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BBA

Internship Report



Consumers' Credit Scheme
A Comparative Study on Prime Bank Limited
with Other Private Sector Banks

Consumers' Credit Scheme
A Comparative Study On Prime Bank Limited
with Other Private Sector Commercial banks

Prepared For:

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Prepared By:

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January 15,2004

Report - 63

Letter of Transmittal

January 15, 2004

Dr. Tanbir Ahamed Chowdhury
Associate Professor
Department of Business Administration
East West University.

Subject: Submission of Project Report.

Dear Sir,

I am pleased to present my project report titled **"Consumers' Credit Scheme- A Comparative Study on Prime Bank Limited with Other Private Sector Commercial Banks"** that was assigned to me as a partial requirement of the graduation program.

The report focuses on the objective and methodology of this project and on the study of the organization. The necessary and relevant topics have been reviewed from the books and other sources in order to evaluate the practical application of the theories. Suggested at the end of the report.


The project helped me tremendously to understand the implication of theoretical knowledge in the practical field. It has also shaped some of my basic views like how to communicate and carry one self in the world of business.

I realize that certain information enclosed in this report is confidential and should be confined within academic discourse and interest.

I hope you will find the report in appropriate manner. I appreciate your cooperation and hope that you will call upon me with any questions occasioned by this report.

Thanking you and looking forward to receive your cordial approval of my submission.

Yours Sincerely,



Partha Pratim Bhattacharjee

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EXECUTIVE SUMMARY

This report is an attempt to look at PRIME as an organization and focus on "Consumer Credit Scheme" in Bangladesh. Special emphasis has been given to examine the significance as well as the practical implementation of this project with a view to improve Bank's performance particularly with the help of this new project.

In order to understand the organization on which the report was carried on, a brief overview of PRIME has been presented. Basically Prime Bank Limited is a solid, forward looking, modern local bank with a record of sound performance. It is discarding its erstwhile conservative mould and in response to current dynamic trends in financial activities, adopting an aggressive customer focused banking system. The effort that Prime Bank makes in order to portray the Bank as a brand image it is Trustworthy, Efficient, Helpful, and Committed.

This report deals with the detail description of Consumer Credit Scheme (CCS) of Prime Bank Limited and how the organization functions in harmony to create and present a visual description as well as representation of all the relative information. It also highlights on others financial products and services offered by the Bank and thus proves the importance of this project from a business perspective.

Analyses on the findings are provided in order to understand the situations of the implementation of this project.

Conclusions have been derived on the basis of "Consumers' Credit Schemes" performance, and accordingly Recommendations are suggested at the end of the report.

ACKNOWLEDGEMENTS

The success of this report depends on the contribution of a number of people, especially those who took the time to share their thoughtful guidance and suggestions to improve the report.

At first I would like to thank my Supervisor of the project program Dr. Tanbir Ahmed Chowdhury – Associate Professor, Department of Business Administration, East West University, for his guidance, constant and spontaneous support, efficient supervision and constructive suggestions. Without his help this report could not have been a comprehensive one.

Secondly, I would like to express my gratitude to Mr. Jasim Uddin(Sr.VP), Mr. A.K.M. Kamal Uddin(FAVP), Mr. Mozammel Haque (AVP), Mr. Md. Omar Faruque(FAVP), Mr. Md. Alamgir(SEO), Mr.Syed Md. Ali Reza(Head of Credit), Mr.Abu Taher Md. Zakaria(EO), Mr.Abdul Bari Mollah(EO), Mr.A.K.M. Abdul Alim(PO), Mr.Mansur Ali Miah(PO), Mr.Nazrul Islam(PO), Mr.Md. Sazzad Hossain(SO), Mr.Shahtab Rizvi(SO), Ms.Maksuda Akhter(SO), Ms.Silvia Arpa Chowdhury(SO), Mr.Gukul Chandra Sarker(MTO), MsKismet Ferdous(MTO), Mr.Abdul Awlad Khan(JO), Mr.Jakir Hossain Mazumder(JO), and obviously Mr.Nasim Hasan Zahidy(MTO), my supervisor, they have given their valuable time and energy in every step of the preparation of report.

I should also acknowledge my family and my friends specially Mr. D.M. Ferdows, Syed Montasir Mamun, Minhaj Rashid Khan for their support and cooperation while preparing this report.

Chapter 1

Introduction

Chapter 1: Introduction

1.1 Origin of the Report:

My Internship advisor, Dr. Tanbir Ahmad Chowdhury, Associate Professor of Business Administration Department, assigned me this report in the 3rd week of October 2003. This report is based on the Consumer Credit Scheme of Prime Bank Ltd. and other private sector commercial banks I have to submit this report within December 2003. As per my graduation requirement, I have attended a three month long Internship program in Prime Bank Ltd. (October 2003 to December 2003). My subject of analysis was "Consumer Credit Scheme of Prime Bank Ltd."

1.2 Rationale of the Study:

Banks are in the business of managing risk. If done correctly, the bank will create economic value obviously. If done incorrectly, real resources will be misallocated, and the bank may fail. Moreover, even if risk measurement and management are done correctly the bank may still fail, simply because it was unlucky.

Historically commercial banking has always depended upon the credit insights of the banker, his ability to measure the capacity and willingness of a borrower to repay a loan, his ability to sense, which risks appear to hedge others. These old fashioned concepts are still relevant in evaluating today's commercial banking, even as we move toward sophisticated risk management techniques of risk reduction.

Indeed, modern banking is not inherently different from traditional banking, except that there are now many more financial products and services involved than before.

As the complexity of the financial marketplace has increased, so has the complexity of risk management. But although modern banking may create sophisticated mathematical structures, the raw data of these systems remain the credit judgments of the individual loan officers or credit committee in classifying the risk of a potential loan.

In brief, the bank of the future will generate its profits not only from offering the technology of the future, but also from using its knowledge and credit evaluation abilities to extend credit of profitable margins to customers with calculated risks.

However, The Prime Bank Ltd. has been recognized as one of the leading private commercial banks in Bangladeshi banking sector. Due to free market economy, competition is growing rapidly among the nationalized, foreign and private Commercial Banks. Each bank is trying to make their products and services more attractive to the customers. Prime Bank Ltd. has launched their 'Consumer Credit Scheme' to keep pace with the growing expectations with the customers. This report basically deals with the 'Consumer Credit Scheme' (CCS) of Prime Bank Limited. It also describes the competitive position of the scheme in the market.

1.3 Purpose of the Report:

This report describes the Consumer Credit Scheme of Prime Bank Ltd. The description will cover the eligibility required to get the CCS loan, the loan sanctioning procedures, repayment processes and a comparative analysis of CCS loan with other private commercial banks. The final part of the report will include some recommendations to improve the existing credit policies. The main purpose of this report is to evaluate the market compatibility of the Consumer Credit Scheme of Prime Bank Limited.

1.4 Objectives of the Study:

- i) To present an overview of the Bank.
- ii) To appraise the "Consumer Credit Scheme" of Prime Bank Limited.
- iii) To find out how Consumer Credit Scheme system works.
- iv) To do a comparative study on Consume Credit Scheme of Prime Bank and other private commercial banks of Bangladesh.
- v) To assess the impact of Consumer Credit Scheme on Organizational Growth of Prime Bank Ltd.
- vi) To verify the scope of further improvement of Consumer Credit Scheme.
- vii) To suggest suitable measures to remove the existing problems of Prime Bank's Consumer Credit Scheme.
- viii) To appraise the financial performance of Prime Bank Limited.

1.5 Overview of the Report:

At first, I introduced a profile of Prime Bank Ltd. Then I give a short but clear description about their Consumer Credit Scheme. In the final part of this report, I included a comparison with other leading private commercial banks, regarding CCS. This report is also incorporated with some recommendation to improve the compatibility of the existing CCS of Prime Bank Ltd.

1.6 Scope of the Report:

My area of operation is confined only to Consumer Credit Scheme (CCS) that dealt with consumer loan policies and practices. But I also concentrated on different financial products and services that have been introduced by the bank.

Therefore, I have tried to evaluate the performance of Prime Bank Limited based on financial statement data and finally I have tried to find out some problems, and making some necessary recommendations.

1.7 Methodology:

Both primary and secondary sources of data were used in this report. All kind of information was collected through the interviews with the employees of the concern banks.

Secondary published materials, like leaflets of the schemes, annual reports, and the monthly reviews of the bank, have also been used in this report to analyze the credit policy, and compatibility of different banks.

1.8 Limitations:

In course of my Internship, I faced a number of problems, which may be termed as the limitations of this study. Those were:

- i) I could not get sufficient data for the year ended December 31, 2003, because the year is not closed yet.
- ii) I could not get sufficient data about scheme wise loan disbursement, default risk of various sector and scheme, and recovery regarding Consumer Credit Scheme of Prime Bank Limited and other private sector commercial banks.
- iii) Because of confidentiality, it was very difficult to get the actual information. In many cases, the questions had to be explained elaborately to the respondents.
- iv) Sufficient records, publications were not available. This constraint narrowed the scope of real analysis.
- v) Because of time constraint, I could not spend sufficient time to make an in-depth study.
- vi) Elaborate information about the CCS loan of other banks cannot be collected, because the officers were very busy with their day-to-day work; they could hardly provide any time.
- vii) Foreign banks were not considered during the evaluation of Consumer Credit Scheme of different commercial bank.
- viii) It was very difficult to deal with some ambivalent information's.

Chapter 2

Profile of Prime Bank Ltd.

Chapter 2: Profile of Prime Bank Ltd.

2.1 History of the Organization:

The Prime Bank Ltd. was incorporated in Bangladesh on 17th April 1995, as Banking Company under Company Act 1994. Its registered office situated at 5, Rajuk Avenue, Motijheel C/A; Dhaka-1000. The Bank operates as a scheduled Bank under a banking license issued by Bangladesh Bank.

The Prime Bank Ltd. has 27 branches and a booth (located at Dhaka Club, Dhaka) all over Bangladesh. It carries out all the banking activities through its branches in Bangladesh. Out of the above branches, two branches of the bank are run under Islamic Shariah. The Prime Bank Ltd. is listed with the Dhaka and Chittagong Stock Exchanges as a Publicly Quoted company.

In the last two decades there has been a revolutionary development in the banking field. In the fast changing business environment, financial intermediaries are gradually being left to be guided by market forces rather than regulations. Prime Bank Ltd. emerges as a new bank in the private sector with a view to operating in the commercial arena of Bangladesh.

The Bank has made significant progress within very short period, because of its competent Board of Directors, dynamic management and introduction of various customer-friendly deposit and loan schemes. That's why Bangladesh Bank has recognized Prime Bank as an "A" Grade Bank.

The Prime Bank has been put on the top of all the commercial banks in the Bangladesh Bank's latest CAMEL (Capital, Assct, Management, Earnings and Liquidity) rating as published in Financial Express. The functions and role of this institution have been expanding day by day.

2.2 Overview of the Prime Bank Ltd.:

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence, and consistent delivery of reliable service with superior products. Accordingly, Prime Bank Limited was created and commencement of business started on 17th April 1995. The sponsors reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy sectors respectively. As a fully licensed commercial bank, a highly professional and dedicated team is managing Prime Bank Limited with a great experience in banking. As a result it has become relatively easier to understand and anticipate the customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank Limited^d has already made significant changes within a very short period of its existence. The bank has been graded as a top class bank in the country through CAMEL rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation. Prime Bank Limited offers all kinds of commercial, corporate, and personal banking services covering all the segments of society within the framework of Banking Company Act and rules and regulations laid down by the Bangladesh Bank.

Diversification of products and services, avoid in making very high risk loans, evaluating the creditworthiness of borrowers, obtaining necessary collaterals and guarantees, monitoring and supervising the given loan properly. Prime Bank Limited has successfully reduces their risk in every aspect of banking as the bank mainly focuses on strengthening risk management and improving asset quality.

Despite the fact that 2002 was a year of many challenges, the bank has been managed quite successfully. The year was concluded with a steady growth and the market share has been retained in all areas of operation.

2.3 Objectives of Prime Bank Ltd.:

The main objective of Prime Bank Ltd. is to maximize profit through customer satisfaction, which very much reflexes the idea of marketing concept. Its objective is to remain competitive. The Bank will support all constructive reforms that are in the national interest and encourage more competition and choice for the people. Besides investment in trade and commerce, the Bank will participate in the socio-economic development of the priority sectors like agriculture, industry, housing and self-employment in the country. It also wants to ensure high return on investment, sound growth and profit and service with different service products.

2.4 Values and Missions of the Prime Bank Ltd.:

Prime Bank Ltd. holds the following principal values and missions:

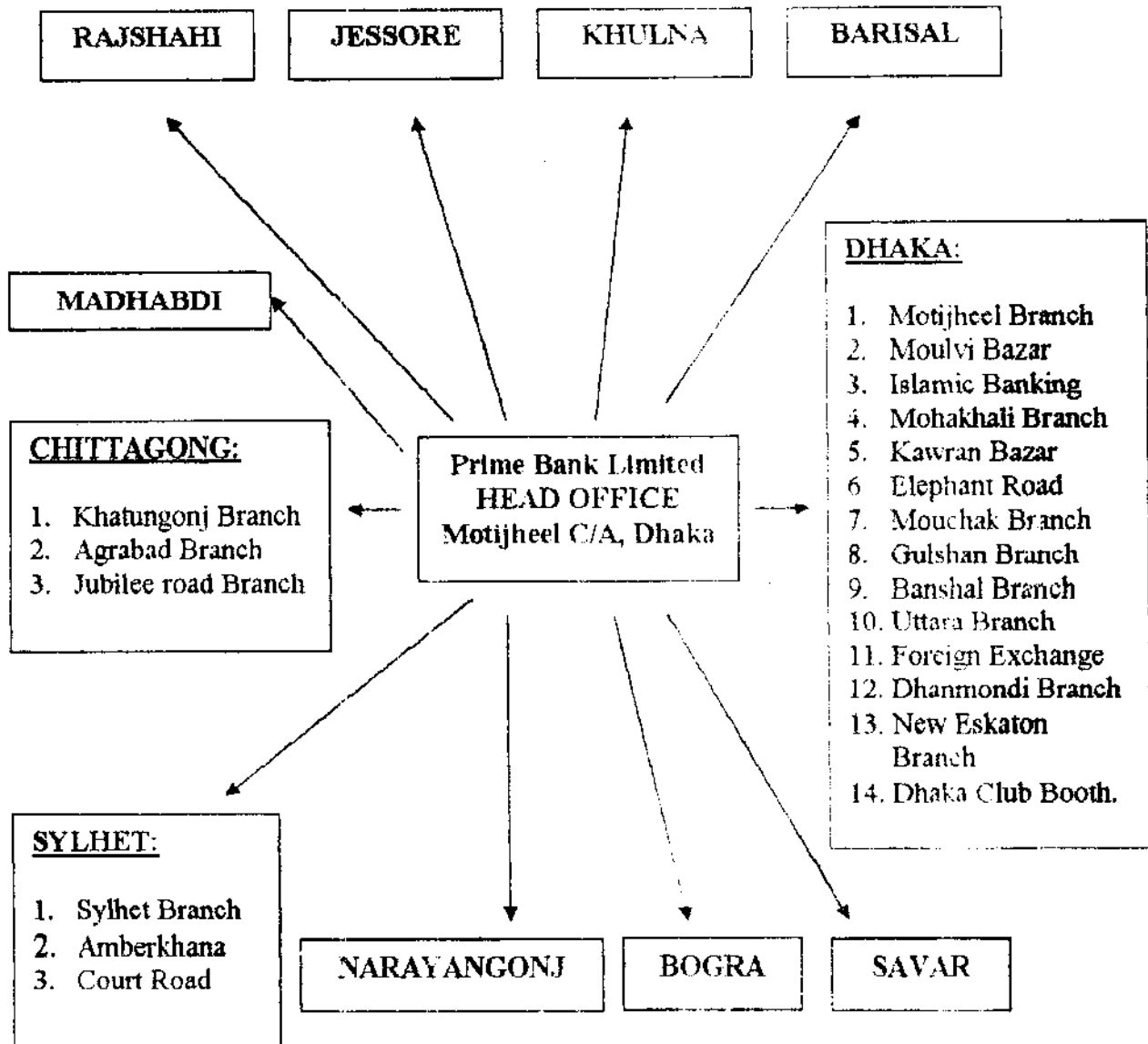
- 1) **Vision:** To be the most efficient bank in terms of customer service, profitability and technology application.
- 2) **Mission:**
 - ⇒ Continuous Improvement in our business policies and procedures.
 - ⇒ Cost reduction through integration of technology at all level.
- 3) Their main efforts are focused on delivery of quality service in all areas of banking activities with the aim to add increased value to shareholders investment and offer highest possible benefits to their customers.
- 4) **Strategic Priorities:** To have sustained growth, broaden and improve range of products and services.
- 5) To achieve excellence in customer services and build a relationship based on integrity, superior services and mutual benefit.
- 6) To contribute in the Bangladeshi Economy.
- 7) To provide automation in banking operation with the help of information technology and on-line banking service.
- 8) To work as a team to serve the best interest of the group.
- 9) To help build up a modern system of warehousing system in the country.
- 10) To introduce Consumer Credit Scheme for its valued customers in helping those by financing for fulfill their personal need.

- 11) To introduce capital market operation and leasing.
- 12) To work for continuous business innovations and improvements.
- 13) To provide recognition and rewards for good performance.

2.5 Corporate Profile:

❖	Name of the Bank:	Prime Bank Limited.
❖	Commencement of Business:	April 17 th , 1995.
❖	Registered Office:	Adamjee Court Annexe (Building-2), 5, Rajuk Avenue, Motijheel C/A, Dhaka-1000, Bangladesh.
❖	Cable:	Prime Bank
❖	Phone:	8815885, 9886171
❖	Telex:	642447 prime BJ
❖	Fax:	88-02-8820276
❖	E-mail:	primebank@bangla.net
❖	Swift:	PRBLDPH

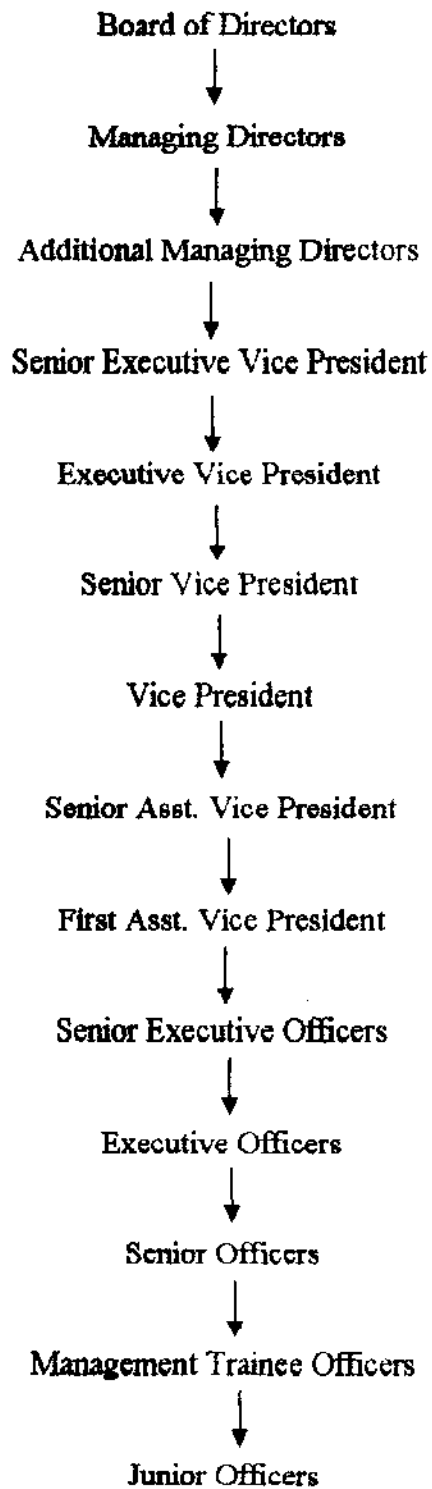
2.6 Network of Branches of Prime Bank Ltd.



2.7 Proposed Branches of Prime Bank Ltd.

1. Satkhira Branch, Satkhira.
2. Mirpur Branch, Dhaka.
3. Benapole Branch, Jessore

2.8 Organizational Structure of Prime Bank Ltd.



Chapter 3

**An Appraisal of Financial Performance of
Prime Bank Limited**

Chapter 3: An Appraisal of Financial Performance of **Prime Bank Limited**

3.1 Paid up Capital and Reserve Fund:

Particulars	1998	1999	2000	2001	2002
Paid-up Capital	200.00	400.00	400.00	500.00	500.00
Reserve Fund	93.70	319.23	573.73	761.43	807.92

The paid up capital of the bank rose from Tk. 200m in 1998 to Tk.600m in 2002. Its reserve fund was Tk.93.70m in 1998 and the same shot up to Tk.807.92m in 2002. At the moment, its reserve fund exceeds its paid up capital by Tk.207.92m, and this is an indicator of its financial health.

3.2 Deposits and Investments:

Particulars	1998	1999	2000	2001	2002
Deposits	5313.25	7660.02	11168.72	13259.87	16902.29
Investments	604.30	964.81	1524.54	1730.74	1996.23

Over the last five years, its deposits have marked a rising trend. In 2002, it has got a deposit of Tk.16,902.29m compared to Tk.5313.25m in 1998-a three-fold increase. Its investments like wise show a rising trend. Investments in 1998 amounted to Tk.604.30m, which shot up to Tk.1996.23-again a three-fold increase.

3.3 Operating Profits:

Particulars	1998	1999	2000	2001	2002
Operating Profit	216.94	361.02	593.20	756.09	747.84

The bank shows an increasing trend and steady growth over the last five years. But only in 2002, the operating profit came to Tk.747.84m compared to Tk.756.09m in 2001.

3.4 Book Value Per Share:

Book Value per share rose to Tk.271.63 in 2001 from Tk.146.85 in 1998, but came down to Tk.234.81 in 2002.

Particulars	1998	1999	2000	2001	2002
Book Value Per Share	146.85	179.86	243.43	221.65	234.81

3.5 Earning Per Share:

Particulars	1998	1999	2000	2001	2002
Earning Per Share	18.59	51.47	90.11	96.60	69.69

Earning Per Share is an important indicator of profitability, which also shows an increasing trend up to 2001. But it came down to Tk.69.69 in 2002 from Tk.96.60 in 2001. Again the important thing is that the shareholders of Prime Bank Limited are not frustrated due to this significant decline in Earning Per Share. Because Prime Bank Limited is expanding each year and strongly maintaining its position.

3.6 Ratio of Classified Loans to Total Loans:

Particulars	1998	1999	2000	2001	2002
Ratio of Classified Loans to Total Loans	1.78%	1.63%	1.49%	1.13%	1.48%

The ratio of classified loans to total loans shows more or less a strong position.

3.7 Return on Assets:

Particulars	1998	1999	2000	2001	2002
Return on Assets	4.50%	5.30%	4.61%	4.80%	3.73%

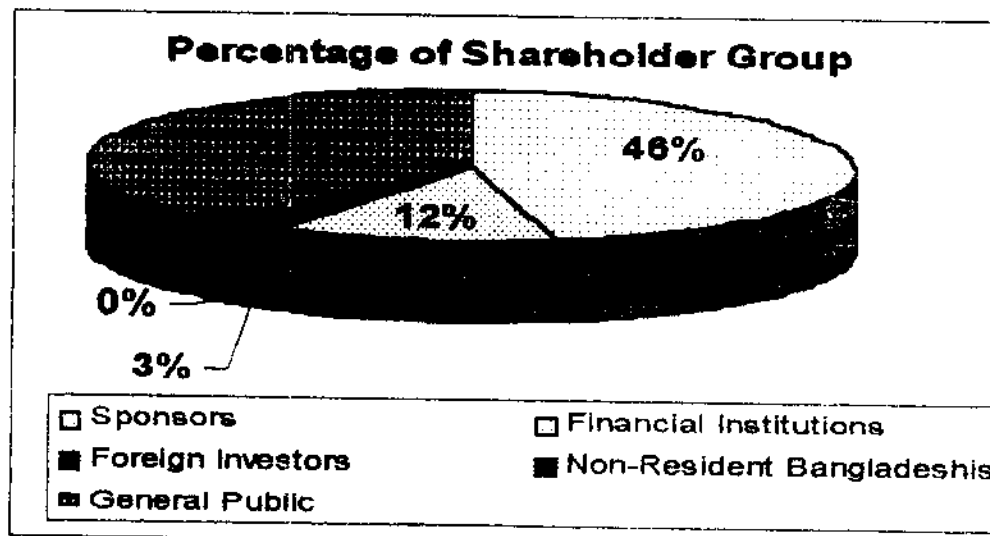
Over the last five years Return on Asset was 4.50%, 5.30%, 4.61%, 4.80%, and 3.73% respectively. In 2002, the bank's operating income suffered a set back. As a result, Book Value per share, Earning Per Share, and Return on Asset have come down though deposits and investments increased significantly in the year.

3.8 Share Capital:

The bank is authorized to issues 10,000,000 Ordinary Shares at a face value of Tk.100 each. The bank has issued 6,000,000 shares of Taka 100 each, which was fully paid up in cash. A further 1,000,000 Bonus Shares of Tk.100 each is proposed to issue in the year 2002. So, their total share capital is Tk. 600,000,000.

The break up of Share holdings at 31st December 2002 is given below:

Grouping of Shareholders	No # of Shares	Percentage
Sponsors	2,787,000	46.45%
Financial Institutions	712,200	11.87%
Foreign Investors	183,600	3.06%
Non-Resident Bangladeshis	4,800	0.08%
General Public	2,312,400	38.54%
Total Shares	6,000,000	100%



3.9 Products and Services of Prime Bank Ltd.:

Based on customer satisfaction, Prime Bank provides various products and services to its customers. Product and Services of Prime Bank Ltd. are listed below:

❖ Deposit Products:

- Current Deposit Account
- Saving Deposit Account
- Short Term Deposit Account
- Fixed Deposit
- Contributory Saving Scheme.
- Monthly Benefit Deposit Scheme.
- Special Deposit Scheme.
- Educational Deposit Scheme.
- Foreign Currency Deposit Account
- Non-Resident Taka Account
- Non-Resident Foreign Currency Deposit Account (NFCD)
- Non-Resident Investors Taka Account (NITA)
- Prime Bank Insured Fixed Deposit Scheme.
- Prime Bank Money Scheme
- Multi Currency Account

❖ **Loan Products:**

- Secured Overdraft
- Consumers Credit Scheme
- Lease Finance
- Hire-Purchase
- Small and Medium Enterprise Credit Scheme
- Loan against Share and Securities.
- House Building Financing Scheme
- Financing Scheme for Contractors
- Computer Software Financing Scheme
- Prime Bank Master Card (Credit Card)
- Working Capital Financing
- Import Financing
- Export Financing
- Industrial and Project Financing

❖ **Others Products/Services:**

- On Line Banking Services
- SWIFT Services
- L/C Delivery Services
- Locker Services

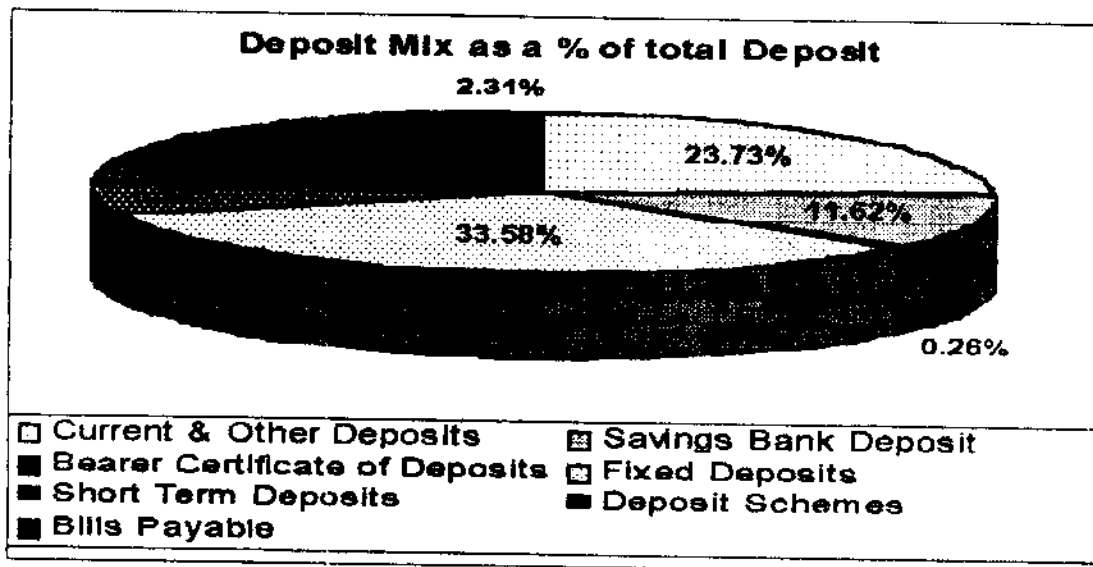
3.10 Classification of Deposits:

At the end of 2002, total deposit stood at Tk.16, 902.29 million, a 27% increase compared to Tk.13, 259.87 million from the year before. The bank collected those deposits through different deposit schemes.

Deposit mix as on December 31, 2002 was as follows:

Deposit Mix:

Serial	Items	Taka (in million)	% of total Deposit
1.	Current and Other Deposits	4,010.40	23.73 %
2.	Savings Bank Deposit	1,964.39	11.62 %
3.	Bearer Certificate of Deposits	43.92	0.26 %
4.	Fixed Deposits	5,674.50	33.58 %
5.	Short Term Deposits	1,173.44	6.94 %
6.	Deposit Schemes	3,644.40	21.56 %
7.	Bills Payable	391.24	2.31 %
Total		16,902.29	100 %

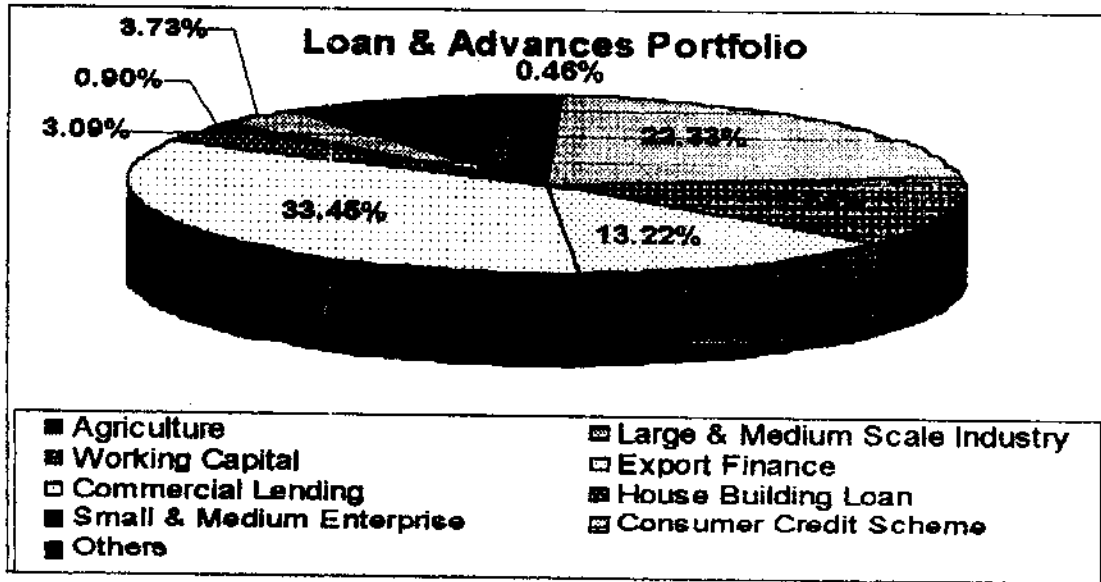


From the above table and graph, we can say that the major portion of the Prime Bank's deposits was collected from Fixed Deposit (33.58%), which is high-cost deposit. A favorable proportion (23.73%) was also collected from the low-cost deposit accounts (i.e. Current A/C)

3.11 Portfolio of Loans & Advances:

At the end of 2002, total loans and advances amounted to Tk.12, 686.85, an increase of 40% compared to Tk.9, 074.94 million in 2001. The bank extended its credit facilities to Trade Finance, Project Loans, Working Capital and Consumer Credit etc. The Prime Bank Ltd. also encourages small business groups and offers credit facilities to them. Agriculture and IT sector both got priority from the bank in line with national interest. Prime Bank Ltd. had also extended long term loans to a number of projects under syndicated financing arrangement with other banks and financial institutions. Portfolio of Loans and Advances ad on December 2002 is given below:

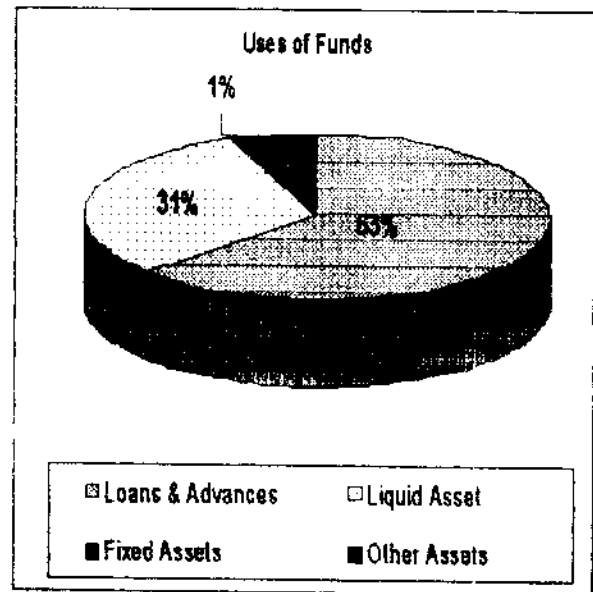
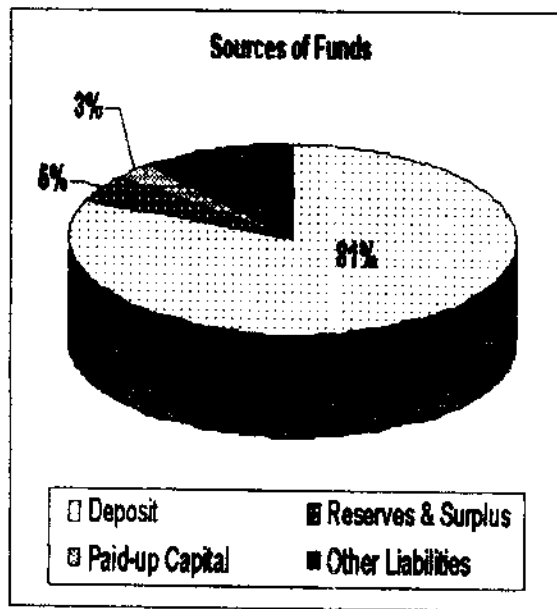
Serial	Sector	Taka (in million)	% of total Loans
1.	Agriculture	58.99	0.46 %
2.	Large and Medium Scale Industry (Term Loan)	2,832.55	22.33 %
3.	Working Capital	1,604.13	12.64 %
4.	Export Finance	1,675.55	13.22 %
5.	Commercial Lending	4,244.05	33.45 %
6.	House Building Loan	392.12	3.09 %
7.	Small & Medium Enterprise	114.70	0.90 %
8.	Consumer Credit Scheme	473.57	3.73 %
9.	Others	1,291.19	10.18 %
	Total	12,686.85	100 %



From the previous table and graph, we can say that Prime Bank Ltd. emphasizes more on commercial sectors. They provided more than 55% of their loans to Commercial Sectors and Large and Medium Scale Industry (as Term Loan). Their contribution is very limited in Agriculture sector (0.46% of their total loan) and in Small Industries (0.90% of their total loan).

3.12 Sources & Uses of Funds:

Sources of Funds		Uses of Funds	
Deposit	81 %	Loans & Advances	63 %
Reserves & Surplus	5 %	Liquid Asset	31 %
Paid-up Capital	3 %	Fixed Assets	1 %
Other Liabilities	11 %	Other Assets	5 %
Total	100 %	Total	100 %



From the above table, we can say that the Prime Bank Ltd. has collected major portion (81%) of their funds from Deposits and has used a large proportion (63%) in Loans & Advances. Their capital base is not strong enough, because only 3% funds are collected through Equity, which is not a good sign. On the other hand, they use 21% of their funds in liquid asset and only 1% of fixed asset, which is definitely a good sign.

3.13 Operating Results:

Prime Bank Ltd. had made an operating profit of Tk.747.84 million compared to Tk.756.09 million in 2001. Their Return on Asset (ROA) is 3.73%, which might be considered at a satisfactory level.

Chapter 4

Overview of the Consumer Credit Scheme

Chapter 4: Overview of the Consumer Credit Scheme

4.1 History of Consumer Credit:

During the 18th century & first half of the 19th century, the principal non bank agencies that extended credit were small merchants, physicians, and pawn brokers. The industrial revolution brought about changes in credit demands and institutions. Industrialization made more goods available for consumers and created a class of wage earners. The credit needs of the industrial wage earners differed from the credit needs of farmers, who generally borrowed on "Open-Book" accounts (without formal agreements) and paid off their debts with the crops that were sold.

In contrast, industrial wage earners received steady incomes and could pay their debts on a regular basis throughout the year. Accordingly, the concept of installment credit evolved, since many workers received low wages & required credit to raise their standard of living above subsistence levels. These credit needs were partially satisfied by small loan companies that concentrated on making personal loans secured by personal property and wage assignments. Those who could not obtain credit from legitimate small loan companies borrowed from loan sharks, individuals who charged excessive rates of interest-sometimes in excess of 200%-and sometimes required the borrower's physical well-being as collateral.

Now the availability of consumer durables goods such as automobiles and washing machines expanded the demand for consumer credit. Sales finance companies, which buy consumer installment credit contracts from retail dealers and provide wholesale financing to those dealers, grew from these demands. Commercial banks were the next institution to enter the consumer loan field.

Therefore, they found a great potentiality in the consumer credit market. So, most of the private commercial banks have introduced their own Consumer Credit Scheme. With this Consumer Credit Scheme, banks provided their credit line to individual consumers to finance their house hold appliances and office equipment. Loans under this Consumer Credit Scheme are relatively small in amount which is to be repayable with equated monthly installment.

4.2 CCS in Bangladesh:

Bangladesh is a third world developing country. Per-capita income of our country is very low. So the majority of our population is forced to live a sub-standard life. The middle class and disciplined professionals can not afford to buy essential utility products that requires substantial amount of money at a time. As they can not able to raise their living standard to an expected level, different private sector banks have introduced the household durables loan scheme known as "Consumer Credit Scheme".

Consumer Credit Scheme is very much popular in most of the developed and developing countries. This is designed to finance the fixed income group for buying essential commodities, which is to be repaid by equated monthly installment over a period in accordance with a contractual agreement. Consumer Credit Scheme is becoming very popular in our country. A good number of financial institutions in our country are successfully operating this scheme.

First of all Islami Bank Ltd introduced this loan in 1993. Following their success other private banks like Prime Bank Ltd, Uttara Bank Ltd, Bank Asia, IFIC Bank, Mercantile Bank Ltd and other introduced this scheme later. These days most of the private sector banks are offering this household durable loan. But very few of those banks offer this CCS loan extensively. Some of those private sector banks have failed to operate Consumer Credit Scheme successfully and thus they bound to close-up this program like Dhaka Bank.

The names of banks that are successfully operating CCS program are given in the following table:

Islami Bank Bangladesh Ltd.	Household Durables Investment Scheme	1993
Prime Bank Ltd.	Consumer Credit Scheme	1995
Social Investment Bank Ltd.	Household Loan	1995
Pubali Bank Ltd.	Consumer Credit Scheme	1996
Standard Chartered Grind lays Bank	Personal Finance	1996
Uttara Bank Ltd.	Uttara-Consumer Credit Scheme	1996
Arab Bangladesh Bank Ltd.	Consumer Credit Scheme	1997
Al- Baraka Bank Ltd.	Al-Baraka Consumer Credit Scheme	1997
Al-Arafa Islami Bank Ltd.	Kangkhito Samagri Biniog Procolpo	1997
The City Bank Ltd.	Consumer Credit Scheme	1999
One Bank Ltd.	Consumer Credit Scheme	1999
Premier Bank Ltd.	Consumer Credit Scheme	1999
Bank Asia	Consumer Credit Scheme	1999
Mercantile Bank Ltd.	Consumer Credit Scheme	1999

4.3 Objectives of CCS Policy:

The main objectives of Consumer Credit Scheme in Bangladesh are:

- To invest available funds in a profitable market segment.
- To sell services to a wide range of customers.
- To diversify the loans & advances portfolio.
- To provide financial assistance to limited income group people for buying essential household durables and utility products.
- To improve the living standard of middle class fixed income group.
- To ensure more flexible life.
- To participate in the socio economic development in the country.

4.4 Eligibility for CCS Loan:

To be eligible for CCS loan different banks have different criteria. Most of the banks offer this loan to the following professionals:

- Age Limit 20-50 Years.
- Government Organizations.
- Semi-Government and Autonomous Organizations.
- Banks, Insurance Companies, Multinational Companies.
- Armed force, BDR, Police and Ansar.
- University, College, and Schools.
- Locally established and Renounced Public Limited Companies
- Professional like, Doctor, Engineer, Lawyer, Architect, Journalist, Chartered Accountant and Self-Employed Person.

4.5 Goods under this Scheme:

The area for which CCS loan is disbursed can be classified as follows:

- New Car, Microbus, and Motorcycle.
- Recondition Car, Microbus, and Motorcycle.
- Air conditioner
- Fan
- Refrigerator
- Washing machine
- Micro wave oven
- Cooking ranger
- Knitting machine
- Furniture
- Mobile/Telephone
- Personal Computer
- Photocopier
- Fax machine
- UPS/Generator
- Television
- VCD
- VCR
- Music system
- Camera
- Holidays, Education, Medical, Wedding expenses.
- Home repair, Recommendation.

4.6 Related Documents:

For execution of consumer credit scheme banks usually use two types of documents. One is **Application Form** and the other is **Charge Documents**. A detail of these documents are given bellow:

I. **Application Form:** The application form contents of the CCS loan of different banks is about to same and as follows:

- A) **Personal Details of the applicant:** Here, all about the applicant will have to mention specifically.
- B) **Employment Details:** Here, the applicants have to specify the name of the organization where he/she worked, address, contact no., designation, salary and so on.
- C) **Loan Details:** Here, the amount of loan, period, interest, client's equity, purpose of loan, mode of disbursement and repayment and other charges are to be mentioned.
- D) **Financial Details:** Here, Total assets, total liability, monthly income, monthly expenses and all other financial information about the applicants are to be mentioned here.
- E) **Particular of Guarantors:** Details about the guarantors are to be mentioned including name, father's name, address, designation, monthly income and expenses etc.

- F) **Quotation:** Quotation contains the details description of the goods like price, brand, model, size, origin and also contains details of the supplier.
- G) **Certification of the Organization:** In this section, the working organization of the client will certify that the applicant is the employee of that organization.
- H) **Letter of Assurance:** This is the assurance of the working organization of the client that if the borrower fails to pay the installments the organization will fill it up.
- I) **Declaration:** This is the declaration of the borrower that all the information regarding the quoted goods is correct and he/she agrees with all the terms and conditions of the bank.
- J) **Trade License:** If the applicant is a businessman he/she must submit the trade license and TIN certificate of his/her business to the bank, which will certify that the information given by the borrower is correct.
- K) **Photograph:** Two copies of passport size photograph of the applicant and one copy of passport size photograph of each client is required with the application form.

II. **Charge Documents:** Charge documents are stamped documents, which contains different rules, terms and conditions. If the borrower of Consumer Credit Scheme is fully agreed with the terms and conditions regarding the loan, he/she will need to sign the documents. If any disagreement or irregularity occurs in future these documents are used to remedy situation.

Before disbursing the CCS loan, the following documents must be completed by the customer or borrower. Legal stamps are needed to be attached on these documents for legislative reasons.

- A) **Letter of Guarantee:** This letter of guarantee is two sided. One is borrower side guarantee and the other is guarantor side guarantee. Borrower side guarantee consists of agreement of all terms and conditions of bank as well as assurance of proper and regular payment of installment. The guarantor side guarantee consists of the assurance that guarantor will repay all the outstanding balances if the borrower fails to do so.
- B) **Demand Promissory Note:** It contains a promise of the borrower that he/ she will pay on demand to the bank.
- C) **Letter of Hypothecation:** It consists of the terms and conditions of CCS loan and borrower is hypothecated for the equipment.
- D) **Letter of Disbursement:** This is the declaration of loan disbursement to the borrower by the bank.
- E) **Letter of Authority:** It gives the bank the authority to Debit/ Credit the borrower's account to realize margin, charges, interest, and other charges.

4.7 Key Factors of Consumer Credit Scheme:

The CCS execution process of different banks depends on their respective policies. Although the policy may differ from bank to bank, the main framework of this program is about to same. Some key factors of this scheme are described in the next part of the report.

➤ **Application:**

First of all, the customer comes to the bank and pursues for the loan to purchase the desired goods or items. Then the Bank inspects and verify about the applicant. If the bank considers the applicant suitable and competent for the loan, they sell an application form to the customer at a price of Taka 10 to 20 (differ from bank to bank). The main loan sanctioning process starts when the applicant submits the application form with proper filling up.

➤ **Amount of Loan & Duration:**

The amount of loan varies from commodity to commodity. Different banks offer different amount of loan for different commodities. Usually, the ceiling of CCS loan is higher for vehicle. This loan is disbursed for the period of 1 to 5 years duration. The number of installment depends on the amount of loan.

➤ Security:

None of the banks requires any kind of monetary security or mortgage for CCS loan. CCS loans only require personal guarantees as security. So, CCS is basically a guarantor-based loan. There may be two or more guarantors as per the bank's requirement. The duty of the guarantor(s) is to give the assurance to the bank that if in any case the borrower fails to pay the installments, guarantor will be liable for the whole outstanding amount. These guarantors must be acceptable to the bank.

➤ Down Payment:

The Down Payment or the Borrower's Equity of the total loan differs from bank to bank. This down payment means that the borrower has to pay a certain percentage of the total price of the commodity, before disbursement of the loan. According to the commodity, this percentage differs between 20 – 40 %. The borrower has to open a loan account in the bank, where the down payment and the installments has to be deposited.

➤ Interest and Other Charges:

Interest rate on Consumer Credit Scheme also differs from bank to bank. But the rate usually ranged between 14 – 16% per year. Considering this interest rate and loan amount, bank determines the installment amount of the borrower. Some banks charge penalty interest on the overdue amount of the defaulters. There are some other charges like, service charge, Risk fund, Stamp charge, which are non-refundable.

➤ Repayment Process:

The borrowers have to repay the CCS loan through monthly installments. The first installment is become due in following month of disbursement. Every installment is to be paid within the first week of the month; otherwise most of the banks charge an extra amount, as penalty. The borrowers have to issue advance cheques to the bank for each installment, before the disbursement of the loan

➤ Other Conditions:

The borrowers are bound to agree all terms and conditions of the respective banks. Banks have the right to investigate the disbursed goods or items in any time. The money will not be given directly to the borrowers. It will be given through crossed Pay Order to the supplying firm. The borrower is requested to acknowledge the bank in case of any change in his/ her residence and job or business.

Consumer Credit Scheme is being popular day by day in our country especially to middle class income group, who have a dream and desire but do not have sufficient financial support.

People become able fulfill those dreams, through the Consumer Credit Scheme of different private sector banks. Though the banks are charging higher interest rate for the amount of loan, it is convenient for the fixed income groups as they are not able to combine the handsome amount of money at a time for purchase of their desired goods. This loan is also convenient to the borrowers as the scheme runs within a system.

Chapter 5

Consumer Credit Scheme of Prime Bank Ltd.

Chapter 5 : Consumer Credit Scheme of Prime Bank Ltd.

5.1 Introduction:

Prime Bank is one of the leading private sector banks, which is successfully operating its business in Bangladeshi banking sector. It offers a wider range of banking facility for its valued customers. One of the beneficiary services for the customers of Prime Bank Ltd. is "Consumer Credit Scheme". The Prime Bank Ltd. had introduced their CCS program to invest their available funds in a different market as well as to help the fixed income group for raising standard of life. It is been widely appreciated. Up to 31st March 2003, a total of 24,239 cases are extended to the credit facility under this Consumer Credit Scheme of Prime Bank Ltd. and the cumulative amount of disbursement is Tk.1, 510 million.

5.2 Objectives of the Scheme:

- To invest available funds in a profitable market segment.
- To sell services to a wide range of customers.
- To diversify the loans & advances portfolio.
- To provide financial assistance to limited income group people for buying essential household durables and utility products.
- To improve the living standard of middle class fixed income group.
- To ensure more flexible life.
- To participate in the socio economic development in the country.

5.3 Eligibility of Customer:

- Age Limit 20-50 Years.
- Government Organizations.
- Semi-Government and Autonomous Organizations.
- Banks, Insurance Companies, Multinational Companies.
- Armed force, BDR, Police and Ansar.
- University, College, and Schools.
- Locally established and Renounced Public Limited Companies
- Professional like, Doctor, Engineer, Lawyer, Architect, Journalist, Chartered Accountant and Self-Employed Person.

5.4 Eligible items:

- Vehicles: Car, Station Wagon, Microbus, Pick-Up, Motor Cycle
- Office Equipment: Personal Computer
- Entertainment Equipment: Camera, Television, VCD, Music System
- House Hold Appliances: Air-Conditioner, Refrigerator, Water Cooler, Washing Machine, Sewing Machine, Water Pump, Generator, Furniture, Crockery and Cutlery and any other item which is essential for household purpose.

5.5 Rules for Application:

Intending clients have to apply for the loan in the bank's printed application form, which is available in all branches. Clients have to submit the application form dully filled with two (2) copies of photograph and signed along with quotation(s) for the purchase of desired goods or articles.

5.6 CCS Execution Process:

The CCS execution is a three phase complicated process. The phases are as follows:

First Phase:

On proper scrutiny of the application, bank's CCS department will inform the initial decision (accepted for processing/ decline) to the client within three (3) working days from the date of application receive.

Second Phase:

If the application is accepted for processing, branch will provide some additional papers to the applicant. Those are as follows:

- "Particulars of Guarantors" form.
- Letter of Guarantee.
- "Personal Net-worth Statement" forms.

Applicants will have to submit the previously mentioned forms, duly filled-in, with the following additional papers:

- Salary Certificate (for the service holders)
- Trade License and TIN Certificate (for the Businessmen)
- Attested photocopies of current Tax Receipt, Electric Bills, and Lease Agreement (if the source of income is house rent as a landlord).

Third Phase:

In this phase, bank will inspect and evaluate the given information in respect of the eligibility of the client, feasibility of the information and security of the loan. In completion of all necessary formalities, the branch, in which the application was submitted, will disburse the loan within 7(seven) working days from receiving date of the additional papers.

Price of the item will be given directly to the supplier of the articles through Payment Order (P.O.) after completion of necessary documentations. The amount of P.O. will be equals to [Owner's Equity + Loan Amount.]

Charge Documents: The following Charge Documents will have to be submitted by the customer, before the disbursement of the loan:

- D.P. Note
- Letter of Authority
- Letter of Guarantee
- Loan Agreement under Consumer Credit Scheme
- Letter of Hypothecation
- Letter of Declaration
- For car or any other vehicle:
 - ⇒ Photocopy of the Blue Book.
 - ⇒ Photocopy of the Insurance Certificate

Final Checklist for Consumer Credit Scheme:

- 1) Completion of Application form.
- 2) Quotation of desired goods with acceptance.
- 3) Salary certificate of the applicant (for service holders)
- 4) 2 (two) copies of attested recent passport size photograph of the applicant.
- 5) Particulars of Guarantor should be attested by his employer (if employer himself is a guarantor, his particulars is to be attested by his colleague).
- 6) Duly signed and attested photograph of two guarantors.
- 7) Trade License and TIN Certificate (for Businessmen)
- 8) Personal net worth statement of applicant and guarantors (with supporting documents).
- 9) Income Tax Paid Certificate (for Businessmen).
- 10) Duly signed 24/36/48/60 post dated cheques on the installment size.

After delivery of the goods, the borrower will have to provide the following documents and paste the bank's sticker on the supplied goods:

- 1) Cash Memo.
- 2) Delivery Challan/ Invoice of the goods duly signed by the borrower mentioning that "Received the goods in good condition".

5.7 Credit Limit, Down Payment and Period of Loan:

Credit limit will be set according to the repayment capability of the borrower. The amount of credit will be determined in such a manner that monthly installment does not exceed 50% of the disposable income (take-home salary/ income) of the borrower. In case of non-officers, the monthly installment size should not exceed one-third of their take home salary.

The following table describes the credit limit, down payment and the period of loan for each item:

Name of the item	Loan limit (Tk.)	Down payment (Minimum)	Period of loan (Maximum)
New vehicle	10,00,000/-	40%	5 Years
Recondition vehicle	7,50,000/-	40%	4 Years
Other items	3,00,000/-	20%	3 Years
Motorcycle	1,00,000/-	30%	2 Years
Personal computer	1,00,000/-	20%	2 Years
Photocopier	1,00,000/-	40%	1 Years

After the repayment of 75% of the existing credit, he/she will be eligible for fresh credit under the scheme but the total amount of credit shall not be exceeded the ceiling under any circumstances.

5.8 Rate of Interest, Service Charges, Risk Funds and Others:

The interest rate and other non-refundable charges of Prime Bank Ltd. are described in the following table:

Particulars	Rate	Details/ Modes of collection
Application Form	Tk. 10/-	Cash Received during the issue of Form
Interest Rate	16% P.A. (Quoted)	Equated with monthly installment
Clerical Charge	1% on loan amount	Cash deposited during disbursement
Risk Fund	2% on loan amount	Cash deposited during of disbursement
Cost of Stamp	Tk. 470/- (fixed)	Cash deposited during of disbursement

5.9 Installment Size:

- 1 year-- $0.09073086 \times \text{Loan Amount}$
- 2 year-- $0.04896312 \times \text{Loan Amount}$
- 3 year-- $0.03515705 \times \text{Loan Amount}$
- 4 year-- $0.02834028 \times \text{Loan Amount}$
- 5 year-- $0.02431806 \times \text{Loan Amount}$

5.10 Security:

Clients will have to submit crossed-cheques in advance, for all the stipulated installments, in favor of the bank. The customer will also have to provide the following securities according to bank's prescribed forms.

Nature of Security	Number/ Quantity	Particulars
Personal Guarantee	01	For employees of Govt. Semi- Govt. and Corporate organization
	02	For Businessman and employees of Non-Corporate Private Organization
Financial Instruments (FDR, Sanchaya Patra)	50%	Personal Guarantee will be waived.
Bank Guarantee	100%	Personal Guarantee will be waived.
Insurance Guarantee	100%	Personal Guarantee will be waived.
Hypothecation	100%	Hypothecation of goods
Ownership for Vehicles		Sole/ Joint name of the bank or customer.
Insurance for Vehicles		Comprehensive coverage from bank acceptable insurance company
Corporate Guarantee		For corporate arrangement with Head-office approval.
Charge Documents		DP note, Loan Agreement, Personal Guarantee, Letter of Hypothecation, Letter of Authority
Post Dated Cheques	24/ 36	For collecting Monthly Installments

The bank/ insurance guarantee should be authenticated to the satisfaction of the Branch Manager. Financial instruments (FDR, PSP etc.) should be duly discharged by the holder in favor of the bank. The articles purchased under the scheme, will remain hypothecated to the bank as security.

5.11 Delegation of Sanctioning Power:

In order to facilitate quick sanction of the loan under Consumer Credit Scheme, a sanction committee is constituted in each of the designated branches with the following Executives and Officers.

- Branch Incumbent: Chairman
- Credit in-charge: Member
- CCS in-charge: Member-Secretary

The above committee's delegation power for sanctioning of CCS loan is as under:

Name of the Item	Loan limit (Tk.)	Delegation Power (Tk.)
New Vehicle	10,00,000/-	Up to 6,00,000/-
Reconditioned Vehicle	7,50,000/-	Up to 6,00,000/-
Other Items	3,00,000/-	Up to 1,50,000/-
Motorcycle	1,00,000/-	Full limit
Personal Computer	1,00,000/-	Full limit
Photocopier	1,00,000/-	Full limit

If the loan exceeds the delegation power limit of the committee, the branches will forwards the proposal with their recommendation to the credit section of Prime Bank Ltd; Head Office, Dhaka, to obtain sanction.

5.12 Modes of Repayment:

Repayment of loans including accrued interest will be made by equal monthly installments, which will start from the following month of the disbursement of the loan. Before disbursement of the loan, the customer will have to issue crossed cheques covering the total number of the monthly installments in favor of the bank, which will have to be presented for collection on the due dates. Installment will be paid within the 7th day of all the month. However, pre-payment is also allowed.

5.13 Other Conditions:

- a) Customer will bear the license fee, registration fee, and insurance change (if any), in respect to the articles.
- b) Customer will bear the expenses for necessary repair and maintenance of the articles during the period of loan.
- c) After delivery of the article, the respective client will remain responsible if the articles are broken, stolen or damaged. The customers have to use the article with optimum care, caution and prudence. In the event of the articles being lost or totally damaged and become irreparable due to his negligence, carelessness and inefficient handling, he/ she will be liable to adjust the bank's dues (i.e. outstanding principal, interest and other charges) on demand.
- d) Customer will have to inform the bank in case of any change in his address or service, immediately after the change.
- e) The articles will remain under sole control and custody of the customer. They are not allowed to rent, lend, resell or transfer the possession or right of the articles to a third party under any circumstances.
- f) No additional amount will be allowed by the bank for repairing the articles.
- g) The customers will have to keep all the articles available, for the inspection of the bank officials when required.
- h) If the borrower defaults the payments of 3 consecutive installments, the bank will render the client liable to handover the articles to the bank.
- i) In case of loan for vehicles, the registration has to be made in the name of the bank until full adjustment of the loan.

- j) The Registration, Blue Book, Tax token, Fitness Certificate etc. for vehicles must always be kept up-to-date at the cost of the customer. One photocopy of each of these items has to be kept in possession of the bank.
- k) The vehicles must be covered by comprehensive insurance policy at the own expense of the customer.
- l) The client has the liberty to repay the entire outstanding amount in lump sum, before the expiry of the validity period of the loan.

5.14 Steps taken against Defaulter:

If a borrower fails to pay 3 consecutive installments, then he/she will be considered as a defaulter. Usually, Prime Bank takes the following steps to recover the overdue installments.

- ✓ Regular checking the balance of clients SB/ CD account.
- ✓ Regular communication with the defaulter customers and guarantors physically/ over telephone
- ✓ Issuance of cheque bounce letter to customers, immediately after dishonor of the cheque.
- ✓ Issuance of letter to the defaulter customers and respective guarantors.
- ✓ Contact with the employers of the defaulter customers (after 3 overdue installment).
- ✓ Issuance of legal notice to the defaulter customers and guarantors prior to the classification of the loans.
- ✓ Legal action to be taken after failing all possible efforts to recover the bank's dues.

5.15 Performance of CCS of Prime Bank Ltd:

Up to 31st March 2003, a total of 24,239 cases are extended to the credit facility under this Consumer Credit Scheme of Prime Bank Ltd. and the cumulative amount of disbursement is Tk.1, 510 million. The total outstanding amount as at 31st March 2003 is Tk.522 million. The average rate of recovery was 95.34 %. The following table contains a short description about the number of cases (clients), amount of disbursement, outstanding and recovery:

Prime Bank Limited
Consumer Credit Scheme
8 years at a Glance

Year	No. of Cases Disbursed during the year	Amount Disbursed during the year (Tk. In '000)	Amount Recovered during the year (Tk. In'000)	Recovery (%)	Year ending Outstanding (Tk. In'000)
1995	1,691	53,387	23,887	93.00	49,269
1996	2,747	112,213	109,531	98.65	140,267
1997	2,029	97,915	82,559	95.48	146,580
1998	2,312	70,567	59,790	96.08	125,709
1999	2,170	162,750	145,625	95.50	149,924
2000	2,866	198,659	186,455	95.45	200,225
2001	4,077	326,318	209,605	95.49	372,772
2002	4,470	390,378	328,874	94.51	501,636
March' 2003	1,025	107,790	85,184	93.88	521,983
Total	24,239	1,510,289	867,596	95.34	924,162

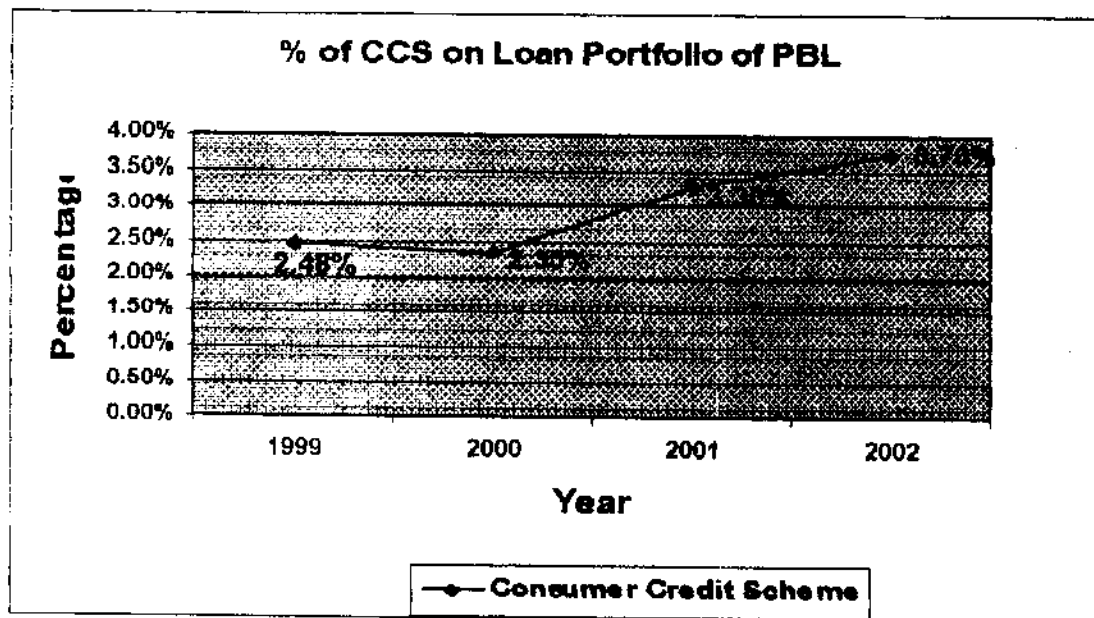
Here we can see that the annual disbursement of CCS loan has increased in a very steady way. The amount of recovery has also increased impressively. But the recovery rate has decreased a little bit. In the next part, we will observe the contribution of Consumer Credit Scheme on the total Loans and Advances portfolio and Interest Income of the Prime Bank Ltd.

5.16 Contribution of CCS in Total Loans & Advances Portfolio:

Prime Bank Ltd. has a number credit schemes. The following table shows the contribution of each scheme on the Total Loans & Advances portfolio.

Types of Loans	1999	2000	2001	2002
Secured Overdraft	656,285,566	1,084,940,064	1,320,366,407	1,683,808,660
Cash Credit	1,040,655,830	1,380,041,502	1,795,410,478	2,763,541,630
Loan (General)	456,452,914	482,206,607	686,373,828	1,463,032,118
House Building Loans	248,649,048	312,952,704	349,734,675	392,124,354
Loans against Trust Receipts	519,684,255	715,825,791	836,032,561	1,837,713,941
Payment against Document	345,255,376	379,390,768	72,119,474	482,382,567
Consumer Credit Scheme	127,003,497	180,818,908	299,528,821	473,569,591
Lease Finance	121,329,681	267,275,899	549,359,396	929,389,879
Other Loans & Advances	585,332,584	1,123,273,870	1,324,896,939	1,221,732,045
Inland Bills Purchased	47,825,268	105,300,491	187,150,451	200,553,787
Foreign Bills Purchased	972,556,918	1,675,029,103	1,653,968,446	1,238,996,758
Total Loans & Advances	<u>5,121,030,937</u>	<u>7,707,055,707</u>	<u>9,074,941,476</u>	<u>12,686,845,330</u>

Contribution of each Credit Scheme on the total Loans & Advances Portfolio				
Types of Loans	1999	2000	2001	2002
Secured Overdraft	12.82%	14.08%	14.55%	13.27%
Cash Credit	20.32%	17.91%	19.78%	21.78%
Loan (General)	8.91%	6.26%	7.56%	11.53%
House Building Loans	4.86%	4.06%	3.85%	3.09%
Loans against Trust Receipts	10.15%	9.29%	9.21%	14.49%
Payment against Document	6.74%	4.92%	0.79%	3.80%
Consumer Credit Scheme	2.48%	2.35%	3.30%	3.73%
Lease Finance	2.37%	3.47%	6.05%	7.33%
Other Loans & Advances	11.43%	14.57%	14.60%	9.63%
Inland Bills Purchased	0.93%	1.37%	2.06%	1.58%
Foreign Bills Purchased	18.99%	21.73%	18.23%	9.77%
Total Loans & Advances	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>



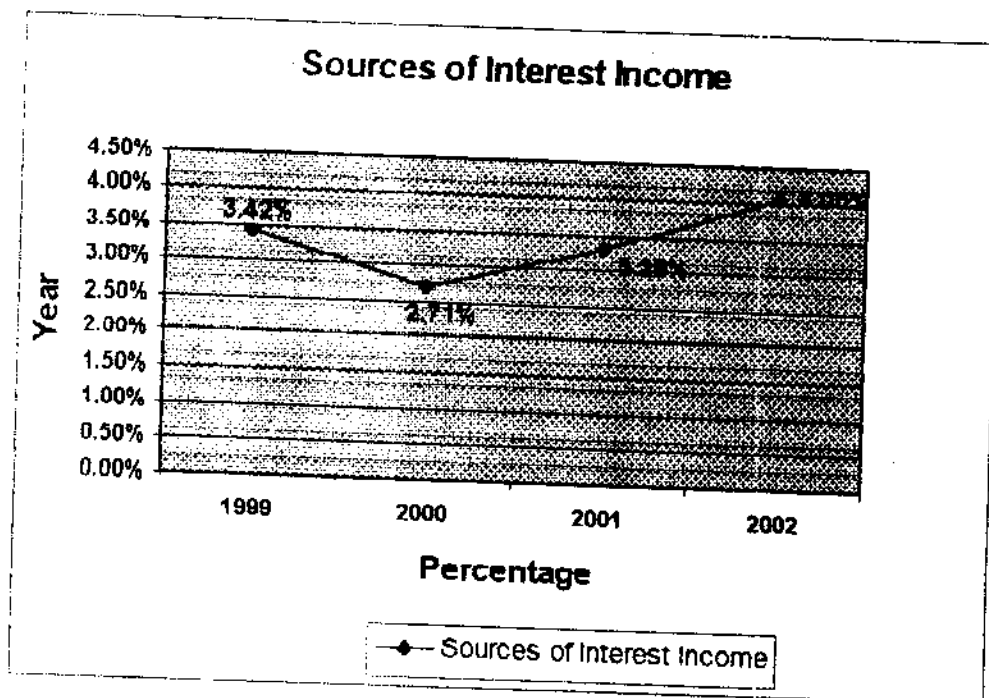
From the above table and graph, we can say that the contribution of Consumer Credit Scheme in the total loans and advances portfolio is increasing very steadily. In the year ended 2002, there was 3.73 % contribution in the total loans and advances portfolio.

5.17 Contribution in Total Interest Income:

In the year ended 2002, the Total Interest Income of Prime Bank Ltd. was Tk.1,619,809,988, in which Tk.1,376,537,511 was earned from Loans & Advances. The following table shows the contribution of each Credit Scheme on the total Interest Income from Loans & Advances:

Sources of Interest Income	1999	2000	2001	2002
Loan (General)	48,823,652	77,055,993	94,896,293	113,295,674
Loan against Imported Merchandise	21,908,070	43,934,390	28,553,108	44,683,229
Loans against Trust Receipt	61,146,496	84,279,422	87,484,032	145,912,994
Packing Credit	10,225,535	17,547,456	6,502,476	7,105,321
Interest on EDF	0	0	0	4,871,823
House Building Loans	30,215,031	43,227,756	54,884,164	55,724,360
Lease Finance	15,332,667	33,352,188	91,020,279	124,021,140
Hire Purchase	23,642,439	37,890,596	56,940,722	56,240,296
Payment against Documents	50,857,130	50,867,582	52,661,637	58,016,364
Cash Credit	116,403,743	182,172,327	229,651,500	307,226,716
Secured Overdraft	78,260,387	108,324,685	188,159,398	206,424,741
Consumer Credit Scheme	17,403,736	22,506,066	37,372,673	55,897,397
Staff Loan	880,778	898,867	4,185,231	6,912,841
Documentary Bills Purchased	33,719,662	125,324,557	201,437,090	190,166,584
Other Loans & Advances	165,562	2,580,589	5,633,101	38,031
Total Interest on Loans & Advances	<u>508,984,888</u>	<u>829,962,474</u>	<u>1,139,381,704</u>	<u>1,376,537,511</u>
Interest on Investments with banks	192,031,782	174,453,852	197,684,278	231,054,551
Interest on Nostro Account	12,706,329	28,189,347	47,088,453	12,217,926
Total Interest Income	<u>713,722,999</u>	<u>1,032,605,673</u>	<u>1,384,154,435</u>	<u>1,619,809,988</u>

Contribution of each Credit Scheme on the total Interest Income from Loans & Advances				
Sources of Interest Income	1999	2000	2001	2002
Loan (General)	9.59%	9.28%	8.33%	8.23%
Loan against Imported Merchandise	4.30%	5.29%	2.51%	3.25%
Loans against Trust Receipt	12.01%	10.15%	7.68%	10.60%
Packing Credit	2.01%	2.11%	0.57%	0.52%
Interest on EDF	0.00%	0.00%	0.00%	0.35%
House Building Loans	5.94%	5.21%	4.82%	4.05%
Lease Finance	3.01%	4.02%	7.99%	9.01%
Hire Purchase	4.65%	4.57%	5.00%	4.09%
Payment against Documents	9.99%	6.13%	4.62%	4.21%
Cash Credit	22.87%	21.95%	20.16%	22.32%
Secured Overdraft	15.38%	13.05%	16.51%	15.00%
Consumer Credit Scheme	3.42%	2.71%	3.28%	4.06%
Staff Loan	0.17%	0.11%	0.37%	0.50%
Documentary Bills Purchased	6.62%	15.10%	17.68%	13.81%
Other Loans & Advances	0.03%	0.31%	0.49%	0.00%
Total Interest on Loans & Advances	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>



From the above table and graph, we can say that the contribution of Consumer Credit Scheme in the total Interest Income from loans and advances was decreased in the year 2000 but eventually increased in the following years. In the year ended 2002, there was a 4.06 % contribution in the total loans and advances Interest Income from loans and advances.

It is worthwhile to mention here that the contribution of CCS in the total interest income is growing at a faster rate than the contribution in the loans and advances portfolio. It means that the Consumer Credit Scheme is becoming more profitable than other credit schemes over the periods.

5.18 Conclusion:

Total success of this CCS program depends on selection of right customer, quick decision, prompt disbursement, post sanction supervising and recovery drive. Prime Bank Limited in these contexts is very much successful. They assign a separate cell to deal and look after the program in each branch. In terms of total disbursement the bank is very much successful. The amount of disbursement grows year-to-year keeping the rate of recovery above 95%.

Chapter 6

**CCS of Some other
Private Sector Commercial Banks.**

Chapter 6: CCS of Some other Private Sector

Commercial Banks

6.1 Uttara Bank Limited:

Introduction:

Uttara Bank Limited is one of the oldest and largest private sector banks in Bangladesh. It has been offering its promising banking facilities to the people through its 178 branches all over the country. It has a strong capital structure. They introduced "Uttara - Consumer Credit Scheme" during 1996.

Objectives of this Scheme:

Maximum middle-class and limited income group of our country are unable to purchase their necessary goods by their limited savings. The broad and specific objectives of this scheme are

- ✓ To earn profit by investing in a different market segment
- ✓ To build up the savings attitude in limited income group.
- ✓ To increase the work ability of job holders and self-employed people through the improvement of their standard of living.
- ✓ To contribute in the over all socio-economic development of the country.

Eligibility of the Customer:

The following groups of people with an age range of 20 to 55 can apply for the CCS loan of Uttara Bank Ltd.

- Permanent jobholders of Government, Semi- Government, Autonomous bodies, Bank, Insurance company, BDR, Police and Ansar.
- Teachers of school, college, and university.
- Professionals like Doctors, Engineers, etc.

Interested applicants must have monthly sufficient income to cover the installment amount. An applicant, who has been enjoying the loan facility from other bank, cannot apply for the CCS loan of Uttara Bank Ltd.

Goods under their Scheme:

- Vehicles
- Domestic-appliance
- Office Equipment
- Entertainment Equipment

Loan Limit, Down Payment and Period:

Under the Consumer Credit Scheme of Uttara Bank the borrowers can get at best Tk.3 lac loan.

Items	Ceiling Amount (TK)	Down Payment	Period
New car	3 lac	35%	4
Recondition car, Microbus	3 lac	40%	2
House Appliance	3 lac	25%	3
Others	3 lac	20%	3

The monthly installments are to be paid along with interest.

Interest and Other Charges:

The interest and other charges of Consumer Credit Scheme of Uttara Bank Ltd. are given in the following table:

Particulars	Rate	Details/ Modes of Collection
Application Form	Tk. 25/-	Cash Received during the issue of Form
Interest Rate	14 % p.a. (Quoted)	Equated with monthly installment
Service Charge	Tk.200 - loan of Tk.50,000 Tk.500 - loan of above Tk.50,000	Cash deposited during disbursement
Risk Fund	2% on loan amount	Cash deposited during of disbursement
Stamp Charge	Tk. 250/- (fixed)	Cash deposited during of disbursement
Incentives	5 % on total interest amount	Refunded during adjustment of the loan
Penalty	2 % p.a.	In case of Default Installment

Procedures & Modes of Repayment:

The loan sanctioning procedures of Uttara Bank Ltd is somewhat similar with Prime bank Ltd. After submission of the application form along with the quotation of the desired goods, bank justifies the eligibility of the applicant. If the bank considers him/her eligible for the loan, the disbursement process begins. The bank does not give money directly to the borrower. According to the quotation of applicant, bank purchase the goods from the mentioned supplier through the Payment Order of the bank. Then, the borrower gets the goods from the bank.

Security & Documents:

The following securities and documents are needed for the CCS loan of Uttara Bank Ltd.

- Hypothecation of the Purchased Goods.
- Bank accepted Guarantor.
- Purchase Receipt in the name of client.
- The acceptance of borrower to pay installments in due time.
- Advance cheques for all installments.
- Guarantee Bond
- Hire Purchase Agreements.

Other Relevant Conditions:

- After delivery, the borrower is liable for the purchased goods. No excuse will be granted regarding goods after delivery.
- Bank can investigate the goods in any time.
- If the borrower changes his/her job or address, he/she is bound to inform the new address to the bank.

Steps Taken Against Defaulters:

Uttara Bank Ltd. has some rules to recover loan amount and they follow the following steps:

- Phone call to pay installment
- Issue written notice issue
- Direct contact with the client
- Contact with the guarantor
- Legal action

6.2 Arab Bangladesh Bank Limited

Introduction:

Arab Bangladesh Bank Limited is one of the oldest and largest private sector banks in Bangladesh. It has been offering its promising banking facilities to the people through its 58 branches all over the country. It has a strong capital structure. They introduced "Consumer Credit Scheme" during 1997.

Objectives of this Scheme:

The main objective of the CCS of Arab Bangladesh Bank is to earn profit as well as enable the middle-class and limited income group people to purchase their necessary goods by their limited savings.

The broad objectives of this scheme are

- ✓ To earn profit by investing in a different market segment
- ✓ To build up the savings attitude in limited income group.
- ✓ To increase the work ability of job holders and self-employed people through the improvement of their standard of living.
- ✓ To contribute in the over all socio-economic development of the country.

Eligibility of the Customer:

The following groups of people with an age range of 20 to 55 can apply for the CCS loan of Arab Bangladesh Bank Limited.

- Service holders of Government, Semi-Government, Autonomous bodies, Bank, Insurance company, BDR, Police and Ansar.
- Teachers of school, college, and university.
- Professionals like Doctors, Engineers, lawyers etc.

Interested applicant must have a monthly sufficient Income to bear the monthly installment of the loan. An applicant, who has been enjoying the loan facility from other bank, cannot apply for the CCS loan of Arab Bangladesh Bank Limited.

Goods under their Scheme:

- Vehicles – New/ Recondition Car, Microbus, Motorcycle
- Furniture
- Television, Sound System, Refrigerator etc.
- Personal Computer

Loan Amount, Down Payment and Period:

Arab Bangladesh Bank provides at best Tk. 5 lac loan to a single borrower, under their CCS program.

Items	Ceiling Amount (TK)	Down Payment	Period
Vehicles	5 lac	30%	4
House Appliance - Television, Refrigerator, Furniture etc.	2 lac	25%	2
Office Equipment - Personal Computer	1 lac	25%	2
Others	2 lac	25%	2

The monthly installments are to be paid along with interest.

Interest & Other Charges:

The interest rate and other charges on the CCS loan of Arab Bangladesh Bank are as follows:

Particulars	Rate	Details/ Modes of collection
Application Form	Tk. 10/-	Cash Received during the issue of Form
Interest Rate	15 % (Quarterly Compounded)	Equated with monthly installment
Processing Charge	2% on loan amount	Cash deposited during disbursement
Stamp Charge	Tk. 500/- (fixed)	Cash deposited during of disbursement
Penalty Interest	2 % p.a.	In case of Default Installment
Rebate	5 % on total interest	Calculated during final adjustment

Loan Procedure & Mode of Repayment:

Loan sanction and disbursement procedures and repayment methods are same as Uttara Bank Ltd.

Security Documents:

The following securities and documents are needs the CCS loan of Arab Bangladesh Bank Ltd.

- Hypothecation of the purchased goods.
- Bank accepted guarantor.
- Purchase receipt in the name of client
- The acceptance of borrower to pay installments in due time.
- Advance cheques for all installments.
- Guarantee Bond
- Hire purchase agreements.

Other Relevant Condition:

- The borrower is liable for the purchased goods, after delivery. No excuse will be granted regarding goods after delivery.
- Bank can investigate the goods in any time.
- If the borrower changes his/her job or address, he/she is bound to inform the new address to the bank.

Step Taken Against Defaulters:

Arab Bangladesh Bank Limited has some rules to recover loan amount and they follow some steps that are:

- Phone call to pay installment
- Written notice issue
- Direct contract with the client
- Contact with the guarantor
- Legal action

Out of 58 branches, 42 branches of Arab Bangladesh Bank offer loan under this Consumers Credit Scheme. The CCS program of this bank is much easier for customers, because it offers loan for a long period of time. The quarterly compound interest is the main drawback of CCS of Arab Bangladesh Bank.

6.3 Pubali Bank Limited

Introduction:

Pubali Bank Limited is one of the oldest and largest private banks in Bangladeshi banking sector. It has been offering its propitious banking facilities to the people through its 164 branches all over the country. It has a strong capital structure. They introduced "Consumer Credit Scheme" during 1996.

Loan Amount, Down Payment and Period:

Pubali Bank sanctions at best Tk.4 lac to a single borrower, under their Consumer Credit Scheme. The following table shows a description about it:

Items	Ceiling Amount (TK)	Down Payment	Period
New Car, Microbus	4 lac	30%	4 years
Recondition Car, Microbus	3 lac	30%	3 years
House Appliance - Television, Refrigerator, Furniture, Air Condition etc.	2 lac	25%	2 years
Office Equipment - Personal Computer	1 lac	25%	2 years
Others	2 lac	25%	2 years

The monthly installments have to be paid along with interest.

Interest & Other Charges:

The interest and other charges of Pubali Bank Ltd. are given bellow:

Particulars	Rate	Details/ Modes of collection
Application Form	Tk. 10/-	Cash Received during the issue of Form
Interest Rate	14 % (Semi-annually Compounded)	Equated with monthly installment
Processing Charge	1.5 % on loan amount	Cash deposited during disbursement
Risk Fund	1.5 % on loan amount	Cash deposited during of disbursement
Stamp Charge	Tk. 480/- (fixed)	Cash deposited during of disbursement
Penalty	1 % p.a.	In case of Default Installment

Procedures & Modes of repayment:

The loan sanctioning procedures of Pubali Bank Ltd is somewhat similar to the Uttara and Prime Bank Ltd.

Security & Documents:

The following securities and documents are needs the Consumer Credit Scheme of Pubali Bank Ltd.

- Hypothecation of the purchased goods.
- Bank accepted guarantor.
- Purchase receipt in the name of client.
- The acceptance of borrower to pay installments in due time.
- Advance cheques for all installments.
- Guarantee Bond
- Hire purchase agreements.

Other Relevant Condition:

Same as Prime Bank Ltd.

Steps taken against Defaulters:

Pubali Bank Limited has some rules to recover loan amount and they follow some steps, those are as follows:

- Phone call to pay installment
- Written notice issue to the borrower
- Direct contract with the client
- Contact with the guarantor
- Written notice issue to the guarantor
- Legal action

Conclusion:

Out of 143 branches, 88 branches of Pubali Bank offer loan under this Consumers Credit Scheme. The semi-annually compound interest rate is the main drawback of this CCS of Pubali Bank Limited.

6.4 Comparative Analysis of CCS of Different Banks

Comparative Features of CCS of different Selected Banks:-

Most of the private sector banks of our country offer Consumer Credit Scheme loan to their customers. But very few of them operate this scheme extensively with a separate cell. Four private sector banks, which operate this scheme extensively, are selected for the purpose of comparison among each other regarding their CCS loan.

Before detail comparison of the CCS of selected banks, a quick overview is given below:-

Category	Prime Bank Ltd.	Uttara Bank Ltd.	Arab Bangladesh Bank Ltd.	Pubali Bank Ltd.
Introduction of the scheme	1995	1996	1997	1996
CCS Operating Branch	27 Branch	92 Branch	42 Branch	88 Branch
Age Range	20 to 52 years	20 to 55 years	20 to 55 years	21 to 55 years
Ceiling	Tk. 10 Lac	Tk. 3 Lac	Tk. 5 Lac	Tk. 4 Lac
Period	Max 5 Years	Max 4 Years	Max 4 Years	Max 4 Years
	Min 1 Years	Min 3 Years	Min 2 Years	Min 2 Years
Down Payment	Max 40%	Max 35%	Max 30%	Max 30%
	Min 20%	Min 20%	Min 25%	Min 25%
Interest	16 % p.a. Quoted	14 % p.a. Quoted	15 % compound Quarterly	15 % compound Semi-annually
Risk fund	2 %	2%	Nil	1.5 %
Service charge	1 %	Tk. 200/- to 500/-	2%	1.5 %
Stamp charge	Tk. 470/-	Tk. 250/-	Tk. 500/-	Tk. 480/-
Application form	Tk. 10/-	Tk. 25/-	Tk. 10/-	Tk. 10/-
Penalty	Nil	2 % p.a.	2 % p.a.	1 % p.a.
Rebate	5 % on total interest	Nil	5 % on total interest	Nil

Comparison with respect to Interest Rate:

Interest rate on the CCS loan varies from bank to bank. Some banks charge simple rate of interest where other charges compound rate of interest. This interest factor is very important to justify the CCS program of different banks. As different interest rates (simple and compound) are charged by different banks, the size of monthly installment varies for the same amount of loan from bank to bank. This is critical for the customers to understand the consequences. Different rate of interest charged by different banks are described in the following table:

Interest Rate	Prime Bank Ltd.	Uttara Bank Ltd.	AB Bank Ltd.	Pubali Bank Ltd.
Stated Rate	16% p.a. Quoted	14% p.a. Quoted	15% Compound Quarterly	15% Compound Semi-annually
Effective Rate	16 %	14 %	15.87 %	15.56 %

The above table shows us the comparison of 4 selected banks with respect to the Stated and Effective interest rate. Here we see that Prime Bank Ltd. charges the highest interest rate and Uttara Bank Ltd. charges the lowest interest rate among the 4 selected banks.

Comparison with respect to Other Relevant Charges:

Like interest rate, the other relevant charges of different banks are also different.

The other relevant charges on CCS loan of different banks are as follows:-

Category	Prime Bank Ltd.	Uttara Bank Ltd.	A.B. Bank Ltd.	Pubali Bank Ltd.
Risk fund	2 %	2%	Nil	1.5 %
Service charge	1 %	Tk. 200/- to 500/-	2%	1.5 %
Stamp charge	Tk. 470/-	Tk. 250/-	Tk. 500/-	Tk. 480/-
Penalty interest	Nil	2 % p.a.	2 % p.a.	1 % p.a.

6.5 Customers' Satisfaction about the CCS of Prime Bank Ltd.:

Different banks offer Consumer Credit Scheme to the borrower of fixed income groups. Though it is the business of the bank but customers/ borrowers are the key factor of the business. So, to analyze the CCS program, the performance of different banks is not the only area, one should also consider the customers satisfaction about the scheme. In this respect, here CCS is described from the customers' point of view. For this purpose the total of 25 respondents are selected randomly. 18 of them came to the Prime Bank Ltd, Gulshan branch for procuring the loan and the remaining are the existing CCS customers who are enjoying the loan of the bank.

Findings: The finding of the structured questioners is described bellow with specified head:

Sector wise Respondents:

Among the 25 customers 18 respondents are potential customers who approached them as interested for the loan and rest 7 are the existing customers of the bank who are still enjoying the CCS loan facility of the bank. The sector-wise distribution of these customers is:

Service Government	Service Semi Government	Business	Professionals	Others	Total
4	6	7	3	5	25
16%	24%	28%	12%	20%	100%

Among 25 respondents 19 respondents are male and the rests are female.

Preference of the Bank for Consumer Credit Scheme:

When respondents are asked about the preference of CCS loan then about to 70% respondents who are aware of the scheme showed their preference to Prime Bank Ltd for the CCS loan as they know more detail about it from TV advertisement. 12% said that they will prefer Islami Bank Bangladesh Ltd for CCS loan as they believe in Islamic banking system. The remaining 18% preferred other banks where interest is comparatively lower.

Comments about the CCS system of Prime Bank Ltd:

The comments of the respondents who are aware about the CCS system of Prime Bank Ltd. are summarized as follows:

Features	Comments	Proportion of the Respondents
Execution Process of the loan	Easy	70%
	Complicated	30%
Way of receiving Goods/ Articles	Appropriate	90%
	Not Appropriate	10%
Borrowers Equity	Appropriate	40%
	Not Appropriate	60%
Period of Loan	Appropriate	34%
	Not Appropriate	66%
Interest Rate and Other Charges	Appropriate	12%
	Not Appropriate	88%

From the above comments, we can say that the CCS execution process is easy and the way of receiving goods are also appropriate. But most of the respondents argued that the proportion of Borrowers' Equity, Period of loan, and the interest rate and other charges are not appropriate.

Chapter 7

Problems & Recommendations

Chapter 7: Problems & Recommendations

7.1 Problems of the CCS of Prime Bank Ltd.:

- Generally the people of our country have a tendency of not repaying the borrowed money to the bank, so it becomes very much difficult to recover the loan properly without any harassment.
- Prime Bank Ltd. is charging a higher interest rate and other charges.
- The contribution of CCS loan in the total loan and advances portfolio of is very small. It means that Prime Bank Ltd. has engaged a small amount of their investment on the CCS program.
- Prime Bank Ltd. provides loans for some of their selected items. An applicant may need such an item, which is not in their list. In that case, they usually lie and submit false quotation to the bank.
- Elaborate inquiry about the borrowers is not possible in most of the cases due to the small size of manpower in the CCS section.
- Lack of information about the credit worthiness of the borrowers.
- Banks pay the money through a Pay Order in the name of the supplier, but they don't check whether the money is utilized properly or not.
- Customers have lack of knowledge about the installment calculation.
- In case of default of the borrower, most of the guarantors are not helpful for the recovery of the loan.

7.2 Recommendation for the CCS of Prime Bank Ltd.:

- Prime Bank Ltd. can play a major role to increase public awareness against loan defaulting culture.
- Interest rates and service charges should be decreased.
- The proportion of CCS loan in the total loan and advance portfolio should be increased, because it is a highly profitable scheme.
- Loan should be provided to the consumers without asking them about the purpose.
- Manpower in the CCS cell should be increased.
- Before sanctioning any loan, bank should investigate the accuracy of all information given by the borrower.
- Bank should go for a post purchase inspection to make sure that the money has utilized properly.
- The prospectus regarding CCS for the customers should be more informatics.
- Initial Down Payment should be small in size.
- The period of the loan should be extended.
- The bank should refund the risk fund amount to the borrower if the full adjustment of the loan is made on due time.
- New marketing strategy is required for the development of the scheme.
- The bank should charge a penalty interest on the defaulters for their default installments.

Conclusion:

Other than different types of concepts, Prime Bank Limited has nothing wrong with their marketing policy. They still follow the selling concepts of marketing. It should be the marketing concept, which is more desirable for any business. But the problem is that many competitors have entered in banking sectors in Bangladesh. However, Prime Bank Limited is a fast growing private sector bank and the bank is already at the top slot in terms of quality service and value addition for the shareholders. The bank made satisfactory progress in all areas of business operation in 2002. Despite difficult circumstances, the bank closed the year with a number of achievements. The bank further expanded its customer base in both of its core business and retail banking. Therefore, the bank has been able to retain the top position with the capital adequacy ratio of 12.43% as on December 2002, which is well above the stipulated requirements of 8.1%.

As far as the bank is concerned about their we can see that different private sector banks is making steps for middle class fixed income group for providing household durables loan. This scheme is very popular in less developed countries. This loan is very convenient for general people as well as profitable for the offering banks. The majority of the population is forced to live a sub-standard life. The middle class and the discipline professional cannot afford to buy essential utility products that required substantial amount of money at a time. They are not able to raise their living standard to an expected level. Therefore, recently this scheme has got a tremendous response from the customers and many new private sector banks started to offer this loan.

Prime Bank Ltd has taken the CCS program extensively from the beginning of its banking operation. Though the bank was not able to perform up to its expected level in the earlier stage of the program, but now the bank is performing tremendously in this scheme to be the pioneer in this scheme.

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