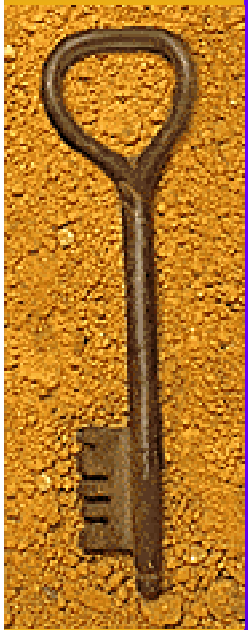
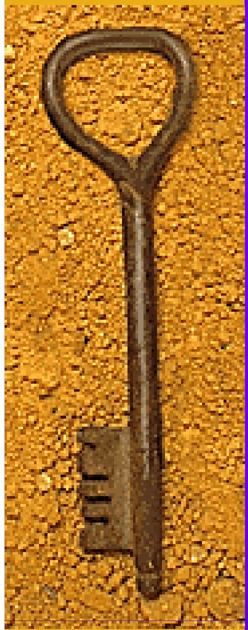


Introduction of course

Commercial Bank Management II

Prepared by Dinh, T.N. Huy

2012

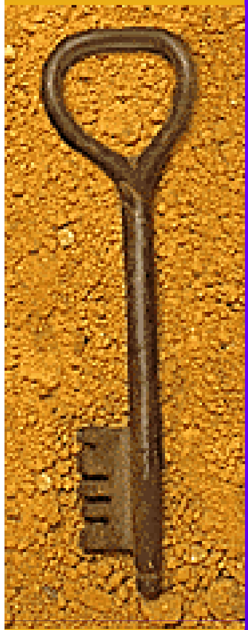


Chapter 8

The Operational processes and Credit Decision Making at CBs

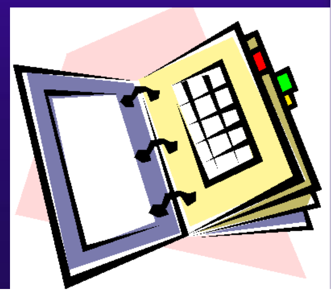
Prepared by Dinh, T.N. Huy

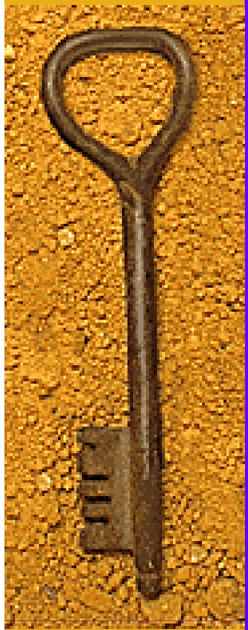
Aug 2012



Agenda

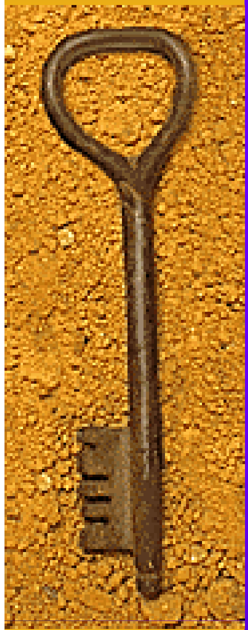
1. Overview
2. Basic Concepts
3. Basics of Credit Decision making activity
4. Roles and functions of departments
5. Simulation of credit decision making
6. Difference among risk management, credit administration and credit decision making
7. International customs in credit decision making
8. Summary





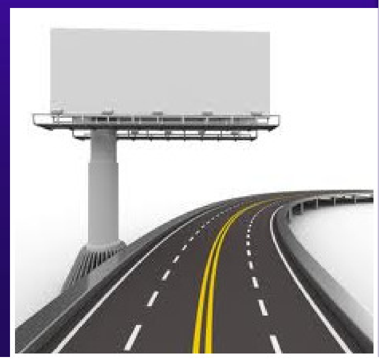
Introduction

- Credit risks and bad debts always appear in activities of commercial banks.
- Banks do business based on reputation or credit of both itself and its clients.
- Therefore, credit judgment or credit decision making is quite important at banks.



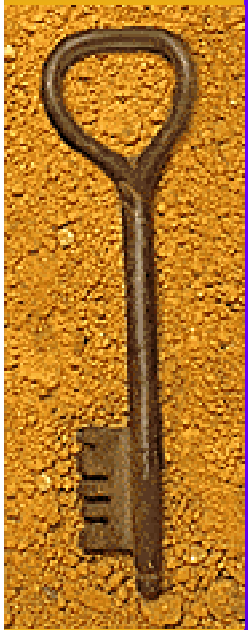
Overview

- Commercial banks have different business models and have to compete with one another in the market, local or international. Therefore, management team has to understand factors affecting management principles.



Basic Concepts

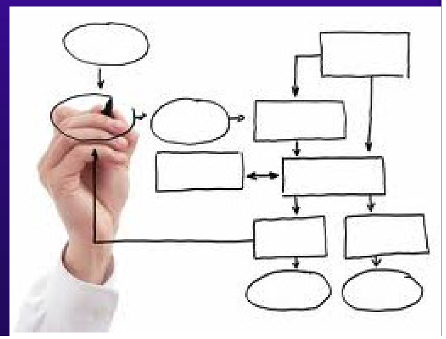
- Bank operational processes:
- A system designed to process day-to-day banking transactions and ensure the integrity of the transactional data
- Include core business/banking processes which create primary value stream.

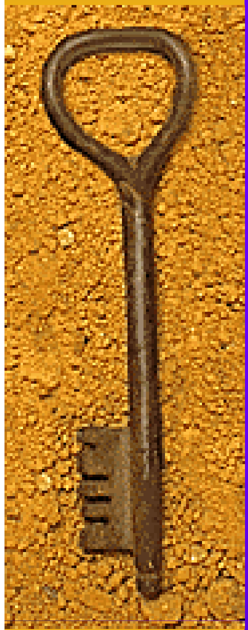


Basic concepts

- Credit processes of a bank:
- They are structured and related activities and tasks that produce the credit or lending services to customers

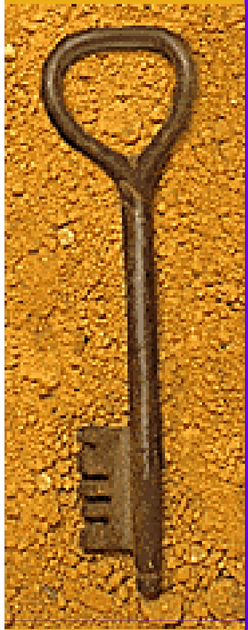
\+ They can be shown either in a flowchart or a process matrix





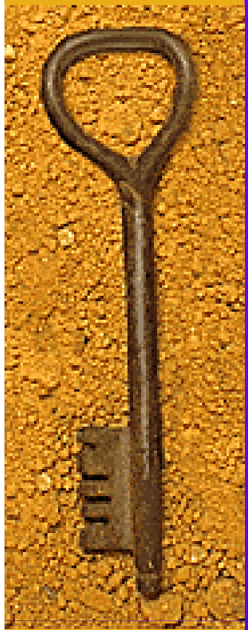
Basic concepts

- Credit decision making of a bank:
- It is a mental process to produce the output that is the opinion about whether or not the bank should finance the project or business.



Basic Concepts

- Bank supporting processes:
- Together with banks' management and operational processes, these are related activities in accounting, recruitment and technical/IT support.



Why We Need Credit Decision making

- The financial crisis 2007-2009 disclosed many problems in management and financial management in many banks and financial institutions
- The failure of management is one reason which leads to the financial crisis

Factors affecting Credit decision making

- Financial information of customers:

+ Liquidity, Operation, capital structure,…

- Non-financial information

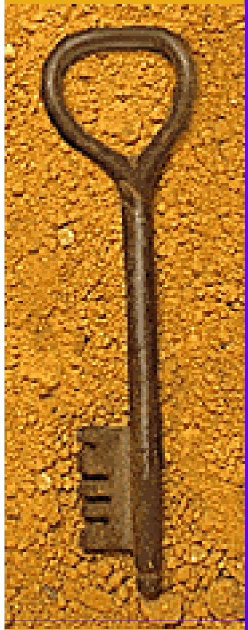
+ Risks, Legal documents, brand name,…

Factors affecting Credit decision making

- Grading lending customers:

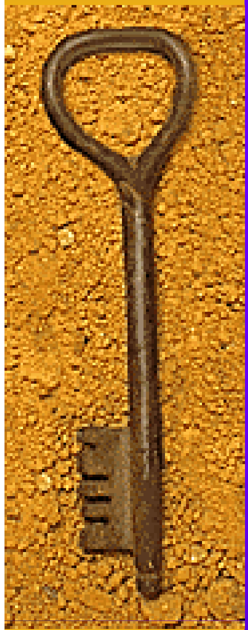
+ relationship b.t bank-customer

- The available funds at banks and credit policies in each period



Organization of credit committee

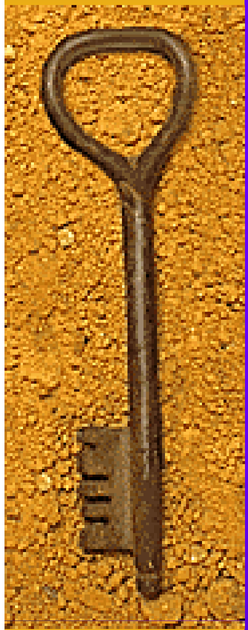
- Legal department
- Credit department
- Director
- Credit Appraisal department (if possible)
- Credit supporting department
- Credit administration department



Roles and Functions of departments

- Legal officer/department:

+ Support the lending process
+ Consult legal matters on loans
+ Join in credit committee
+ Give ideas on legal matters



Roles and Functions of departments

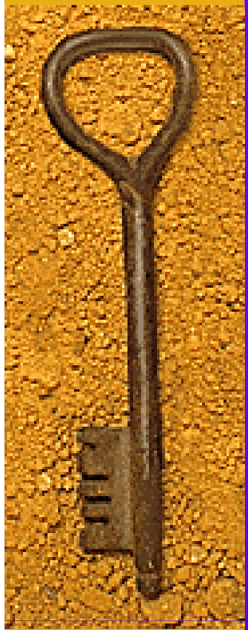
- Credit officer/department:

+ Guide customers on loan procedures
+ Check loan application
+ Write a summary of appraising loan documents
+ Release bank transfer (loan amount)

Roles and Functions of departments

- Credit supporting officer/department:

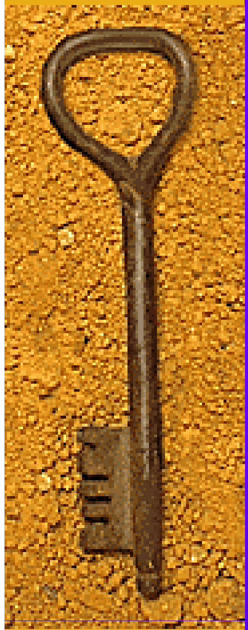
+ Give comments on types of collateral
+ Join in credit committee
+ Supporting information



Simulation of credit decision making

Summary on the 1st loan application:

- Customer: Rubber Co.
- Total capital: 1.985 m VND
- Required loan amount: 600 m VND



Simulation of credit decision making

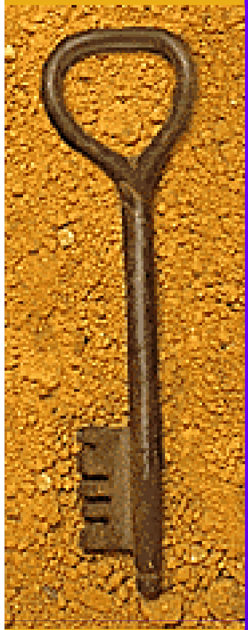
- Guidelines for students:

1. Write a summary of the loan application and loan evaluation form
2. Write suggestion for this loan
3. Present in front of the credit committee

Simulation of credit decision making

- Textbook or material used:

1. Mô phỏng thẩm định tín dụng ngân hàng

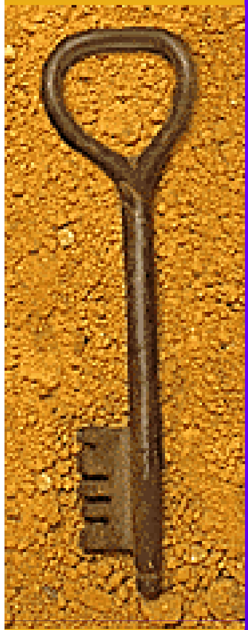


Difference among credit risk, credit admin and credit decision making

- Credit admin officer will manage all credit documents and the due dates for credit lines
- Credit risk officer will identify credit risks and categorize risky lending customers
- Credit appraisal officer will propose a loan approval or rejection

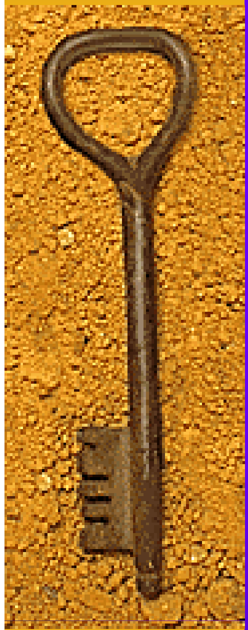
Difference among credit risk, credit admin and credit decision making

- Credit /admin officers might contact customers more often, handle customer inquiries and enhance good relationships
- Credit risk/ appraisal officers might not communicate customers directly



International customs in credit decision making

- There is a minimum loan amount so that no customers can borrow just a little amount of money
- There might be a maximum age for lending customers (corporate or individuals)
- There might be other fees associated with interest rates (arrangement fees,…)



International customs in credit decision making

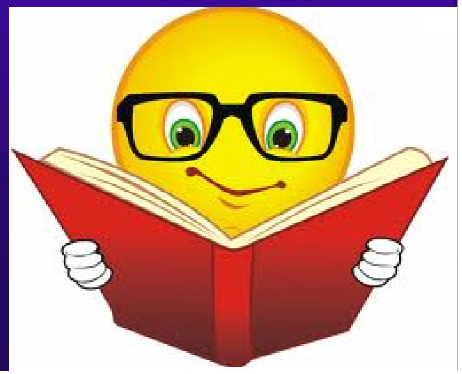
- Additionally, the banks have to lend customers and meet conditions of Basel III, that is:

+ Banks are required to keep 6% Tier I capital (increasing from 4% in Basel II) of risk-weighted assets. Tier I capital includes retained earnings and common shares.

+ Liquidity coverage ration requires banks to keep high-liquidity assets for covering its net cash outflows in 30 days.

Summary

- Credit is among major operational processes at CBs.
- Credit decision making are determined by a credit committee



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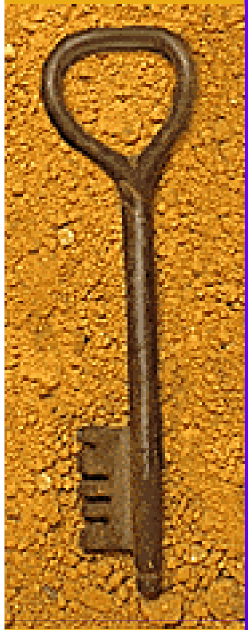
Multiple Choice Question

1. Non-financial information is not important for considering loan application:

a. True

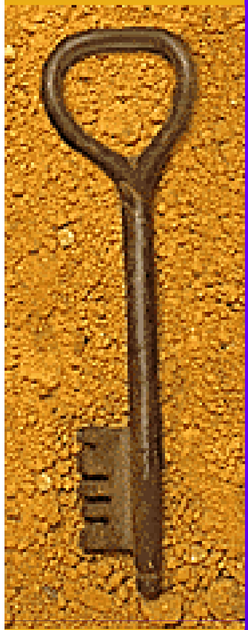
b. False



Multiple Choice Question

2. Which is not loan document:

a. Loan application
b. Collateral documents
c. Financial reports
d. None
e. All



MCQ-Answers

1. B
2. D

Terminologies

- Credit committee: Ủy ban tín dụng, HĐ tín dụng
- Credit admin officer: NV quản trị khoản vay