Credit Operations and Management (COM)

For AIBB

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MODULE A:
Introduction of Loans and Advances

Q-01. What are the types of borrowers of a bank?

Borrowers can be categorized into several types:

1. **Individuals**: Includes retail traders, micro, small and medium enterprises (MSMEs), farmers, and consumers. They often seek home loans, agricultural loans, credit cards, and other consumer financing.
2. **Proprietorship Firms**: Single-owned businesses engaged in various commercial activities.
3. **Partnership Firms**: Businesses owned by two or more individuals sharing profits, liabilities, and management responsibilities.
4. **Private Limited Companies**: Small to medium-sized companies with limited liability and restricted share transfer.
5. **Public Limited Companies**: Larger companies with shares traded on the stock exchange, subject to stringent regulatory requirements.
6. **Large Corporates**: Big businesses with significant revenue and operations, requiring substantial financing.
7. **Government Entities (SOEs)**: State-owned enterprises involved in public sector projects and services.

Banks evaluate each borrower's creditworthiness based on their financial history, income, and collateral, ensuring responsible lending and contributing to economic growth in Bangladesh.

Q-02. What are the different types of credit that are currently extending by Bangladeshi commercial banks? Discuss briefly. BPE-96th.

Funded Credit: Involves direct outflow of bank funds and includes:

1. **Loan**: Granted for short, medium, and long periods, repayable in installments or lump sum.
2. **Cash Credit**: Provided for working capital; can be against pledge or hypothecation of goods.
3. **Overdraft**: Allows withdrawals beyond the deposited amount within a limit.
4. **Bill Purchase and Discount**: Advances by purchasing or discounting export bills.

Other funded facilities include Consumer Credit, SME Credit, Syndicated Loan, and Lease Financing.

Non-funded Credit: Does not involve direct fund outflow but can turn into funded facilities. Includes:

1. **Letter of Credit**: Bank guarantees payment to the seller on behalf of the buyer.
2. **Bank Guarantee (Bid Bond)**: Ensures the client can submit bids in tenders.
3. **Bank Guarantee (Performance Bond)**: Guarantees client performance or compensates losses.
4. **Deferred Payment Guarantee**: Extends deferred payment terms for capital goods.
5. **Custom and Excise Guarantee**: Covers payment of duties on imported/exported goods.

Q-03. Mention the types of credit according to CL reporting.

In Bangladesh, credit reporting agencies categorize credit into several types:

1. **Consumer Credit:** This includes personal loans, credit cards, and other forms of credit that individuals use for their personal needs.
2. **Business Credit:** This type of credit is extended to businesses to help them finance their operations, purchase inventory, or invest in growth.
3. **Agricultural Credit:** Specifically designed for farmers and agricultural activities, providing funds to support farming needs and rural development.

4. **Microfinance Credit:** Aimed at providing small loans to low-income individuals and micro-entrepreneurs to uplift their livelihoods.
5. **SME Credit:** Targeted at Small and Medium Enterprises (SMEs) to facilitate business growth and development.
6. **Export Credit:** Tailored to support exporters by providing funds to fulfill international orders and expand their businesses globally.

These credit types play a crucial role in boosting economic activities and fostering financial inclusion in Bangladesh.

Q-04. What are different types of funded credit?

In the context of the Bangladesh economy, funded credit refers to various types of loans and credit facilities provided by financial institutions. Here are the different types:

1. **Personal Loans:** These loans are extended to individuals for personal expenses, such as education, medical emergencies, or buying assets like homes or vehicles.
2. **Business Loans:** Financial institutions offer credit to businesses for working capital, expansion, purchasing equipment, or funding projects.
3. **Agricultural Loans:** Farmers and agricultural businesses can access credit to improve farming practices, purchase seeds, fertilizers, or modern machinery.
4. **Industrial Loans:** Industries can obtain loans to set up new manufacturing units, upgrade existing infrastructure, or invest in technology.
5. **Trade Finance:** Banks provide credit for facilitating international trade through letters of credit, export/import financing, and trade-related services.
6. **Government Loans:** The government borrows funds from financial institutions to finance public projects and initiatives.

Funded credit plays a crucial role in driving economic growth and development by supporting various sectors in Bangladesh.

Q-05. Explain the categories of relationship between banker and customer.
Or, Briefly discuss some relationships between banker and customer. BPE-97th. BPE-98th.

General Relationship between Banker and Customer:

1. **Debtor and Creditor relationship:** When he deposits money in his bank account, he becomes a creditor to the bank. The bank becomes the debtor.
2. **Principal and Agent relationship:** It is an arrangement in which one entity legally appoints another to act on its behalf.
3. **Trustee and Beneficiary relationship:** A trustee holds property for the beneficiary, and the profit earned from this property belongs to the beneficiary.
4. **Bailor and Bailee Relationship:** If a person already in possession of the goods of another contract to hold them as a bailee, and the owner becomes the bailor of such goods.
5. **Lessor-Lessee Relationship**: When a customer hires a safe deposit locker from the bank, the relation between the bank and the customer is lessor and lessee.
6. **Mortgagor-Mortgagee:** The transferor is called a mortgagor, the transferee a mortgagee.

Special Relationship between Banker and Customer:

1. **Statutory obligation to honour cheque:** A banker is under a duty to pay cheques drawn on him by a customer so long as he has sufficient and available funds and provided the cheques are within the limits of an agreed overdraft.

2. **Banker 's duty to maintain secrecy of customer 's account:** a banker should not reveal the personal information of his/her clients with other customers or any other third party.
3. **Right to claim incidental charges interest:** A banker has the right to charge interest for the advances it might have granted to its customers.

Banker 's Lien: the right of a banker to retain the subject matter of the lien until an indebtedness of the customer is paid or discharged

Q-06. Mention different steps to follow for an informed credit decision.

Making an informed credit decision is crucial for both the borrower and the lender in the Bangladesh economy. Here are the steps to follow:

1. **Financial Assessment:** Evaluate the borrower's financial health, including income, assets, and existing debts, to understand their repayment capacity.
2. **Credit History:** Check the borrower's credit history, including previous loans and credit card usage, to assess their creditworthiness.
3. **Purpose of Credit:** Understand the specific purpose for which the borrower needs the credit and how it aligns with their financial goals.
4. **Collateral Evaluation:** If the credit requires collateral, assess its value and verify its ownership and legality.
5. **Risk Analysis:** Analyze potential risks associated with the borrower, the economic climate, and the industry they are involved in.
6. **Terms and Conditions:** Clearly communicate the terms and conditions of the credit, including interest rates, repayment schedule, and penalties.
7. **Regulatory Compliance:** Ensure compliance with the relevant laws and regulations governing lending practices in Bangladesh.
8. **Documentation:** Complete all necessary paperwork accurately and maintain records for future reference.

By following these steps, lenders can make well-informed credit decisions, reducing risks and supporting responsible lending practices in Bangladesh.

Q-07. What are advantages of centralized credit management over decentralized credit (Branch/RM).

1. **Consistency:** Centralized credit management ensures that credit policies and decisions are applied consistently across all branches, avoiding discrepancies in lending practices.
2. **Expertise:** With a centralized approach, credit decisions are made by specialized teams with extensive knowledge, leading to more accurate assessments and reduced credit risks.
3. **Risk Management:** Centralization allows for better risk analysis as the credit decisions consider a broader view of the borrower's financial position and credit history.
4. **Cost Efficiency:** By centralizing credit processes, banks can optimize resources, reduce duplication, and minimize administrative costs.
5. **Data Analysis:** Centralization facilitates comprehensive data analysis, helping banks identify trends and make informed decisions based on data-driven insights.
6. **Faster Decisions:** Centralized credit management enables quicker approvals, improving customer experience and responsiveness.
7. **Compliance:** A centralized system promotes better adherence to regulatory requirements and reporting standards throughout the banking industry in Bangladesh.

Q-08. Describe the differences between Centralized and branch-based Credit Model. BPE-97th.

Aspect	Centralized Credit Model	Branch-Based Credit Model
1.Definition	In a centralized model, credit decisions are made at a central location, often the head office.	The branch-based model involves credit decisions being made at individual branch levels.
2.Decision-Making Authority	Decision authority lies with a central credit committee, ensuring uniformity in credit assessments.	Branch managers have decision-making authority, allowing for more localized and context-specific evaluations.
3.Efficiency	Centralization promoters' efficiency through standardized processes and consolidated expertise.	Branch-based models offer quicker decision-making due to local understanding but may lack standardization.
4.Risk Management	Centralized models enhance risk control by enforcing uniform credit policies and risk assessments.	Branch-based models may have variations in risk management based on local market conditions and understanding.
5.Flexibility	Limited flexibility in adapting to local nuances as decisions are driven by centralized policies.	Greater adaptability to local economic conditions and customer behaviors, allowing for flexibility.

Q-09. Mention qualities of a good borrower.

1. **Good Credit History:** Demonstrates a history of repaying loans and credit obligations on time, building trust with lenders.
2. **Stable Income:** Maintains a steady and sufficient source of income to support loan repayments.
3. **Low Debt-to-Income Ratio:** Has a manageable level of debt compared to their income, indicating a better ability to handle additional credit.
4. **Transparent Financials:** Provides clear and accurate information about their financial status, enabling lenders to assess creditworthiness.
5. **Collateral or Guarantees:** Offers suitable collateral or guarantees to secure the loan, assuring the bank of repayment.
6. **Responsible Financial Behavior:** Exhibits responsible financial management and avoids defaulting on loans.
7. **Clear Purpose:** Clearly communicates the purpose of the loan and how it will benefit their financial situation.

Q-10. Define the SME finance/credit in light of Bangladesh Bank's guidelines and mention the booster sectors. Are you in agreement that SME is playing an important role in the economic development of the country? Elaborate your answer. (June/2022, June/2021, June/2019, Dec/2018, June/2018, June/2017, Dec/2016, Dec/2015, Dec/2014, June/2014).

SME finance/credit, according to Bangladesh Bank's guidelines, refers to the provision of financial services, including loans, to Small and Medium-sized Enterprises (SMEs). These guidelines aim to promote and support the growth of SMEs by facilitating access to finance, improving credit availability, and ensuring fair lending practices.

Booster sectors in SME finance are specific industries or sectors identified by the government or financial institutions for focused support and investment. These sectors often have high growth potential and significant contributions to the country's economy.

Yes, SMEs play a vital role in the economic development of Bangladesh. They contribute to job creation, poverty reduction, and sustainable economic growth. SMEs foster innovation, entrepreneurship, and local production, driving economic diversification and export earnings. Additionally, SMEs empower women entrepreneurs, enhance regional development, and reduce income inequality, making them essential drivers of inclusive economic development in the country.

Q-11. Describe the importance of cottage, micro, small and medium enterprise (CMSME) financing to ensure inclusive economic development. BPE-96th.

1. **Employment Generation**: CMSME financing facilitates the growth of small enterprises, contributing significantly to job creation, especially in marginalized communities.
2. **Poverty Alleviation**: By empowering individuals to start and expand micro and small businesses, CMSME financing becomes a powerful tool for poverty reduction.
3. **Entrepreneurship Promotion**: Access to financial resources encourages entrepreneurship, fostering a culture of innovation and economic self-sufficiency.
4. **Local Economic Development**: CMSMEs, deeply rooted in local communities, drive economic development at the grassroots level, enhancing community prosperity.
5. **Inclusive Growth**: Financing initiatives tailored for CMSMEs ensure that a broader segment of the population participates in and benefits from economic growth, reducing income inequality.
6. **Diversification and Resilience**: Supporting CMSMEs contributes to economic diversification, making the overall economy more resilient to external shocks.
7. **Innovation at Grassroots**: CMSME financing encourages innovation by enabling small enterprises to adopt new technologies and improve their market competitiveness.

Q-12. Bangladesh Bank has brought some changes of provisioning on SME loans. But some banks are reported to have been measuring the revised concept through unfair conversion of some other loans to SME loans. Give your opinion on the matter. How to relief to this unfair situation? June/2021.

In my opinion, the unfair conversion of some other loans to SME loans by certain banks is a concerning practice. This can lead to misrepresentation of SME loan portfolios and may affect the accuracy of financial reporting. To provide relief and rectify this unfair situation, several steps can be taken:

1. **Regular Audits:** Conduct regular audits and inspections to identify any misclassification or manipulation of loan categories.
2. **Stricter Reporting Standards:** Enforce stricter reporting standards and guidelines to ensure accurate classification of loans.
3. **Transparent Communication:** Encourage transparent communication between banks and regulatory authorities to address any discrepancies promptly.
4. **Penalties for Non-Compliance:** Impose penalties on banks found to be engaging in unfair practices to deter such behavior.
5. **Training and Awareness:** Provide training and awareness programs to bank staff on proper loan classification and reporting procedures.

By implementing these measures, the Bangladesh Bank can ensure fair and accurate measurement of SME loans and maintain the integrity of the banking system, fostering trust and confidence among stakeholders.

Q-12. Explain the role of SME credit in respect of entrepreneur development, employment generation and economic development of the country June/2019.

SME credit plays a vital role in the development of entrepreneurs, employment generation, and economic growth in Bangladesh.

1. **Entrepreneur Development:** Access to credit enables aspiring entrepreneurs to start and expand their small businesses. It fosters innovation, creativity, and entrepreneurship, empowering individuals to turn their ideas into reality.
2. **Employment Generation:** SMEs are significant job creators in Bangladesh. With access to credit, they can hire more employees, thereby reducing unemployment and boosting livelihood opportunities, particularly in rural areas.
3. **Economic Development:** SMEs contribute significantly to the country's GDP. They diversify the economy, promote regional development, and strengthen supply chains. Their growth leads to a more inclusive and resilient economic landscape.

By supporting SME credit, Bangladesh fosters a dynamic ecosystem that drives entrepreneurship, generates employment, and fosters sustainable economic development, ultimately improving the overall well-being of its people.

Q-13. What is specific provision? Describe the role of provisioning in managing credit risk. BPE-96th.

A **specific provision** is a financial reserve set aside by banks to cover potential losses on a particular loan or group of loans. It acts as a precautionary measure to mitigate credit risk, especially when there are signs of deterioration in the credit quality of specific borrowers.

Role of Provisioning in Managing Credit Risk:

1. **Risk Mitigation**: Provisioning acts as a buffer, mitigating the impact of potential credit losses on a bank's financial health.
2. **Regulatory Compliance**: Provisioning ensures compliance with regulatory standards by setting aside funds in line with prescribed guidelines.
3. **Financial Resilience**: Adequate provisioning enhances the resilience of financial institutions, allowing them to absorb unexpected credit losses.
4. **Stakeholder Confidence**: Transparent and robust provisioning practices instill confidence in stakeholders, including investors, depositors, and regulatory authorities.
5. **Proactive Risk Management**: By making provisions based on perceived credit risk, banks adopt a proactive approach to managing potential loan defaults.
6. **Sustainable Banking**: Sound provisioning practices contribute to the sustainability of the banking sector, promoting stability and minimizing systemic risks.

Q-14. What is provisioning? Discuss the basis of determining the status of classified loans and advances. June/2021, Dec/2018, June/2018, Dec/2016.

Provisioning is a crucial concept in the banking sector of Bangladesh. It refers to setting aside funds by banks to cover potential losses from bad loans and advances. The basis of determining the status of classified loans and advances in Bangladesh includes:

1. **Substandard Loans:** Loans with irregular repayments but have a reasonable chance of recovery.
2. **Doubtful Loans:** Loans with higher risk, where the chances of full recovery are uncertain.
3. **Bad/Loss Loans:** Loans with very high risk and deemed irrecoverable, necessitating full provisioning.

Banks in Bangladesh must assess their loan portfolios regularly to identify non-performing loans and classify them accordingly. Based on the classification, they must allocate specific provisions to safeguard against potential losses, ensuring stability and financial soundness in the banking system.

Q-15. Do you think present system provisioning should be changed? Do you have any suggestion of the present system of provisioning against regular loans and advances? Explain with reason. June/2019, Dec/18, Dec/2016, Dec/2015, June/2014.

The decision to change the present system of provisioning in the banking sector of Bangladesh depends on various factors and considerations. However, one suggestion to enhance the system is to regularly review and update the provisioning norms based on the evolving economic and financial conditions. This would help ensure that banks have adequate provisions to cover potential losses arising from regular loans and advances. Additionally, incorporating a risk-based approach to provisioning, considering factors like the credit quality and overall economic climate, can lead to more accurate and prudent provisioning, improving the stability and resilience of the banking sector in Bangladesh.

Q-16. What do you mean by credit planning? Discuss different aspects those are to be considered and included in credit plan. Discuss the importance of credit planning in the lending operation of a bank. June/2022, June/2021, Dec/2019, Dec/2018, June/2017, Dec/2015, June/2014. BPE-98th.

Credit planning in the banking sector of Bangladesh refers to the strategic process of formulating a comprehensive plan for lending operations. It involves assessing the credit needs of various customer segments and designing suitable credit products and policies.

Different aspects to consider in a credit plan include:

1. **Market Analysis:** Understanding the credit demand and potential opportunities in different sectors of the economy.
2. **Risk Assessment:** Evaluating the creditworthiness of borrowers and determining the level of risk associated with different loan types.
3. **Target Customers:** Identifying the target customer segments and their specific credit requirements.
4. **Loan Terms:** Defining the loan amounts, interest rates, repayment schedules, and collateral requirements.
5. **Regulatory Compliance:** Ensuring adherence to the banking regulations and guidelines set by the central bank.

Importance of credit planning lies in its ability to align lending activities with the needs of the economy, manage risks effectively, and promote financial inclusion by providing access to credit to various sectors and segments in Bangladesh. A well-structured credit plan helps banks achieve sustainable growth while mitigating potential credit-related challenges.

Q-17. What do you mean by surveying a branch area? Why it is so important in preparing a business plan of a branch? Please discuss June/2020, Dec/2017, June/2016.

Surveying a branch area refers to the process of collecting and analyzing relevant data and information about the local market and potential customers within the branch's geographical area. It involves understanding the demographics, economic activities, competitor presence, and customer needs in that specific region.

Surveying a branch area is crucial in preparing a business plan for the branch because:

1. **Market Understanding:** It provides valuable insights into the local market, helping the bank tailor its products and services to meet the specific needs of the community.
2. **Customer Segmentation:** It helps identify target customer segments and design appropriate marketing strategies to attract and retain customers.
3. **Risk Assessment:** It allows the bank to assess potential risks and opportunities in the area, enabling better risk management and strategic decision-making.

4. **Resource Allocation:** It helps allocate resources effectively, optimizing branch operations and maximizing profitability.

By conducting a thorough branch area survey, banks can create a well-informed and effective business plan that aligns with the local market's requirements, leading to successful branch operations and growth in Bangladesh.

Q-18. What will you do when a loan proposal does not submit within set criteria of approved credit policy but the applicant appears to be potential and helpful for the bank's branch? June/2020, June/2018.

If a loan proposal does not meet the set criteria of the approved credit policy, but the applicant appears to be potential and beneficial for the bank's branch, the following steps can be taken:

1. **Special Consideration:** The branch can seek special consideration from higher authorities or credit committees, explaining the potential benefits of approving the loan despite not meeting all criteria.
2. **Risk Mitigation:** The bank can explore ways to mitigate potential risks associated with the loan, such as requiring additional collateral or adjusting the loan terms.
3. **Personalized Solutions:** The bank can work with the applicant to customize the loan proposal to better align with the credit policy without compromising the applicant's potential.
4. **Close Monitoring:** If the loan is approved, the bank can closely monitor the borrower's performance and conduct regular reviews to ensure timely repayment and adherence to terms.

Ultimately, the goal is to strike a balance between supporting potential applicants and maintaining a responsible lending approach, safeguarding the bank's interests in Bangladesh.

Q-19. As a newly posted Branch Manager, based on the survey data, you are advised to prepare a business plan for your branch. June/2020, Dec/2017.

As a newly posted Branch Manager in the banking sector of Bangladesh, my business plan for the branch would be aimed at achieving sustainable growth and serving the community effectively.

The plan includes:

1. **Market Analysis:** Understanding the local market, customer needs, and economic trends in the branch area.
2. **Customer Segmentation:** Identifying target customer segments and tailoring products and services to meet their specific requirements.
3. **Product Diversification:** Introducing new financial products and services to attract a wider customer base.
4. **Marketing Strategies:** Implementing effective marketing campaigns to increase brand visibility and attract more customers.
5. **Customer Service Excellence:** Focusing on providing exceptional customer service to build strong relationships and ensure customer loyalty.
6. **Risk Management:** Adopting robust risk assessment and mitigation practices to safeguard the bank's interests.
7. **Employee Development:** Investing in employee training and development to enhance their skills and knowledge.

By executing this business plan, the branch will contribute to the bank's growth while fostering financial inclusion and supporting the development of the local community in Bangladesh.

Q-20. Discuss the factors those to be essentially considered before opening a rural branch of a bank. June/2019, Dec/2016.

Before opening a rural branch of a bank, several essential factors must be considered to ensure its success and effectiveness:

1. **Market Demand:** Analyze the demand for banking services in the rural area and assess the potential customer base.
2. **Local Demographics:** Understand the local population, their financial needs, and preferences.
3. **Infrastructure:** Evaluate the availability of basic infrastructure, such as roads and communication facilities.
4. **Competitor Analysis:** Identify existing competitors and their offerings in the area.
5. **Regulatory Compliance:** Ensure compliance with all legal and regulatory requirements for opening a branch.
6. **Staffing and Training:** Recruit and train staff who understand the local culture and can effectively serve the rural community.
7. **Technology and Connectivity:** Assess the availability of technology and connectivity to support banking operations.

Considering these factors will help the bank make informed decisions and provide tailored services to meet the financial needs of the rural population.

Q-21. Mention about the qualities and efficiency that a selected opening branch manager should possess for the branch success. June/2019, Dec/2016.

1. **Leadership Skills:** Ability to lead and motivate the branch team towards achieving goals and delivering excellent customer service.
2. **Customer Focus:** Dedication to understanding and fulfilling customer needs, building strong relationships, and enhancing customer satisfaction.
3. **Financial Acumen:** Proficiency in financial management, budgeting, and performance analysis to drive branch profitability.
4. **Communication Skills:** Effective communication with staff, customers, and higher management to convey objectives and address concerns.
5. **Problem-Solving Abilities:** Capacity to identify challenges and implement innovative solutions to overcome obstacles.
6. **Team Building:** Capability to build a cohesive and efficient team, fostering a positive work environment.
7. **Adaptability:** Willingness to adapt to changing market conditions and industry trends for sustained success.
8. **Compliance Adherence:** Strict adherence to banking regulations and policies to ensure ethical practices.

Q-22. Define portfolio management. Highlights the role of responsibility of Branch Manager in respect of borrower selection and loan processing. June/2020, Dec/2014.

Portfolio management in the banking sector refers to the strategic management of a bank's loan and investment portfolio to optimize returns while managing risks. It involves balancing the composition of assets to achieve the bank's financial objectives.

The role and responsibility of a Branch Manager in borrower selection and loan processing are crucial in maintaining a healthy loan portfolio:

1. **Borrower Selection:** The Branch Manager plays a vital role in assessing the creditworthiness of potential borrowers, analyzing their financial health, and determining the risk associated with granting loans.
2. **Loan Processing:** The Branch Manager oversees the loan application process, ensuring all necessary documents are collected, and the loan is processed efficiently and in compliance with the bank's policies and procedures.

By making sound borrower selection decisions and ensuring smooth loan processing, the Branch Manager contributes to building a strong and well-performing loan portfolio, enhancing the bank's profitability and mitigating credit risks.

Q-23. Define Green Banking as per Bangladesh Bank Guidelines. Highlight the need and importance of green banking in the context of present and future global warming environment affecting of Bangladesh. 95th BDE, Dec/2019, June/2018, June/2017, June/2016,Dec/2015, Dec/2014.

Green Banking, as per Bangladesh Bank Guidelines, refers to the incorporation of environmental and social considerations in banking operations to promote sustainable practices and reduce environmental impacts. The importance of green banking in the context of present and future global warming in Bangladesh is significant due to the following reasons:

1. **Climate Vulnerability:** Bangladesh is highly vulnerable to the adverse effects of global warming, such as rising sea levels, floods, and cyclones.
2. **Environmental Conservation:** Green banking supports eco-friendly initiatives and investments in renewable energy, promoting environmental conservation.
3. **Sustainable Development:** By financing green projects, banks contribute to the country's sustainable development and minimize negative environmental impacts.
4. **Resilience Building:** Green banking enhances resilience against climate change, benefiting communities and businesses.
5. **Global Responsibility:** Embracing green banking aligns with international efforts to combat climate change and fulfill Bangladesh's global responsibilities.

Q-24. Please explain the Green Banking project financing programmed undertaken by your bank. Dec/19, June/2017, Dec/2015.

My Bank has undertaken Green Banking project financing programs to support sustainable initiatilves. It focuses on financing renewable energy and energy efficiency projects. They provide funds to various green projects, including solar power plants, biogas plants, energy-efficient lighting, and other renewable energy ventures. It evaluates project viability, technical feasibility, and environmental impact to ensure responsible financing. By financing green projects, it encourages the adoption of eco-friendly technologies and contributes to reducing carbon emissions and environmental degradation. These initiatives align with the government's efforts to promote green energy and sustainable development in Bangladesh, contributing to a cleaner and more resilient future for the country.

Q-25. Define Agricultural credit. Discuss the role of Agricultural credit in Bangladesh. Agricultural credit: 2015, 2016 Or importance of agricultural loan in ensuring food security of the country. June/2022.

Agricultural credit refers to the financial support provided to farmers and agribusinesses for agricultural activities, including crop cultivation, livestock farming, and agricultural investments. In Bangladesh, agricultural credit plays a crucial role in ensuring food security for the country.

The importance of agricultural loans lies in:

1. **Increasing Agricultural Productivity:** Access to credit allows farmers to invest in modern farming techniques, quality seeds, fertilizers, and machinery, boosting productivity and yields.
2. **Ensuring Food Production:** Agricultural credit helps farmers meet production costs, ensuring sufficient food production to feed the nation's growing population.
3. **Empowering Farmers:** Loans empower farmers, especially smallholders, to improve their livelihoods, contributing to poverty reduction and economic development.

4. **Enhancing Resilience:** Agricultural credit supports farmers during challenging times like natural disasters or market fluctuations, enhancing their resilience.

Overall, agricultural loans are essential for Bangladesh's food security, sustainable agriculture, and rural development, ensuring a stable and food-sufficient nation.

Q-26. Agricultural credit plays a very important role in Economic Development of the country with high GDP growth. Explain this mentioning impact it keeps on the country's overall GDP attainment. Dec/2017.

Agricultural credit plays a vital role in the economic development of Bangladesh, contributing to high GDP growth. The impact it has on the country's overall GDP attainment includes:

1. **Increased Agricultural Productivity:** Access to credit enables farmers to invest in modern technologies, leading to higher agricultural productivity and output.
2. **Employment Generation:** Improved agricultural productivity creates more job opportunities, reducing unemployment and boosting income levels.
3. **Export Revenue:** Higher agricultural output allows Bangladesh to export surplus produce, contributing to foreign exchange earnings and boosting the GDP.
4. **Rural Development:** Agricultural credit fosters rural development, improving infrastructure and living standards in rural areas.
5. **Poverty Reduction:** Increased agricultural income reduces poverty levels, uplifting the livelihoods of rural communities.

By supporting the agricultural sector, agricultural credit contributes significantly to the economic growth of Bangladesh, propelling the country towards higher GDP attainment and sustainable development.

Q-27. What is syndicated financing? How does it work/advantage of syndicated financing? BPE-96th. BPE-98th.

Syndicated financing is a collaborative funding arrangement where multiple lenders jointly provide funds for a single borrower. It involves a group of financial institutions, led by a coordinating bank, sharing the lending risk and exposure.

1. **Coordinating Bank's Role**: A coordinating bank leads the process, assessing the borrower's creditworthiness, structuring the deal, and inviting potential lenders to participate.
2. **Risk Sharing**: Multiple lenders join the syndicate, with each contributing a portion of the total loan amount. This spreads the risk among the participating financial institutions.
3. **Large-Scale Projects**: Syndicated financing is common in financing large-scale projects, infrastructure development, mergers, or acquisitions where substantial capital is required.
4. **Administrative Efficiency**: The coordinating bank manages administrative tasks, streamlining communication, and ensuring coordination among syndicate members.
5. **Diversification for Lenders**: Participating lenders benefit from diversified portfolios and reduced individual exposure to a single borrower, enhancing risk management.
6. **Terms and Conditions**: Interest rates, terms, and conditions are outlined in a syndication agreement, providing a clear framework for the lending arrangement.
7. **Repayment Oversight**: The coordinating bank oversees communication and coordination among syndicate members and ensures borrower compliance with agreed-upon terms for successful repayment.

Q-28. What is Cash Credit? Briefly describe the different mode of cash credit. BPE-98th.

Cash credit is a short-term loan provided to businesses to help them manage their working capital needs. It's similar to an overdraft facility, where the business can withdraw funds up to a predetermined limit. The main advantage of cash credit is its flexibility; businesses can withdraw money as needed and pay interest only on the amount utilized, not the entire credit limit.

For example, a manufacturing company might have a cash credit limit of $100,000. If the company withdraws $40,000 to buy raw materials, it pays interest only on that $40,000. Once the company sells the products and deposits the earnings back into the account, it can again withdraw up to the $100,000 limit for future needs. This helps the company efficiently manage cash flow.

Modes of Cash Credit:

1. **Hypothecation**:
    - The borrower uses inventory (goods) as collateral.
    - The goods remain in the borrower's possession, but the bank has a claim over them.
2. **Pledge**:
    - The borrower gives the bank physical possession of the inventory or goods.
    - The bank controls the goods and releases them as the borrower repays the loan.
3. **Mortgage**:
    - The borrower uses fixed assets, like property, as collateral.
    - The bank holds the rights to the property until the loan is repaid.

In summary, cash credit helps businesses manage daily expenses by providing easy access to funds against their assets.

Q-29. What factors a bank should consider effective credit planning? BPE-98th.

For effective credit planning, a bank should consider several key factors:

1. **Customer Creditworthiness**: Assess the borrower's ability to repay the loan by examining their credit history, income, and financial stability.
2. **Risk Assessment**: Evaluate the potential risks associated with lending, including market conditions and the borrower's industry.
3. **Loan Purpose**: Understand the purpose of the loan to ensure it aligns with the bank's lending policies and risk appetite.
4. **Collateral**: Determine the value and quality of assets offered as security to safeguard the loan.
5. **Interest Rates**: Set appropriate interest rates that reflect the risk level and remain competitive in the market.
6. **Regulatory Compliance**: Ensure all lending practices comply with banking regulations and guidelines to avoid legal issues.
7. **Diversification**: Avoid concentrating too much credit in one sector or borrower to reduce risk exposure.

Considering these factors helps a bank lend responsibly and manage risks effectively.

Q-30. What are the key tasks involved in credit planning at the regional or branch level for a commercial bank?

Credit planning at the regional or branch level includes several key tasks:

1. **Follow Policy Guidelines**: Adhere to guidelines from the head office and regional office.
2. **Analyze Command Area**: Understand the economic sectors in the region.
3. **Identify Major Sectors**: Focus on sectors like agriculture, industry, etc.
4. **Sub-sector Division**: Break down major sectors into sub-sectors (e.g., dairy, poultry in agriculture).
5. **Classify Borrowers**: Categorize existing borrowers by occupation or sector.
6. **Estimate Fund Needs**: Determine additional fund requirements for current borrowers.
7. **Cover New Activities**: Analyze opportunities to finance new activities based on current data.

8. **Assess Fund Requirements**: Carefully evaluate the total fund needed.
9. **Determine Loanable Funds**: Calculate the incremental loanable funds required.
10. **Allocate Funds**: Distribute funds to different sectors and clients, ensuring profitability and social goals.

Q-31. What is Credit Policy? Features of a Good Credit Policy?

A credit policy is a set of rules and regulations that guide lending decisions. It is designed to minimize credit risk, protect depositors' money, and ensure sustainable earnings for the bank. The policy is formed in line with regulatory guidelines.

Features of a Good Credit Policy

1. **Asset Quality**: Maintaining high-quality assets.
2. **Regulatory Compliances**: Adhering to regulations like priority sector lending, large loan concentration, single borrower exposures, ICRR, and CIB.
3. **Application Procedure**: Standardizing the loan application process.
4. **Assessment and Evaluation**: Establishing procedures for assessing and evaluating loan applications.
5. **Loan Pricing Method**: Setting methods for determining loan interest rates.
6. **Delegation of Power**: Defining the authority levels for loan approval.
7. **Maintenance of Capital**: Keeping adequate capital reserves.
8. **Documentation Guidelines**: Specifying required documentation.
9. **Monitoring and Supervision**: Regularly overseeing loans.
10. **Management of Non-Performing Loans**: Handling bad loans effectively.
11. **Legal Action**: Taking necessary legal steps when required.

Q-32. What are the benefits of centralizing loan administration in credit operations?

Centralizing loan administration offers several benefits, including:

1. **Improving Customer Relationships**: Relationship Managers (RMs) can focus more on building and strengthening customer relationships, as administrative tasks are handled by the Head Office.
2. **Better Communication**: Clients have a single point of contact for all loan-related communications, improving clarity and efficiency.
3. **Developing Core Skills**: A dedicated central Credit Management Division can develop expertise more quickly, reducing errors and oversights.
4. **Reducing Credit Risk**: Separation of duties ensures unbiased risk management and borrower selection.
5. **Increasing Efficiency**: Direct draw requests to the reviewer limit handoffs, increasing flexibility.
6. **Streamlining Approval Process**: Centralized approval processes are more efficient, with reviewers and approvers in the same office.
7. **Enhancing Technology Adoption**: Training and process changes are easier to manage with a single administrative team.
8. **Uniform Borrower Selection**: Centralized appraisal ensures consistent and unbiased borrower selection.

Q-33. What are the fundamental characteristics of various funded credit facilities offered by banks?

Banks offer various funded credit facilities, each with distinct characteristics:

1. **Overdraft**: Fixed limit for excess drawing, used as working capital, repaid from regular cash flows, continuous, reviewed annually.
2. **Time Loan (up to 1 year)**: Short-term, specific purpose like additional stocks or seasonal demand, repayable in lump-sum or installments, renewable annually.

3. **Term Loan (more than 1 year)**: For fixed investment like machinery or construction, has a repayment schedule, often monthly or quarterly.
4. **Bills under LC (BLC)**: Temporary advance for import payment, disbursed for import LC documents, liquidated by cash or other credit lines.
5. **Trust Receipt (TR)**: Post-import finance, disbursed for import document retirement, repaid by sale proceeds, usual tenor up to 180 days.
6. **Packing Credit (PC)**: For exporters, based on export deals, short-term, repaid by export proceeds, not exceeding 180 days, revolving limit allowed.

Q-34. What are the features of consumer loan products offered by banks, and what are their typical purposes and repayment terms?

Banks offer various consumer loan products, each tailored for specific purposes and with distinct repayment terms:

1. **Personal Loan – Unsecured**: Used for household items, marriage, medical expenses, travel, CNG conversion, festivals, renovation, and other appropriate needs. Maximum tenor is 60 months, repaid through Equated Monthly Installments (EMI).
2. **Auto Loan**: For purchasing brand new or reconditioned vehicles for family use. Maximum tenor is 60 months, repaid through EMI.
3. **Home Loan**: For purchasing or renovating homes, completing construction, or taking over liabilities from other banks. Maximum tenor is 20 years, repaid through EMI.
4. **Secured Overdraft**: To meet financial requirements, revolving facility with no fixed repayment schedule.
5. **Secured Time Loan**: For financial needs, revolving facility.
6. **Secured Term Loan**: For financial needs with a maximum tenor of 3 years, repaid through EMI.

Q-35. Discuss islami banking investment product.

Islamic banking offers various Sharia-compliant investment products:

1. **Bai-Murabaha**: Involves a cost-plus sale where the bank buys an item and sells it to the customer at a profit, with payment in installments.
2. **Bai-Muajjal**: Allows deferred payment for goods purchased upfront, with a lump sum due at a specified future date.
3. **Bai-Muajjal (TR)**: Similar to Bai-Muajjal but specifically for imported goods, enabling the customer to use the goods before full payment.
4. **Hire-Purchase under Shirkatul Melk (HPSM)**: Co-ownership where the bank and customer jointly purchase an asset, with the customer gradually buying out the bank's share.
5. **Mudaraba Post-Import (MPI)**: Partnership for post-import financing, where the bank provides capital for trading imported goods, sharing profits.
6. **Quard Against MTDR**: A loan secured by a fixed deposit, allowing customers to borrow against their deposited funds while earning halal returns. These products uphold Islamic principles by avoiding interest and promoting fair profit-sharing.

Chapter End