

BANK AUDIT SEMINAR

MARCH 19th, 2019

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VARIOUS TYPES OF BANK AUDITS

TYPES OF BANK AUDITS

1. RBI Annual Financial Inspection
2. Bank and Branch Statutory Audit
3. Concurrent Audit
4. Revenue Audit
5. Credit Audit
6. Stock Audit
7. Risk Based Internal Audit
8. Information System Audit
9. Forensic Audit
10. Miscellaneous Audit

BRANCH AUDIT- PRELIMINARY PROCESS

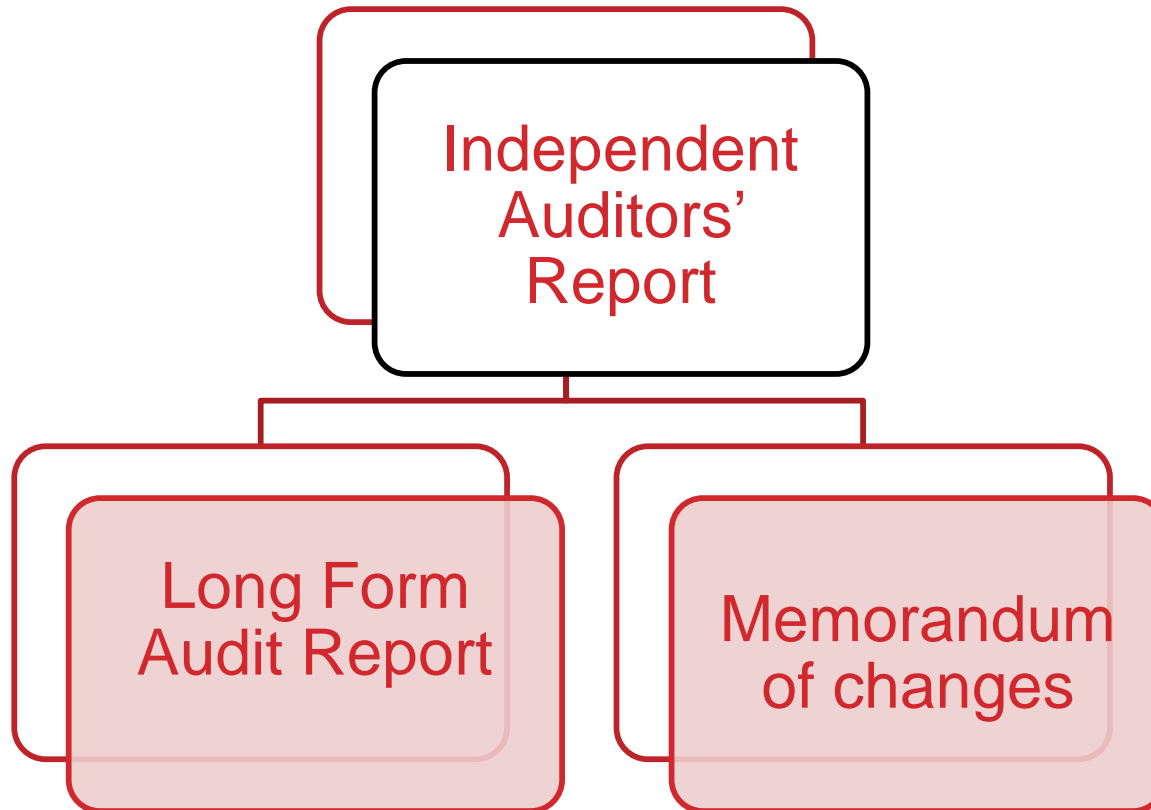


Review of audit reports

Preliminary scrutiny of closing statements

Issue of letter listing audit requirements

BANK BRANCH AUDIT




LONG FORM AUDIT REPORT – CERTAIN IMPORTANT CLAUSES

- 
- Audited statement of accounts from non corporate entities enjoying working capital limit of Rs. 10 lacs and more - Refer RBI circular 12th April 1985 and ICAI guideline dated 3rd June 1985

- 
- Cases of possible Window dressing

- 
- Any other matter-
 - Cases of Money laundering

- 
- Other important points- Cash, Clearing , office accounts and balancing

MEMORANDUM OF CHANGES (MOC) – GIVING EFFECT FOR CHANGES TO



- Asset classification- Security, Sector and NPA



- Balance Sheet Items



- Profit & Loss items

TAX AUDIT REPORT- TDS RELATED



- TDS on interest



- TDS on payments to professionals



- TDS on pension payments

Credit Policy

- Calculation of DP, Policy regarding adhoc sanctions, stock audit etc- Bank's Intranet

Circulars

- Bank's Intranet

Web site

- Various loans, service charges

RBI

- Master circulars and directions

SOURCE OF USEFUL SYSTEM GENERATED REPORTS

BANK	SOURCE OF REPORTS
Allahabad Bank, Central Bank of India, Bank of Maharashtra	Short cut to reports
Bank of India	MISRPT
Bank of Baroda	BOBMENU
Indian Bank	CDC reports
United Bank of India	EODDRPT, UNIRPT
Indian Overseas Bank	FINRPT
Oriental Bank of Commerce	MISREP
Punjab National Bank	PNBRPT
Punjab & Sind Bank	PSBRPT
Syndicate Bank	Day end reports

IMPORTANT FINANCE COMMANDS- ACLI

Ledger Account View	Account No +F4
Rate of interest	Account No.+ Control E+0 (at option code)+F4+F6
Sector- Priority/Non Priority	Account No +Control E +V (At option code)+F4
Sanction Detail	Account No +Control E +H (At option code)+F4+ S (at operation option)
Asset Classification (Standard/NPA)	Account No +Control E +Y (At option code)
Documents Details	Account No +Control E +X (At option code)
Overdue Installments in term loan accounts	Account No. + Control E+ E (at option code) +F4

IMPORTANT FINANCE COMMANDS- ACS

Account opened during a period	Open date (low)+open date (high) +F6+Scheme type (CCA for CC, ODA for OD and LAA for loans)
NPA accounts at the branch	F6+002 (at main asset classification)+F4
All accounts of a customer	Cust ID+F4

BANKING OPERATIONS AT A BRANCH



**GENERAL
OPERATIONS**

**LOANS AND
ADVANCES**

**FOREIGN
EXCHANGE**

LOANS AND ADVANCES



STATUTORY & REGULATORY RESTRICTIONS



STATUTORY RESTRICTIONS

SECTION 20 (1) OF THE BANKING REGULATION ACT , 1949.

Loans to directors

Loans to entities in which
director is interested

Loans against own shares

REGULATORY RESTRICTIONS

Loans to relative of directors

- Approval of board

FDRS of other banks

- Prohibited

Loan to firm in which HUF is partner

- Case law



The Banks can not give loans to a firm in which HUF is a partner per the Hon'ble Supreme Court ruling (AIR-1930-PC-300 and AIR 1956-SC-854)

“ HUF is an association of persons and not a person within the meaning of expression of the Partnership Act and hence can not enter into contract of partnership with another person or persons”

This has been reconfirmed in another case M/s Rasiklal & Co Vs Commissioner of Income Tax as

“ In law, an HUF can never be a partner of a partnership firm.”

CLASSIFICATIONS



SECTOR WISE CLASSIFICATION

Priority

- Agriculture
- Education
- Housing
- Export credits
- MSME
- Social Infrastructure
- Renewable energy
- Others

Non Priority

- Sectors other than priority are covered under non priority sector

- Priority Sector Housing Loan :In Metropolitan Centres (Population 10 lacs and above)- Loans upto Rs. 35 lacs provided overall cost of dwelling unit not to exceed Rs. 45 lacs In case of repairs, amount restricted to Rs. 5 lacs
In Other Centres - Loans upto Rs. 25 lacs provided overall cost of dwelling unit not to exceed Rs. 30 lacs In case of repairs, amount restricted to Rs. 2 lacs
- Priority Sector Education Loans – Upto Rs 10 lacs
- Social Infrastructure- Rs 5 crore
- Present target for priority sector lending – 40%
- Agriculture Loan : 18%

DEFINITION OF MSME

As defined under MSME Act 2006:

Sector	Micro	Small	Medium
Manufacturing Sector (investment in plant and machinery)	Upto Rs 25 lacs	Over Rs 25 lacs upto Rs 5 crore	Over Rs 5 crore upto Rs 10 crore
Service Sector (investment in equipment)	Upto Rs 10 lacs	Over Rs 10 lacs upto Rs 2 crore	Over Rs 2 crore upto Rs 5 crore

Documents required for ascertaining the status of an entity as MSME (As per RBI master direction dated 24th July 2017)

- A Copy of invoice of plant and machinery or
- A certificate issued by a Chartered Accountant regarding purchase price of plant and machinery or
- Gross block for investment in plant and machinery as shown in the audited accounts

SPECIAL RELIEF FOR MSME SECTOR

RBI circular No BP>BC>100/21.04.048/2017-18 dated 7th February 2018

Period

Period for classification as NPA increased from 90 days to 180 days for MSME entities for amount overdue as on 1st September 2017 and for payments due from 1st September 2017 to 31st December 2018.

Conditions

- Borrower is registered under GST as on 31st January 2018
- Aggregate exposure (fund based and non fund based) to Banks and NBFCs for the borrower not to exceed Rs 25 crore as on 31st January 2018. The sanctioned limit or outstanding , which ever is higher, shall be reckoned for arriving as exposure limit.
- Account is standard as on 31st August 2017.

Provision

5% against such exposure which is not classified as NPA

Interest recognition

Additional time is only for asset classification and not for income recognition. If interest is overdue for over 90 days, the same shall not be booked in income.

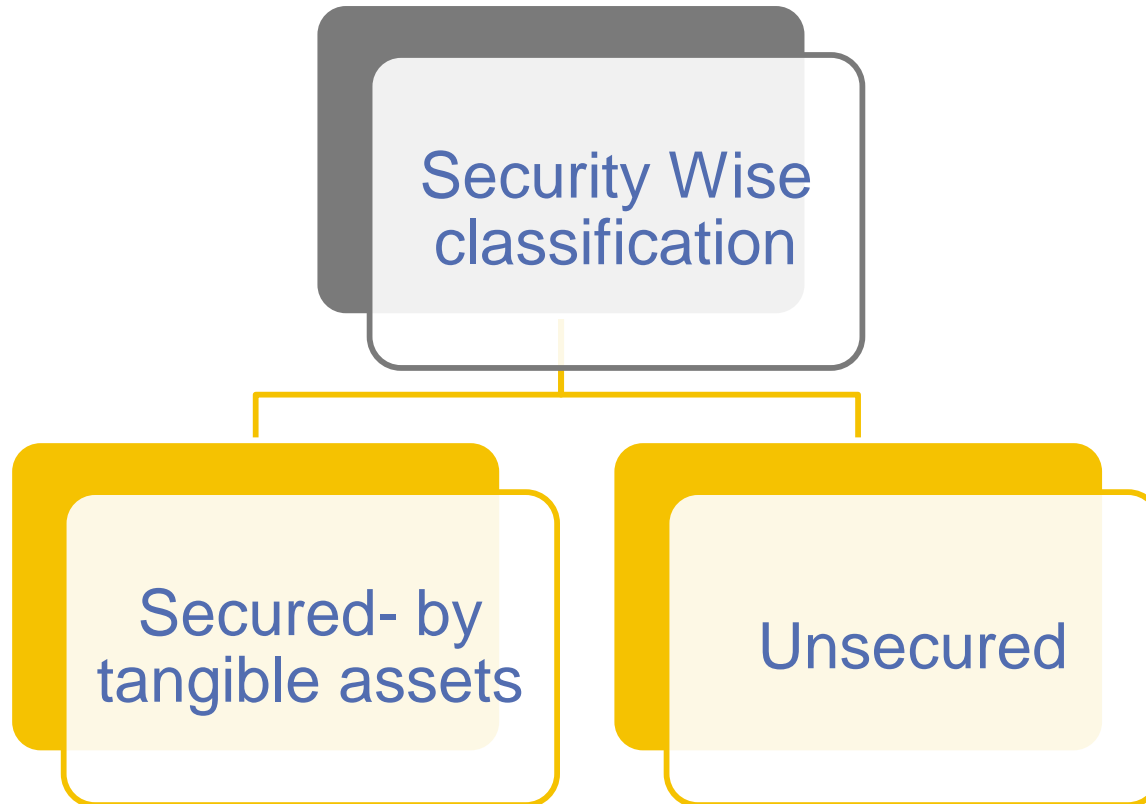
**RBI Circular No BP.BC.18/21.04.048/2018-19 dated
January 1, 2019-restructuring of advances to MSME Sector**

Allowing one time restructuring of loans to MSME without classifying as NPA subjected to :

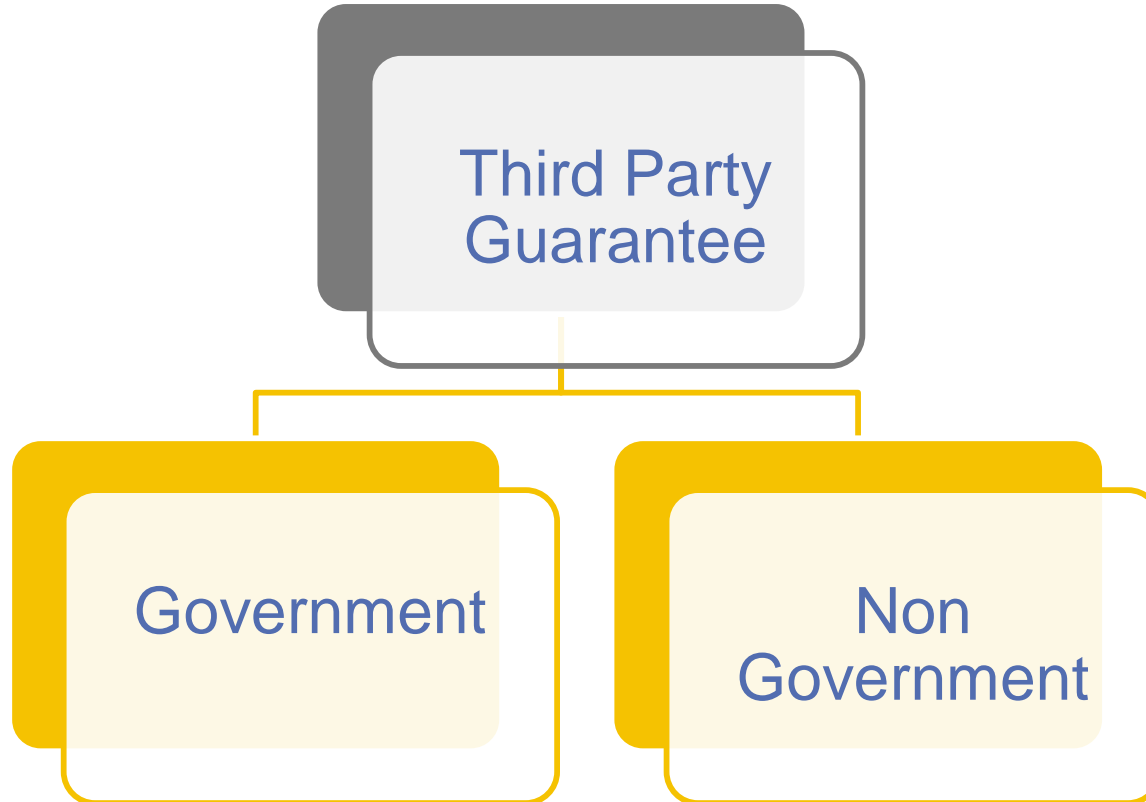
- Account is in default but is a standard asset as on 1st January 2019
- Aggregate exposure (fund as well non fund based) from banks and NBFC not to exceed Rs 25 crores as on 1st Jan 2019
- GST registered as on date of restructuring (not applicable in case of GST exempted entity)

Additional 5% provisioning is required in such accounts

SECURITY WISE CLASSIFICATION



SECURED BY THIRD PARTY GUARANTEE



CORPORATE GUARANTEE

Section 186 of The Companies Act 2013 :

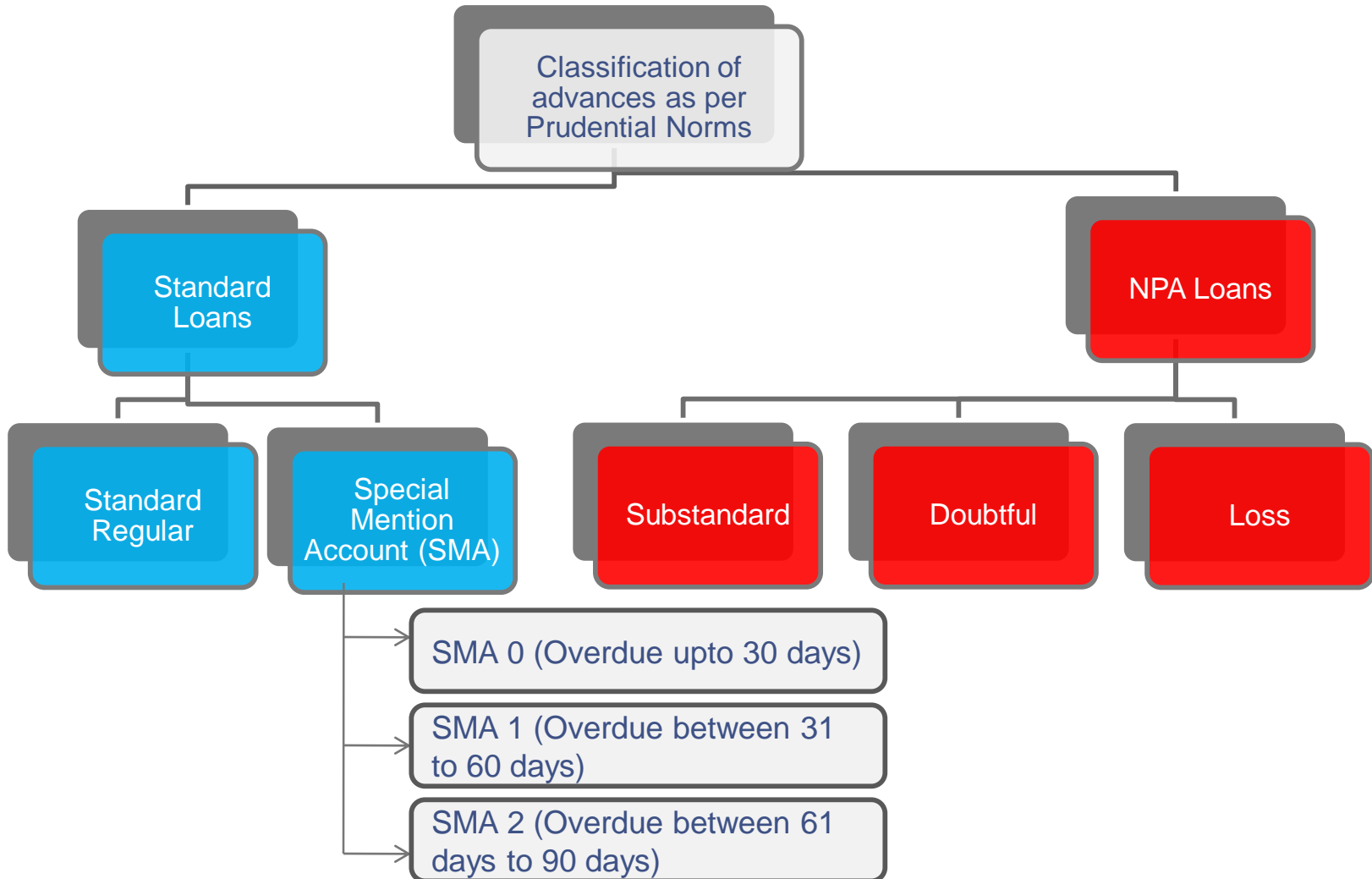
Restricts a company from providing a corporate guarantee on behalf of any other company or person (unless approved by a special resolution) in excess of :

- a) 60% of its paid up capital , free reserves and securities premium
- b) 100% of free reserves and securities premium

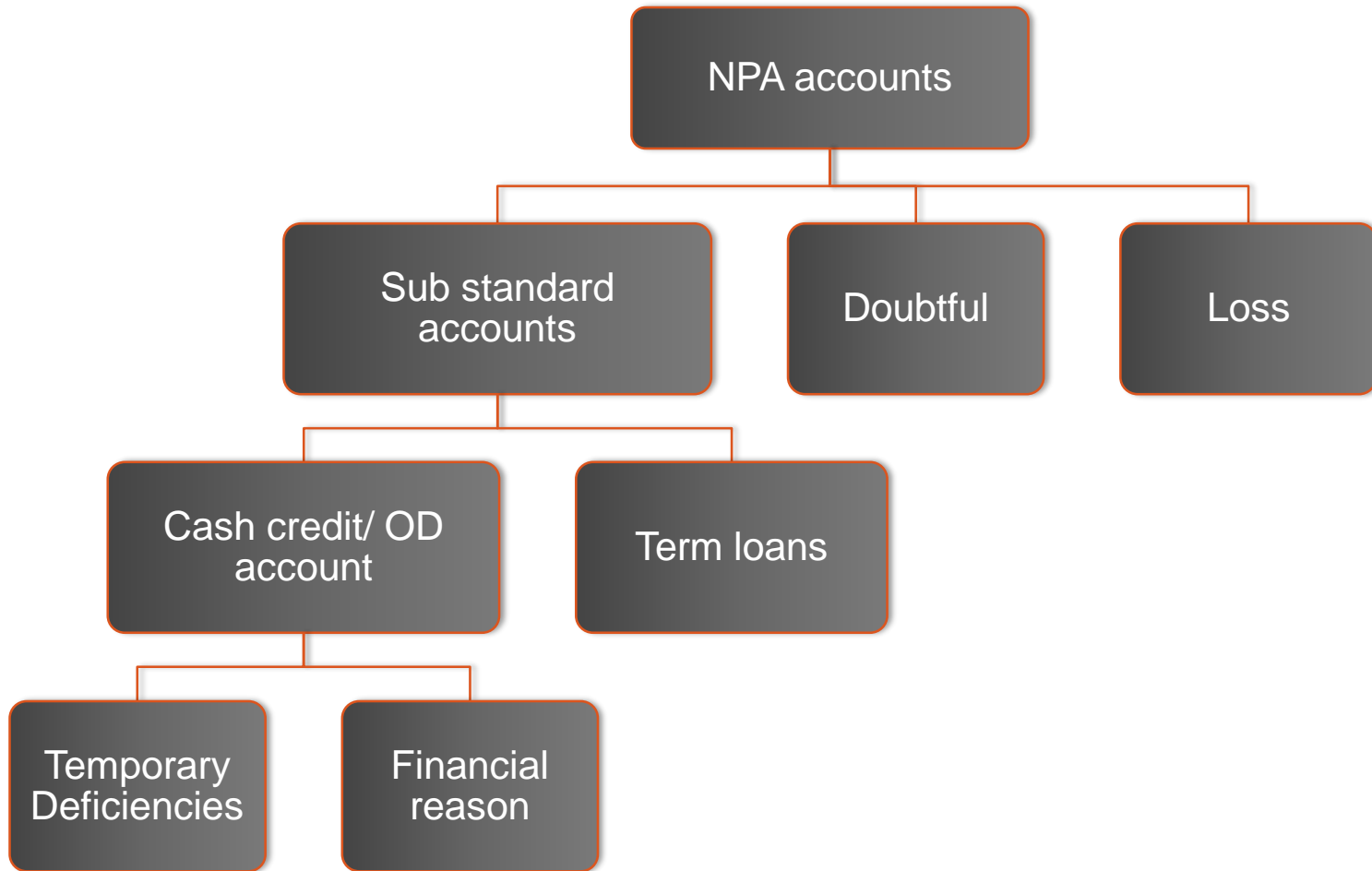
Which ever is more

In case of default of repayment of public deposits by the company, the company is barred from giving corporate guarantee.

PRUDENTIAL NORMS CLASSIFICATION



SUB CLASSIFICATION OF NPA ACCOUNTS



CONSEQUENCE OF IMPROPER ASSET CLASSIFICATION

- Affects true and fair view of the financial statements
- Booking interest and other income in the account whose realizability is doubtful.
- No recovery proceedings are undertaken
- Income tax is paid on unrealized income.

Special Benefits of claiming provision for bad and doubtful debts (section 36(i)(viii)) and paying tax on receipt basis (section 43D) not availed.

PRUDENTIAL NORMS



ESSENCE OF PRUDENTIAL NORMS

- NPA norms are guided by RBI master circular relating to Prudential norms on **Income Recognition, Asset classification and provisioning (IRAC)**
- As per RBI Circular No DBR No .BP.BC.2/21.4.048/2015-16 dated 1.7.2015, an asset becomes non performing when it ceases to generate income for the Bank.
- While assessing an account as NPA, the availability of **security or net worth of the borrower/guarantor is irrelevant. The only relevant factor is recovery** . Hence, an account may be NPA in spite being fully secured.

STAGES OF ASSET CLASSIFICATION

SUBSTANDARD

NPA UPTO 1 YEAR

DOUBTFUL

OVER 1 YEAR

LOSS

DECLARED AS A LOSS BY THE AUDITORS

INSTANCE WHEN A SUB STANDARD ACCOUNT (AS PER THE PERIOD) MAY BE DIRECTLY CLASSIED AS DOUBTFUL OR LOSS

- **IF THERE IS AN EROSION IN THE VALUE OF ASSETS**

BETWEEN 50% TO 90%

DOUBTFUL

OVER 90%

LOSS

NPA NORMS

- **SUB STANDARD ACCOUNTS- CASH CREDIT/ OD ACCOUNTS - FINANCIAL REASONS**

- ❖ Account overdraw > Lesser of (Sanctioned limit or drawing power)

90
days or
more

- ❖ No credits or credits insufficient to cover the interest during the previous quarter.

- **SUB STANDARD ACCOUNTS- CASH CREDIT/ OD ACCOUNTS – TEMPORARY DEFICIENCIES**

- ❖ Renewal pending

More than 180 days

- ❖ DP calculated from stock statement older than 3 months and continuance of such irregularity for

More than 90 days

• **SUB STANDARD ACCOUNTS- TERM LOANS**

- ❖ Interest and /or principal remain overdue

More than 90 days

EXEMPTIONS

- × Central Government guaranteed advances. However, no exemption in income recognition.
- × Loans against LIC, NSC, FDRs KVP if adequate margin available
- × Loan to staff members where interest is payable after recovery of principle amount.
- × Loan where there is moratorium period for payment of interest

SUB STANDARD ACCOUNTS- BILLS DISCOUNTED

Remain overdue

More than 90 days

Asset Classification on non repayment of interest within 90 days **(RBI Guidelines)**

Extract from the RBI Circular No BP.BC.2/21.04.048/2015-16 dated July 1, 2015 :

“ In case of interest payments, banks should classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter”

Sub Standard Advances- Agriculture Loans

- Short Duration Crops : If principal or interest remains overdue for 2 crop seasons
- Long Duration Crops : If principal or interest remains overdue for 1 crop season.

The crop season is decided by the State Level Bankers' Committee in each state.



OTHER IMPORTANT ASPECTS

- Asset classification is borrower wise and not account wise
- Exemption : Bills discounted under LC provided documents under LC are accepted on presentation or payment under LC is made on due date
- Classification with other member banks are not relevant in consortium advances
- No restriction on number of times the account can be downgraded or upgraded during a year.
- No system of upgradation of NPAs within various sub categories .such as from doubtful to substandard or from loss to doubtful or substandard.

Accounts regularised near about the balance sheet date

RBI Circular No DBR.No.BP.BC.2/21.04.048/2015-16

Dated July 1, 2015

Para 4.2.6

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

PROVISIONING

STANDARD

GENERAL	0.40%
AGRICULTURE & MSME	0.25%
REAL ESTATE	0.75%

SUBSTANDARD

SECURED PORTION	15%
UNSECURED	25%

DOUBTFUL

D-1 (UPTO 1 YEAR)	25%
D-2 (1 TO 3 YEARS)	40%
D-3 (OVER 3 YEARS)	100%
UNSECURED PORTION	100%

FAQ in respect of asset classification :

1. Status of account in case of **advance payment made by the borrower :**

In case advance payment at the beginning is made by the borrower, the question being frequently asked is that since payment is made towards principle, the interest amount remains unpaid and in case if the same remains over 90 days, the account to be classified as NPA.

The account will remain standard for following reasons :

- *other wise it will amount to punishing an honest borrower*
- *For interest calculation purposes, the system reduces the balance outstanding and then internally classifies the advance payment amount as “Overflow “ (refer Finacle command acli+ account No+ control e+ e (at option code) with further break up by using command shift+F4)*
- *Interest at the end of the month is applied on the reduced balance .*
- *Bank’s software first adjust the over flow amount with interest applied*

2. Asset classification where **term loan instalments are repaid by debiting a CC account which is not overdrawn**

- Both account will be classified as Standard.

3. Classification of account which is **NPA as on last date of the year but since then regularized**

- No guidelines available. Entirely at the discretion of the Auditors.

Few Instances when accounts become NPA inspite of not being overdue :

- Loans where there is an increase in rate of interest without corresponding increase in EMI or period of repayment.
- Any other loan account of the borrower is NPA.
- Project Loans for non commencement of operations within DCCO.
- Restructuring of loans extending the period of repayment (except in case of MSME loans fulfilling RBI'S circular dated 1st Jan 2019)
- In case of NPI (Non performing Investment), the loan account will also become NPA and vice versa
- Accounts which have been declared frauds

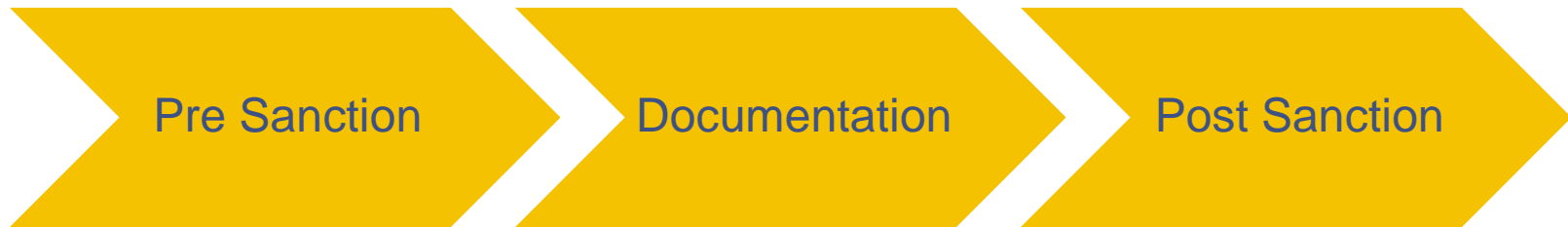
Few Instances where accounts remain standard inspite of being out of order for over 90 days

- Loans against FDR, NSC, KVP, LIC if value of securities fully cover the loans
- Central Govt. guaranteed loans
- Bills discounted under LC
- Education loans
- Reverse mortgage

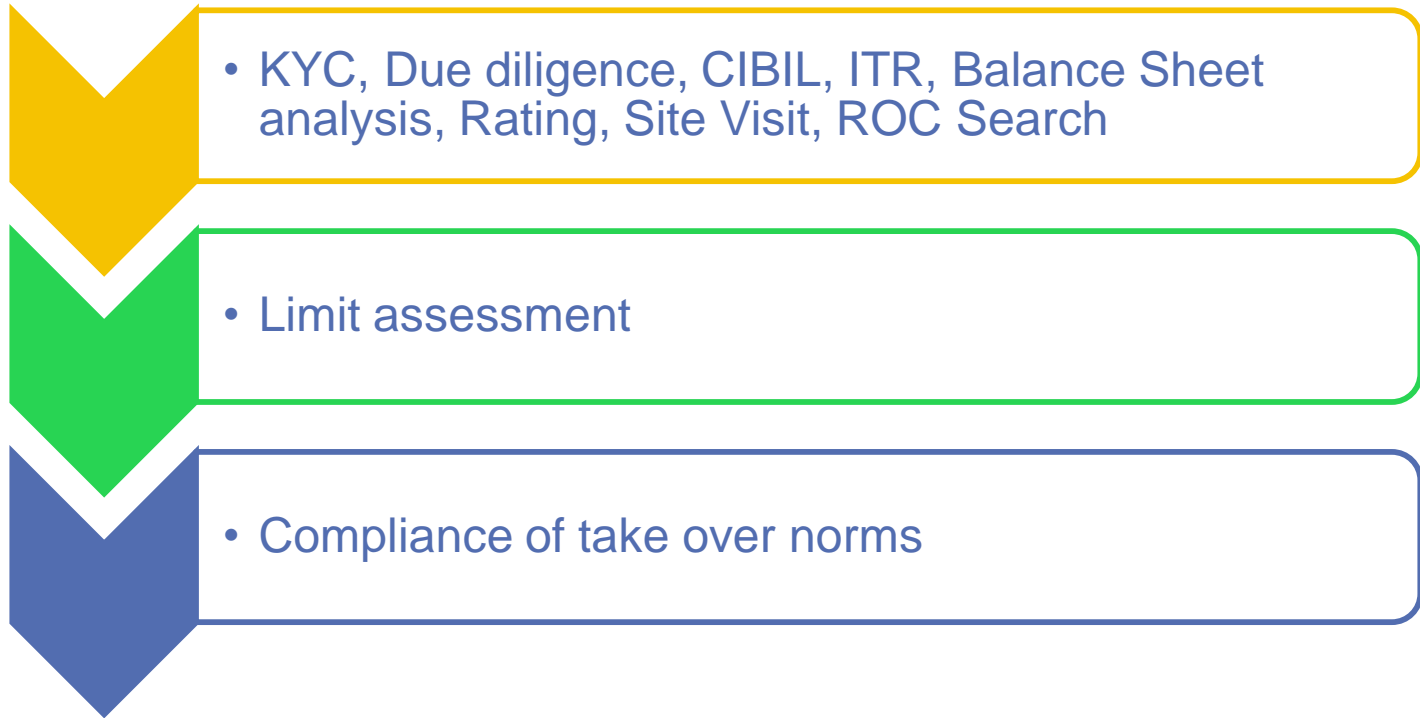
A Few undesirable practices

- Granting TOD in other sister concern account
- Granting new loan to adjust old overdue loan
- Unauthorized opening of new loan account by transferring irregular portion of existing loan
- Unauthorized releasing of margin of non fund limits to adjust irregular portion of fund based facilities.
- Year end purchase of cheques
- Manual intervention through MEAC command
- Cash Deposit without actual cash receipt
- Discounting a fresh export bill to adjust old overdue bill
- Unwarranted extension of period under DCCO

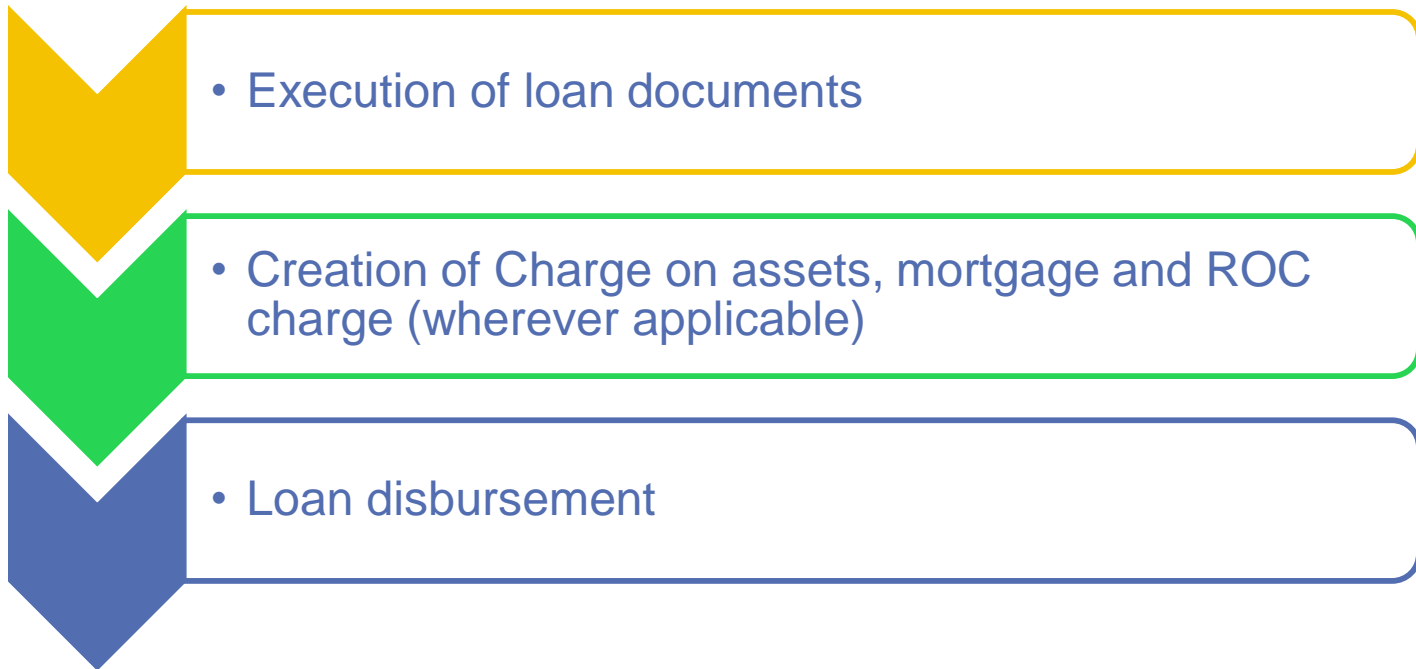
STAGES OF LOAN



PRE SANCTION



DOCUMENTATION AND LOAN RELEASE



DOCUMENTATION

- Acceptance of terms of sanction by the borrower and guarantor
- All required documents executed. Requisite stamp duty as per the state laws paid. Entry in document register made
- Vetting of documents by panel advocate
- Creation of Equitable Mortgage as per the guidelines
- CERSAI registration in case of Equitable Mortgage of property
- Charge registration with ROC in case of company

IMPORTANT ASPECTS OF DOCUMENTATION:

- Properly filled, duly stamped and signed by the borrower and guarantor
- Proper value of stamp or stamp paper to be used. Stamp duty of documents varies from state to state except Bill of Exchange.
- Date of stamp paper to be before the date of execution
- Stamp Paper to be in the name of the borrower or the Bank
- Overwriting/Cuttings to be duly authenticated
- Execution of documents by the legally competent persons
- Documents to be alive
- Documents on the printed format of the Bank. No computer generated documents except through LAPS (Loan Application Processing System)
- The banks are required to give a copy of the loan agreements to the borrower.

↓

Persons not legally competent to execute the documents: Minor, Insolvent, Insane, Person of unsound mind, Heavily drunk person

LIMITATION PERIOD:

- Normally 3 years.
- In case of term loans, 3 years to be reckoned from the date of default
- Limitation period can be extended through
 - Obtaining fresh documents
 - Obtaining Balance confirmation
 - Part payment in the account

MODE OF CREATION OF CHARGE ON SECURITIES

Hypothecation

Pledge

Assignment

Set off

Mortgage

Hypothecation

- Goods not in physical control of bank
- Creation of charge in favour of bank through execution of hypothecation deed

Pledge

- Security under physical possession of bank
- E.g. Pledge of FDR, Gold

Assignment

- Transfer of right of property in favour of the bank
- E.g. Assignment of LIC policy

Set off

- Statutory right of the Bank to adjust balance lying in any deposit account of the borrower with the loan balance.

Mortgage

- Involves mortgage of immovable property

Type of Common Mortgages

Registered Mortgage

Mortgage deed executed in favour of the Bank and registered with the appropriate authority

Equitable Mortgage

Created by simple deposit of title deed by the mortgagor with clear intention to create the mortgage in favour of the Bank

Refer next slide for verification process of equitable mortgage

VERIFICATION PROCESS OF EQUITABLE MORTGAGE:

- Search on CERSAI site by the branch official to confirm non encumbrance. Snap shot of the search to be kept as part of the documents.
- Complete search of property documents by the panel advocate for the prescribed period. Original search receipt to be kept as part of documents.
- Unqualified Legal Opinion certifying the genuiness of title deed of the property and the right of the seller to sell the property
- Valuation of property by the approved valuer. Valuation report to be accompanied by the photograph of the property. In case of properties above Rs. 50 crore, 2 independent valuation reports required as per RBI Guidelines.
- Creation of Equitable Mortgage on basis of complete chain of title deed as prescribed by the advocate
- Payment of stamp duty as per the applicable state laws.
- Laminated title deeds to be avoided
- Certified true copy of title deed on basis of which mortgage created to be obtained from the office of the Registering Authority and compared with the originals
- Registration with CERSAI within 30 days
- Mortgage on basis of certified copy to be done only in exceptional case and after following prescribed procedures
- In case of a mortgage of property of a third party (other than borrower) , he/she to be made a guarantor of the loan..

Important aspects of ROC charge registration

- Covered under Section 77 of the Companies Act 2013
- Charge is required to be registered within 30 days . However, additional 30 days are allowed to file charge with additional fee.
- Charge is required to be created for all assets (tangible as well as intangible) whether in India or outside.
- In case of non filing , the charge of bank does not become invalid in case of a going concern. However, in case of winding up of company, the Bank is considered as an unsecured creditor. Under the new Act, no charge created shall be taken into account by the liquidator unless a certificate of registration of charge is given by the Registrar of Companies.
- Primary responsibility of registration of charge with the borrower. In case of failure of the company, the Bank may after the expiry of 30 days , directly apply to ROC for registration (Section 78)
- Satisfaction of charge is to be reported to ROC within 30 days from the date of full payment.

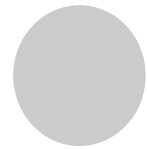
TYPE OF ADVANCES



FUND BASED FACILITIES

- Cash Credit
- Term Loan
- Overdraft
- Bill Discounting
- Export Loan

FUND BASED FACILITIES



Cash Credit

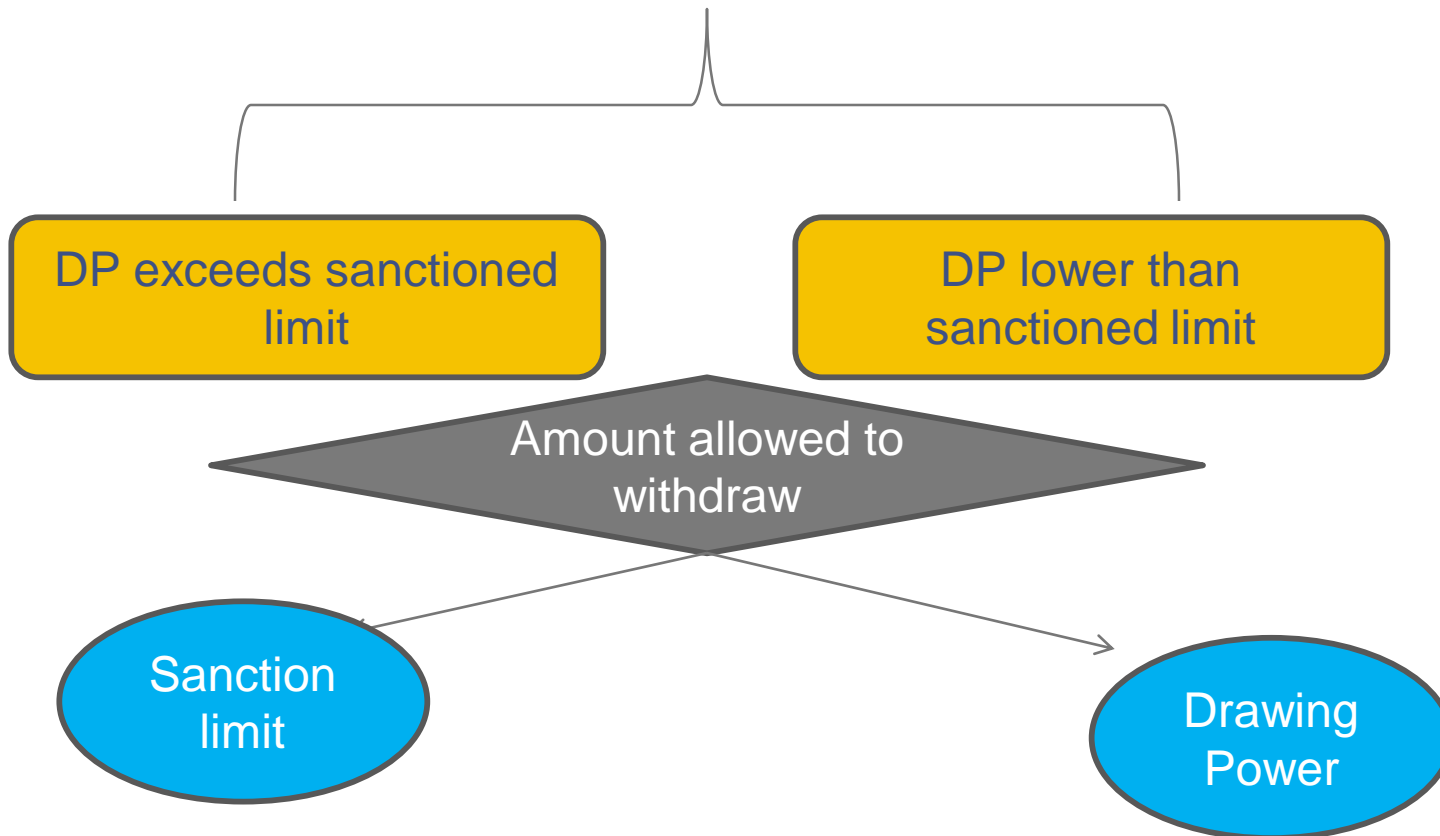
- To finance working capital requirements
- Requires periodic renewal (usually yearly)
- Requires monthly stock statement for calculation of drawing power
- Requires monitoring of end use of funds

VERIFICATION OF DRAWING POWER

DP is the amount of working capital funds allowed to borrower to draw from the working capital limit allotted to him

Calculated on basis of stock statements submitted by the borrower

There can be 2 situations:



General formula for calculation of DP:



Paid Stocks is Stocks less trade payables

Method of calculation differs from Bank to bank and governed by loan policy of each bank

Some Important Points in calculation of Drawing Power :

Creditors more than stocks . DP against stocks will be Nil. Whether excess creditors will be adjusted against debtors for calculation of DP against debtors

Method varies from Bank to Bank Refer Credit Policy of the Bank

Allowing set off of Sundry Creditors with Sundry Debtors (above the eligible debtors) and consider only the balance creditors while calculating DP against stocks

Method varies from Bank to Bank. Refer Credit Policy of the Bank

Ignoring sundry creditors upto the level of creditors fixed at the time of initial assessment of limit	Refer Banks credit policy
Allowing DP against advance to Creditors	To be allowed if terms of sanction /Credit policy permit. Moreover , nature of advance needs to be verified with supporting documents such as Purchase order to ascertain its genuineness.
Treatment of advance payment received from debtors	Generally no specific guidelines provided.
Inclusion of foreign debtors in stock statement	Difference of opinion

IMPORTANT POINTS FOR VERIFICATION OF STOCK STATEMENTS

- Stock statements to be in the Bank's prescribed format
- Submission of Stock Statement at prescribed interval
- Stock statement as on last date of the month.
- Agewise classification of Sundry Debtors
- No DP on book debts against associate concerns if stipulated in sanction
- Quarterly certification of book debts by the Statutory Auditors of the borrower.
- Detail of Sundry Creditors provided
- Stocks purchased under LC to be shown separately
- Margin calculated correctly
- Correct entry in system. Penal interest flag for non submission is " Y"

INSURANCE:

- Stocks should be fully insured for all risks including fire, earthquake, burglary, terrorism etc.
- Stocks at all locations including stocks with processors need to be covered under insurance
- Bank's clause in insurance policy
- Validity period to be alive
- Insurance policy to cover theft in addition to burglary risk in view of Supreme Court decision on Industrial Promotion Investment Corporation of Orissa Ltd (IPCOL) V/s New India Assurance Co Ltd.

FUND BASED FACILITIES



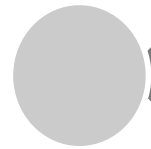
Overdraft

- Normally against FDR or immovable property
- Annual renewal if allowed against property
- No requirement for submission of stock statements

DIFFERENCE BETWEEN CASH CREDIT AND OVERDRAFT

- End use of funds needs close monitoring in Cash Credit
- Monthly stock statements need to be submitted in case of cash credit accounts.
- Difference in method of appraisal
- Interest in Cash Credit accounts effected by Internal/External ratings.
- Difference in nature of primary securities.
- In OD , pre existence of security is must. In CC, assets are created out of Bank's funds at subsequent stage.

FUND BASED FACILITIES

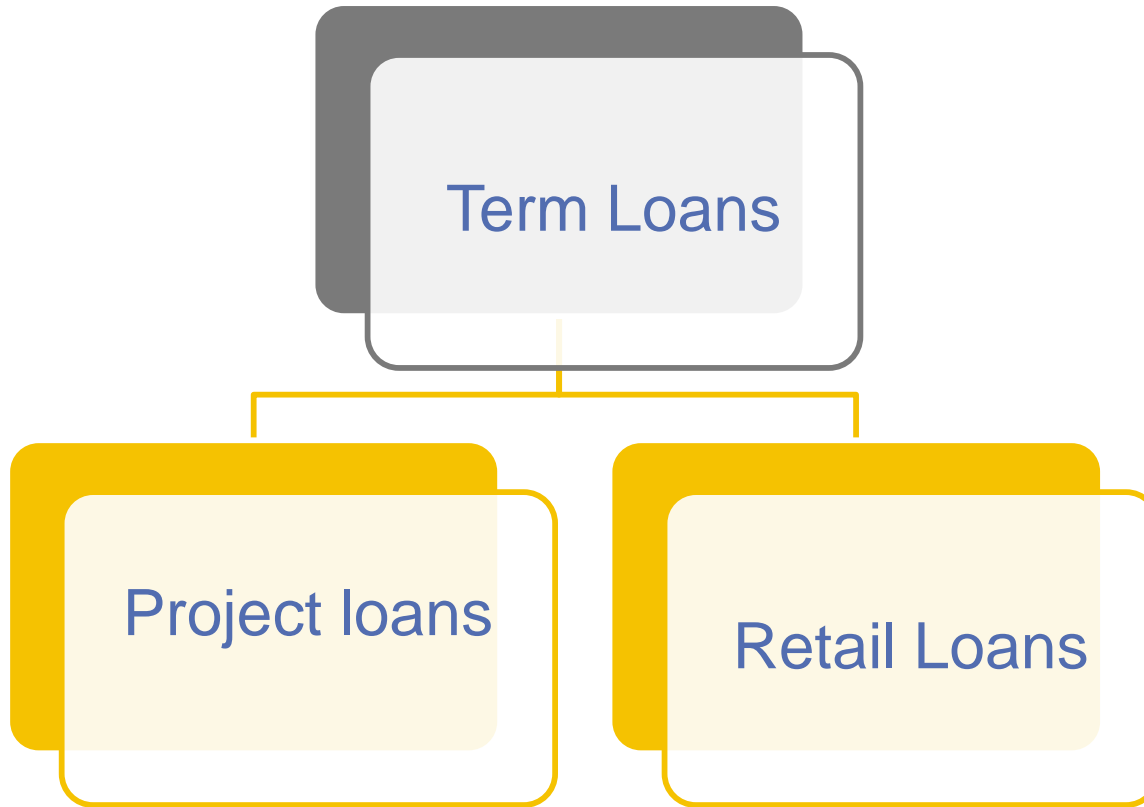


Term Loan

- Availed for acquiring fixed assets
- Repayment in a fixed period

DIFFERENCE BETWEEN CASH CREDIT AND TERM LOAN

- Term loan is for acquiring fixed assets while CC is for financing working capital requirement.
- The balance in CC accounts keeps fluctuating on day to day basis while in case of term loan , the balance goes reducing as per the repayment schedule and in the end becomes Nil.
- The balance in Cash credit account can be in credit unlike term loan which always remains in debit.



RETAIL TERM LOANS

Some of the common retail loans advanced by banks now a days are:

- Housing Loan
- Car Loan
- Education Loan
- Loan against FDR's
- Loan against LIC Policies
- Personal Loans
- Gold Loan
- Mudra Loans

FUND BASED FACILITIES

Financing against Bills

- LC (Letter of Credit) or Non LC bills
- Accompanied by bills of exchange. Transporter's GR
- The bills are purchased if these are payable on demand.
- The bills are discounted if these are usance bills.
- Normally 3 parties are involved i e Seller of goods (drawer) , buyer of goods (drawee) and the banker of seller of goods discounting the bill.

FUND BASED FACILITIES

Export Loans (Pre Shipment)

- Granted to acquire goods
- Granted against LC or confirmed orders from overseas buyer
- Liquidated against discounting of export bills or foreign remittances

FUND BASED FACILITIES

Post shipment (Export bill discounting)

Exports bills drawn on overseas buyer discounted and Packing Credit (if availed) liquidated. Otherwise transferred to Current account.

Realization on due date. If not realized on due date, bills crystallized .

NON FUND BASED FACILITIES

- Letter of Credit (LC)
- Bank Guarantee (BG)
- Letter of Undertakings (LOU)

NON FUND BASED FACILITIES

Letter of Credit

An undertaking from the Bank on behalf of the customer (buyer) to the seller of the goods to pay the contracted amount in case the buyer fails to pay on the stipulated date.

Known as LC devolvement In case of default by the customer.

Essential movement of goods under LC supported by documents like Bill of Entry (in case of imports), Lorry Receipts

The title 'Bank Guarantee' is displayed in white text on a dark grey banner. To the left of the banner is a light grey circle.

Bank Guarantee

Financial : to meet financial obligations (like security deposits)

Performance : To meet contractual obligations (like satisfactory project completion)

Deferred payment guarantee: To ensure timely payment to supplier of capital goods at a specified time

Binding on the issuing Bank to pay to the beneficiary the guarantee amount in case of default by the customer.

Exercise of the right by the beneficiary known as Invocation of guarantee.



Letter of undertaking

Banned w.e.f March 13, 2018

Parties involved in the transactions

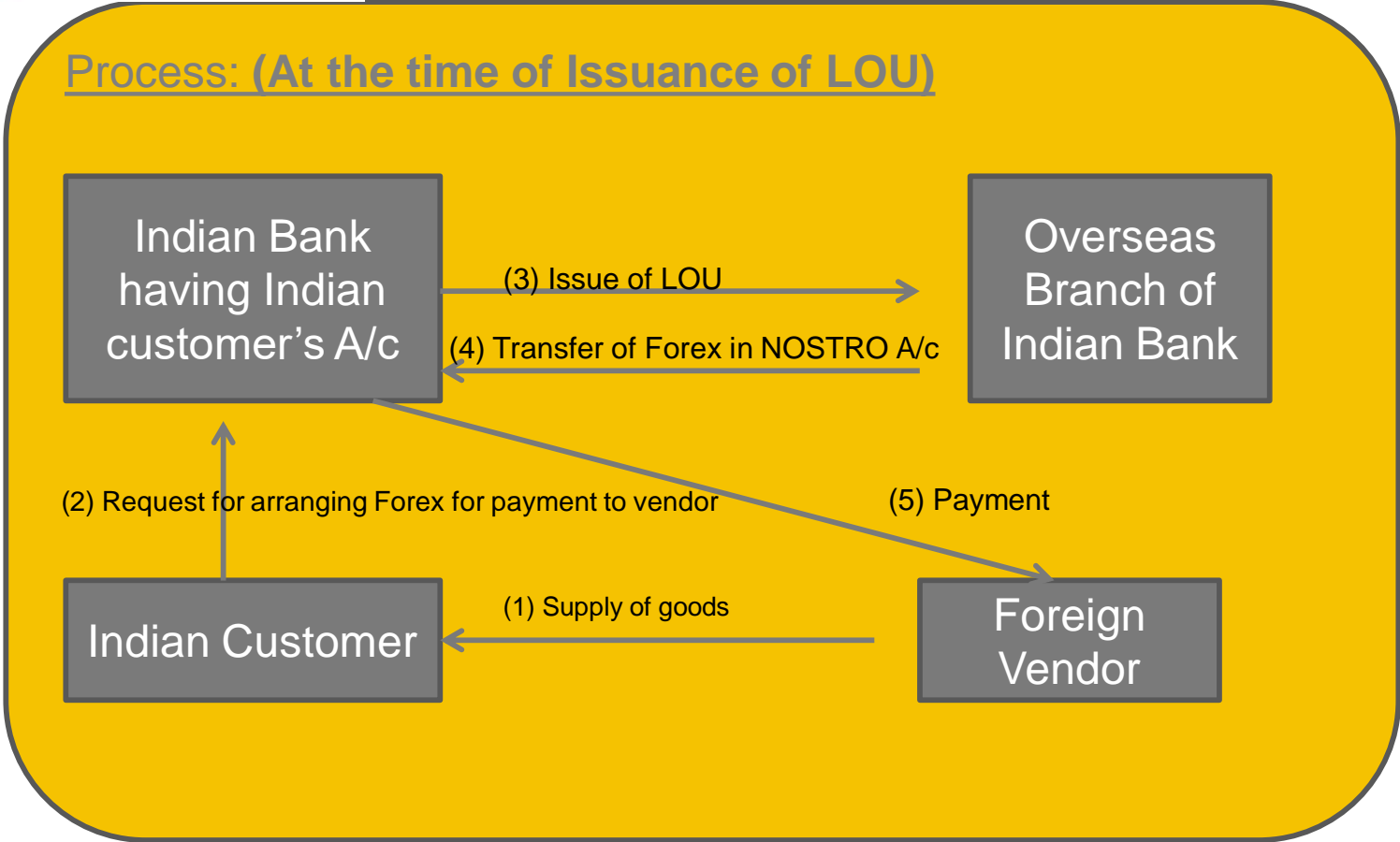
- A - Customer of an Indian Bank
- B- An Indian Bank which is issuing LOU at the request of the customer
- C- Overseas supplier of the customer
- D- A Foreign Bank or overseas branch of an Indian Bank which is releasing funds on the basis of LOU

Need for LOU :

Availability of cheaper foreign funds to the customer

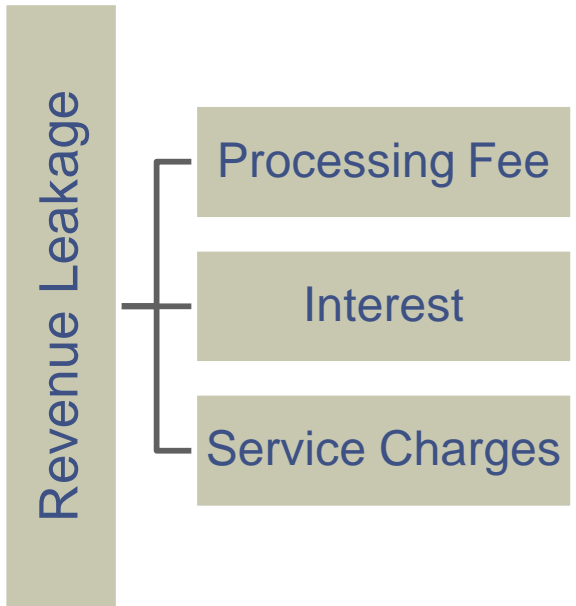


Letter of undertaking
Banned w.e.f March 13, 2018



REVENUE LEAKAGE EXERCISE





Processing Fee:

- Non charging of Processing fee
- Non Charging of Processing fee for broken period
- Non Charging of Processing fee on non fund based limits

Service Charges:

- Non charging of commitment charges
- Non Charging of annual lead bank charges
- Bank Guarantee Commission : Improper classification of Bank Guarantee, Non charging of commission in subsequent years when the same to be charged on annual basis.

Interest:

- Non Charging of interest in the account
- Wrong periodicity – Interest charged on quarterly instead of monthly basis.
- Reversal of penal interest for non renewal due to back dated history change
- Loan against FDR- Increase in rate of interest of FDR without corresponding change in the rate of interest of the Loan account
- Loan against FDR- Loan exceeding security value . Balance over security value to be treated as clean loan attracting higher ROI
- Non charging of penal interest for non submission of stock statement, non renewal of account
- Non charging for penal interest for non compliance of terms of sanction like failure to obtain external rating
- Continuation of charging concessional rate of interest/applicable charges even after the lapse of sanction
- Non charging commercial rate of interest from the date of release in export limits where export has not taken place
- Charging of rate of interest lower than applicable rate of interest
- Continuation of charging simple interest instead of compounded interest in case of education loans where repayment has started

SARFAESI



Governed under Securitization and Reconstruction of Financial Assets and enforcement of Security Interest Act 2002 grants significant power to banks to possess the securities of the defaulting borrower and recover the dues. The act is applicable to whole of India.

Applicability on Loans-

- Classified as NPA
- Dues exceeding Rs 1 lac
- In case of consortium loans, Secured Creditors representing at least 60% of the value of outstanding amount agree
- The act is applicable on both movable as well as immovable assets.

WILFUL DEFAULTER

- Defined under RBI CIRCULAR NO CID.BC.22/20.16.003/2015-16 dated July 1, 2015
- Any borrower with sanctioned limit above Rs 25 lacs on the occurrence of following events :
 - 1) Default in repayment of dues even when it has the capacity to honour the obligations
 - 2) Diversion of funds
 - 3) Siphoned off the funds
 - 4) Removal of movable or immovable property without the knowledge of the Bank

Diversion of funds:

- Transfer of funds to subsidiaries / group companies
- Use of short term funds for long term purposes
- Use of funds for purpose other than purpose for which granted
- Routing of funds through other Banks
- Investment in other companies through Shares/debt instruments

Siphoning of Funds:

Utilization of funds for purpose unrelated to operations of the borrower

Consequence of Wilful Default:

- No further lending by any Bank/Financial Institution
- Legal process to recover due start immediately
- Bank get the power to change the management
- Barred by SEBI from becoming director in any
- Other listed company



ANY QUESTIONS?



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