CHAPTER - V

ANALYSIS OF CREDIT DEPLOYMENT SYSTEM OF
STATE BANK OF INDIA
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5.0 Introduction:

The design of organizations reflects the use of different methods of handling information and the use of teams, task forces or vertical information systems all reflect information processing needs within organizations. The critical factor for successful management is the strategic use of information and a positive correlation that has been found between management success and effective information assessment, gathering and use. While relevant and timely information allows managers to make accurate decisions, irrelevant information makes decision-making difficult, adds to confusion, and affects the performance of the company. Managers need to use information not only for decision making and making sense of changes and developments in their external environment but also to generate new knowledge which can be applied to design new products and services, enhance existing offerings and to improve organizational processes.

State Bank of India collects information for different kinds of loans, from the customers and from other sources for different stages of processing like pre sanction, sanction and disbursement stage, every stage wise process of loan application along with seeking information are elaborated in fig 5.1 and described the figure in tag no 5.1 to 5.1.7.
Fig 5.1 Information Flow Chart

Stages

Pre Sanction

Process

Obtaining the loan request along with necessary information

Information

Information from Borrower (from the form)

Bank's own records

Field information

Business Status

Bank Status

Financial Statements

Ratio Analysis (through Balance Sheet)

Estimates/Projection (sales, production, profits, current assets/liabilities level on appraisal technique)

Market Report (Reputation, credit standing, character, business dealings about the borrowers)

Credit Analysis and Appraisal
Evaluation of individual Credit
Evaluation of conformity with policy of the Bank

Interview/Additional Information

(Business History, Qualification/technical background, overall management performance, raw materials, labour, power/fuel, competition with other unit, market of the finished product etc. . . . . . . .)

Sanction Stage

Disbursement Stage

Loan agreement and Disbursement

Documentation Finalisation
5.1 Sources of obtaining Credit Information in SBI:

In SBI, there are several sources of credit information in the pre-sanction stage: the loan applicant himself, the financial statements, the banks own records, and other banks and business acquainted with the borrower etc.

5.1.1 From Loan Form (Bank loan application form) and Interview with the Applicant-

According to SBI personnel, usually the best source of credit information is the borrower himself. The loan application tells more about the borrower and since an interview with him gives the interviewer an opportunity to make a first hand appraisal of the character, integrity and ability of the borrower and to seek more information about some points which remained unexplained in the application like business history, Qualification/technical background, overall management performance, raw materials, labour, power/fuel, competition with other units, market of the finished products etc.

5.1.2 Bank’s Own Records-

In case the borrower has obtained credit from the bank in the past also, the bank may already have financial statements, operation of the account, knowledge about the ability of the borrower to pay back the loan in time and other pertinent data. However, if the applicant is not a former borrower, the bank may have the information relating to his deposit account only.
5.1.3 The Financial Statements-

In SBI, every credit report is based on the Balance Sheet, and the Profit and Loss accounts, Income Tax Orders/Returns, Wealth Tax Order/Returns. This data is filled in the spreadsheets to enable the banker to plot trend and to follow the direction in which the business is heading.

5.1.4 Ratio Analysis-

Ratio analysis mainly classified into four heads namely liquidity, Profitability, Capital and Turnover ratios. All these ratios enter into almost every credit decision but the relative importance of each varies with the nature of the credit.

5.1.5 Estimates or Projections-

Estimates or projections for sales, production, profits or level of current assets and liabilities are applied for assessment of working capital of the loan applicant.

5.1.6 Market Report-

In the sanction stage bank collects market report about the reputation, credit standing, character, business dealings etc., and all about the borrower through interview.

5.1.7 Other Sources-

Other bank and business located near the business of the applicant which have had dealings with the subject under investigation or for some other reasons are in a position to know something of the affairs of the applicant's
business, are important sources of information. The information is also obtained from Newspaper, CMIE Report, Chambers of Commerce, RBI Guidelines, Internet/Virtual Library, Other Organization like SIDBI, NEDFi, Govt. Deptt etc. Sometime, bank collects information of the applicant directly from the nearest branches of other banks functioning in the area.

5.2. Documentation Process for Credit in SBI-

State Bank of India ask various documents for different types of loans, from the customers and from other sources for different sanctioning stages like pre sanction, sanction and disbursement stage, which are elaborated in fig 5.2.and described in the following.

Following documents are required for Personal Loan through the loan application

1. Latest monthly salary slip showing deductions of Self and Spouse
2. Latest Form 16 from employer (for employees) of Self and Spouse.
3. Copy of IT return for last two years, duly acknowledged by ITO with computation of income, for Professionals.
4. Copy of Passport or Voters ID Card or driving Licence for proof of Identity
5. Copy of ration card/Telephone Bill/Passport/Voters I-Card for proof of residence
6. Latest Passport size Photograph – of Self and Spouse
7. Last six months Bank statement of the account where salary is credited of Self and Spouse

8. Verification of signature from the bank where salary is credited or by employers.

9. Relieving Letters of Pensioner from the employer

10. Proof of official address (for other than employees)

11. Proof of Professional Qualification: Copy of highest professional degree held.

Following documents are required for business Loan along with the loan application form-

1. Certified Xerox copy of sale/lease deed

2. Certified Xerox copy of the Govt. order converting the land into industrial land, if applicable

3. Locational map

4. Certified Xerox copy of the site plan of the land and blueprints of buildings duly approved by corporation/ municipality/ panchayat.

Projections (To be given for the next three years)-

1. Projected profitability as per Annexure III

2. Projected cash flow statement as per Annexure IV.

3. Percentage of Cash Sales in Total Sales __________ %
4. Period in which payment is received days in respect of credit sales

5. Average credit available on purchases days

6. Working Capital Requirement as per Annexure VI

Certified Xerox copies of-

1. Audited Balance Sheets with Trading and Profit & Loss account for the last three years.

2. Memorandum and Articles of association, Certificate for Commencement of Business in case of limited companies.

3. Income Tax, Wealth Tax Returns and assessment order for the last three years, for the unit as well as proprietor/partners/promoters/directors.

4. Sales Tax Returns for the last three years.

5.2.1 Constitution of Borrower:

The constitution of the borrowers viz, sole trader, partnership, joint Hindu family, partnership, societies, trusts or Joint Stock Company should be asked for evaluation by the bank carefully for eligibility of the borrowers for the loan.

5.2.2 Demand Promissory Note:

This Promissory Note is used for individual or Solo Proprietor firm and the bank official should verify the validity, terms & conditions and status of the signatory of the document as a security for the loan.
5.2.3 Demand Promissory Note for Partnership Firm:

This document should be executed both in individual capacity as well as partnership Firm.

5.2.4 Agreement of Hypothecation:

The borrower hereby hypothecates in favour of the Bank the goods described in general terms in the scheduled.

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Fig. 5.2 DOCUMENT FLOW CHART

CONSTITUTION OF BORROWER

- Individual
- Minor
- Sole Proprietorship
- Partnership
- Joint Hindu Family
- Joint Stock Company
- Corporations, Societies, Trusts etc

DP NOTE OR OTHER DOCUMENTS

- Guardian Statement
- Registration Certificate
- Karta Form
- Registration Certificate Guarantee Deed
- Registration Certificate

(Cont'd)
NATURE OF CREDIT FACILITY

Overdraft → Undertaking

Cash Credit

Loan

Loan-cum-Hypothecation Agreement (Capital Items, Crops, Live Stocks)

Bill Purchased Discounted

Railway Receipts, Transport Receipts, Doc Warrants, Government Supply Bills, etc

(Cont'd)
SECURITY OFFERED

- Personal Security
  - Promissory Note, Guarantee of Third Party

- Movable Security
  - Stock in Trade, Machinery and Equipments, Transport Vehicles, Live Stock, Standing Crops, Jewellery and Ornaments, Bank Deposit Receipts, Shares and Debentures, Government Security, Bank Debts and Receivables, etc.

- Immovable Security
  - Land and Building, Machinery attached to earth

- Documents of Title to Security
  - Railway Receipts, Transport Receipts, Do: Warrants, Government Supply Bills, etc.

(Cont'd)
5.2.5 Individual-

In case of individual borrower the bank obtains DP Note (Demand Promissory Note) and on other papers too he will simply sign in his individual capacity.

5.2.6 Minors-

The guardian may borrow on behalf of the minor because minors cannot enter into a contract since they lack capacity to contract. The documents signed by the guardian on behalf of minor should clearly state him as guardian.

5.2.7 Sole-Proprietorship-

This is the declaration made by a sole proprietor that he is the only owner of the farm.

5.2.8 Partnership-

The partners declare that they are the partners of the firm and undertake liability of dues to be met by all. Partnership deed should be verified by the bank carefully to identify the status of the loan applicant in the firm.

5.2.9 Joint Hindu family (Karta form)-

This form has to be executed by Karta (head of the joint family) and all other adults’ co-parteners and Guardian of minor co-parteners.
5.2.10 Joint Stock Company-
Separate guarantee deed along with registration certificate obtained by the bank to record the existence.

5.2.11 Corporations, Societies, Trusts etc -
Separate guarantee deed along with registration certificate obtained by the bank to record the existence.

5.2.12 Nature of Credit Facility:
Nature of credit facility analysis would help the bank to understand the needs as well as aspiration of the customer. Here the nature of the loans desired by the customer may be:

5.2.13 Overdraft-
Overdraft is a facility under which the cheques in a current account of a customer are honoured inspite of insufficient balance in the account. The account may be allowed to be overdrawn with or without any security offered.

5.2.14 Cash credit-
This facility is given to businessmen to meet their working capital requirement against the security of current assets popularly the stock in trade. Stock may be either hypothecated or pledged to the bank.

5.2.15 Loan-
The loan account is debited once only with the amount sanctioned and after a moratorium, if any, the repayment commences. Nevertheless, bank can debit its
charges i.e., interest, insurance premium, service charges, guarantee fees, etc. on the basis of repayment programme the loan is sanctioned for a specific period having periodical repayment programme whereas the demand loan is repayable on demand without any specific time but within limitation period.

5.2.16 Loan-cum-Hypothecation Agreement-
(Capital items)

This agreement sets terms of advances and creates charges on the capital items purchased by the borrower with the loan.

5.2.17 Loan-cum-Hypothecation Agreement-
(Crop)

This agreement sets terms of advances and creates charges on the crop grown by the borrower with the loan.

5.2.18 Loan-cum-Hypothecation Agreement-
(Livestock)

This agreement sets terms of advances and creates charges on livestock bought with loan.

5.2.19 Bills Purchased/Discounted-

To make the liquid funds available immediately to customers, banks extend the facility of purchasing demand bills drawn by the customers. If the bills are accompanied by any document of title to goods i.e., Railway receipt, transport receipt, doc warrant etc., such bills are called documentary bills otherwise the bills are clean.
5.2.20 Security offered-

The word security from a bank's viewpoint means any property whereby a charge can be created thereupon in bank's favour by way of transfer, assignment, possession or ownership of any claim, right, title or interest in form of pledge, hypothecation, lien, mortgage or assignment. Normally the following types of securities are offered to bankers:

5.2.21 Personal security-

Personal security is nothing but an undertaking by borrower himself by executing a promissory note or a guarantee of the third party by signing a letter of guarantee in bank's favour on behalf of principal debtor.

5.2.22 Movable security-

The Movable security is nothing but the assets which are not attached to earth i.e. can be moved. The examples of Movable security are Stock in trade, machinery and equipments, transport vehicles, livestock, standing crops, jewellery and ornaments, bank deposit receipts, shares and debentures, government security, book debts and receivables etc.

5.2.23 Immovable security-

The Immovable security is the assets which can not be moved. Land and buildings, machinery attached to earth etc. are the example of Immovable security.
5.2.24 Documents of title to security:

When the possession of the security cannot be offered, the bank’s charge is created through documents of title to security. The nature of charge depends upon the terms agreed between the parties.

5.2.25 Charging of Security:

Based on the nature of security, six types of charges are accepted by the SBI-

5.2.26 Pledge-

This is like bailment of goods (only movable goods) where the possession comes to the pledgee (creditor) but the ownership remains with the pledger (borrower). If the debt is paid, the goods will have to be returned and if it is not paid the pledgee may dispose of the goods after giving due notice. The pledge agreement is to be obtained in these cases.

5.2.27 Hypothecation-

In this type of charge, the possession as well as the ownership remains with the borrower himself and only the creditor’s name is displayed with the goods. For creation such a charge, a hypothecation agreement has to be executed.

5.2.28 Lien-

Lien is the rights of the creditor to remain the securities belonging to the borrower till his dues are paid. There can be two types of lien:
(i) **Particular lien:**

Here only security against which the debt has arisen can be retained. One can only retain it and does not have the right to sell.

(ii) **General lien:**

Here the creditor has the right to remain any security against any debt. He can also dispose of the security after giving due notice.

5.2.29 **Right of Set-off:**

Right of Set-off means the right to adjust the debit balance in the loan account of the customer against the credit balance in the account of the same customer. In order to make the lien and set-off more effective, the banks obtain General Letter of Lien and Set-off from the borrowers.

5.2.30 **Assignment:**

Assignment is a transfer of an existing or future right, property or a debt by one person to another person. Assignment is made normally in Bank's favour of Life Insurance Policies, Government Supply Bills, etc.

5.2.31 **Mortgage:**

Mortgage means transfer of interest in immovable property for the purpose of securing the payment of money advanced or to be advanced. In other words, the debt can be past, present or future. There are six types of Mortgage:

(i) **Equitable Mortgage or Mortgage by Deposit of Title Deeds.**
(ii) Simple or Registered Mortgage  
(iii) English Mortgage  
(iv) Mortgage by Conditional Sale  
(v) Usufructuary Mortgage  
(vi) Anomalous Mortgage

5.3 System for Credit disbursement in SBI:

The banks ask the borrower to fill in their application form. After collecting the relevant information, the next task of the banker should be to assess the quality of the loan application in order to decide a cut-off point in terms of acceptability, i.e., whether to proceed further in processing the loan application or to reject it there itself. It is indeed difficult to lay down all possible criteria for deciding a cut-off point, yet some examples, besides the character of the party, can be, like the purpose of the loan, profitability rate, experience of the manager/owner, marketability of the product, possible contribution of the unit to society, the possibility of development of the firm into a long-term customer, etc. if the first screening test reveals that the application is not even worth considering further, the bank officer may reject the application and record the reason in the register. But if it is decided accept the application tentatively; a further investigation shall be necessary (Fig 5.5). The entire process is describing below.

5.3.1 The cut-off point:

After collecting the relevant information, the next task of the banker to assess the quality of the loan application in order to decide a cut-off point in terms
of acceptability, i.e., whether to proceed further in processing the loan application or to reject it there itself.

Fig 5.5: PROCEDURE FOR LOAN APPRAISAL
FLOW CHART

APPLICATION

CUT OFF POINT

DECIDES

IF ACCEPTABLE

CALL FOR DOCUMENTARY EVIDENCE

CHECK LEGAL AND OTHER RESTRICTIONS

IF INFEASIBLE

RECORD ANALYSIS

IF UNACCEPTABLE

IF FEASIBLE

APPRaise VIABILITY

IF VIABLE

ASsess FINANCIAL REQUIREMENTS

RECOMMENDATIONS AND LAYING DOWN TERMS AND CONDITIONS

FINALISE DOCUMENTATION

DISBURSEMENT

FOLLOW UP AND SUPERVISION
5.3.2 Call for Documentary Evidence:

Documentary evidences are required to confirm the facts stated in the application form. Some of suggestive list of document/papers required for processing loan applications are:

5.3.3 Project report:

Project report (in case of new unit) indicating the economic and feasibility of the project detail and for existing units, a scheme of expansion or the justification for the advances. A copy of balance sheets and projected balance sheets for future years has to submit to the bank for documentation. A copy of technical report from the recognised institutions has to be submitted. The borrowers have to submit a copy of latest financial records of other associates concerns. Assets and liability statements and photocopies of title of deeds also essential for further examination by legal adviser.

5.3.4 Checking Legal and other Restrictions:

The banker checks the registration certificate, although not compulsory, in case of industry loan. The banks will have to ensure that the legal formalities. If any, are complied with, otherwise the proposal will not be a feasible one. But, if these restrictions do not obstruct the path of processing the application, the bank will move on to the next stage of appraisal.
5.3.5 Appraisal Viability:

After getting the documentary evidence and ensuring the compliance of legal and other formalities, the loan application processed further for appraising the viability of the project and evaluating the creditworthiness of the borrower. There are various steps involved in such an appraisal. If the advance is not a viable bank proportion, the reasons for rejection are recorded. But if the application crosses this stage too successfully, the bank will move to the next stage of assessing the financial requirements.

5.3.6 Assessing Financial Requirements:

To assess the financial requirement of the borrower correctly and finance only up to the extent of the need of the borrowers, the bank people look into this phase very carefully.

5.3.7 Recommendation and laying down terms and conditions:

Once the viability has been examined and requirements have also been worked out, the next step is to sanction the proposal or to recommend it to higher authorities for sanction. If the amount required is within the limits of the power assigned to the branch manager, he himself prepares the loan proposal. But, if it is beyond his prescribed powers, he prepares a case for sanction by authorities above him. And after getting acceptance from the higher authorities, the bank is ready to convey the sanction to the borrower.
5.3.8 Finalising documentation:

The next step in the procedure of loan appraisal is to get the proper documents executed by the borrower. The bank people carefully and properly executed the same as any defect in the method or mode of documents may not make the security available to the banker.

5.3.9 Follow-up and supervision:

The procedure for loan appraisal is practically over after documentation and the disbursing of the loan amount but the responsibilities of the bank people cannot afford to sit at rest. The process of post-lending supervision, the banker has to keep a close watch on different key items of information.

5.4 Problems faced by the SBI in collecting information and in submitting returns:

Over the years, certain lacunae have been observed in the present banking system of collecting information and submitting returns. They are summarised below. These are the collected views of the bank officials during the filed survey:

- There is little co-ordination among the different agencies regarding the data called for from the operating units; these results in voluminous and often repetitive data that loses relevance with regard to time. The management, on its part, is not in a position to make full and effective use of the information so collected due to its sheer volume.
• There is considerable delay in the submission of returns by the operating units. The time lag is such that in many cases, by the time the information is collected, processed and submitted to the management, it loses its significance.

• Well-organised information systems are not available in banks in India. The present information flow is primarily intended to fulfill statutory requirements and to meet the ad hoc needs of the different levels of management.

• The information supplied to the different levels of bank management is mostly task-oriented and is hardly collected in a co-ordinated manner. No attempts have been made to create an integrated data base for providing the requisite information to the different levels of management, nor have any concerted efforts been made in the case of most of the bank to install proper data processing facilities to ensure the expeditious processing and timely submission of information to the managers.

• There is a considerable amount of duplication in the collection of data to meet banks' own needs and to meet the requirements of the RBI. This duplication seems to indicate that the information needs of the banks and the RBI are not properly synchronized. It is important to realise that the data supplied by banks to the RBI could also be made use of by the commercial banks in their decision-making process.

• A number of returns called for are seldom processed. Some of them have no significant information value. Furthermore, some returns, called for on an ad
hock basis in the past because of some specific requirement, have become regular returns of the banks.

- While, for certain purpose, complete data on any given aspect may be necessary, for decision making in many cases, a 100 per cent coverage may not be required. Instead, a proper sample may be selected for collecting information, which would reduce volume of data, and also quality of data will improve.

- The flow of information is usually from the lower to higher levels of management, with feedback being virtually non-existent. These results in branches not having any involvement in data reporting exercise, and do not attach importance to accuracy and timely compilation of data. Feedback on a regular basis would enable lower levels to compare their results with other units, which would stimulate action towards improving their performance.

- A plethora of data is made available to the management without taking into account the needs of the different levels of management. In many cases the sheer volume of data forbids its effective use for decision-making. It is thus necessary that as the data moves from the lower to the higher levels of management; its volume is processed to bring out the salient aspects of the information in a sharper focus. The data supplied at present is mostly statistical in nature and is not sufficiently analysed to convey really meaningful information to be of immediate use for decision-making.
**Researcher’s view:** Over the years, branch network of banks has grown significantly (from 8,254 in June 1969 to nearly 67,221 in Sept. 2004. Covering a vast geographical area, but without the corresponding streamlining and refinement in the information systems. This has resulted in deterioration in customer service, poor house-keeping and perhaps, an increasing incidence of frauds. Now the banks are expected to concentrate on increasing profitability, the customers are expecting better service comparable to what is offered by foreign banks at a lower cost. If Indian banks have to adequately meet and overcome the challenge of competition, they have to take full advantage of developments in information technology and building up and effective Management Information System (MIS).

**5.4.1 Mechanization:**

With increase in business, manual systems find it difficult to deliver goods in time and in proper manner. Consequently delays occur, productivity suffers and customers become increasingly dissatisfied with the bank service.

It will be readily agreed that work in the rural and some semi urban branches will continue to be done manually even during the 21st century. But computerisation will have been almost completed in the metropolitan and urban branches. Thus two systems will be running concurrently and this will give rise, among others, to problems in the following areas:

a) Standardization and rationalization of operational systems at the branch level.
b) Changing the formats for the information to be sent to the regional and head-
offices where further compilation and analysis will be done by using
computers.

c) Determining the type and level of mechanization that may have to be
introduced in the bank in the rural and semi-urban branches, in course of time.

d) Determining the means and ways of transmissions of data from branches to
controlling offices such as Regional and Zonal Offices, Central Office and the
Reserve Bank of India.

5.5 Problems of Borrowers:

The following are the important problems confronting the borrowers and
which were brought to the notice of the researcher during the course of the
interviews conducted with them.

1. Delay in sanctioning the loan

2. High rates of interest.

3. Lack of sympathetic attitude on the part of the bank officials, or hard
   words of the bank officials while dealing with the borrowers.

4. Cumbersome procedures and the consequent vexatious delays in the
   process of sanction of loans.

5. Lack of facilities for technical consultancy with the bank.

6. Faulty appraisal of the projects.
7. Absence of satisfactory monitoring systems.

8. Inadequate quantum of credit limits (Under financing)

9. Absence of adequate supplementary source of credit.

10. Prohibitive cost of credit. (more processing fees on the loan charged by the bank)

11. Tendency for mis-utilisation of the loan amounts (diversion of loan money for unproductive and household consumption).

12. Lack of co-ordination among various sections inside of the bank office involved in the process of credit deployment.

13. Problems of due and overdues (borrowers are already under debt taken from informal creditors)

14. Communication gap, (between borrower and the bank after sanctioning/obtaining the loan money) and

15. Lack of identification to deserving beneficiaries

5.6 Conclusion:

In Indian economy now-a-days loans are easily available and the rates of interests at which they are available are very reasonable. Banks are giving loans for and loans against any and every thing. Government too is encouraging people to take loans for certain purposes. Therefore, the aim of the credit information system is to support a bank to make use of the most recent credit risk information available in the operating areas. A well organized database system helps the banks
in expanding their business and to attract more people to whom they want to serve. Information problems have long been at the fore of analyses of credit markets. Indeed, one rationale for banks is to gather information and establish relationships with borrowers in an effort to surmount these problems. In this regard the striking feature of SBI is the plethora of services that it offers to the borrowers and the economies of scope being created for them.

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