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**Fresher Learning
Program**

Retail Loans

- The primary function of banks is to accept deposits and use it to dispense loans. Every time a bank sanctions a loan it is creating an asset in its books.
- The interest a bank earns from lending contributes substantially to its bottom line. Lending itself stimulates business activity in the economy.
- Loan products offered by banks can be of various tenors, rates of interest, repayment schedules and complexity. Thus, you can have short or long term loans at fixed or floating rates or a combination of the two; loans disbursed and repaid as a bullet or in instalments and so on.

Classification of Loans

- Secured Loans
- Unsecured Loans

Classification of Limits

- Revolving limits
- Non-revolving limits

Types of Loans

- Personal Loans
- Consumer Loans
- Vehicle Loans
- Mortgage Loans
- Loan against Shares
- Loan against Securities
- Education Loans

Loans Lifecycle (Process and Stages)

- Offer
- Administration
 - Repayment
 - Post disbursement activities
- Termination
- Non-Performing activities
- Fees & Charges
- MIS Reports

- Offer :
 - Application
 - Appraisal / Sanction
 - Credit worthiness and loan requirement of the Borrower
 - Repayment and Interest servicing capacity
 - Risk Profile
 - Securities evaluation
 - Assessing the marketability and Tangibility of the securities
 - Disbursement
 - Documentation

Administration

■ Repayment

- Methods (Sources)
- Types of Schedules
 - Rule of 78
 - Equated Monthly Instalment
 - Equated Instalment Schedule
 - Graduated Instalment Schedule
 - Balloon Instalment Schedule
 - Bullet Instalment Schedule
 - Free Format / User Specified Schedule
- Types of Interest calculation
 - Reducing Balance
 - Flat Rate

- Interest Basis
 - Actual / Actual
 - Actual / 360
 - 360/Actual
 - 360/360
 - 360/365
- Interest Accruals
- Interest Capitalisation

ASSETS

- In Assets – Loans/Cash Credit/Overdraft etc., interest is applied on the basis of (a) Flat Rate (b) Reducing balances

a) Flat Rate

- Interest computed on Principal Amount for the entire period of repayment, without reducing the monthly repayments.
- Effective interest is higher than the interest calculated on the reducing balances as the customer does not get the benefit of the reduced balance
- Mostly applied in retail loans of short/medium term

b) Reducing Balance

- Interest applied on the balance at the end of the day.
- Repayments reduce interest as it is calculated only on actual balance

Rule of 78

- Under **Rule of 78** method, interest is calculated for entire period of loan on the straight line basis on the entire principal amount.
- Repayment period is then added up to arrive at sum total. For example, taking repayment period as 12 months, the sum would be:
- $1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12 = 78$

Hence it is known as Rule of 78s.

- Total amount of interest for the entire period is then allocated to each month in reverse proportion as under:
- 1st month = $12/78$
- 2nd month = $11/78$, and so on.....the last being $1/78$
- This results in allocation of higher amount of interest in the beginning, gradually reducing till end.

Graduated Instalment Schedule

- Repayments either keep increasing or decreasing . Increasing mode is also called Step-up payment and the decreasing mode is called Step-down payment.

Balloon Instalment Schedule

- One part of loan repaid in instalments. Other part is repaid in a single lump sum payment at the end of the loan tenor

Bullet Repayment

- Repayment of entire amount in one instalment at the end of a defined period. Interest repaid when applied, unless otherwise agreed

Free Format or User Specified Schedule

- Customer makes payments as per his choice with concurrence of the bank. Interest repaid as and when applied

Equated Monthly Instalment (EMI)

- Helps in working out uniform monthly instalment throughout the repayment period
- Instalment utilised more for interest payment initially, gradually increasing repayment of the principal amount
- Averages out repayment obligation over the entire repayment period; else, customer pays higher instalment initially and lower later on; creating upfront repayment pressure
- Formula: $EMI = P \times r \times (1 + r)^n / ((1+r)^n - 1)$
- P=principal amount ; r = interest rate per month
- n= tenor of loan in number of months

Equated Instalment Schedule

- Like EMI, the instalments may be equally divided into quarters/ half years/years, including interest.

- Capitalization of interest is the process of recognizing the interest income. The interest capitalization is done as per contracted rate which may not necessarily be in sync with the repayments made by the borrowers. For example, where the interest received in the beginning is more than the interest applicable at the contracted rate (Like Flat Rate of Interest and Rule 78), the excess interest is carried forward as “Income Received In Advance” instead of transferring into the current year’s profit and loss.
- In case of NPA, unrecovered interest is reversed and bank ceases interest application till account is converted back to healthy status and up to date interest plus dues are recovered.
- Some banks, instead of ceasing to charge interest, apply interest in the account but park the interest amount in to an Interest Suspense Account. Only when actually recovered, the interest credited to Interest Suspense Account is transferred to Profit and Loss Account

Post Disbursement Activities

Financial Transactions	Non-Financial Transactions
<ul style="list-style-type: none">• Foreclosure• Partial Settlement• Advance payment• Deferment• Reschedule - EMI change• Reschedule - Tenor change• Reschedule – Rate change• Reschedule – Rate type• Cancellation	<ul style="list-style-type: none">• Repayment Mode Change• Liability Letter• Liability Clearance• Mortgage Release• Change of Asset Owner• Change of Asset Registration• Change of Contact Details• Change of Co-Borrower• Change of Guarantor details

Termination

- Closure
- Loan account Closure
- Cancellation of Loan Agreement
- Removal of Standing Instructions / Lien / Security Release
- Return of Securities to Guarantor / Borrower

Fees & Charges

- Loan Processing Fees
- Instalment deferment fees
- Early settlement
- Loan Balance certificate
- Clearance letter
- Rescheduling instalments
- Late fee Recovery
- Loan Cheque return fees

MIS Reports

- Loan wise Trial Balance
- Loan wise Voucher
- Delinquency Report
- Delinquency Summary
- Daily disbursal
- Product wise report
- Sanction Vs Disbursement report
- Ageing Overdue
- Daily disbursal report
- Tranche Payment Status Report
- Monthly Disbursal

- Introduction
- Overdue / Past due
- Asset Classification / Provisioning

Asset Class	Overdue age (days)	Provisioning (%)
Standard	0 – 59	Nil
Special Mention	60 – 89	10
Substandard	90 – 179	25
Doubtful	180 – 364	50
Loss	365 and above	100

Disbursal

Interest
Accrual

Interest
Capitalisation

Repayment

Loan Closure

Treatment of
NPA



CORPORATE HEADQUARTERS

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