

Asset Discounting Facilities

Ceylon Digital Funding Force (Pvt) Ltd



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Section Title: Scope of the Product				

Description

This document presents the operating guidelines with regard to the “Asset Discounting Facilities” offered by Ceylon Digital Funding Force (Pvt) Ltd. This particular product is primarily focused on business personals and assisting their financial requirements. This is a pre-approved facility and it can be issued in multiple advances within the limit granted. Only the interest amount needs to be paid in a monthly basis and the capital amount should be settled before the end of the allocated period. The limit of the facility is renewed bi-annually and the value of the advances are reviewed once in every three months.

This is a fully secured facility and as a result the customer needs to submit a set of legal/approved documents as collateral /security of the movable or immovable property prior to establishing the facility limit. The executive staff should ensure that the advance granted under this scheme are duly complied with the guidelines/instructions stated in this document.

Competition

At present commercial banks and few other finance-related companies offer short-term facilities for working capital requirement to most of the targeted customer segments so that the customers are able to meet their financial requirements. According to the proposed asset discounting scheme offered by CDFF, we are expected to be less stringent as compared to other competitors and to work within a faster mechanism. Consequently, it is expected that this product would attract more businesses and other customers towards CDFF in the long run. This will further enable the company to increase the asset base due to the transferal of the titles of the properties under the name of CDFF as a collateral at the time of obtaining the facility.

Objective

The objective of this product is to fulfil the urgent finance requirements against a property owned by the client through this discounting mechanism. CDFF acquires the temporary possession of the asset and advance money and holds the accountability of discharging the possession of the subject property in the same conditions after the full settlement of the interest and capital advance.

Responsibility

Executive Officer – Client Networking and Executive Officer – Credit Administration are the responsible bodies for the implementation of the product.

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Section Title: Market Segment and Customer Types				

Market Segment

This product will mainly target the asset rich personals and business entities who are in need of cash to meet their urgent requirements. This is a potential market segment where CDFF will be able to build up new relationships with the middle and high income clusters where the asset base of the balance sheet of the CDFF will be strengthened.

The market will be basically divided into two categories based on the asset to be discounted as mentioned below:

01. Movable asset discounting
02. Immovable asset discounting

Customer Types

This product will target the following four main groups during the initial level.

1. Individuals
2. Sole Proprietorships
3. Partnerships
4. Limited Liability Companies.

Note : Asset discounting facilities will be granted under personal name or business name as per the request.

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CDFF/AD/20/01	04	04 of 15	0	01 st June 2020
Section Title: Movable asset discounting & Parameter requirement				

Movable Asset discounting facilities

Customers who possess movable asset unencumbered status and are facing a short-term cash requirement are able to discount the asset (ideally vehicles) and fulfil the requirement from CDFF. Funds will be released once the title of the property is transferred in favour of CDFF and a parallel agreement will be executed to ensure the return of the property back to the owner with the same status after settling the amount advance with interest and charges.

Customers would be given a maximum duration of up to 6 months to repay the capital outstanding and to service the interest monthly until the capital will be repaid within the stipulated period. Deciding the maximum discounting amount will depend on the present market value of the asset and ideally an amount of 50% will be advanced.

Percentage of the asset value	Eligible Advance Value	Tenor	Charges
50% from M.V	LKR 50,000/- to LKR 5,000,000/-	6 months	5% of the limit amount + Asset transfer CHGS

Parameter Requirements

- Minimum facility limit is LKR 50,000/-
- Maximum period of the limit period would be 6 months
- Maximum amount of the limit is LKR 5,000,000/-
- Minimum advance amount is LKR 50,000/- and the maximum is LKR 5,000,000/-
- Maximum period to review an advance is 3 months
- Regular payment obligation – utility bills, rent, taxes, loan instalment, credit card should have been paid on a regular basis
- Advance should be granted only for pre-approved customers within the established limit.
- Referral ratio 2/3 or above as a guarantee for repayments.

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Section Title: Im-movable asset discounting & Parameter requirement				

Immovable Asset Discounting

Customers who are possessing immovable asset unencumbered status and facing a short-term cash requirement are able to discount the asset (ideally land and building) and fulfil the requirement from CDFF. Funds will be released once the title of the property is transferred in favour of CDFF with possession and a parallel agreement to be executed to ensure the return of the property back to the owner with the same status after settling the amount advance with interest and charges.

Customers would be given a maximum duration of up to 6 months to repay the capital outstanding and to service the interest monthly until the capital is repaid within the stipulated period. Deciding the maximum discounting amount will depend on the present market value of the asset and ideally 50% will be advanced.

Percentage of the asset value	Eligible Advance Value	Tenor	Charges
50% from M.V	LKR 500,000/- to LKR 50,000,000/-	6 months	5% of the limit amount + Transfer CHGS

Parameter Requirement

01. Minimum facility limit is LKR 500,000/-
02. Maximum period of the limit period would be 6 months.
03. Maximum amount of the limit is LKR 50,000,000/-.
04. Minimum advance amount is LKR 100,000/- and the maximum is LKR 50,000,000/-
05. Maximum period to review the advance is 3 months.
06. Regular payment obligation – utility bills, rent, taxes, loan instalment, and credit card should have been paid on regular basis.
07. Advance should be granted only for pre-approved customers within the established limit.
08. Referral ratio 2/3 or above should be considered as guarantee for repayments.

Note - Approval should be obtained from the Managing Director of CDFF for any deviation of the above conditions and the administration staff has to cross-check the validity of the all documents submitted by the applicants. (all scanned documents should be validated with the original documents and carry-out inspections if necessary).

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Section Title: Credit Score and Risk Grading				

Risk Grading of a Contract

After entering the details of the customer, the asset to be discounted and business into the system, risk grading will be automatically generated. According to the evaluation, risk grading will be arranged based on 5 levels (e.g. Risk <3).

- (Risk <3) - These customers are good to invest and the risk involved with these borrowers is below average and they have a strong credit score
- (Risk <3 to 4) - Risk involved with these borrowers is just above the average risk and they have a moderate credit score.
- (Risk <4 to 5) - Risky clients
- (Risk <5) - High potential is available for losses.

Note - These ratings should be generated using the artificial intelligence solution.

Client Credit Score

- Credit score mechanism has been introduced to evaluate the clients by using several financial and nonfinancial factors.
- Further, this credit score has been developed to measure the credit worthiness, honesty, and integrity of clients especially based on referrals.
- Artificial intelligence should be used to arrive at an efficient credit score of any clients.

Financial & Non-financial Analysis

- 1) Average daily sales during the past 6 months – to know about the business volumes.
- 2) Utilities payment history for the past three months.
- 3) Pattern of servicing of other debt commitments.
- 4) Current ratio - capacity to meet short-term financial obligations
- 5) Details of other unencumbered assets owned by the applicant.
- 6) Referral feedback from the most involved parties of the clients.

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Section Title: Lending rates & security				

Current Interest Rates

The effective rate of interest would vary from 30%-40%. This range will be subject to change from time to time as determined by the average lending cost of the company. Rate for each facility will be decided by the grading scale based on risk grading mechanism in asset discounting appraisal system.

In addition, 5% of the facility limit will be charged as the facility processing fee.

Note – These processing charges will be deducted at the point of first advance released.

Customer Risk Grading	Lending Rate Applicable
A - (Risk <3)	30% - 32%
B - (Risk <3 to 4)	33% - 36%
C - (Risk <4 to 5)	37% - 40%
D -(Risk <5)	40% above

Security

Asset discounting facilities are 100% security oriented and should be mainly based on the recovery from disposing the asset transferred to CDFF. The required documents are as follows:

- a) Letter of offer and acceptance
- b) Title transfer documents of the asset
- c) Agreement to establish the discharge the possession and the title of the asset
- d) Letter of set-off and authority to set-off the debts outstanding from the asset discounted with CDFF or lien over deposit/gold.

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Section Title: Collateral Requirements/facility extension				

Collateral Documents Requirements

The following security documents shall be executed prior to granting of loan facility.

1. Facility Application
2. Discounting Facility Agreement
3. Letter of Offer and Acceptance
4. Property transfer documents such as title deed, MTA 06, and 03
5. Agreement to discharge the property back to owner
6. Letter of set-off and authority executed by the borrower.

N.B – Executive - Credit Administration should ensure that all security documents pertaining to Asset Discounting facility are duly completed, signed, and lodged in the security cabinets accordingly.

Facility extension

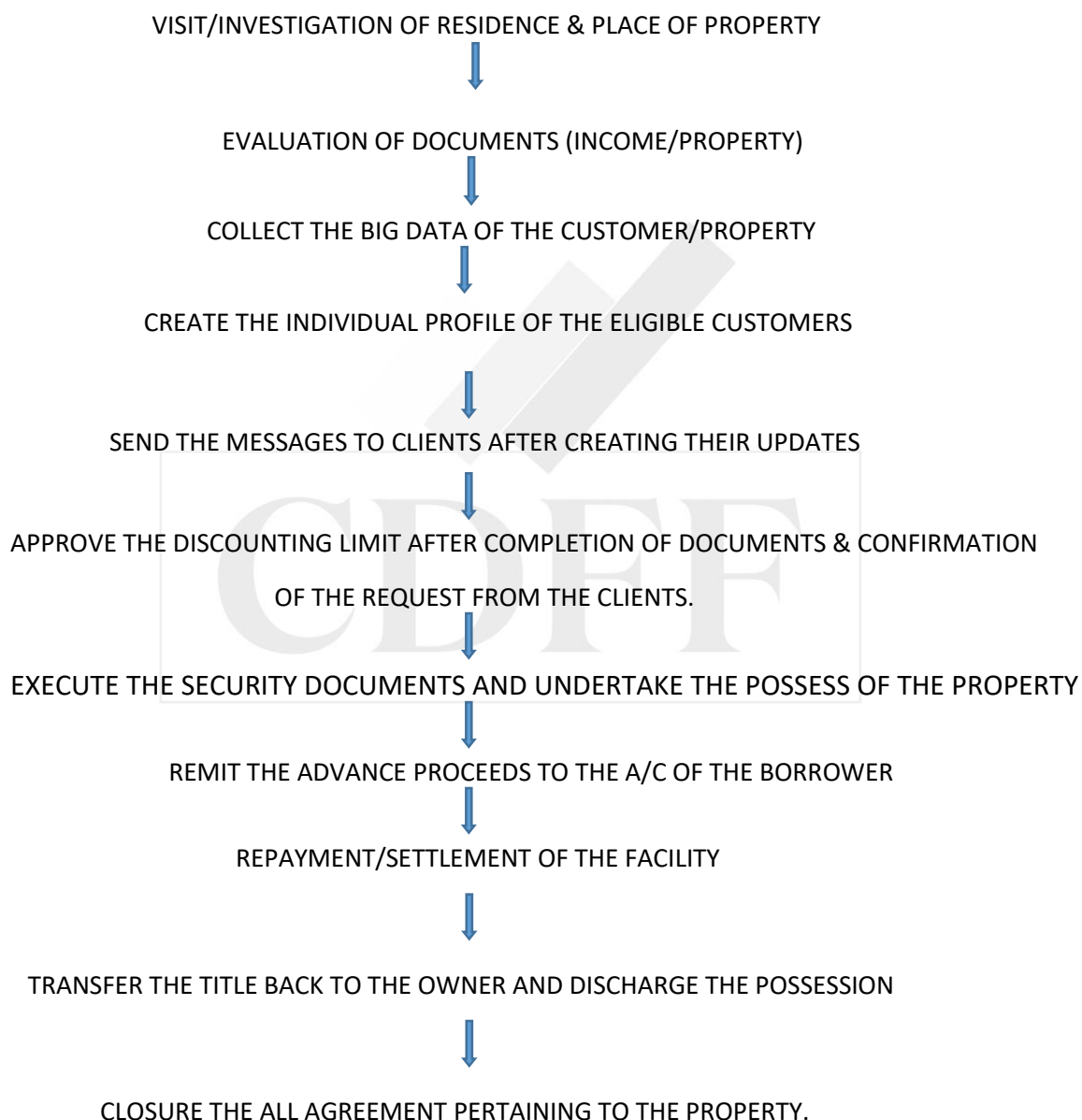
If the customer is unable to make the interest payments due to a genuine reason such as a drop of business income, (management should evaluate whether the reasons are acceptable) extensions / restructuring will be considered based on the value of the assets and the solidness of the new repayment arrangements.

Following factors should be considered when extending the contract period only

1. Arrears Interest should be capitalised
2. Same interest rate should be applied for extended tenor
3. Processing fee of LKR 5,000/- to be charged
4. Same property discounted with CDFF could be considered until they settle the existing facility in full
5. Only one extension is permitted.

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Section Title: Asset Discounting Process				

Process of Asset Discounting



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Section Title: Investigation, Evaluation and Documentation				

Steps of Asset discounting process

01. Visit and investigation of the residence of the client and asset

Residence of the applicant should be visited and live location should be uploaded to the ERP. Asset to be discounted must be inspected and duly completed inspection report and the live location of the property should be uploaded to ERP. All original documents as mentioned below to be verified during the investigation.

Following should be obtained by the Executive Officer - Client Networking

- Photograph of a client
- Photographs of the asset to be discounting
- Both locations from Google Maps.
- Original title documents of the assets.



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02. Evaluation of the documents

Following documents to be obtained and verified during the investigation process.

Documents Required from Customer

- NIC, DL, utility bills (water, electricity, telecommunications).
- Business registration certificate, approvals from local/relevant authorities.
- Articles of association and board resolution in case of private limited companies.
- Copies of income proof documents such as bank statements (savings or current account), stock purchase bills, tax payment receipts.
- Copies of management accounts (sales book etc.....).
- Nominee form duly signed by the client.

Documents Required from the Asset

Immovable Asset

- Original title deed.
- Original approved survey plan.
- Original approved building plan.
- Original recent local authority documents.
- Last 20 years extracts.
- Original Valuation report from a professional valuer.

Movable Asset

- Original Certificate of registration of the vehicle (CR Book).
- Original revenue licence.
- Copy of vehicle insurance.
- Duly signed vehicle transfer papers (MTA6, MTA3, etc).

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03. Collection of big data

Big data of the applicant and the asset to be discounted should be fed to the ERP system as per the above collected documents and details of the nominee to be collected and fed to the ERP system based on the duly filled nominee form by the applicant. In case of the death of a client, asset to be transfer back to the nominee.

04. Create the individual profile of the system.

After collecting and feeding data, we need to create separate profiles for applicant of the facility and link the property details and the nominee details as applicable with intention to complete comprehensive clients profile.

05. Send a message to notify the profile of client.

Text message should be forwarded to the mobile phone of the applicant to confirm and activate the profile created in CDFF mobile app and get the updates about the facility.

06. Approve the asset discounting limit

After completing all documentation part, duly completed e-credit file will be forwarded for approval as per the approval hierarchy and final approval to be done by the Managing Director of CDFF. All activities will route through the client profile and update accordingly.

07. Execute the collateral documentation and pledge in the safe lockers.

Security documents such as agreements and title transfer documents must be executed and ensure the possession of the asset by CDFF prior to disbursement. All original registered documents should be pledged in a fire-proof safe locker.

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08. Remit the advance amount of the property discounted to the given bank account.

After completing the execution of the contract documentation, advance amount of the approved discounting limit could be remitted to bank account as requested by the client. Once the funds are credited, profile of the applicant should be updated to acknowledge the client.

09. Repayment/settlement of the facility

Interest of the advance should be paid monthly, as an instalment, and capital amount of the advance should be paid on or before maturity date of the limit (within a period of 6 months). Facility limit will be reviewed & renewed bi-annually and multiple advances are reviewed once in every three months.

Customer can obtain any amount of advances within the approved limit and period. But total outstanding to be settled within the 6 months period, from the day the limit has been established. If the interest component of the utilized amount is not paid for continuously three months, facility to be notified as risky contract and arrangement should be made to recover the total capital + interest by way of discounting the asset based on letter of setoff signed by the clients.

Note : “Executive Officer – Client networking” should update the payments in order to update the contract details and profile of the client should be updated real-time from the deposited bank accounts.

When the customer completes the final instalment of the contract, a confirmation should be updated the customer’s profile with the congratulatory note and undertaking to transfer the title of the asset back to client’s name.

10. Title of the asset discounted to CDFF to be released once settlement is done.

As per the agreement, asset in the name of CDFF to be transfer back to the applicant after settlement of all dues of the facilities obtained from CDFF. CDFF has to make sure the same possession of the property is giving back to the client as well.

11. Closure all agreement of the contract with clients.

After settlement of all dues by any client, CDFF should close all contracts officially and notify in the respective client profiles for their knowledge.

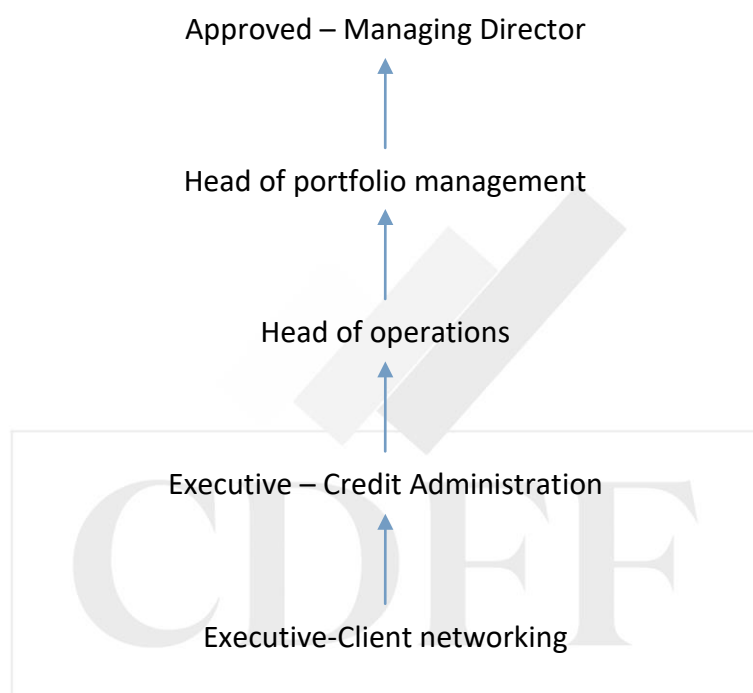
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Section Title: System Process				

Asset discounting system process

Activity	Remarks / Comments
Create customer/asset on the computer system Create: 1. Principle applicant 2. Nominee 3. Asset account.	Make sure the data is entered correctly, especially the following: 1. Full name 2. Home address 3. Business address if available 4. Land line contact number 5. Mobile number/ numbers 6. Income details 7. Business registration details 8. Asset details 9. Nominee information 10. Pictures and the locations applicable.
Credit Scoring	Fill the details of asset valuations and upload the locations.
Credit appraisal creation	Comprehensive credit appraisal to be forwarded through the system for approval
E-file creation	Fill the advance details, amount, period, rate, and due date
Uploading documents	Add proof documents of asset transfer, pictures of discounting asset
Forward for approval	E-appraisal generated in ERP, to be forwarded through the approval hierarchy
Initiate the contract	After obtaining the final approval, loan account could be created in ERP.
Progress and investigation feedback updating	Customer profile should be updated after crediting the funds of the facility with the progress as a feedback.

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Section Title: Delegated Authority for approval				

Approval hierarchy of the asset discounting facilities of CDFF



Every facility has to be processed by the Executive-Client Networking and forward to the relevant approval authority with the recommendation of Executive-credit administration as per the above order.

Note - It is pertinent to mention that the primary responsibility of the accuracy of the data fed in to the system lies with the Executive - Administration. Therefore, the administration officers should check the physical documents to confirm the validity of the documents provided by the customer and that the data has been exactly derived from the documents.