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ADVANCE WORKING REPORT ON LOAN MANAGEMENT PROCESS OF NATIONAL HOUSING FINANCE & INVESTMENT LTD: Operational Department

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ADVANCE WORKING REPORT ON LOAN MANAGEMENT PROCESS OF NATIONAL HOUSING FINANCE & INVESTMENT LTD

"Operational Department"

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May, 2012.

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ABSTRACT

Housing is a vital concern for Bangladesh. A large number of people is incapable of having habitable shelters with minimum services due to poverty or insufficient income in relation to high cost of housing. In addition to government's earlier effort, many non-government organizations and corporate business organizations have emerged in order to meet the housing demand of the country. Among these organization, NGOs provide small home loans in terms of micro-credit to the poor, whereas private housing finance institutions provide home loans to middle to high income group. These housing finance institutions are currently facing many challenges regarding raising low cost funds, high competition, risky environment for investment, and improper government policies. Internal management inefficiencies due to inefficient supply of skilled and trained human resources cause addition hurdle for these organizations to operate profitably.

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ACRONYMS

BDT – Bangladeshi Taka

BHBFC – Bangladesh House Building Finance Corporation

DBH – Delta-Brac Housing Limited

EMI – Equal Monthly Instalment

FDR – Fixed Deposit Receipt

GOB – Government of Bangladesh

HFI – housing finance institutions

ICT – Information and Communication Technology

IT – Information Technology

MIS – Management Information Systems

NGO – Non-Government Organization

NHFIL – National Housing Finance and Investments Limited

ROCE – Return on Capital Employed

ROE – Return on Equity

ROI – Return on Investment

ROIC – Return on Invested Capital

TPA- Tripartite Agreement

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NATIONAL HOUSING FINANCE & INVESTMENT LTD

"Operational Department"

CHAPTER ONE

INTRODUCTION

1.1 Background

Housing is one of the basic primitive human needs which not only provides physical security but also is related to other issues of human life. Housing has significant impact on human lives in terms of self-confidence, income generation, skill enhancement, health, and human dignity (Sarker *et.al.*, 2009). Thus, both the Constitution of People's Republic of Bangladesh and the UN Declaration on Fundamental Rights recognized shelter as one of the basic fundamental human rights.

Housing is a vital concern for Bangladesh. Bangladesh with a very high population density is facing acute problem in providing housing for all. Due to low economic growth of the country and intense poverty, a large portion of the population can not afford habitable shelters; also many thousands remain houseless.

Among available housing stocks of the country, majority of the units are built with temporary materials which need to be replaced within one to five years (Hoek-Smit, 1998). Moreover, frequent natural hazards like flash foods, tidal upsurges, cyclones and land slides also destroy thousands of houses (partially or fully) every year particularly in south and north-western part of Bangladesh. In addition to this, fairly a large amount of housing units that has been built outside the formal regulatory system in urban areas is another obstacle for the country to solve the housing problem.

Besides the poor, middle and high income group also face hurdles to afford housing due to high land price and development cost (particularly in urban and sub-urban areas) in relation to their income. They often require financial supports in terms of credit facilities to acquire their dream homes.

The Government of Bangladesh (GOB) is trying hard to solve the problem since long. In 1973, Bangladesh House Building Finance Corporation (BHBFC) was established to

provide credit facilities for construction, repair and remodelling of dwelling houses and apartments in cities, towns and other urban areas (Rahman, 2010). Later, in nineties GOB realized that to meet the continuous housing demand, BHBFC was not enough and thus encouraged private sector to enter into the market. As a result many housing finance institutions emerged and started functioning in the country. There are now 23 private companies that provide housing finance for construction of houses, acquisition of flats and houses, extension and improvement of existing housing and purchase of housing plots. These housing finance institutions (HFI) target the m idle to high income groups mostly in urban and sub-urban areas.

Besides the HFIs and GOB efforts, many NGOs come forward to contribute to this sector specially for supporting the poor in terms of micro-credit for housing. But the cumulative contribution of these micro finance institutions is also very poor. It seems to be that unless a dramatic change in the country in terms of socio-economic development, it is hardly possible for GOB to uproot the housing problem of the country.

1.2 Rationale of the study

Housing Finance Institutions and other non-banking institutions in Bangladesh face numerous challenges regarding sources of fund, cost of fund, asset-liability mismatch, limited opportunity to investment or investment in high risk portfolio, product diversification, high competition with banks, lack of human resources, lack of secondary market, and weak legal system of the country (Ahmed and Chowdhury, 2007). Many traditional banks are now entering into non-banking operations that makes the market more competitive for the non-banking institutions including housing finance institutions. Housing Financial Instituations do not have access to low cost funds as the bank does. According to Choudhury (2001), the average cost of funds for banks was between 7 to 8 in 2001 while the cost of fund for non-banking institution is almost double than that of banks. At the same time, non-banking financial institutions have very few products and financial services. This limited scope of product diversification and the high cost of fund compel these institutions to invest in high risk portfolio while the profit margins remain well below to that of banks. In addition to this, the inefficient supply of skilled and trained human resources simply worsens the situation.

Because the scope of work in non-banking financial institutions for skilled personnel is very limited in comparison to that of other organization especially banks, the overall retention rate in the industry is very poor (Ahmed and Chowdhury, 2007). The shortage of efficient human resources arises two important issues for HFIs. Firstly, a hike of compensation packages due to this shortage results an increase in the operating cost and secondly, many organizations for avoiding excess operating costs rely on inexpensive but unskilled personnel which deteriorate the overall organizational performance.

To operate in such a competitive market operational efficiency is one of the critical success factors for the housing finance institutions. Information technology here can contribute to the operational performance of these institutions by uplifting the quality of service and providing complete and timely information to all level of managements. Although in many early studies found that information technology investment for cost reduction is not effective (Griffiths and Remenyi, 2003) due to required high initial investment, technology has always a positive impact on productivity of an organization.

In recent years, because the price of information technology equipments has fallen sharply, many organizations (mainly private companies) in Bangladesh has already started using computer and network technologies to support their business activities. Thus, now the challenges for these organizations are not concerning to the reduction of operating cost by introducing technology, but to organize the already acquired technologies in such a way so that they can produce high productivity and thus high overall performance of the organization.

Information technology therefore can reduce the gap between efficient management and the present crisis of skilled personnel to a great extend by introducing better control mechanisms in business activities, greater coordination among business processes, reducing cumbersome human labour in processing and producing information and of course increasing the communications among employees, management, customers and other business parties. At the same time, information technology can be used for value creation which in response, can improve the customer confidence and helps the organization pursue long term business relationships with its clients.

1.3 Objective of the Study

Emergence of Housing Finance Institutions has created a new field of study for management and managers.

The basic objective of the study is to understand the nature of Loan management process of housing finance institutions and the problems associated with them. To accomplish this objective, the following specific objectives have been covered:

1. Study the nature of Loan management process and how the loan is disbursed from housing finance institutions in Bangladesh.
2. Reveal important issues involved in loan management process of housing finance institutions in Bangladesh.
3. Recommend guidelines to overcome the problems faced by these institutions.

1.4 Methodology

The basis of the study was a to understand how a Lease finance company works in Bangladesh during my three-month internship in National Housing Finance and Investments Limited. During the study, data has been collected from many employees and operation level managers through discussions. Business processes have been closely observed and notes have been taken from people working in the company. Nevertheless, the policy papers of the organization have been analysed. The report focuses on the research of home mortgage sector in the Operational department relating to my report on "Loan management process".

1.5 Limitations of the study

During the study, a lot of hurdles had to be overcome. The study was completed in limited time period of three months. Moreover, during the internship period, most of the time had been spent in doing the assigned jobs by the organization which actually truncated the original time. Because access to all necessary data was limited and the employees of the organization could not provide all required information due to their time constraint, all organizational business processes were not fully understood.

CHAPTER TWO
BACKGROUND OF THE COMPANY

2.1 Vision and Mission

National Housing Finance and Investments Limited (NHFIL) declares its mission as to be a role model financial institution in Bangladesh and doing business for social growth ensuring corporate social responsibility and highest standard of business ethics. NHFIL in its mission statement declares itself as an 'Equal Housing Lender'. NHFIL's vision is to innovative products at competitive price, to ensure customer satisfaction through using latest technologies, to ensure a steady return on shareholders' equity.

2.2 Goals and Objectives

NHFIL has fixed its goals to build up excellent client relationship for ensuring long-term value to the shareholders. For achieving its goal, NHFIL has following objective: to follow a stringent investment strategy and control procedures. Simultaneously, for maximizing shareholders' value NHFIL pursues ways to reduce cost by applying effective monitoring policies and maintains highest standards of transparency and strengthening corporate governance practices.

2.3 Core values

National Housing Finance and Investments Limited (NHFIL) protects national interest and engages itself in the process of national growth and prosperity. NHFIL always tries to create good leaders rather than typical managers and emphasizes on trust, fairness, confidentiality, transparency, integrity and social responsibility. It also maintains pace with technological art and appreciation of innovative ideas.

As part of corporate social responsibility, NHFIL does not provide any loan to any project which is environmentally hazardous or to any child labour oriented company. In case of home mortgage loans, if a client becomes incapable of repayment of loans/instalments, NHFIL reschedules and/or blocks for reasonable durations with instalments commensurate with their ability to pay their loans. NHFIL always provides loans at comparatively low interest rate and with reasonable terms and conditions.

2.4 Corporate Structure

The company is directed by the Board of Directors with ten members. Among the members of the board one member is elected as the Chairman of the Company. The Board and the Chairman appoints the Managing Director for overall management of the

company. The Company Secretary works under the Board whose prime responsibility is to ensure compliance with statutory and regulatory requirements and for ensuring that decisions of the Board of Directors are implemented. External Auditors are appointed or selected by the Board for auditing the company's financial activities.

The Finance and Administration, MIS and the Operations are the two major divisions working under the Managing Director. These divisions are further divided into departments. Every department is run by a Head of Department.

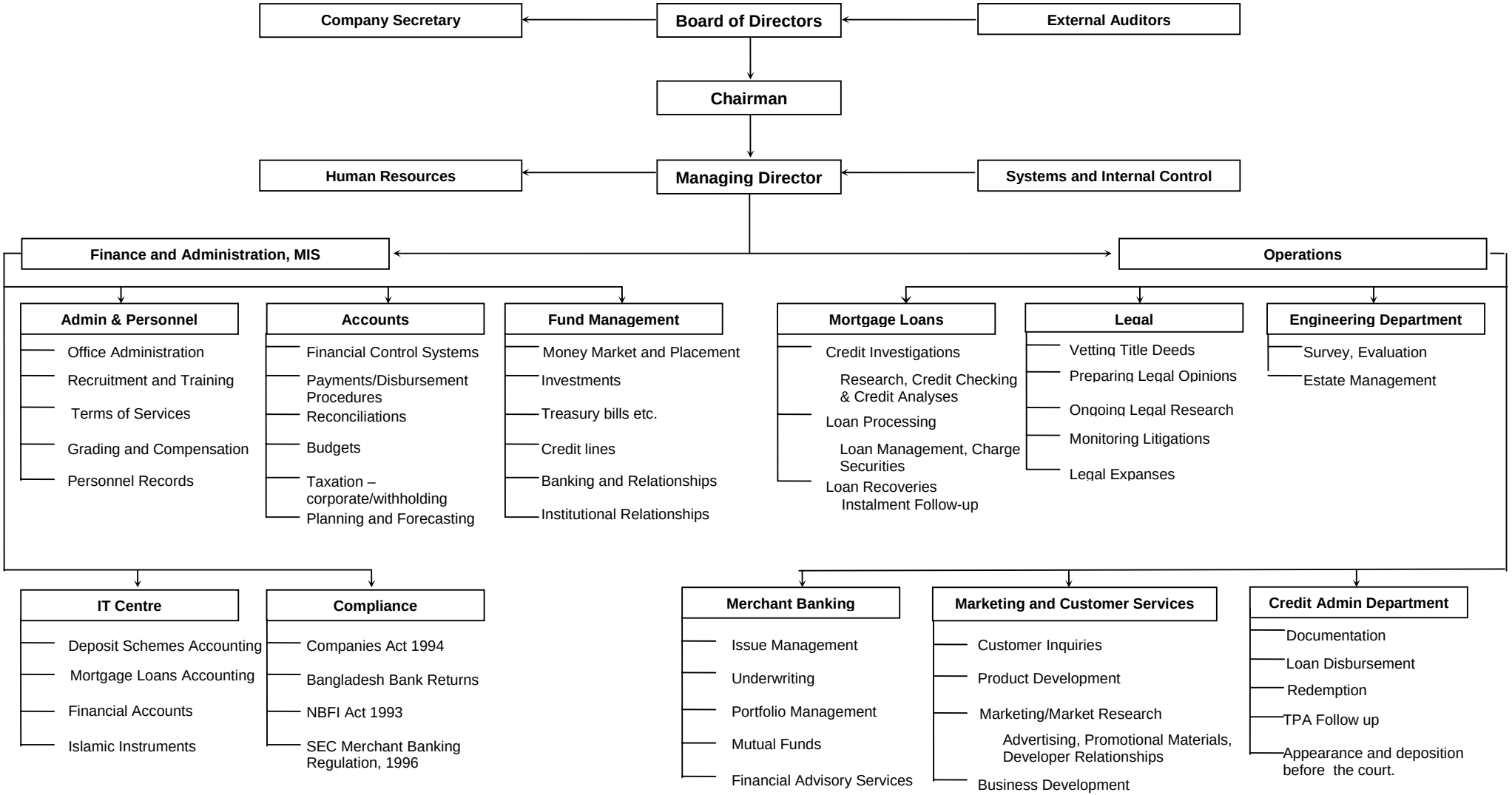


Figure 2.1: Organization Chart of National Housing Finance and Investments Limited

2.4.1 Marketing and Customer Services

Marketing Department deals with promotional campaign of the organization's products. They talk to the customers and identify their needs and propose company's products to the customers. This department maintains healthy relationships with exiting clients, potential clients and interested organizations like developers and their associations with a view to develop new businesses.

Marketing Department's tasks is also performed in the home mortgage sector, where employees does counselling with new clients for loan purpose and maintains relationship with existing clients.

2.4.2 Housing Finance Department

This department evaluates loan requests and sanctions the loan. When customers request for home loans, councillors of this department consult with those customers. They evaluate the requests from customers and make loan proposals. These proposals are forwarded to the sanctioned authority for final evaluation and approval of the loans.

After the sanction of a loan this department has to make a disbursement schedule and disburse the sanction amount according to that schedule. I have seen some sanctioned loan being cancelled because of a bad report about the client that came out after the loan is sanctioned. This is one of the problems that should be addressed; clients should be scrutinized perfectly before their loan proposal is sanctioned.

2.4.3 Lease Finance Department

Lease Finance Department handles the leasing requests. They make proposal after preliminary evaluation of the request and the proposal is submitted to the approval authority at the same way as done by the Housing Finance Department.

2.4.4 Legal Department

Legal Department verifies title documents and deeds during the process of mortgaging client's property. Based on the client's documents, it expresses its opinion about the requested loans and the client's proper in the form of legal opinion.

In case of insufficiency of title deeds, it could request a client to submitted required documents.

When the requested loan is sanctioned by the authority, this department prepare the deeds against the sanctioned loan. All necessary terms and conditions are mentioned in black and white in agreement deeds and placed before the client for final review and signature. In case of failure of clients to pay the instalment, the Legal Department takes necessary action to recover the loan by taking over the mortgage properties in case of mortgage loans, or files and processes case in the court in other occasions.

Legal Department also measures the strength of organization to handle legal issues through its research and experience. One of the primary problems with the legal department in the head office of NHFIL is that all the Loan proposals of all branches are sent to this one department for checking the information provided client is legit.

2.4.5 Engineering Department

Engineering Department evaluate the client's property in terms of property cost in current market price. Engineers survey the property sites with a view to analyse the future perspective of those properties. During such surveys they inquire the feasibility of the loan purpose mentioned by clients in their loan requests.

Engineering Department also makes a disbursement plan according to the construction plan of a client. An engineer can recommend how the money will be spent over different construction phases in case of building construction. The department also follow up the construction schedule. If they find any mismatch between the planned schedule and execution of such plans, they can recommend the authority to stop further disbursement of sanctioned loan.

Another major task of this department is to manage and maintain the mortgage property. One of the major problems with this department, which is a vital part of the mortgage department, is the follow up of the construction status after the loan amount is disbursed. Many clients use the loan amount somewhere else rather than the proposed plan they mentioned before taking the loan.

2.4.6 Loan Recovery and Collection Department

This department collects the instalments from clients. Generally, the instalments are made through cheques and these instalment cheques are collected from the clients prior to loan disbursement. The accounts department sends these cheques on time to the clients' banks for collecting the instalment. If the cheque is bounced back or dishonoured by the clients' banks, Loan Recovery and Collection Department contacts to the clients for filling their bank accounts with necessary amount of money.

If this department fails to contact to the client or fails to recover the loan, they forward the case to the legal department for taking legal action. Operational department deals with mortgage loans and the legal department works as support for all the departments. In my opinion more people should be hired to take the share the workload.

2.4.7 Accounts and Finance Department

Accounts and Finance Department is the heart of any business organization. This department plan and execute Financial Control Systems, prepare budgets, disburse and collect loans. All sorts of transactions, reconciliations, corporate taxing and operational expenses and incomes are dealt by this department. Financial forecasting and planning is also done by this department.

All departments have to report to this department for fund assessment to petty cash expenses etc.

2.4.8 Fund Management

This department collects fund from available sources and make investment plans. This department maintains and build new industrial relationships. Credit line analyses and money market analyses are also the primary concern of this department.

2.4.9 Admin and Human Resource Department

The department is responsible for general office administration and human resource management. Recruitment, training, performance appraisal, promotion and personnel relationship management are the major functions of these departments.

2.4.10 Treasure Department

This department analyze the fund inflows and outflows according to the Annual Business plan.

2.4.11 Information Technology Department

Like the accounting department today's IT department has established link to all other departments in an organization. IT Department is concerned with secured and smooth interdepartmental data flow across the organization; lubricate information flow using viable technology (both hardware and software), maintenance company wide IT infrastructure and improving existing systems.

Major activities performed by the IT department are maintaining the local network, keeping the computers operational, and taking database backups, collection of data from different branches inside and outside of Dhaka and upgrading the database. At the same time developing new software and modifying present software are also done by the IT department.

2.5 Financial Performance of the Company

National Housing Finance and Investments Limited continues to operate with increasing profit growth. In 2006, *Return on Capital Employed (ROCE)* was 0.22 and in 2007 it increased to 0.25 and in 2008 *ROCE* further increased to 0.26. This indicates that the profit growth is increasing marginally. Company's *ROE (Return on Equity)* had a different pattern in 2007 and 2008; *ROE* decrease to 0.14 in 2008 from 0.18 in 2007. The reason behind this is that loan loss kept for year 2007 unexpectedly increased in 2008 which caused a downturn in *ROE*.

The company is also facing liquidity crisis. In 2007 and 2008 the *Current Ratio* of the company were respectively 0.51 and .061. Although the ratio is well below than the expected range, the ratio tends to increase which means that the company is gradually

overcoming the liquidity crisis. *Quick Ratio* had a similar pattern in financial year 2007 and year 2008. In 2007 the quick ratio was 0.34 which was increased in 2008 to 0.45.

Debt Equity Ratio was 0.98 and 0.99 in financial year 2007 and year 2008 which is well above the expected range (< 0.5). On the other hand, the *Management Rate of Return* was 0.07 in year 2007 which was decreased to 0.06 in the next year which signifies the management inefficiencies. At the same time, *Net profit to tangible Net Worth*, which is a complementary ratio to the previous one, was also very low and tends to deteriorate continuously. In 2007 the ratio was 0.16 and in the next year the ratio decrease to 0.11.

In comparison to the market leader (Delta-Brac Housing Limited), the overall financial performance of National Housing Finance and Investments Limited is very poor. In 2008 the ROCE, ROE of Delta-Brac Housing (DBH) Limited both were 0.41 which is significantly higher than that of NHFIL. At the same time, the current ratio and quick ratio in 2008 of DBH were 2.66 and 1.28 respectively which also were much higher than NHFIL. The management rate of return of DBH was also much higher in 2008 (0.17) in comparison to that of NHFIL (0.06) in same year.

CHAPTER THREE
COMPANY'S PRODUCTS AND SERVICES

National Housing Finance and Investments Limited provides loans for both in housing sector and Industrial sectors for purchasing land, space and equipments. As well as the company has some deposit schemes.

Lease is contract between a lessor, the owner of the asset, and a lessee, the user of the asset. Under the contract, the owner gives the right to use the asset to the user over an agreed period of time for a consideration called the lease rental. The lessee pays the rental to the lesser as regular fixed payments over a period of time.

Leasing is an important new method of financing. Lease firms play a role analogous to that of banks and other financial institutions, but act by buying and then leasing equipment to their clients rather than loaning money to buy it.

Leasing is now a growing industry in many developing countries as well as Bangladesh. In spite of sluggish economic activities the growth of the leasing industry is significant. So, I try to find the opportunities and prospects and threats of leasing industries of Bangladesh for my study purpose.

3.1 Business Functions of NFHIL

The company serves all type of modern, progressive and dynamic households and business as well as offers the services of a modern Non Banking Financial Institution to the customers of all strata of the society.

During the short span of its operation, the company has been highly recognized and praised by the business community from small entrepreneurs to large traders and industrial conglomerates, and emerged as the fastest growing provider of financial solution in respect of business and profitability.

3.2 Principle products and services

Lease is a contractual relationship for use of an asset by the Lessee (the Client) for a specified period paying a mutually agreed rent to the Lessor (NHFIL). The lassor procured the asset for the Lessee who has the full liberty to select the asset, supplier, price including other terms & conditions. Lease rental is deemed based on acquisition cost and lease term. Lease term usually ranges from 3 to 5 years. Rentals are payable

usually on monthly basis, however, quarterly or half yearly payments can also be considered.

National housing finance and investments limited has already launched various services since inception .The principal services are mentioned below:

3.2.1 Mortgage loan

The Company offers mortgage financing for construction, developments and purchase of house, plots, apartments, real-estate, commercial space etc. Repayment occurs in the form of equated monthly installments (EMI) comprising of principle and interests. The company offers mortgage financing for a maximum of 15 years and interest rate for the EMI are reviewed based on prevailing market interest rate.

My research is based on mortgage loans which is disbursed from the Operational department, this is one of the most safe investment that NHFIL makes in terms of Loans. They give loans to clients for purchasing flats, lands, renovation purpose based on their monthly income and mortgaging the property that is being bought or some other property of the client which is satisfactory.

How to Apply: One can collect an application form from any of National Housing branch free of cost. You have to fill up the application form with the relevant information of yourself and your co-applicant. Usually the spouse of the applicant is become the co-applicant. But in case of co-ownership of property, each owner can be a co-applicant. You can process your loan with the help of our skilled loan promotion team. A non-refundable fee of 0.50% on the loan proposal amount is charged on the

client after receiving all filled out application form with all relevant supporting documents. This is the processing fee for the loan proposal.

Amount of Loan: One avail loan up to 70% of the value of apartment/house depending on ability. It can be possible for avail loan for a maximum of 25 years. But this period wouldn't exceed age limit of 65 or retirement date. For commercial space or plot maximum loan period is 15 years.

Interest Rate: NHFIL uses Standard Variable Rate to fixed interest rate which is depends on Base rate and Money Market. But they tried to impose competitive low interest rate.

3.2.2 Lease finance

As a part of its strategy to ensure steady growth and add value to shareholders, the company diversified its business into Lease Finance for acquisition of all types of Industrial, Manufacturing and Service Equipments. Lease is a contractual relationship between the Lessor (owner of the Asset) and Lessee (user of the Assets) for a Specified Period (Lease Term/ Period) against mutually agreed Rent (Lease Rental). In a lease transaction, the Lessee has the full liberty to decide the Equipment type, Supplier, Price including other terms and conditions and the Lessor purchase the Equipment on Lessee's behalf.

3.2.2.1 Major Advantages of Lease finance

The company has recently begun its financing service for industrial equipment, office equipment, corporate vehicles, machineries and so on in their specified terms and instalments.

- ✓ Prompt Service
- ✓ Simple documentation procedure
- ✓ Maximum funding
- ✓ Tax Advantage
- ✓ Off balance sheet funding
- ✓ Structured repayment is allowed matching with cash inflow.

3.2.2.2 Car Loan

NHFIL car loan facility provides the ultimate solution to materialize customer taste with their ability. NHFIL provides Maximum amount of loan is Tk.20.00 lac and within 90% of the quoted price and the loan processing fee is just 1.00 % of acquisition cost it gives comparative interest Rate and it is very easy & swift processing system for applying a loan. Term of loan is 12 months to 60 months period.

3.2.2.2.1 Term & condition for applying the car loan:

- ✓ Bangladeshi Citizen
- ✓ Any psychologically sound person over 22 years of age.
- ✓ Any employed person with a service length of at least one year.
- ✓ Net income excluding family expenses has to be higher than our rental / instalment amount.
- ✓ An individual has to possess at least 3 (three) years experience in case of business person or self employed professional.

3.2.2.3 SME Finance

Bangladesh Bank (BB) has introduced a Refinance Scheme for Small Enterprise Sector (hereinafter called the Refinance Scheme) with a fund of Tk. One hundred core (hereinafter called SEF) to support the development of the small enterprise sector by way of providing refinance facilities to banks and financial institutions for lending in the small enterprise sector on terms and conditions set forth in BB's ACSPD Circular No. 01 dated May 2, 2004.

National Housing Finance And Investments Ltd. declares its commitments to the objectives of the Refinance Scheme introduced by BB through ACSPD Circular No. 1 dated May 2, 2004 and to this end, carry out its small enterprise lending programmed with due diligence and efficiency and in conformity with appropriate administrative financial and banking practice.

3.2.3 Term loan

The Company also offers term loans of different tenures at comparative rates to the satisfaction of its clients. Term Loan is available to establish projects or to expand business for a term of 3 to 5 years at a competitive interest rate.

NHFIL provides term finance facility to meet the liquidity requirements mainly for of working capital. Regarding the facility period, interest rate, security and repayment structure NHFIL is very much flexible.

3.2.3.1 Short Term Loan

Short-term finance is a facility provided for a fixed period of one year. Within the period, the borrower pays back the principal along with interest. NHFIL offers short-term finance facility to its clients with a view to provide liquidity comfort in emergency situation. The purpose of this type of facility will be allowed only for a single purpose and for a single cycle of business.

Short Term Loan is offered in different forms to accommodate short term fund requirements:

Factoring: Factoring is a popular mechanism of managing, financing, collecting receivables and credit risk protection. It is a method of converting receivable into cash by selling receivables to a company that is specialized in the collection and administration of receivables. NHFIL will reimburse the balance amount on receiving payment from customer as per assignment of payment arrangement. The facility will enable to enjoy steady flow of funds towards higher volume of business resulting from its revolving nature and multiple effects.

Work Order Financing: Financing against work orders from reputed multinational companies, local blue-chip companies to facilitate mobilizing adequate fund towards meeting delivery deadline.

Working Capital: Financing immediate fund requirement for raw materials towards completion of work order.

3.2.4 Different types of Deposit Schemes

The company offers various deposit schemes in accordance with its client's suitability and needs effecting from 1st April 2005.Income Account, Term deposit account and double money account are the lucrative deposit schemes of the company as described below:

3.2.4.1 Monthly Income account

This scheme offers a fixed monthly, quarterly, or half-yearly income on the deposit for a period of two years with a minimum deposit requirement of tk.100,000/-.The depositors are offered to enjoy a regular cash flow during the term keeping their deposit intact, which is receivable at the end of the term. Assuming a deposit of Tk 1 lac a depositor shall get benefit as per following Table:

Term	Monthly Income(TK)	Quarterly Income(TK)	Half yearly Income(TK)
5 Year	1,111	3,333	6,665
4 Year	1,111	3,333	6,665
3Year	1,111	3,333	6,665
2Year	1,055	3,165	6,330

Figure: 3. 1 Monthly Income account

3.2.4.2 Term deposit accounts

It offers attractive returns to the depositors on a minimum deposit of tk.5000/- the principal along with interest are paid at the end of maturity which ranges from 1to 3 years. This scheme is attractive to the depositors as they can earn higher return due to the interest compounded over the periods till maturity.

3.2.4.3 Double money Account

Depositors are offered to double their deposit in 72 months, where average rate of return is 16.67 %. with a minimum deposit of Tk.50000/-in this scheme of the company.

3.2.4.4 Monthly saving scheme

It allows people are to save in affordable instalments and enjoy attractive return at the end of the tenure. The saving tenure is of 3and 5 years. At the end of term he can get huge lump sum money as per following Table:

Term	Monthly Installment Tk 500	Monthly Installment Tk 1000	Monthly Installment Tk 1500	Monthly Installment Tk 2000	Monthly Installment Tk 2500	Monthly Installment Tk 5000
3 Year	21,750	43,500	65,260	87,015	1,08,770	2,17,540
5 Year	41,250	82,500	1,23,750	1,65,000	2,06,250	4,12,500

Figure: 3.2 Monthly Saving Scheme

3.2.4.5 Millionaire saving schemes

It offers the depositors to save in equal instalments in every month until seven or ten years. At the end of the saving tenure, the depositor becomes millionaire. Details as follows:

Monthly Deposit	Amount receivable on maturity	Payable after maturity
7,750	7 Year	Tk 10,00,000
4,440	10Year	Tk 10,00,000

Figure: 3.3 Millionaire saving schemes

CHAPTER FOUR

LOAN MANAGEMENT PROCESS OF NHFIL

Business processes refer to the unique manner in which work is organized, coordinated, and focused to produce a valuable product or services. They describe the way an organization does its business and in an organization there are many business processes that collectively define how an organization achieves their goal, interact with its clients and carries out its internal activities.

There may be multiple processes exist in a single functional area of an organization; a business process can be organization-wide process involving multiple functional areas at the same time (Hawryszkiewycz, 1998). Among the many business processes in a firm, the processes which are crucial for the survival of the firm are known as critical business processes. Usually the critical processes are by nature organization-wide process.

4.1 Loan Management Process

Loan management process is one of the critical business processes of National Housing Finance and Investments Limited. Loan management process has two main sub-processes: loan approval and disbursement process, and collection and recovery process. I have focused on the Operational department (Home mortgage loans) in my research.

4.2 Loan Approval and Disbursement

The process starts when a client request for a loan and ends with the disbursement of the loan. After receiving a loan application from a customer, the application is checked thoroughly so that all necessary documents are available for justification. A loan proposal is prepared to present the customer's request before the approval authority. In

the process of making such proposals, risk factor is analysed and the opinion from legal and engineering department is accessed.

The disbursement procedure is same for every department, be it the Operational Department (Home mortgage Loans) or the Lease Department. From my research I have came to know how the loan is actually disbursed. After the Assistant manager and manager of each department is satisfied with the client's loan proposal, the file is moved to the VP and then to the managing director for approval or board of directors or the chairman.

Depending on the requested loan amount, a loan can be approved by either the managing director, or the chairman of the company, or the board of directors. The managing director can sanction a maximum amount of 2 million BDT; while the company chairman can approve a loan not above 5 million BDT in case of housing loan. If the requested amount exceeds the range of the managing director or the chairman, the approval of a loan depends on the decision of the board of directors.

After loan approval, a legal contract is made between the client and the company and a disbursement plan is made. Such plans depend on many factors including the progress of the construction work (in case of construction loans) or the process of acquisition (in case of other housing loan such as purchase loans). And finally the loan is disbursed according to the plan.

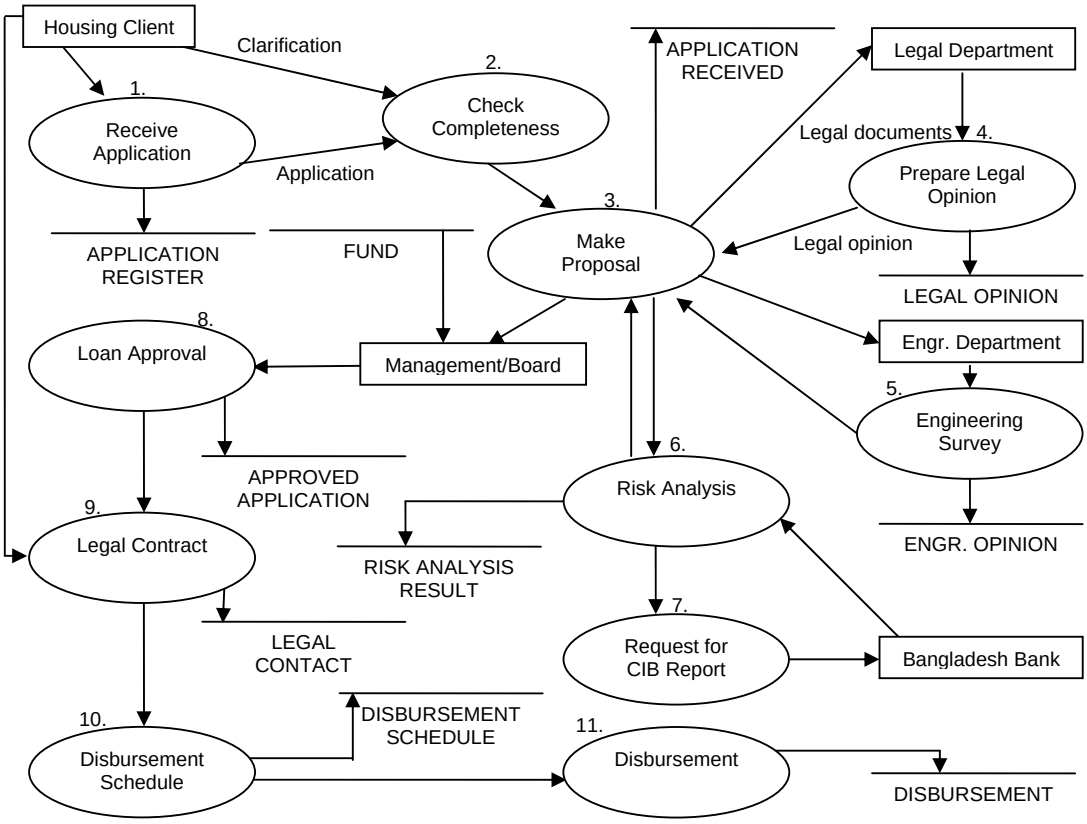


Figure 4.1: Process Diagram of Loan Approval and Disbursement

Previous housing loan data of NHFIL shows that more than half of the sanctioned loans (52%) were not disbursed after approval. For enhancing company's business, NHFIL appoints "Business Associates" under the marketing department. These business associates contact with potential customers and assist them to get loans from the company. The compensation and performance appraisal of these business associates depends on total monthly sanctioned loan amount solicited by them and their minimum monthly target is 2 million BDT. If they fail to meet their targets in consecutive three months, they are simply terminated. This may be a reason for the high rate of non-disbursed loan. The business associates might convince such customers to apply for loans who might not need the loan.

Although loan sanction process and loan disbursement process are completely two different processes, NHFIL can combine these two processes into one so that unless one sanctioned loan is disbursed, the process would remain incomplete and no appreciation

form the incomplete loan would be provided to anybody engaged with the loan. NHFIL should find out true reasons behind this abnormality and resolve the issue immediately.

4.3 Deviation in Leasing Loan Disbursement Process

Leasing finance also follow the same pattern except that the client can request to split the loan. In such cases, each loan fragment is treated as completely different entity. The difference is shown in the figure below.

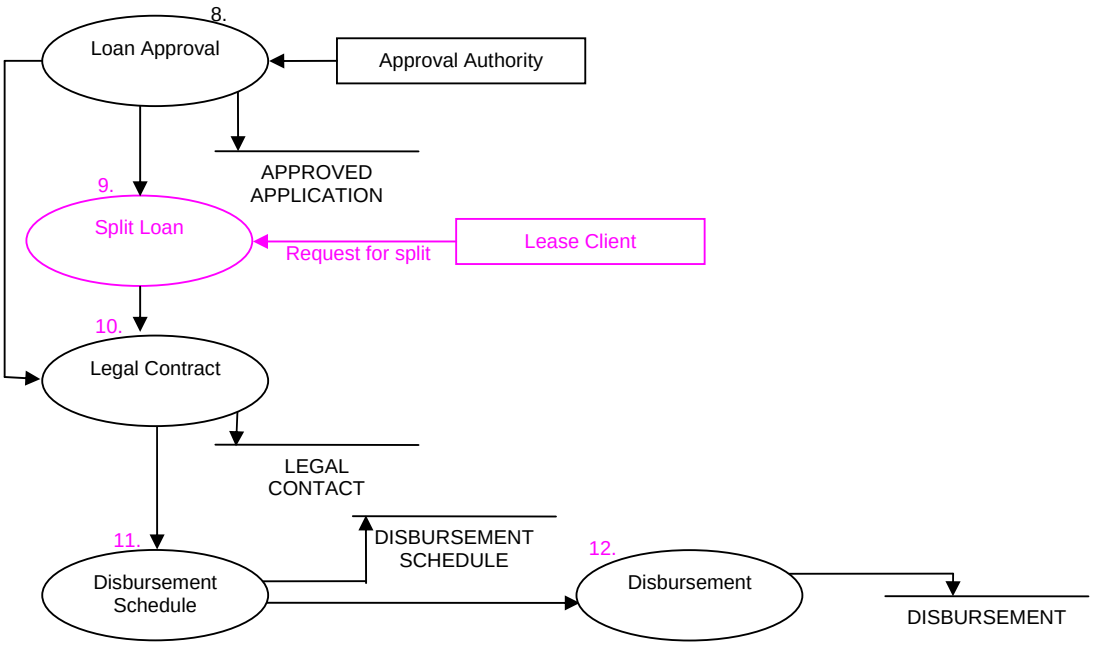


Figure 4.2: Partial Process Diagram of Leasing Loan Approval and Disbursement

4.4 Loan Collection and Recovery

In payment collection process, at first the clients whose payments become due are searched by checking disbursement dates from disbursement list. Cheques of relevant clients are collected form cheque inventory and then these cheques are submitted to bank. If the cheque is dishonoured from the bank, relevant department contact with such clients and requests for fill up their bank accounts with adequate amount of money. (The client has to pay additional charges every time when a cheque is dishonoured at the end of contact life). If the client fails to pay the instalment or payment, management could decides provide special offer for load re-schedule by decreasing the interest rate or increasing loan term. Otherwise, management ask legal department to take legal action against the client. Figure 4.3 depicts the repayment process and shows data flow during the process.

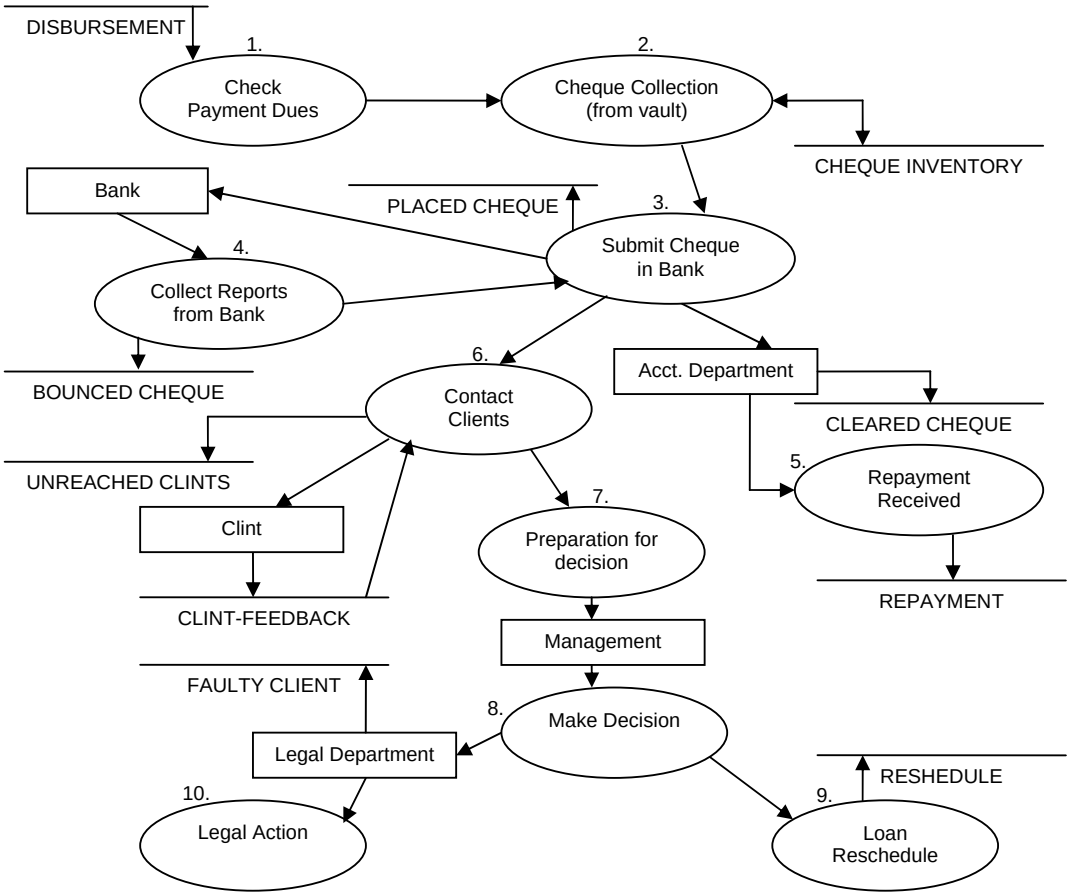


Figure 4.3: Process Diagram of Loan Collection and Recovery

Currently collection and recovery process is performed by two departments: Accounting Department is responsible for collection of cheques and placing them in bank; while Loan Recovery and Collection Department is responsible for client's payment follow-up and recovery.

In Figure 4.3, process number 6 and afterwards are accomplished by Recovery and Collection Department, but the previous processes are controlled by Accounting Department though collection seems to be the responsibility of the other department. Such engagement of Accounting Department in the process of loan collection and recovery make it difficult for Recovery and Collection Department to obtain data of faulty clients. Rather than controlling the first three steps, Accounting Department's responsibility should be limited to only receiving the clearance notes (process no. 5 in Figure 4.3) which is truly their obligation.

4.4.1 Loan Pre-payment Process

NHFIL's clients can pay part or full amount of loan before maturity. In such cases of prepayments, clients have to pay the outstanding interest till the current date and a payment charge. Prepayment process is same as collection process except that in prepayment slight changes take place in first two processes and an additional process comes at end.

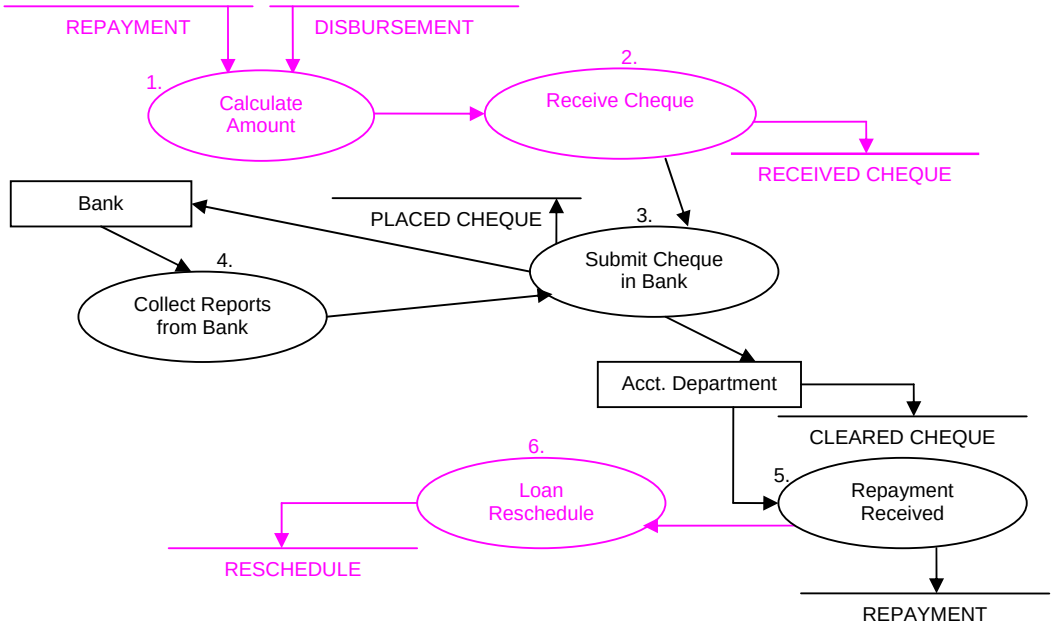


Figure 4.4: Process Diagram of Loan Prepayment

Prepayment process is shown in Figure 4.4. First, the charges are calculated and the client is requested to pay the amount by cheque and the cheque is received and sent to bank. After confirmation form bank, his/her remaining loan amount is adjusted by loan rescheduling.

4.4.2 Pre-EMI Interest Payment

If a client takes only part of sanctioned loan amount and wants to only pay the interest on taken amount before he takes the full sanctioned amount, the client is permitted to do so. The period between the dates of first and the last disbursement is recognized as Pre-EMI period EMI refers to Equal Monthly Instalment and because until full disbursement of a sanction loan client does not pay the monthly instalments, the interest taken by the

company during Pre-EMI period is termed as Pre-EMI interest. Pre-EMI interest collection process is similar to prepayment process. The Pre-EMI interest collection is shown in Figure 4.5.

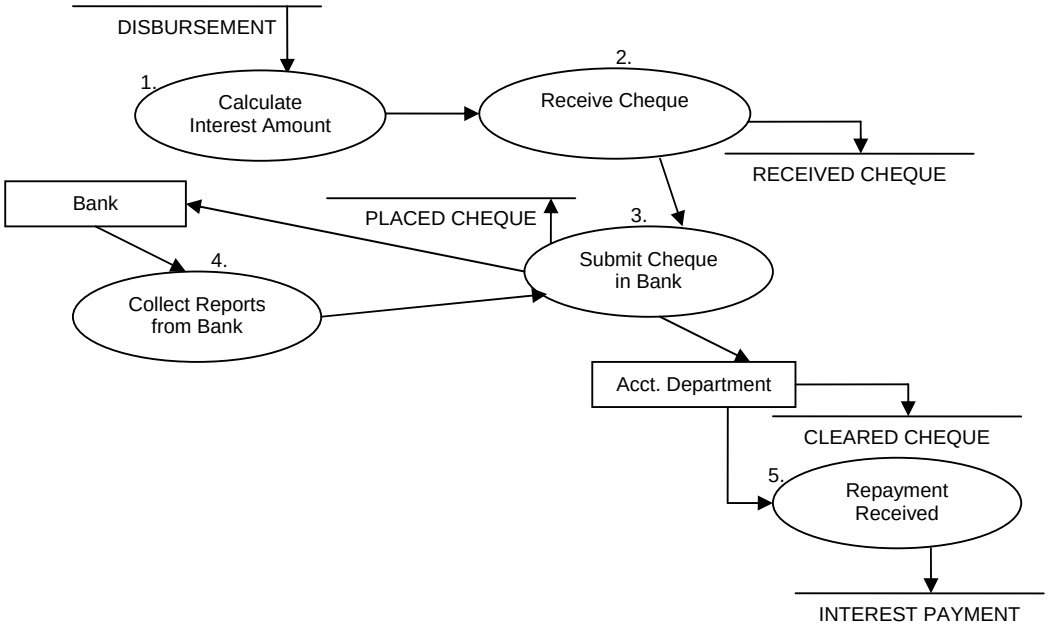


Figure 4.5: Process Diagram of Pre-EMI Interest Collection Process

In Pre-EMI interest collection process, first the interest amount is calculated on the amount of loan already taken by the client at an interest rate equal to the original sanctioned interest rate. The client is request to pay the interest by cheque and after receiving the cheque form the client it is placed in bank for clearance.

4.4.3 "Survey of Employees on Loan Management"

The survey is conducted based on the common queries that I have observed working in the company as an intern.

Q1. Is NHFIL providing satisfactory service to its clients?

A1. [a] Yes

[b] No

Q2. The disbursement is sometimes delayed even after a loan is sanctioned, what might be the primary reason behind this?

A2. [a] Availability of funds from Bangladesh bank.

[b] To perform a study of the client's loan repayment trend based on past records.

[c] The delay in the disbursement is considered normal by the management.

[d] Both a & b.

Q3. Most loan proposals are rejected by the management, why?

A3. [a] Client's CIB report was not satisfactory by the management.

[b] Management feels the client will not return the loan amount.

[c] Un-official record about the client was not satisfactory.

[d] Supporting documentation in the proposal was not satisfactory.

Q4. What is the common complaint or concern that clients' report?

A4. [a] Delay in disbursement.

[b] Increasing of the annual interest rate, which increases the EMI.

[c] Time required for the preparation of loan proposal & sanction.

[d] All of the above.

Q5. Who normally qualify for an enhancement in loan?

A5. [a] Clients who have cleared their previous loan amount.

[b] Clients who has a certain face value in the market.

[c] Clients who are personally known by the management.

[d] Clients who mortgage more property to avail the enhancement.

Survey Result

Survey result is based on giving the survey sheet with the questionnaires to all the employees of NHFIL, head office. A total of 30 employees filled out the questionnaire randomly.

Q1	Q2	Q3	Q4	Q5
[a] 98%	[a] 82%	[a] 60%	[a] 16%	[a] 48%
[b] 2%	[b] 6%	[b] 19%	[b] 55%	[b] 24%
	[c] 12%	[c] 17%	[c] 12%	[c] 9%
	[d] 0%	[d] 4%	[d] 17%	[d] 19%

Survey result was verified by upper level management, no names were mentioned in the survey sheet. All employees' views and opinions were kept confidential.

_____

Signature & Seal

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Recommendation

The recommendations are specified as follows:

- ✓ More investment should be made in the marketing department to increase the exposure of the company.
- ✓ They can retain their customer by providing better service.
- ✓ Loan Processing time is very high as a result NHFIL looses some potential clients. So, the process time should be reduced to better serve the clients.
- ✓ Frequent change of Loan interest rates sometimes confuses the clients. Loan interest rate should be fixed for a certain period of time demanding on the overall market situation.
- ✓ Every computer of operation department needs access to internet.
- ✓ Advertising is the major weak point of NHFIL. They should adapt effective marketing strategy.
- ✓ Online service must be implemented at NHFIL, to give fast and better customer service.
- ✓ Every operational employee should get access to internet service to receive updated news of the competitors, so they can provide better service than their competitors.

5.2 Conclusion

The leasing finance market is becoming more competitive because of the new leasing companies entering the market. However, there are still many leasing companies doing well. The political stability and overall economic development is an essential precondition of the smooth growth of this sector. If we can ensure these two preconditions, the leasing sector of Bangladesh would be able to perform a strong role in our industrial development.

Leasing business and home mortgage loan is gaining increased importance in the economy of Bangladesh. The Government periodically revises the trade and industrial policy to create a liberal business environment both for domestic and foreign investment. Increased investment in the energy sector as well as in power, transport, telecommunications, water and sanitation, and safe disposal of wastes is expected to bring further opportunities for leasing industries. And as for the Home Mortgage loan sector, it is increasing in a high rate as more and more developers are selling flats, plots etc.

The Mortgage department in facing a slow growth nowadays because of the unavailability of fund in the overall market. Moreover, developers are not handing over flats on their designated time duration, as a result demand for flats are slowing dwindling. Cash-flow is one of the main problems in this sector, purchasing a flat would lock down cash capital for a substantial period of time. The price of flats are not increasing much, rather it is decreasing to some extent.

NHFIL should research on developers as to which one keeps their commitment with utmost sincerity to their clients. NHFIL should advice their clients on developers which are good and safe to invest.

NFHIL faces some problems in conducting their business in the country. The relatively slow growth of the demand side compared to the fast growth of the lease business is one such problem. This leads many leasing companies to operate in partial capacity. The culture of loan default that prevails in the country is also a deterrent. NFHIL often finds it difficult to raise funds through short- or long-term borrowing from money and capital markets. They are hard pressed to deal with the financial assets because of the present laws of the country, which are also not fully enforceable.

5.3 APPENDIX: National Housing Finance and Investments Limited (NHFIL) was incorporated in August, 1998 as a Public Limited Company under Companies Act of 1994. It got Bangladesh bank license in December in the same year and first loan disbursement took place in June, 1999. NHFIL's authorized capital is 2,000 million BDT and paid-up capital is 520 million BDT. The company has obtained permission from Bangladesh Bank for entering into lease financing in June, 2003. Since then the company has extended leasing for all types of industrial, manufacturing and service equipment to individual companies and corporate houses.

NHFIL currently has four operational branches in different commercially important places in Dhaka, Chittagong and Bogra. Now, the company is planning to open its fifth branch in Sylhet.

References:

www.nationalhousingbd.com

Company Policy handbook

HR policy book

Employees of NHFIL