

CREDIT POLICY

☒ (B) Term Loans – Key Assessment Parameters

☒ Project Viability Checks

Parameter	Purpose	Example
☒ Technical Feasibility	Ensures the project is practically viable.	Large projects need expert consultant review. ✓
☒ Promoter Contribution	Defines minimum equity contribution from promoters.	Debt-equity ratio of 2:1 preferred. ✓
☒ Debt Service Coverage Ratio (DSCR)	Measures ability to repay debt from cash flow.	DSCR should be at least 1.5 for approval. ✓
☒ Infrastructure Projects	Defines sector-specific viability parameters.	Power projects need 30% equity funding. ✓

☒ **Example:**

A bank rejects a power project loan because DSCR is below 1.5 & project lacks sufficient equity funding.

☒ **6. Special Lending Categories**

☒ **(A) Loans to NBFCs**

- NBFC lending rules differ from standard business loans.
- Requires RBI compliance & strong due diligence.
- Assesses asset quality, leverage & profitability of NBFCs.

☒ **Example:**

A bank only lends to NBFCs with an AAA credit rating & at least 20% Tier-1 capital.

☒ **(B) Infrastructure Project Financing**

- Covers roads, power, telecom, ports, water supply, industrial parks.
- Requires long-term project viability assessment.
- Defines maximum debt funding & sector exposure limits.

☒ **Example:**

A bank sets a 60:40 debt-equity ratio limit for private highway projects.

☒ **(C) Lease Finance, LCs & Guarantees**

- LCs & guarantees only issued for genuine trade transactions.
- Ensures compliance with RBI norms.

☒ **Example:**

A bank requires borrowers to have a minimum CIBIL score of 750 for issuing LCs.

☒ **7. Loan Monitoring & Risk Management**

Aspect	Purpose	Example
☒ Fair Practices Code (FPC)	Ensures transparency in loan processing.	Borrowers must receive clear loan terms upfront. ✓

☒ Risk Policy	Defines acceptable risk levels for lending.	Bank caps risk exposure per sector at 20%. ✓
☒ Loan Documentation	Ensures proper legal compliance.	Loans only disbursed after all documentation is verified. ✓
☒ Loan Loss Provisioning	Ensures banks maintain provisions for NPAs.	Higher-risk sectors have increased provisioning. ✓
☒ Credit Scoring & Grading	Assigns risk scores to loan applications.	Loans priced based on borrower risk ratings. ✓
☒ Loan Review & Renewal	Periodic re-evaluation of loans.	Annual review required for high-

		value corporate loans. ✓
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📄 Bank Credit Policy: Priority, Role, and Review 🔍 🏢

🎯 1. Credit Priorities of Banks

✓ Definition:

Credit priorities define the **focus areas of lending** for a bank, aligning with **economic, social, and commercial objectives**.

✓ Why Do Priorities Change?

- ☒ **Liberalization & globalization** – Expansion into new markets.
- ☒ **Tapping business opportunities** – Adapting to emerging industries.
- ☒ **Fulfilling social obligations** – Priority sector lending (agriculture, MSMEs, housing).

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- ☒ **Maintaining market position** – Competing with top banks.

☒ **Example:**

A bank increases loans to renewable energy projects to align with government green energy policies. ✓

☒ **2. Role of Credit Policy in Banks**

☒ **Why Was Credit Policy Introduced?**

Long ago, banks **lacked formal loan policies**. Instead, they used informal guidelines focusing on:

- ✓ **Asset quality maintenance** ☒
- ✓ **Growth & risk-adjusted returns** ☒
- ✓ **Market share expansion** ☒
- ✓ **Priority sector lending & export credit** ☒☒

☒ **Problems with Informal Approach** ☒

✗ High credit risk due to lack of structured policy

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✗ No proactive risk management

✗ Ad-hoc decision-making & inconsistent lending practices

✓ **Solution: Board-approved formal credit policies** ensure:

- **Systematic lending practices** ✓
- **Lower credit risk** ✓
- **Regular risk reviews** ✓

☒ **3. Role of Credit Policy in Risk Management**

Aspect	Role of Credit Policy	Example
☒ Asset Quality	Ensures low NPAs through strict lending standards.	A bank rejects borrowers with CIBIL score <750. ✓

☒ Growth & Profitability	Balances loan growth with profitability & risk.	Higher interest for riskier borrowers to cover potential losses. ✓
☒ Market Positioning	Helps bank compete with top institutions.	Expanding corporate lending to grow market share. ✓
☒ Priority Sector Lending	Ensures compliance with RBI guidelines.	40% of loans allocated to MSMEs & agriculture. ✓

☒ 4. Credit Policy vs. Credit Risk Management

Aspect	Credit Policy ☒	Credit Risk Management ☒
Objective	Sets rules for lending & risk limits.	Identifies & mitigates risk in loans.
Scope	Covers loan types, pricing, exposure limits.	Focuses on borrower risk & portfolio health.

Authority	Approved by Board of Directors.	Managed by Credit Risk Committee.
Review Frequency	Annually , unless regulatory changes occur.	Continuous risk assessment.
Example	Bank caps exposure to real estate at 15%.	Bank reduces exposure to risky industries.

✓ What is MIS?

MIS (Management Information System) tracks loan performance & policy adherence. ☒

✓ Why is Regular Review Important?

- Ensures **compliance with risk guidelines** ✓
- Identifies **violations & takes corrective action** ✓
- Keeps policy **aligned with market conditions** ✓
- Helps **detect & prevent bad loans** ✓

☒ Review Focus Areas

☒ **Credit portfolio performance**

☒ **Profitability vs. risk exposure**

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- ☒ **Adherence to risk estimation & accounting standards**
- ☒ **Regulatory changes (RBI guidelines)**



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