ENDO
& COMPANY ADVOCATES

LOAN DISBURSEMENT

THINGS TO BE TAKEN INTO CONSIDERATIONS BY THE BANK AND FINANCIAL INSTITUTION

Loan disbursement is the process of paying out the loan proceeds to the borrower; it is when the borrower receive all or portion of the loan. This may also include upgrading, renewal and restructuring of the loan facility. There are things which the Bank and any Financial Institution is required to take into consideration at a time of loan disbursement in order to avoid credit risks. To mention few;

Character of the borrower: the borrower must have experience, education and knowledge over the business in which he or she wants to be financed. The bank of financial institution in order to avoid risk has to look into credit history of the borrower whether is capable of repaying the loan or not.

Plan for repayment; there must be a specific plan on how the borrower will repay the loan, incase there will be difficult in repayment, the bank or financial institution will venture into security as shall be pledged.

Capacity to repay the loan; in this aspect, the bank or financial institution has to look into the cash flow of the borrower to find out, if has capacity to repay the loan; Example, If it is a short term loan facility, the Bank or Financial Institution has to consider the creditworthiness of the borrower, in that, it has to seek for the income statement, cash flow statement, and balance sheet statement.

6th Floor Wing "B" 3D Building, adjacent to Watumishi House Ruaha Street, Magomeni Usalama Morogoro Road/ P. O. Box 76630, Dar es Salaam Tel. +255 222 172 111/Mob. + 255 713 395 845/+255 769 782 926 Email:
eliaicha.ndowo@endowoadvocates.co.tz/mkama.kalebu@endowoadvocates.co.tz/info@endowoadvocates.co.tz/
Web:www.endowoadvocates.co.tz

Own capital: The borrower must have the own money invested in the business, this will enable the borrower to fight to save the business and repay the loan.

External factors to the business has to be taken into consideration at the time of evaluating risks for disbursement of the loan by the Bank and financial institution. Economic conditions beyond control of business. The repayment of credit facilities may be endangered by economic or market conditions or other factors such as declining or fluctuating operation, illiquidity, increasing leverage trend, or declining market prices over a given period.

Clear and Comprehensive policies. The law requires the Bank and Financial Institution to have in place, clear and comprehensive policies with regard to conditions and circumstances under which credit facilities may be extended, renewed rolled over or restructured, Regulation 7 (1) of ***the Banking and Financial Institutions (Management of Risk Assets)Regulations, 2014 GN. No. 287 of 2014***

Proper execution and registration of security documents; Improper execution of supporting deed of assignment, pledge agreement or mortgage deed may put the Bank of financial institution at a risk and the credit facility resulted therefrom will be classified as "especially mentioned", which is weak/substandard and therefore, the said facility will require closer management supervision. Regulation 16(a) (ii) (iii) of GN. No. 287 of 2014.

Undertaking an official search of the property intended to be used as security; this will enable the bank or financial institution to realize the existence of any encumbrance over the property and get away with the technical risk of un-cancelled lien or encumbrance.

Collaterals to be insured: before disbursement of the facilities to the borrower, the bank of financial institution is required to ascertain if property to be charged as security is adequately insured and the insurance coverage is up todate.

Certain conditions to be met before upgrading the credit facility: The Bank or Financial Institution shall not upgrade credit facility which is non-performing into a better category until the borrower, for the term loan facility has regularized its account by timely paying at least four consecutive instalments and for an overdraft facility; upon satisfactory performance for at least two consecutive quarters. Regulation 8 (2) (a) and (b) of GN. No. 287 of 2014.

Non-existence of "ever-greening" or hard core elements and payment of all interest and charges due of an expired performing overdraft facility. The Bank or Financial Institution, before extending, renew or roll over any matured performing overdraft facility, must make sure that, the borrower has paid the principal loan balance, interest and other charges thereon.

Security consideration, in that, the Bank or financial institution has to take into account, the value of the property. The value of the property has to be determined first by an independent professional valuation; whether property is contested in court; whether the bank is able to exercise its rights of recovery over the property.

Additional or new collaterals such as inventories, receivables, equipment or other chattels for past due loan whose collaterals has declined in value by the bank or financial institution to review terms and conditions of the existing loan agreement in order for the borrower to offer new or additional collateral.

Basically, in order for the Bank or Financial Institution to minimize credit risks at a time of disbursement of loans, overdrafts and advances, leasing, acceptances, performance and bid bonds, letters of credit, guarantees including interest due and unpaid it has to take into consideration among other things, the above matters and make sure the borrower meets the loans conditions and has capacity to repay the loan.

Prepared by

Eliaicha Aron Ndowo, Advocate

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