🚀 CREDIT CONTROL MONITORING 🏦📊

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🔍 Why Credit Monitoring is Essential?

Even after a thorough **credit appraisal, documentation & collateral security**, the risk of default **increases over time** due to the **dynamic nature of the business environment**.

✅ **Ensure Funds are Used for Intended Purpose** – Detect any unauthorized use of bank funds. 🔎

✅ **Track Business Performance** – Identify any deterioration in financial health early. 📉

✅ **Take Timely Actions** – If deterioration persists, initiate recovery or legal actions before further losses. ⚠️

📌 Tools for Credit Monitoring (Loan Review Mechanism - LRM) 🛠️

1 Monitoring Account Conduct 📊

💡 **Bank account transactions reveal financial health & fund usage.**

🚨 **Red Flags:**

🔴 Frequent Overdrawings

🔴 Bounced Cheques/Bills

🔴 Delays in Stock Statements

🔴 Low Turnover in Account

🔴 Routing Transactions via Other Banks

🔴 Non-Payment of Loan Interest/EMIs

🔴 LC Devolvement/Bank Guarantee Invocation

✔ **Bank's Actions:**

✅ More frequent **stock inspections**

✅ **Ensure sales proceeds** are routed through the borrower's account

✅ Convert **hypothecation to pledge** for better control over stocks

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2 Stock & Receivables Statements 📄

📝 Borrowers submit **monthly stock & receivables** statements, which help banks calculate **Drawing Power (DP)**.

🚨 **Key Risk Indicators:**

🔴 **Old Non-Moving Stock Accumulation**

🔴 **Receivables Above 6 Months** (Should be moved to Non-Current Assets)

✔ **Bank's Actions:**

✅ **Cross-check** stock records during **field inspections**

✅ **Exclude old receivables** from DP calculations to prevent over-financing

3 Stock & Receivables Audit 🏢

📌 Used in **medium & large accounts** where physical inspections aren't feasible.

📌 **Stock & receivables verification ensures borrower's financial statements are accurate.**

✔ **Bank's Actions:**

✅ Conduct independent **stock & receivables audit**

✅ Identify discrepancies between **borrower's claims & actual inventory/sales**

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4 Analysis of Financial Statements & Auditor's Reports 📉

📊 **Annual financial statements help assess:**

✅ **Use & diversion of funds**

✅ **Company's financial health**

✅ **Profitability & debt realization**

✔ **Bank's Actions:**

✅ Mandatory **financial analysis for working capital renewal**

✅ Investigate sudden **decline in revenue/profit**

5 Periodic Visits & Inspections 🚶

🔍 **Why it's important?**

✅ Helps banks **assess real-time business activity**

✅ Ensures **assets charged to the bank are still available**

✅ Verifies that **bank's charge over assets is prominently displayed**

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6 Interactions with Key Stakeholders 👥

✅ **Talking to Select Creditors & Debtors** provides insight into business reputation & payment patterns.

✔ **Bank's Actions:**

✅ Gather market intelligence from **suppliers & customers**

✅ **Monitor payment delays & disputes**

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7 Scrutiny of Borrower's Books of Accounts 📖

📊 **Regular review of books helps in detecting:**

🔴 **Fake transactions**

🔴 **Artificially inflated revenues**

🔴 **Unrecorded liabilities**

✔ **Bank's Actions:**

✅ Ensure borrower **doesn't maintain undisclosed accounts in other**

banks

✅ Check for **manipulated financial reporting**

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8 Market Reports & Industry Trends 📢

✅ **Market reports from industry associations & credit rating agencies help banks assess borrower's sector performance.**

✔ **Bank's Actions:**

✅ Compare borrower's performance **against industry benchmarks**

✅ Monitor **sector-specific risks (e.g., declining demand in an industry)**

9 Appointing Bank's Nominee on Company's Board 🏛

📌 *In **exceptional cases or large loans**, banks may **appoint a nominee director** to oversee financial decisions.*

✔ **Bank's Actions:**

✅ Keep **direct control** over borrower's financial decisions

✅ Prevent **mismanagement & fund diversion**

🔟 Credit Audit 🏦

📌 **Credit Audit** examines **compliance with bank's policies & sanction conditions**.

✔ **Bank's Actions:**

✅ **Detect policy breaches early**

✅ Ensure proper **post-sanction monitoring**

📊 Summary: Tools for Credit Monitoring 🔍

Monitoring Tool 🔍	Purpose 🎯	Bank's Action ✅
Account Conduct Monitoring 🏦	Track fund utilization & borrower's financial behavior	Frequent inspections & limit control
Stock & Receivables Reports 📄	Calculate Drawing Power (DP) & detect financial stress	Exclude non-moving stocks & old receivables
Stock & Receivables Audit 🏢	Cross-check inventory & sales records	Conduct independent audit
Financial Statement Analysis 📉	Assess financial health & fund utilization	Investigate revenue/profit declines
Periodic Site Visits 🚶	Verify physical assets & business activity	Spot-check stock & assets
Stakeholder Interaction 👥	Understand business reputation	Gather market insights
Scrutiny of Books of Accounts 📖	Detect false reporting	Ensure no undisclosed accounts

Market Reports & Industry Trends 📢	Compare business performance with industry	Monitor sector risks
Appointing Nominee Director 🏛	Supervise financial decisions	Prevent fund diversion
Credit Audit 🏦	Ensure compliance with lending policies	Identify policy breaches

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💡 **Real-Life Example: Credit Monitoring in Action** 🏦

📌 **Case: Fraud Detection through LRM** 🚨

A major Indian **PSU Bank** financed ₹50 Cr to a **textile firm** for working capital. However, within **6 months**, red flags emerged:

🔴 **Delayed stock statements** 📄

🔴 **High cheque bounce rate** ❌

🔴 **Sudden large withdrawals & low account turnover** 💰

✅ **Bank Actions:**

✔ Conducted **stock audit** – Found **ghost inventory & inflated receivables** 🏢🔍

✔ Scrutinized **books of accounts** – Detected **multiple fake transactions** 🚨

✔ **Credit Audit** initiated – Discovered **funds were diverted to personal accounts** ⚠

💡 **Result?** Loan was **recalled immediately** & assets were **seized before further damage**! 🚔

📢 Conclusion: Why Loan Review Mechanism (LRM) Matters?

🏦 **Early detection of financial stress** prevents loan defaults

📊 **Real-time credit monitoring** ensures loans are used for intended purposes

🛡️ **Proactive banking approach** helps in **reducing NPAs & loan frauds**

🔷 **Banks must adopt a holistic Credit Monitoring approach** using AI, real-time audits & big data analytics for efficient risk management! 🚀

📌 RBI Guidelines on Credit Audit & Risk Management 🔍🏦

🎯 Objectives of Credit Audit 📊

✅ **Enhance Credit Portfolio Quality** – Ensure loans are performing well

✅ **Review Sanction Process & Compliance** – Verify adherence to policies

✅ **Detect Early Warning Signals** 🚨 – Identify accounts at risk of default

✅ **Independent Risk Assessment** 🔎 – Evaluate the effectiveness of credit risk management

✅ **Suggest Corrective Measures** 📉 – Improve credit administration & staff skills

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🏢 Structure of Credit Audit Department 🏦

📌 **Who conducts the audit?**

The **Credit Audit Department** or **Inspection & Audit Department**

📌 **Key Functions:**

📊 **Processing Credit Audit Reports** – Document and analyze findings

📋 **Review & Follow-Up** – Advise departments on corrective measures

📢 **Report to Top Management** – Ensure accountability

📁 **Maintain Credit Database** – Keep records of all audited advances

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🔍 Scope & Coverage of Credit Audit

1 Portfolio Review 📈

🔷 Examine quality of the bank's **credit & investment portfolio**

🔷 **Reduce concentration risk** in specific **sectors** as per RBI prudential norms

🔷 Suggest measures for **improving asset quality**

2 Loan Review 📄

✔ **Review Loan Sanction Process** (including post-sanction compliance)

✔ **Audit all fresh proposals & renewals** within **3-6 months** of sanction

✔ **Focus on large accounts** with limits above a specific threshold

✔ **Random checks (5-10%) on smaller accounts**

✔ **Include sister/group/associate concerns of large accounts**

3 Key Review Action Points 🛠

📌 **Policy & Compliance Verification** – Ensure all loans follow bank & RBI guidelines

📌 **Documentation Check** – Verify if security & legal documents are in place

📌 **Credit Risk Assessment** – Identify potential loan risks

📌 **Account Monitoring** – Examine transaction history & fund usage

📌 **Review Action on Serious Irregularities** – Detect fraud or misuse of funds

📌 **Identify Early Warning Signals** 🚨 – Suggest remedial actions

4 Frequency of Credit Audit ⏳

Risk Category 🚦	Audit Frequency 📅
High-Risk Accounts 🔴	Every 3 months
Medium-Risk Accounts 🟠	Every 6 months
Low-Risk Accounts 🟢	Every 1 year

🛠️ Credit Audit Procedure

✔ **Conducted at the branch level** – On-site review of main operative credit limits

✔ **Reports from other branches collected for assessment**

✔ **No factory/ office visits required**

📜 Legal Audit for Large Loans (₹5 Cr & Above) 🏛️

📢 **RBI Circular (June 7, 2013) mandates:**

✅ **Title Deeds Verification** – Ensure property documents are genuine

✅ **Periodic Legal Audit** – Conduct for loans of **₹5 Cr & above**

✅ **Reverification of Title Deeds** – Check with relevant authorities

✅ **Quarterly Reports to Board** 📑 – Present legal audit status regularly

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📊 Summary: RBI Guidelines on Credit Audit & Risk Management

Aspect 🔍	Objective 🎯	Implementation ✅
Credit Audit 🏦	Improve portfolio quality & risk management	Conduct periodic reviews & report findings
Loan Review 📑	Assess loan sanctions & post-sanction process	Review fresh & renewed loans within **3-6 months**

Portfolio Review 📊	Monitor risk concentration & exposure	Suggest corrective actions to reduce loan defaults
Early Warning Signals 🚨	Identify potential NPAs	Implement risk mitigation strategies
Legal Audit 🏛	Verify **title deeds** for ₹5 Cr+ loans	Conduct periodic legal checks & report quarterly

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💡 **Real-Life Example: Credit Audit in Action** 🚀

📌 **Case: Fraud Detection through Credit Audit** 🏦

Scenario:

A leading **private bank** in India sanctioned a **₹100 Cr loan** to a **real estate company** for a commercial project.

🔴 **Red Flags Noticed in Credit Audit:**

✔ **Property title deeds found to be forged** 🏚

✔ **Huge fund transfers to unrelated accounts** 💰

✔ **Sales projections inflated in financial statements** 📈

✅ **Bank Actions:**

✔ **Stopped further disbursal** & initiated forensic audit 🔍

✔ **Loan recalled immediately** & assets seized 🚔

✔ **Legal proceedings initiated against the company**

💡 **Result?**

🔹 **Saved ₹100 Cr from turning into an NPA**

🔹 **Strengthened due diligence process** for future loans