THE CIRCUMSTANTIAL LOANING POLICIES OF BANKING SECTORS: A CASE STUDY OF HYDERABAD

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ABSTRACT

The study was conducted to analyze the type of loan offers by various banks in Hyderabad and short term and long term credit ratings of banks as the loan is a form of debt, for which interested people borrow many for several reason such as to purchase home, car, to run a business or to fulfill their other wants. Credit card facilities are also available as a point of sale to avoid carrying cash within hand at every place. This research is exploratory in nature. Sample was determined as per convenience through a combination of survey, questionnaires and structured interviews. 30 responses were collected from Hyderabad the prominent city of Sindh, Pakistan.

Once the data was collected the analysis was drawn through excel. It was realized that banks are getting higher percentage of profits on loans that is kibor+5-6%. There are variety of products but credit cards and auto loan have more demand. There are high interest rates on credit cards. In auto loan bank took possessions of auto as a security until and unless a customer repay the full payment. Moreover, one of the important finding in comparative analysis of public and private banks was that credit rating of private banks is more efficient than public.

Keywords: Types of Loans, short and long term credit ratings, interest rates.

INTRODUCTION

The research is about the varieties of loan products offer by banks in Hyderabad. Different banks offer at different rates and limits. As Loan is a form of debt that is borrowed especially a sum of money and expected to be paid back with interest. Different types of loans are available such as personal loan, mortgages, student loan auto loan, business loan, SME loan, and credit cards. Individuals who are interested have to choose the type of loan required by them. Loan is categorized into two main heads that is secured loans and unsecured loans. Secured loan is a type of loan which borrower pledges some asset (e.g. a car or property) as collateral for the loan and then it turn out to be as a secured debt payable to the creditors who give the loan whereas unsecured loan is one that is obtained without the use of property as collateral for the loan. Moreover the varieties including public interest rate also differ from bank to bank except the Kibor (Karachi interbank offer rate) set by regularity authority (State Bank of Pakistan). Kibor is essentially the rate on which large banks deal and trade from 12:20 to 12:40 then Personal loan is made up of loan established for specific purpose and credit is granted for general use .This loan type is used for everything such as funding for education. Financing a new business project to purchase for luxury items or taking a lavish vacation. Because it is loan that is used for those people who can't afford and don't have liquid money for rainy days therefore this type is easy to get loans from bank and/or other institution and payback in installments from their income. It is typically issued for a specific amount and can be used for a various purpose at the discretions for the borrower. *Running Finance* or *Working Capital Finance* type of finance is used on a turning basis, as clients pay mark-up on amounts utilized and for the period when it is outstanding. In Pakistan the most popular financing method is debt-structured financing. In this type of financing the money borrowed from a bank or financial institution is to be paid back as principal + Mark-up (or profit or interest). It is usually payable in installments on a monthly basis. The limit and interest on loan is set by state bank of Pakistan and further commercial banks set their limit according to the personal ability to repay. There are many banks in Pakistan now-a-days and these banks offer number of products like consumer financing, running finance, car finance , home finance, demand financing , SME's finance and many more. Acting as a provider of loans is one of the principal tasks for financial institutions. Banks require different procedures and then approve loan if documentation according to their policy. Some loans require collateral which is called secured loan. Commercial banks except Islamic banks (don't gives loan they only do trade) give personal loan on the basis of their credit rating. Credit rating is the evolution of the credit worthiness of debtor. The Pakistan credit rating agency limited (PACRA) gives credit rating on the basis of short term credit and long term credit to each banks and maintained these ratings time to time according to their credit performance. State bank of Pakistan and security exchange commission of Pakistan (SECP) made its obligatory for banks to obtain credit rating on regular basis.

STATEMENT OF PURPOSE

The purpose of this study is to determine how the credit rating report of consumer affects the banks and lending behaviour and to discover what type of personal loan. Loans are offered by banks in Hyderabad and how did they differ from each other and to know what is the procedure of recovering loans.

RESEARCH OBJECTIVES

The study aims to identify the types of loan, recognize the credit ratings on personal loan and find out the recovery procedure of personal loan.

RESEARCH METHODOLOGY

The Data was collected through questionnaire and detailed interviews from manager of different banks, the data gathering was took place between month of April and May in year (2015) in the premises of Hyderabad and covered all banks and then data is converted into meaningful data through excel, i.e. different graphs and charts. Moreover, helps in reporting and arrangement of results, which is than derived to formulate analysis and discussion of this research. Prominently, percentage analysis is considered to derive the results to this paper.

LITERATURE REVIEW

According to one researcher, monitory policy is now one of the essential tools for managing the loan and all economic policies in which central bank is main former of monetary policy and become responsible for structure of banking sector (Abdul Raoof and Mehmood-ul-Hassan, 1999). One finding states that monetary policy not only effects the supply of bank credit but also it may impacts the demand and supply of loan as well. Due to worse economic and monetary policies demand for loan is reducing day by day with low liquidity ratios. Banks with poor performances are less willing to allow the loan. (Gabriel Jiménez.et.al, 2012).

Glenn L. Wood and Dick L. Rottman suggest that loan policy also contains the rates which remains fixed in case of life insurance in which Intervallic adjustments are needed because there is competition that results in changing behaviour of interest rates. Therefore loan policy may contain the complete structure of policy loan interest rate instead of just single rate. Now-a-day modern system creates hurdles for many policyholders and regulators by frequently changing policies in which equity is the most emerging issue between the policy holders and regulators (Glenn L. Wood and Dick L. Rottman).

One argument found that in order to get the underlying energetic development within the vertical scope of bank loan and origination of pure business models, some perspectives should be joint and assimilated with a resource-based and the regulatory viewpoint. By combining decision-making and financial viewpoints, researcher suggests an inspection of those means and drivers of vertical breakdown in the loaning value chain and, precisely, in the credit valuation stage although about value chain in vertical integration found in literature no one has directly emphasized on the credit valuation stage (Enzo Scannella, 2015).

One of the findings states that it is the risk premium and the share of non-performing loans in the banks' loan collection, that level 1 ratio known as capital ratio (leverage ratio) along with local currency deposit levels definitely and considerably have emotional impact on the share of loan supply to the private sector in banks' earning assets (Eric Osei-Assibey, Baimba Augustine Bockarie).

There are several studies and sayings in literature which shows the credit rating of banks and changing rates and limits set by the state bank of Pakistan time to time. According to Thomas and crook 2002, Credit ratings are the group of many decision models and techniques that support financiers to facilitate consumer credit through which the financial institutions may come to know the techniques that enhance profitability of the borrower to the lender (Thomas and crook, 2002).

In Dawn newspaper it was written by Mohiuddin Aazim in May 11, 2015 that the Pakistan state bank's collateral-free lending platform is aimed to help small farmer's access bank credit. The lowest loan size is Rs.100,000 and the extreme tenor is 1-1.5 year's manly two reasons. First, loaning to the manufacturing sector may remain serious due to short credit claims and second, the major part of involvement in micro financing banking sector and institutions in agricultural loaning continues to facilitate new opportunities for other commercial banks as well. Then Mohiuddin Aazim in February 9, 2015, reported in dawn newspaper about The State Bank that State Bank of Pakistan has make over the credit guarantee service for microfinance banks and organizations in order to get cheaper funds for onward lending. Now-a-days both, the MFBs and MFIs can borrow at a maximum interest rate up to 2pc plus Kibor. After which in the current situation for both the payment rate goes pay up to 10.52pc including six-month Kibor of 8.52pc plus the 2pc premium specifically for a six-month loan (Mohiuddin Aazim, 2015).

It was reported in Business recorder 13 march 2013 according to Pakistan credit rating agency (PACRA) recent report (PARCA) has raised long term credit rating of MCB Bank from AA^+ to AAA, explains that MCB credit is having utmost credit quality along with inmost expectations of credit risk instead of this MCBs short term rating is sustained at $A1^+$ which describes that the bank is already the maximum allocated rating in that grid because $A1^+$ signifies the capability of the banks to encounter their commitments held by the maximum ability in order to make payment timely and National Bank of Pakistan (NBP) enjoys highest credit rating with 'AAA' whereas Sindh Bank Limited and Bank of Punjab reported as the lowest credit ratings ‘AA’ (Business recorder 13 March, 2013).

Ghazanfar Ali wrote in express in 2011 that the credit card and personal loan limits has increase by State Bank of Pakistan up to Rs.5 million. Earlier the limit for credit cards was Rs.2 million and This condition is not for consumer financing where as in Dawn news Mohiuddin Aazim write that now in Pakistan personal loans are found with different interest rates and conditions as Personal loans are typically unsecured loans which means that individuals don’t have to place a collateral as a security for the loan (Ghazanfar Ali, January 7, 2011).

The State Bank of Pakistan turned down its benchmark interest rate to 7 per cent, which is the lower most in 42 years. The Governor State Bank of Pakistan said, during a press conference in Islamabad that they are going to lower down the discount rate from 8% to 7%. As the discount rate can be defined as the interest rate upon which commercial banks are permitted to borrow from the discount windows of central bank because it is central bank that uses this monetary policy device to take control over the money supply of the whole economy so that targeted economic growth along with price stability can be achieved.

According to one report of Dawn news given by Khaleeq Kiani Published on June 26, 2015, Senate committee required a report from the State Bank of Pakistan (SBP) on biased treatment of media personnel, parliamentarians and others through banks and forbidden a draft bill in order to make regulation of credit bureaus for being against public interest. If a politician was disqualified or a consumer deprived of a credit facility in that case insufficient safeguards were found based on a defective report of a private credit bureau. On the other hand the existing SBP preparations acquired companies’ information so that should be confidential but As they came to entities for microfinance and credit card deals based on private credit bureaus that should turn into phased restrictions for coverage (Khaleeq Kiani, June 26, 2015).

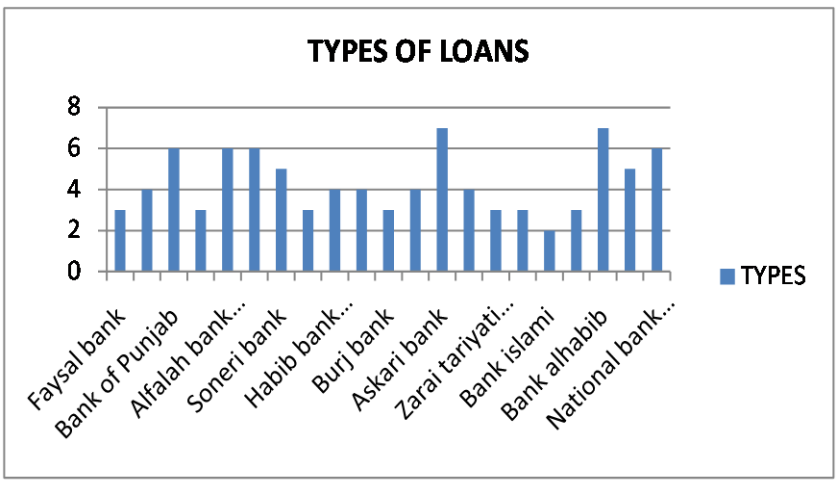
Ali Raza Mehdi Published in Dawn newspaper on April 7, 2014 that another development pointing towards the prospects of growth of Shahriah-compliant banking, Faysal Bank is now moving to change into

Islamic banking. That decision of their CEO is not surprising because of The Islamic banking business's asset foundation goes up by 21.2pc in 2013 so that makes it possible to reach the Rs.1 trillion-mark. The portion of Islamic banking in the total industry also expired up from 9.5 to 10.1pc (Ali Raza Mehdi, April 7, 2014).

More over Consumer financing has picked up after four years, report shared by Mohiuddin Aazim. However, banks are focused in their few segments in which lending is quiet easier than ever before and highly satisfying. Banks preferred Car financing and leasing of household electronics. However, housing finance in which lending can raise superior business and resulted in declining trend. A rise in demand for household electronics, particularly laptops, tablets, LED TV screens, trendy and big washing machines and refrigerators, led to increased consumer lending to individuals and companies that sought bank leasing for these appliances (Mohiuddin Aazim, 2013).

ANALYSIS

1. Types of loan offered in Hyderabad banks



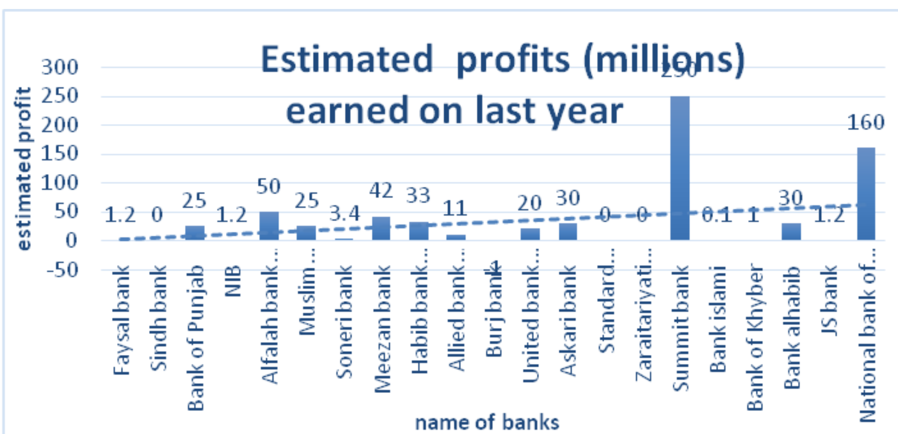
Now-a-day's variety of consumer products introduced in the market, but all banks are not offering the same or variety in products. Customer according to their needs approach the particular banks for specific product. Only few banks are offering personal loan and mostly all of the banks are offering car loan. Car financing have high demand in the market. As per high demand of customers car financing is increasing.

2. List of Consumer Products Offered

1.	Credit cards	2.	Personal loan
3.	Agricultural finance	4.	Commercial finance
5.	Running finance	6.	Consumer finance
7.	Home finance	8.	Auto finance
9.	Business loan	10.	Instant cash
11.	Gold loan	12.	Current finance
13.	SME finance	14.	Easy loan
15.	Advance salary	16.	Demand finance
17.	Seasonal loan	18.	Production loan
19.	Development loan	20.	Term finance

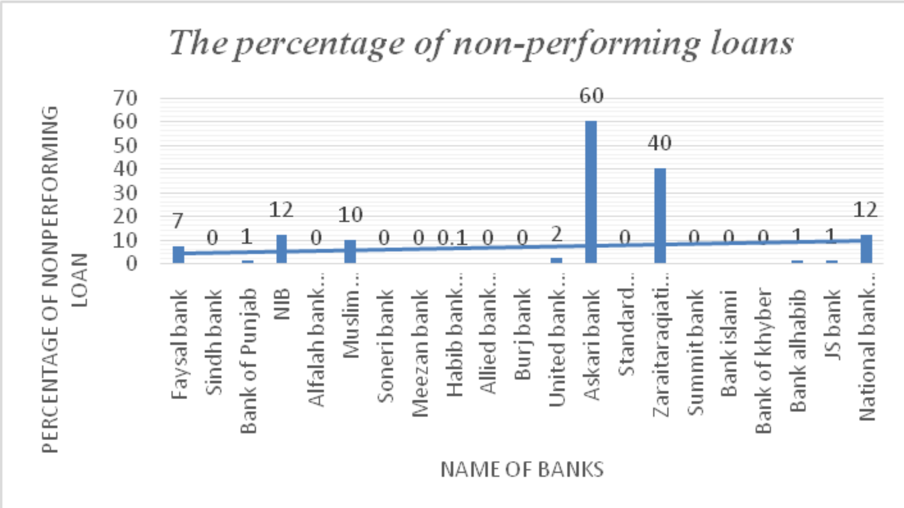
Now-a-days, technology has a positive impact on a banking sector and hence traditional banking has been changed dramatically. Even there are numerous money lending products, mention above. Credit cards and auto loans are more preferable products. Credit cards are introduced in addition to traditional loans facilities. Consequently, the process of getting a credit cards rather easy and within a reach of common man. However, people, who spend more than their earnings, definitely face difficulties while paying their credit card bills. On the other hand, credit cards encourage people to spend money they do not have. Therefore, debt can build up and leave people in real financial trauma. When people cannot pay their debts back, they may lose their homes or properties and subsequently this affects their credit rating. These kinds of bad debts also directly affect the banks and in tern it halts the financial development of a country. Hence, the disadvantages of credit cards cannot be overlooked.

3. Estimated Profit Earned on Loan Last Year



Banks are getting higher profits on loan products. National bank and Summit bank are leading with highest profit whereas Burj bank is in loss and Bank Islami, standard chartered and ZTBLl have earn no profits.

1. The Percentage of Nonperforming Loan



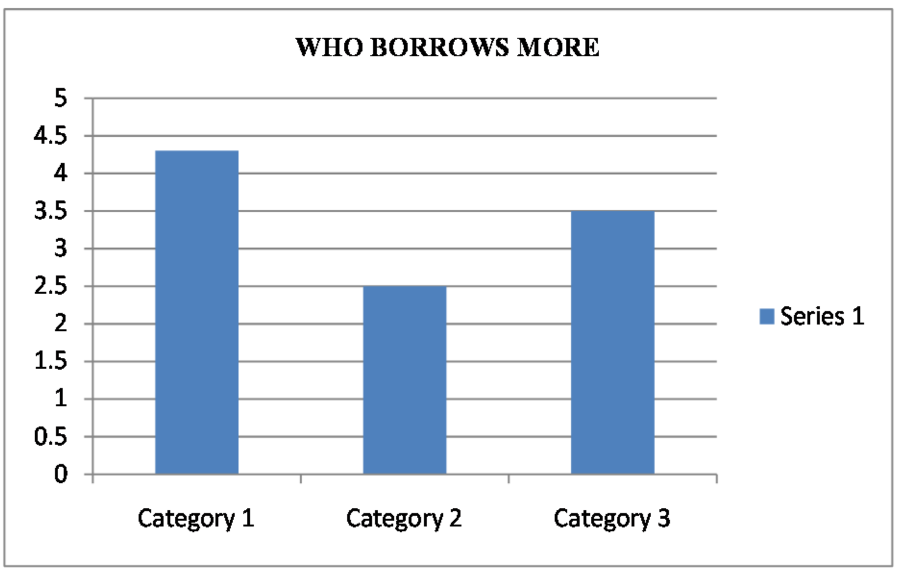
The data in above mentioned graph shows that in private banks i.e. Askari bank limited have more defaulters as compared to other banks. The Askari bank limited offers number of products. In public sector Zarai Taraqiati bank limited also have more defaulters that i.e. 40% as compared to other public banks. Both banks have less documentation and procedures and recovery process.

5. The Credit Rating of the Bank

NAME OF BANKS	**SHORT TERM CREDIT RATING**	**LONG TERM CREDIT RATING**	**REMARKS**
Faysal bank	A1+	AA	STABLE
Sindh bank	A-1+	AA	STABLE
Bank of Punjab	A1+	AA-	STABLE
NIB	A1+	AA-	STABLE
Alfalah bank limited	A1+	AA	STABLE
Muslim commercial bank	A1+	AAA	STABLE
Soneri bank	A1+	AA-	STABLE
Meezan bank	A-1+	AA	STABLE
Habib bank limited	A-1+	AAA	STABLE
Allied bank limited	A1+	AA+	STABLE
Burj bank	A-1	A	NEGATIVE
United bank limited	A-1+	AA+	STABLE
Askari bank	A-1+	AA	STABLE

Standard chartered	A1+	AAA	STABLE
Zarai Tariyati bank limited	A-1+	AAA	STABLE
Summit bank	A-1	A	STABLE
Bank Islami	A1	A	POSITIVE
Bank of Khyber	A1	A	STABLE
Bank Alhabib	A1+	AA+	STABLE
JS bank	A1+	A+	STABLE
National bank of Pakistan	A-1+	AAA	STABLE

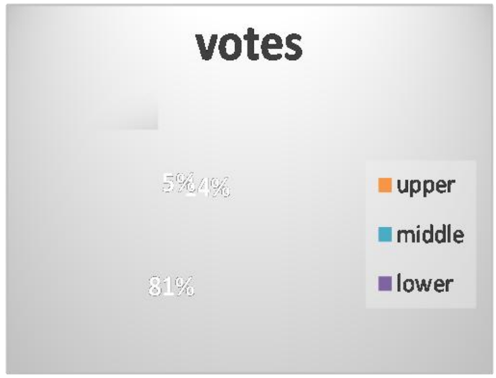
Most of the banks mentioned above have stable condition in their financing accept. Burj bank having negative remarks shows have more defaulters and poor recovery management as per our research. In Hyderabad Burj bank don't have a single customer of consumer financing, they don't offer their loan product because of poor rating and bank Islami is in inclining position leading towards stable. PACRA's ratings, along its Standard Rating Scale, are broadly categorized as investment-grade and speculative-grade ratings. Investment-grade ratings comprise AAA, AA, A, and BBB rating categories (AAA being the strongest; BBB- being the lowest investment-grade rating), while the speculative-grade includes BB, B and CCC to C rating categories (CCC - C being highly speculative). The default category comprises two ratings – SD (Selective Default) and D (Default).



6. Who Borrows More?

According to survey of 21 banks 18 of them say the man borrows more than the woman and 2 of them says both. The bank managers say the ratio of working woman is low as compared to man that's why man borrows more.

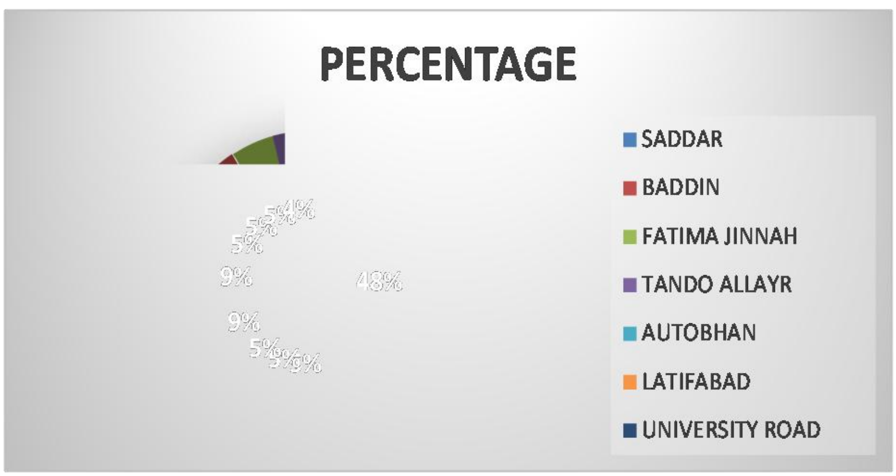
Classes	No of votes
Upper	3
Middle	17
Lower	1



7. The Class Borrowing More Loan

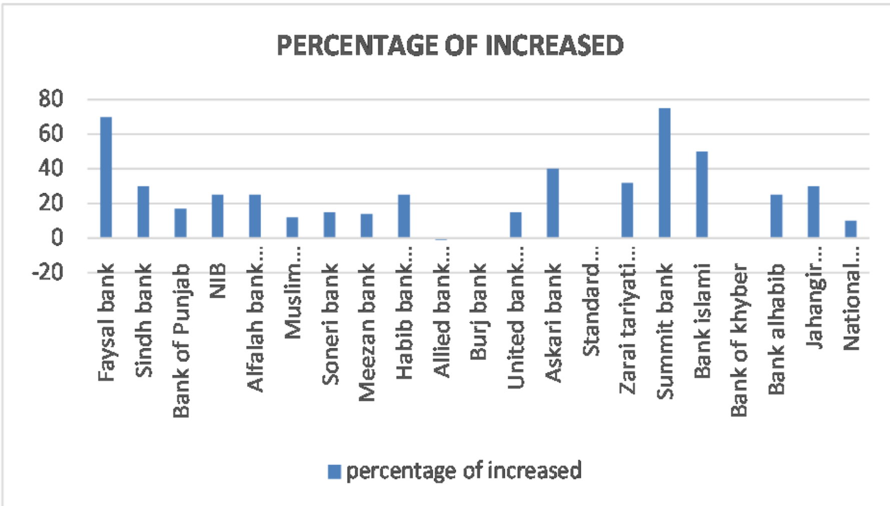
As per our survey 17 out of 21 banks say middle class borrow more, because they are hand to mouth people to fulfill their desires they prefer financing and 3 out of 21 said upper class borrow more because they don't carry cash with themselves so they prefer credit cards and businessman need loans to run their business and most of the banks prefer to provide loans to upper class. Only 1 of them says lower class borrow more because they are needy people but bank avoid to give loans to lower class due to high risk.

8. The Branch in Which Banks Have More Customer

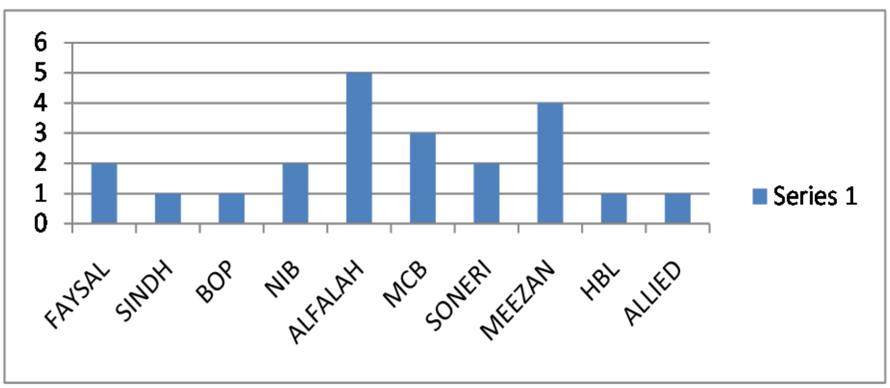


In Hyderabad saddar is commercial area that's why all banks have their branches in saddar. Most of them have more traffic of customers in this area (saddar).

9. Customers Increased From Last Year



People wants are increasing day by day. People demanding more goods and luxuries goods to improve their life style, so they need more money to enhance their life especially salaried persons whose salaries are not enough. Financial institutions works like helping hands by providing loans to people. In this regard bank's customers are increasing day by day. The banks providing number of consumer products have more customers. As per our analysis (shown in graph) summit bank limited is leading with 75 percentage of increase in their customers from last year.



10. Bank That is Competitor in Terms of Loans

According to our survey we analyze that most of the banks presumed that they don't have any competitor, they are best (number # 1) competitor in their own way but when we force to pick any bank whom you think is your competitor so different banks gave different answers . As mentioned in graph bank Alfalah got highest number of votes that is 5 out of 21.

CONCLUSION

Banks are providing varieties of loan products in markets. Through loan banks are getting high percentage of profits that they make it easy to get loan by anyone. To avoid the risk they keep possessions and collateral for safe side. Bank offer loan for every social class but prefer upper and middle class due to some risk factors. Credit cards and auto loans are more demanding products now-a-days. Average 65% of customer increase this year. Each product of loan has different procedures and documentation. Most common documentation for every loan is CNIC, pay slip, 6 months bank statement. For car loan bank take their documents and for home financing bank takes legal documents of house as a collateral so that a person bound to pay back loan and cannot sell his house until he repays the loan amount. There are different minimum and maximum limits for different type of loans. Auto finance limits depends on the type of car. All the finances limits depend on certain conditions. Minimum loan limit is Rs.50,000 in most of the banks but allied bank offer maximum limit on their commercial finance is up to 50 to 70 million.

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