



**THE PRATAP CO-OPERATIVE BANK LTD.**

## **REVIEW OF LOAN POLICY**

**2024-2025**

Extending Credit is a basic function of bank which involves risk. The bank aim to manage risk in such a way that healthier credit portfolio is built and returns are maximised

The existing loan policy is being renewed to keep in sync with the market realities, business priorities Govt policies and regulatory requirements in line with the development in the financial sector.

## **OBJECTIVE**

The objective of a loan policy is to provide a framework and guidelines for our Bank, such as, to effectively manage our lending activities. The loan policy sets out our strategies, goals, and procedures related to lending, and serves as a reference for decision-making and risk management in the lending process. The key objectives of our loan policy typically include:

**Risk Management:** The loan policy aims to manage the risks associated with lending, including credit risk, interest rate risk, liquidity risk, and operational risk. It sets forth the institution's risk tolerance levels, risk assessment methodologies, and risk mitigation measures to ensure prudent lending practices.

**Compliance:** The loan policy ensures compliance with applicable laws, regulations, and guidelines related to lending, including those issued by regulatory authorities such as the central bank, and other relevant government agencies. It also ensures adherence to the institution's internal policies and procedures.

**Portfolio Management:** The loan policy sets out the institution's portfolio management strategies, including loan portfolio diversification, concentration limits, and monitoring of loan performance. It also establishes guidelines for loan approval, disbursement, monitoring, and collection activities.

**Customer Service:** The loan policy aims to provide excellent customer service by setting standards for transparency, fairness, and responsiveness in the lending process. It may include guidelines on loan pricing, terms and conditions, disclosure of fees and charges, and handling of customer complaints.

**Profitability:** The loan policy aims to achieve the institution's financial goals and objectives by setting guidelines for loan pricing, interest rate spreads, loan fees and charges, and other revenue-generating activities related to lending.

**Sustainable Lending:** The loan policy may incorporate environmental, social, and governance (ESG) considerations, and promote sustainable lending practices that support the institution's commitment to responsible banking, corporate social responsibility, and sustainable development goals.

### **SCOPE**

The policy covers all aspect of types of loans available, the eligibility criteria for borrowers, the interest rates and fees charged, repayment terms, credit appraisal, sanction and disbursement of all credit related exposure.

### **Thrust Area**

- Home Loan, Education Loan, Personal Loan
- Retail Finance
- Cash Credit /Overdraft / Loans against acceptable securities to the bank.
- Traders Loan
- Mortgage Loan
- Loan for purchase of equipment, Commercial vehicle etc.
- Loan against Gold Ornaments

### **Negative Areas**

- Multiplex / Mall
- Gem & Jewellery
- Real Estate - Financing Housing project
- Infrastructure Finance
- Share market

### **Restriction of Lending Activity**

In conformity with statutory restriction of RBI bank will adhere to the following lending practice

- Banks are not allowed to lend to NBFCs
- No Loan against security of Gold/Silver coin.
- No Loan against bank's own share or purchase of Capital Market instruments
- No Loan against FDR/Deposits of other Banks.
- No Loan shall be granted to Directors of the bank except secured Loan against Cash Securities.

- No loan to outside area of Operations

### **Credit Appraisal**

Credit appraisal is a critical process in lending, as it helps banks determine the creditworthiness of the borrower and the feasibility of the loan. The Pratap Co Op Bank have its own procedures for credit appraisal, Following are the steps involved in credit appraisal:

Collecting information: The bank would collect information about the borrower, such as their income, assets, liabilities, credit history, and repayment capacity. This would involve requesting documents such as bank statements, income tax returns, and other relevant financial documents. In addition CIBIL report of the Borrower will assist the Bank in arriving at credit decision

Analysing financial statements: The bank would analyze the borrower's financial statements, such as balance sheets, income statements, and cash flow statements, IT returns, to assess their financial health and repayment capacity.

Assessing the purpose of the loan: The bank would assess the purpose of the loan, such as whether it is for business expansion or personal use. This would help the bank determine the feasibility of the loan and the risk associated with it.

Evaluating collateral: If the loan is secured, the bank would evaluate the collateral provided by the borrower to determine its value and assess the risks associated with it.

Security: The Bank has a policy of extending advances with 200% collateral. However, in certain cases, depending on the track record and credibility of the borrower, this requirement may be relaxed. In the case of Cash Credit/Overdraft facilities secured by stock and book debts as primary security, the value of this security may be taken into account when determining the required quantum of collateral security.

Checking credit history: The bank would check the borrower's credit history to assess their track record of repaying loans and determine their creditworthiness.

Conducting risk analysis: The bank would conduct a risk analysis to assess the various risks associated with the loan, such as credit risk, market risk, operational risk, and legal risk.

Making a credit decision: Based on the credit appraisal, the bank would make a credit decision, either approving or rejecting the loan application. If the loan is approved, the bank

would also determine the terms and conditions of the loan, such as the interest rate, repayment schedule, and other relevant terms.

Age of Borrower: The minimum age of the borrower shall be 18 years at the time of loan application. The maximum age limit for borrowers has been set at 75 years, subject to the condition that the loan tenure does not extend beyond the borrower's 75th year. Exceptions to the maximum age limit may be considered on a case-by-case basis, subject to additional security or guarantees and approval from board

### **Secured Loan:**

#### **Retail Loan:**

##### **Home Loan:**

Purpose: For the purpose of construction/purchase of a home. Also, the loan can be given for house repair, extension of the house, or for interior decoration of the house.

Eligibility: 85% of the value of the house as per agreement or estimated cost

Maximum Loan: Rs. 140,00,000/- (Rs. one crore forty lakhs only)

Maximum period: 20 years or up to 75 years of age

Housing loans for repairs, additions, or alterations have a maximum limit of Rs. 10,00,000/-.

##### **Vehicle Loan:**

Purpose: For the purpose of two to four-wheelers for personal use.

Eligibility: 75% of the cost of the vehicle

Period: 3–5 years

Maximum Loan: Rs. 20,00,000/- (Rupees Twenty Lakh Only)

Maximum age: Up to 75 years of age

##### **CAR loan to Professionals**

Purpose: Purchase of Car for Personal Use

Eligibility: 75% of the cost of the vehicle

Period: 3–5 years

Maximum Loan: Rs. 20,00,000/- (Rupees Twenty Lakh Only).

**Education Loan:**

Purpose: For the purpose of the higher study of children in India and Abroad.

Period: Maximum 10 years

Maximum Loan: Rs. 20,00,000/- (Rupees Twenty Lakh Only)

Studies in India: Rs. 10 lakhs only and studies abroad Rs. 20 lakhs only.

Repayment of the loan will commence six months after the completion of the course or upon gaining employment, whichever occurs earlier. The parents will stand as guarantors and will be responsible for paying the monthly interest during this period. The loan amount will be secured by collateral.

**Mortgage Loan:**

Purpose: To provide assistance to business class, MSME, salaried/non-salaried persons for general purposes.

Eligibility: Up to 50% of the value of the property

Maximum repayment: 5–10 years.

**Commercial Premises Loan:**

Purpose: For the purchase of a shop/office for business purposes.

Eligibility: Up to 75% of the value of the property

Repayment: Maximum 10 years and should be completed before the borrower attends 75 years of age.

**Samruddhi Property all-purpose Loan**

Purpose: Repairing of Property, Expansion of Business, Repayment of Debt, Marriage, etc

Eligibility: Up to 75% of the value of the property

Repayment: Maximum 15 years and should be completed before the borrower attends 75 years of age.

## **Retail Finance:**

### **Cash Credit/Trade Finance:**

Purpose: To provide financial assistance to traders for trading activity against stock / book debts

Maximum Loan: 25% of the sales/projected sales subject to availability of Working capital margin

Security - Minimum 200% collateral security relaxable on merits by the sanctioning authority

### **Business Loan:**

To provide financial assistance to Contractors/Suppliers of raw material to meet their Working capital requirement.

Maximum Loan: 50% of the Value of Security, relaxable by sanctioning authority on merits.

Repayment: 5-10 years

### **Loan for purchase of Machinery:**

For purchase of heavy machinery for commercial use.

Eligibility: Up to 75% of the invoice value subject to DSCR

Repayment: 5-7 years

### **Loan for purchase of Commercial Vehicle:**

For purchase of Trucks/Commercial Vehicle.

Eligibility: Up to 85% of the invoice value.

Repayment: 5-7 years

### **Loan to Professionals:**

To provide financial assistance to practising professionals for setting up their office, LAB, Dispensary, etc.

Eligibility: Up to 75% of the Estimated Cost.

Repayment: 5-7 years.

**Loan/OD against FD/RD:**

Eligibility: Up to 90% of the value of the deposit

Repayment: On or before maturity of the deposit

Loan can be granted as an overdraft facility or in the form of a term loan depending upon the request of the customer. Rate of interest on loan against FDR is 1.5% above FDR rate, Concession has been given in deserving cases up to 1%, Loan against Third party deposit will attract commercial rate of interest

**Loan against NSC:**

Eligibility: Up to 75% of the face value of NSC

Repayment: On or before maturity of NSC, Assignment /pledge to be charged on NSC before disbursement

**Loan against LIC Policy:**

Eligibility: Up to 90% of the surrender value of the policy

Period: 3 years on or before the expiry of the policy, Assignment to be charged on LIC before disbursement

**Loan against Daily Deposit:**

Eligibility: 75% of the balance

Period: One year or till maturity of deposit whichever is earlier

**Loan Against Gold Ornaments:**

Eligibility: 75% of the ornament value approved by Banks approved valuer. The valuer should be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)].



Period: 12 months or less

Repayment: Monthly EMI or bullet repayment

## **Unsecured Loan:**

### **I. Student Loan:**

Purpose: For the purpose of the payment of yearly fees for study of students in various Collages approved by bank Board disbursement done in favour of collage by issue of pay order.

Period: Maximum 9 months

Maximum Loan: Rs. 50,000/- (Rupees Fifty Thousand Only)

### **II. Personal Loan:**

Purpose: To meet personal expenses.

Maximum Loan: Up to Rs. 3,00,000/- (Rupees Three Lakh only) with two guarantors. For salaried borrowers and guarantors, authority letters u/s 49 to be obtained and registered with respective employers.

## **Consortium Financing and Multiple Lending**

The bank may participate in consortium finance with other banks for bankable proposals, subject to a selective approach. Additionally, the bank may engage in multiple lending with other banks, provided that the proposals are financially viable and secured.

### **Bank Guarantee's**

The Bank may issue financial bank guarantees selectively to well-established customers with a proven track record and an impeccable credit history. Bank guarantees will be issued only against the security of Fixed Deposits with a cash margin of at least 110%. The assessment for issuing bank guarantees will be conducted in accordance with the same stringent criteria applied to other loan products.

### **Priority Sector Lending**

In the earlier times Bank had to ensure fulfilment of minimum 40% target under Priority sector lending of the bank's total loan portfolio. In terms of revised guidelines of RBI dated 4<sup>th</sup> September 2020 aims to encourage and support environment friendly lending policies to help achieve Sustainable Development goals. It also took into account the recommendations made

by expert committee of Sh. U.K.Sinha and Internal working group chaired by Sh. M.K.Jain the targets of Bank for Priority sector lending has been revised to 65% and 75% as of March 2025 and March 2026 respectively of Banks ANBC. MSME lending to be 7.5% of ANBC and Weaker section lending to be 12% of ANBC as of March 2026. Failure to achieve the target set by RBI, the shortfall amount will be deposited with SIDBI/NABARD. To ensure continuous flow of credit to priority sector, the compliance of banks will be monitored on 'Monthly' basis, and the same will be furnished by banks to FIDD/RBI on quarterly basis and Yearly basis as per the prescribed revised reporting format.

### **Delegation**

- All the Loans will be sanctioned by the committee of Board.
- Any deviation in age, tenure of loan can be approved by Board.
- Maximum concession in interest Up to 3% can be sanctioned by Board.
- Board can also approve the reduction in margin up to Nil.

### **Prudential exposure limits**

The terms of the per party and group exposure has been revised by RBI in March 2020. In terms of the same the exposure to Single borrower and group borrower has been revised to 15% and 25% respectively of the tier 1 capital.

### **CIBIL rating of borrowers**

It is mandatory to refer CIBIL report or any other approved CIC agencies reports for any credit proposal of Rs.10 lakh and above. It will be prudent to refer to CIBIL report for limits below Rs.10 lakh. Safe to entertain proposal between 800 and 900 score. However score above 600/700 may also be accepted depending upon the delinquencies in the account. Delinquencies only due to credit cards may be overlooked. However if the report showing large overdues, or compromise settlement or written off limit must be refused. Credit proposals with score below 700 will not be eligible for any interest concession. However interest may be reduced by sanctioning authority for scores above 800.

### **Due Diligence**

The Bank will take proper care due before sanction of Loan. The Branch head will observe due diligence as under

- Generate CIBIL /or other CIC's Score to check default at other Banks/Financial institution.
- Ascertain Past records, activities undertaken and present arrangement.
- Due Diligence about the security offered
- Market Information.
- In case of takeover, Confidential opinion from existing Banker and Statement of Account to be obtained

### **Analysis of Financial statements;**

The requirement of funds has to be assessed from the financial statements of the borrower w.r.t. Capital, fixed assets, availability working capital margin in the system, outstanding govt. dues, long outstanding business creditors, no movement in goods, availability of stocks in business, no change or nominal change in closing stock.

As regards financial ratios the ideal Current ratio is 1:1.33, but 1:1.25 is also acceptable.. Proposals with CR less than 1.17 may be avoided. The ideal DER ratio must be 1:2, but in present market conditions any deviation upto 1:4 may also be accepted depending on the business activity and capital requirement of the borrower. DSCR should be more than 1:1.25, bank can consider case to case basis up to 1:1, ICR should be 1:3 or more.

### **Assessment of Working Capital Requirement of Borrower**

After satisfying the need and purpose of advance the actual requirement of borrower is to be calculated. The main factor to be considered is the business cycle of the borrower i.e. the period of realisation of business debtors and the period of payment to business creditors. The credit need will be felt if the debtors are realised after long delay and the purchases are made on nominal credit or cash basis. Like wise the deployment of Capital funds also to be considered i.e. the entire capital has been deployed in fixed assets and the business is carried out thru borrowed funds or a part of capital is left to be deployed in business, which could be treated as margin. Alternatively if the fixed assets are more than the capital then it becomes a diversion of working capital short term funds for long term investment, which is not a healthy sign and should be avoided. In such cases borrowers to be advised to introduce additional capital. Each

proposal has its unique characteristics, hence to be assessed and considered taking into consideration various factors viz. product characteristics, market conditions etc.

### **Method of Assessment**

- The working Capital assessment depends upon the level of business, industry practice prevailing and operation in the Account.

### **Turnover method of lending**

Working capital shall be computed as 25% of the projected sales subject to 5% working capital margin in the system.

### **Working Capital Gap Method**

Working capital shall be computed using the Working Capital Gap method, where Net Working Capital Gap is calculated as (Receivables + Inventory + Other Current Assets) – (Payables + Other Current Liabilities), with a 25% margin.

### **Term Loan**

Maximum Loan up to 90% of the value of security/assets to be purchased may be sanctioned. The Repayment period may be extended maximum up to 10 years. The criteria for sanction would be repayment capacity of the borrower based on projected income from the activity.

### **Validity of sanction**

The validity of sanctioned loan will be 90 days from the dated of sanction.

### **End use of funds disbursed**

It is the prime responsibility of the bank to ensure correct end use of funds for which the advances are sanctioned. If loan is sanctioned for specific purpose of purchasing a machine or goods etc. the disbursement of loan must be by way of issuing pay order favouring the supplier of machinery/goods. In case of working capital it must be ensured that cheques issued by borrower must be favouring their suppliers and not issued to individuals or any housing co. for purchase of flat etc. No diversion of funds from loan / OD accounts to be allowed. It will be the prime responsibility of the official honouring such cheques unrelated to business.

### **Pre and post disbursement follow up supervision and monitoring**

As soon as the request for credit limit followed by the proposal is received, Pre inspection regarding the genuineness of proposal to be established by visit to place of business /factory etc. and inspection of security offered, to confirm its existence, followed by market enquiry about the borrower. If it is a take over from other bank, NOC and the credit report from the said bank is to be obtained. It must be ensured that party applying for credit line is not an irregular or NPA account of other bank. The account statements from the said bank are to be studied. If the manager is satisfied then the proposal may be processed and put up for sanction. All pre inspection activities carried out by branch manager is to recorded and held on file as Pre inspection report.

After disbursement of advance once again inspection is to be carried out to establish the creation of asset. Post disbursement inspection report to be prepared and held on file.

### **Review/Renewal of Accounts**

#### **1. Working Capital**

Such Loan will be Reviewed /Renewed annually.

#### **2. Term Loan**

Review/Renew of Term loan will be done annually at the outstanding level.  
Subject to condition that instalment /Interest are serviced regularly

### **Inspection of collateral Security /Stock/Plant and Machinery**

1. Branch has to obtain Stock Statement from all Cash Credit Borrowers on quarterly basis.
2. Inspection of the securities will be carried out once in a year.
3. The collateral securities (Liquid/Fixed) will be valued every three years.
4. Cash credit limit of Rs. 1 crore and above will be subject to stock audit on annual basis by an independent auditor.

### **Adhoc Limit**

The adhoc facility may be sanctioned to working capital borrowers based on their past performance and the need based requirement .Facility may be granted for a period of 90 days. 2% additional interest to be charged on the adhoc portion of limit till fully adjusted.

### **Due Diligence on security**

1. Branch head to ensure that security offered is easily saleable.
2. The Security is free from any encumbrance.

### **Delegated Authority**

1. Branches can approve secured loan against cash security as per the norms of bank.
2. Adhoc Facility up to 10% of the sanctioned Limit may be granted by Branch head in case of emergency for a temporary period only. 2% additional charges to be charged on adhoc limit.
3. Excess above 10% of sanctioned limit must be approved by Chief Executive officer and ratified by Board committee.

**Reporting: - All approval made by Chairman may be put up to the Boards for confirmation and approval.**

### **Identification of NPA's**

Given the bank's size, we are currently exempt from the RBI's requirement for system-driven NPA classification. Nevertheless, we maintain a diligent approach to asset quality management. Accordingly, any accounts that become overdue will be classified as NPAs on an ongoing, daily basis. In the event of any shortfall in provision, we will ensure that provisions are made in accordance with RBI regulations within the same quarter. Additionally, the bank is in the process of upgrading its CBS version from 0.1 to 0.4, which will enable system-driven NPA identification.

Loan policy approved in the board meeting held on 19<sup>th</sup> October 2024.

Chairman