

Problem Loan Review Policies - 2013 (Loan Monitoring)



Agrani Bank Limited

Head Office : 9D, Dilkusha C/A, Dhaka.

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PROBLEM LOAN REVIEW POLICIES - 2013

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LOAN REVIEW POLICY (Problem Loan Monitoring)

01. Introduction

In cases where the risk of credit loss is significant and/or the underlying problems require special expertise, NPL Division will assume primary management of the problem credit, keeping in mind that the originating Branch Manager will remain available to coordinate recovery actions as required. In cases where there is an imminent risk of loss, the loan should be followed very carefully by the branch officials. At that time all interest accrual should cease and any interest already accrued and taken into income should be reversed. The assigned risk rating should be changed accurately reflect the loan or facility's current deteriorated condition.

02. Objectives

The objectives of proposed problem loan monitoring policy should be:

- Examine and evaluate the problem credit situation including an assessment of the risk, a review of the adequacy and completeness of credit documentation, and, if applicable, collateral perfection, as well as an analysis of the condition, marketability and current market value of the collateral.
- Formulate a future strategy or an action plan to be followed in dealing with and resolving the problem credit.
- Retain outside counsel to provide specialized legal assistance when required.
- Implement a strategy in order to restore the credit to a fully performing status or get the outstanding balance fully repaid, restructured, or adequately secured to mitigate against loss.

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- Estimate the probability of full recovery and the likely costs (in terms of actual expenses, employee time and foregone income) associated with succeeding. If there is a low probability of full recovery coupled with high costs over an extended period of time, the Bank, through action of its Credit Committee/NPLMC, might make a business decision to attempt to settle the debt immediately. Prompt and effective resolution of problem loans can reduce losses for the bank. Problem loans are costly to the bank in terms of time and effort as well as, frequently, foregone interest income and additional expenses. Ultimately problem loans reduce profits and can erode capital.

03. Loan Review

3.1 Loan Review Scope and Coverage Parameters:

Branch is the center point of every activity related to loan. The procedure of borrower selection, receiving application, processing loan proposal & sanction/ approval of the proposal is done according to power of delegation.

The loan should be reviewed by all stages/tires of the bank such as:

- 3.1.1 Concerned Branch Level;
- 3.1.2 Zonal Office Level;
- 3.1.3 Circle/ GM office Level;
- 3.1.4 Central/ Head Office Level.

3.1.1 Concerned Branch Level:

All concerned branches will individually examine/review all the performing & non-performing loans excluding Short term Agri-credit/Micro credit (STAC/MC - however, these types of loans will be reviewed as per the present loan classification circular) corresponding within the first week of the following month and the report with comments of each problem loan should be sent to the Zonal office by 10th of that month.

For this purpose, a committee comprising of three members should be formed, headed by the branch manager and two other members (2nd Officer and in charge of advance section).

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3.1.2 Zonal Office Level:

After receiving the report of the previous month from all branches, the zonal office will examine the report and consolidate the report with their comments and will send the same to the concerned Circle Office within 15th of the month.

For this purpose, a committee comprising of three members should be formed, headed by the Zonal Head and two other AGM/SPO of the concerned section.

3.1.3 Circle/ GM office Level:

Circle office will examine the report and consolidate the report with their comments and will send the same to the CPRMD (Credit Committee) within 21st of the month.

For this purpose, a committee comprising of four members should be formed, headed by the Circle GM and three other Deputy General Manager/Assistant General Manager/Senior Principal Officer.

3.1.4 Central/ Head Office Level:

Recovery and Non Performing Loan Management Division will present the same to the management for necessary comments on monthly basis. The report of the management should be submitted to the Board on quarterly basis

A format for loan review and coverage is shown in Annexure-1.

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Following are the parameters for reviewing loans:

- SRO issued from People's Republic of Bangladesh.
- Rules and Regulations by Bangladesh Bank.
- Existing Credit Policy of the Bank.
- Credit Risk Management Policy.
- Delegation of Business Discretionary Power.
- Declaration relating to liabilities and confidential report.
- UCP & other rules & regulations in case of International Trade.
- Bank Books of instruction (BBI).
- Formulation & preservation of necessary loan documents properly.
- CRG guidelines.
- Credit Rating (if applicable).
- CIB Report.
- Rules & Regulations relating to documentation of loans and mortgage etc.
- Instruction relating to verification of ownership of collateral security.
- Existing guidelines & regulation in case of different loans.
- Green banking policy.

It is to be noted that Short Term Agriculture & Micro-credit loan may be excluded from monthly loan review. In case of these loans, guidelines for loan classification and provisioning shall be applicable.

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04. OVERALL QUALITY OF LOAN PORTFOLIOS

As per BRPD Circular No. 14 dated 23-09-2012 of the Central Bank (Bangladesh Bank), the quality of loan portfolios according to the status are Standard, SMA, SS, DF, & BL. The quality of loans should be reviewed in the following manners:

4.1 Branch:

As per BRPD Circular no.14 dated 13.09.2012 and other instruction by the Board, the Branch should ensure that each loan is reviewed every month and problem loan(SMA, S.S, D.F & B.L) statement should be sent to the concerned Zonal office.

4.2 Zonal Office:

The Zonal Office will verify the status of the problem loan portfolio of all branches. If any dissimilarity detected, necessary correction should be made immediately through the branch and sent the consolidated report to the Head Office with a copy to the Circle Office within Stipulated time.

4.3 Circle Office:

After receiving the loan portfolio statement from the Zonal Office, the Circle Office will verify and if any discrepancy arises should get done corrected by the branch through Zonal Office.

A consolidated corrected copy (if any) should be immediately sent to the Recovery & NPL Management Division (Classification) of Head Office.

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4.4 Central/Head Office:

After receiving the problem loans review Statements, from Zonal office/Circle Office (Corrected Copy), Recovery & NPA Management Division(Classification) will examine/scrutinize the same and will consolidate as per format of PL(Problem Loan) and submit a consolidated monthly report to the management for onward submission to the Board on quarterly basis.

The quarterly PL(Problem Loan) statement shall be submitted to the Board through the management and subsequently sent to Bangladesh Bank.

05. Identification, type, rating and amount of problem loans and amount of delinquent loans

Problem loans are likely to occur in the normal course of business. This risk, however, can be minimized through early recognition of problems and taking appropriate corrective measures.

Following measures can be adopted for identifying delinquent/willful defaulter borrowers:

- Physical inspection to know whether the business of the borrower is running properly.
- To verify cash flow, sales revenue and profit of the business according to records of the borrower(Balance sheet).
- To verify whether the borrowed money has been invested accordingly and being re-invested the money on re-cycling basis.
- Whether the pledged goods in the godown/ware-house are in order to be inspect physically from time to time.
- To ensure whether every business transaction of the borrower is being done with the related branch.

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- Review Officer will prepare a report of identified delinquent borrowers and Branch will send it to Recovery & NPL Management Division on monthly basis through concerned controlling offices.
- To elope to another country accumulating borrowed money/capital.
- Not to repay the loan by changing holding number/place, signboard etc.
- To borrow from bank through pieces of collaterals from 3rd party, without proper communication system.
- To borrow by fraudulent/fake documents.
- To wait for interest waive for the loan which was sanctioned by political influences.

The problem loans and amount thereon would be identified and minimized through:

5.1 Branch:

The branch should identify status of each loan from the CL statement. The manager should find out each & every problem loan i.e. non-performing loan and identifying the cause of being non-performing.

For recovery of the non performing loan, branch managers will maintain a separate register for classified loans. He will distribute tasks of classified loan recovery among the officers & staff and supervise the loan recovery activities of the related ones. A report regarding the activities should be sent to Zonal Office once a month (within the 7th of the following month).

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5.2 Zonal Office:

Zonal heads will monitor the steps taken by the branch managers and after examining the same will send the to related circle office (within 15th of the months).

5.3 Circle Office:

Circle Office will supervise the steps taken by the zonal office and progress therein.

06. Credit and Collateral documentation exception

Whether credit and collateral documentations of the problem loans have been accomplished in the light of credit policy and sanction advice to be monitor by the Loan Review Officer. Collateral and documentation of the problem loan will be supervised/ monitored in the following manners:

- 6.1 The branch will review each loan once a month. During the period of review, the team will find out the violation of credit policy and lack of documentation against the credit policy, collateral violation and documentation policy as well as terms and condition of sanction advice and agreement. If the team finds any discrepancy, they will prepare a monthly report comprising the responsibility and non-discharging the duties of such defective loan and make comments for rectification.

Following are the aspects that are to be noticed while measuring the exception in documentation:

- The valuation of collateral security has been done according to rules and regulations of Bangladesh Bank in case of loan sanction/extension.
- To determine the eligibility of the borrower it has to be verified before loan sanction/renewal/extension whether the up-to-date clean CIB report has been collected and attached with the loan proposal.

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- The purpose of the loan should be mentioned in the application of the borrower and borrower's national ID card, permanent, present and business address, telephone/cell phone number, e-mail address should be mentioned clearly in the loan proposal.
- Whether the charge has been implied on the collateral security accordingly.
- It has to be ensured physically from branch time to time whether the determined amount of the collateral security has been reduced for any reason. In such cases, Loan Review Officer will observe whether extra collateral has been taken to cover the deficit amount.
- Whether the loan has been sanctioned according to power of delegation.
- Whether the report has been submitted as well as preserved in the loan register after visiting the ownership of the collateral security, location, marketability, up-to-date value, possession by the responsible officer from the branch physically.
- Whether the loan has been sanctioned after ensuring that the CRG (if necessary) has been prepared accordingly and CRG score is acceptable.
- Whether 1.00 crore or above amount has been sanctioned/disbursed in favor of a company that is under BBB Rating or unrated.
- Whether the financial statement has been prepared along with appraisal (if applicable).
- Whether the rules and regulation of Bangladesh Bank has been followed in case of single borrower exposure.

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- 6.2 A copy of the monthly report should be sent to the concern Circle Office countersigned by the Zonal Head.
- 6.3 After receiving the reports, Circle Office will consolidate the same and a report should be submitted to management on monthly basis.
- 6.4 A report should be submitted to the Board through management on quarterly basis.

07. Loans meeting the criteria for non-accrual status

For proper charging interest against loan portfolio, the following methods should be followed:

- 7.1 It is to be examined by the loan review officer during loan review whether the guidelines of Bangladesh Bank have been followed while charging interest against classified loans of the Branch. Besides, it is to be verified whether interest charged on the the SS, DF & BL account and has been transferred to income account. If so done necessary correction will be made instantly. Loan review officer will send related report to controlling office (Corporate branches to GM Offices and other branches/ corporate to Zonal Office) on monthly basis.
- 7.2 After receiving all review report from branches, zonal office will summarize the review reports and will send the same to Circle Office.
- 7.3 After getting report from Zonal Office and Corporate Branch Circle Office will confirm whether rectification of non-accrued interest has been reverted accordingly and will send the reports to Recovery & NPL Management Division, Head Office on monthly basis.

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7.5 Then Recovery & NPL Management Division will summarize all branches report and will submit a consolidated report to the management on monthly basis for onward submission before the Board on quarterly.

08. Identification & Status of Credit Related Violations of Law, Rule or Regulation

Every credit/loan should be sanctioned according to credit policy of the bank itself. Bank further has to confirm that any violation of law, prudential guidelines of Bangladesh Bank, Head Office Circular has occurred among the problem loans. Besides, it is to be seen whether there is any loan sanctioned by the Board excluding the normal course of action.

The procedure of review shall be implemented in the following tiers:

8.1 Branch:

The branch will ensure whether the loan has been sanctioned complying with the Credit Policy and other instruction(s)/circular(s) issued by the bank and will send the report to the concerned Zonal Office.

8.2 Zonal Office & Circle Office:

After receiving the report from the branches Zonal Office will forward the same to the Circle Office and Circle Office will send the same to the Recovery & NPL Management Division.

8.3 Head Office:

After that the Recovery & NPL Management Division will summarize the report and will submit the consolidated report to the management on monthly basis and to the Board on quarterly basis.

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09. Identity of the Loan Officer(s)

The identification of each & every loan review officer should be recorded in the following manners:

- Name of the loan review officer;
- Designation of the officer;
- Specimen signature number(SS NO.);
- Date.

10. Concentration of Credit

It is to be identified whether the problem loans have been concentrated in specific sectors. The concentrated problem loans should be categorized according to loan classification status, such as, SMA, SS, DF, BL & the report will be send to Zonal Office and Zonal Office will send the same to Circle Office for onward submission to Recovery & NPL Management Division on monthly basis.

Recovery & NPL Management Division will summarize the report and will submit the same before the management on monthly basis and management will submit the same to the Board on quarterly basis.

11. The Performance of Rescheduling/Restructured Loan

During the loan review period, review officer will thoroughly review the status of rescheduled / restructured / blocked loans of the branch. In this connection review officer will observe whether the installments have been paid as per terms & conditions of the sanctioned letter. Any violation of sanction advice should be reported in the review sheet. The review sheet will be sent to Zonal Office and Circle Office for onward submission to Recovery & NPL Management Division.

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12. Stages/Levels of Monitoring Problem Loans

There should be four monitoring stages/levels, such as

- Central/ Head Office Level
- Circle/ GM office Level
- Zonal Office Level
- Concerned Branch Level.

13. Techniques of problem loan recovery

Following are the plans/techniques to be taken by the Head Office to monitor / supervise in different stages to achieve classified loan recovery target:

- First 10 default / classified loans among the top 50 defaulters will be monitored directly by the Managing Director & CEO.
- Next 40 default / classified loans will be monitored / supervised by the 4(four) Deputy Managing Directors each 10.
- Besides, the above each circle General Manager will directly monitor / supervise top 10 default / classified loans of his circle.
- Next 10 default / classified loans of the branches will be monitored / supervised by the respective Zonal Heads.
- Other default / classified loans will be monitored / supervised by respective branch managers & Zonal Heads.
- Officers engaged in the recovery process will contact Managing Director & CEO, Deputy Managing Director every week on Sunday (who should be tagged with Managing Director & CEO, Deputy Managing Director according to office order).
- Formulating policy by the authority so that the Managing Director & CEO and Deputy Managing Directors may come into terms with the defaulters through negotiation considering mortgaged property, amount of loan, current condition of the business and ability to repay and finally approved by the proper authority.

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- To present before the Board Of Directors for decision if rescheduling the classified loan, interest wave contradict with the current policy.
- To preserve database of Head office (NPL)
- **Database of Write-off Loan:**

The database maintained by Recovery & NPL Management Division includes following information:

- Name of the Branch.
- Name of the Borrower.
- Borrower's NID No.
- Type of Loan.
- Total Liability.
- Amount of Write-off loans.
- Date of Write-off.
- Ledger Balance.
- Recovery after write-off.
- Balance of Write-off Loans.
- Claimed amount.
- Nature of Suits with latest position.
- Description and value of mortgaged property.

- **NPLM Committee:**

There is a committee for interest waiver and write-off loans named NPLM(Non-Performing Loan Management) Committee. The committee comprised of Deputy Managing Director-1 as the Chairman and other DMD's and GM's. The meetings of this committee are presided over by DMD-1. In absence of DMD-1, senior most DMD would preside over the meeting.

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- Function of NPLM Committee:

The NPLM(Non-Performing Loan Management) committee recommends for interest waiver and write-off of classified loans as per prevailing rules and regulations of the bank and instruction of Bangladesh Bank.

14. Loan recovery monitoring system

14.1 Functions of the Branch Managers:

Branch managers will maintain a separate register for classified loans. He will distribute tasks of classified loan recovery among the officers & staff and supervise the loan recovery activity of the related ones.

14.2 Functions of the Zonal Heads:

Zonal Heads will monitor the steps taken by the branch managers to achieve loan recovery target and progress of the task.

14.3 Functions of the Circle General Managers:

General Managers will supervise the steps taken and progress of classified loan recovery target achievement under their Zone/corporate branches.

14.4 Functions of the Deputy Managing Director:

Deputy Managing Directors will supervise the steps taken and progress of classified loan recovery target achievement by the General Managers.

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14.5 Functions of Managing Director & CEO:

Managing Director & CEO Will monitor overall progress of classified loan recovery of the bank. Deputy Managing Directors will inform the Managing Director & CEO about the situation of classified loan recovery activity under their respective circles/corporate branches. Reviewing the recovery position, Managing Director & CEO would further instruct as necessary.

Policy will be reviewed / revised and updated at least annually or time to time taking into account external and internal economic conditions / circumstances and regulatory guidelines by the board.

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..... Branch/Zone /Circle/ Division

(Amount in Lac)

Serial No.	Status of Loans	Position of Previous Months		Position of Current Months		Progress/ Change (+ -)		Comment
		No. of loan A/c.	Amount	No. of loan A/c.	Amount	No. of loan A/c.	Amount	
		1	2	3	4	5	6(2-4)	
1	Standard							
2	SMA							
3	SS							
4	DF							
5	BL							
6	Total							

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7	Quality Sector-wise loan	Standard		SMA		SS		DF		BL		Total		Comment
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
A	Business/ Commercial loan													
	Industrial Credit													
	SME													
	Agriculture/ Rural & Micro-credit													
	Others													

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	Subject:	Position of Previous Months		Position of Current Months		Progress/ Change (+ -)		Comment
		No.	Amount	No.	Amount	No.	Amount	
8	Accounts of Delinquent/Willful defaulted loan							
9	Credit & Collateral Documentation Exception							
10	Fixation of interest of Non-Accrual loan accounts							
11	Accounts violating Credit Policy, Rules & Regulations of BB.							
12	Accounts violating Credit Policy of the Bank & disburse beyond limit							
13	Accounts of Problem Loans or major portion of loans centralized to several borrowers.							
14	Rescheduled/ Re-constituted Accounts not complying the repayment schedule of sanction letter							