

## **"K 2 P Solution for Retail Lending"**

- "K 2 P Solution for Retail Lending" hereafter referred to as "the Solution") is developed by the partners of BankerMitra, having vast experience in the field of practical banking and training in banking subjects.
- **"K 2 P" stands for "Knowledge to Practice"** : Every Bank providing loans to Retail sector have specific and clear guidelines on every aspect of credit management – starting from Application processing to Sanction, Documentation, Disbursement, Monitoring & Follow up and recovery. These guidelines and procedures to be followed are well documented and circulated to all staff members involved in the credit Management. The staff members are also trained periodically in these matters. However, presently in many banks, there is no system of ensuring compliance of these instructions at all levels in the bank. Our Solution translates this Knowledge into Practice and ensures 100 % compliance of the bank's instructions on due diligence at all stages of credit management.
- It is a set of about 250 **Due Diligence Action Points (DDAPs)** for commonly offered 15 Retail Loan products
- The DDAPs cover all the aspects of an application for fresh loan / existing loan account which the appraising /loan officer is expected to look into.
- DDAPs included in the Solution are not based on any particular bank's operating instructions/ practices but based on the general principles of due diligence, the best practices and the lessons learnt by the partners of BankerMitra during their respective careers.
- **The Partners of BankerMitra hold copy rights (© Registration No. L-71844/2018 dt. 04.01.2018) for the content of "K 2 P Solution for Retail Lending"**

### **STRUCTURE OF THE SOLUTION:**

The Solution contains DDAPs divided into 8 stages as follows:

#### **STAGE 1: PRE- APPRAISAL:**

- (A) Issue of Application Form
- (B) Receipt of Application

#### **STAGE 2: APPRAISAL:**

- (A) Preliminary Scrutiny
- (B) Full Scrutiny
  - B.1 Know Your Customer (KYC) Verification
  - B.2 Verification of Antecedents / Track record of the Applicant
  - B.3 Verification of Employment & Income Salaried Class
  - B.4 Verification of Business & Income - Self Employed, Professionals & Business Class

B.5 Verification of Income of NRIs (including verification of address and immigration status)

B.6 Scrutiny of Primary/ Collateral Security (immovable property) Documents: Title Deeds

B.7 Valuation of the Immovable Property

B.8 Takeover of Loan Accounts

### **STAGE 3: SANCTION**

### **STAGE 4: DOCUMENTATION**

### **STAGE 5: INSURANCE**

### **STAGE 6: DISBURSEMENT**

### **STAGE 7: FOLLOW UP & MONITORING:**

(A) During the first two months from the date of disbursement

(B) Regular follow-up and monitoring

### **STAGE 8: RECOVERY**

## **FEATURES AND APPLICATION OF THE SOLUTION:**

### **A. DDAPs included in Stage 1, 2, and 3 - applicable for processing of Fresh Proposals:**

- The "K 2 P Solution" is NOT intended to replace the existing loan appraisal process of a bank in respect of fresh proposals.  
The DDAPs formats are essentially a summary of the steps taken as a part of the appraising process. They are to be completed by the loan processing officer and submitted to the BM/ Sanctioning authority along with the prescribed Appraisal note.
- The response to the DDAPs is to be given by the processing officer simply by marking "Yes (Y) **or** No (N) or Not Applicable (NA)" in respective columns. The cells in which the above responses are required to be entered have been assigned colour codes such that once the letter Y or N is entered in a particular cell, that cell shall be **automatically** filled with either **Green** Colour (indicating that the response is positive - in the interest of the bank) or **Red** Colour indicating that the response is negative (not in the interest of the Bank).
- In respect of those DDAPs where the response has to be either "Yes " or "No" only, the "NA" option has been disabled which will be indicated by the box turning **Black** when "NA" is entered in the respective cell.  
If "NA" option is permitted, that cell will remain without colour after entering "NA".
- The colour coding of the responses in Green /Red ensures instant noticing and understanding by the user about the status of compliance in respect of

that particular DDAP and whether it is favourable or unfavourable for the bank.

- The BM / Sanctioning Authority needs to focus primarily on the negative responses indicated by "Red" cells; obtain further clarifications / documents to mitigate the negativity. If satisfied, may change the response from Negative (Red) to Positive (Green) and then proceed to take decision to sanction / reject the application.
- Once the BM / Sanctioning authority sanctions / rejects the proposal, he/ she has to **save** thus completed DDAPs compliance sheet submitted by the Processing Officer in **Non editable** (pdf) format. The same will be preserved along with the process note as the bank's permanent record.

## **B. DDAPs included in Stage 4, 5 and 6: for implementation of sanction:**

**This has three stages:**

### **1. Disbursement**

- The processing officer has to complete Documentation, fill up the concerned DDAPs and submit the same to the sanctioning authority.
- The BM/ Sanctioning authority has to focus on the Negative "(Red)" responses, if any, obtain further clarifications / documents to mitigate the negativity and take appropriate decision on disbursement.
- Thereafter the BM/ Sanctioning authority will **"save"** thus completed DDAPs compliance sheet submitted by the Processing Officer in **Non editable** (pdf) format and authorise disbursement of the loan.

### **2. Post Disbursement Follow up:**

- The Compliance of the DDAPs relating to post disbursement stage have to be done in the same manner by the Processing Officer.
- The processing Officer will then fill up the responses to the DDAPs relating to Stage 7 (A) "Monitoring & Follow up during first two months of disbursement" as and when the concerned actions are completed. Once all the DDAPs are responded, he / she will submit the same to the BM.
- The BM will review the responses and once satisfied, he / she will "Save" the same in Non editable format as the Bank's permanent record.

### **3. Regular Monitoring & Follow up:**

- Relevant DDAPs under Stage 7 (B) - Regular follow-up and monitoring - may be applied on an ongoing basis as per the Bank's policy

## **C. In respect of Existing 'Standard Asset' accounts (including SMA accounts) as a precautionary "Health check up":**

- As one time measure, relevant DDAPs from Stage 2 (Appraisal) up to the stage 6 (Disbursement) may be applied.

#### **D. In respect of NPA Accounts:**

Relevant DDAPs under Stage 8 - Recovery -may be applied.

- E.** The Solution also enables establishing a **Central Monitoring system** which will generate alerts on **real time basis**. The alerts relate to:
  - a. Timeliness of application processing and sanction
  - b. Timeliness of disbursement
  - c. Timeliness of review / renewal of the facility
  - d. Continuation of Insurance cover for the assets charged to the bank
  - e. Renewal of Loan documents
  - f. Consistency and persistence of the follow up process
- F.** Based on the areas of negative responses, a **"Risk Evaluation"** method can also be developed.

#### **ADVANTAGES:**

- Standardised processing with assured minimum quality of processing of fresh applications across the bank
- The sanctioning authority need not spend time on "identifying" the negative aspects. Instead, the sanctioning authority shall focus only on the mitigation of negative aspects as indicated through the red boxes. Thus, the decision to sanction/ reject will be a judiciously considered and well documented decision.
- **The positivity or negativity of the response to the DDAPs is judged, vetted and finalised by the team of BankerMitra after taking into account the Bank's guidelines & best practices and above all, its vast practical experience. As such, even an untrained / inexperienced officer, without any application of mind, would be able to know the negative aspects of the proposal.**
- The Bank's retail loan portfolio will grow **only** with good quality accounts.
- This will, to a large extent, prevent the occurrence of frauds
- Application of the Solution to the apparently healthy accounts (wherein the EMI is paid without default), will enable the Bank to detect the signals of probable irregularity even before it slips down to SMA category.
- Slippage of standard assets to SMA will be prevented to a large extent. The chances of the existing SMA accounts coming out of SMA category will improve considerably.
- Regular and systematic follow up of SMA and NPA accounts with the above DDAPs will result in better recovery along with proper record of the actions taken.
- The officers dealing with retail loans would be more confident, efficient, and effective

**In a nut- shell our K 2 P Solution is an effective tool for:**

- a. "Decision Making" for sanction of fresh loans helping Bank to expand credit with well evaluated healthy fresh loans
- b. the "Health Check" of large number of existing apparently standard assets accounts to red flag reasons for possible slippage in future,
- c. consistent, persistent follow up of all accounts and for recovery of NPAs,
- d. averting FRAUDS in retail loans ,
- e. risk evaluation of retail loan portfolio
- f. Real time monitoring of retail loan portfolio by the TOP management.

**TANGIBLE BENEFITS FOR THE BANK:**

- a. Credit expansion through good quality assets resulting into
  - **Higher interest income**
- b. Avoidance of slippage in the asset quality leading to
  - **lower provisioning**
- c. Systematic, standardised appraisal of fresh proposals and "Health Check" of existing loan accounts helping **prevention of frauds** and consequently
  - **reduced monetary losses**
- d. Persistent, Consistent and Effective follow up aiding better recoveries Of NPAs leading to
  - **Lower provisions and higher Interest income**

**CUSTOMISATION AND DELIVERY OF THE SOLUTION:**

- BankerMitra do not offer K 2 P Solution as a product. We offer the same in formats customised to the Bank's Retail loan products.
- For customisation, the Bank has to provide the details and internal operating instructions for each of the retail loan products to be covered under our Solution. After incorporating the Bank's extant rules and guidelines in our solution, we will provide the bank with the list of other DDAPs in our solution (over and above the Bank's extant guidelines) and the bank shall have the right to choose any or all of them to be included as the bank's revised rules and guidelines. Discussions will be held with the bank staff, designated for the purpose, to crystallise the Bank's precise requirements and our Solution will be customised accordingly.
- The customised Solution will be offered in suitable format in soft copies which can be loaded onto the Bank's system by the bank's IT team. BankerMitra will coordinate with the Bank's IT team in this exercise. For ease of understanding at all levels in the Bank, if desired, the solution will be provided in bilingual format – in English and Marathi.

- BankerMitra will also provide Handbook of processes and procedures to be adapted for effective implementation of the K 2 P Solution covering all schemes.

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