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“SME Loan disbursement, recovery process and finding of few problems in SME unit office(BRAC Bank Limited)”

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Letter of Transmittal

Date: 02nd May 2010

To
Nadim Jahangir
Program Manager, School of Business, Department of BBA
Independent University of Bangladesh

Subject: Submission of internship report.

Sir,

With immense pleasure I present before you the Internship paper on "SME Loan disbursement, recovery process and finding of few problems in SME unit office(BRAC Bank Limited)" as a pre-requisition for the completion of 4 (four) years BBA program. In this paper I tried to focus the SME loan process the way the consumer collection the loan and mode of the loan. I tried to prepare this report using my academic knowledge and practical experience which way the SME loan give borrower and also which way I have gathered about the loan during this internship report and also which way collection the loan, loan receive, loan disbursement, closing and some problems I did find by audit which was my main concentration area. And to fulfill the objective of the study, I also tried to be acquainted with the activities of brac bank and put all affect to prepare an acceptable this report.

Finally I would like to thank for your valuable guidance and thoughtful advice in preparing the report. I strongly believe that you will be kind enough to accord approval to this report.

Thank you,
Sincerely Yours

Md. Nazmul Hasan Rana
ID: 0430092
Independent University of Bangladesh

Acknowledgement

As a student of school of business, internship is one of the most important partial requirements of the total courses of 4 (four) years BBA program. In this regard I would like to thank all the faculties of Independent University of Bangladesh who helps me to finish my courses.

This internship report might never have been completed without the necessary practical knowledge, assistance of many books, articles, websites, and primary data. It enhanced my knowledge on SME activities as well as banking business. I would like to express my special gratitude to my honorable supervisor Mr. Reza fakruzzaman school of business his valiable and care and necessary suggestion throughout this study that were very helpful in preparing this report.

I was placed in Head Office of BRAC Bank Limited to work as an intern from Feb 1st 2010 to April 29th, 2010. The members of BBL (BRAC Bank Limited) management were very co-operative and helpful. They helped me through providing various data, guidance and direction. I am grateful to Mr. Shyamol Kumar Biswas, AVP of Central Operation Department of BRAC Bank Limited for his cooperation and necessary support.

Thanks to all those persons, who have assisted me, providing me co-operation, books and articles. Finally I want to express my special thanks to Debbroto Roy, Head of Central Operation Department, under whom I have completed my three months internship program. I am also grateful to all other employees of Asset Operations Department for their support and assistance.

EXECUTIVE SUMMARY

SME plays a vital role in the economic growth of Bangladesh and has significant impact in our national GDP escalation. SME generate a huge employment opportunity and increases the productive capacity which helps to achieve our social and economic objectives. But access to credit is a major problem for SME flourish in Bangladesh. BRAC Bank is the pioneer in providing the SME loan in Bangladesh and nowadays most of the commercial banks are providing SME loans and introduces SME Service Center concept. Presently BRAC bank has more than 0.15 million SME loans and covered all the upazillas. More than 90% of SME loans in BBL are providing without any collateral and most of the loans are approved in field level so it's a huge credit risk for the bank. But in BBL SME business generates more than 55% of total profit compare to other segments of BBL and the growth of the bank is remarkable. Repayment behavior of SME clients are dependent on lots of factor like loan size, exercise, interest rate, nature of business, age, education, experience, number of installment, and willingness of clients. In this report I try to find out the determinants of repayment behavior of clients through regression analysis. In regression analysis I found that there is a positive relationship between recovery arte and number of installment, if number of installment increases than recovery rate is also increases. Also there is a negative relationship between recovery rate and loan size, recovery rate is lower for bigger loans. Education has a positive impact in timely repayment though the result is not statistically significant. For better/smooth repayment and minimize the risk, BBL should increase the installments of SME loans, carefully assessing the bigger loans and also should consider the education and experience of the SME clients.



Background of the Organization:

BRAC BANK Limited is a scheduled commercial bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private limited company on 20 May 1999 under the Companies Act, 1994. The primary objective of the Bank is to provide all kinds of banking business. At the very beginning the Bank faced some legal obligation because the High Court of Bangladesh suspended activity of the Bank and it could fail to start its operations but eventually, the judgment of the High Court was set aside and dismissed by the Appellate Division of the Supreme Court on 04 June 2001 and the Bank has started its operations from July 04, 2001. The Chairman of the Bank is Sir Mr. Fazle Hasan Abed. Now the Managing Director of the bank is Mr. Imran Rahman. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation.

Corporate Vision

“Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a "just, enlightened, healthy, democratic and poverty free Bangladesh".

Corporate Mission

** Continuous endeavor to increase fee based income

**Keep our Debt Charges at 2% to maintain a steady profitable growth

**Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services

**Manage various lines of business in a fully controlled environment with no compromise on service quality

**Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

Corporate Values: The Bank's Strength emanates from its owner - BRAC. This means, it will hold the following values and will be guided by them as it does its jobs.

- Value the fact that we are a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as a team to serve the best interest of our owners

- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do.

Board of Directors:

Mr. Muhammad A. (RUMEE) ALI, Chairman	
Shib Narayan Kairy Chairman of Board of Audit Committee	**Tamara Hasan Abed,** Director
Mark A. Coffey **(Nominated By Shorecap International Limited),** Director	Nihad Kabir, Director
Mr. Quazi Md. Shariful Ala **(Nominated by BRAC),** Director	**Dr. Hafz G.A. Siddiqi** **Depositor Director.**

2.10 Management of BRAC BANK Limited:

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 5 directors in the management of the bank. All the directors have good academic background and have huge experience in business. **Mr. Fazle Hasan Abed** is the chairperson of the bank. The board of directors holds meetings on a regular basis. The current management teams and board of directors' name are given in the following table:

Products and Services:

1. Small medium enterprise (SME)
2. Corporate banking
3. Retail banking

Small & Medium Enterprise (SME):

For SME loan operation, BRAC BANK Ltd has in total 417 unit offices, 167 zonal office, 14 territory and 1800 Customer Relationship Officers. These CROs work for the Bank to converge clients for getting the SME loan. Once CROs get the loan application and if it is less than 500,000 TK then zonal officer has the authority to approve the loan. But if it is above 500,000 then the CROs send it to Head Office for all necessary approval. After approving the loan then Asset Operation Department starts its work.In May 2007, AOD has processed 3249 files amounting Tk. 1,235,200,000. So SME Division's success greatly relies on the performance. Up to April 2007, BBL provides loans for 70000 clients and in total 2265 crore TK. But the most important thing is only 17 crore TK is bad loan; this is a great achievement for SME unit of BBL. Currently they have 44147 outstanding clients and in total 1070 crore TK SME loan.

SME Products-

1. Prothoma Rin.
2. Supplier Finance.

3. Anonno Rin.

4. Digoon Rin.

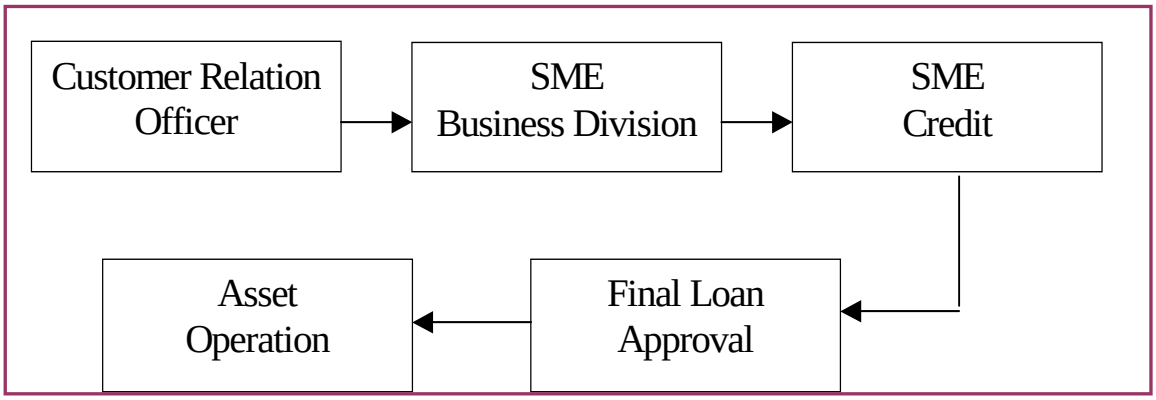
5. AroggoRin.

6. Pathshala Rin.

7. Opurbo Rin

SME Loan process flow is shown below-

When a customer comes to the unit office for a loan request, first he/she meets with the customer relationship officer to discuss about the loan, which loan product is suitable for him/her. After then the following process takes place:



Overview on SME loan

The most valuable natural resource of Bangladesh is its people. As a nation we struggled for our independence and now the attainment of economic uplift is the main goal. Micro lenders are working here in the financial field, providing very small amount and on the other hand regular commercial banks have been providing bigger amount of loans to larger industries and trading organizations. But the small and medium entrepreneurs were overlooked. With this end in view-BRAC BANK was opened to serve these small but hard working entrepreneurs with double bottom line vision.

Security Documentation against Loan:

A document is a written statement of facts and a proof or evidence of particular transaction between parties involved. While allowing any disbursements against credit

facilities to borrowers, it should be ensured that prior to any disbursements; security documentation is fully and properly completed.

01 Purpose of Decorate Documentation and its Importance:

Documentation is necessary for the acknowledgement of a debt and its terms and conditions by the borrower and the creation of charge on the securities in favor of the bank by the borrower. Correct and proper documentation allows a bank to take legal measures against the default borrowers.

If filing a suit with the courts against a default borrower becomes necessary, the court will first review all documents. If any of the documents is found to be defect or incomplete, the purpose of security documentation will be defeated and a court ruling in favor the bank cannot be expected. Proper care should, therefore, be taken while completing security documentation.

.02 Types of Securities:

The following listed securities may be obtained from borrower against loan to enterprises, either individually or in a combination.

It is really up to the bank what they would like to accept as security from the borrower as not all the securities stated below are suitable:

- Mortgage of loan and other immovable property with power of attorney to sell
- Lien of Fixed Deposits receipts with banks and other non-banking financial institutions, lined, these have to confirm by the issuer.
- Lien of Pratirakshay sanchay patra, Bangladesh sanchay patra, ICB unit certificates and wage earner development bond, all considered Quasi or Near cash items
- Lien of shares quoted in the stock exchange (This is rarely accepted)
- Pledge of goods (Banks are akin to stay away from such securities now a days)
- Hypothecation of Goods, Book Debt & Receivables, Plant & Machineries
- Charge on fixed assets of a manufacturing enterprise
- Lien of cheque, Drafts and order

- Lien of work orders, payment to be routed through the bank and confirmed by the issuer.
- Shipping documents of imported goods

.03 Land Related Securities Documentation Process:

Each SME unit offices are lilies with at least two local lawyers who will work on behalf of the bank. These always will be employed whenever a borrower and where the security will be landed and immovable property accept a loan sanction. Any one of the lawyers will be provided with photocopies of all the relevant land related documents and while handing over show the original documents to them, the lawyers will carry out checks of the originals and if satisfied returned to the borrower. The documents generally provided are:

- Title Deeds or Deed of conveyance otherwise known as 'Jomeer Dalil', which signifies ownership of a particular land.
- Baya Dalil or Chain of Documents, which signifies that the conveyance of titles has been proper and legal.
- Mutation Certificate if Khatian which signifies that the title if the land has been duly registered in the Government/Sub-registrar's records.
- Duplicate Carbon Receipt or DCR
- Latest Khajna or land rent receipt
- Purchase such as CS Khatian, SA Khatian and BS Khatian
- Mouja Map Municipal rent receipts if the land falls within a municipal area

04 Mortgages:

I) Equitable Mortgage or Memorandum of Deposit of Title Deeds It is created by a simple deposit of title deeds supported by a Memorandum of Deposit of Title Deeds along with all the relevant land documents.

ii) Registered Mortgage

It is created by an execution of a Mortgage Deed registered irrevocably in favor of the bank at the Sub-Registrar of land's office.

05 Basic Charge Document

Following precautions should be taken at the time of execution of the security documents:

- The signature on the documents should be made in the presence of the CRO. The CRO should sign as witness on all charge documents.
- The document are to be filled in with permanent ink or typed
- If the document consist more than I page, the borrower should sign on each page
- If the signature of any third party is required to be obtained whose specimen signature is not available, then the main applicant should verity the specimen signature of the third party
- No document or column in any document should remain blank

As far as possible there should be no erasure, cancellation or alternation in the document. If, however, there is any correction, overwriting or alteration, then that must be authenticated by a full signature of the signatory.

06 Other Basic Charge Documents:

I) Demand Promissory Note (DP Note)

It is a written promise by a borrower to pay the whole amount of existing or future loans/credit facilities on demand

ii) Letter of Continuity

This instrument is used in conjunction with the demand promissory note. This is to secure rights of recovery for existing and future credit facility, which are advanced in parts or on a recovery basis.

iii) Letter of Arrangement

This is a right given by the borrower to the bank to cancel the facility at any time without having to assign any reason.

IV) General Loan Agreement

A loan agreement is an agreement of contract stating the general terms for the extension of a loan or credit facilities

v) Letter of Disbursement

This is simple a letter requesting disbursement of the loan/credit facilities at the agreed rate of interest.

Selection of Potential Enterprise for SME:

Enterprise Selection Criteria:

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

1. The business must be in operation for at least one year
2. The business should be environment friendly, no narcotics or tobacco business
3. The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
4. The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
5. The business must have a defined market with a clear potential growth
6. The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.
7. Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

Entrepreneur Selection Criteria:

In order to understand the capability of the management behind the business, the following should be assessed:

1. The entrepreneur should be physically able and in good health, preferably between the age of 25-50.
2. The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
3. The entrepreneur must have and acceptable social standing in the community, he should possess a high level of integrity and morally sound

4. The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business
5. Suppliers or creditors should corroborate that he pays on time and is general in nature
6. Clear-cut indication of source of income and reasonable ability to save.

Guarantor Selection Criteria:

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should posses the followings:

1. The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
2. The guarantor should be aware about all the aspect of SEDF loan and his responsibility
3. Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
4. Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.
5. The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

Terms and Conditions of SME Loan:

The SME department of BRAC BANK will provide small loans to potential borrower under the following terms and condition:

- The potential borrowers and enterprises have to fulfill the selection criteria
- The loan amount is between Tk. 2 lacs to 30 lacs.
- SME will impose loan processing fees for evaluation / processing a loan proposal as following;

Loan Amount	Loan Processing Fee
2 lacs to 2.99 lacs	Tk. 5000
3 lacs to 5 lacs	Tk. 7500
5.01 lacs to 15 lacs	Tk. 10,000
15.01 lacs to 30 lacs	Tk. 15,000

Monitoring:

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the build up of an information base for future reference.

SME Banking System:

- Every SME unit office will have a current account with a designate bank in the area of a unit office. This bank account will be opened and operated by SME head office.
- To meet petty expense such as stationary, entertainment and other incidental expense, all unit office will be allowed patty cash of Tk. 2000/=
- The cheque of this patty cash will be issued from SME head office in the beginning of the month. All vouchers relating to such expenses should be send to the accounts from SME head office
- All the clients must open their account with the same bank account on the same day after receiving those from the borrowers, who should given a received as prescribed.
- Cheques should be deposited to the SME unit office bank account on the same day after receiving those from the borrowers, who should given a receipt as prescribed.
- Any loan installment credit should be transferred to the SME head office account in Gulshan, Dhaka on the same day as per agreement with bank.
- Every CRO should have an individual account in the same bank branch for their personal use and to receive their salaries and other benefits.

- Payment of lease rentals, utility bills and cheque drawn on the SME unit office bank account and issued by SME head office should pay other expenses (Large amount). If these bills are small amount, they should be paid from the patty cash and replenished later.
- All the financial accounting entries will be passed at the SME head office and will maintain separately on the basis of the unit office.

Procedure of BRAC BANK SME loan

Loan Sanction:

The respective unit office sanctions loan to the client if it is 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the loan administration division for disbursing the loan

Disbursement of SME loan:

Pre Disbursement Manual Activities:

1.Prepare loan file: Receiving all documents, Loan Administration Division prepare a loan file with all documents received from the unit office.

2.Charge documents checking: The loan administration division checks all charge documents.

3.Documents deficiency and problem resolving: If there is any error found then it informed to the respective CRO

4.Prepare disbursement list: The loan administration division lists all new sanctioned clients' details and send a request to the treasury through internal mail.

5.Disbursement of the amount: Sending the list to the treasury of BRAC BANK for disburse the amount, the treasury disburse the amount to the client through the mother account of the clients bank.

SME Loan Recovery Procedures:

The repayment process starts immediately after one month of the loan taken. Suppose if a loan is taken in July 7, 2007 then the repayment process will be started from August 7, 2007 and the borrower will pay his/her first installment in that date. Before that date, the borrowers will be informed about the number of installments and amount of each

installment. He can deposit the installment by himself or by the Customer relationship officer (CRO). If the borrower cannot pay the installment in the stipulated date, interest will be charged for each day before they pay that installment. Again interest will be reduced if the borrower pays the installment before the date of repayment. Interest will be charged and added to the principal amount for every month or every 3 three months depending on the policy for each loan disbursement.
How ever, after the borrower repays the loan installments there are number of steps done in the repayment procedure of SME loan.

Why Reconciliation?

To identify the nature of reconciliation items and adjusts these to ensure that the profit and loss and balance sheet reflect the true net position of the bank at the consolidated level.

1. Enhance the control environment.
2. Minimize the enterprises risk

Key Finding by Audit

Brac Bank has 429 unit offices around Bangladesh from where they do SME business by the help of corresponding bank, because BRAC bank has not enough branches or service center in Bangladesh. For that reason they open an account on listed few banks and run their SME business well.

Listed Corresponding Bank Which Use by BRAC bank for SME business is:

1. Pubali Bank Limited (PBL)
2. Rupali Bank Limited (RBL)
3. Janata Bank (JB)
4. Agrani Bank (AB)
5. City Bank Limited (CBL)

6. National Credit & Commerce Bank (NCCBL)

Every transaction has done by the corresponding bank. Every single client have individual loan and link A/C no. They have taken installment from loan client and give a deposit slip (DS) to the client. Then client goes to the unit office of BRAC bank and Customer Relationship Officer (CRO) issue a money receipt (MR) against deposit slip and take a copy of money receipt and deposit slip for attaching in the client loan file.

Last three months of internship, most of the time I did pass my working hour in total 38unit office in Dhaka zone, Chittagong zone, Thakurgaon zone, and Satkhira zone as well. My role was an audit where I visited the unit office and check every loan clients file where my headache was to follow the deposit slip and money receipt and matched with Bank statement (BS) that amount which mentioned in the MR&DS. Some major findings are given below:

(a) A/C no mismatch in bank statement: The first finding of my audit to get loan client A/C no mismatch in bank statement. It is happened in every single SME unit office. Obviously it something causes loss for banks perspective. Because in one unit office I found that for example, two clients A and B. client A give the installment of 20000tk but that particular money had written in client B's account where the situation was client B had one installment left for closing his loan account. As a result, client B's account was closed and not shown in client A's account. After that situation when the bank found the mismatch, banks couldn't sue or got client B. as a result bank have lost 20000tk.
(b) Money receipt and Deposit slip not found: Secondly, some old loan client file had not kept properly. As a result when I went to unit office, most of the deposit slips and money receipt had missed. It causes problem for the client and CRO as well. Because without proper document loan A/C can't be closed.
(c) Giving cheque but did not honor in bank: One loan client gave a cheque in bank for his regular installment. But the cheque was not honored at all. But in bank statement that client money had written but it was totally fake. I found this

problem when a CRO asked me that why that client loan account can’t be closed? After passing 1 hour that found was recovered by me and finally i told that CRO, those installment cheque was not honor and this loan will not be closed yet this amount of money bank receive.

(d) Irresponsible CRO/ZMin few unit offices: By auditing, I got little irresponsible CRO/ZMin unit office. If i suppose to take/count moheshkhali unit office, then i can say that for ZM/CRO banks receive loss in that unit office. Because account assistant though told the CRO/ZM lots of time that bank must have loss ample of money if u give loan to that customer. But ZM/CRO can’t realize his speeches. As a result i found that bank have lost 3 lakhs taka.

Conclusion:

In conclusion, last three months of internship I have passed with great pressure also encouragement for doing job in any banking organization. It was also great achievement for my life which can help into my professional life. I have learned many things which is related to SME section. Everybody was very helpful in the organization. They taught us many important things as well. Overall I have passed last three months like an executive of BRAC bank not like intern.