4. RECOMMENDATIONS

Based on the findings of the study, recommendations will be made bearing in mind the purposes and core objectives of loan review as covered under Section 2. Information obtained on the loan review system employed by several leading banks in Malaysia will be used as examples to support the recommendations.

4.1 Location of the Loan Review in the Credit Organization Chart

Currently the credit officers are performing dual functions that are processing loan review and loan approvals. Since loan review is largely concerned about identifying weak loans and taking preemptive measures to prevent loan losses, combining the loan review function and the loan lending function which is to be accomplished by the same individual under the same department is a great mismatch. This is because the loan review function and the lending function, as far as objectives are concerned, are at opposite sides of the pole.

For greater objectivity, it is recommended for the loan review function to be carried out by a separate autonomous unit. For cost saving purpose, if there is a need to merge, it is best for the loan review unit to be placed as a sub-unit of the loans monitoring and control department in view of their common objective that is to prevent loan losses.

4.2 The Need for Effective Loan Review

Loan review is able to identify potential problem loans in time for effective remedial action to be taken. This loan review function can indeed save a loan from flowing into the non-performing basket and ultimately prevent loan losses.

A glimpse at the data on the Total Loans and Total Non-performing Loans of RHB makes the task of convincing the need for effective loan review half easy. For better effect, the data on total loans and total non-performing loans of RHB is compared against that of Public Bank Berhad, a leading bank in Malaysia where the loan review function is given significant importance in the field of credit management.

4.2.1 Total Loans

Public Bank Berhad, the number 1 player in the industry in terms of asset quality, has a well developed loan review system which was introduced in 1990. In terms of loan volume, RHB has total outstanding loans double the size of Public Bank Berhad. For better monitoring and to ensure good loan quality, loan review is crucial for RHB.

Table 4 below shows the outstanding loans of Public Bank Berhad and RHB between the period 1996 and 2001.

Table 4: Total Loans - RHB Against Public Bank Berhad

Years	Public Bank Berhad	RHB Bank Berhad
1996	RM11,480,124,000	RM14,576,017,000
1997	RM12,318,016,000	Not Available
1998	RM12,987,275,000	RM24,208,976,000
1999	RM13,482,094,000	RM33,276,847,000
2000	RM15,259,408,000	RM33,476,491,000
2001	RM20,448,418,000	RM35,762,933,000

Source: Annual Reports: Public Bank Berhad and RHB Bank Berhad

4.2.2 Total Non-performing Loans

An effective loan review system could serve as an early warning system for detecting potential problematic loans. For RHB to curb the growth of its non-performing loans, a proper loan review system is essential. During loan review, the loans that show signs of delinquency, can be restructured so as to help the borrowers in meeting their financial obligations to the bank. By doing so, these loans can be saved from turning non-performing.

Table 5 below shows a comparison of the non-performing loans of Public Bank Berhad and RHB against that of the industry between the period 1996 and 2001.

Table 5: Total Non-performing Loans – Public Bank Berhad and RHB Against Industry Average

Years	Public Bank Berhad			RHB Bank Berhad	
	Non-performing Loans ('000)	%	Industry Average	%	Non-performing Loans ('000)
1996	RM115,864	1.08%	3.6%	1.08%	RM162,333
1997	RM339,263	2.95%	3.2%	Not Available	
1998	RM723,784	1.52%	6.7%	5.91%	RM1,445,839
1999	RM678,374	1.49%	5.5%	3.99%	RM1,329,539
2000	RM296,207	1.32%	5.4%	3.23%	RM1,046,097
2001	RM1,106,579	4.23%	7.5%	6.70%	RM2,276,980

Source: Annual Reports: Public Bank Berhad, RHB Bank Berhad and Bank Negara Malaysia

The non-performing loan rate for RHB is noted to be lower than the industry average. However, it had rocketed in the year 2001 to 6.7%, bringing it closer to the industry average of 7.5%. This calls for close monitoring of the performing loans via a good loan review system to prevent further loan deterioration.

The non-performing rate for Public Bank Berhad is much lower than the industry average. It was disclosed that the effective reviewing of the loans have greatly attributed to the low non-performing rate maintained by Public Bank Berhad.

4.3 Loan Review Exceptions List

Having said about the need for effective loan review for RHB in view of the large total outstanding loans, it is important to determine the degree of monitoring required. As a general guide, RHB can make an exceptions list for reviews to be waived.

RHB can consider including the following cases under the exceptions list:

- Facilities fully secured by cash or fixed deposits
- Facilities of FBEP/AP and DBEP/AP
- Forex facility (FEFCL)
- Customers accorded only term loans (including housing and fixed loans)
- Cases where an application for additional facilities have been approved recently

4.4 Tickler System for Loan Review

As RHB has just recently commenced the loan review function, loan review is conducted on an ad-hoc basis on selected borrowers. To have an organized loan review system, it is important to have the review due date for each borrower incorporated in the main frame data base system. A computer generated listing indicating the names of the borrowers, account numbers, loan limits and respective branch due for review during each month should be made available either on monthly or quarterly basis. This listing could be used as a Review Register and it would serve as a tickler system for loan review. An example of a Review Register is per Appendix 4.

The main items to be reflected in the Review Register include the following:

- Branch
- Name of Borrower
- Loan Limit
- Customer Risk Rating
- Review Due Date

In the long run, it is recommended for RHB to consider implementing a tickler system for loan review to replace the current system where loan review is done on an ad hoc basis initiated by the Revolving Team.

4.5 Standard Forms for Loan Review

Currently, loan review for all types of facilities is done solely using the same form called Standard Credit Application Report (SCAR). A form specially designed to meet the requirements of the loan review function gives a proper start for the review function itself. For better analysis purpose, it is important that RHB designs specific review formats to cater for comprehensive review and for greater objectivity. The type of forms recommended is based on the intensity of checking required and the type of loans package.

The three types of main format recommended are as follows:

- Simplified Review Form
- Consolidated Review Form
- Bridging Loan Report
- Contract Financing Report

4.5.1 Simplified Loan Review Form

The multi-purpose form called Standard Credit Application Report currently used by RHB was initially designed to accommodate loan application. Using the form to conduct loan review means having to repeat the same information during every review of the borrower. Repeating all the information during every review could be a waste of time and resources.

The loan review function is an on going process for as long as the borrower's loans are not fully settled and cancelled. A more simplified basic review form specially designed to meet the requirements of the loan review function serves a better purpose. An example of a simplified review form is per Appendix 5.

The basic information covered in the form in respect of the objectives of loan review is as follows:

- Conduct (to identify problematic loans)

- Current Market Value of Collateral (to track the value of underlying collateral)

- Business Performance (to track the progress of the business based on latest audited final accounts)

4.5.2 Consolidated Review of Related Borrowers

In addition to the Simplified Review Form, it is recommended for RHB to introduce a form to accommodate a consolidated review of related borrowers. It is important to synchronize the review dates of related borrowers and conduct a consolidated review for the purpose of having a global view of the bank's exposure to the group of companies related either by virtue of common shareholders and directors or subsidiaries.

Personal accounts favoring the common shareholders and directors are to be included in the consolidated review format. An example of a consolidated review format is per Appendix 6.

4.5.3 Bridging Loan Report

For borrowers who have bridging loan facilities, a bridging loan report providing detailed information on the progress of the project in respect of construction work and sales, is important.

The bridging loan report is to replace the standard review form for this category of borrowers. Regardless of the borrower's credit risk grade, the bridging loan report should be completed based on site visits at least on biannual basis for close monitoring purpose. An example of a bridging loan report is per Appendix 7.

In addition to basic information about a borrower, other important issues reflected in the form are as follows:

- Expiry Date of the Bridging Loan
- Compliance on Pre and Post Drawdown Conditions
- Progress of Construction
- Progress Sales of the Project
- Breakeven Sales (if it is achieved, if not why poor sales)
- Redemption Buffer (if it is according to the Bank's rule of thumb)

4.5.4 Contract Financing Report

In addition to conducting periodical reviews, a contract financing report updated on a monthly basis, providing all details on the development of the project, is crucial for close monitoring purpose.

The need for close monitoring is pertinent here because the settlement of the loans financing the construction project has to come from the proceeds collected by the borrower progressively in accordance with work completed. If there is no proper monitoring, very often the borrower would siphon out the money for other investment activities and in the end struggle to repay the loan. An example of the contract financing report is per Appendix 8.

In brief, the Contract Financing Report covers the following core issues:

- Expiry Date
- Contract Value
- Claims received and claims outstanding
- Cumulative work done
- Delay in the project (if any)

4.6 Recommendations vis-à-vis Loan Review Purposes and Objectives

As RHB is still in the early stage of introducing the loan review function, the following are some recommendations vis-à-vis purposes and objectives of loan review.

The purposes and objectives identified in the study include the following:

- Customer Quality
- Unparalleled loses
- Collateralization
- Compliance Checking
- Problem Loan Identification
- Deterioration of Loan

4.6.1 Customer Quality

RHB has not implemented a Credit Risk Rating system to ascertain the customer quality of the bank. Risk rating is done based on a standard rating table and qualitative analysis. The risk rating format currently used by RHB is a general guide to recommend either annual or biannual reviews for the customer under review.

RHB does not have a specific Credit Risk Rating assigned for each borrower of the bank. This being the case, the bank does not have an indication on the quality of loans in the portfolio.

4.6.1.1 Customer Credit Risk Rating

For RHB to better asses the quality of the loans, a more comprehensive Credit Risk Rating score sheet is required. Initial rating will take place during loan approval and the borrower has to be re-graded based on current facts during subsequent loan review. So, the credit risk rating is an on going exercise as credit quality rarely remains the same. An example of a comprehensive credit risk rating score sheet is per Appendix 9.

In brief, the Customer Credit Risk Rating form covers the following:

- Years in Business
- Years of Good Conduct with the Bank
- Type of Industry
- Financial Health
- Collateral

It is recommended for RHB to incorporate the customer risk grading for each borrower into their main frame data base system and from here RHB would be able to have an indication on the quality of loans in the portfolio by way of extraction via SAS or SPSS.

4.6.2 Unparalleled Losses

Borrowers would seldom come to the bank if there were to be problems in their businesses. Loan review is in the best position of heading off serious problems even before the loan really starts to default. If untoward trends are noted based on latest financial statements, the loan review officer is to conduct a site or plant visit to support the review recommendations.

4.6.2.1 Business Call Report with Photographs

A Call Report with photographs based on business site visitation is a good way of checking on the borrower to ensure that business activities are in progress. This report is important particularly if the borrower has been reporting losses or if there is a drastic reduction in turnover. An example of a standard business Call Report is per Appendix 10.

The core issues to be addressed in the Call Report are in respect of the following:

- Raw Materials
- Finished Goods
- The number of workers.
- The number of Shifts

4.6.3 Collateralization

Currently there is not much checking in respect of the collaterals charged to the bank. During review, it is important that the market value of the charged property is checked to evaluate the market value quoted, as an unrealistic appreciation or a drastic depreciation should be of concern to loan review.

To keep track of the values of underlying collateral, RHB needs to objectively examine the properties periodically, once in three years, at the least. This can be done by having a professional valuation report done or updating a security checklist, depending on the value of the property.

4.6.3.1 Professional Valuation Report

For properties that are significantly of high value and depending on the type and liquidity of the charged property, it is important that a valuation report is obtained once periodically to ensure that the property has not undergone much depreciation. RHB has to establish its own guidelines in this matter, but a common yardstick practiced by most banks is that for landed properties exceeding RM500,000 and for vacant lands exceeding RM100,000, a valuation report needs to be submitted once in every three years, subject to waiver upon request.

4.6.3.2 Security Checklist with Photographs

In the event that a waiver of the valuation report is granted as the borrower is unwilling to incur the additional costs involved, RHB should at least update a Security Checklist with photos based on site visitation once in every 3 years for landed properties. The purpose of carrying out a periodical inspection is to ensure that the charged property is well maintained and is in good condition. An example of the Security Checklist is per Appendix 11.

If it is discovered that a property charged to the bank has been destroyed by vandals, fire or any other act of nature such as landslides, the outstanding loans to the borrower has to be reassessed to evaluate the net exposure to the borrower.

4.6.3.3 Debenture Report

For borrowers who have provided debenture to the bank, it important that a debenture checklist based on factory visitation, latest financial statements and latest debtors ageing is updated every six months during loan review. An example of a debenture checklist is per Appendix 12.

The debenture checklist is to include the following:

- Factory operations
- Work Force
- Condition of factory and machineries
- Accounting records
- Physical verification of fixed assets
- Stock
- Debtors
- Fixed assets

4.6.3 Compliance Checking

To facilitate compliance checking on the approved conditions in respect of the type of facilities, loan limits, pricing and other conditions, it is important that a compliance checklist is updated during loan review to avoid oversight. An example of the Compliance Checklist is per Appendix 13.

The key factors to be highlighted in the compliance checklist are as follows:

- Correct Maintenance in the Loan System
  - Loan limit
  - Pricing (to check if pricing is according to the pricing guidelines of the bank)
  - Excess/arrears
  - Commitment Fee of 1%
  - Customer credit risk grade
  - Review expiry date

- Searches
  - Financial Institution Search
  - Official Assignee Search (Bankruptcy Search)

- Guarantee Expiry Dates
  - Credit Guarantee Corporation
  - Stand By Letter of Credit

- All pre/post conditions and previous review conditions

4.6.5 Problem Loan Identification

Currently RHB does not have a proper system of identifying and categorizing problematic loans before a loan turns non-performing. To identify and categorize problematic loans, the supplementary form called Summary of Weak Factors per Appendix 14 is recommended.

4.6.5.1 Summary of Weak Factors

The salient weak factors which are early warning signals of a problematic loan are highlighted in the form. The first five of the weak factors have been identified as Critical Factors.

The weak factors for business loans and personal loans are in respect of the following:

Business Loans Weak Factors:

Critical Weak Factors:

Unsatisfactory Conduct

High Margin of Advance

Adverse Financial Indicators

Poor Conduct of Related Accounts

Under Litigation by Other Creditors

Non-critical Weak Factors:

Avoid Sector/Alert Industry

Poor Business Prospects in the next 2 years

Inability to Produce Latest Final Accounts

Management Conflicts

Any Other Adverse Factors (to specify)

Personal Loans

Critical Weak Factors:

Unsatisfactory Conduct

Under Litigation by Other Creditors

Poor Conduct of Related Accounts

Non-critical Weak Factors:

Advanced Age (above 60 years)

Grade C

High Margin of Advance

Any Other Adverse Factors (to specify)

4.6.5.2 Remedial Action

Based on the seriousness and the number of the weak factors identified, RHB can categorize loan accounts for remedial actions to be taken and earmark the affected accounts with specific names such as `RA1', `RA2' and so on. This is to facilitate close monitoring of problematic accounts.

The earmarking process could also include several restrictive and remedial measures. For example, RHB can introduce review policies whereby accounts earmarked under `RA1' status are not entitled to enjoy temporary excess overdraft. `RA2' status can include a structured repayment and reduction program to gradually phase out the problematic loan.

4.6.5 Deterioration of Loans

One of the objectives of loan review is to identify loans that are showing early warning signals of deterioration. Poor conduct is a sure sign of loans deterioration and if allowed to continue, six months down the line, the bank will have an additional non-performing loan to take care of. During review of such borrowers, the review officer can recommend to impose several conditions to enable serving of interest or installments which will deter the loans from flowing into the non-performing basket.

It is important to note that loan review is the first line of defense in the recovery of a problematic loan. If adverse trends are noted during loan review, it is only proper for the reviewer to recommend appropriate preemptive measures depending on the degree and nature of the problems identified.

The pre-emptive measures recommended for problematic loans are in respect of the following:

- Increase in Pricing
- Reducing Exposure
- Collateral Enhancing

4.6.6.1 Increase in Pricing

As it has been said, pricing should commensurate perceived risk. If a number of adverse factors have been detected, then it is appropriate that the loan review officer recommends that the interest rate be increased by the default rate in line with the bank's pricing policy and Bank Negara Guidelines.

4.6.6.2 Reducing Exposure

Reducing exposure refers to the process of imposing a reduction program to reduce the exposure of the bank. In all cases, the preemptive measure to scale down the loan limit has to be done in consultation and discussion with the borrower. This is to avoid complaints and complications in the future.

A number of scaling down measures to reduce the exposure of the bank includes the following:

a) Reduction in Loan Limits

b) Gradual Reduction Program

c) Restructure of Facilities

d) Cancellation of Facilities

a) Reduction in Loan Limits

A straight forward reduction in loan limit is possible if the overdraft or trade bill line is not utilized to the maximum at the time of loan review. The review officer can recommend cutting the unutilized portion and grounding the limit at a reduced limit.

b) Gradual Reduction Program

If loan utilization is up to the ceiling of the approved loan limit, then a one off reduction in loan limit is not possible as by doing so, the loan would go into excess or arrears. In such circumstances, during loan review, a gradual reduction program, perhaps on monthly, quarterly, biannual or yearly basis, depending on the seriousness of the case, can be imposed to scale down the exposure of the bank.

This approach is suitable for overdraft facilities. As for trade bills, reduction in limit upon maturity of the outstanding bills facility can be proposed. In both the cases, the borrower would be notified of the changes in condition that is the reduction in limit in this case, in the letter of continuation extended to the borrower. This will give the borrower sufficient time to raise the cash required to meet the reduction program and to make alternative plans if necessary.

c) Restructure of Facilities

Restructuring is only possible for overdraft and trade bills. The entire limit or a portion of these facilities can be restructured or converted into a Term Loan subject to a fixed repayment program, usually on monthly basis. By doing so, the bank would force the borrower to be committed towards the settlement of the loan outstanding.

d) Cancellation of Facilities

Cancellation of facilities would be the last consideration in the reviewer's course of action to scale down the exposure of the bank. At the time of review, if an overdraft or trade bills line is found to be unutilized, the review officer can recommend to cancel the facility in view of risk factors identified. The reviewer's action can be justified based on the fact that the facility is underutilized.

4.6.6.3 Collateral Enhancement

Credit quality rarely remains the same and the same is seen in the case of properties. If the margin of advance has been significantly increased since the approval of the loan resulting from the depreciation of property value, the appropriate time to address the issue is during loan review. The reviewer can have discussions with the borrower on ways of improving the margin to protect the interest of the bank even if conduct of the loan is satisfactory.

The loan review officer can consider the following recommendations:

a) Create Supplementary Agreements
b) Create Additional Charges
c) Request for Additional Securities
d) Application of Cross Default and Cross Consolidation Clauses
e) FDR Interest to be Rolled Over
f) Assignment of Rental
g) Serve Form 16J
h) Earmarking of Loan Limits
i) Execution of Standing Instruction
j) Revision of Redemption Sum

a) Create Supplementary Agreements

If loan restructuring has been recommended whereby an overdraft facility or a trade bills line has been fully or partly restructured into a term loan, then to protect the interest of the bank, the loan review officer should recommend for a supplementary agreement to be created for the new term loan.

By doing so, the new term loan would be secured by the same existing property. In the event of liquidation of assets, the borrower can dispute by saying that there is no charge on the property for the new term loan. This can be very disadvantageous to the bank and documentation cannot be put right from the witness stand. Not only that, it can be very time consuming.

b) Create Additional Charges

If a significant increase in property value is noted during review compared to the time of loan approval and there is a shortfall in the charges created during loan review, it can be recommended to create additional charges on the existing security to protect the interest of the bank.

c) Request for Additional Securities

Given the same scenario, that is an increase in the margin of advance due to perceived credit risk resulting in any one factor or a combination of factors such as depreciation in property value, deterioration in business performance and unsatisfactory conduct, the loan review officer should attempt to negotiate with the borrower for additional securities otherwise face a cut in limit.

e) All Directors and 3rd Party Chargors to be Guarantors

During review, it is important to make sure that all directors and 3rd party chargors are guarantors for the loans accorded to the borrower. If there happens to be a shortfall during liquidation of the charged property, the bank will proceed to recover the shortfall from the guarantors.

This is an important credit house keeping function because no affected party would be willing to come in as guarantor when recovery action is already in progress. So, the guarantee from the parties concerned must be obtained during review as a contingency plan.

e) Application of Cross Default and Cross Consolidation Clause

It is explicitly stated in the charge annexure document that consolidated clause is applicable for all borrowings of an individual and all other liabilities to the bank either as a borrower or as a guarantor under the charge created. These clauses give the bank the right to combine and consolidate all borrowings of a borrower under the charges created. An extract of the Cross Default and Cross Consolidation Clause is per Appendix 15 and Appendix 16, respectively.

For problematic loans, it would be of benefit to the bank to serve the notice on the application of Cross Default and Cross Consolidation Clause to the borrower. By doing so, the bank can proceed to utilize the funds of one related borrower to offset the excess or arrears under another account related to the borrower.

The following is a definition of related accounts reflecting liability as borrower and guarantor:

- Borrower having another loan account with RHB or subsidiary.
- Borrower is a guarantor of another loan account.
- Corporate or individual guarantors having another loan account with RHB.
- Borrower is enjoying two facilities secured by two different properties registered in the borrower's name.

f) FDR Interest to be Rolled Over

When reviewing borrowers having loans partly secured by fixed deposit, the loan review officer can recommend imposing the condition for the interest earned from the fixed deposit to be rolled over the principal sum to build security cover gradually. This function should also be maintained in the main frame loan system to bar the withdrawal of interest to avoid oversight by the fixed deposit personnel.

g) Assignment of Rental

If the charged property is under first party charge and the said property is being rented out and monthly rental is collected by the borrower, the review officer can negotiate for Assignment of Rental by way of Deed of Assignment.

If the borrower is unwilling, in order to avoid additional cost, then the review officer can compromise and request for the borrower to provide the tenant with an Irrevocable Letter of Instruction for monthly rentals to be deposited into the borrower's account at the bank with a copy of the said letter extended to the bank. By doing so, the monthly rental proceeds would cover the borrower's monthly obligation to the bank, at least partially, if not all.

h) Serve Form 16J

In the event the borrower is unwilling to either create a Deed of Assignment or provide an Irrevocable Letter of Instruction to the tenant for monthly rentals to be deposited into the borrower's account at the bank, then the alternative avail for the bank is to Serve Form 16J for rental collection directly from the tenant. The Form 16J gives the bank the right to directly collect rentals from the tenants of the properties charged to the bank.

i) Earmarking of Loan Limits

For loans that are showing early warning signals that the borrower is facing cash flow problems, one way to at least prolong the life of the loan is by earmarking whatever unutilized portion of the overdraft facility. The earmarked portion can be used to service overdraft monthly interest or term loan monthly installments.

j) Execution of Standing Instruction

The bank must make it conditional for all borrowers to provide the bank with Standing Instruction to debit the overdraft account to service the term loan monthly installments. This arrangement will maintain the good conduct of the Term Loan.

k) Revision of Redemption Sum

Bridging loans more commonly granted to property developers, are subject to repayment on demand or via redemption of titles at fixed sums within a specified period of time, usually three years. If the project fetches good sales then the redemption of titles and the settlement of the loan would be a smooth process.

In the event the projects fails to attract potential buyers, then the settlement of the bridging loans within the stipulated period may not be met and the borrower would usually request for an extension of the settlement date. At this juncture, the bridging loan calls for a comprehensive review.

During review of the bridging loan, the bank should increase the redemption sum for the remaining units to expedite the recovery process as sales does not seem very promising.

4.7 Initial Review of Newly Acquired Loans

Besides conducting periodical reviews of existing loans, it is important for RHB to conduct an initial review of all newly acquired loans. As mentioned earlier, the non-performing loan had increased by 118% in the year 2001 pursuant to the merger with Sime Bank Berhad. Hence, it is important to review all the outstanding loans in the portfolio of the newly acquired bank. In this way, the weak loans can be identified and placed under close monitoring to prevent the loans from turning non-performing. Lapses in the loans packaging discovered can also be rectified.

4.8 Loan Post Mortem

The Loan Review Unit is in the best position of discovering and rectifying loan lapses. It is recommended for RHB to implement the policy of conducting a loan post mortem when significant loan lapses are discovered and rectified. The purpose of the post mortem exercise is to derive the leaning points from the case under study so that repetition of similar lapses can be avoided. To serve this purpose, the findings of the loan post mortem has to be circulated among the loan officers. An example of a Loan Post Mortem Report is per Appendix 17.

4.9 Review Facility Fee

Loan review has never been popular in the banking industry simply because it is a non-revenue generating exercise. To change this concept, it is recommended for RHB to impose a review facility on the borrower on annual basis regardless of whether the borrower is subject to annual, biannual or quarterly review.

A guide to determine the amount to be charged can be based on the following factors:

- Stationery
- Photostatting
- Fax/Telephone/Electronic Mail Service
- Postage and Courier
- Photographs
- Search Fee
- Mileage Claim

5. CONCLUSION

This section summarizes the findings of the study and discusses some of its limitations and concludes by making some recommendations for further study.

5.1 Summary of Findings

The objectives of the study is to evaluate the loan review function at RHB. The specific areas to be addressed are as follows:

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

This study shows that RHB has recently initiated a loan review system. As the loan review function is still new to RHB, implemented in June 2002, there are many areas for improvement. There is a critical need for guidelines and policies on loan review for the loan review system and method to take proper shape at RHB. As RHB has just commenced the process of reviewing the borrowers, a good comprehensive and on going review exercise would help curb the in-flow of accounts into the non-performing loan basket.

5.2 Limitations of the Study

This study encountered a number of limitations which are elaborated below:

- The loan review system at RHB is in its infant stage. The recommendations are only to meet the basic requirements to conduct a proper loan review. For more focused recommendations addressing the problems related to loans review, a more intensive study is required.
- There is a great need for proper loan review guidelines and policies to further smoothen the loan review system at RHB. This need could not be addressed in this study due to time constrains.

5.3 Recommendation for Further Study

This study shows that RHB is in the initial stage of introducing an effective loan review system. In view of the large loans portfolio and the relatively high non-performing loans, it would pay well for RHB to carry out a study to implement a more organized loan review system. In this respect, benchmarking against a well selected leading bank where loan review function is given importance, is recommended.