"The Effect of Credit Assessment Process and Credit Evaluation of Loan Proposals for Indian Banks"

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Abstract – In this paper we present about the failure and success of the Banking Industry depends largely on industry's ability to properly evaluate credit risk. Credit Evaluation of any potential credit application has remained a challenge for Banks all over the world till today. The purpose of this paper was to determine the impact of credit assessment process on loan.

Keywords: Banking Industry, Credit Evaluation, Loan

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INTRODUCTION

Credit approval for financial sanctions is a vital component of any evaluation process as it is related to the economy of a country. Before a potential debtor wants to obtain credit, he must be evaluated on certain areas. There are five C's involved in credit evaluation. Credit history is another important factor considered by lenders in their decision to grant and approve credit applications. The credit report is a record of an individual's past borrowing and reimbursing transactions. It also includes information about late payments and bankruptcy. A credit report can be tarnished. A credit score can be at its low. Under these circumstances it is unlikely for you to earn the confidence of the lender for a credit approval. However, if your cash flow is good, there is a possibility of getting the credit approval.

REVIEW OF LITERATURE:

The financial viability of any credit institution depends critically on selecting applicants who have a high probability of repayment and rejecting those who have a high probability of default Ssewagudde (2000). In doing so loan officers in such financial institution is put at risk and the organization as a whole. As a way of scaling down loan, the default problem added a risk premium to the price of the loan to cover loan losses. This risk premium results from the fact that at the time of the loan request, the lender is unable to clearly identify which borrower would repay and which borrower would default, as actual default losses are not known until a scheduled repayments are due.

Credit Assessment:

Credit assessment is the first stage in the lending process. It is the process through which the credit applicant presents the necessary documentations to the bank in order to obtain a loan Nsereko (1995). Credit assessment involves:

Credit Appraisal

This is basic stage in the lending process. Anjichi (1994) describes it as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as way of discerning the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process. Banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu, 1996).

Process for Credit Evaluation:

Credit managers rely heavily upon external data sources to guide them in the credit decision process. To approve or reject a credit request is a delicate task. A credit manager must evaluate the risk associated with extending credit and declining an applicant based on numerous factors [J. E. Boritz and D. B. Kennedy, 1995]

Decision trees classify instances by sorting them down the tree from the root to some leaf node, which provides the classification of the instance. Each node in the tree specifies a test of some attribute of the instance and each branch descending from that node corresponds to one of the possible values for this attribute [M. Bensic, N. Sarlija, and M. Zekic-Susac, 2005].

CONCLUSION:

In this paper we found that on credit assessment, the bank required communication from the employer as part of the credit appraisal documentations. It was though noted that information on customers' obtainable borrowing in other financial institutions could not be validated by credit assessment official. The loans higher to the customers took a week or so to procedure. Upon approval, obligation fees are paid by all customers irrespective of whether the customer had a loan with Barclays or not.

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