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BOOK REVIEW

Credit Operations and Management

M. Rahman
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Book Reviewer:
Md Sifatullah*
East West University, Dhaka, Bangladesh
E-Mail: 2023-1-94-014@std.ewubd.edu

This Book is titled "Credit Operations and Management" which refers to the systematic processes and strategies employed by financial institutions to handle and oversee all aspects of credit-related activities. This encompasses a range of functions, from assessing the creditworthiness of potential borrowers to the ongoing monitoring of existing credit relationships. The primary goals of credit operations and management include minimizing credit risk, ensuring compliance with regulations, and optimizing the overall efficiency of the credit process. Key components of credit operations and management include credit policy development, underwriting, loan origination, risk management, monitoring, collections, compliance with regulatory standards, and the integration of technology for streamlined processes. The aim is to strike a balance between facilitating access to credit for borrowers and safeguarding the financial institution against undue risks and losses.

This book is divided into seven modules each module has separate border topics and each topic has extensive discussions including, Loans and Advances, Sound Lending, Credit Processes & Investigation, Term Loans, and Working Capital Financing, Credit Risk Management, Credit Documentation and Administration, Supervision, Follow-up of Loans, NPL Management, and finally, Leasing and Hire Purchase.

**Corresponding Author*
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LOANS AND ADVANCES

Loans and advances are financial instruments provided by financial institutions, such as banks or credit unions, to individuals, businesses, or governments. These instruments represent a way for borrowers to access funds for various purposes, such as purchasing a home, starting or expanding a business, or meeting short-term financial needs. It's important for borrowers to carefully consider the terms and conditions of loans and advances, including interest rates, repayment terms, and any associated fees, to make informed financial decisions. Additionally, responsible borrowing and timely repayments contribute to maintaining a positive credit history.

PRINCIPLES OF SOUND LENDING AND CREDIT PROCESS & INVESTIGATION

When a bank lends money, there are risks involved. To deal with these risks, the bank needs to investigate the credit of the person borrowing the money. This means choosing the right person to lend to, and that requires looking into all the important details. If the bank picks the right borrowers, it can avoid a lot of problems. To decide who the right borrower is, the bank collects a lot of information about them. The forms people fill out when applying for a loan usually give the bank most of the needed details. The bank's job is to check and make sure all the information is correct. They then put together a report that shows a clear and reliable picture of the borrower's character, money situation, and business honesty. Using this information, the bank can make a good decision about whether to lend money to that person. So, investigating credit is a very important and necessary job for a bank to be successful in lending money.

TERM LOANS AND WORKING CAPITAL FINANCING

Term loans and working capital financing are two distinct types of financing arrangements that serve different purposes for businesses. Each type of financing addresses specific needs related to the duration and nature of funding required. Relationship between Term Loans and Working Capital Financing: Complementary Nature: Businesses often use a combination of term loans and working capital financing to meet both short-term and long-term financial needs. The two types of financing are complementary and support different aspects of a business's financial strategy. Integrated Financial Planning: Effective financial planning involves understanding the specific requirements of the business, matching the appropriate financing tools to those needs, and ensuring that the overall financing strategy aligns with the company's objectives.

CREDIT RISK MANAGEMENT

Credit risk management is the practice of assessing and mitigating the potential for financial loss due to the failure of borrowers to meet their debt obligations. Credit risk is inherent in any lending or credit-granting activity, and effective credit risk management is essential for financial institutions and businesses to protect themselves from losses. Effective credit risk management is an ongoing process that requires continuous monitoring, adaptation to changing market conditions, and a proactive approach to identifying and mitigating potential risks. By implementing robust credit risk management practices, financial institutions, and businesses can enhance their ability to make informed lending decisions and safeguard their financial health.

CREDIT DOCUMENTATION AND ADMINISTRATION

Credit documentation and administration are integral parts of the credit management process that involve the preparation, review, and maintenance of documentation related to a credit transaction. Proper credit documentation ensures that the terms and conditions of a credit agreement are clearly defined, reducing the risk of disputes and facilitating effective credit risk management. Credit documentation and administration contribute to the overall risk management process, reduce the likelihood of disputes, and provide a solid foundation for managing credit relationships. Thorough and well-documented credit agreements help protect the interests of both lenders and borrowers.

SUPERVISION AND FOLLOW-UP OF LOANS AND NPL MANAGEMENT

The supervision and follow-up of loans, along with the management of non-performing loans (NPLs), are critical aspects of credit risk management for financial institutions. Effectively monitoring and managing loans throughout their life cycle helps mitigate potential risks and ensures the soundness of the lending portfolio. By incorporating robust supervision, follow-up practices, and effective NPL management strategies, financial institutions can minimize the impact of credit risk, protect their financial health, and maintain a well-managed loan portfolio. Regular training of staff involved in these processes is essential to ensure a thorough understanding of risk management principles and compliance requirements.

LEASING AND HIRE PURCHASE

Leasing and hire purchase are two financial arrangements that allow individuals and businesses to acquire assets without making an outright purchase. These arrangements involve periodic payments over a specified period, providing flexibility and alternative financing options. Both leasing and hire purchases offer advantages and disadvantages, and the choice between them depends on factors such as the type of asset, the financial situation of the buyer, and the desired level of control or ownership. Businesses and individuals should carefully consider these factors before entering into either arrangement.

In summary, sound credit operation and management involve thorough credit processes, adherence to lending principles, effective management of non-performing loans, meticulous credit documentation, and consideration of various financing options based on the nature and duration of financial needs. A holistic and well-executed credit strategy contributes to the overall health and stability of a financial institution's portfolio. Effective credit operation and management require a dynamic and proactive approach, integrating technological advancements, compliance measures, and strategic considerations. By staying informed about industry trends, embracing innovation, and maintaining a focus on risk management, financial institutions can navigate challenges and contribute to a resilient and sustainable lending environment.

The book is well-researched and well-written and is a must-read for policymakers, academics, and development practitioners who are interested in Bangladesh and other developing countries.