

Analysis of Credit Policy in GP PARSIK SAHAKARI Bank Ltd

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ABSTRACT

The Credit System Provides elasticity to the monetary system of a country. It can be conveniently expanded or contracted without much difficulty. The credit also provides a very convenient and economical medium of exchange. However, credit is a mixed blessing. It involves certain advantages as well as disadvantages. A More serious situation may arise if the credit is expanded beyond a certain limit. Creation of Credit is one of the most important function of a co-operative bank. The bank is also known as a factory of credit. GP Parsik Sahakari Bank sereceives deposits from the customers on the promise to pay them on their demand. The Bank lends out the major portion of theses deposit to the businessmen and keeps a small portion of cash reserves a bank can create huge superstructure of credit. This is known as credit creation power of the Bank. This power to create credit is subject to certain limitations. The essence of credit analysis is to determined the ability and willingness of a borrower to repay a loans in accordance with the terms of the Loan contract. Bank attempts to assess the degree of risk it will be willing to exposure and the amount of funds that would be prudently extended in view of risk involved. The word “credit” has been derived from the latin word “Credo” which means “I Believe or I Trust” credit signifies a trust or confidence reposed in another person. Thus, the Credit means reposing trust or confidence in somebody.

Keywords: Credit Formulation, Credit Management Analysis, Credit Ratio, Credit Policy

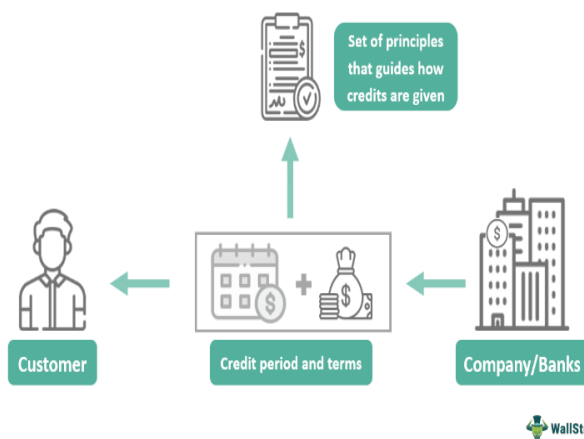
I. INTRODUCTION

Credit Management in Our Banking Sector Today's has taken a different dimension from what is used to be. The GP Parsik Sahakar bank has adopted a lot of strategies checking credit management in order to stay in the business. To Perform these role the bank act as the most important participant transaction process of which they use their own balance sheet to make it easier and making sure that their associated risk is absorbed. The Gp Parsik Bank adopted this credit policy which is designed to be consistent with sound and prudent bank

discount, credit limit, correction period, and customer information. This policy is element of business strategies and financial Management. Therefore There is separate credit department allotted to administer the Policy. The main objective of this policy are to be reduce bad debts and manager risk control factor. Beside they also consider other factor like business size, cash flow, Industry Type, customer base and others.

Thus, If company issues good credit Policy, It lead to fast recovery of the bad debts. Otherwise It can lead to huge losses.

Credit Policy Meaning



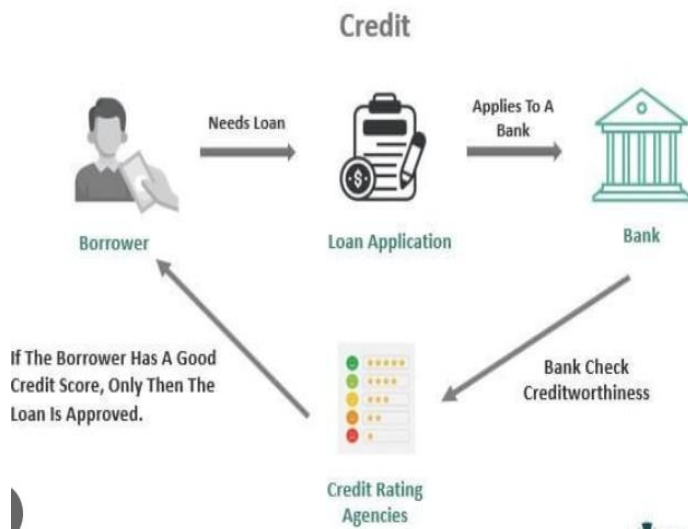
It refers to the maximum credit efforts made by company to increase the return from the Policy.

EXAMPLE OF CREDIT

John took out a Rs 20,000 loan from his local bank to purchase a new car. The loan has a fixed interest rate of 6%, which means John will have to pay a total of Rs 24,000 over the life of the loan. In addition, the loan requires a minimum monthly payment of Rs 400. This means that John will have to make 36 payments of Rs 400 each in order to pay off the loan. Banking has faced prominent evolution. From traditional banking to neo-banking the evolution of the fintech space has had a significant impact on businesses today.

practices in use elsewhere in the world. The Branch Manager and Head of The Credit Department occupy Key lending position within the bank. Credit Analysis is the process undertaken by lenders to understand the creditworthiness of prospective borrower, meaning how capable they are repaying principal & interest obligation. Credit Policy is set up rules & standards that direct how companies can grant credit to customers and the collection method.

A credit policy documents rules and guidelines above the customer credit terms and periods. Companies, Financial Institutions, government issue it. The element of this policy include credit term, creditworthiness, Cash



- The scope of credit policy the bank seeks to generate profit with minimum risk and maximum protection for its client and their funds.
- Loans may be granted on a one time basis or as revolving credit instrument.
- The credit Relationship between the bank and borrower are formalized in written loan agreement. The loan agreement specifies the rights and obligations of the bank and the borrower considering nature of the loan amount and procedure for payment of loan interest, The type of collateral and the procedure of term of loan of repayment.

OBECTIVES

- The bank should have a detailed understanding of loan purpose in order to assess risk and be able structure of financing to benefit of the both client and bank.
- Loans that have a legitimate purpose in accordance with the policies of the bank serve to provide liquidity to the economy and Financial support to the commercial and Industrial sector in support of economic growth.
- To study the credit Policy and credit analysis system prevailing in the bank.
- To gain acquaintance of loan recovery process regarding credit management.
- To examine lending efficiency and its contribution to profit.
- To understand the Importance of credit score and read a credit repot.
- To examine the components of the cost of borrowing, To differentiate between credit and debit cards, To evaluate the basic borrowing process.

RESEARCH METHODOLOGY

- The article examines the concept of credit policy through the prism of function outline in the development strategies of the Banking Institution.
- Which is primarily aim at maximizing resources for rapid responses to uncertainties of the external and internal environment.
- The Research Design in arrangement of condition for collection and analysis of data in manner that aims to combine relevance to research purpose with economy in the procedure. Research design in the plan and structure strategies of investigation conceived to obtain answer to the research question and the control variances.
- The Research Methodology refers to the systematic and meticulous study and investigation on the particular subject matter. The Fundamental Purpose of this study is to provide and overview on the credit management and analysis of the GP Parsik Sahakari bank Ltd.

- In the Introduction process of the bank analysis of loan applicant is presented in order to minimise and manage the credit risk.
- In the second part of the Research Paper the theoretical and methodology framework is presented applied in banking sector.
- The aim of the research is analysis of credit analysis methodology and application of the model to reduce the credit risk in the bank.

HISTORY OF GP PARSIK SAHAKARI BANK LTD

GP Parsik Sahakari Bank Ltd. A leading Multi State scheduled Co-operative Bank, with business turnover of above Rs.6300 Crores, having network of 91 Branches spread across 3 states (Maharashtra, Goa & Karnataka)

In the year 1972 the Government of Maharashtra acquired all agricultural land of 68 Villages of Thane-Belapur belt in Thane district of Maharashtra, for the Purpose of setting up a new city i.e. “New Bombay”. To equip the project affected persons and to survive with new urban means of livelihood, It was necessary to provide them financial assistance. generate employment and means of livelihood, Late Shri. Gopinath Dada Shivram Patil (M.COM, LL.B) a great visionary leader along with a group of youngster of Kalwa Village took the initiative of formation of Urban Co-operative Bank . The bank was named as “Parsik” because active jurisdiction of bank was the west side area of Parsik Hill, which has range from Kalwa to Belapur(The Famous Parsik Raliway Tunnel) is situated in the same range). “Parsik” also means Parshwananth (Lord Shiva), Whose temple exists on the Hill.

The bank started on 21st May 1972 in a remote village in Kalwa (Thane District, Maharashtra), by a visionary leader Shri Gopinath Shivram Patil M.com, LLB and his young and energetic team. The bank has achieved scheduled status in the year 1998 and achieved multi state status in March 2015. The bank has 91 fully computerized branches in Thane, Mumbai , Navi Mumbai, Raigad, Pune, Nashik, Sangali , Kolhapur districts in the state of Maharashtra, Mapusa, Margaon , in Goa and Nipani, Belgavi in Karnataka. The bank has crossed its business Mix of Rs.6228/- Crore consisting of Deposits over Rs. 4349/- Crore and advances over Rs. 1879/- Crore.

The bank depicts transparency, trust, customer service, excellence and team work as its core values. With the consistent and concentered efforts of all the devoted Directors, employees and well wishers, the bank achieved” scheduled status” on 30th January 1998. Consequent upon achieving scheduled status the area of operation of the bank was extended to the entire State of Maharashtra . The Bank had succeeded in opening 14 branches and 2 extension counters with business-mix of Rs.180.83 Crores which includes deposits of Rs.180.83 Crores which includes deposits of Rs.119.18 crore and advances of Rs.61.65 Crore. The Bank showed commendable CASA of 46% and also “zero” percent of Net NPA. This percentage was outcome of persistent and dedicated efforts taken by selfless directors and employees.

Since then, the Bank started showing remarkable presence in the Co-operative Banking Sector. The bank was growing by opening its branches in the districts of Thane, Navi Mumbai, Raigad, Nashik, Pune and

Kolhapur. In 2010, the Bank Ltd, Ichalkaranji Having 6 Branches and saved thousands of deposit holders of their hard earned money.

GP PARSIK SAHAKARI BANK LTD FOR SCOPE OF CREDIT POLICY

- To observe the guidelines issued by RBI on payment systems through various customary as well as electronic channels, customer services and render the qualitative customer services.
- The policy covers resolution of all complaints raised by customers on account of accounts of system intricacies, banking procedures gap in customer services, service charges, etc. Redressal Machinery is also applicable to complaint raised on account of credit information of customers.
- The Policy is based on principles transparency and fairness in the treatment of customers. It is designed to cover deficiency in service in the areas relating to unauthorised. Debiting of accounts, payment of interest to customer for delayed collection of cheques instrument and payments of cheques after acknowledgement stop payment instruction, remittance within in India, lending etc, as the specifies in this policy.
- To provide Compensation due to deficiency in service in the part of the bank or any act of the commission, directly attributable to the bank.
- To provide protection to customer limiting his liability in unauthorised electronic banking transaction.

REVIEW OF LITARATURE

- The banks takes take almost care in analyzing the creditworthiness of the borrowing customer to ensure that the interest and the principal amount on loan are timely recovered without much trouble and legal process.
- Bank should always known the purpose of loan demanded by customer because if the borrower misuse the Loan granted by the bank. He will never to repay interest and principal. In order to avoid such circumstances, Loan should be allowed to selected borrowers and It should demanded all the essential details information about the scheme of the project in which the bank is lending for.
- Methods such as analysis synthesis comparison in the study of Thoretical developments of GP Parsik Sahakari Bank Ltd. Scientist to the related research topic were effect.

THE KEY ELEMENTS OF CREDIT POLICY

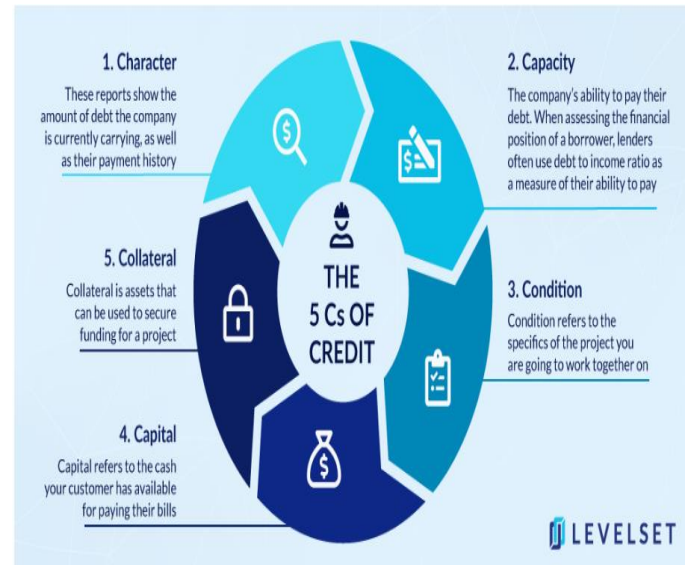
Evaluating Collateral is crucial aspect of credit analysis as it helps in determining the appropriate amount of loan to grant to the borrower, Specially if the borrower has high credit risk. Credit Policy is a policy conceived initiated and implemented by the central credit authority of a country. The Banks were advised to introduce flexible interest rate system for all new deposits and to advise schedule for encouraging depositors to convert their existing long term fixed rate deposits into variable rate deposits. Banks were to announce the maximum spread over the prime lending rate for all advances other than consumer credit.

This section will provide in depth information on the key components of collateral evaluation of credit analysis.

- **TYPES OF COLLATERAL:-** There are different types of collateral that borrowers can offer to secure a loan such as real estate, vehicles, equipment and inventory.
- **COLLATERAL VALUATION:-** collateral valuation is the process of determining the value of collateral. It is crucial to ensure that the collateral value is sufficient to cover the loan amount and any associated costs.
- **LIEN PRIORITY:-** Lien Priority refers to the order in which creditors have the right to claim the collateral borrower if default.
- **COLLATERAL DOCUMENTATION:-** Documentation is a critical components of collateral evaluation. The lender must ensure that the collateral documentation is accurate and complete.
- **COLLATERAL MONITORING:-** Collateral Monitoring is the process of tracking of collateral's Value and ensuring that it is sufficient to cover the loan amount throughout the loan term.

CREDIT ANALYSIS FRAMEWORK THE 5Cs

These factors are part of a tool used by Financial Institution and credit managers to gauge the creditworthiness of the customer. It helps credit teams determine the chance that a borrower will default on their payments and allows them to make educated decision on whether to loan money to them or not. The 5cs really are another way to say "Know your Customer"



- **CHARACTER-** This is about understanding who the borrower is including what their credit history may tell us about their likelihood of making future loan payment.
- **CAPACITY-** This speaks to the borrowers actually ability to make a payment using internally generated cash flow.
- **CAPITAL-** This is an evaluation of the borrower overall financial health but also an assessment of alternative sources of liquidity should be necessary.
- **COLLATERAL-** This factor in quality and the overall desirability of any physical assets that are available as security.
- **CONDITION-** This is in part understanding the purpose of the loan proceeds but also condition in the external environment that may impact the borrowers financial health and cash position.

CHARACTERISTICS OF CREDIT ANALYSIS IN GP PARIK SAHAKARI BANK LTD

While extending credit to an individual, or to a business enterprises, there are some elements which are very important. These elements are Characteristics of credit which are as follows:

- **CONFIDENCE:-** The essential element of characteristic of credit is confidence. The person or banks must have confidence in the customer or the debtors.
- **CAPACITY:-** While granting credit, the creditor must satisfy with regards to paying capacity and ability of the debtor. The Reputation of the customer for ability based upon certain personal qualities, training and successful experience gives reasonable assurance that he will in appropriate time acquire the means with which to repay the loan
- **GOODWILL:-** If a person has a reputation of repaying his outstanding in time, he will be able to obtain credit without any difficulty. Thus, the Goodwill or reputation of the customer matters in extending credit.
- **SECURITY:-** Banks are extending credit to their customers. The banks ensure that there are proper securities obtained before extending credit. The availability and amount of credit to a person depends upon his property and assets possessed by him. The successful businessman or a regular customer of a bank is usually in a position to borrow adequate credit.
- **SIZE OF CREDIT:-** Availability of Credit also depends upon the amount of Credit. Generally

small amount of credit is easily available as compared to a credit of large amount.

- **PERIOD OF CREDIT:-** Period of Credit is also important like the size. Normally, The long term credit is not available as there is more risk involved in security as well as payments.

GP PARIK SAHAKARI BANK ANALYSIS IN CREDIT POLICY PRODUCTS

- **HOUSING LOANS:-** A Home Loan is secured loan that is obtained to purchase by offering it as collateral. Home loans offer high value funding at economical interest rates for the longer tenures. Home loans have become increasingly popular in recent years because of the significance rise in property prices and the increasing demand for the affordable housing.
- **VEHICAL LOANS:-** Purpose of purchase of New and Old Commercial Vehicle Margin 1) New Vehicle 20%, Old Vehicle 50% valuation of agreement value whichever is less. Loan amount as per requirement up to 60 Months.
- **PERSONAL LOANS:-** Purpose of debt repayment/Marriage Ceremony Tourism /house repair etc. Loan amount up to Rs.5 Lac tenure 60 months.
- **GROUP LOANS:-** In certain cases where the employer undertakes to deduct the loan installment under section 60 of the Multi State Co-operative Act 2002 and remit the same towards the repayment of loans or undertakes to remit the monthly salary of employees direct to in the saving account.

- **LOAN AGAINST TERM DEPOSIT:-** Loan against term deposit margin is 10% Tenure up to maturity date of Term deposit.
- **EDUCATIONAL LOANS:-** To brighten the future of bright and committed students by expanding financial assistance to pursue higher professional /technical courses studies in India and abroad through educational universities institute of organisation good recognition and reputation.
- **GOLD LOAN:-** Gold Loan margin 25% as per requirement tenure up to 12 month . The meaning of Gold Loan is a secure loan taken by borrower is seeking to meet their immediate or loang term cash demand against gold.
- **LOAN AGAINST TERM DEPOSIT:-** Loan against term deposit is margin 10% , Tenure up to maturity of term deposit, Rate of Interest is term deposit+1%
- **LOANAGAINSTGOVT.SECURITITES:-GP** Parsik Shakari Bank Ltd in loan against Govt. Securities margin 20% Tenure up to maturity date of Govt. securites..

CREDIT ANALYSIS IN GP PARSIK SAHAKARI BANK LTD FOR DECESION MAKING

- The Credit Analysis and Loan officers base their decision on the entire analysis. The analysis helps in reaching a decision on whether the risk level is acceptable or not and to what extent.
- The Bank can either approve the total amount of loan requested or decided on a specific amount

of loan that is below what the borrower applied for. Whatever the decision, the lender must communicate to the borrower its decision before the disbursement is made.

- A written policy structured approach to risk management and the debt collection process.
- It helps to ensure a consistent approach among customer reducing the chance of professional bias affecting the decision making process.

ADVANTAGE OF CREDIT POLICY IN GP PARSIK SAHAKARI BANK LTD

- **PAYMENT IN DIFFERENT CURRENCIES:-** One of the advantage of credit policy that accepts electronic forms of payment such as credit cards is that the math is already done for you.
- **EASE OF USE:-**Using Electronic Forms of credit are extremely easy these days with the advent of such point of sales technologies as square and apple pay.
- **CONVENINT RECORDKEEPING:-** In that departmental staff in banking sector always discussion before disbursement of loan amount to customer account of recordkeeping for future reference.

DISVANTAGE OF CREDIT POLICY IN GP PARSIK SAHAKARI BANK LTD

- **THE COST OF CASH DISCOUNT:-** Bank may offer discount on our services to entire customer to spend their money with you by paying cash only. Or for early payment for their credit accounts.

- **DEALING WITH BAD DEBTS AND CONCLUSION**

- **POTENTIAL FRAUDS:-**

- If customer fails to pay on their credit accounts or even worse default or goes into bankruptcy.

- **TRANSACTION FEES:-** The ability to accept credit payment and use point of sale technology can have its disadvantages as well.

RECOMMENDATION

- Banks have focused on oversight of contractual performance of individual credits in managing their overall credit risk. While this focus is important bank also need to have in place a system for monitoring n overall composition and quality of the various portfolios.
- Banks have new possibilities to manage credit concentration and other portfolio issue.
- Credit Policy indeed affects the performance of Co-operative Bank. All selected Banks have effect and efficient credit Policies.
- Bad Debts still exists and bank should continue to improve their lending policies and should continue to train the staff to the highest expertise.
- Co-operative Banks were encouraged not to pay interest on current accounts.
- Banks should establish sound & competent credit management units recruit well motivate staff.

The period which term loan is granted primarily depends upon the life of assets to be acquired with the help of that term loan. Obviously the term will not be longer than the life of asset covered. Term Loan is expected to be rapid not by liquidating the asset but from increase earnings. An asset become Collateral security when a lender register a charge over it. Either by using a fixed or Floating charge. This charge are also known as Lien. Once the security charge is registered over the physical asset. The borrower can not sell the assets without the lender first discharging security interest, It Conclude that short term loan are called such because of how quickly the loans needs to be paid off. In most cases it must be paid off within six month to a year at most 18 months. Any longer term than that is consider a medium term and longer term loan. Long term loan can last from just over a year to 25 years.

Credit Control is monetary policy tools used by the Reserve Bank of India to control the Demand and Supply of money or liquidity in the economy. The Reserve Bank of India supervises the Credit Granted by Co-operative Banks.

In Indian Economy the RBI'S Role in credit control is crucial. The Reserve Bank of India control the flow of credit in our economy. In order to keep inflation and economic growth in check. Credit Changes can market instability, So, Credit Control Policies must be carefully plan before being implemented.

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