**Credit Appraisal Policy**

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**Abstract:**

The project then proceeds with the review of literature i.e. review of some past work regarding credit appraisal by various researchers. The project then moves towards research methodology where it covers the information regarding the type of data collected and the theoretical concepts used in the project are discussed in detail. Then the project proceeds with the next chapter consisting of the analysis part which covers the analysis of various techniques used by the banks for the purpose of credit appraisal. Then the project moves to its next chapter i.e. findings where some results found out are interpreted and then moving on to the last and the final chapter i.e. the suggestions and conclusions where some steps are suggested to be implemented to increase the work efficiency and to reduce to work pressure.

**Keywords:** credit appraisal, techniques, work efficiency.

**INTRODUCTION:**

**Credit Appraisal**

The process by which a lender appraises the creditworthiness of the prospective borrower is known as Credit Appraisal. This normally involves appraising the borrower’s payment history and establishing the quality and sustainability of his income. The lender satisfies himself of the good intentions of the borrower, usually through an interview.

**Introduction**

The last year financial crises have become the main cause for recession which was started in 2006 from US and was spread across the world. The world economy has been majorly affected from the crisis. The securities in stock exchange have fallen down drastically which has become the root cause of bankruptcy of many financial institutions and individuals. The root cause of the economic and financial crisis is credit default of big companies and individuals which has badly impacted the world economy. So in the present scenario analyzing one’s credit worthiness has become very important for any financial institution before providing any form of credit facility so that such situation doesn’t arise in near future again.

**Procedure for providing Bank Credit-**

Banks offers different types of credit facilities to the eligible borrowers. For this, there are several procedures, controls and guidelines laid out. Credit Appraisal, Sanctions, Monitoring and Asset Recovery Management comprise the entire gamut of activities in the lending process of a bank which are clearly shown as below:

**REVIEW OF LITERATURE:**

**ARTICLE: 1**

**TITLE:** The effect of credit risk management on financial performance of the Jordanian commercial banks

**Author:** Jeet Singh, Preeti Yadav

**Source : Ali Sulieman Alshatti**

**Abstract T**his research aims at examining the effect of credit risk management on financial performance of the Jordanian commercial banks during the period (2005-2013), thirteen commercial banks have been chosen to express on the whole Jordanian commercial banks. Two mathematical models have been designed to measure this relationship, the research revealed that the credit risk management effects on financial performance of the Jordanian commercial banks as measured by ROA and ROE. The research further concludes that the credit risk management indicators considered in this research have a significant effect on financial performance of the Jordanian commercial banks. Based on findings, the researcher recommends banks to improve their credit risk management to achieve more profits, in that banks should take into consideration, the indicators of Non-performing loans/Gross loans, Provision for facilities loss/Net facilities and the leverage ratio that were found significant in determining credit risk management. Also, banks should establish adequate credit risk management policies by imposing strict credit estimation before granting loans to customers, and banks in designing an effective credit risk management system, need to establish a suitable credit risk environment; operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring, processing as well as enough controls over credit risk, and banks need to put and devise strategies that will not only limit the banks exposition to credit risk but will develop performance and competitiveness of the banks.

**ARTICLE: 2**

**TITLE:** Credit risk management system of a commercial bank in Tanzania

**Author:** Marcellina chijoriya

**Source:European Online Journal of Natural and Social Sciences 2018;**

### Purpose

The purpose of this paper is to develop a conceptual model to be used further in understanding credit risk management (CRM) system of commercial banks (CBs) in an economy with less developed financial sector.

### Design/methodology/approach

The paper reviews existing literature that consists mostly evidence from developed countries. A study model is proposed with amendment to fit Tanzania's environment. This is achieved through the use of both secondary (various relevant documents) and primary (interviews) information from a CB and key management officials dealing with credit management. The selected CB is active in lending, has both foreign and local characteristics in its operations and has been in operation for a relatively longer period.

### Findings

The main finding of this paper is that the components of CRM system differ in CBs operating in a less developed economy from those in a developed economy. This implies that the environment within which the bank operates is an important consideration for a CRM system to be successful.

### Originality/value

Tanzania, a less developed economy, provides an excellent case for studying how CBs operating in economies with less developed financial sector manage their credit risk. The paper identifies issues to be studied further in order to establish a CRM system by CBs operating in Tanzania.

**OBJECTIVES:**

* A balanced growth of credit portfolio, which does not compromise safety.
* Adoption of a forward looking and market responsive approach for moving into profitable new areas on lending which emerge, within the pre determined exposure ceilings.
* Sound risk management practices to identify measure, monitor and control risks.
* Maximize interest yields from credit portfolio through a judicious management of varying spreads of loan assets based upon their size, credit rating and tenure.

**RESEARCH METHODOLOGY:**

**Scope Of The Study:**

The scope of the study is the Credit Appraisal system has been analyzed as per the different credit facilities provided by the bank. The detailed explanation about the techniques and process has been discussed in detail in the further chapters.

**Methodology**

**•DATA COLLECTION**

Credit appraisal means investigation/assessment done by the bank before providing any loans and advances/project finance and also checks the commercial, financial &industrial viability of the project proposed its funding pattern and further checks the primary & collateral security cover available for recovery of such funds.

Problem statement: To study the credit appraisal system in Punjab National Bank

**Data collection**:

**Primary data**: Informal interview with manager at Bank of India ii.

**Secondary data:** - Books - Websites - Customer files at PNB- Circulars of PNB.

**LIMITATIONS OF THE STUDY**

* Risk analysis is done by bank to determine the risk associated with the project
* A person who investigates and settles losses for an insurance carrier.
* The study is limited to Study is restricted to 30 days only.

**DATA ANALYSIS & INTERPRETATION:**

**BREAK EVEN POINT OR COST VOLUME PROFIT (CVP) ANALYSIS:**

|  |  |
| --- | --- |
| Normal year production | 75 lakh units (93.75% of installed capacity) |
| Fixed Costs | Rs. 13.71 lakh |
| Variable Costs | Rs. 13.35 lakh |
| Sales realization | Rs. 41.25 lakh |
| Contribution | Rs. 27.90 lakh |

BEP (production) : (Fixed cost / Contribution)\* 75 lakh = 36.85 lakh units

BEP (capacity utilization): (Fixed cost / Contribution)\* 93.75 = 46.07%

**BEP (sales) : (Fixed cost / Contribution)\* Rs. 41.25 lakh = Rs. 20.27 lakh**

**APPRAISAL TECHNIQUES FOR RETAIL LOANS**

**1. EDUCATION LOANS**

|  |  |
| --- | --- |
| **Concept** | **VIDYALAKSHYAPURTI** Scheme is the main scheme and its variant PNB Sarvotam Shiksha scheme stands merged with the main scheme with effect from 20.12.2010. |
| **Courses eligible** | **Studies in India**School level including. +2, Graduation, Post graduation, Professional courses, Computer courses and Evening courses, other courses leading to diploma /degree approved by UGC, Govt, AICTE, AIBMS, ICMR etc. and Advance diploma in Banking Tech. It includes professional & commercial & pilot training courses in India and abroad. For study in India. Institutes approved by DGCA are included.**Studies Abroad**Graduation, PG and Courses offered by CIMA London , CPA in USA |
| **Eligibility** | * Indian National
* Secured Admission

Secured pass marks in qualifying exam. Branches need not go into technicalities of admission process (selection through management quota etc.) and may consider loan based on admission advice. **( RBD Cir. No. 60/08 dt. 20.12.2010)**  |
| **More than one loan in a family** | In case of more than one loan in a family, the family as a unit is to be taken into account for considering the loan and security taken in relation to total quantum of loan subject to margin and repaying capacity of the parents. |
| **Top up Loans** | Top up loans may be sanctioned to students for pursuing further studies within overall eligibility limits with appropriate reschedulement of existing loans and required permission by the CH  |
| **Age of student** | There is no restriction with regard to age of student for being eligible for the loan. |
| **Income Criteria** | No Income criteria are prescribed for the parents. However amount of loan be decided by judging Income of the parents. |
| **Amount of loan** | Rs. 10.00 lac in India and 20.00 lac for abroad. CH can exercise higher powers. |
| **Priority Sector** | Rs. 10.00 lac in India and Rs. 20.00 lac for abroad. |
| **Capital Requirement** | Risk Weight as per BASEL-I | 100% |
| Risk Weight as per BASEL-II |  75% |
| **Margin** | * NIL Up to Rs. 4.00 lac
* 5% Above Rs. 4.00 lac in India
* 15% Above Rs. 4.00 lac abroad

(Scholarship/assistance may be included in the margin) |
| **Security** | NIL Up to Rs. 4.00 lac3rd party guarantee for loans above 4.00 lac upto Rs. 7.5 lac(Exemption from taking guarantee for loan up to 7.50 lakh for students of IIT, IIM, XLRI etc.EM of IP or other Coll. Security for loans above 7.50 lac (**should be interpreted as loan amount of Rs. 7.51 lac and above in terms**Hypothecation of assets if created out of loan amount.Co-obligation of students’ parents as well as assignment of future income of student in loan above Rs. 7.5 lac. For married persons, co-obligator can be spouse or parents or parents-in-law. Grand parents can also become co-obligants. |
| **Security for staff members** | * Lien on Terminal dues
* Extension of EM of IP
* Fresh Mortgage if there is no HL
* Co-obligation of employee
 |
| **Penal Interest** | Up to 25000/- ----NIL , Above 25000/- @ 2% on OVERDUE AMOUNT |
| **Upfront fee** | * NIL
* 0.50% (Maximum 5000/-) for studies abroad which is eligible for refund on availment of loan.
 |
| **Documentation Charges** | * Upto 4.00 lac - Rs. 270/- plus service tax
* Above 4.00 lac Rs. 450/- plus service tax
 |
| **Repayment** | 5 to 7 years with moratorium period equal to Course period + 1 year or 6 months after getting job whichever is earlier. BM is empowered to permit extension in moratorium period up to 2 years as against present provision of max. 1 year in deserving cases under reporting to circle head. |
| **Calculation of interest** | Simple interest is to be charged during moratorium period and kept in a separate account. The accrued interest during repayment holiday will be added to Principal for fixing of EMI.  |
| **Interest concession** | 1% interest concession is allowed if it is serviced during holiday period. The concession will be given at start of repayment and EMI will be fixed accordingly.Rebate of 0.5% is allowed to students of IITs, IIMs etc. |
| **Constitutes of loan** | Tuition fees, Hostel charges, Exam fees, Library/Lab charges, Books, Equipment, Instruments, Uniform, Building fund, Refundable deposit, Travel expenses & Computers. (Advances for Computers are allowed in Computer/Management courses only.) |
| **Fees re-imbursement** | Within 6 months. Circle Head can allow beyond a period of 6 months also on merits.(RBD Cir. No. 12/10 Dt. 16/02/2012) |
| **Documents** | Documents will be executed both by student and the parent/guardian.1. Letter of admission and proof of last qualifying exam.
2. Loan application
3. Agreement on PNB 1116 if student is minor.
4. Agreement on PNB 1117 if student is major.
5. Letter of guarantee if loan is above Rs. 4.00 lac.
6. EM of IP if loan amount is above Rs. 7.5 lac
 |
| **Post sanction Follow up** | Follow up with the college/university for getting progress report at regular intervals. |
| **Life Insurance by Kotak Mahindra** | In terms of guidelines contained in RBD-A cir no. 16/08 dt. 26.3.10, Insurance policy can be obtained to meet the exigencies in case of death of student borrower between age group of 18-33 years. The coverage is between 20000-15 lac. Single premium will be paid. It will vary according to age and total insurance Tenor. The scheme is valid for one year. |
| **Relaxations for students of IIT,IIM, MDI, XLRI, ISB** | It has been decided to permit the following relaxations to the students securing admission in IITs/IIMs/MDI Gurgaon/XLRI Jamshedpur and ISB Hyderabad:* Exemption from making parent/guardian as co-borrower.
* Exemption from taking guarantee for loans up to 7.50 l
 |
| **Other provisions** | * CR of the borrower is not required. Brief CR of the guarantor to be prepared.
* “No due Certificate” is not to be insisted upon. Application will be rejected by next higher authority.
* 2nd time loan can be considered by the CH within limits.
* Capability Certificated may be issued for studies abroad.
* Education loan to the institutions previously under Sarvotam Shiksha Scheme can be sanctioned by the branch (other than place of residence of parents) convenient to the borrower depending upon genuineness, accessibility and aspect of recovery.
* On-line applications are being accepted for grant of education loan. Loan applications are to be disposed of within 15 days under branch/hub sanction and 21 days under CH and above.
* CH has full powers to relax eligibility, margin and security norms.
* Parents, grandparents, spouse, parents-in-law can be co-obligants.
* Passport and Visa is required for study abroad.
 |
| **Disposal of loan applications** | It has been decided to curtail the period of disposal of education loan applications to maximum 1 week except cases of CH and above level where the outer limit of disposal will be 2 weeks from the date of receipt of complete application. |

**2. VEHICLE LOANS**

Today, vehicles can be financed using a number of options such as loans, lease, or hire purchase agreement. Obtaining a vehicle loan is one of the more straightforward ways of financing a two or four wheeler. In this manner, the vehicle purchased is actually possessed by the bank or lending institution. This means the car or motorbike is hypothecated. Therefore, though the consumer owns the vehicle, the bank or the lending institution is actually using it as a security against the loan that the consumer has obtained.

**3. HOUSING LOANS**

Housing loans have emerged as an attractive avenue for credit deployment for banks in the recent past. Industry level statistics reveal that NPAs in this segment is relatively low. Housing loans are fully secured as they are backed by mortgages of residential properties. Small housing loans up to Rs 10 lakhs can be classified as priority sector credit and hence help in achieving/ maintaining the mandated priority sector lending targets. Risk weightage for housing loans is only 50 % , enabling expansion of the credit portfolio with lesser capital requirement. The prevailing lower interest rates, which have resulted in greater affordability and the tax concessions offered by the government have made this one of the fastest growing financial products. Further since the housing loan portfolio typically comprises a large pool of small and medium sized loans, risk is distributed over a large number of accounts, which is ideal from Risk Management point of view. Hence growth of quality assets under Housing Finance is one of the major areas of focus for the bank.

**CONCLUSIONS:**

Credit appraisal is a process of appraising the credit worthiness of loan applicants. The fund of depositors i.e. general public are mobilized by means of such advances / investments. Thus it is extremely important for lender bank to assess the risk associated with credit, thereby ensure the security for fund deposited by depositors. Therefore my analyses regarding credit appraisal procedure of Punjab National Bank are as follows:-

* In case of retail lending bank strictly follow it’s circular and fulfils all requirement of necessary documents required for different types of loan so that bank do not suffer any types of loss.
* Bank is very much particular about CIBIL report of borrowers in case of each type of lending.
* Bank lending process in case of retail loan is very much fast after compiling with all the criteria of bank.

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