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A WORKING REPORT ON THE CONSUMER BANKING DEPARTMENT OF EASTERN BANK LTD.

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A working report on the consumer banking department of EBL

**A WORKING REPORT ON THE CONSUMER BANKING DEPARTMENT
OF EASTERN BANK LTD.**

by

Rubayut Shaharin
ID: 0420126

An Internship Working Report Presented in Partial Fulfillment of the Requirements for the
Degree of Bachelor of Business Administration (B.B.A)

INDEPENDENT UNIVERSITY, BANGLADESH
December 2008

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has been approved
December, 2008

Mr. A.B.M. Emran Salahuddin
Lecturer,
School of Business,
Independent University, Bangladesh
December 1, 2008
Letter of Transmittal

A working report on the consumer banking department of EBL

December 1, 2008

A.B.M Emran Salahuddin

Lecturer,

School of Business

Independent University, Bangladesh

Dhaka, Bangladesh.

Subject: Submission of the internship report.

Dear Sir:

With due respect, I would like to inform you that, I hereby, submit you the internship report on “Consumer Banking Department of Eastern Bank Ltd” which has been prepared to fulfill the partial requirement of BBA499 program. It was a great pleasure for me to work on this department and I have gathered lots of knowledge on consumer banking while conducting the working report. It is hoped that proper assessment will be done on my report considering the limitations of this study. Your benevolent and authoritative advice will encourage me to conduct further flawless report in future.

Sincerely Yours

.....

Rubayut Shaharin

ID# 0420126

Acknowledgement

All praises are due to Almighty Allah who enabled me to complete the report on the “Consumer Banking Department of Eastern Bank Ltd”.

After that, I would like to thank to those people without whom it was impossible to turn this report in to reality. First and foremost, I would like to take the name of my supervisor Mr. A.B.M Emran Salahuddin. His eagerness helped me in every step of the way and encouraged me to propel myself higher. Then I want to show my gratefulness to the staff's of Eastern Bank, especially to Ms. Farah Deebea (Relationship Officer), Md. Habib Ibrahim Khalilullah(Asst. relationship Manager, consumer banking). Their constant encouragement and supervision throughout the period of this study have been greatest inducement for me and directly contributed to the accomplishment of the task. No words of appreciation can sufficiently express the immense gratitude that I owe to the consumer banking department of EBL.

Finally, I thank to Independent University Bangladesh (IUB) for providing me such opportunities to work and to create an extra-ordinary combination between real life experience and formal education.

PREFACE

As a part of the Internship Program, BBA 499A course requirement, I chose EBL (Eastern Bank LTD) for doing my internship for the period of 3 months starting from September 1, 2008 to November 31, 2008. In EBL I was assigned in the Consumer Banking department of the Shantinagar Branch. My organizational supervisor was Ms. Farah Deebea (Relationship Officer). I prepared a *working report on the* Consumer Banking department which was assigned by the organizational supervisor. My faculty supervisor was Mr.A.B.M Emran Salahuddin Lecturer; Independent University, Bangladesh (IUB) also approved and guided me to prepare this working report.

The working report is prepared in such a way so that it can give an overview about the Consumer Banking Department of EBL. I have described the requirements of the job and the duties I performed and identified few obstacles that I experienced from my work environment. This working report will guide us in a way, which will introduce with the Banking process for consumer such as making deposits, sanctioning loan and cope with the defaulters and credit analysis of consumer loan (small loan).

While preparing this report I used both primary and secondary data. The secondary data was collected from several websites, books and published reports. The primary data was collected through short discussions and interviews within the organization.

TABLE OF CONTENTS

1.0	Banking Industry of Bangladesh	-1-
2.0	Economic Changes and its effect on Eastern Bank Ltd.	-2-
3.0	Management of Eastern Bank Limited	-4-
4.0	Data Collection Method	-5-
5.0	Division	-5-
5.1	Corporate Banking Division	-6-
5.2	Audit and Compliance Division	
5.3	Finance and Accrue ment Division	-7-
5.4	Special Asset Management and Administration Division	-8-
5.6	Consumer Banking	-8-
5.7	Flexibility and quick service facility	-9-
6.0	Deposit arrangements	-10-
6.1	Current Account	-10-
6.2	Savings Account	-10-
70.	Trend of Change in Deposit Basket over Time	-10-
80.	Nature of Bank Loan	
90.	Loan Approval Process of EBL	
10.	Consumer Finance centre	-10-
11.0	Consumer lending of EBL	-14-
12.0	Management Structure of CFC	-15-
12.1	Head of CFC	-15-
12.2	Manager of CFC	-16-
13.0	Credit analysis	-16-

A working report on the consumer banking department of EBL

13.1	Security Checking and disbursement	-16-
13.2	Management Information System	-17-
13.3	CIB report	-19-
13.4	KYC	-19-
14.0	Credit requirement	-20-
15.0	Approval sheet	-21-
16.0	Verification process of proposal	-22-
16.1	Objectives of verification	-23-
16.2	Types of verification	-23-
16.2.1	Contract point verification	-23-
16.2.2	Credit report verification	-24-
16.2.3	Rent verification	-24-
16.2.4	Guarantors details verification	-25-
16.2.5	Waiver of Verification	-25-
16.2.6	Waiver authority	-25-
17.0	CIB	-26-
18.0	Disbursement of Loan	-26-
18.1	EMI & UDC value calculation	-27-
18.2	Credit assessment	-27-
19.0	Credit management policy of EBL	-27-
20.0	Loan Classification	-29-
20.1	Delinquencies	-29-
21.1	Credit risk analysis	-31-
21.2	Default loan loss coverage system	- 32-

A working report on the consumer banking department of EBL

21.3 Default loan loss coverage system	- 32-
22.0 Recommendation	-33-
22.1 Portfolio measurement	-34-
22.2 Managerial and internal problems	-37-
List of Tables	
1.0 Different deposit mix	-11-
2.0 Value based DBR	-21-
3.0 Retail loan outstanding	-21-
4.0 Delinquencies	-29-
List of Graph	
1.0 Different deposit mix	-11-
2.0 Management Structure of CFC	-15-
3.0 Lap work flow	-18-

Industry Overview

1.0 Banking Industry of Bangladesh

The importance of commercial banks in the country is inevitable. It is considered as the life blood of the economy. Primarily, commercial banks are one of the major sources of funds in the economy of Bangladesh. By borrowing money from the depositors and lending the same to the businessmen and others as loans and advances, they perform an important function. People and government itself are very much dependent on the effective and efficient services provided by the banks as they act as financial intermediaries by performing the functions of mobilizing the fund and utilizing them in a proper way.

The growth of populations and projected increases in our buying power provide significant opportunities for retail growth by financial institutions. Banks are using a variety of strategies to target specific markets. Depending on business model and targeted customer base, local banks are using a variety of strategies to reach customers. Some banks use a number of these strategies simultaneously, and others have selected specific approaches from the larger list of strategies. Generally, these strategies includes tailored products and services, nontraditional banking products, alternative credit analysis for loans, transition programs to non traditional banking products, a focus on employee hiring and development, a commitment to serving small business needs in the community.

2.0 Economic changes and its effect on EBL

The overall picture of current economy is different. It is a time when loan growth is slower, conservative deposit and diminishing import volume are common phenomenon. In spite of this unfavorable business climate EBL have made progress in delivering quality service by facilitating better loan portfolio and ensuring effective control and compliance. The nation economy is under strain due to unprecedented price hike of essentials, frequent natural calamities, disquiet socio political conditions, shaken trade confidence and lower domestic and foreign investment. It is therefore likely that our GDP may grow at a moderate 5.5 to 6.0 percent in fiscal year 2008 against a usual 6.5 percent growth in last fiscal. Rising export earnings especially from RMG and inward remittance of around USD 6.7 billion remains the two key strengths of this economy during this year. Under the threats of an imminent but moderate recession in the economy of the US and EU, two major destinations of our RMG, have to face greater challenge which ultimately going to make difficult the pave of major earning of overall banking sector.

Introduction

EBL is a second- generation commercial bank with 30 online branches across major cities in Bangladesh. Mainly operate by 729 full time employees. It offers full range of commercial banking products and services to the corporate, mid-market and retail segment. Besides, main operation, EBL has an offshore Banking unit (OBU) set up in 2004, which gives loan and takes deposits only in freely convertible foreign currency.

The emergence of Eastern Bank Limited in the private sector is an important event in the banking industry of Bangladesh. Eastern Bank Limited started its business as a public limited company on August 8, 1992 with the primary objectives to carry on all kinds of banking business in and outside of Bangladesh and also with a view to safeguard the interest of the depositors of prior BCCI (Bank of Credit and Commerce International (Overseas)) under the Reconstruction Scheme, 1992, framed by Bangladesh Bank.

In 1991, when BCCI had collapsed internationally, the operation of this bank had been closed. After a long discussion with the BCCI employees and taking into consideration the depositors' interest, Bangladesh Bank then gave permission to form a bank named Eastern Bank Limited which would take over all the assets, cash and liabilities of preceding BCCI in Bangladesh, with effect from 16th August 1992. So, it can be said that EBL is a successor of BCCI.

EBL started its business as a scheduled bank with only four branches, which included Principal Branch, Dhaka; Motijheel Branch, Dhaka; Agrabad Branch, Chittagong and Khulna Branch. EBL started its business with a motto to grow as a leader in the banking arena of Bangladesh through better counseling and efficient services to clients. EBL resumed its operational activities initially with an authorized capital of Tk. 1000 million, divided into 10 million shares of Tk. 100 each and paid up capital of Tk. 310 million. The initial shareholders were the NCBs, various govt. agencies, and some of the depositors who had agreed to accept shares in the new bank in lieu of their deposits.

3.0 Management of EBL

The first Board of Directors of EBL constituted under govt. supervision, consisted of 7 directors from various business and professions. Eastern bank Limited was under govt. control until the end of 2000 and therefore, there were lots of deficiencies in the Bank's management. In 2001, the board of directors brought in new professional management from various foreign banks who have been trying to modernize the bank ever since.

4.0 Data collection method

Resource from which information is provided on this report is of two types. One is primary source and another is secondary source. In fact, most of the information was collected from primary sources. Day-to-day conversation and discussion with the employees helped me a lot to get the ultimate crucial information for my report. Moreover, I have maintained a close contact with the direct sales team members of Eastern Bank Ltd. who regularly visits clients and consult with prospective customers. Their information specifies different procedures and problems of over all system. On the other hand secondary information's were also helpful to concise the whole information in very co-operative way. Secondary, information sources such as Eastern Bank Limited Annual Reports (2007-2008), Product program guide, Credit assessment Guideline, Loan files of the clients, Bangladesh Bank's Prudential Guideline on consumer lending, Websites and so on.

5.0 Divisions

EBL has centralized system. It comprises of nine major divisions namely Corporate Banking Division, Credit Division, Consumer Banking division, Trade Services Division, International Division, Finance and Accounts Division, Human Resources Division, Information Technology Division, and Audit and Compliance Division. Besides these main divisions, there is also an Administration Division, which looks after the Bank's day-to-day operation. All policy formulations and subsequent executions are done under the supervision of Head Office. Head office mainly control and let the branches to conduct all the activity. Basically EBL follows a centralize system where all the day to day activity must required the approval of head office. Among all these divisions' activities of few divisions are given below:

5.1 Corporate Banking Division

Corporate banking division came in to existence because of the restructuring of EBLs business processes. Previously all the loan disbursement and monitoring activities carried out by the officers of individual branches, which resulted in poor management and control of the process. To improve the poor management and control of the process, Eastern Bank decided to centralize its loan disbursement and monitoring activities. It is a separate corporate division which started its operation on 10th January 2002. This division is responsible for bringing in profitable new corporate clients and retaining present clients by meeting their various needs. Corporate banking provides various banking service such as, different Credit-facilities and financial solutions that addresses the diverse financial needs of corporate customers, public and private limited companies, NGOs and sole proprietorship concerns. It is also responsible for resolving credit issue problems and developing relationship between the customer and the bank. Eastern bank has significant business of 45% contribution to its total income from corporate division but the bank is more transition oriented and shifts retail deposits to sell corporate loans.

The main functions of this division are as follows:

- Targeting corporate clients and building business relationships with them
- Designing customized service for the clients
- Evaluating financial strength of the clients
- Making possible recommendations for further expansion.

5.2 Audit and Compliance Division

The main function of this division is to provide legal assistance to the branches and to ensure strict adherence of rules and policies by all concerned officials of the bank through routine and surprise inspection and audit.

5.3 Finance and accounts division

The finance and accounts division is important for any bank because its task is to maintain daily liquidity position, treasury bills, call money etc. There are also some other important functions which this division does, they are monthly accrued interest calculation of all interest bearing accounts and amortization of all fixed and other assets.

5.4 Special Asset management division

Special asset management deals with all the classified accounts in the bank loan portfolio, mainly accounts that have fallen in to substandard, doubtful and loan category. The responsibilities of the Special Asset Management Department are the following:

- a) Monitoring and controlling the classified accounts through monthly reporting and quarterly review.
- b) Actively follow up with borrower for recovery
- c) Negotiating and restructuring debts is possible wherever it is feasible in its own and in association with the concerned relationship manager.
- d) Preparing a consolidated report of all bad loans written off on a quarterly basis and submitting the report to the head of credit risk management, managing director and CEO.

5.5 Credit risk Management and Administration

The main objective of this division is to evaluate the credit worthiness and debt payment capability of the present customers and loan applicants. The respective branches send all loan proposals from the prospective borrowers to the head office credit risk management for approval. If this department finds the loan proposal attractive, it either approves it or sends it to the board for approval. It is also responsible for setting credit facilities given to clients and ensuring that it is being implemented in the branches. This department also monitors the various loan accounts of the branches and prepares various statements for Bangladesh Bank.

5.6 Consumer banking

The retail banking industry is a highly competitive and is continually evolving with the creation of new products and services. As a result, EBL is determined to achieve a fine balance between the operational costs which is typically associated with large legacy systems, and the level of customer service demanded by today's competitive market.

Now-a-days, customers are becoming more credit aware and demanding. As a result EBL is trying to expand their network by using location based strategy. Moreover, Internet and telephone banking, ATM have created a culture where customers can receive a rapid and comprehensive service 24 hours a day. They are intending to move to a culture where understanding the customer demand for products, service and convenience is the key driver to retain and maximize the growth of the most profitable customers.

A customer relationship with a retail-banking organization is one of the most complicated issues in the credit industry where one customer could have multiple accounts across the suite of products. EBL manages this customer by maintaining individual account profile. To maintain consistency they keep strong communication and relationship with the customer. Even before opening an account they do CPV (customer personal verification). In this CPV they verify customer personal information (location, contract number) which the customer made available to them.

5.7 Flexibility and quick service facility

Their on-line banking system gives them a chance of flexibility to manage the whole operation from the desktop. As a result, CSO (Customer service officer) can react rapidly with confidence due to their easy access of all account related information only with the help of account number.

They have developed modern delivery channels like ATMs, Tale-banking, internet banking, debit cards, etc. and many other new consumer products and services to meet specific financial demands of the customers as well as to make their life easy & convenient.

6.0 Some Deposit arrangements are given bellow:

6.1 Current account

EBL Current account is a non-interest bearing account suitable for both corporate and consumer client. There is a minimum balance requirement of Tk. 1000.

6.2 Savings account

EBL Savings account is suitable designed to meet the savings requirement of the customer who are willing to save from their hard earn income. It pays interest at competitive rate matching with the needs of the customers. Minimum Balance Requirement for a Savings account is Tk. 15000.

6.3 Fixed Deposit

EBL Fixed Deposits have flexible tenure ranging from one month to three years which allows the customers to get more out of their long term investment.

6.4 Savings Insurance account

EBL SIA not only pays interest at the prevailing market rate, it also provides valuable insurance coverage corresponding to the client's deposits account.

7.0 Trend of Change in Deposit Basket over Time

From the following table we can see that all the deposits have been increased over time. However, the growth of fixed deposit has increased much more compared to other accounts due to its higher interest rate. The growth of current account and savings scheme deposits were also substantial during last two years. But the growth of short term deposit is not that much encouraging due to its comparatively much lower interest rate. However, the growth of overall deposit has not achieved the peak level in the year of 2004. But, over the years the

growth of all sorts of deposits got momentum and reached in a healthy position at the end of 2007.

Table 1: Change in Different Deposit Mix of Eastern Bank Ltd. over time.

Type of Deposit	Amount (in Million Tk.)				
	Year				
	2003	2004	2005	2006	2007
Current & Others	2231.54	2303.03	2711	5237.87	5815.47
Savings	4044.98	4598.54	5371	5820.47	7167.83
Short Term	1560.50	2471.16	2248	2459.83	2829.34
Fixed Deposit	10470.16	9267.54	10283	12259.2	18324.06
Scheme	1376.1	1406.04	1624	4870.46	5435.24
Total Deposit	19683.28	20046.31	22237	30647.83	39571.94

Source: Annual Report, 2004, 2005, 2006 & 2007; EBL

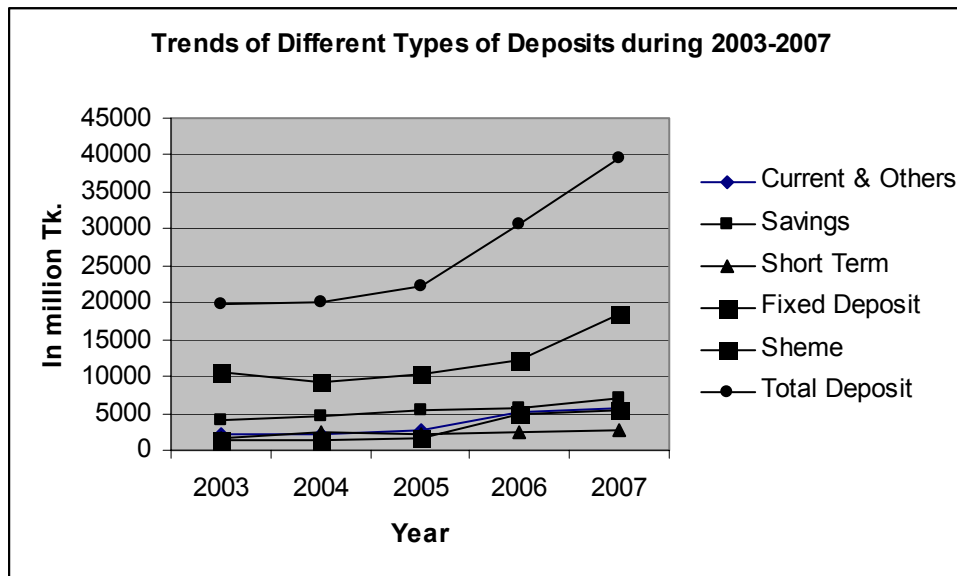


Figure 1: Trends of Different Types of Deposits during 2003-2007.

8.0 Nature of Bank loan

The cost of Bank loans varies for different types of borrowers at any given point in time. Interest rates are higher for riskier borrowers, and rates are also higher on smaller loans because of the fixed costs involved in making and servicing loans. EBL charges higher rate for consumer loan which is small as well as risky. They charges 18 percent interest for consumer loans and even they charges 19 percent if the customer is a business person. It means they consider traders as more risky borrower compare to job holders. Their calculation of loan payment depends on certain things and those certain things are given below

- At the time of calculating borrower's payment they deduct 80% of their each installment as interest and 20% will be deducted from the principal amount. For example if a person has 1000 tk. as installment payment then among this amount EBL will at first cut 80% as interest from the installment amount and 20 percent as principal. As a result a borrower has to fulfill his interest payment first. So, it makes a

little difference in the principal amount if a borrower pays the whole amounts after few installments.

- All the consumer credit requires collateral except JDL (jibon dhara loan) and car loan. As a result bank faces the higher defaulter rate on both type of loan. In the case of car loan bank can take the car in case of default but sometimes it causes complications and obligation of Law.
- Nearly all types of consumer credit requires guarantor. In case of failure of payment by the borrower they pay the outstanding.
- Auto loans and other types of consumer installment loans are generally set up on “add-on basis”, which means that interest charges over the life of the loan are calculated and then added to the face amount of the loan. Thus, the borrower signs a note for the funds received plus the interest. The add-on feature also raises the effective cost of a loan above its stated nominal rate.
- Other cost elements such as processing cost, loan closing fees are also required. Processing fees of EBL is 3 to 5 percent of borrowed amount and closing fees is 2 percent on outstanding in the case of early payment or payment before the maturity of the loan. But in the case of partial closing it requires 1 percent as closing fee. Mainly partial closing occurs when a borrower become ready to pay more than installment amount. In this case bank provides two options to the borrower; one is decrease in the number of installment or decrease the amount of installment.

9.0 Loan Approval Process of EBL

Consumer loan of EBL are processed and approved through its Consumer Finance Centre. Before the establishment of CFC, branches had the authority to approve & disburse loans though consultation with higher authority – Head of Consumer Banking, Deputy Managing Director, and Managing Director. As the process faces some crucial pitfalls, management of EBL decided to set up a central unit of CFC- that will be responsible for loan assessment, approval, disbursement, and collection.

10.0 Consumer Finance Centre (CFC)

CFC is located on the second floor of Jiban Bima Bhaban, Motijheel, Dhaka. CFC has set up on March 15, 2004 for evaluating credit worthiness in consumer lending. It is consist of a team of people to identify, analysis, measure, and manage risk related business.

11.0 Consumer lending of EBL

Eastern bank Ltd. had started its consumer lending from August 8, 2004 by launching Executive Loan for salaried executives only. Following the success of this initiative, and even to become more competitive EBL started to offer new, diversified and segmented loan product to its portfolios. Those are car loan, Jibon dhara loan, Utshab loan, Travel loan and Education loan, Home renovation loan, Home loan. Another, two more loans are first loan and fast cash; both are 100% secured and gets approved and disbursed through disbursement officials of CFC.

12.0 Management Structure of CFC

The management hierarchy of CFC is very simple.

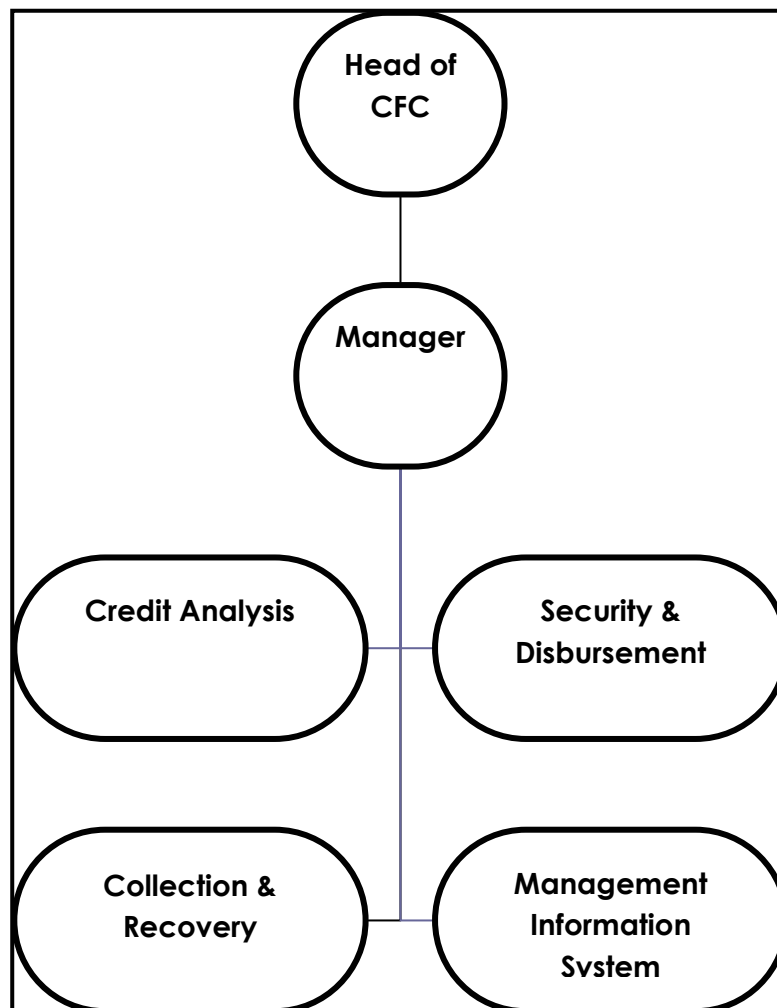


Figure 2: Management Structure of CFC.

12.1 Head of CFC

The head of CFC is primarily responsible to oversee the daily activities of CFC & to collaborate with the 30 branches across the country.

Daily activities include - Consultation with prospective client

- Assist analyst group to measure credit risk,
- Provide information and to keep contact with higher authority

- Take measures to keep smooth operation.

12.2 Manager of CFC

Manager of CFC has the authority to approve or decline loan applications. If his authority does not permit, then he consults with higher authority.

13.0 Credit analysis

Credit Analysis is one of the core activities that can make a difference in retail banking. If an eligible client is refused then the revenue of the bank decreases and if unworthy clients get approval for loan disbursement, bank may face loan defaults. CFC has five members dedicated to assess credit risk in consumer lending. They can also take help from higher authority- manager of CFC, Head of CFC where necessary.

13.1 Security Checking & Disbursement

Officer lending support & officer disbursement both check all the relevant documents and give authorized signature where necessary. If discrepancies or any fraudulent is found, they consult with manager CFC and if they find everything in a proper manner then they disburse the loan.

13.2 Management Information System:

Within the CFC, two people keep track of all the laps which CFC receives or CFC returned. MIS officer provide a database that contains all true relevant information of any lap irrespective of there status (approved, declined, disbursed, pending on process, place for decision, sent to queries). It serves an important purpose to inform all the related members about retail loan. The branch managers may also get benefit from this MIS and it updates its information with in every two to three hours.

LAP Work Flow for All Consumer Loans:

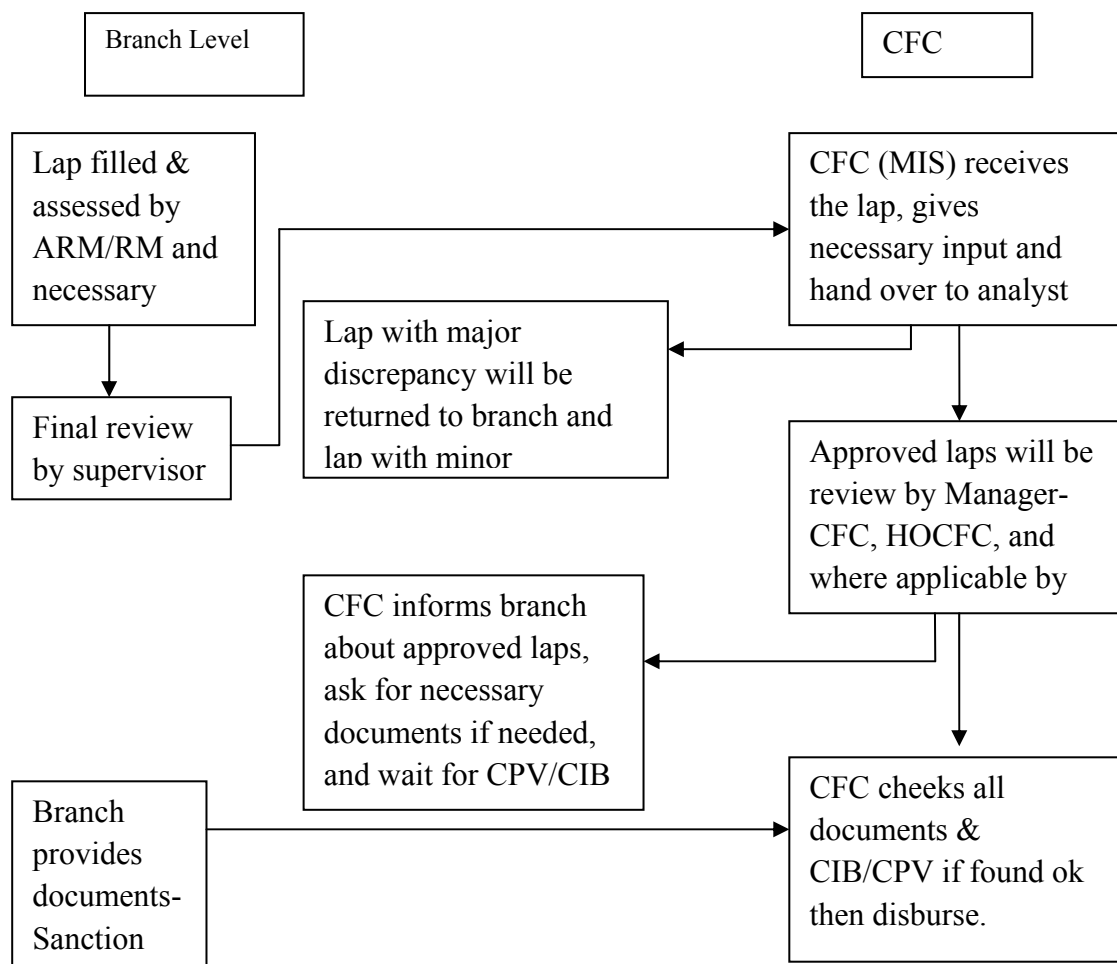


Figure 3: LAP Work Flow

EBL consumer loan has two sources- (Direct sales team) DST & Branch. There are 30 branches & more than 250 DST in EBL. DST knocks prospective clients and collects information about them. After preliminary screening, they invite client to EBL Branch. If the client expresses his or her desire to take loan then they will request her/him few documents and those documents are- applicant's photograph and visiting card, copy of valid passport/Voter ID, last 6 months bank statement (Personal/Company), copy of TIN certificate, bill copy of T&T/Mobile phone/Contact copy of pre-paid phone. Other loan's sanction letter and last 6 months bank statement and letter of introduction by the organization. One personal guarantor, copy of guarantor's TIN, visiting card, photograph and sign verified by the applicant, copy of Trade License, Memorandum and Article of Association certified by Joint Stock Company. If the applicant has other income source or loan than required supporting documents are also required.

13.3 CIB report

When client submit the above documents (not every document is essential but it varies customer to customer) the ARM or RM performs the following tasks:

13.4 KYC (Know your customer)

Loan KYC- serves a key role in evaluating loan proposal as CFC employees never met them physically; KYC helps them to visualize the client, his behavior, family status and so on.

Under this process customers are verified by employees and fall in to grading. Such as High rating, Medium rating, Low ratings

- High rating- excellent beyond any question or doubt'

- Medium rating- when performance or position of that client is in respective criteria but can't be assessed with full certainty.
- Low ratings- when position on performance is not known to branch or doubt full.

Under the KYC table the officer in charge produces - summary comments, recordation and waiver (if sought) with signature of the respective authority. At this point, the branch manager sends the lap to CFC.

On receiving lap, MIS (CFC) inputs some basic information about the client and assigned a lap number. This number is used for further reference. Excel sheet of MIS contains-

Serial no, lap receive date, credit officer, clients name, source- branch/DST, applied amount, approved amount, CPV (out) – date on which CPV asked for, CPV (in) – date on which CPV received, status- approved/declined/on process/pending/cancelled/disbursed, comments, status date, disbursed date.

MIS officer distributes the laps received each day to the credit analysis for credit assessment, recommendation & approval.

14.0 Credit requirement (financial capacity)

Credit analyst will read the lap carefully before embarking on finding credit worthiness that is income assessment. Loan KYC helps analyst to judge the client's social status and some other attributes. Then analyst focuses on key area and that is financial capacity of the customer.

Monthly Income (Taka)	DBR
10,000- 29,999	35%
30,000- 49,999	40%
50,000- 99,999	50%
1, 00,000+	55%

Table 2: Value based DBR

If the DBR and percentage of average balance are consistence, with assessment guideline, analysts will wait for CPV and CIB inhere required.

15.0 Approval sheet

The credit analysts will recommend to approve or decline the loan based on his/her judgment. If the loan is approved then, analyst will fill the lap's approval sheet. On this sheet, they will write the monthly income of the applicant, and other income assessed by branch. After that to evaluate client's capacity to pay the EMI analyst will find an EMI as a percentage of average balance & debt burden ratio on CFC validated income.

Product Name	No. of Account	Outstanding
EBL- Fast Loan	186	95,741,346.58
EBL- Car Loan	851	620,176,069.84
EBL- Jibandhara Loan	4111	1,390,260,460.63
EBL- Utshab Loan	1327	101,726,330.70
Sub- Total:	6475	2,207,904,207.75
Category- "A" Executive Loan	114	17,273,197.93
Category- "B" Executive Loan	267	22,665,413.88
Category- "C" Executive Loan	477	25,233,041.72
Product Name	No. of Account	Outstanding
Secured Overdraft- (SOD)- Consumer	9	5,897,345.08
Fast Cash	1284	801,440,734.15
EBL Debit Line	957	40,900,335.90
Sub- Total	2250	848,238,415.13
Total Overdraft	2250	848,238,415.13
Total Consumer Loan:	9585	3,122,268,991.83

Table 3: Retail Loan Outstanding of EBL (Balance as on: 02-April-2008)

16.0 Verification Process of Loan Proposal

Verification is an integral part of credit appraisal, as it validates the information that is being used for assessment. Verification ensures that credit assessment was based on authenticated information. It is vital that credit decisions are based on accurate and correct information. Verification is within the purview of CFC but it is conducted by independent agency(s). The third party agency ensures that adequate measures are in place to eliminate any conflict-of-interest situations. With increase of volume as well as number of customers, though presumably a simple task, verification has become sizable both in numbers as well as from cost point of view. This document intends to parameterize process of verification and outline a standard procedure.

16.1 Objectives of verification

The objectives of this document are as below:

- To outline procedures to parameterize verification process through third-party agencies.
- To formulate procedures which will be used as yardsticks for performance evaluation
- To reengineer existing process and improve turn around time (TAT).

16.2 Types of verification

At EBL, verification is segregated and defined as below:

1. Contact point verification (CPV).

2. Bank statement authentication.
3. Credit report.
4. Rent verification.
5. Guarantor's verification.
6. Car value verification.

16.2.1 Contact *point verification (CPV)*

Contact point verification (CPV) consists of the following items:

- Address verification(residence)
- Office addresses verification
- Bank statement verification

The bank statement (where applicable) of a customer should be verified/authenticated by appropriate authority (i.e. designated bank officials). CFC will indicate via a forwarding letter, which statements are relevant and should be authenticated. CFC will provide a forwarding request letter to agency. Agencies along with this forwarding letter a copy of the statement is also required. Moreover, their authenticities by the bank officials are also necessary.

16.2.2 *Credit report verification*

The credit report (where applicable) of a customer is requested from other banks when the applicant is enjoying line of credit(s). Though most of the banks typically declines to disclose client information, the however do provide the present status of the facility that is whether the facility is regular or not. Here also, CFC will provide a forwarding letter requesting confidential opinion regarding the present limit, outstanding, security held, and status of the facility. Agencies along with this forwarding letter will present a copy of the statement (if

applicable) to the bank officials for their confidential opinion and authentication statement (if applicable). A specimen copy of the request letter is attached in the appendix.

16.2.3 Rent verification

Rent verification is done to ensure the rents declared are accurate. In addition, it allows us to know the present condition (leased or vacant) of the space. Most of the cases, rents are being paid in cash. It is difficult to identify the cash flow from bank statements alone. Verification provides a detail view of all these aspects. In this section, agency will verify the customer's tenant details:

- Tenant name.
- Rent.
- Presently occupied or not.
- Location.
- Ownership.

16.2.4 Guarantor's details verification

The verification agency will verify general CPV details of the guarantor as per attached format.

16.2.5 Waiver of verification

Unless it is 100% cash secured, a third party must verify details of a loan applicant for any loan amount before and approval is accorded. However, physical verification is waived for the following category of applicants:

- EBL Staff.
- Customer enjoying a loan already.
- Customer applying for additional loan.

However, in the case of 1 year old or more CPV information, a new CPV will be done again for lending purpose.

16.2.6 *Waiver authority*

Other than the above cases, only the managing director may grant any waiver of verification against any additional scenario and/or the deputy managing director of the bank in cases where:

- The request for waiver with proper justifications is submitted by loan sourcing channel (branch team 1 sales team).
- The request is recommended by head of consumer banking and CFC head/manager jointly.

17.0 *CIB (Credit information bureau) report & loan approval*

To be confirmed about the loan status of the client, bank requisites Bangladesh bank to issue a CIB report. This is a confidential report and bank provides this only to authorize institution.

The CIB report shows the analyst about the loan status of the client- if the customer avails no loan status will be nil. If client has any other loan, then CIB will provide details of that loan- Loan amount, banks nil, current status (classified or unclassified), payment behavior and so on. If analyst found the CIB okay, then he/she recommends for approval.

Credit analyst job is to make recommendation. The higher authority will review all the information along with other recommendation by the analyst and then it will be approved by respected authority. Higher authority has the power to cancel any loan without contacting with

analyst. Therefore, a loan recommendation by analyst, approval by manager CFC/HOCFC/HPCNB can be declined by managing director/ deputy managing director.

18.0 Disbursement of Loan

Disbursement process includes making a final review of all the documents, clearance fund formation, stamping, MIS update, and CIB input. Related documents include sanction letter signature by applicant and UDC.

18.1 EMI & UDC value calculation

Disburse office has a programmed excel sheet that calculates UDC value automatically if data is entered. The table looks like this.

18.2 Credit Assessment

To reduce defaulter rate and to reduce the risk of bad loan EBL mainly focuses on these following four determinates closely.

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest).
- Security Arrangements.

Especially in the case of majority shareholders, management team and group or affiliate companies, they do close monitoring to mitigate risk. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions are always addressed and verified properly.

19.0 Credit management policy of EBL

Credit management is a constant balancing act between recoveries, costs and customer service. One of the biggest challenges of this credit-management policy is to balance the credit systematically and in a way in which the business benefits can be measured and constantly improved.

They do not limit their assessment to customers (creditor) who have already become defaulter; rather they use early identification of accounts at risk to enable proactive management of a customer before they become defaulter.

By the use of a dedicated collection system to manage customer they can take pro-active steps to manage their creditors. Basically this pro-active step means taking appropriate action in the failure of installment of payment. If a customer fails to pay once CRM (customer relationship manager) consult and discuss the future consequences and financial penalty with customer. Even sometimes they give chances to the customer to pay their installment 1 or 2 days after the deadline of payment without any penalty. This step of consideration takes place only to create better service quality and to enhance reliability as well as to avoid the chances to become defaulter. Even after that if any customer fails to pay more than two installment then their installment disbursement responsibility transfers to the sales and collection department. EBL handles all the consumer loans through this consumer finance center except Fast cash and First Loan. These two are hundred percent secured loans and these are approved and disbursed by branches. All loan applications are sent to CFC for assessment with related documents. After receiving the applications, CFC begins evaluation processes and contracts

sales team members or relationship manager. If preliminary screening allows the analyst to recommend for approval, the applications are sent to appropriate authority. After confirmation, CFC takes initiatives for loan disbursement.

CFC current activities are satisfactory but with increasing workload and complexity, it must revise its job responsibility in order to move ahead. At present, CFC receives on average thirty loan application. It has six analysts to assess credit risk. One disbursement officer (checker) checks document and communicates with respective branches if additional paper work needs to be done. Two disbursement officers disburse twenty loans per day approximately.

Only an efficient collection system can significantly improve quality of service, efficiency and productivity and can cut administrative costs as well as can increase revenues and cash flow.

20.0 Loan classification

When the borrower fail to pay the installments timely, banks ranks the client in three classes according to the risk associated with the client. Any loan if not repaid/renewed within the fixed expiry date for repayment will be treated as irregular just from the following day of the expiry date. This loan will be classified as

- Sub-standard if it is kept irregular for 6 months or beyond but less than 9 months.
- Doubtful' if for nine months or beyond but less than 12 months
- Bad debt if for 12 months or beyond.

20.1 Delinquencies

Delinquent accounts as identified by system will be categorized into buckets based on their DPD (day past due) status:

Days Past Due(DPD)	Rating	Actions in Brief
1-30 DPD	Delinquent 1	Reminders to borrower through mail and telephone
31-60 DPD	Delinquent 2	Physical visit made to office and residence
61-89 DPD	Delinquent 3	Employer and Guarantor where informed
90-180 DPD	Substandard	Account classified and write off

Table 4: Delinquencies

Simultaneously a financial institution needs to ensure the acquisition of customers that fulfill business objectives, including the often-conflicting objectives of risk management and portfolio growth. It is a continual balance between the value, quality and service aspirations of the customer and the costs and revenue objectives of the organization.

Category A

Individuals who maintain or will open a salary account with EBL and will arrange for irrevocable letter.

Category B

Individuals who will open a salary account with EBL arranging an irrevocable letter from employer to deposit only their salary with the Bank.

Category C

Individuals who will avail the loan by depositing post-dated Cheque for each EMI amount.

21.0 Over view regarding credit analysis process of EBL

Traditionally, lenders have faced credit risk in the form of default by borrowers. In these recent years, credit risk remains major concern for lenders worldwide. Credit analysis does not predict the future of a company or a person's financial condition but the behavior of the market. Basically, it aims to indicate what can be expected and anticipated from a company. Evaluating and maintaining acceptable credit risks is the true role of the Credit Analyst, however it results in a situation where one is caught between the past and the future of a potential counterparty.

21.1 Credit risk Analysis

The more a bank or financial institution know about the credit worthiness of a potential borrower the greater the chance they can maximize profit, increase market share, minimize risk, and reduce the financial provision that must be made for bad debt. To have a fundamental understanding regarding the credit risk analysis process various aspect should be taken under consideration such as bank statement analysis, credit history analysis, ratio and cash flow analysis of borrower. All these analysis could help more in making better credit-related decisions. Here, various non-financial factors such as managerial ability, education, age, future prospect of business etc. could affect the creditworthiness. Among all the factors another factor which is collateral also plays a significant role in the repayment rate of loan.

This factor makes the loan payment rate higher in EBL. They are willing to give loan on that sector which is completely secure. Because of this reason they always try to give secured loan such as fast cash and fast loan. Fast cash and fast loan both are 95 percent secured loan as it given by taking 95 percent of the whole amount as collateral. This loan requires less than 1 percent of whole amount as processing fee. Bank always try to encourage this kind of secure loan as the always suffers from loan default due to lack of collateral. Among all the types of consumer loan only two types of loan has higher rate of default, and they are Car loan and JDL (Jibon dhara Loan). Both the loans have no guarantor. As a result bank needs to maintain a strong supervision and communication system to keep aside the loan from get defaulted. In the case of car loan they can take over the car due to failure of payment but still few complications of law makes the system complicated. But in the case of JDL there is no way of recollecting the loan unless the customer pay back it or bank force him to payback the loan with the help of law and order.

21.2 Default loan (without guarantor) loss coverage system

EBL has a very strong requirement procedure and their supervision and collection method is also very strong which ultimately helps them to keep their defaulter rate with in the range of 5% which Bangladesh bank guideline tells them to follow. For these 5 percent they keep probation. Their defaulter loan write-off method is different. They don't write off until 5 years of default. After five years of default they write-off the loan. Within that five years they keep on try to get the loan back.

21.3 Default loan (with guarantor) loss coverage system

This kind of loan has lower default rate. It's because their loan portion will be given by their guarantor in the case of default. If a borrower fails to repayment after 3 to four installment still the bank faces no loss. As they take interest before the principle. Its mean in each installment they at first take 80 percent as interest and then 20 percent as principal amount. If a person fails after few installments then they can take rest of the amount (Principal amount) from the guarantor or by selling collateral.

EBL always gives priority to the customer's capacity to pay back the money. As a result they design installment tenor based on the customer cash flow of the business, the timing of the repayment to match cash flow, and the probability of successful repayment, payment history on existing credit relationships is an indicator of future performance, contingent sources of repayment.

22.0 Recommendations:

Before approving a consumer loan, a bank should look at all of these factors which they always check. But their primary emphasis should be the cash flow of the borrower rather than their occupation. As business has higher risk they always show unwillingness to lend money to business man by charging one percent higher rate to business person. For business people the lending rate of consumer credit is 19 percent for service holder it is 18 percent.

A typical measurement of repayment ability is the debt service coverage ratio. A credit analyst at a bank should measure the cash generated by a business (before interest expense and excluding depreciation and any other non-cash or extraordinary expenses). The debt

service coverage ratio divides this cash flow amount by the debt service (both principal and interest payments on all loans) that will be required to be met. Bankers need to see debt service coverage of at least 120 percent. In other words, the debt service coverage ratio should be 1.2 or higher to show that an extra cushion exists and that the business can afford its debt requirements.

EBL highly gives priority to the customer's previous loan history and cash flows. So they should keep one thing in their mind and that is, past performance of a company or a person is no indication of how it may perform tomorrow and past earnings will not pay tomorrow's expenses.

Beta (β) Portfolio Measurement Beta (β): it is a measure of sensitivity to market moves; if any borrower invests in many stocks across a wide sector of services, industries and geographic location, then he is considered to have a portfolio that matches the market and is well diversified. Because of his diversification he gets optimum level of output, as decline in some stocks will be offset by the increase in value of other stocks, thus beta equals 1.0 (or the market). When Beta is less than 1.0 it will not move/fluctuate with the movement of the market. Beta is historical and may not accurately reflect a portfolio/stock's present volatility. But still it helps to give a glance or idea of the whole situation.

22.1 Portfolio Measurement

A measure of risk adjusted return, this ratio compares the reward for taking pure risk with the volatility of the investment. The formula is the annual rate of return minus the rate of a risk-free investment divided by the annualized standard deviation. As the figure gets larger, the better the investment is. It can also be determined as a Monthly figure:

$$\text{Monthly Sharpe Ratio} = \frac{\text{Average Monthly Return} - \text{Risk Free Return}}{\text{Monthly Standard Deviation}}$$

With the help of the portfolio measurement any bank or financial institutions can better understand and can calculate the future return of the portfolio which a consumer has.

Quantitative measurement of the historical volatility of an asset/portfolio's returns in terms of the dispersion of returns can be easily specified with the help of beta. The purpose of beta is to determine how much fluctuation there has been around the average annual return.

Example: if the average annual return is 12%, and the standard deviation is 10%, then that means the asset/portfolio's return could have been as high a 22% (12% + 10%) or as low as 2% (12% - 10%). However, as a statistical analysis tool, one standard deviation indicates that there is only a 68% chance that the return will be within this range. Two standard deviations give us a 95% confidence level that the range of return will be between -8% (2% - 10%) and 32% (22% + 10%).

- The key risk factors of the borrower's industry need be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or

competitive forces are need to addressed and the strengths and weaknesses of the borrower relative to its competition identification is highly required.

- An analysis of a minimum of 3 years historical financial statements of the borrower need to be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements are also analyzed. The analysis mainly addresses the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed under this analysis procedure.
- Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performances are required to provided in order to indicate an analysis of the sufficiency of cash flow to service, debt repayments and so on. Loans should not be granted if projected cash flow is insufficient to repay debts.
- For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) are assessed.
- Credit Applications clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO approve Credit Applications that do not adhere to the bank's Lending Guidelines.
- Mitigating factors for risks identified in the credit assessment mandatory to identify. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion;

management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

- The amounts and tenors of financing proposed are always justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.
- A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.
- Credit proposals are not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. Credit proposals and the granting of loans are based on sound fundamentals, supported by a thorough financial and risk analysis.

22.2 Managerial and internal problems

- EBL has internal on-line banking system but EBL is not capable to provide complete on-line service. Most of their work requires confirmation and authorization from head office. As a result customers can't get their job done with in their desired time. Their overall system is not properly coordinated. So a customer has to face some major problems when they need to change any information such as their address, signature, telephone number etc. If they want to change any sort of information they need to change it through the branch where

the customer had opened the account. Only that branch has the authorization to conduct his work.

- Another major problem is their centralize system. Their entire system is centralized and each steps of branch requires the instruction and guideline to take any decision and share any kind of information. Sometimes changes occurs from the head-office occurs rapidly, which ultimately can not guide the branch employees properly.
- Another major problem is lack of proper training. Due to lack of proper training many root level employees' faces problem which ultimately causes job dissatisfaction, wastage of documents and other resources, and mistakes in records.

Conclusion:

EBL is one of the fastest growing commercial bank with a motto to maximize their profit by providing their utmost customer service. But sometimes it is difficult for them to fulfill the customer needs quickly which causes customer dissatisfaction. Basically strong requirement and verification is the major barrier against instant customer service. But if we think and analyze properly then we can find out one thing and that is the value of verification and the necessity of authorization. Due to their strong verification and monitoring system they can minimize their default loan rate, fraud and chances of money laundering.

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