



Credit Appraisal: The Master Skill of Banking

How Smart Bankers Spot the Difference Between a Good Loan and a Future NPA

Credit is the engine of banking, but Appraisal is the steering wheel.

A bank can survive low business for a year, but it cannot survive bad lending for a decade. That is why credit appraisal is not just a "process"—it is a defense mechanism.

"Turnover is vanity, Profit is sanity, but Cash Flow is reality."

This guide upgrades the standard appraisal process with practical, field-tested insights for the modern banker.

What is True Credit Appraisal?

It is not just ticking boxes on a checklist. It is a forensic investigation. You are answering three questions:

- * Can they pay? (Ability)
- * Will they pay? (Intent)
- * If they don't, what do we have? (Security)

The 5 Pillars of Credit (Upgraded)

1 Character (The Person Behind the Paper)

Documents can be manufactured; character cannot.

- * The Check: Look at stability. Does the borrower shift residences or jobs frequently?
- * The "Pro Tip": During the Personal Discussion (PD), ask about their future plans. A genuine borrower speaks about growth; a risky borrower focuses only on getting the loan amount disbursed quickly.
- * Red Flag: Reluctance to introduce family members or partners during the visit.

2 Capacity (Cash Flow over Profit)

This is where most mistakes happen. Net Profit on the ITR is not Cash Flow.

- * The Check: Don't just look at the salary slip or P&L. Look at the Bank Statement.

- * The "Pro Tip": Calculate the DSCR (Debt Service Coverage Ratio). Even if they have high income, if their existing EMIs are eating up 70% of it, they are one emergency away from default.

- * Red Flag: High turnover but very low average bank balance. This suggests "kiting" (money circulating without real value).

③ Capital (Borrower's Skin in the Game)

A borrower who puts their own money into a project will fight to save it.

- * The Check: What is the Margin money source? Is it their savings, or borrowed from friends/relatives?

- * The "Pro Tip": If the borrower asks for 100% funding or tries to inflate the project cost to avoid paying margin, STOP. This is the first sign of intent failure.

④ Collateral (The Safety Net)

Security is the fallback, never the primary repayment source.

- * The Check: Marketability is key. A factory in a remote village has high value but low marketability. A flat in the city center has high marketability.

- * The "Pro Tip": Always visit the property personally. Photos can be staged. Google Maps locations can be faked.

- * Red Flag: Property valued significantly higher than the circle rate or prevailing market rate in that specific lane.

⑤ Conditions (The Purpose & Economy)

Why do they need the money now?

- * The Check: Is the loan for genuine business expansion or to pay off a private lender?

- * The "Pro Tip": Check the industry trend. Giving a heavy loan to a sunset industry (e.g., a plastic bag manufacturer when bans are coming) is a risk, no matter how good the borrower is today.

⚠ The Hidden Traps: What Bankers Often Miss

I have added this section because modern appraisal requires looking beyond standard documents.

👤 The "TEV" of the Individual

Just like a project has Techno-Economic Viability (TEV), an individual has lifestyle viability.

- * Lifestyle Check: Does their lifestyle match their declared income? A person claiming ₹5 Lakh income but driving a ₹25 Lakh car is a red flag (undisclosed sources or hidden liabilities).

📱 The Digital Footprint

- * Check the bank statement for UPI transactions to gambling apps, crypto platforms, or speculative trading.

- * Frequent "insufficient funds" charges in the statement are a louder warning than a high CIBIL score.

↻ The "Evergreening" Attempt

* Watch out for borrowers who apply for a new loan immediately after closing an old one, or borrowers who use an Overdraft (OD) limit to service a Term Loan interest. This is a classic sign of stress.

The Golden Rules of "Safe Sanctioning"

* Visit the Spot: Never sanction a business loan without seeing the factory/shop running. The machinery you are financing must physically exist.

* Verify End Use: If you gave money for stock, check the stock. If you gave money for machinery, check the invoice and installation.

* Document Everything: In an audit, if it isn't written in the appraisal note, you didn't check it. Justify your deviations.

Conclusion

Good lending is boring.

It involves asking tough questions, visiting hot sites, and verifying dull documents. But this "boring" work builds a sleep-easy portfolio.

A Smart Banker doesn't just lend money; they invest in trust.

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