Credit Policy

Introduction

Balance Sheet of the Bank

Liabilities

- Capital (14.37+2.01=16.38%)

  Present after 1 yr

- Deposits 100.00
- (Demand+Term)(4.38%) 104.38
- TOTAL 100.00 104.38

Assets

- Fixed Assets

  Present after 1 Year

- CRR(4.5%) 0% 4.50 4.50
- SLR (18%) 5.5% 18.00 18.99
- Loans & Advances& 77.50 82.93

  Investments (7.7adv/6.7inv)

TOTAL 100.00 106.42

Turnover Method

	Rs. In Crores
Projected Turnover Accepted by Bank	10.00
25% of Projected Turnover is Working Capital Requirement	2.50
5% of Projected Turnover is Prescribed Margin	0.50
Available Net Working Capital in the System	0.40
Permissible Bank Finance is (Margin should be 5% of Turnover or Available NWC whichever is higher	2.00 (2.50 – 0.50)

MPBF System

	Rs. In Crores
Total Current Assets (Gross Working Capital)	40.00
Less : Current Liabilities excluding Bank Borrowings	8.00
WORKING CAPITAL GAP	32.00
Prescribed Margin : 25% of Total Current Assets	10.00
Available Net Working Capital in the System	11.00
Maximum Permissible Finance	21.00 (32.00-11.00)
Margin is 25% of Total Current Assets or Available NWC in the system whichever is higher. 25% of Gross CA is:10.00cr and NWC is 9.00 cr. Hence, higher of the two, ie Rs.10.00 crore is margin.	

Terminologies in Term Loans

Escrow Account:

- The Escrow arrangement provides for directing a pre-determined payment stream from the customers of the borrower to a special account maintained with a designated agent (Bank)
- The Escrow arrangement would involve usually four parties: the lender, the borrower, the customers of the borrower and the Escrow Agent.
- The mandate to the Escrow Agent would normally be finalised by the lenders in consultation with the borrower and its customers.
- Thus, for instance, in financing of a power plant which sells its power generated to a SEB, the Escrow arrangement would involve the power producer (borrower), the SEB concerned (customer), the bank / FI (lenders) and the Escrow Agent (a designated bank).
- The party receiving the money can not make withdrawals from an escrow account until the set obligations are fulfilled.

Trust & Retention Account

- To Protect the project lenders against the credit risk (the risk of debt service default) by insulating the cash flows of the project company
- Through shifting the control over future cash flows from the hands of the borrowers (project company) to an independent agent, called **TRA agent**, duly mandated by the lenders.
- The **lenders**, the **borrower** and the **TRA agent** enter into a **tri-partite agreement**, which provides for all revenues of the project to be directed into a single account, maintained with the designated TRA agent
- TRA agent acts as a trustee on behalf of the lenders and ensures that the cash flows are accessible to the borrower / project company, strictly as per the mandate
- Traditionally NO LIEN accounts, banks can’t exercise general lien

Hybrid Annuity Model (HAM)

- Mix of BOT Annuity and EPC.(engineering, procurement&construction)

The Build Operate and Transfer (BOT) Annuity Model

- A developer builds the highway, operates it for a specified duration and transfers it back to the government. The government starts payment to the developer after the launch of commercial operation of the project. Payment will be made on a six month basis.
- In BOT toll model there is no Govt payments and developer collects toll for about 30 years.
- In HAM model, Govt. contributes 40% of project cost in first 5 years in yearly payments. Remaining 60% Govt contributes after completion of project in variable annuity.
- Hence developer needs 60% of projct cost as equity/loans and repays after receiving from Govt.
- Mostly useful for stalled projects.