

# CREDIT MONITORING



Presented by,

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**Deposit makes the banking-  
POSSIBLE.**

**Lending makes the banking-  
PROFITABLE.**

**NPA makes the banking-  
PERISHABLE.**

# WHAT IS CREDIT MONITORING?

- ❖ Credit Monitoring can be defined as a **supervision** of a loan account on an **ongoing basis** keeping a continuous watch / vigil over the functioning of a borrowers unit to confirm that **the account conform to the various assumptions** made at the time of sanction.
- ❖ In other words credit monitoring is to maintain asset quality of the Bank.

# **CREDIT MONITORING IMPORTANT**

- Ethics is an asset and not a liability. It may increase transaction time but it reduces transaction cost.
- A good sanction can become a bad loan, if not properly disbursed.
- But a bad decision can not take care of credit monitoring.

# NEED FOR CREDIT MONITORING

- *Prevention is better than cure;*
- To avoid slippage of accounts into NPA;
- To ensure end use of funds;
- To ensure compliance of terms of sanction;
- Banking is depending on projections, assumptions, estimates, hence monitoring of advance is essential;
- *A good sanction can become bad if not properly disbursed & supervised;*
- *Stitch in time saves nine;*
- Credit monitoring has become most important in view of system driven NPAs & growing NPAs;
- To guard against the human tendency to deviate from the stipulated terms in case of necessity, which, is particular, exists in case of

# **CREDIT MONITORING- WHY?**

- **The Bank's ultimate purpose of doing all types of business is to earn more and more profits and NPA affects adversely the profitability of the Bank;**
- **To ensure delivery of credit after compliance with pre-disbursement terms and conditions;**
- **To maintain credit quality for safeguarding bank's funds lent;**
- **To contain slippages by observing early warning signals meticulously and putting in place the required corrective measures in time;**
- **To initiate quick and effective steps for upgrading identified weak accounts/sub-standard accounts (non-suit filed) within a maximum period of three months (HOBC 110/49);**
- **To ensure that borrowing unit complied with original terms and conditions;**
- **The ultimate object of doing all types of business, is to earn more and more profits and NPA affects adversely the profitability of the Bank.**

# **OBJECTIVES OF CREDIT MONITORING & FOLLOW UP**

- Timely Credit delivery (i.e. Disbursement of loan) after compliance with laid down procedure & conditions (Terms & conditions of sanction) with due precautions.
- To ensure that Standard Accounts continue to remain Standard & do not slip to NPAs i.e. prevention.
- Timely identification of stressed assets & taking appropriate corrective measures to arrest them from slipping.
- To avoid unacceptable slippages by observing early warning signals meticulously and putting in place the required corrective measures in time.



# **WHEN DOES THE CREDIT MONITORING START?**

- Credit Monitoring starts from the moment the possibility of a new advance is visualized.
- The principles of good lending, identifying genuine borrower, and availability of adequate security, collectively known as due diligence are of paramount importance for credit monitoring.



# **CREDIT MONITORING**

## **TYPES OF MONITORING**

- Portfolio Monitoring.
- Account specific monitoring.

# **CREDIT MONITORING SET UP IN OUR BANK**

- **Head Office: Rs. 500 lacs & above.**
- **NBG Office: Rs. 1 crore to less than Rs. 5 crore.**
- **Zonal Office: Rs. 10 lakhs to less than Rs. 1 crore.**
- **Branches: The Branch Manager should monitor all accounts on a regular basis.**

# **FOUR STAGES OF MONITORING**

- ❖ **Pre-Sanction-Application received**
- ▶ **Post Sanction- Pre disbursement**
- ❖ **Post Sanction-During Disbursement**
- ▶ **Post Sanction-Post Disbursement**

# **CREDIT MONITORING**

**PRE**

**SANCTION**

**STAGE**

# CREDIT MONITORING PRE SANCTION STAGE

- Complete and Proper Application Form;
- CBD-23 along with supporting documents;
- Interview with the Borrower/Guarantor;
- Inspection of borrower's residence, work place, guarantor's place;
- Inspection of the immovable property, (if proposed). Mortgaged Property to be inspected by single officers up to limit Rs. 5 Crore for above limit by two officers, Keeping in mind the advocate's/valuers findings (HOBC 106/173 Dt. 24.01.2013);
- Due Diligence: PAN/ITR/CIBIL/CERSAI/ROC/RBI/ECGC Defaulters list;
- Due diligence exercise from outside agencies;
- Balance Sheet (If applicable-Audited);
- Full KYC documents;
- Collection and scrutiny of required data.
- Existing Bank Statement/Status of account etc.

# **CREDIT MONITORING- PRE SANCTION STAGE**

- Study of Pre-sanction inspection & Mortgage inspection report;
- Study and approval of Search/Valuation Report;
- Credit Rating Exercise (In applicable Models);
- Preparation of proposal in prescribed format and sanction thereof at appropriate level;
- Read the Process Note Minutely;
- What are the terms and conditions are stipulated ?

# **CREDIT MONITORING- PRE SANCTION STAGE**

**Processing of application, preparation of proposal, keeping in mind:**

- **Scheme related guidelines;**
- **Government Policy;**
- **MOF Directives;**
- **Business related Risk;**
- **Balance Sheet Analysis;**
- **Credit Rating Norms;**
- **Industry wise Policy;**
- **RBI Guidelines;**
- **Prudential Norms etc. Balance sheet to be cross checked with ROC. (Read Auditor's Note Carefully- Verification of CA**

**Authenticity**

**Presented by Apinash Kr. Mandilwar, Chief Manager, Kolkata Zone**



**CREDIT MONITORING**  
**POST-SANCTION**  
**PRE DISBURSEMENT STAGE**

# MONITORING AT POST SANCTION PRE DISBURSEMENT STAGE

- Preparation of proposal in prescribed format and sanction thereof at appropriate level;
- Read the Process Note Minutely;
- What are the terms and conditions are stipulated ?
- Issuance of *sanction letter* conveying all terms and conditions as per sanction and acceptance of terms & conditions of sanction by the borrower;
- Recovery of Charges;
- Obtaining/ Scrutiny of *Legal Opinion Report* and *Valuation report*.

# **POST SANCTION PRE DISBURSEMENT STAGE**

- Proper documentation (including check list);
- Creation of Mortgage Charge and its registration with the Sub-Registrar;
- Charges to be registered with ROC in respect of company account;
- Execution of proper security documents including creation of mortgage as per sanction terms;
- Vetting of security documents by panel advocate. (Rs 50 lacs and above);

# **POST SANCTION PRE DISBURSEMENT STAGE**

- Online Registration of Equitable Mortgage with CERSAI (Central Registry of Securitizations Asset Reconstruction & Security Interest of India ) under SARFAESI within 30 days. (ref. 107/93 dated 23/8/2013)
- CPA to be conducted in FB/NFB Limits of Rs. 50 lakhs and more.
- CPA-1 to be conducted by officer of the branch who has processed the loan. CPA-2 to be conducted by the officer deputed by Zonal Office from other branch for this purpose (107/08-10.04.2013).
- Correct data entry- account opening; (Recording of documents);
- Safe keeping of documents;

**CREDIT MONITORING**  
**POST-SANCTION**  
**DURING DISBURSEMENT**  
**STAGE**

# **POST SANCTION DURING DISBURSEMENT STAGE**

- The disbursements should be commensurate with the progress of the project / business activity, also taking into account the extent of margin brought in by the promoters up to a given point of time.
- Disbursement in respect of all schematic Retail loans should be made through designated Sundry Credit A/c-Branch Code+90200000107 (Ref. BC 107/34 dated 22/5/2013).
- Branches should understand that sanction of facilities is not a commitment in isolation to extend funds to the borrower under all circumstances. It is only a financial contract to make funds available for due performance of various business objects and goals set out in his proposal.

# POST SANCTION DURING DISBURSEMENT STAGE

While releasing the facility ensure that sanction has not expired. Delay may happen due to non compliance of many terms and conditions. Validity of sanctions is valid within 6 months from sanction date, Revalidate the sanction if it is expired.

## Loan Accounts:

- ❖ Margin – Upfront
- ❖ Source of margin-Un secured loan/ capital.
- ❖ Status Reports on the suppliers
- ❖ Direct *disbursement* to suppliers/service providers. Cash disbursement to be kept minimum
- ❖ Verification of end use of funds through inspection, records, books of accounts etc.
- ❖ Implementation Certificate from approved Architect/Valuer & Certificate from company's Statutory Auditors about cost incurred on project



# POST SANCTION DURING DISBURSEMENT STAGE

## Cash Credit Accounts:-

- **Compliance** with terms of sanction
- **Completion of project & readiness to commence commercial activity**
- Endeavour for **Direct disbursement** to suppliers
- **Stock/Book debts inspection.**

# POST SANCTION DURING DISBURSEMENT STAGE

## Check Proper Sanction Term ;

- Rate of Interest and further changes
- Charges
- Disbursement procedure
- Account practices
- Security
- Insurance
- Terms of repayment
- Margin
- Pre-payment term, if any.
- Borrowers/Guarantors name'
- Other terms and conditions.

**CREDIT MONITORING**

**POST-SANCTION**

**POST DISBURSEMENT  
STAGE**

# POST DISBURSEMENT MONITORING

## IMMEDIATE –Post disbursement monitoring

- ❖ Compliance of various Post disbursement conditions. Charge with ROC / RTA /CERSAI. ROC, CERSAI, MOD within 30 days.
- ❖ Fresh search report to be obtained from ROC.
- ❖ Verification of end use of funds immediately after disbursement. By carrying out Post Sanction Inspection.
- ❖ Post Sanction Review System (PSRS) – for Accounts of Rs.2 lakh & above Copy of proposal.
- ❖ Insurance of charged assets.
- ❖ If account is covered under CGTMSE the relevant formalities to be completed.

# POST DISBURSEMENT MONITORING

## REGULAR - CREDIT MONITORING

- Post sanction Inspection-End use verification
- Periodical Inspections (verification of relevant records) and follow up for recovery of overdue, if any.
- Obtaining Stock and Book Debts Statement and their verification particularly of Book Debts which is a major area of concern.
- Follow up of Review of all accounts.
- Submission of Staff Accountability Report.
- Stock Audit by Chartered Accountants for credit limit - 500 lacs and above.

# POST DISBURSEMENT MONITORING

- If PDCs are given ensure these are encased in time.
- Even when one installment is delayed customer to be reminded politely.
- Obtaining periodical renewal documents –L444C
- Check TOD/TOL/Insurance due etc.
- Insurance for full value & with Bank's Hypothecation Clause.
- Bank's name – To be displayed at prominent place of the business.
- Watch category (Special Mention accounts);- Quarterly reporting
- SMA-2 over Rs. 5 crores- weekly reporting

# **POST DISBURSEMENT MONITORING**

- ❖ **Credit Audit & Loan Review Mechanism (CALRM) - for accounts with exposure of Rs.5 crore & above**
- ❖ **Following up for submission of Audited Financial Statements for limit -10 Lakh and above.**
- ❖ **Reviewing the accounts (CCIS II onwards) in Statement format or by individual proposal.**
- ❖ **Timely identification of delinquent accounts and restructuring.**
- ❖ **Verification of Transactions and Turnover in the account.**
- ❖ **Follow up of accounts with the SASCL;**
- ❖ **Red Flagging and Forensic Audit; (Rs. 50 crore & above)**
- ❖ **CPA-3 (Rs. 5 crore & above).**



# EARLY WARNING SIGNALS

These are unsatisfactory features showing signs of weakness in the account & which put the Bank on guard – Symptoms are:

- Poor maintenance of plant & machinery;
- Lack of planning/poor planning;
- Apathy of promoters/owners in running the business;
- Loss of crucial customers;
- Adverse market reports;
- Non compliance of post disbursement terms of sanction;
- Delay in implementation of project and issues relating to commercial production;
- Unplanned borrowing for margin contribution.

# EARLY WARNING SIGNALS

- Unexpected delay or failure to submit periodic statements such as stock/book debt statements, MSOD, QIS, CMA, Balance Sheets etc./other papers needed for review of the account.
- Frequent requests for over limit/additional limit or for extension of time for repayment of interest/installments.
- Ad-hoc/over limit/Bill Purchased Overdue, Overdue Export Packing Credit, LC devolvment and guarantee invocation.
- Lack of transparency in borrower's dealings with the Bank/avoiding to meet bank officials.
- Constant failure or unwillingness to mention unpaid stock in stock statements or age of book debts in book debt statement.
- Variation in estimates/projection of sales > 25% during the last quarter.
- No credit in the operative account for consecutive 30 days.
- Overdue EPC beyond 30 days.
- Less than entry level score as per present rating models.

# MONITORING ACTION PLAN

- Major slippage are due to wilful default and diversion/siphoning of funds by the Borrowers.
- It could have been avoided if there is adequate monitoring of the accounts through regular inspections and proper scrutiny of operations in the accounts.
- Large cash with drawl –Asking for justification.
- Business related genuine transaction should be allowed. Non business related cheque shall be returned(by keeping the borrower informed).
- Credit Turnover is non commensurate with sales –if it is more than a months -May they have opened another account with another bank.
- Borrower be advised to close the account as per RBI guidelines.

# MONITORING ACTION PLAN

- ❑ A discussion with the borrower could lead to a definite correction path and accounts are restored to quality credit assets only by alert attention.
- ❑ Constant dialogue with the borrower and/or guarantor to find out ways and means to rectify the causes that hinder smooth functioning of unit.
- ❑ Advising borrower to focus on core business and stopping his other activities which may be the reason for poor performance of his core business.
- ❑ Exploring additional collateral/guarantee.
- ❑ Exploring sale of unproductive surplus assets.
- ❑ *Holding on operations* wherever feasible.
- ❑ Exploring infusion of more capital in the business.
- ❑ Exploring recovery of investment made in sister/group concerns.

# **MONITORING ACTION PLAN**

- ❖ Where default is intentional, stipulating higher margins under both fund-based limits and non-fund-based limits to help restrict the drawing power and to create better cash cushion may be considered.
- ❖ Restructuring , Additional moratorium , additional limit to tide over temporary financial problems in case of potential viable units.
- ❖ Disposal of saleable securities to reduce interest burden.
- ❖ Impressing upon the borrowers the need for quick debtor realization by reducing the credit period/by offering more discounts on sales.
- ❖ Wherever applicable, carrying out detailed stock inspection/stock audit/receivables audit through competent outside agency.
- ❖ Insisting upon the debtors of the borrower's company to remit proceeds directly to the Bank where the book debts are hypothecated to the Bank.
- ❖ Recalling the advance & initiating legal action for recovery of bank's dues.

# IDENTIFYING INCIPIENT STRESS IN THE ACCOUNT

RBI has advised Banks to identify incipient stress in the account before a loan account turns into NPA.

- Sub asset category “**Special Mention Account**” (SMA)
- *SMA accounts are “Watch category” accounts.*

# SMA ACCOUNTS SUB CATEGORIES

SMA - 0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress.
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<b>SMA - 1</b>	Principal or interest payment overdue between <b>31 – 60 days.</b>
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<b>SMA - 2</b>	Principal or interest payment overdue between <b>61 – 90 days.</b>
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# 8 CORNER STONES OF STRESS (SMA 0)

1. **Delay of 90 days or more** in (a) submission of stock statement/other operating/control statements/financial statements or (c) non-renewal of facilities based on audited financials.
2. Actual sales/operating profits falling short of projections by 40% or more; or a single event of non-cooperation/prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds; or drop on internal risk rating by 2 or more notches in a single review.
3. **Return of 3 or more** cheques/electronic debit instructions/bills in 30 days on grounds of non-availability of balance/DP in the account.

# 8 CORNER STONES OF STRESS (SMA 0)

4. Devolvement of **Deferred Payment Guarantee** (DPG) installments or **Letters of Credit** (LCs) or invocation of **Bank Guarantees** (BGs) and its non-payment within 30 days.
5. **Third request** for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
6. Increase in frequency of **overdrafts** in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) **pledging/selling their shares** in the borrower company due to financial stress.

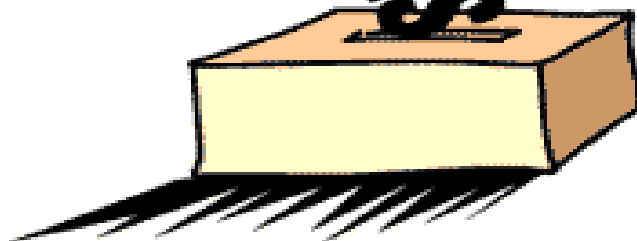
# CORRECTIVE ACTION PLAN (CAP)

- Once the account slips to **SMA -2** category, Bank has to put in place CAP **within 30 days** to reach early resolution in the account.

## 3 Options under CAP

1	Rectification
2	Restructuring
3	Recovery

**Suggestions Comments?**



**THANKS**