202: Credit Operations and Management (COM)

For AIBB

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Suggestion:

- ***Read 4 star and 5 star marked chapter if you have time shortage to read all chapter.***
- ***Must read short notes from all chapter.***
- ***MetaMentor Center suggest to read whole note to find 100% common in exam. We cover everything in our note.***

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Module E: Credit Documentation and Administration
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Module-A:
Introduction of Loans and Advances

Q-01. What is Bank Credit? BPE-99th. BPE-6th. BPE-7th.

Bank credit refers to the process by which banks provide financial resources to individuals, businesses, or organizations, enabling them to meet their financial needs with a promise of repayment over a set period. It includes various forms such as loans, overdrafts, and cash credits. Bank credit promotes economic growth by financing productive activities, increasing employment opportunities, and supporting business expansion.

Key Characteristics:

- It is a significant source of income for banks.
- Credit is based on the confidence of the lender in the borrower's ability and willingness to repay.
- Types of credit facilities include secured and unsecured loans, short-term, and long-term loans, tailored to specific needs like working capital or investment purposes.

By following sound credit practices and ensuring prudent risk management, banks sustain their financial stability and contribute to broader economic development.

Q-02. What are the types of borrowers of a bank? BPE 99th.

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-03. What is meant by funded and non-funded credit facilities? BPE-99th.

1. **Funded Credit Facilities**: These are financial arrangements where a bank provides direct funds to the borrower. Examples include loans, overdrafts, cash credit, and bill discounting. Borrowers can use these funds for specific purposes like working capital, investments, or asset acquisition. Interest is charged on the amount disbursed by the bank. Funded facilities create a direct financial outflow from the bank.

   Example: A company takes a loan of $500,000 for factory expansion, repaid in monthly installments. Similarly, a business uses cash credit to cover short-term working capital needs.
2. **Non-Funded Credit Facilities**: These do not involve direct fund disbursement but create a contingent liability for the bank. Common examples include letters of credit, bank guarantees, and deferred payment guarantees. Banks provide these facilities to support trade and ensure payment obligations are met. Non-funded facilities reduce immediate liquidity requirements but maintain financial assurance.

Example: A bank issues a letter of credit ensuring a seller is paid upon delivery of goods. Another business secures a bank guarantee for a government contract to fulfill financial obligations in case of default.

Q-04. What are the different types of credit that are currently extended by Bangladeshi commercial banks? Discuss briefly. BPE-96th.

Or Describe different types of funded and non-funded credit facilities with examples.BPE-99th.

Or, Discuss the different types of credit facilities extending currently by commercial banks in Bangladesh.BPE-6th.

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-05. What do you mean by banker? What are the Features of Banking?

Definition of Banker: A banker is an individual or institution involved in banking activities, such as accepting deposits and providing loans for investment purposes. According to the Negotiable Instruments Act, a banker accepts deposits repayable on demand or otherwise through instruments like cheques of Banking.

Feature of Banking:

1. **Accepting Deposits**: The primary function of a bank is to accept money deposits from the public.
2. **Lending or Investment**: Banks lend or invest the deposited funds to generate income.
3. **Public Involvement**: Banks serve the public by accepting deposits from any eligible individual or entity.
4. **Repayment on Demand**: Deposits are repayable either on demand or as agreed between the depositor and the bank.
5. **Legal Compliance**: Banks must comply with regulations to ensure the security and availability of funds.

Q-06. What do you mean by Customer? To constitute a customer, what are the requirements that must be fulfilled?

Definition of Customer: A customer is an individual or entity that maintains a financial relationship with a bank, primarily through deposits or other banking transactions. The relationship begins when a person opens an account or avails banking services.

An example of a customer is a person who opens a savings account in a bank to deposit and withdraw money regularly.

Requirements to Constitute a Customer:

1. **Banking Relationship**: The individual or entity must establish a formal relationship with the bank, such as opening an account or taking a loan.
2. **Voluntary Transactions**: The engagement must be voluntary and based on mutual consent between the bank and the customer.
3. **Legal Identity**: The customer must have a valid identity and be legally eligible to engage in banking activities.
4. **Regular Interaction**: The customer engages with the bank for deposits, withdrawals, or other services.

These elements define and establish a formal customer-bank relationship

Q-07. Explain the categories of the relationship between banker and customer. BPE-7th.

Or Briefly discuss different types of relationship between banker and customer. What additional obligations come with this special relationship? BPE-5th.

Or Briefly discuss some relationships between banker and customer. BPE-97th. BPE-98th.

Or Briefly discuss the Relationship between Customer and Bank

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 is already in possession of another person's goods and agrees to hold them as a bailee, the owner becomes the bailor of those 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.

Banker has legal and ethical obligations. These include:

1. **Honoring valid cheques** if the customer has sufficient funds.
2. **Maintaining confidentiality** of the customer's financial information unless required by law or consented by the customer.
3. **Proper care of valuables** kept in lockers or custody.
4. **Providing accurate and timely information** to customers regarding their accounts and transactions.

5. **Following fair practices** in lending, including proper documentation and transparent charges.
   These obligations enhance trust and ensure accountability in the banking system.

Q-08. 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. BPE-98th.
Or Why is credit planning important for banks? BPE-6th.
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-09. What factors a bank should consider effective credit planning? BPE-98th. BPE-6th
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-10. Mention the types of credit according to CL reporting.
Or Briefly discuss the categories of credit according to the Classified Loan (CL) reporting policy of Bangladesh Bank. BPE-99th.

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-11. 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-12. 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-13. What is Credit Policy? Features of a Good Credit Policy? BPE-99th.
Or What are the features of a good credit policy?BPE-7th.
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-14. What are the 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-15. What are the benefits of centralizing loan administration in credit operations? Or What are the benefits of centralizing loan administration? BPE-99th.

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-16. Mention the qualities of a good borrower. BPE-5th. BPE-7th.

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 communicate the purpose of the loan and how it will benefit their financial situation.

Q-17. Define CMSME credit in light of Bangladesh Bank guidelines. How banks can ensure inclusive financial growth through CMSME financing? BPE-5th.

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

Or, Define CMSME as per Bangladesh Bank guidelines. Discuss the challenges and opportunities of CMSME financing in Bangladesh?BPE-7th.

CMSME stands for Cottage, Micro, Small, and Medium Enterprises. According to Bangladesh Bank guidelines, CMSME financing refers to the credit facilities provided by banks and financial institutions to cottage, micro, small, and medium business enterprises for production, trade, and service activities. CMSME financing plays an important role in economic development, employment generation, poverty reduction, and industrial growth in Bangladesh.

Challenges of CMSME Financing in Bangladesh:

1. **Lack of Proper Documentation:** Many CMSME entrepreneurs cannot provide proper financial statements and legal documents.
2. **Insufficient Collateral:** Small businesses often fail to provide adequate security against loans.
3. **High Credit Risk:** Banks consider CMSME loans risky due to uncertain cash flows and business instability.
4. **Limited Financial Literacy:** Many entrepreneurs lack knowledge about banking procedures and financial management.
5. **High Monitoring Cost:** Supervising numerous small borrowers increases operational costs for banks.

Opportunities of CMSME Financing in Bangladesh:

1. **Employment Generation:** CMSME sector creates large employment opportunities.
2. **Poverty Reduction:** Financing helps small entrepreneurs improve their income and living standard.
3. **Industrial Growth:** CMSME financing supports local industries and production activities.
4. **Women Entrepreneurship Development:** Special CMSME schemes encourage women entrepreneurs.
5. **Inclusive Economic Growth:** CMSME financing promotes balanced regional and economic development.

Therefore, proper CMSME financing can significantly contribute to sustainable economic growth and financial inclusion in Bangladesh.

Q-18. 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-19. 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-20. Discuss Islami banking investment product.

Islamic banking offers various Sharia-compliant investment products:

1. **Mudaraba:** Mudaraba is a profit-sharing partnership where one party provides capital (Rab-ul-Mal) and the other provides managerial expertise (Mudarib). Profits are shared according to a pre-agreed ratio, while financial losses are borne by the capital provider unless caused by negligence.
2. **Musharaka:** Musharaka is a joint partnership where both the bank and the customer contribute capital. Profits are shared according to an agreed ratio, while losses are shared in proportion to capital contributions.
3. **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.
4. **Bai-Muajjal**: Allows deferred payment for goods purchased upfront, with a lump sum due at a specified future date.
5. **Bai-Muajjal (TR)**: Similar to Bai-Muajjal but specifically for imported goods, enabling the customer to use the goods before full payment.
6. **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.
7. **Mudaraba Post-Import (MPI)**: Partnership for post-import financing, where the bank provides capital for trading imported goods, sharing profits.
8. **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.

Q-21. 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- 22. What are the advantages of Syndicated Financing? BPE -98th.

Advantages of Syndicated Financing:

1. **Risk Sharing:** Multiple lenders share the financial risk, reducing the exposure for any single institution.
2. **Large Loan Size:** Enables borrowers to access substantial funding for large-scale projects.
3. **Diversification:** Reduces dependency on a single lender and diversifies credit exposure for the borrower.
4. **Efficient Loan Management:** Borrowers deal with a lead arranger instead of multiple lenders, simplifying loan administration.
5. **Global Participation:** Provides opportunities for international collaboration and attracts foreign investment.
6. **Reputation Enhancement:** Borrowers benefit from the credibility of participating reputable financial institutions.

Q-23. Define Agricultural credit. Discuss the role of Agricultural credit in Bangladesh. Agricultural credit:

Or importance of agricultural loan in ensuring food security of the country.

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.

Q-24. 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.

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.

Mathematical Problem

Problem 01: Consumer Credit (Installment Burden Rule)

A customer has the following information:

- **Annual gross income: Tk. 9,60,000**
- **Existing monthly loan installments: Tk. 18,000**
- **Proposed new consumer loan installment: Tk. 12,000**
- **Bank policy: Total monthly installments must not exceed 40% of monthly income**

Required:

a) Calculate the monthly income

b) Calculate the maximum allowable total installment

c) Determine whether the new loan is acceptable

Solution:

a) Monthly income

= 9,60,000 ÷ 12

= **Tk. 80,000**

b) Maximum allowable installment
= 40% × 80,000
= **Tk. 32,000**
c) Total installments after new loan
= 18,000 + 12,000
= **Tk. 30,000**
Since Tk. 30,000 ≤ Tk. 32,000,
The proposed loan is within the bank's policy limit.
Comment: Although the installment is within policy, the bank should also review job stability and other household expenses before final approval.

Problem 02: Credit Concentration (Single Borrower Exposure)
Question:
A bank has the following information:

- **Total capital of the bank: Tk. 500 crore**
- **Bank policy: Maximum exposure to a single borrower = 15% of total capital**
- **Proposed funded loan to Company X: Tk. 60 crore**

Required:
a) Calculate the maximum allowable exposure to a single borrower
b) Comment whether the proposed loan is within the policy limit
Solution:
a) Maximum allowable exposure
= 15% × 500 crore
= **Tk. 75 crore**
b) Proposed exposure = Tk. 60 crore
Since Tk. 60 crore ≤ Tk. 75 crore,
The loan is within the single borrower exposure limit.
Comment: Although the exposure is within limit, sectoral concentration and repayment capacity must also be assessed.

Problem 03: Debt Burden Ratio (DBR)
Question:
A salaried customer has the following details:

- **Monthly gross income: Tk. 90,000**
- **Existing monthly loan installment: Tk. 22,000**
- **Proposed new loan installment: Tk. 14,000**

Bank policy allows maximum DBR = 40% of monthly income.
Required:
a) Calculate the customer's Debt Burden Ratio after the proposed loan
b) Comment whether the loan is acceptable
Solution:

Total monthly installment
= 22,000 + 14,000
= **Tk. 36,000**
Maximum allowable installment
= 40% × 90,000
= **Tk. 36,000**
Debt Burden Ratio (DBR)
= (36,000 ÷ 90,000) × 100
= **40%**
Comment:
The DBR is exactly at the policy limit. The loan may be approved, subject to satisfactory assessment of job stability and other obligations.

Compare and contrast

Q-01. Describe the differences between Centralized and branch-based Credit Model. BPE-97th.

Aspect	Centralized Credit Model	Branch-Based Credit Model
Definition	Credit decisions are taken at the head office or a central unit.	Credit decisions are taken at individual branch level.
Decision Authority	Authority lies with a central credit committee ensuring uniformity.	Authority lies with branch management allowing local judgment.
Efficiency	More standardized and risk-controlled but comparatively slower.	Faster decisions due to local knowledge but less standardized.

Q-02. Differentiate between Credit Planning and Credit Policy.

Aspect	Credit Planning	Credit Policy
Meaning	Credit planning estimates future credit demand and sector-wise lending.	Credit policy provides rules for approving and managing loans.
Purpose	It ensures balanced allocation of loanable funds in the economy.	It ensures safe, consistent, and risk-controlled lending.
Focus Area	It determines the overall lending direction for a period.	It guides appraisal, approval, pricing, security, and monitoring of loans.

Q-03. Distinguish between Agricultural Credit and Microfinance Credit.

Aspect	Agricultural Credit	Microfinance Credit
Target Group	Provided mainly to farmers and agriculture-related producers.	Provided mainly to poor households and micro entrepreneurs.

Purpose	Supports crop production and farm development.	Supports poverty reduction and small income-generating activities.
Loan Size	Usually involves comparatively larger loans based on farming needs.	Involves very small loan amounts suitable for low-income borrowers.

Q-04. Bridge Financing vs. Syndicated Financing BPE-6th.

Aspect	**Bridge Financing**	**Syndicated Financing**
Meaning	A short-term loan provided to meet immediate funding needs until long-term finance is arranged.	A large loan jointly provided by multiple lenders sharing the amount and risk.
Purpose	Temporarily fills a funding gap for the borrower.	Provides large-scale financing for major projects.
Tenor	Very short repayment period as it is a temporary loan.	Medium to long repayment period depending on project nature.

Q-05. Funded and Non-Funded Credit Facilities BPE-6th.

Aspect	**Funded Credit Facilities**	**Non-Funded Credit Facilities**
Meaning	Funded credit facilities are loans where the bank directly disburses money to the borrower.	Non-funded credit facilities are commitments where the bank does not disburse money immediately but promises to pay if a specific event occurs.
Bank's Fund Outflow	Funded facilities create an immediate outflow of the bank's funds.	Non-funded facilities do not create immediate fund outflow but may turn into funded loans later.
Examples	Loans, cash credit, overdraft, and bill purchase are examples of funded facilities.	Letters of credit and bank guarantees are examples of non-funded facilities.

Q-06. Performance Guarantee vs. Advance Payment Guarantee. BPE-7th.

Basis	**Performance Guarantee**	**Advance Payment Guarantee**
Meaning	Performance Guarantee is a guarantee issued by a bank to ensure that the contractor or supplier will perform the contractual obligations properly according to the terms of the contract.	Advance Payment Guarantee is a guarantee issued by a bank to secure the advance payment made by the buyer to the seller or contractor before execution of the contract.
Purpose	Its main purpose is to protect the buyer against non-performance or improper performance of the contract.	Its main purpose is to protect the buyer from loss if the seller fails to utilize or refund the advance payment properly.
Nature of Security	It ensures satisfactory completion of work or supply of goods/services.	It ensures refund or recovery of advance payment.

Short Questions

Q-01. What is meant by a private limited company borrower?

Private limited company borrower is a business organization that takes loans from a bank in the name of the company, where the liability of the owners is limited to the amount of their invested capital and the company's shares are not freely transferable to the public.
Banks provide credit to such companies after examining their financial statements, business performance, and the legal documents of incorporation.

Q-02.What is a funded credit facility?

A funded credit facility is a type of bank loan in which the bank provides actual money to the borrower, and this creates an immediate financial outflow from the bank. The borrower receives real funds and becomes responsible for repaying the amount within an agreed period along with interest or other charges.
The main concept of a funded credit facility is that the bank converts its depositors' funds into loans and gives the borrower direct access to cash or purchasing power. Because the bank's money is already disbursed, the credit risk begins immediately.

Q-03.What is a term loan?

A term loan is a funded credit facility in which a bank provides a fixed amount of money to a borrower for a specific purpose, and the borrower agrees to repay the loan in regular installments over a predetermined period.
The main concept of a term loan is that it is used for long-term or medium-term investment needs, such as purchasing machinery, setting up a factory, expanding business capacity, or acquiring fixed assets.
Since the loan has a fixed repayment schedule, the borrower pays back the principal and interest monthly, quarterly, or annually, depending on the agreement.

Q-04. How does the Export Development Fund (EDF) help the exporters? BPE-7th.

The Export Development Fund (EDF) helps exporters by providing short-term foreign currency financing at lower interest rates for importing raw materials and accessories required for export production. It improves working capital support, reduces financing cost, ensures timely execution of export orders, and increases export competitiveness in the international market.

End of First Chapter