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BY

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CHAPTER 1

Introduction

Everyone has dreams; dreams of a lovely home, beautiful car and a shining future. People like to watch movies, listen music, travel on vacation and want education with a secured life. This is only possible when someone have excess money to buy those products. Most of the people do not excess money which they can save for *extra*. Not only in Bangladesh or in developing countries but also in the highly developed countries people do not have excess money to purchase their necessary products. Only the affluent peoples are able to buy those products with their earnings. Now it is not difficult to purchase "**the Dreams**". Banks are providing different types of loan facilities to purchase the necessary products anytime. The magical offer from the banks to buy dreams is known as – *Consumer Loan*.

With the help of consumer loan people can live the life of the future. What they are planning to purchase in future, can bring at home today. As a result, life becomes so easy that was not ever to any consumer. This consumer is loan not only helping the consumers but also recharging the countries national economy. Businesses are expanding, peoples are buying and the economical growth of the country is increasing.

There are 55 commercial banks are operating in Bangladesh – out of 55 banks, four are Nationalized Commercial Banks (NCBs), 30 local Private Commercial Banks (PCBs), 12 Foreign Commercial Banks (FCBs) and the rest nine are Development Financial Institutions (DFI).[1] All the banks are providing financial services to its clients and playing the most vital role in country's national economy. Public limited banks are also concern about the maximization of profit for its shareholders. To maximize profit banks are serving different and innovative facilities to its clients.

The credit operating system in Bangladesh is divided into two major categories:

a. Formal Credit
b. Informal Credit

a. *Formal Credit:* The credit system is followed in Bangladesh Bank, nationalized commercial banks, local and foreign private banks are formal credit system. Formal credit comprises consumer credit, production and productive credit, trade credit, mercantile credit, financial credit, commercial credit, investment credit, foreign trade credit, industrial credit,

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1 Activities of Bank and Financial Institutions, 2003 – 2004
Source: Statistical Year Book of Bangladesh, 2002, pp. 396

agricultural credit and so on. Credits or loans are given to debtors on trust or necessary securities for that specific loan. Up to 30 June, 2000, total credit are provided by the banking system to different economic sectors were as follows[2]:

(Figures are in billion Taka)

Agriculture, fishing and forestry	:	76.36
Industry (other than working capital financing)	:	99.53
Working capital financing	:	154.34
Export	:	34.71
Commercial loans	:	188.80

b. *Informal credit system:* Informal credit operations involve lending, generally at short-term, among friends, relatives, landlord, neighbors, farmers, marketing intermediaries, village money lenders, goldsmiths, and merchants. Money lenders (*Mahajans*) lend money at high interest rate and in the past, used to accept gold ornaments, silver, and brass-made plates etc. as security for their money. The approximate record for the informal credit sources are: relative and friends 27%, neighbors 21%, local rich people 16%, professional money lenders 15%, goldsmiths 1%, shopkeeper/business agents 14%, and *Bargamaliks* 7%.[3]

Consumer credit is under formal credit and banks are providing this credit facility at a high interest rate than other credit facilities. Consumers are not concern about the high interest rate or how many times interests are charging in a year. Moreover, in most of the cases, consumers do not have much knowledge about annual percentage rate (APR). Consumers look for low installment size either by changing the size of the monthly payments or the loan durations.[4]

Since 1992, consumer loan scheme is available in Bangladesh. Surprisingly; the success rate of this scheme was not high. But the in the recent years the popularity of the consumer loan gives different variation in the loan facilities to the consumers. Banks are offering more and more attractive offers to

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2 *Source: Bangladesh Bank*

3 *Source: Bangladesh Bank*

4 Yard, S. (2004), "Consumer loans with fixed monthly payments: Information problems and solutions based on some Swedish experiences", *The International Journal of Bank Management*, Vol. 22, No. 1, pp. 65 - 80

the clients to borrow loan from them. Banks are also facing problems with the consumer loan scheme for several reasons. However, they are trying to overcome their problems.

Developing countries like Bangladesh where the national GDP and the income level of the average citizens is very low, consumer loan can help them to live with their necessary and useful products. Moreover, the consumer loan scheme also participating in the improvement of the macro-economic environment of Bangladesh.

CHAPTER 2

Objectives of the research

This research work based on collected primary and secondary data sources analysis. The analysis has done to identify the following objectives:

- Impact of consumer loan system
- Problems with consumer loan system
- Enhancement of the consumer loan system

Impact of consumer loan system:

Consumer loan or credit is a bank product or service. This bank product or service can create an impact on the society and economical status of any country. Consumer loan is comparatively new service of the banks and most the people in Bangladesh are not well known about this facility.

In this research work the consumer loan system is viewed and analyzed from three different perspectives. We have considered the consumer loan from "**Consumers**" point of view, from "**Banks**" point of view and widely from "**National**" point of view.

Consumers:

Consumers want to purchase goods and services costing beyond their ability. Limited and fixed income group people usually want and take this consumer credit facility. As the loan lending peoples are limited and fixed income group, they like to take loan where the loan processing system is easy, less security and most importantly the installment size is low. This group is rarely concern with the interest rates are charging and the interest charging methods. For this reason, most of the banks are charging higher interest for consumer credit. Moreover, the interest rates are charged monthly rather than quarterly or annually.

Banks:

Consumer credit is one the service-product of commercial banks. Corporate loan facility needs lots of collaterals either tangibles or intangibles. But consumer loans are bounded with security. These loans are disbursed based on customers present income statement that he or she can pay back the loan in time. As a result, there is more risk to get back the disbursed loan. However, it is found that there is less bad loan in consumer credit comparing other credit facilities. But, the process of consumer loan requires huge human resources for survey, analyze and recovery of the loan. As a result, most of the local banks are not too much interested in retain banking due to complications of the disbursement procedures.

As the loan amount is small, the banks are charging the highest interest rates in consumer loan. Therefore, banks are getting higher profit from the consumer credit scheme.

Banks can help the people who are not able to purchase goods with their limited income but can pay back loan with their fixed earrings.

National:

Bangladesh is a developing country. The national GDP is very low comparing to other developed and neighbor countries. Peoples are not able to purchase consumer products as well as other expensive products with their limited income. Banks and other financial institute can help the peoples to change their life and living standards through consumer loan system.

Problems with consumer loan system:

Mainly banks are facing trouble with the disbursement procedure of the consumer loan system. We will search the problems through this research paper.

Enhancement of the consumer loan system:

If there is any problem in consumer loan system in Bangladesh, our object will be to provide potential solution for the obstacles and problems with this credit operations system.

CHAPTER 3

What is Consumer Credit?

There are different types of credit facilities are provided by the banks to its clients. The most common and clear deviations of the loan or credit facilities are –

c. Commercial or Corporate Loan
d. Consumer Credit

c. *Commercial or Corporate Loan:* This loan facility is usually given to the large corporate clients or the businessmen for their business. The corporate loans are disbursed for various purposes such as opening L/Cs (Back-to-Back, Sight, General etc.), LTR (Letter of Trust Receipts), PC (Packing Credit), PAD (Advances against import bills), LIM (Loans against imported merchandise) and so on. These loans are in large scale and required high collateral against the loans.

d. *Consumer Loan:* This loan facility is mainly for the limited income peoples to support their buying power for purchasing their necessary products for living and to enhance of the social status.

Consumer credit can be defined as - A loan that establishes consumer credit that is granted for personal use; usually unsecured and based on the borrower's integrity and ability to pay.[5]

In 1995, Bilgin and Yavas. had stated that Consumer loan is lending consumers money for non-commercial purposes to enable them to buy goods and services costing beyond their ability.[6]

Bangladesh Bank, the central bank of Bangladesh, has defined in this way that:

> *"**Consumer financing** means any financing allowed to individuals for meeting their personal, family or household needs."*[7]

CHAPTER 4

5 Princeton University (2003). Retrieved December, 2004 from the World Wide Web: http://www.wordreference.com/definition/auto%5Floan

6 Bilgin, Z. and Yavas, U. (1995), "Marketing of consumer credit services in a developing country: a status report", The International Journal of Bank Marketing, Vol. 13, No. 5, pp. 31 - 36

7 Bangladesh Bank, Prudential Regulations for Consumer Financing, 2004, p. 6

Methodology

Data Collection:

Relevant information for this research work are collected both from Primary and Secondary data sources. Data collection procedure of both sources are given below:

Primary Sources:

Good decisions are based on good and relevant data.[8] To collect our data, we were careful that the information is relevant, accurate, current and unbiased. But there were many obstacles to collect the primary data. We had chosen the Banks for our primary data sources. The Banks in Bangladesh have followed highly confidentially to secure their information. As a result, most of the cases interviewing executives were not reluctant to provide all the information we were required.

Contact Method:

Our contact method for the information was "Personal Interviewing". Other conventional contact method like *mail questionnaire & telephone interviewing* were not possible in this case.

Sample Plan:

1. Sampling Unit: Consumer loans are provided by the commercial banks in Bangladesh. Therefore, to collect information on consumer loan, we have selected the banks for our sample.

2. Sample Size: At present, there are 53 commercial banks in Bangladesh. It was not possible to survey on every bank for research time constrains. It was a difficult task to

[8] Kotler, P. and Armstrong, G., (2001), Principles of Marketing, 9th edition, Pearson Education (Singapore), India

select banks among all the schedule banks. We have selected only seven banks for our survey. The selected banks are selected on the basis of their performance, growth and services for consumer loan area.

Our selected Banks were:

- Prime Bank Limited (PBL)
- Eastern Bank Limited (EBL)
- BRAC Bank Limited (BBL)
- Dhaka Bank Limited (DBL)
- Bank Asia Limited
- Standard Chartered Bank (SCB)
- HSBC

There we have taken five local private banks and two the most renowned foreign banks. These five banks are disbursing the most the consumer loan from the beginning of their business. They have wide product-service range.

3. Research Instruments: For research instrument, we have used – the questionnaires. Questionnaires are flexible – there are many ways to ask questions. There were closed-end questions and open-end questions in our questionnaires. Questionnaires are given in the exhibit section. The executives could not provide us all the information we were needed. In many cases, the interviewers were not to disclose the internal data. In some cases, relevant data was not available.

Secondary Data:

Secondary data for Banks were not easy to collect. Banks are the financial institutes and related with monetary information. As a result, it is difficult to collect the actual data from the banks. Bangladesh Bank, the central bank of Bangladesh, also impose restrictions to use their informative resources to use to protect illegal exploitation of the information. Statistical Bureau of Bangladesh has surveyed on various sector of Bangladesh. Survey on Banks and loan disbursement amount was not supportive in terms of consumer loan. However, various secondary sources were visited and information was collected with the best. Sources are depicted in the next page.

1. Bangladesh Bank: The library of Bangladesh Bank has been visited for data collection. Due to restriction more data cannot be collected from the Bangladesh Bank.

2. Bangladesh Bureau of Statistics: Bangladesh Bureau of Statistics publishes various statistical books every year. However, the surveyed data are not current. Most of the cases older data are available in this organization. This organization published various statistical books. The books are available in the organizations library. The books also can be purchased from the library. Most of our secondary data collected from this library books, journals and magazines.

3. Dhaka Stock Market: All visited banks can not provided their annual books for our research data to analyze banks performance and facilities. In front of Dhaka stock market, one year old annul reports are found. Unfortunately, all the banks annual reports are not available.

4. Internet Data Sources: To find relevant and current data, we have also collect data from the Internet. Websites of various organizations are visited. Lots of information for research work has been collected from the Internet.

CHAPTER 5

Bangladesh Bank

Bangladesh Bank the central bank and monetary authority of the country. It came into existence under the Bangladesh Bank Order 1972 (Presidential Order No. 127 of 1972) which took effect on 16 December 1971. Through this order, the entire operation of the former State Bank of Pakistan in the eastern wing was transferred to Bangladesh Bank.

Bangladesh Bank has been entrusted with all the traditional central banking functions including the sole responsibilities of issuing currency, keeping the reserves, formulating and managing the monetary policy and regulating the credit system of Bangladesh with a view to stabilizing domestic and external monetary value and promoting and maintaining a high level of production, employment and real income in the country. The bank acts as the banker to the government and accepts government deposits, cheques and drafts, and undertakes collection of cheques and drafts drawn on other banks. The bank acts as the clearing house of the scheduled banks.

Bangladesh Bank exercises its wide range of power in credit control through different types of traditional and non-traditional methods. Bangladesh Bank is empowered to manage the country's international reserves, which represent aggregate of its holding of gold, foreign exchange, SDR and reserve position in the IMF. The bank also acts as the representative of the government in different international agencies and other forums such as World Bank, IMF, Asian Clearing Union, ADB, etc.

Bangladesh Bank is empowered to act as the watchdog of the country's banking system, and all scheduled banks are accountable to Bangladesh Bank, which has extensive powers to ensure soundness of the banking system. No bank can commence banking business in Bangladesh and no existing bank can open a new branch in or outside the country or shift any branch from one place to another without obtaining a license/permission from the Bangladesh Bank.

CHAPTER 6

Bangladesh Bank and Consumer Loan

Bangladesh Bank has set certain rules and regulation on consumer credit like other commercial credit facilities. For every type of consumer finance activity there are specific Product Program Guide (PPG). The program includes the objective/quantitative parameters for the eligibility of the borrower. The PPG also indicate the maximum permissible expose banks will take against each product.

According to Bangladesh Bank, there are five products in consumer credit scheme. They are:

e. Auto Loan
f. Consumer Durable Loans
g. Loans for Professionals
h. Unsecured Personal Loan
i. Credit Card

Guidelines for the above five service products are described below:

Product Program Guideline – Auto Loan

This product will allow car financing to the customer segment in terms of each bank's policy. Under this scheme, the vehicle is hypothecated to the bank only. In addition to this registration requirement, on a case to case basis, banks may also wish to secure the loan partially by the commonly acceptable form of cash/quasi cash securities available in the market.

Auto Loan PPG Guideline No. 1 - Customer Segment
Any Bangladeshi individual who has the means and capacity to repay bank loan. In specific terms, these could be salaried executives of multinational and middle to large size local corporate, Government officials, Officials working in reputed NGOs (Non Government Organizations), international aid agencies & UN bodies, any tax paying businessmen of repute, any employed / self-

employed tax-paying individual having a reliable source of income

Auto Loan PPG Guideline No. 2 - Purpose

Purchase of non-commercial new and reconditioned vehicles for personal use only.

Auto Loan PPG Guideline No. 3 - Nationality

Bangladeshi only

Auto Loan PPG Guideline No. 4 - Age Limit

Minimum age (years) 21

Maximum age (years) 65 years at the time of maturity of loan.

Auto Loan PPG Guideline No. 5 - Minimum Income

To be decided by respective banks.

Auto Loan PPG Guideline No. 6 - Loan Size

To be decided by respective banks

Auto Loan PPG Guideline No. 7 - Loan to Price Ratio

Loan amount cannot exceed 90% of the vehicle price

Auto Loan PPG Guideline No. 8 - Security/ Collateral

a) Hypothecation over the car (lien mark- Hire Purchase raised in the BRTA and blue-book of the car).

b) First party comprehensive insurance of the car (Policy must be renewed every year and copy of the policy must be submitted to the bank)

c) Post dated cheques for each 6 monthly installment

d) One undated cheque for full loan value including full interest to be taken in advance.

e) Personal Guarantee of spouse/parents and an individual having minimum solvency/income not less than that of the borrower supported by income proof.

Auto Loan PPG Guideline No. 9 - Legal Documents

a) Duly filled in Car Loan Application Form Terms and conditions signed

b) Demand Promissory Note

c) Letter of Set -Off

d) Irrevocable Letter of Authority to repossess the vehicle

e) Ownership transfer form signed by customer

f) Letter of Offer with full terms and conditions stated therein and duly accepted.

Auto Loan PPG Guideline No. 10 - Interest Rate

To be decided by individual banks in terms of their costing and market conditions

Auto Loan PPG Guideline No. 11 - Maximum Term of Loan

60 months

Auto Loan PPG Guideline No. 12 - Repayment Method

Equal Monthly Installments

Auto Loan PPG Guideline No. 13 - Disbursement Mode

After loan approval vendor will receive a facility confirmation letter. On the basis of that vehicle will be registered with a lien marked on it. After registration, vendor will be paid the **total value** of the vehicle in the form of Pay Order. Customer should pay the down-payment/total value prior to issuance of facility confirmation letter.

Auto Loan PPG Guideline No. 14 - Disbursement pre -condition

Comprehensive Insurance coverage and Registration Document must be in place before giving the Pay Order.

Auto Loan PPG Guideline No. 15 - Debt Burden Ratio (DBR %)

Debt Burden ratio to be maintained at minimum 33% at all times.

Auto Loan PPG Guideline No. 16 - Verification of Personal Details and Quotation

Details of an applicant to be verified by a third party before an approval is accorded -

- Letter from employer with details of employment and salary
- Borrower and Guarantors (if any) details (addresses – both present and permanent, all telephone numbers of residence, office & moblile no.)• • Personal net-worth statement
- Car quotation
- Referee details
- Bank statement

Auto Loan PPG Guideline No. 17 - Substantiation of Income

Proper substantiation of income will be mandatory.

All or any of the following original / true copy of original (accepted only after seeing the originals) documents are accepted for the purpose:

- Last Tax Return
- Bank Statements for minimum last 6 months
- Personal Net-Worth Statement
- Any other document that may stand as a proof of income

Product Program Guideline – Consumer Durable Loans

A personal loan scheme that supports purchase of various consumer durables such as Television, Refrigerator, Air Conditioner, Hi-Fi, Washing Machine, Computers, other household furniture etc.

Consumer Durables Loan PPG Guideline No. 1 - Customer Segment

Any Bangladeshi individual who has the means and capacity to repay bank loan. In specific terms, these could be salaried executives of multinational and middle to large size local corporate, Government officials, Officials working in reputed NGOs (Non Government Organizations), international aid agencies & UN bodies, any tax paying businessmen of repute, any employed / self-employed tax-paying individual having a reliable source of income

Consumer Durables Loan PPG Guideline No. 2 - Purpose

Consumer durables for personal/family use. Items like: Television, Refrigerator, Air Conditioner, Hi-Fi, Washing Machine, Computers, other household furniture etc.

Consumer Durables Loan PPG Guideline No. 4 - Age

Minimum age (years) 21

Maximum age (years) at loan maturity up to 65 years

Consumer Durables Loan PPG Guideline No. 5 - Minimum Service / length of business

- For salaried individual, minimum total service length of 3 years.
- Govt Employees must be confirmed on job
- For self employed individual, a business record of minimum 4 years

Consumer Durables Loan PPG Guideline No. 6 - Minimum Income

As decided by respective banks

Consumer Durables Loan PPG Guideline No. 7 - Loan Size

As decided by respective banks

Consumer Durables Loan PPG Guideline No. 8 - Loan to Price Ratio

Financing 90% of the cost of the item is allowed

Consumer Durables Loan PPG Guideline No. 9 - Security/ Collateral

· Hypothecation over purchased assets.

· Comprehensive insurance over assets (Policy must be renewed every year andcopy of the policy must be submitted to the bank)

· Post dated cheques for each 6 monthly installment

· One undated cheque for full loan value including full interest to be taken in advance.

· Personal Guarantee of spouse/parents and an individual having minimum solvency/income not less than that of the borrower supported by income proof.

Consumer Durables Loan PPG Guideline No. 10 - Other forms of Security

Readily encashable securities. These are called ‘prime’ securities:

· Wage Earner’s Development Bonds

· Fixed Deposit

· Other form of bank deposits

· ICB unit Certificates

· Corporate Undertaking and/or Corporate Guarantee from reputed and creditworthy organizations.

Consumer Durables Loan PPG Guideline No. 11 - Interest Rate

As decided by respec tive banks.

Consumer Durables Loan PPG Guideline No. 12 - Tenor

Minimum 12 months/24 months &/or maximum 36 months

Consumer Durables Loan PPG Guideline No. 13 - Repayment Method

Equal Monthly Installments

Consumer Durables Loan PPG Guideline No. 14 - Disbursement Mode

Wherever possible, payment to be made by issuing cheque in vendors name.

Consumer Durables Loan PPG Guideline No. 15 - Debt Burden Ratio (DBR %)

33% of Net income

Product Program Guideline – Loans for Professionals

A personal loan scheme meant for professionals only (doctors, engineers, computer professionals, lawyers etc) to support their small scale purchase of different equipment, tools and small machineries for installation at their business sites / offices. This is a partially secured product, security being the commonly acceptable form of cash/quasi cash securities available in the market. In addition, we believe, this particular product is of an inherently safe nature because the target customers are the established doctors, engineers or highly qualified other professionals of the society.

Professional Loans PPG Guideline No. 1 - Customer Segment

Any Bangladeshi in the following professions as self employed or salaried people:

- Doctors or medical professionals
- Engineers
- IT professionals

- Management Consultants

Professional Loans PPG Guideline No. 2 - Purpose

For purchase of items to support professional needs of above customer segment (e.g. purchase of X-ray machine, medical beds, ultra- sonogram machine, engineering/mechanical tools, or set up of an office / chamber on a small scale etc)

Professional Loans PPG Guideline No. 3 - Nationality

Bangladeshi only

Professional Loans PPG Guideline No. 4 - Age

Minimum age (years) 21

Maximum age at loan maturity (years) up to 65 years

Professional Loans PPG Guideline No. 5 - Minimum Service / length of business

- For salaried individual, must be confirmed employees of a relevant firm
- For self employed individual, a business record of minimum 2 years

Professional Loans PPG Guideline No. 6 - Minimum Income

As decided by respective banks in terms of their policy.

Professional Loans PPG Guideline No. 7 - Loan Size

As decided by respective banks in terms of their policy.

Professional Loans PPG Guideline No. 8 - Loan to Price Ratio

Financing 90% of the cost of the item is allowed

Professional Loans PPG Guideline No. 9 - Security/ Collateral

· Hypothecation over purchased assets.

· Comprehensive insurance over assets (Policy must be renewed every year and copy of the policy must be submitted to the bank)

· Post dated cheques for each 6 monthly installment

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· Personal Guarantee of spouse/parents and an individual having minimum solvency/income not less than that of the borrower supported by income proof.

Professional Loans PPG Guideline No. 10 - Other forms of Security

Readily encashable securities. These are called ‘prime’ securities:

· Wage Earner’s Development Bonds

· Fixed Deposit

· Other form of bank deposits

· ICB unit Certificates

· Corporate Undertaking and/or Corporate Guarantee from reputed and creditworthy organizations.

Professional Loans PPG Guideline No. 11 - Tenor

Minimum 12 months & maximum 48 months

Professional Loans PPG Guideline No. 12 - Repayment Method

Equal Monthly Installments

Professional Loans PPG Guideline No. 13 - Disbursement Mode

Wherever possible, payment to be made by issuing cheque in vendors name.

Professional Loans PPG Guideline No. 14 - Debt Burden Ratio (DBR %)

33% of Net income

Professional Loans PPG Guideline No. 15 - Verification of Personal Details and Quotation

Details of an applicant to be verified by a third party before an approval is accorded.

· Letter from employer with details of employment and salary

· Borrower and Guarantors (if any) details (addresses – both present and permanent, all telephone numbers of residence, office & mobile no.)

· Personal net-worth statement

· Quotation of the item to be purchased

· Referee details

· Bank statement

Professional Loans PPG Guideline No. 16 - Substantiation of Income

Proper substantiation of income will be mandatory.

All or any of the following original / true copy of original (accepted only after seeing the originals) documents are accepted for the purpose:

· Last Tax Return

· Bank Statements for minimum last 6 months

· Personal Net-Worth Statement

· Any other document that may stand as a proof of income

Product Program Guideline – Unsecured Personal Loans

Unsecured Personal Loan (UPL) is a terminating facility offered by Bank's Retail Banking Division to individual salaried or self-employed people living in the cities / towns where the Bank has its operations. It is a clean or unsecured loan in the sense that only security in this type of loan product is: a) Letter of Introduction from employer; or b) Transfer of monthly salary and assignment of Terminal Benefits; or c) Personal Guarantee taken from specific section of people. This is an "any purpose" loan which means the applicant does not have to declare the purpose for which he / she is taking the loan; hence there will be no hypothecation over the asset to be purchased.

Unsecured Personal Loan PPG Guideline No. 1 - Customer Segment

- Employees of reputed MNCs and large local corporates

- Employees of medium sized or mid-range local companies such as reputed schools, pathology labs, hospitals, restaurants, hotels, newspapers, airlines, travel agencies, real-estate developers of repute, insurance companies, NGOs, aid agencies, UN bodies, reputed trading firms and business establishments and all other salaried employees including Government Employees etc

Unsecured Personal Loan PPG Guideline No. 2 - Purpose

Miscellaneous personal financial requirements. The customer has to declare the purpose of the loan but submission of supporting document is not mandatory.

Purposes may be as follows:

- House renovation
- Marriages in the family
- Advance rental payments
- Hospitalization or other emergency medical needs
- Trips abroad
- Purchase of miscellaneous household appliances
- Purchase of Personal Computers
- Purchase of refrigerators
- Purchase of audio-video equipment
- Purchase of furniture

Unsecured Personal Loan PPG Guideline No. 3 - Age

Minimum age 25 years -

Maximum age at loan maturity up to 65 years

Unsecured Personal Loan PPG Guideline No. 4 - Minimum Service / length of business

To be decided by respective banks

Unsecured Personal Loan PPG Guideline No. 5 - Minimum Income (Net BDT)

To be decided by respective banks

Unsecured Personal Loan PPG Guideline No. 6 - Loan Size

To be decided by respective banks

Unsecured Personal Loan PPG Guideline No. 7 - Security Requirement

- Letter of Introduction from the employer
- Letter of undertaking for salary and Terminal Benefits assignment
- Complete Loan Document
- For tangible assets letter of Hypothecation

- Personal Guarantee of Spouse/Parents
- Bank Statement
- Personal Net-Worth Statement
- Post dated cheques eqv. to 6 monthly installment
- One undated blank cheque (for future default covering)

Unsecured Personal Loan PPG Guideline No. 8 - Tenor

Minimum 12 months/24 months &/or maximum 36 months

Unsecu red Personal Loan PPG Guideline No. 9 - Repayment Method

Equal Monthly Installments

Unsecured Personal Loan PPG Guideline No. 10 - Disbursement Mode

By making credit to customer's Savings/Current account

Unsecured Personal Loan PPG Guideline No. 11 - First Repayment Date

Generally, one month after the date of customer's availing the loan. May be earlier if customer wants.

Unsecured Personal Loan PPG Guideline No. 12 - Debt Burden Ratio (DBR %)

A maximum of 35% based on Net Monthly Income

Unsecured Personal Loan PPG Guideline No. 13 - Loan Processing Fee

As decided by respective banks

Unsecured Personal Loan PPG Guideline No. 14 - Penal Charges

As decided by respective banks

Unsecured Personal Loan PPG Guideline No. 15 - Verification of Personal Details

Bank's nominated agency will verify the addresses – both present and permanent, all telephone numbers of borrower, guarantor, referee, employment/occupational details, invoice etc. This will be a physical verification in all cases. After the verification is done, the agency will submit a report on their findings in the prescribed form. The report will be kept attached to the borrower's loan file.

Unsecured Personal Loan PPG Guideline No. 16 - Substantiation of Income

Following as appropriate:

- Salary Certificate / Salary Slip
- Bank Statements
- Income Tax returns of last period

Any other document that may stand as a proof of income

Unsecured Personal Loan PPG Guideline No. 17 - Present Address

Borrower must reside for at least 6 month in the same address.

CHAPTER 7

Consumer Loan and the Scheduled Private Banks in Bangladesh:

Among 55 commercial banks we have selected only 7 banks for our research work. A brief description of the selected banks are given below:

1. Prime bank Limited (PBL):

Prime Bank Limited has started its banking operation in Bangladesh from 1995. Since 1995, Prime Bank Ltd. was providing the consumer loan with its commercial and other loan facilities. Prime Bank Provides consumer loan to the following category:

Table 1: Consumer credit facilities of Prime Bank Limited

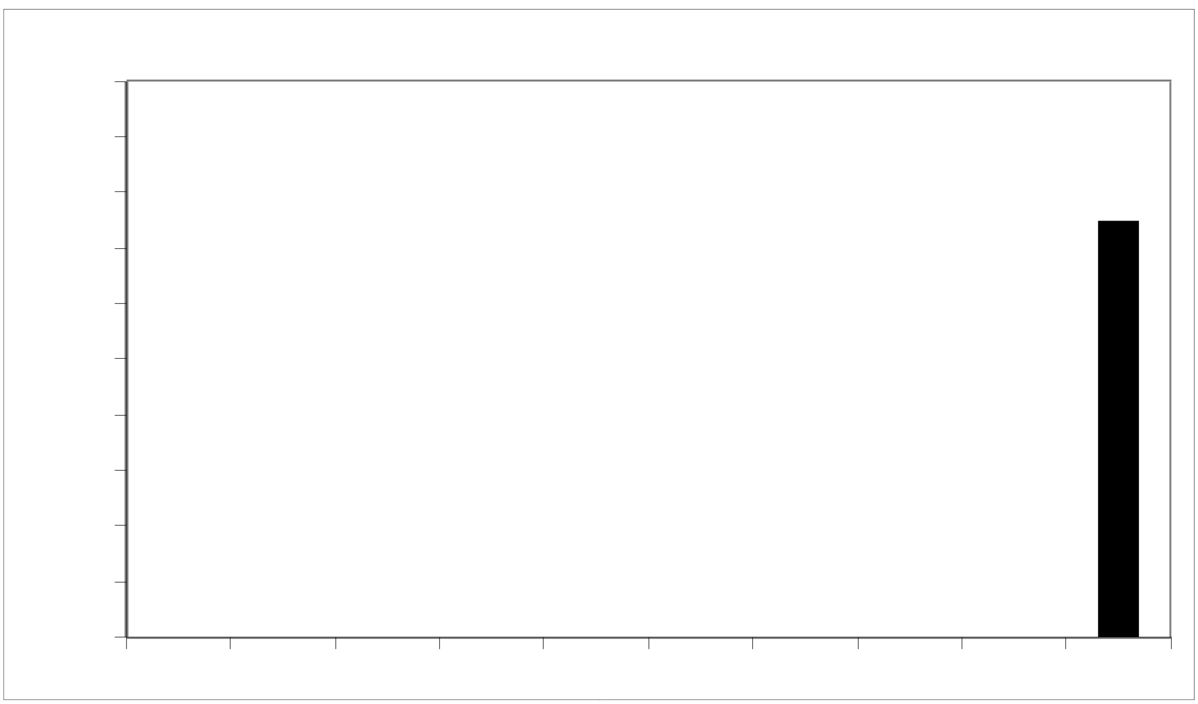
Loan Type	Description	Loan Amount	Interest Rate	Service Charge
Car Loan	Car Loan provided the opportunity to purchase a brand new or reconditioned car.	8 lacs to 40 lacs		
Doctor's Loan	This Loan designed to provide financial support to Doctor's for purchasing medical equipments and to furnish their own chambers	10 lacs (max.) for experienced doctors and 5 lacs (max.) for fresh doctors.	**15%**	
Any Purpose Loan	Provided loan for any purpose. This facility is only for service holders.	1 lac for all		
Household Durables Products	This loan provides to purchase household durable products such as kitchen hold products, furniture, electronic, computer and so on.	Computer 1 lac Motorbike 1 lac Others 3 lacs	**14 %**	**1%**

Loan Against Salary	This loan is only for employees. The loan is provided on the basis of the borrowers capability.	8 times of Gross salary		

Source: Prime Bank Limited, Retail Banking, Motijheel, Dhaka.

Table 2: Loan disbursement in the consumer credit scheme in Prime Bank

Year	Amount	No. of Customer	Recovery (%)
1995	53387	1691	93.00
1996	112213	2747	98.65
1997	97915	2029	95.48
1998	70567	2312	96.08
1999	162750	2170	95.50
2000	198659	2866	95.45
2001	326318	4077	95.49
2002	340441	4818	94.51
2003	440554	4462	94.23
Oct' 04	373789	3520	92.66



Source: Retail Banking, 29 Rajuk Avenue, Motijheel Commercial Area, Dhaka – 1000.

Here, the amount for the year 2004 is up to October month.

From the above graph it is clear that, the consumer credit loan disbursement of Prime Bank Limited is increasing every year as per customer response. Moreover, the recovery is quite good. On the visit, the interviewer stated that Prime Bank Ltd. has only 6.5 % bad loan where ever in the commercial loan the amount of the classified loan is much more higher.

Target groups (PBL):

1. Employees of –
    a. Government/ Semi-government/Autonomous bodies
    b. Banks and financial institutions
    c. Multi-national companies
    d. Corporate business houses
    e. Educational institutions
2. Professionals (*for Doctor's loan one should has minimum graduation in allopathic medical science/dentistry*)
3. Businessmen

2. Eastern Bank Limited (EBL):

Eastern Bank Limited is one of the successful banks in Bangladesh. EBL has recently launched their Consumer loan scheme in 2004. It has divided its consumer credit scheme into two different parts.

Table 3: Consumer Credit facilities of Eastern Bank Limited

Loan Type	Description	Loan Amount	Interest Rate
EBL Auto Loan	EBL Auto Loan is provided financial package to purchase car for personal use. The loan is payable in either 12 – 60 installments for a new car or 12 – 48 installments for a recondition car.	Minimum Taka 3.50 Lac to Maximum Taka 40 Lac (Or 12 times of gross monthly income, whichever is lower). EBL is also support purchase of high value or premium vehicles to a maximum of Taka 1 Crore. The loan amount any range from 65% to 95% of the car value as quoted by the vendor.	**11.75% to 14.00%**
EBL Executive Loan	Loan for Executives.	BDT: 50,000/- to 10,00,000/-	

Source: 1. Brochure of Eastern Bank Limited

2. Interviewing of the Executive of the Eastern Bank Limited (for interest rates)

Target Groups (EBL):

For Auto Loan –

Those who have a monthly income of Taka 30,000.00 and are engaged as:

e. Salaried Executives

f. Self Employed

g. Businessmen

For Executive Loan –

- Salaried executives
- Age: above 25 years
- 4 years work experience of which at least 1 year with current employer
- Minimum monthly income:

- BDT 15,000/- (*for Private Sector Executives*)
- BDT 10,000/- (*for Govt. Officials*)

3. BRAC Bank Limited:

BRAC (formerly known as Bangladesh Rural Advancement Committee) was established as a relief and rehabilitation organization in 1972 after the Bangladesh Liberation War. Over the years BRAC has gradually evolved into a large and multifaceted development organization with the twin objectives of Alleviation of Poverty and Empowerment of the Poor. BRAC Bank providing many different schemes in credit facilities. BRAC Bank has a long term planning to be the leader in the Banking environment. Moreover, it has found that Bangladesh is highly potential in SME (Small and Medium Enterprises) market. With its innovate products, BRAC is trying providing best services through its banking operation. In 2004, BRAC bank has generated profit 21 Crores (before tax) which was only 3 Crores (before tax) in 2003. This incredible growth of BRAC bank reflects its strategic successfulness in the challenging banking environment in Bangladesh.

Table 4: Consumer products of BRAC banks Limited

Loan Type	Description	Loan Amount	Interest Rate
Car Loan	Providing car loan for brand or recondition car purchase.	BDT: 50,00,000 (1% Processing fee)	**13%** **to**

			17%
High Flyer Loan	Traveling	50,000/- Taka to 5,00,000/- Taka	
Teachers Loan	Teacher's can use this loan for a wide array of purposes ranging from a wedding or a dream holiday to the like of financing a business or surviving an emergency.	50,000/- Taka to 3,00,000/- Taka	**17%**
Life Style Loan	Provide loan for the purchase of consumer durable items such as electronic goods, furniture, computers, music systems, communication machine and other household items. It is also meant for marriage, travel, house renovation and so on	50,000/- Taka to 20,00,000/- Taka (1% processing fee)	**12% to 17%**
Personal Loan	A package specially designed for salaried employees	8 times of gross salary (Maximum 5 lacs)	**17.5% to 18.5%**
Secured Loan O/D	Loan against Fixed Deposit in BRAC Bank.	Up to 5 Crores (0.5% Processing fee)	**2% to 3 %**

Source: 1. BRAC Bank Limited web site: www.bracbank.com

2. Personal Interviewing of the officer of the BRAC Bank Ltd, Gulshan –1, Dhaka.

4. Dhaka Bank Limited (DBL):

Dhaka Bank Limited (DBL) has this consumer loan scheme from the staring of its banking operating. But it has been getting response from the customers from 2000. DBL's consumer scheme known as "Personal Loan Prgram" are given below:

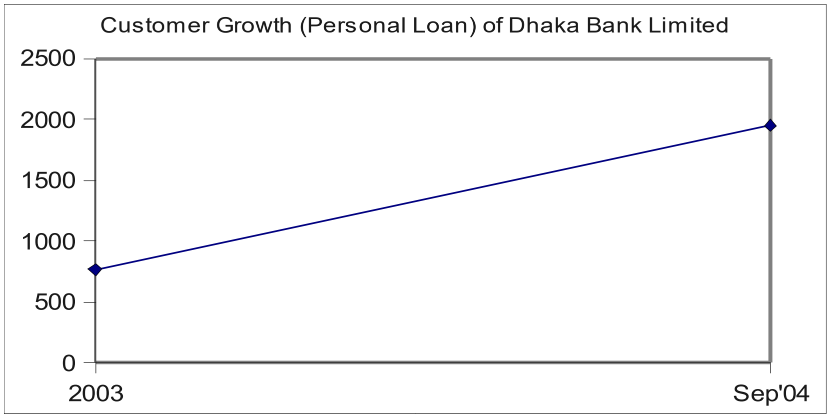
Table 5: Consumer credit facilities of Dhaka Bank Limited

<table>
<tr><th>Loan Type</th><th>Description</th><th>Amount</th><th>Interest Rate</th></tr>
<tr><td>Car Loan</td><td>Loan to purchase brand new or recondition cars.</td><td>Up to 70% of the cars value</td><td>13%</td></tr>
<tr><td>Vacation Loan</td><td>Loan for traveling</td><td>75,000/- Taka to 5,00,000/- Taka</td><td rowspan="2">15%</td></tr>
<tr><td>Household Loan</td><td>To purchase household products, furniture, electronics, house renovation and so on.</td><td>75,000/- Taka to 2,00,000/- Taka</td></tr>
</table>

Source: Dhaka Bank Limited, Personal Banking, Head Office, Biman Bhaban, 100 Motijheel, Dhaka –1000.

Customer Growth:

Year	Customer	Bad Loan
2003	765	3%
Sep'04	1950	



This graph, for customer growth (Personal Loan Program) of Dhaka Bank Limited, Shows that clients are increasing yearly. Peoples are interested to purchase their product by these consumer credit facilities

5. Bank Asia Limited:

Bank Asia Limited is a scheduled commercial bank in the private sector established under the Bank Company Act 1991 and incorporated in Bangladesh as a public limited company under the Companies Act 1994 to carry out banking business in Bangladesh. Bank Asia Limited acquired the business of Bank of Nova Scotia, Dhaka in the year 2001 and at the beginning of the year 2002 the Bank also acquired the Bangladesh operations of Muslim Commercial Bank Limited (MCBL), a bank incorporated in Pakistan, having two branches at Dhaka and Chittagong with one booth at Dhaka.

Recently, Bank Asia Limited indirectly has stopped loan disbursement in consumer credit scheme due many complications they had faced. Although, they have stopped the facility indirectly, but they have to disburse these credit facility to their corporate clients and other social respectful or honorable persons.

Loan Type	Interest Rate
Personal Credit Scheme	14.00%plus 1%service charge
Car Own Scheme	14.00%plus 1%service charge
Others	14%

Consumer Credit Operations: Foreign Banks

In many countries, Foreign banks to do not engage in consumer credit activities. This is because consumer credit services require branch banking. Foreign banks operate with limited number of branches; as a result they concentrate more on commercial banking (Bilgin and Yavas, 1995). However, in Bangladesh foreign banks are operating consumer credit operation more successfully than the local private banks. Standard Chartered and HSBC are the leading banks in Consumer loan system in Bangladesh. Both the banks are discussed in the next pages.

6. Standard Chartered:

Standard Chartered has been financing consumer credit on the following sectors:

- Car Purchase Loan
- Personal loan for Doctors
- Personal Finance
- Business Loan

Car Purchase Loan:

Standard Chartered has been providing loan for purchasing car for family or business use. For new cars maximum BDT 40,00,000 Taka are disbursed.

Financing for used cars:

Under this scheme a registered car, which has changed ownership for a maximum of two times since its import to Bangladesh can also be financed. Presently, Standard Chartered are financing for Toyota car only with the condition that the age of the car at the end of loan period must not exceed 10 years. A reputated inspection company will do a detail technical inspection and market valuation of the car. For used cars, Bank will provide maximum loan of BDT 10,00,000.

Interest Rate:

Interest rate is not fixed. It is depend on the number of installment or amount of installment. The rate is ranging from 13 % to 16.50 % p.a.

Personal Loan for Doctors:

Medial science is a rapidly changing profession with advent of new research and equipment. Doctors need to keep up with these changes to provide the best care for the patients. Standard Chartered has been providing loan for buying essential medial equipment or attaining higher professional/tertiary eduation.

With the minimum documentation and security requirement, Standard Chartered offers the choice of a loan for any of the following:

1. Clinic setup
2. Buying medical equipments
3. Advance rental payments
4. Higher professional / tertiary education / professional training of dependants
5. Purchase of office equipment / accessories / computers
6. Clinic renovation
7. Setting up of diagnostic center.

The loan amount may range from BDT 1,00,000 to BDT 10,00,000.

Target group (Doctors Loan):

A Doctor or dentist, practicing for at least 3 years with a minimum monthly income of BDT 16,000.

Personal Finance:

Standard Chartered has introduced Personal Finance scheme in Bangladesh for purchase of consumer durables. The loan are given to purchase the stuffs:

- Purchase of miscellaneous household appliances
- Purchase of personal computer
- Purchase of refrigerator
- Purchase of audio-video equipment
- Purchase of furniture
- Hospitalization or other medical needs
- House renovation

- Marriage (actually purchase of goods)
- Advance rent payments
- Overseas trips (actual purchase of packages)
- Education / Professional training (actual permanent to be made to the institution)

Loan Amount:

The range for the Personal Finance may range from BDT 60,000 to BDT 10,00,000.

Target Group (For all category):

- A Bangladesh citizen between 23 to 60 years age
- A salaried or self-employed person earning a minimum of BDT 25,000 per month
- Maintaining a savings or current account with Standard Chartered Bank for at least sex months or with any scheduled bank in Bangladesh for at least a year.
- A resident of Dhaka, Chittagong, Narayanganj, or Sylhet

7. HSBC (The Hong Kong and Shanghai Banking Corporation Ltd):

HSBC is operating its Banking Operation in Bangladesh from 1999. However, in this short span of time, HSBC has captured a large customer pie with its innovative and attractive consumer credit scheme. The HSBC consumer credit schemes are described below:

HSBC has stated its consumer credit scheme with the attractive name “MY LOAN”

Table 6: Consumer credit facilities of HSBC

Loan Type	Loan Amount (BDT)	Interest Rate

Professional Loan	50,000 – 20,00,000	**12% to 15.5 %**
Lifestyle Loan	50,000 – 20,00,000	
Furniture Loan	50,000 – 20,00,000	
Wedding Loan	50,000 – 20,00,000	
Student Loan	50,000 – 7,50,000	
Travel Loan	50,000 – 5,00,000	
Motorbike Loan	50,000 – 20,00,000	
Car Loan	50,000 – 40,00,000	
Home Loan	7,50,000 – 1,00,00,000 (60 – 70% of the total value of the apartment or the home)	

Source: 1. HSBC (Bangladesh) website: www.hsbc.com.bd

2. Interviewing of the bank executives (for interest rates)

CHAPTER 8

Economical Status of Bangladesh

Bangladesh is an agricultural country. Near about 80% people of this country live on agriculture or agricultural related products. The major agricultural products of this country are jute, rice, tea, vegetables, fruits and others. However, the most export income of Bangladesh is not agricultural products. Bangladesh earns the highest foreign currency from readymade garments and textile products. More than 76 % of the national revenue comes from exporting the readymade garments products.

Table 7: Three years of export data of major commodities

Commodities	Years 1998-99	1999-00	2000-01
1. Prawns and shrimps	12117	14756	17986
2. Tea	1885	830	1193
3. Spices	0.4	3	2
4. Raw hides and skins	1	4	12
5. Raw Jute	3527	3531	2735
6. Jute Yarn	2970	2817	3444
7. Jute Products	10719	8642	8742
8. Leather and leather products	6793	5244	13435
9. Ready made garments	190146	190197	68940
10. Handicraft	200	229	251
11. Others	17262	21162	189736

Sources: 1. Foreign Trade Section, BBS
2. Statistical Pocket Book of Bangladesh 2000, Page - 226

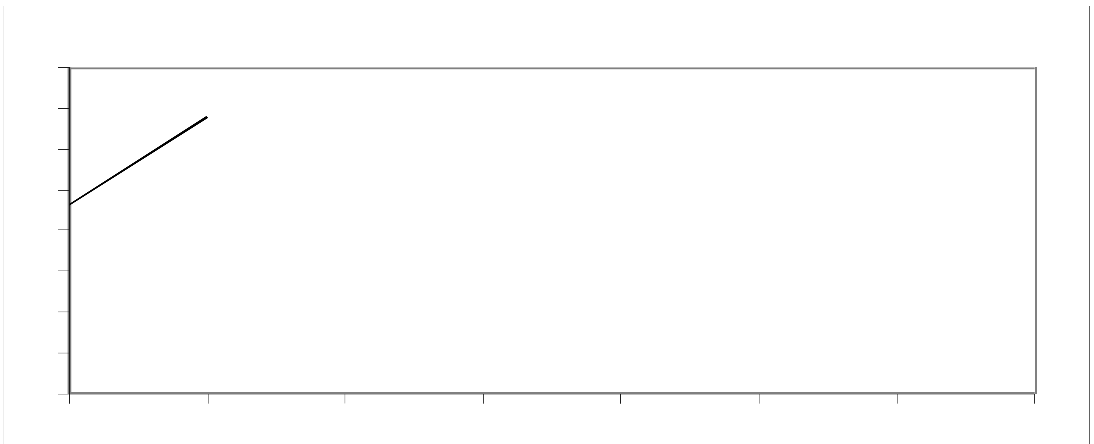
From the Table: 1, it is easy to understand that how much Bangladesh is dependable on the ready-made garments products. As per WTO (World Trade Organization) regulation from January 01' 2005, Bangladesh has been facing the "quota" free textile trading which may seriously impact on country's national economy.

Bangladesh (former East Pakistan) had been liberated from Pakistan (former West Pakistan) in 16th December' 1971. Before 1971, the economy of Bangladesh was dominated by Pakistan. As a result, most of the industries at that time were established in West Pakistan. After the liberation Bangladesh stepped in industrialization. Unfortunately, due to many reason, Bangladesh cannot materialize the industrialization process rather it was involved in import-orientated business which is popularly known as "Trading Business". The Balance-of-Payment became unbalanced due to less export and high import. National economy became weaker and the currency (Taka) became weaker against US Dollar ($), inflation raised, unemployment increased due to low production units.

Table 8: The GDP growth rates at current and constant prices for FY97 to FY04

GDP Growth Rate

Financia Year	Current Price	Constant Price
FY97	8.64	5.39
FY98	10.78	5.23
FY99	9.75	4.87
FY2000	7.91	5.94
FY01	6.94	5.27
FY02	7.75	4.42
FY03	10.02	5.26
FY04	10.64	5.52

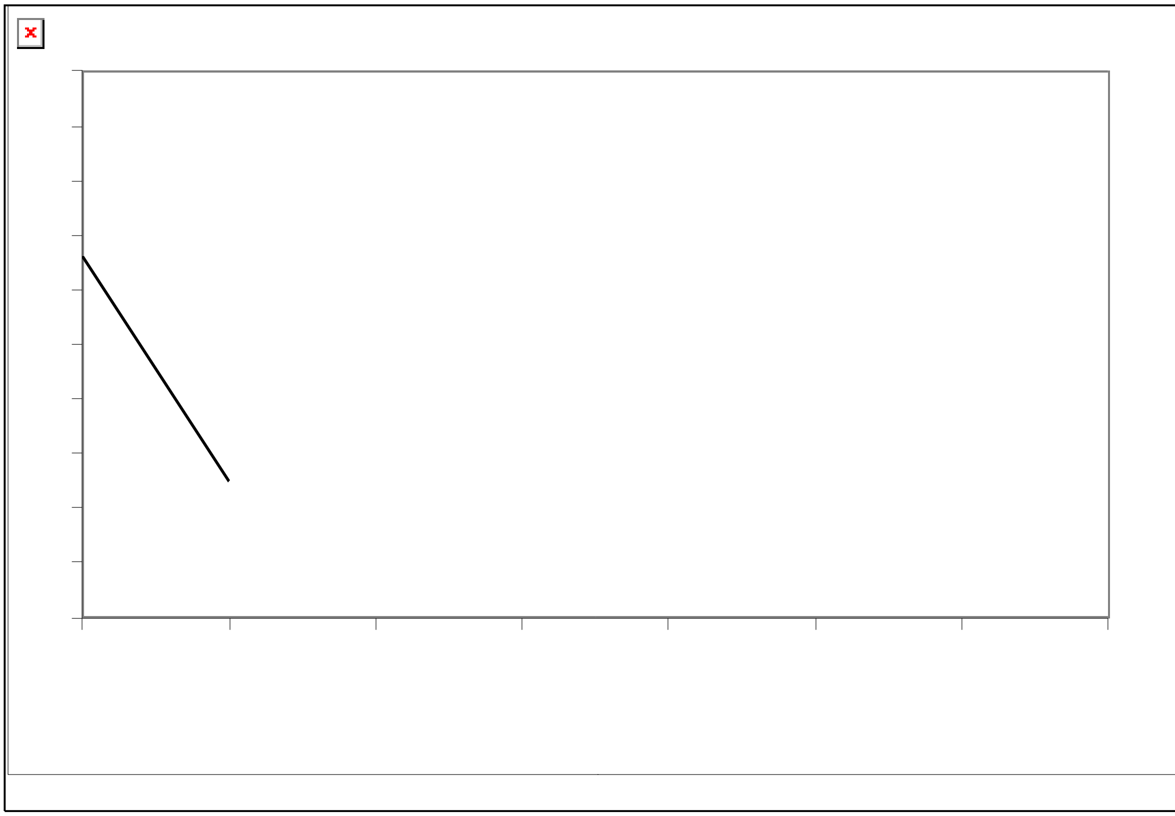


Source: National Accounts of Statistics (Provisional Estimates of GDP, 2003-04 and Final Estimates of GDP, 2002-03), July 2004, Page – 1.

Provisional estimate indicates that the GDP (Gross Domestic Product) for FY2004 is likely to grow 5.52 percent at constant prices. In FY03 it grew 5.26 percent. In FY2004 the GDP will increase mainly due to increased production in agriculture and manufacturing sector.

Inflation and Growth Rate

The rate of inflation during FY2003 was 4.38 percent compared to 2.79 percent in FY2002. The prices of food items were increased by 3.46 percent while prices of non-food items increased by 5.66 percent during FY2003. During FY2004, the rate of inflation based on nine months (July-March FY 2004) price movements, average and point-to-point inflation estimated equally at 5.87. The inflation is likely to be within 5.85 to 5.95 percent. Inflation rates based on CPI (Consumer Price Index) and the measure changes in producer prices based on GDP deflators for FY97 to FY04 are presented below:



Source: National Accounts Statistics, July 2004, Page – 2.

Table 9: GDP growth and Rate of Inflation during last five years

Period	GDP growth rate		Inflation rate (Base : 1995-96)
	Real growth rate	Nominal growth rate	
FY 99	5.9	9.75	7.06
FY 2000	5.94	7.91	2.79
FY 01	5.27	6.94	1.94
FY 02	4.42	7.75	2.79
FY 03	5.26	10.02	4.38
FY 04(P)	5.52	10.64	5.87 *(9months average)*

Source: National Accounts Statistics, July 2004, Page – 29.

The Table: 4 shows that the GDP growth rate of Bangladesh is more or less constant. Moreover, the value of gross domestic product at current market prices is provisionally estimated at Tk. 3,326 billion which is about 10.64 percent higher than that of FY03. The value of gross domestic product at constant market prices is provisionally estimated at Tk. 2,502 billion which is 5.52 percent higher than that of FY03 (Source: National Accounts Statistics, July 2004, Page – 1 & 10).

Per Capita Income:

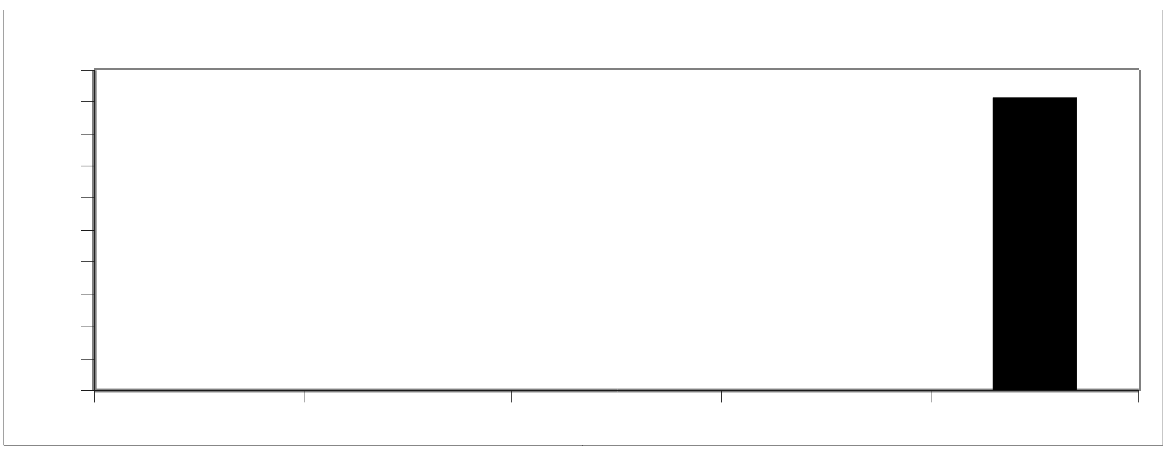
At current prices the per capita GDP and GNI for FY04 are estimated at TK. 24,598 (US$ 421) and

TK. 25,944 (US$ 444) respectively. At constant prices (at 1995-96 prices) the per capita GDP and GNI for FY04 are estimated at TK 18,504 and TK. 19,517 respectively.

In the next page, the comparative data are presented.

Table 10: Per capita GDP and GNI at current prices, FY 2000 – FY 2004

	1999-2000	2000-01	2001-02	2002-03	2003-04
Per Capita GDP (TK)	18,511	19,525	20,754	22,530	24,598
Per Capita GNI (TK)	19,192	20,206	21,707	23,773	25,944
Growth Rate	6.65	5.28	7.43	9.52	9.13
Per Capita GDP (US $)	368	362	361	389	421
Per Capita GNI (US $)	381	374	378	411	444



Source: National Accounts Statistics, July 2004, Page – 12.

From the graph we can observe that the Per Capita GDP in Bangladesh is increasing which mean that the buying power of the people of this county is gradually increasing. Business and trading are expanding. People are earning more. The demand for the consumer product is increasing.

Literacy rate

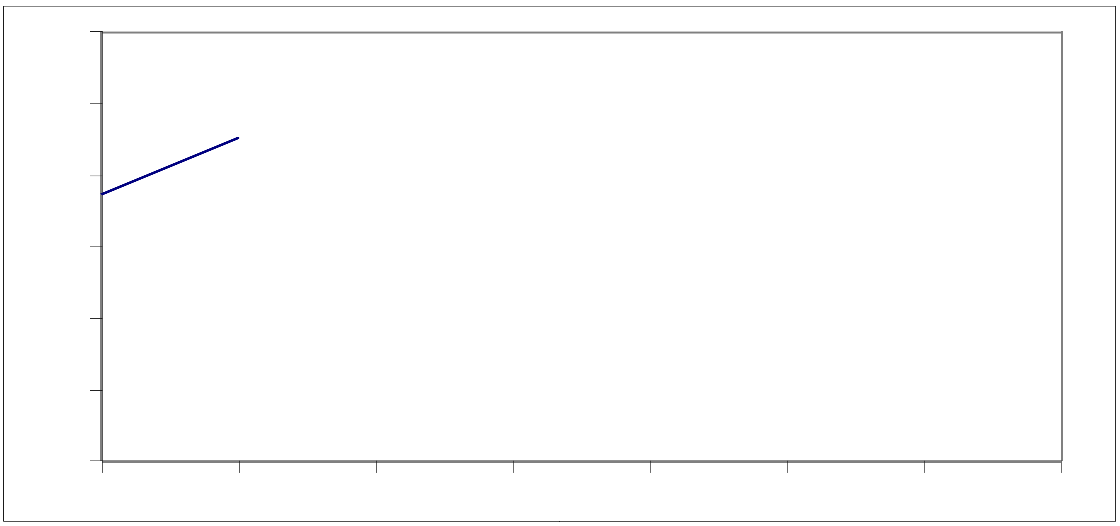
Literacy rate of Bangladesh is satisfactory. Unfortunately, the literacy rate is not quite appreciating comparing to other South-east Asian countries. India and Srilanka has high literacy rate. Recent record for literacy rate of Bangladesh is presented below:

Table 11: Adult Literacy Rate of the Population 15 Years and Over

(Percentage)

Year	Both	Male	Female
1991	37.2	44.3	25.8
1995	45.3	55.6	38.1
1997	51.2	59.2	42.2
1998	52.6	59.4	42.5
1999	52.7	60.7	42.8
2000	52.8	61.0	43.2
2001	47.5	53.9	40.8
2002	49.6	55.5	43.4

Source: *1. Report on Sample Vital Registration System, 1999-2002, BBS*
2. Stastical Year Book of Bangladesh 2000, 23rd edition, chapter-12,pp. 630



From this graph we can observe that the literacy rate of Bangladesh is not satisfactory. Moreover the rate is decreasing comparing previous years.

Employment and Unemployment:

Table 12: Employed Persons 10-14 Years and Over

(Percent)

Age Group	Bangladesh Both	Male	Female
Self employed/ Own account work	9.2	11.3	6.1
Employee	18.8	17.9	20.9
Unpaid familly worker	60.3	55.1	68.1
Employer	0.1	0.1	0.0
Day Labor	11.6	16.1	4.9

Source: 1. Labour Force Survey, 1999-2000, BSS

2. Statistical Year Book of Bangladesh 2000, 23rd edition, chapter-3,pp. 67

Table 13: Rate of Unemployment By Sex

Age group and Period	Both Sex (%)
1995-96	
Total	**2.5**
15-19	8.4
20-29	4.3
30+	0.5
1999-2000	
Total	**3.7**
10-19	8.8
20-24	6.5
30+	0.5

Source: 1. Labor Force Survey, 1999-2000, BBS

2. Statistical Year Book of Bangladesh 2000, Chapter - 3, pp. 67

From the Tables we can observe that, the unemployment in Bangladesh is very low. But the interesting fact is that the rate of unpaid family worker is higher. Therefore, we can interpret these findings like that many people in Bangladesh are working but not paid in that sense the unemployment rate is lower.

CHAPTER 9

Effects of Consumer Loan System

Consumer loan are enabling low-budgeted fixed income group to purchase products by lending money. Consumer loan is usually taken by the people those who are not able to purchase products with their limited income. Banks are providing consumer loan to that group to meet up their needs.

In these recent years, the livings and life style of Bangladeshi people are changed dramatically. Peoples are more technology oriented, more fashionable and want better life to live. If we analyze some current statistical data on products sale, buying pattern, export-import, then the consumer behavior will come clear to us.

Lets look at some import data to observe the demand for the products:

Table 14: Import of Selected Commodities

('000' Taka)

Commodities	1997-98	1998-99	1999-2000	2000-01	2001-02
1. Radio and TV	2258236	1544599	1871700	4166478	3852483
2. Sound recorder, tape	244913	5674	38937	745554	438760
3. Refrigerators, freezers and others	1086232	996572	1116964	1400281	1664248
4. Air conditioner	499014	315328	409211	502524	916814
5. Motor Car, other motor vehicles	2911668	2185426	2565621	4842318	3897040
6. Motorcycle/cycle etc.	1014558	916123	1020808	1261981	1598207
7. Photo camera	8090	7697	29365	39591	70771
8. Furniture and others	104763	40682	80285	173040	258516

Source: Statistical Year Book of Bangladesh 2000, Chapter-8, pp. 313-332

From the above table we can easily find out the demand of the imported products of Radio & TV, Audio system, refrigerators, freezers, air conditioner, motor cars, motorcycle, photo camera (manual and digital), furniture and so on. Every year the import amount is increasing which means the demand and sales are increasing for these products. All the products are now available in the showrooms. Anyone can purchase the products by cash, check or consumer loan facilities through banks.

Besides these selected products more products are also importing which can be purchased by consumer loan. Mainly people are purchasing some specific and common products by the consumer loan.

Banks have found out that the follow products are mainly purchased by consumer loan:

h. Car (under auto loan)
i. Motorcycle (under any purpose loan)
j. Computer (under household durable products)
k. Apartments (under house building loan)
l. Furniture (under house renovation/interior design loan)
m. TV, Refrigerator, Audio system, digital camera and so on (under house hold durable products) and so on.

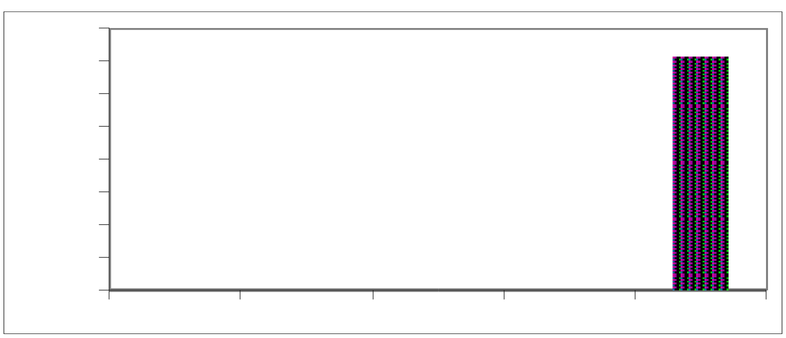
Now we will also analyze the sales record of motor vehicles in Bangladesh as well as in Dhaka Metropolitan city. The records with graphical presentation are given below:

Table 15: Number of Motor Vehicles Registered By Type

(Number)

Year	Car	Taxi	Motor Cycle	Micro Bus
1998	113084	2980	222617	13345
1999	118070	3196	239128	14077
2000	122157	3776	253742	15568
2001	128744	4547	278151	17369
2002	135501	6780	307198	19589

Sources: 1. BBS and BRTA
2. Statistical Year book of Bangladesh 2000, Chapter-7, Page - 255



The graph shows that every year the numbers of motor vehicles are increasing. Most of the banks are providing consumer loan for Cars and Motor Cycles mainly. Some of the banks are also generating loan for microbus and other types of vehicles, especially for business purpose (few banks are counting individual or small business loan as consumer loan in Bangladesh).

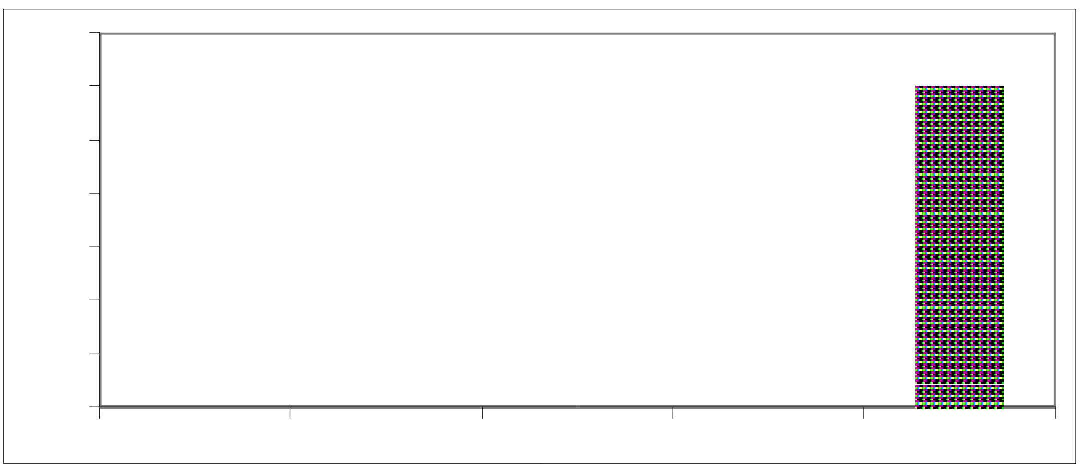
From the toe Data Sheets and the charts, we can easily identify that the number of car as well as other vehicles are increasing every year. Vehicles in Bangladesh are gradually increasing. In Dhaka metropolitan area, the vehicles are also increasing except the year 2001. The price of recondition cars were increased and also the government imposed some restriction on recondition car import (restriction was that imported recondition cars were not older than five years) in 2001. As a result, the sale of car goes down. But it again goes up when prices become competitive. The numbers of vehicle are increased have shown below:

Table 16: Number of Motor Vehicles Registered in Dhaka Metropolitan Area

(Number)

Year	Car	Taxi/Maxi	Motor Cycle	Micro Bus
1998	4984	N/A	4992	925
1999	5307	368	6060	1784
2000	5337	N/A	7127	2246
2001	2659	474	8281	1437
2002	6003	2144	8985	1246

Sources: 1. Bangladesh Road and Transport Authority (BRTA)
2. Statistical Year Book of Bangladesh 2000, 23rd edition, chapter - 7, pp. 256



Now, Bangladesh is also importing New Brand Cars like Mercedes Benz, Nissan, BMW, TOYOTA, Hyundai, Honda, VOLVO and so on. People are also purchasing these expensive and exclusive cars as per their income.

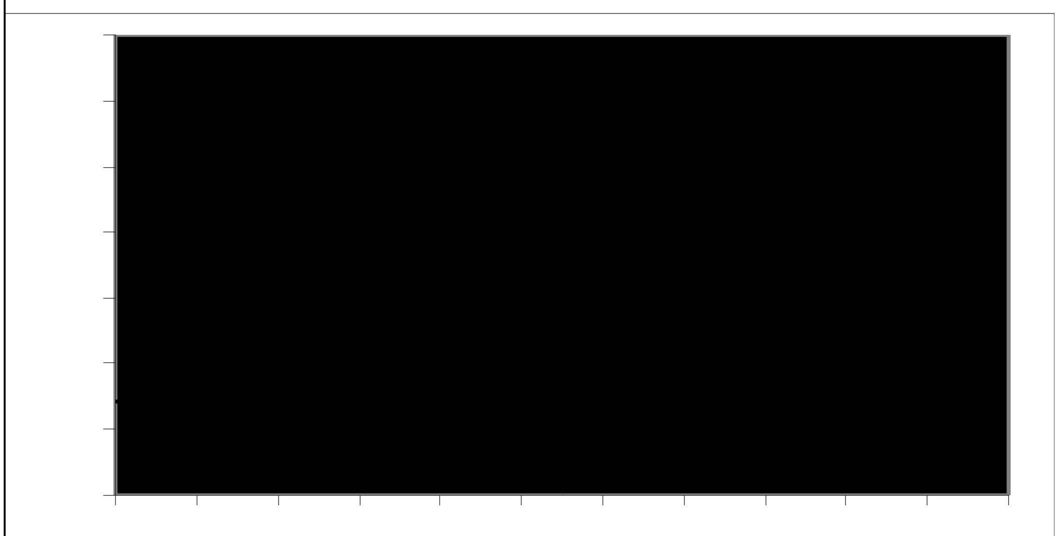
The sales of the entertainment equipments are also increased. Television is one of the most important entertainment elements for Bangladeshi people. The sales of the televisions are increased at a high level in the past years. The data record for the television sales are given below. The direct sales records of television are not available. But, as televisions have to license when it purchased, therefore, we have calculated the registration number of the television for our analyzing. We have the similar collection procedure for motor vehicles.

Table 17: Number of Television Sets Licensed Classified by Type

(Number)

Year	Television	
	Black & White	**Color TV**
1991	362288	141718
1992	357759	156959
1993	355308	157509
1994	375596	173713
1995	409963	202931
1996	367850	197505
1997	361800	210308
1998	346757	228833
1999	244051	235164
2000	278217	251601
2001	1199266	224888
2002	634978	617358

Sources: 1. Bangladesh Post Office
2. Bangladesh Television



The graph show the highest sale of the Color TVs in 2002, which is reflecting the consumers trend to buy electronics products more than past years.

The consumer loan is helping people to make easier their life. It is not possible to purchase every necessary or dreamed product with the limited fixed income. The limited fixed income people always try to balance their living cost with their income. Therefore, in their struggling life, purchase necessary costly living elements are impossible. However, consumer loan can solve those problems. Fixed income group now can purchase their products with the consumer loan facility.

Now lets take a look on the monthly income and expenditure of the various income groups:

Table 18: Average monthly income and expenditure of various income groups in 2000

Monthly income groups	No. of Household (HH)	% of earners (Total: 35366210)	average monthly income per H/H	Average monthly expenditure Per H/H	Difference
< 750	435322	1.01	443.97	2266.26	-1822.29
750 - 999	416313	1.17	871.65	1853.42	-981.77
1000 - 1249	607674	1.75	1132.62	1865.17	-732.55
1250 - 1499	727651	2.2	1374.8	1810.44	-435.64
1500 - 1999	2245545	7.36	1756.07	2072.13	-316.06
2000 - 2499	2526380	8.72	2240.14	2481.6	-241.46
2500 - 2999	2567121	9.28	2740.15	3035.67	-295.52
3000 - 3999	3871670	15.76	3463.57	3505.47	-41.9
4000 - 4999	2755180	11.99	4470.5	4371.77	98.73
5000 - 5999	2040524	9.09	5462.59	5271.22	191.37
6000 - 6999	1331372	6.23	6469.27	5916.97	552.3
7000 - 7999	926077	4.3	7456.59	6496.75	959.84
8000 - 8999	772638	3.73	8490.19	7590.29	899.9
9000 - 9999	585374	2.95	9506.97	8154.08	1352.89
10000 - 12499	900778	4.66	11103.3	9525.04	1578.26
12500 - 14999	490571	2.67	13615.36	11194.36	2421
15000 - 17499	287407	1.76	16145.93	13215.09	2930.84
17500 - 19999	181046	0.93	18777.9	15234.27	3543.63
20000 +	678504	4.35	50277.53	21195.7	29081.83

Source: Bangladesh Statistical Year Book 2000, Chapter - 14, Page - 684

From this data table, we can find out that income groups ranging from <750 to 3999 are running out of money. They do not have enough money to meet up their monthly needs. Income groups ranging from 4000 – 19999 have limited excess money to save. And finally the income group earns more than 20000+ has excess money after living expenditures.

Only 4.35 % earners have the excess to the savings scheme or excess money to purchase their desire products and requirements. We can also cross-link this data with other information. We have collected a list of products retail price. Now we will observe who or which income group can purchase those products.

Table 19: Price Ranges Chat 2004

Description	**Price Range (BD Taka)**
21" CTV	12,450 – 21,000
21" Flat TV	21,000 – 27,500
29" Flat TV	29,000 – 79,000
23" – 32" LCD TV	1,29,000 – 2,60,000
Plasma TV	4,50,000 – 4,80,000
Refrigerator (220 – 450 litre)	12,000 – 50,000
Deep Freeze (165 – 478 litre)	20,000 – 35,000
Microwave Oven	9,000 – 20,000
Air Conditioner 0.75 ton (Windo)	25,000- 27,000
Air Conditioner 1.0 ton – 1.75 ton (Windo)	26,000 – 60,000
Air Conditioner 1.0 ton – 2.0 ton (Split)	30,000 – 60,000
DVD or VCD Player	3,000 – 15,000
Audio HiFi System	15,000 – 50,000
Computer (Desktop)	17,000 – 40,000
Computer (Laptop)	50,000 – 1,50,000
Motor Car (Recondition)	2,50,000 – 15,00,000
Motor Car (Brand New)	15,00,000 – 1,00,00,000
Motorcycle	30,000 – 1,50,000
Apartments (1200 sft – 3200 sft)	20,00,000 - 1,00,00,000

Sources: Prices are collected from various products showrooms

From this data table, we can understand that peoples who are not earning more than 20,000 + Taka/ month cannot afford these products to purchase. As a result, banks are providing consumer loan to the persons who are earning more than 15,000 Taka for last two years. Nevertheless, few banks are providing consumer loans to the persons who are earning more than 5,000. The loan size is very small there. They are providing 10,000 – 60,000 taka only to those persons based on some guarantors guarantee.

Therefore, it is recognizable that banks consumer loan scheme can help people to purchase their products which were untouchable to them. Limited income group cannot purchase those products without loan taking from anywhere whether the loan from any commercial bank or from any individual lender.

Unfortunately, banks are not interested to popular this “Consumer Credit Scheme”, except few banks, due to several problems are stemmed from different reason. The problems will be discussed in our next chapter of this research paper.

We have analyzed and observed the national GDP, GDP growth rate, inflation, unemployment and other economical variables in previous chapter. From that that analyze, we have observed that the national GDP is below comparing to many other developed and also our neighbor countries. More than 85 % People of this country cannot buy anything or spend money beyond their living expenses. At this point, consumer credit can serve them to purchase consumer goods and cars. Consumer loans are mainly for those groups who cannot earn excess money or have excess money to meet up their requirements. In most of the developed country also people purchase car, house, electronics goods and other things from talking loan from banks or any other financial institutions. And rest of their they work to earn money for living expenses and collect money to payback the loan for the facilities they are using. As a result, most of the people there can drive their own cars for convenient transportation, live in their own home, make easier their life with the electronic worlds magic, meet or solve any requirements/problems by borrowing loan from financial institutions. This consumer loan raise up their life and living standard. With the low and limited income, they can get the facilities of anything.

Bangladeshi peoples can also change there life standard if the consumer loan is available to them at a low interest rate in a convenient way. Availability of consumer loan meets the consumer’s requirements. National sale will be increased and overall the national economy will be rich and strong.

CHAPTER 10

Problems with consumer loan system

Since 1995, most of the commercial banks are providing consumer loan. Peoples are accepted this loan scheme very much but still it is not convenient to the citizens of Bangladesh. Due to many problems it is still enfant in credit operation system. We try to find out the outcomes and obstacles of consumer loan system.

Interviewing various banks executives, we have found out several problems with consumer loan from banks perspective:

Insufficient human resources:

Banks need to make a primary survey on the borrowers to ensure that all the information provided by the borrower is correct. In many cases, it has been found that borrows put insufficient or incorrect information in the loan application form. Initially, banks had used a “Third Party” to survey those information. The third parties were paid for surveying per customer. But letter, banks had been found that these “Third Parties” are providing incorrect information without surveying the customers physically. As result, banks had faced many classified loans in consumer credit section due to wrong information.

After that, Banks have started to survey their clients. Banks are charged 1% processing fee. By self-surveying, banks are reduced the amount of the classified loan in this sector. However, classified loan has been reduced but it is difficult for the banks to survey all the clients. There are limited customers for corporate loan and the loan amount is very high. As a result, the relations between banks ands the clients become very strong for long-term transaction and other securities. But in consumer loan most of the case there are not any securities. Moreover, the number of customers is high and the amount of the loan is small. As a result, the relations between banks-clients are not high and it is difficult for the banks to survey all the customers and they’re given information. The main reason behind the difficulties is that there are not enough officers to survey. For this reason, many bank de-motivated to promote this consumer credit scheme. Many banks have indirectly stopped this service.

NO Security:

Most of the cases consumer loan is disbursed without any security. Therefore, the risk of classified loan is higher in consumer loan scheme. For this reason, many banks are not interested to disburse loan in this category.

Bangladesh Bank Provision:

Bangladesh Bank has provided the rules and regulations for the consumer loan. Commercial banks are restricted with the Bangladesh Bank's regulations. We have discussed about the Bangladesh Banks guidelines of the consumer loan in our "Bangladesh Bank and Consumer loan" section. Now we will focused on some regulations which are creating problems in consumer loan scheme –

Regulations For Auto Loan (Car Loan)[9]

Regulation – 14: The vehicles to be utilized for commercial purposed shall not be covered under the regulation for consumer finance. These regulations shall only apply for financing vehicles for personal use.

Regulation – 15: The maximum tenure of the auto loan finance shall not exceed five-years.

Regulation – 16: The banks shall not allow auto loan (including insurance) exceeding TK. 5 million per individual under this head.

Regulation – 21: The banks desirous of financing the purchased of used cars shall prepare uniform guideline for determining value of the used vehicles. **However, in no case the bank shall finance the cars older tan five years.**

Regulations for Personal Loans Including Loans For The Purchase Of Consumer Durables[10]

Regulation – 30: Limits per person for such loans will be TK. 3 lacs without any securities. However, banks may lend higher amounts provided the loans are secured appropriately. But, in no case, the loan amount will be allowed to exceed TK. 10 lacs. The loan secured against liquid securities shall however, be exempt this limit.

Regulation – 31: In cases, where the loan has been extended to purchase some durable goods/item, the same will be hypothecated with the banks besides other securities, which the bank may require on its own.

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9 Bangladesh Bank, Prudential Regulations for Consumer Financing, 2004, p. 15

10 Bangladesh Bank, Prudential Regulations for Consumer Financing, 2004, p. 18

Regulation – 32: The maximum tenure of the loan shall not exceed 5 years.

Problems from customer point of view:

As like banks, customers/clients those who are borrowing loans or wish to borrow loan have faced some other difficulties. The major difficulties are given below:

n. Bangladesh bank as well as other commercial banks has set the target group for the consumer loan. Therefore, only that group always advertised, clicked and recalled for the consumer loan. Other income groups are ignored. In many cases, some part of the target group are saturated with the facilities the banks are provided, nevertheless, they are targeted for the consumer loan as they have the ability to repay the loan back.

o. Many customers have complained about lack of information in the advertisement and some found them evasive. While banks do provide much of the requested information to customers who visit a branch personally, the vague nature of the current advertisement leads to a problem of "distrust" and many consumers lose interest in the service[11].

A special case with Bank Asia Limited:

Bank Asia Limited has almost stopped disbursing the consumer loan. Now this bank disburses this consumer loan to only to its own company stuffs and the stuffs of it corporate clients. For example: the "ABC" company is one of the Bank Asia Ltd.'s big client and have long term relationship with this bank, at that point, Bank will lend loan to the companies personnel to keep the business relation. Here, banks also get security of that person's from the company. Bank Asia Limited had faced large bad loan and also serious problem in collecting the installments. More interestingly, most of the cases, the affluent peoples are missed their installments and behave roughly to pay back the loan. As a result, the bank has stopped consumer credit. However, due to Bangladesh Banks pressure, most of the banks have to continue the "Consumer Credit Scheme" and the "Small and Medium Enterprises (SME)" loans.

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[11] Bilgin, Z. and Yavas, U. (1995), "Marketing of consumer credit services in a developing country: a status report", *The International Journal of Bank Marketing*, Vol. 13, No. 5, pp. 31 - 36

CHAPTER 11

Enhancement of the consumer loan system

Consumer loan scheme need restructuring to help the best services to the consumers. We are recommending few proposals for the enhancement of the consumer loan system.

Changing the target group:

From the Bangladesh Bank consumer loan guideline and the other commercial banks consumer financing rules, we have observed that the target group they have set is as follows:

Criteria		Requirements
Age	:	23 to 60 (Most of banks requirement is 25 years old)
Monthly income	:	15,000 +
Working Experience	:	Minimum 2 years

But the average income level of Bangladesh is much lower than 15,000. Therefore, with this targeted income group only small portion of people will be benefited. To serve nation wide peoples, banks must have to change their view of lending loan and to restructure the target group as most of the earning people can get benefit of this consumer loan scheme.

Establishing secondary consumer market:

Banks are now providing loan to purchase new products whether it is a car or any electrical equipment. Banks are lending loan for recondition cars but those cars are considering also as new. The reason is that selling brand cars are started in Bangladesh for very short time. The main car business is based on reconditioned imported cars in Bangladesh. Banks do not provide loan for the secondhand or reconditioned electrical equipments or used reconditioned cars. The reason behind the behavior is the Bangladesh Banks regulations where it is mentioned that cars loans are given to those cars which are not expired five years from its manufacturing. In that sense when the recondition cars are imported to Bangladesh is more or less 2 years used. Those cars remain more three years to expire from its manufacturing date, therefore loan are given for the reconditioned cars.

Banks can take initiatives to establish a secondary consumer market where people can purchase used reconditioned cars. Recently, there is used reconditioned cars market is started named "*Garir Haat*" meaning "Cars Fair" where old cars are sold. But more structured market is needed.

Banks are now working with many companies. If any one want to purchase any product from any companies showroom, then banks will give loan to the customers but not in the cash format rather in credit format – meaning banks pay the bills to the companies in favor of the customer. As a result, customer getting the products, companies can sale their items and banks can lend money at high interest rate with less risk.

Option of Exchange:

Banks can extend their facilities with exchange option with consumer goods and car companies. In that "Exchange Option" customers can exchange their old or used products (Cars, electrical & mechanical equipments, apartments etc.) with the specific company. The company may be either from where the product was purchased or any other similar type of company of the similar products. As a result, a consumer who has an existing product but wants to change or purchase a newer one can take this advantage of "Option of Exchange" facilities.

Increase of Human Resources:

Banks should have to increase their human resources to survey their clients and the information. In the retail banking, the human resources are not sufficient. It is not a pressure for the banks to recruit excess people in the retail baking. Lets look at a statistical report on banks profit.[12] The news in the newspaper is attached in the exhibit section.

Table 20: Profit of the Private Commercial Banks, 2004

(*Figure in Crore*)

Name of The Bank	**2004**	**2003**
1. Prime Bank Limited	137.00	108.51
2. Eastern Bank Limited	91.00	77.00
3. Southeast Bank Limited	88.00	71.03
4. Dhaka Bank Limited	85.00	63.00
5. Bank Asia Limited	66.00	42.00
6. Premier Bank Limited	93.00	40.15
7. One Bank Limited	49.00	26.00
8. EXIM Bank Limited	83.00	60.00
9. BASIC Bank Limited	72.00	65.00
10. BRAC Bank Limited	21.00	3.25

Source: Prothom Alo, (daily newspaper), Dhaka, January 3, 2005

Here we have included only ten banks with respect to our collected banks and leading private banks in Bangladesh. Full data records are in the Exhibit section. From this table we can identify that the banks are earning huge profit, as they can **reduce their interest rate** for consumer credit as well as can increase human resources for better service. Improving the consumer credit scheme the banks cannot only help the consumers or the national economy but also they can earn more profit than before as they are earning now.

[12] Prothom Alo, (daily newspaper), Dhaka, January 3, 2005

CHAPTER 12

Conclusion

Consumer loan is one of the most effective credit schemes for the limited income consumers to make easy their life. People can purchase all of their necessary goods for the consumer loan system. The consumer loan system is not only helping the consumers but also enabling a healthy economical status for the nation. But the facilities of consumer loan cannot be accessed or enjoyed by all the people of this country. As we have mentioned, due to several complication, mainly collateral for the loan, specific target group which is very small and Bangladesh Banks several rules and regulations, the consumer loan is not the product for all. The poor or the low income people cannot take the advantages of the consumer loan. Banks are providing the consumer loan facilities only to a small group of people at a high interest rate. As a result, 100 percent people cannot take the benefit of this wonderful scheme. In a democratic country it is everyone's right to get all the facilities which is provided by the nation to all the common citizens. But in Bangladesh peoples are not getting the advantages of a common loan facilities to improve their life and living style. The consumer loan can enhance one's dreams, life, and the social status.

We are recommending the following actions for consumer loan scheme which can help consumers and the socio-economical status of Bangladesh –

p. Reduction in Interest Rate: Banks should reduce their interest rates. As the banks are earning huge profit, therefore it will not difficult for them to decrease the interest rate percentage for the consumer loan. With the reduction in the interest rate, consumers will be benefited, as they (the consumers) are low and limited income people. In contrast, banks will also be benefited that they (the banks) will get more customers to this consumer loan scheme.

q. Restructuring Bangladesh Bank Guideline and Regulations: Bangladesh Bank is highly strict with the loan disbursement. Lots of provisions are imposed for every types of loan. But imposing provision cannot reduce the classified loan. Therefore, Bangladesh Bank must have to restructure their guidelines and regulations for the consumer loan scheme.

r. Increasing Human Resources in the Retail Banking: In the retailing banking there are not enough personnel to serve all the customers. Moreover, the initial information provided by the clients for loan sanction is required to survey which demands large number of surveyors. It has been observed that making tight rules, high restriction and imposing fixed guidelines do not work to prevent bad loans rather continuous monitoring of the disbursed loans status can reduce the amount of classified loan in the consumer loan as well as other credit schemes.

It is required more research on consumer loan in a vast way that how it can help the every income level of people. Consumer loan is not only a product but also a magical stick which can change the socio-economical status of a person, a family and a country.