



NCC Bank

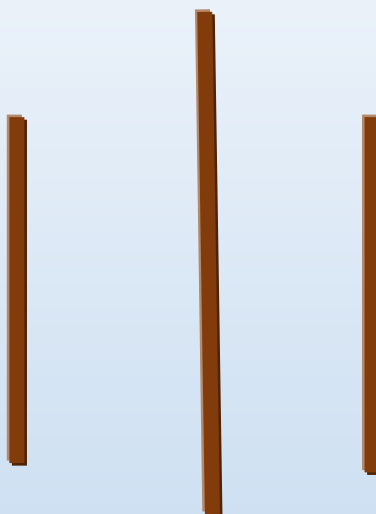
नेपाल क्रेडिट एण्ड कर्माच बँक लि
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

Small and Medium Enterprises (SME)

Loan

Product Paper, 2018



Nepal Credit And Commerce Bank Ltd
Bagbazar, Kathmandu

Approved by:

685th Board Meeting

Held on 23rd May 2018 (2075-02-09)

Related with Agenda No : 2 (KHA)



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नेपाल क्रेडिट एण्ड कमर्स बैंक लि.
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

The Board Meeting No. 685th

held on 2075.02.06 (20th May 2018)

has decided to review, the

**"Small and Medium Enterprises (SME) Loan, Product
Paper, 2018"**



Kapil Gnawali
Company secretary
2075-02-15

Approval Sheet:

	Name	Designation	Signature
Prepared and Submitted by	Jivan Kumar Katwal	Head, SME & Retail Credit	
Reviewed and Supported by	Sameer Acharya	Head, Credit Risk	
Reviewed and Supported by	Mukunda Subedi	Chief Risk Officer	
Reviewed and Supported by	Binod Kumar Sharma	Chief, SME & Retail Credit	
Reviewed and Supported by	Rewant Kumar Dahal	Deputy Chief Executive Officer	
Reviewed and Recommended by	Ramesh Raj Aryal	Chief Executive Officer	



1. Introduction

Business needs financing for start up or expansion and to keep business in good operation maintaining customer base in the competitive market. Managing finance is undoubtedly the most important component of any business. Moreover, timely financing is possibly the key to making the most of business opportunities for small and medium enterprises. Out of the major sources of financing, debt financing can timely meet the business needs. Thus, this Product Paper has been structured to provide financing support for small and medium sized business enterprises to expand the existing business and start up of new business as well.

This product paper shall be made effective through internal circular upon approval from the Board of Directors of Nepal Credit and Commerce Bank Ltd.

2. Product Name

SMALL AND MEDIUM ENTERPRISES (SME) LOAN

3. Type of Loan

A) Funded Facilities

- i. Working Capital Loan - Overdraft/Cash Credit /Short Term/ Demand loan etc.
- ii. Term Loan
- iii. Trust Receipt Loan

B) Non-Funded Facilities

- i. Guarantees i.e. Bid Bond, Performance Bond, Advance Payment & Suppliers Credit Guarantees.
- ii. Letter of Credit i.e. Sight /Usance.

4. Purpose of Loan

This product is for financing/facilitating small and medium scale business units requiring;

- a) **Working Capital Loan:** To finance working capital requirement (i.e. Stock/receivables/advances less payables)
- b) **Term Loan** : To meet capital expenditure for acquisition of fixed assets/ infrastructure development (i.e. purchase of land/ construction of building/shed/ office furnishing/ purchase and installation of machineries/ equipment/ instruments etc.)
- c) **Trust Receipt Loan** : To retire LC documents except for domestic LCs.
- d) **Non-fund based** :
 - i. **Guarantees:** to bid the tender, to execute the contract, to receive advance payment and to assure the supplier for credit supply of goods etc.
 - ii. **Letter of Credit:** To import assets/goods from within and outside the country.

5. Eligibility Criteria

5.1 Eligible Customer

- Any one unit among the given below
 - Proprietorship Firm



- Partnership Firm
- Private Limited Company
- Public Limited Company
- Other registered business
- Borrowing unit should be legally registered under the appropriate government authority (i.e. Department of Commerce, Department of Cottage & Small Industries, and Office of Company Registrar)/ Municipality/ Concerned Business Associations etc. and should have obtained PAN from related government authority and all other special permissions if required so.

5.2 Basic Eligibility Criteria

Being within the above eligibility, the customer should meet the following criteria:

- a) The proprietor/promoter/partner(s)/shareholder(s) should be a Nepali Citizen or a company incorporated in Nepal.
- b) Business experience should be at least of two years of profitable operation as per the audited/ management prepared financials. However, newly established business unit may be financed if the approving authority deems appropriate.
- c) The working capital (OD/Demand Loan/STL etc.) limit shall not exceed 30% of annual sales turnover.
- d) Loan limit is to be covered by total security value (Distress Value including hypothecation of stock and receivables) having at least 200% of the loan limit. Out of the total security value, distress value of real estate collateral must be at least 125% of the loan amount. However Collateral Coverage for non-funded limits shall be as per the prescribed policy or guidelines.
- e) Drawdown for business or working capital loan not to exceed 70% of NCA.
- f) Debt Equity to be maintained at 70:30 at all times.

6. Target Group

Small and medium scale business like wholesaler & retailers, cottage, small and medium manufacturing/ processing/ service units, exports, imports, civil contractors, contract suppliers/ manufacturers, workshops, fabricators, educational institutions, service contractors, consultancy, medical and health service providers, tour & travel business, self-employed business, service sector business, organized farming/livestock farming/ agriculture/ floriculture/ horticulture/ herboculture/ carpet/ pashmina manufacturers/ traders, boutique, beauty-parlor, handicraft business, training institute, manpower agencies, printing press, food processing including diary, brick manufacturing, etc. and any other business as deemed fit as SME.

7. Loan Amount

- a) Minimum amount of the loan to be NPR 500,00/-
- b) Maximum loan amount NPR 30,000,000/-
- c) The total fund based and non-fund based facility to a borrower and their group is restricted to NPR 30.0 million

8. Pricing

- a) Interest Rate : As published by the bank from time to time
- b) Service Charge : 1.0% on the approved loan amount
- c) Prepayment Fee : 1.0% on amount prepaid (applicable for TL only)
- d) Penal Interest rate : 2.0% on overdue principal/interest for the overdue period.



- e) Loan Swap Fee : 2.0% on the outstanding amount
- f) Renewal Fee : 0.50% on renewal limit or Rs. 5,000/- whichever is higher (applicable for working capital loan).
- g) Commitment fee : 1.0% (on unutilized amount) if utilization is below 70% of limit
- h) Commissions : As per Bank's rule (applicable for GTEE and LC).

***Note:** The pricing may vary as mentioned on Standard Tariff of Charges (STC). STC will be applied if different than in product paper.*

9. Repayment and Tenure

- a) Working Capital (OD/Cash Credit/Demand Loan/STL, etc.):
 - o Principal: within a maximum period of 1-year subject to renew/review up on satisfactory performance
 - o Interest: on each quarter end as per Nepali Vikram Calendar (i.e. Ashad, Aswin, Poush & Chaitra) and on final settlement of the loan.
- b) Term Loan:
 - o Within a maximum period of 10 years excluding moratorium period repayable on EMI/EQI basis based on borrower's cash flow,
 - o The first EMI shall start from 13th day of each month of Gregorian calendar after the final disbursement/moratorium period. There must be at least 15 days difference between the loan disbursements and first EMI due date.
 - o Moratorium Period: Maximum 12 months from the date of initial disbursement
- c) Trust Receipt (TR) Loan:
 - o The loan amount within a single deal to be repaid in lump sum within its expiry as a bullet payment. However, Pre-payment of the loan shall be allowed. Loan once repaid in full or in part cannot be drawn again by the borrower in same deal.
 - o The interest of the loan to be repaid in each quarter end as per Nepali Vikram Calendar i.e. (Ashad, Aswin, Poush & Chaitra) and on final repayment of the loan.

10. Disbursement

- a) After completion of security documentation and obtaining real estate mortgage, charge over current assets, insurance, etc.
- b) In case of OD, limit will be created in the customer's current account and the loan is created by way of drawdown from the customer and the outstanding debit balance in the current account shall be treated as loan.
- c) In case of demand loan full disbursement at the beginning. The re-disbursal is subject to full adjustment of previous drawdown and within the valid period.
- d) In case of TL:
 - For capital investments - Phase wise disbursement maintaining agreed D/E ratio.
 - For purchase of office furniture /machineries/ tools/ equipment- Equity portion deducting advance to be deposited by borrower in the checking account. The bank will make payment to the supplier/vender in lump sum against original bill.
- e) In case of TR Loan, full disbursement as a separate deal transaction for retirement of the concerned LC.



11. Loan Recording in Core Banking System

- a) The borrower shall maintain a current account (non-interest bearing) which will be used for all loan related transactions i.e. disbursement and repayment.
- b) Loan Account:
 - Overdraft: Overdraft facility shall be managed in current account itself
 - Cash Credit, Short Term, Demand loan, Term Loan: a separate Account Type to be defined in the system for each of Cash Credit, Pledged Loan, Short Term, Demand loan, Term Loan and loan amount will be disbursed by debiting the customer's concerned loan account and will be credited to the borrower's current account maintained with the bank. Similarly the same operating account will be used for the repayment of the loan
 - Trust Receipt Loan: A separate Account Type to be defined in the system for TR Loan and loan amount will be disbursed by debiting the customer's loan account creating a deal for each transaction and will be credited to the borrower's current. Similarly the same operating account will be used for the repayment of the loan.
 - A separate product code to be used for the purpose.

12. Security

12.1 Security Documentation

Following security documents must be executed,

- a) Accepted copy of Offer Letter.
- b) Registered mortgage over the land and/or land and building
- c) First Charge over current assets of the borrower in case of working capital (OD/ Demand) loan with Secured Transaction Registry (STR).
- d) First Charge over fixed assets of the borrower in case of Term Loan
- e) Personal guarantee of the proprietor/partner/directors/collateral provider and others, if any.
- f) Demand Promissory Note
- g) Loan Deed
- h) Insurance policy covering relevant risks associated with the customer's business preferably comprehensive insurance coverage of hypothecated stocks/fixed assets/mortgaged building etc. Bank shall obtain the original insurance policy along with the premium paid receipt of the assets shall be kept as forming part of the security. Insurance policy of building may not be made mandatory if the loan is fully covered by the distress value of mortgaged land alone.

12.2 Valuation of Security:

- In case of real estate collateral, the approved valuator of the Bank will conduct valuation of the collateral securities as per the standard terms of reference and collateral valuation guideline of the bank. The branch officials must also confirm the acceptability and value of the collateral security. In case of other securities, the valuation of the security shall be as prescribe by the bank from time to time.
- Registered mortgage over first party or undivided family member's real estate property. The site of the proposed property should have motorable access of at least 8 ft. or as per standard norms prescribed by the competent authorities.

13. Basic Documentation

- a) Completed application form.
- b) Copy of firm/company registration/incorporation certificate (renewed/valid)



- c) Copy of renewed/valid income tax clearance certificate/PAN Card.
- d) Board resolution deciding to borrow loan and nominating representative to execute security documents, if applicable,
- e) Special resolution of AGM in case of loan higher than the Net-Worth,
- f) Memorandum and Article of Association in case of company,
- g) Partnership deed in case of partnership firm.
- h) Last 2 years audited financial statement with projected financials for at least next 3 years.
- i) Copy of Citizenship Certificate /passport and photographs of the proprietor/ partner/ director/ guarantor.
- j) Latest statement of Stock and Receivables.
- k) A report on site visit of the unit and/or the offered collateral conducted by the Bank staff.
- l) Income certification in case of other income
- m) Copy of Title Deed of land, Copy of "Land Registration Deed", Approved drawing of the building and Building completion certificate from competent authority, if any as applicable, Latest land revenue payment receipts, Four boundaries certified Copies, Blue print map, Trace map, as applicable in case of real estate collateral
- n) KYC of the borrower.
- o) Net worth of the borrower/guarantors.
- p) Others, if any.

14. Risk Factor

The product is prone to default risk resulting mainly from:

- a) Business failures.
- b) Mismatch of financing/ diversion of fund.
- c) Lack of integrity of the borrowers.
- d) Inability to compete with the competitors/large business units.
- e) Inability of management.
- f) Weak trading performance.
- g) Under financing.
- h) Dispute between partners/directors/shareholders.

15. Risk Mitigation

The above risk will be mitigated by adopting following measures,

- a) Bank financing will be secured by the adequate collateral security.
- b) Preferably we will be financing only those units having proven track record with experienced management.
- c) Continuous follow up through internal monitoring modules like repayment history, account movement record, inspection of unit, obtaining and checking of stocks, receivables and payables etc. The market information through peer units will be obtained through informal sources.
- d) Early action for settlement of the loan shall be initiated if any symptom of default is sensed.
- e) Insurance against stock /fixed assets/mortgaged building endorsed in favor of the Bank shall be obtained.

16. Credit Approval Discretion (CAD)

The CAD is rest with Chief Executive Officer, which may be further delegated as per the discretion of CEO.

17. Service Procedure and Delivery Standard

17.1 Service Procedure

- Interviews/discussions with the client
- Provide detail information (Documents required), explain terms & conditions etc. regarding the product.
- Help applicant to fill up Loan Application, KYC, Net worth Declaration form along with other necessary document
- Prepare credit proposal file collecting the aforesaid documents
- Business/unit visit
- Collateral visit and valuation of collateral.
- Analysis the credit proposal and Preparation of Credit Appraisal Memo
- Recommendation for approval to concerned authority and get approval
- Issuance of an offer letter
- The disbursement will be made after completing all required security documents maintaining the prescribed drawing power along with collecting of fee/charges

17.2 Service Delivery Standard

- Decision shall be made within 7 days of receipt of application along with complete documents required and
- Disbursement shall be made on the same day upon mortgaged title in the name of bank upon completion of all security documents.

18. Monitoring, Portfolio Control and Administration

18.1 Monitoring

- i. Branch shall frequently monitor transaction in the borrower's checking account/loan account through the system.
- ii. The statement of stock and receivables shall be obtained from the borrower on quarterly intervals. The availability of working capital loan limit is to be governed by the drawing power based on the approved ratio of debt financing to NCA that should be monitored quarterly.
- iii. Inspection of the business unit to be conducted before approval of loan and thereafter at least on quarterly intervals.
- iv. Inspection of Security/collateral to be conducted before approval of loan and thereafter at least on yearly intervals.
- v. Renewal of registration documents will be ensured at the time of annual renew/review of the facility.
- vi. Branch should issue a letter to the customer at least 45 days prior to the expiry dates to inform about timely renewal or settlement the facility within expiry. For renewal of the facility, Branch shall timely obtain required documents and forward renewal proposal to the competent authority before the expiry.
- vii. The insurance policy shall be kept intact all the times.
 - The expiry date of the insurance policy is to be closely monitored and a reminder letter, at least 15 days prior to the expiry, should be sent to the borrower.



- If, in case, the renewed insurance policy is not submitted before three days of the date of expiry, the Bank shall arrange to renew the insurance policy (generally, the same insurance policy) by debiting the current account of the Borrower.
- If the borrower fails to deposit the insurance premium paid by the bank in lieu of renewal of insurance policy within 30 days of such payment, the event will be considered as an 'event of default' and the loan recovery actions will be initiated.

18.2 Portfolio Management

- SME loan portfolio including other retail portfolio shall be at least 65% of total loan exposure.
- Centralized Credit Monitoring Department/Centralized Credit Operation Department shall monitor the portfolio of the SME loan on quarterly basis.

18.3 Reporting Corporate Office

Irregularity Report must be sent to Risk Department within 15 days of due date with proper justification and expected date for settlement of overdue in case customer fails to pay the EMIs/EQI/dues on or before prescribed due date.

19. Loan Follow-up & Recovery Action

- The BM/RO should closely observe the loan and business activities using various techniques such as surprise visit, regular communication with the customer, etc.
- The BM/RO should notify the customer about the due date to pay interest/EMI/EQI of the loan at least prior 7 working days.
- Verbal follow ups to be initiated immediately upon default of any interest and /or installments.
- In case of default of any interest and/or loan installments continuing 15 days, a general follow up letter would be sent to the borrower, requesting for repayment of the overdue amount within 15 days.
- If the above default is not rectified within 30 days from the date of default, another follow up letter informing to call back the entire facility would be sent to settle within 7 days.
- If the above default is not rectified within 60 days from the date of default, letter calling back the facilities is to be sent (along with draft of 35 days notice to be published in newspaper) to settle the loan within 7 days mentioning to publish 35 days notice if not settled within the stipulated time.
- If the above default is not rectified within 90 days from the date of default, legal action to be initiated under coordinating with central Recovery Department as per the recovery policy.

20. Waivers

- Waivers, if any, must be specifically approved by the Chief Executive Officer or the Official(s) designated by the CEO. However, branch must clearly mention and justify why such deviation is required under the heading "Waiver on Deviation to Product Paper".
- Chief Executive Officer may take waiver decisions as and when required.



Board of Directors:

S.N.	Name	Position	Signature
1.	Mr. Upendra Keshari Neupane	Chairman	
2.	Mr. Iman Singh Lama	Director	
3.	Mr. Chandra Prasad Bastola	Director	
4.	Mr. Madhav Prasad Bhatta	Director	
5.	Mr. Krishna Shrestha	Director	
6.	Dr. Kailash Patendra Amatya	Director	

