for boosting exports, financial assistance in Rupees is extended to exporters on priority basis on relatively liberal terms. Such finance is provided both at pre-shipment stage (as working capital finance) and at post-shipment stage (to bridge the time lag between the shipment of goods and the realisation of proceeds). Interest charged on export credit is exempted from the purview of interest tax.

(e) Term Lending: Bank offers term loans to both Industrial as well as Infrastructure sectors promoted by strong business houses. These loans are for a period of 3-5 years with a moratorium period. Interest rates could be fixed or floating linked to the bank's Benchmark Prime Lending Rate.

(f) Buyer’s Credit / Supplier’s Credit: This facility provides total flexibility to corporates to utilise the line (sanctioned limit) of credit. The terms of the line of credit are either pre-determined or negotiated at the time of availment. This facility is used as and when the client has a requirement.

B. Non-Fund Based Services

(a) Letter of Credit: The basic objective of Letter of Credit is to facilitate orderly movement of trade. It is, therefore, necessary that the evidence of movement of goods is present. Banks are not connected with the quality/quantity of the goods and are concerned only with the documents which should conform to the terms and conditions of Letter of Credit. IndusI nd Bank establishes Letters of Credit for inland and foreign transactions.

(b) Bank Guarantees: Bank Guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default. IndusInd Bank sanctions banks Guarantee limit to facilitate issue of guarantees on behalf of its clients. Various types of guarantees offered are–financial, performance, bid bond, tenders, customs, etc. Banks guarantees are well accepted. Bank also issues guarantees overseas for participation in global tenders, etc. [15].

Loan Policy of ICICI Bank

A. Applications for Loans and their Processing

The bank would have loan application forms in respect of all the loans (irrespective of quantum of loan). These would include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower. Receipt of completed application forms will be duly acknowledged. The bank would verify the loan applications within a reasonable period of time. If additional details/ documents are required, it would intimate immediately. The bank would convey in writing, rejection of all the loan applications (including credit card application) within reasonable time frame Loan.

B. Appraisal and terms/conditions

In accordance with the Bank?s prescribed risk based assessment procedures, the bank would ensure that there is proper assessment of credit application made by borrowers. The sanction of the credit limit along with the terms and conditions thereof is to be

DOI : 10.36347/sjebm.2015.v02i01.017

conveyed to the borrower and the bank shall keep the borrower's acceptance of these terms and conditions given with his full knowledge on record. The terms and conditions and other caveats governing credit facilities given by the bank would be produced in writing and duly certified by the authorised official. Further, a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement may be furnished to the borrower, if asked for. To the extent possible, the loan agreement would stipulate if the credit facilities are solely at the discretion of the bank. Disbursement of Loans including changes in terms and conditions Sanctioned loans will be disbursed in a timely manner and in conformity with the terms and conditions governing such sanction. Bank will give notice of any change in the terms and conditions including interest rates, service charges etc. The Bank will also ensure that changes in interest rates and charges are affected only prospectively.

C. Post Disbursement Supervision

Post disbursement supervision, would be constructive, taking into account any genuine difficulties that the borrower may face and in accordance with normal banking practice. Before taking a decision to recall/ accelerate payment or performance under the agreement or seeking additional securities, the bank would give notice to borrowers as specified in the loan agreement or a reasonable period, if no such condition exits in the loan agreement.

All securities pertaining to the loan would be released on receipt of full and final payment of the loan, subject to any legitimate right or lien for any other claim that it may have against borrowers. If such right of set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the provisions under which the bank is entitled to retain the securities till the relevant claim is settled/ paid.

General the bank will refrain from interfering in the day-to-day affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the bank).

However this will not dilute Bank?s rights under the loan documents. The bank would not discriminate on grounds of sex, caste and religion in the matter of lending. In the matter of recovery of loans, the bank would not resort to undue harassment or use of force. In case of receipt of request for transfer of borrowal account, either from the borrower or from a bank/ financial institution, which proposes to take-over the account, the consent or otherwise i.e. objection of the bank, if any, would be conveyed within 21 days from the date of receipt of request.

D. Grievance Redressal Mechanis

Disputes/concerns/complaints arising at the Branch level will be addressed by the Customer Service Manager and Branch Manager of the concerned Branch. Recurring problems or issues will be discussed at the Branch Service Committee Meeting and Branch specific preventive/corrective actions will be taken. Disputes/concerns/complaints being escalated to the Head Office will be addressed to the? Service Delivery? Team. Complaints/concerns of a recurring nature / pattern received across Branches & centrally will be discussed at the? Standing Committee of Service? Chaired by the Executive Director of the Bank. Any Bank specific corrective or preventive actions will be determined after thorough analyses and consultation with the relevant Product & Sales team.

A review of compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism would be conducted by the bank once a year.

ICICI Bank's Loan Plan's:

Home Loan Insurance Plans in India: Introducing exclusive Home Insurance plans for home loans in India that can provide cover to your Home loan in the face of any unforeseen event happening to your life. In case of any of these happenings, your family will have the support of the insurance cover to pay for the outstanding Home loan, without being burdened by the loan EMI's. ICICI Bank Home Loans presents "Home Safe Plus" & "Home Assure" two exclusive and innovative insurance plans to insure your Home Loan.

Home Safe Plus:

Key Benefits of Home Safe Plus

- No medical checkup upto 3 crores premium.
- Comprehensive insurance plan for individual, home and its contents.
- Single premium long-term insurance plan.
- In the event of PA & permanent or total disability claims, monthly payment of sum insured (Rs. 25000 for next 60n months).
- Multiple applicants can be covered under the same loan.
- Premium paid for the Critical Illness cover is eligible for tax benefits u/s 80D of the Income Tax Act.
- Sum Insured remains constant throughout the policy period (loan O/S amount to come to bank, rest goes to individual).

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Home Assure

Key Benefits of Home Assure:

- Life Cover from Home Assure for the entire home loan tenure.
- Provides reducing cover to the loan borrower for the tenure of the loan; from the date of availing the cover.
- Special non-medical limits only for ICICI Bank Home Loans customers.
- In case of death of the loan borrower, the benefit, which is as per the original loan schedule and the specified moratorium period, would be used towards paying your outstanding loan amount to ICICI Bank.
- Provides cover for the loan borrower for the entire loan amount during the under construction period.
- Availability of joint life coverage.
- Tax Benefit on premium paid under Sec 80 C.
- Simplified claim procedure.

Loans

ICICI Bank offers wide variety of Loans Products to suit your requirements. Coupled with convenience of networked branches/ ATMs and facility of E-channels like Internet and Mobile Banking, ICICI Bank brings banking at your doorstep. Select any of our loan product and provide your details online and our representative will contact you for getting loans.

Home Loans

The No. 1 Home Loans Provider in the country, ICICI Bank Home Loans offers some unbeatable benefits to its customers - Doorstep Service, Simplified Documentation and Guidance throughout the Process. It's really easy !

Personal Loans

If you're looking for a personal loan that's easy to get, your search ends here. ICICI Bank Personal Loans are easy to get and absolutely hassle free. With minimum documentation you can now secure a loan for an amount upto Rs. 15 lakhs.

Commercial Vehicle Loans

We have extended products like funding of new vehicles, finance on used vehicles, top up on existing loans, working capital loans & other banking products.

Car Loans

The most preferred financier for car loans in the country. Network of more than 1000 channel partners in over 200 locations. Tie-ups with all leading automobile manufacturers to ensure the best deals. Flexible schemes & quick processing. Hassle-free application process on the click of a mouse.

Loans against Securities

You don't have to sell your securities. All you have to do is pledge your securities in favour of ICICI Bank. We will then grant you an overdraft facility up to a value determined on the basis of the securities pledged by you. [16].

CONCLUSION

While a qualitative credit appraisal indicates the viability and bankability of a credit proposal, post-sanction measures such as timely disbursement, proper documentation; monitoring and follow up play a crucial role in ensuring that the account continues to be a performing asset. Thus, it may be concluded that the aim of loan policies of Oriental Bank of Commerce, Punjab National Bank, IndusInd Bank and ICIC Bank is making systems and controls effective and striking a balance between underwriting assets of high quality and customer-oriented selling.

All the banks develop their own loan policy based on guidelines given by RBI. All of them, generally, concentrate on similar issues although the internal provisions sometimes vary from bank to bank. In deepness comparison highlights that public sector banks have detailed and more exhaustive lending policies as compared to private sector banks. The bank staff involved in sanctioning the advances is trained about proper documentation and charge of securities, and motivated to take measures in preventing advances turning into Non Performing Assets (NPAs). Public sector banks are now paying greater attention to improve their functioning in order to be more competitive in the market.

The private players being particular in loan related guidelines are successful in containing NPAs to large extent while the public sector players are not able to exercise the proper control over the borrowers and hence the amount of NPAs have increased considerably in the last few years.

The study shows that there are more risks in fund based lending than non fund based lending due to depletion of actual liquidity immediately. On the contrary, the experience of the banks, in general has been that the risk exposure in non-fund based credit facilities has been much higher than the fund based credit facilities. This is found to be due to lack of proper appraisal on the part of the banks of an application for non-fund based credit limits since it does not involve an immediate outgo of cash on sanction of the said facilities. It is therefore, to be appreciated that proposal for both the fund based and non-fund based limits deserve and call for the same standard of scrutiny and appraisal.

DOI : 10.36347/sjebm.2015.v02i01.017

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