

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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**CONTRIBUTIONS TO BOOKS**

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

**CONFERENCE PAPERS**

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19-22 June.

**UNPUBLISHED DISSERTATIONS AND THESES**

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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**LOANS AND ADVANCES OF COMMERCIAL BANKS: A CASE STUDY ON JANATA BANK LIMITED****FARJANA SALAM****LECTURER****DEPARTMENT OF BUSINESS ADMINISTRATION  
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MOHAMMADPUR****MD. HALIMUZZAMAN****LECTURER****DEPARTMENT OF BUSINESS ADMINISTRATION  
AMERICA BANGLADESH UNIVERSITY  
DHAKA****ABSTRACT**

*Janata Bank Limited welcomes you to explore the world of progressive Banking in Bangladesh. It is a state owned commercial bank and is catering the need of the mass business people. It was corporatized on 15<sup>th</sup> November 2007. The mission of the bank is to actively participate in the socio- economic development of the nation by operating a commercially sound banking organization, providing credit to viable borrowers, efficiently delivered and competitively priced, simultaneously protecting depositor's funds and providing a satisfactory return on equity to the owners. The health and efficiency of the financial sector are crucial to economic growth. It is the system by which a country's most profitable and efficient projects are systematically and continuously founded, and thus it is the mechanism which ensures that resources are directed to the most productive sources of future growth. The financial system not only transfers funds from savers to investors: it must be able to select projects which will yield the highest returns, accumulate sufficient quantities of capital to fund the range of investment projects across economic activities, account for price risks across assets, monitor performance, and enforce contracts. The exit question is particularly difficult in the financial sector although in Bangladesh this is a pervasive problem in the economy.*

**KEYWORDS**

Commercial banks, economic development, economic growth, national interest social-economic development.

**1. PRELUDE**

**B**anks are the life-blood of modern economy. Banks are established to earn profit and help economic and financial activities to help economic development of a country. In such a context, the main business of Banking is to take deposits from customers and sanction credit to the borrowers. Thus, the Banks act as financial intermediaries. However, the present study in attempt to measure the customer service of Janata Bank Ltd., therefore to determine the limit of how efficiently and how effectively the customers are served by the Janata Bank officials and staffs. It will also be aimed at to suggest some recommendations in order to improve the existing customer service of Janata Bank. All kinds of Bank are generally supposed to be established to earn profit and help economic. Banks are the most important functionary of financial system of a country and Janata Bank Limited is one of them. It plays a dynamic role in the economic development of a nation through of savings and accumulation of credit to industrial sectors. It diverts and employs the funds in such avenues which are aimed to develop a country's economy and adds to national wealth.

**2. STATEMENT OF THE PROBLEM**

The main objective of Janata Bank Limited is to accelerate the set up of new projects and balancing, modernization, replacement, and expansion of existing units and financing in profitable concern. There have however, been large dues over of loans & interest. With the increased need of time banks plays a vital role in case of overall development of the civilization. This system includes account opening, cash receipt and payment, completing the clearing procedure, appraisal and sanctioning of various types of loans, completing the foreign exchange relating activities and maintenance of banks accounts. In this regard, the effort of this study to analyze the loans and advance of Janata Bank Ltd.

**3. OBJECTIVES OF THE STUDY**

The study is an attempt to fulfill the following objectives:

1. To develop skill on the banking sector.
2. To know the money and credit policy of Janata Bank Ltd.
3. To take ideas about loan and advances of Janata Bank Ltd.
4. To find the various rates of loans of Janata Bank Ltd.

#### 4. RATIONALE OF THE STUDY

Loans and Advances of Commercial Banks play an important role in any national economy or overall economy worldwide. Through these loans we can invest our capital. But smooth source of capital mainly come from central and commercial bank that's why study about loans and process of advances are very important. Different departments of a Bank perform different activities. The main part covers the operation scenario of a branch of Janata Bank Ltd. In this study it covers loan and advances facilities of Janata Bank Ltd.

#### 5. LIMITATIONS OF THE STUDY

The major difficulties the researchers have faced are as follows

- Usually company is not willing to provide their actual data of financial statement.
- JBL as a commercial bank they are very busy and they could not able to give me enough time for discussion about various topics.
- Personal barriers like inability to understand some official terms, office decorum etc. creates a few problems to me.
- Finally, the lack of the depth of my knowledge and the analytical capacity for writing such report is also a shortcoming of this study.

#### 6. REVIEW OF RELATED LITERATURE

In this study an attempted has been made to focus on different studies in the banking sector:

**Cookson, F (1989)** in his seminar paper "Productivity in The Banking Industries In Bangladesh" mentioned that "The output of a bank is to divided into three components i.e. deposit service, loan service and other financial services for which a fee is charged.

**Bahar, M. H. (1989)** in his seminar paper named "An Evaluation of banks in Bangladesh: An Exploratory Approach" mentioned that productivity should be judged from quantitative as well as qualitative aspects of performance of different banks.

**Lewis (1989)** stated that in the financial services industry, the marketing key is now "customer service". In brief, good customer service is the key to a successful organization and customer retention.

**Ganesh, (1979)** in his paper on the system of profit monitoring in banks emphasized that the effectiveness of monitoring system would depend upon profit plan, identification of profit centers, setting of standards for comparison and a proper management information system.

**Kulkarni, (1979)**, in his study on departmental responsibility and profitability of banks stated that while considering banks' costs and profit, social benefits arising out of bank' operations cannot be ignored.

**Shah, (1978)**, in his paper "Banks Profitability: The real Issues", concluded that profitability cannot and will not improve merely by increasing the margin between lending and borrowing rates.

**Varde and Singh, (1983)** of National Institute of Bank Management conducted a number of studies on the profitability of commercial banks and have recently complied them in a short book titled 'Profitability of Commercial Banks'.

**Zahir, (1980)** advocated transfer pricing as one of the important methods for evaluating branch level performance of commercial banks. The study recommended the concept of opportunity cost for determining the transfer price for branches..

#### 7. METHODOLOGY OF THE STUDY

In the present study, methodology is taken to indicate the underlying principles and methods or organizing and the systems or inquiry procedure leading to completion of the study. This chapter deals with various methodological issues relating to the study like study of various books, web site of JBL, Credit Risk Grading Policies of JBL, JBL General Banking Policy Book, JBL Foreign-Exchange Banking policy guideline and then made a qualitative and little quantitative research applications.

For formulating the study the two main type's data are collected:

#### 8. SOURCES OF DATA

##### PRIMARY DATA

This type of data is collect from Interview, Observation, and Work with them.

##### SECONDARY DATA

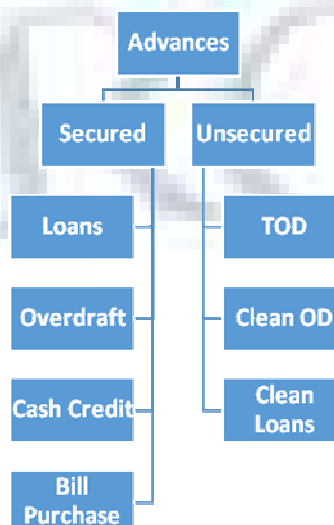
This type of data are collect from Banks papers, Magazine, Booklets, Hand note , Annual Report, Prospectus, Other related researcher reports.

#### 9. JBL'S LOANS & ADVANCES

The granting of loans and advances is one of the most important functions of a bank and the test of a bank's strength depends considerably on the quality of its advances and the proportion they bear to the total deposit.

##### 9.1 TYPES OF LOAN

THE LOANS AND ADVANCES ARE DIVIDED INTO THE FOLLOWING SEGMENTS:



##### 9.2 SECURED ADVANCE

**LOANS:** Advance made in a lump sum repayable either on fixed installment basis or in lump sum having no subsequent debit except by way of interest, incidental charges, etc is called a loan. After creation of loan, there will be only repayment by borrower.



**OVERDRAFT:** Advance in the form of overdraft is always allowed on a current account operated upon by cheques. The customer may be sanctioned a certain limit within which, he can overdraw his current account within a stipulated period. Interest is calculated and charged only on the actual debit balances on daily product basis.

**CASH CREDIT:** Cash credit is a form of advance is a separate account by itself and is maintained in separate ledger. It is operated upon like an overdraft account. The borrower may operate the account within stipulated limit as & when required. Cash credit is an active & running account to which deposit and withdrawals may be made frequently. Cash credit is generally given to traders, industrialists for meeting their working capital requirements.

**BILL PURCHASE:** Janata Bank Ltd. normally purchase demand bills of exchange which are called drafts accompanied by documents or title to goods such as bill of lading, railway or truck receipt. The purchase of bills of exchange drawn at an issuance i.e. for a certain period maturing on a future date and not payable on demand or sight is termed as discounting a bill and the charge recovered by bank for this is called "Discount". This is not very common in our country and is normally limited with the discount of foreign bills; inland bills are rarely discounted of an organized bill market.

### 9.3 UNSECURED ADVANCE

- T.O.D.
- Clean OD
- Clean Loans

## 10. LIMIT APPLICATION AND SANCTION: OF LOAN

- Interview with proposed borrower.
- Preparation of sanction advices.
- Statement of account, credit report of borrower, confidential opinion from others banks.
- Forwarding of proposal.
- Approval of limit.
- Post sanctions formatives.
- Documentation.
- Disbursement of advance.

## 11. ADVANCES ALLOWED AGAINST THE FOLLOWING SECURITIES

- Advance against fixed or term deposits.
- Advance against shares.
- Advance against pratirakhya sanchaya patra.
- Advance against life insurance policies.
- Advance against ICB unit certificate.
- Advance SOD against work order.
- Advance against guarantee.
- Advance against hypothecation of goods.
- Advance against pledge of goods.
- Advance against mortgage of immovable property.
- Inland bills purchased.
- Letter of credit.
- Advance against import bills.
- Export cash credit.
- Back to back letter of credit.
- Packing credit.

## 12. MAINTENANCE OF VARIOUS LEDGERS, REGISTERS AND PREPARATION OF RETURNS

- Maintenance of loan, SOD, cash ledgers, confidential limit stock register, safe in –safe out register, due date diary, LIM and IBP register, stock of D.P. register, godown, inspection register stock card, stock report, debit balance confirmation etc.
- Calculation of drawing power, working capital, internal rate of return, pay back period, capital recovery factor.
- Calculation of product of interest on debit balance and passing of the necessary vouchers.
- Preparation and posting of various vouchers in the loan and cash credit ledger, LIM register.
- Balancing of different loan ledger.

## 13. PRINCIPLES OF SOUND LENDING

The principles of sound lending may, therefore be summarized on safety, liquidity, purpose, profitability, security, dispersal/spread and national interest.

**A. SAFETY:** Safety first is the guiding principle of a shrewd bank. Advances should be expected to come back in the normal course, i.e. the bank may not have to resort to legal action or to sell the securities to liquidate the advances.

**B. PURPOSE:** The requirement of the borrower may be free from all risk but if the funds borrowed are employed for unproductive purpose like marriage ceremony, pleasure trip etc or speculative activities, the repayment in the normal course will become uncertain.

**C. PROFITABILITY:** Banking is essentially a business which aims at earning a good profit. The working funds of a bank are collected mainly by means of deposits from the public and interest has to be paid on these deposits. The bank has also to meet their establishment charge and other expenses.

**D. LIQUIDITY:** By liquidity it means the availability of funds on short notice. The liquidity of an advance its repayment on demand on due date or after a short notice. The loan must stand fair chances of repayment according to the repayment schedule.

**E. SECURITY:** The security offered for an advance is insurance to all back upon in case of need. A banker would not normally like to recover the advance from the sale of the security. They would prefer an advance to come back from the normal source.

**F. DISPERSAL /SPREAD:** The advances should be as broad-based as possible and must be in keeping with the deposit structure. The advance must not be in one particular direction industry or to one particular industry; because any adversity faced by that particular industry will have serious repercussions on the bank.

**G. NATIONAL INTEREST:** Banking industry has significant role to play in the economic of a country. The banker would lend if the purpose of credit to priority sector in the larger national interest.

**H. BUSINESS ETHICS:** Banker should consider the legal obligation of loan. Banker should not invest their lending fund in law less sectors. i.e. drug trade, to invest sexual institution or smuggling business etc.

**I. RECOVERY POSSIBILITY:** Recovery possibility is an important factor for lending loan fund. When the bankers fully ensure that the lenders have enough capacity to repay the loan only then the bankers should sanction the loan among its customer.

## 14. SELECTION OF BORROWER

If the selection of borrower is correct, as borrower's character, capital and capacity or of reliability, resourceful and, responsibility, the bank can easily get return from the lending. Moreover, monitoring made easier for the banker. Janata Bank follows the given procedures:

**A. STUDYING THE PAST TRACK RECORD:** After getting an application for any loan, the credit officer studies the pas record of the applicant. The study includes the following:

1. Account balances and past transactions
2. Credit report from other banks
3. Information of the industry by studying market feasibility
4. Financial statement of the concern

**B. REPORT FROM CREDIT INFORMATION BUREAU OF BANGLADESH BANK (CIB):** This report is provided by CIB of Bangladesh Bank, which contains all types of information related to the borrower. This report is needed for only when the amount of loan is more than Tk.10 Lac.

**C. BORROWER ANALYSIS:** Borrower Analysis is done from the angle of 3C (Character, Capital, Capacity) or 3R (Reliability, Resourcefulness, Responsibility). The human skill, conceptual skill and operational skill is qualitatively analyzed.

**D. BUSINESS ANALYSIS:** Business Analysis is done from two angles, which are terms and conditions and collateral securities.

**E. LENDING AUTHORITY:** All approval of credit facilities must be conveyed under dual signature. Ideally both the signatories must have the required lending authority. Two lending officer of the required lending authority are not available, one of the signatory must have the lending authority.

## 15. SECURITY OF LOAN

### A. PRIMARY SECURITY

Primary security means the security offered by the borrower himself as cover for the loan. It refers to the asset, which has been bought with the help of the bank.

### B. COLLATERAL SECURITY

Collateral security means all other additional security other than the primary securities such as land/ building, etc are considered as collateral securities which may be offered/ deposited by the borrower or, by any other third party.

## 16. DOCUMENTS DEPENDING UPON ADVANCE

Types of Loan	Charge Documents	Other Documents
CC	DP Note, L/Disbursement, L/Arrangement, L/Guarantee, Hypothecation of Goods, Revival Letter, L/Continuity Pledge of Goods,	L/Declaration, L/Authority to debit A/C, L/Undertaking, Memorandum of Deposit of Title Deed (If land), Insurance copy,
Loan General	DP Note, L/Disbursement, L/Arrangement, L/Guarantee,	L/Declaration

Rural Credit, Specialized Credit, Micro Credit and Industrial Credit in Janata Bank Limited.

### 16.1. RURAL CREDIT

Programs in the context, policy makers of the bank have desires a framework for the unskilled such as farmers, landless, laborers, woman, unemployed, educated and vocational trained youths, weavers and others rural dwellers and artisans have been taken under the umbrella of the institution credit of janata bank. Under the rural credit programmes the bank has been financing seasonal crop production like paddy, jute, potato, wheat, mustered, pulses, maize etc to the farmers. Loans are also given for the installation of irrigation equipments, horticulture, nursery and forestation, flower culture, seed production and other desired production.

### 16.2 MAJOR AGRICULTURAL/ RURAL CREDIT PROGRAMS

1.	Special Agricultural Credit program/ short term crop production loan
2.	Horticulture development (cultivation of banana, betel leaf, pineapple etc.)
3.	Fish/ Shrimp production:- A: Fishery loan program. B: Credit program for fish cultivator selected by Directorate of Fisheries. C: Shrimp culture credit program.
4.	Irrigation and agricultural equipment

### 16.3. SPECIAL CREDIT PROGRAMMES

Janata Bank Limited offers credit to almost all sectors of commercial activities having productive purpose. Credit facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc.

### 16.4. SOME SPECIAL CREDIT PROGRAMMES ARE GIVEN BELOW

- Woman Entrepreneur Development credit programme.
- High yielding, variety development cow rearing.
- Flowri culture and marketing.
- Intensive maize cultivation programme.
- Physically disable people credit programme.
- Credits for forestry and horticulture nursery.
- Bangladesh-German seed development programme.
- Credit programmers' for employee.
- Credit for goat farming.
- Credit programme for fish cultivator selected by fisheries directorate.
- Cyber café loan.

**16.5. MICRO CREDIT**

Micro credits are given to the following sectors:

- Small Farmers and Landless Laborers Development (SFDP).
- Swanirvar credit scheme.
- Co-operative credit for rural poor.
- Storage-Cum –credit programme.
- Diversified credit programme.
- Ghoroa/ family based micro credit programme.
- Marginal and small farmer systems crop intensification programme.
- Lending through NGO.

**17. CREDIT RISK MANAGEMENT OF JBL**

Credit risk is the risk to a financial institution’s earning and capital when an obligor or a third party does not comply with the terms and conditions of the loan and fail to meet its obligations to the bank. The risk assessment procedures include borrower risk analysis, financial analysis, industrial appraisal, historical performance of the customer, security against credit facility etc. The assessment initiated from the branch level, counter checking & cross checking done by the controlling office in accordance with business and sanctioning power.

**17.1 CREDIT RATING REPORT OF JBL**

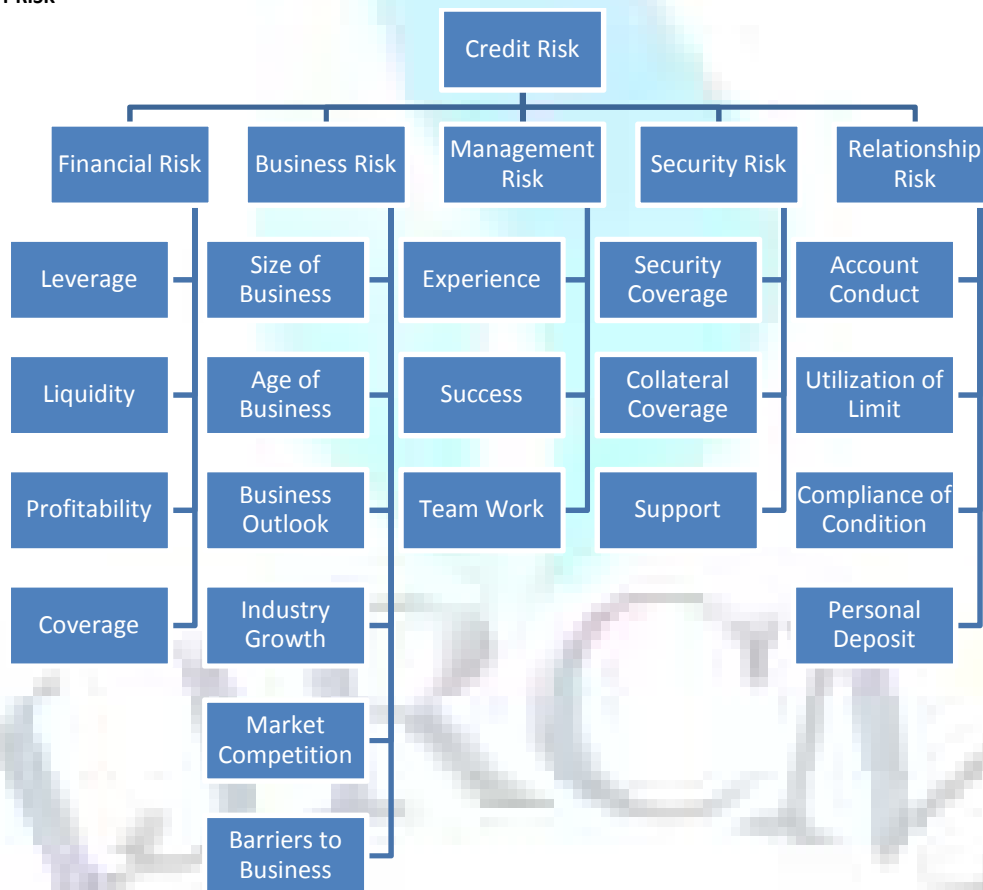
Bangladesh Bank has made mandatory from January 2007 for all Banks to have themselves credit rated by a credit rating agency vide BRPD circular No. 6 of 5 July 2006. Janata Bank has appointed credit rating Agency of Bangladesh Ltd. (CRAB) to conduct credit Rating of the bank. They have already completed the rating on the basis of activities ended on 31st December, 2009 with the rating status mentioned below:

	Long Term	Short Term
Current Rating 2009	BBB1	ST - 2
Previous Rating 2008	BBB1	ST - 3

Source Annual Report2010.

- BBB1= Indicates adequate capacity to meet their financial commitments.
- ST-3= Indicates average capacity for timely repayment of obligation.
- ST-1= Represents the highest capacity for timely repayment of obligation.

**17.2 CHART OF CREDIT RISK**



**18. FINDINGS OF THE STUDY**

- Janata Bank Limited has already achieved a high growth rate accompanied by an impressive profit growth rate in 2010. The number of deposits and the loans and advances are also increasing rapidly.
- . The bank has already shown a tremendous growth in the profits and deposits sector.
- Different types of retail lending products have great appeal to the people. So a wide variety of retail lending products has a very large and easily pregnable market.
- In order to reduce the business risk, Janata Bank Limited has to expand their business portfolio. The management can consider options of starting merchant banking or diversify into leasing and insurance sector.
- The recovery of capital in small business loan section is threatened.

## 19. RECOMMENDATION

In the light of research some recommendations are presented for the developing proper loan management of Janata Bank Limited:

- More autonomy should be given to the branch level executives in sanctioning loan, and they should be held responsible for them and reward for good performance.
- It is necessary to appoint sufficient manpower.
- Specific rules should be followed strictly for selecting client.
- Loan processing formalities should be simplified and unnecessary delay should avoid.
- Open the branch in rural area.

## 20. CONCLUSION

Banks always contribute towards the economic development of a country. Compared with other Banks Janata Bank Ltd is contributing more by investing most of its funds in fruitful projects leading to increase in production of the country. It is obvious that right channel of Banking establish a successful network over the country and increases resources; will be able to play a considerable role in the portfolio of development in developing country like ours. Janata Bank Ltd playing its leading role in socio-economic development of the country. Since inception, Janata Bank Ltd has been rendering its Banking services with the needs of the nation to cope with the demands of people in the country. By doing many other works for state & society, Janata Bank Ltd has emerged as the pioneer of playing key role in the country.

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## WEBSITE

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