

BANK LOAN REVIEW – A STUDY OF RHB BANK BHD

1. INTRODUCTION

The financial services industry has used loan review since the early 1950s, but the idea was relatively unknown in commercial banking until the early 1980s. Bankers in the late 1970s were at best skeptical about loan review as they could not understand the need to second-guess their loan approvals. However, that concept has changed and there is a great realization that in today's banking environment, loan review is essential.

As loans officers are engrossed in the processing and approval of requests for loans, they do not always notice the symptoms of a weak or problem loan. Financial institutions need a system that will identify existing loans in the early stages of deterioration. Loan review is just such a system.

1.1 Significance of the Study

This study is of significance as it evaluates the loan review function at RHB Bank Berhad (referred to as RHB hereafter). The findings of this study will be invaluable to the Loan Review Unit directly and to RHB indirectly. The findings may unveil weaknesses in the loan review system at RHB. RHB will hopefully be able to take corrective actions to address the weaknesses of its loan review system with the aim of improving its loan quality and minimizing its non-performing loans.

1.2 Objectives

The general objective of this study is to **evaluate** the loan review function at RHB. In line with this, the specific objectives are:

- To assess the loan review system at RHB
- To make recommendations to further enhance the loan review system at RHB.

1.3 Methodology

This study is a consultative type of research and as such it would be organization oriented. The analysis is conducted mainly based on information sourced from interviews and personal communications with key executives and company internal records. This would also form the basis for inputs as well as recommendations to be offered.

Primary data on the loan review system were obtained through discussions held with the loan review officers of RHB. Information on the loan review system of several leading banks in Malaysia was also obtained in the same manner. Data on the lending position was obtained from the annual publications of RHB and Public Bank Berhad. Data on non-performing loans industry average was obtained from Bank Negara Annual Reports. Qualitative analysis was largely used to interpret the data collected. In addition, quantitative analysis using percentages was employed.

1.4 Scope

The scope of this study will be limited to the commercial bank loan review system. An in-depth study of the loan review system at RHB will be covered.