

**Oracle® Banking Limits and Collateral
Management**

Functional Overview

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Preface

Oracle Banking is a one-stop solution for a bank for its core banking operations, across retail offerings. It is designed to help banks respond strategically to today's business challenges, while also transforming their business models and processes to reduce operating costs and improve productivity across both front and back offices.

Oracle Banking provides a unified yet scalable IT solution for a bank to manage its data and end-to-end business operations with an enriched user experience. It is a composed set of different modules wherein each of the modules is serviced by a set of services and other subsystems.

This preface contains the following topics:

- [Audience](#)
- [Documentation Accessibility](#)
- [Related Documents](#)
- [Conventions](#)

Audience

This guide is intended for the users of Oracle Banking Limits and Collateral Management.

Documentation Accessibility

For information about Oracle's commitment to accessibility, visit the Oracle Accessibility Program website at

<http://www.oracle.com/pls/topic/lookup?ctx=acc&id=docacc>.

Access to Oracle Support

Oracle customers have access to electronic support through My Oracle Support. For information, visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=info> or visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=trs> if you are hearing impaired.

Related Documents

For more information, see the following documentation:

- For installation and configuration information, see the Oracle Banking Installation Guide - Silent Installation

- For a comprehensive overview of security for Oracle Banking, see the Oracle Banking Security Guide
- For the complete list of Oracle Banking licensed products and the Third Party licenses included with the license, see the Oracle Banking Licensing Guide
- For information related to setting up a bank or a branch, and other operational and administrative functions, see the Oracle Banking Administrator's Guide
- For information related to customization and extension of Oracle Banking, see the Oracle Banking Extensibility Guide

Conventions

The following text conventions are used in this document:

| Convention | Meaning |
|-------------------|--|
| boldface | Boldface type indicates graphical user interface elements associated with an action, or terms defined in text or the glossary. |
| <i>italic</i> | Italic type indicates book titles, emphasis, or placeholder variables for which you supply particular values. |
| monospace | Monospace type indicates commands within a paragraph, URLs, code in examples, text that appears on the screen, or text that you enter. |

Overview

An efficient centralized system for limits and collateral management will assist banks in effective management of exposures to customers with a holistic view and enhances efficiency in utilization of funds. Banks can avoid over exposure to any specific customer segments and inefficient usage of collateral leading to lower credit facility to customers.

Oracle Banking Limits and Collateral Management product provides a single source for limits and collaterals for effective management of exposure and optimum utilization of funds. It enables centralized collateral management, limits maintenance, and tracking and measurement of exposure. Limits and Collateral Management provides strong integration capability to co-exist with other products under Oracle Banking suite.

1.1 Key Benefits

Following are the key benefits of Oracle Banking Limits and Collateral Management:

- Efficient limit utilization with centralized control and monitoring of credit exposure
- Enable informed credit decision with fast and accurate and real-time credit information
- Flexible Limit structure
- Improved Limits exposure management
- Efficient Collateral Management
- Improved efficiency of the limits and collateral life cycle through easy integration with other products like Loans, reporting and risk-analytics applications from an SOA based architecture
- Streamlined Collateral management process with flexible structure and revaluation of collateral at desired frequency
- Linkage of Conditions or Covenants to Credit Facility and Collateral
- Maintenance of Insurance Policies related to Facility, Collaterals and Party

Key Features

This chapter describes the key features of Oracle Banking Limits and Collateral Management.

2.1 Limits Management

Following are the key features of Limits Management:

2.1.1 Setup Limits

Limits and Collateral Management (LCM) allows setup of one or multiple credit facilities for a customer. Limits can be set for each facility granted to a customer. The bank can set up credit facilities for the various products of the bank like Loans, Foreign exchange, Overdrafts, Trade Finance, and so on. Bank user can capture the limit amount and limit currency, along with limit start date, limit expiry date, date for first disbursement, date for last disbursement, credit risk score, risk grade and effective dates as applicable to the customer's credit facility. The solution supports creation of facilities of Revolving and Non-Revolving types. In case of a Revolving Type, once the repayment is made, the amount of limit will be automatically reinstated to the extent of repayment whereas in case of Non Revolving line the limit will not be available for further draw down.

A unique Borrowing Entity can be created for a customer or a group of customers and an overall limit can be assigned to the Borrowing Entity. The setting of the limit at Borrowing Entity level is optional. If the limits are set at Borrowing Entity level, then the application will validate the limits defined for each Credit Facility against the overall limit granted to the Borrowing Entity. The system also supports creation of credit facility with back-dated value.

Within a Credit facility, several sub facilities can be defined for a Product Group or across a combination of Product Groups. Each sub facility can act as a parent facility for an additional level of sub facility, resulting in the definition of limits at multiple levels. Accounts are linked at the lowest level of limits.

Multiple collaterals can be linked to the Parent Credit Facility. The LCM system computes Loan to Value ratio and stamps the same at Parent Credit Facility level.

LCM system supports two methods of calculation of Loan to Value Ratio i.e. Quadrant Deduction method and Uniform LVR method.

Oracle Banking Limits and Collateral Management also supports definition of Temporary Overdraft Limits and limits for Advance against Unclear Funds (AUF). Both the Temporary Overdraft and AUF limits are defined at the account level.

There is also a provision to set-up a Periodic Fee at facility level. The loan account or CASA accounts can be nominated to collect the Periodic Fee at facility level. In case of Non Revolving type of Facility, only the facility linked to the same can be nominated for collecting the Periodic Fees.

There is also a provision to capture Introducer\ Broker details at the Facility Level.

2.1.2 Utilization of Limits

Utilization Management is used for keeping on-line check on usage of credit limits. This ensures that a customer's liability to the bank at any given point of time remains within the stipulated limit. The exposure tracking mechanism in utilization management helps to track exposure of selected Borrowing Entity or customers. The application provides view of Effective Line Amount, Available Amount, Utilization Amount, Transferred amount and Blocked amount and Outstanding Exposure.

The application tracks all transactions initiated from various modules which impacts credit facility through increase in the utilization or decrease in the utilization.

In case of Revolving type of Facility, the Increase utilization will increase the Utilization amount and Outstanding Exposure Amount and decrease the Available amount with the corresponding Amount for the associated Borrowing Entity and Credit Facility. Whereas the Decrease utilization will decrease the utilization and Outstanding Exposure Amount and Increase the Available amount for the associated Borrowing Entity and Credit Facility.

In case of Non Revolving type of facility, the decrease utilization will only decrease the outstanding exposure amount and will not increase the corresponding available amount and also will not decrease the utilization amount.

If the Borrowing Entity and credit facility has associated parent facility, then utilization will be tracked and updated at all the parent levels by the application automatically.

2.1.3 Earmarking of Funds

The solution also offers earmarking facility. The banker can put a hold on a facility for a specified amount with a start date and expiry date. This blocked amount will not be available for utilization unless specifically requested to use the blocked amount for specified transactions. The block will be released automatically when the specified transaction is completed.

2.1.4 View Credit Exposure to a Party

Oracle Banking Limits and Collateral Management enables centralized control and monitoring of credit exposure to customers along with tracking and reporting exposure by customer, geography, sector, industry, and so on.

It provides a consolidated view of credit exposure to any selected Borrowing Entity or Customer. This view displays the following types of exposures for the selected Borrowing Entity or customer:

- Total Credit Exposure
- Direct Credit Exposure to the customer
- Guaranteed Exposure which indicates amount Guaranteed by customer
- Related Exposure which indicates exposure to parties related to customer
- Utilization details at Facility / Sub Facility / Account levels

- Collateral Details and Charge details, if any.

The application provides information for monitoring credit limits and exposure across all the products under Oracle Banking suite.

Credit Monitoring as a part of the risk management function, includes monitoring the exposure in terms of various parameters such as country, customer, currency, collateral, the sector, and so on, to which credit is made available.

Provision to generate and print the File Summary Report with all the above mentioned details from the View Credit Exposure Screen is available.

2.1.5 Track Multi Dimensional Exposure

Banks may like to track the limits internally for aggregate commitment to specific sectors, for example, textiles, jute, tea, and so on, so that the exposures are evenly spread over various sectors. Oracle Banking Limits and Collateral Management product supports defining of the dimensions based on which the sector-wise exposures has to be tracked. The dimensions on which the exposure can be tracked are as given below on a sample basis:

- Country of Incorporation or Domicile
- Country of Risk or Business operations
- Limit Currency
- Industry Type [For corporate] [To track sector-wise exposure]
- Employment Type [For Individuals]
- Product Group
- Line of Business [Business Unit or Market Entity]
- State
- City
- Geography or Region

The dimensions can be configured as per requirement. Based on the utilization transaction, the respective dimensions or sector-wise exposures will be updated. There is a provision for the user to set the limits for various exposure types or dimensions. The banker will be able to view the exposure details.

2.1.6 Credit Facility Review

Generally bankers analyze the behavior of the credit facility from time to time and also examine the relevant documents to review the conduct of the credit facility offered to the customer. Oracle Banking Limits and Collateral Management provides for manual as well as automatic facility review based on banks credit policies. On review, the banker may decide to extend the credit facility for a further period of time if required. The reviewer may also recommend increase or decrease in the credit limit, or cancellation of limit which may be referred to competent authority for decision.

Automatic credit review can also be configured based on business rules.

2.1.7 Other Features

Other features include:

- The LCM module supports automatic closure of credit facility (only Non Revolving type).
- Total of Sub credit facility limits should be equal to the Parent Credit Facility limit in case of Non Revolving Type of Credit Facility.

2.2 Collateral Management

Collateral refers to the asset obtained by the bank to secure a loan or advance. This is done to mitigate the risk of default by the borrower. Banks also use the value of the collateral to ascertain the amount of funds that could be advanced to the borrower. Collaterals are of various types such as property, vehicles, marketable securities, deposits, and so on.

2.2.1 Capture Collateral Details

Oracle Banking Limits and Collateral Management provides for definition of various collateral types, collateral categories and sub-categories. There are various preferences which can be defined at the collateral category level for example, hair cut percentage to arrive at bank value, whether valuation and title search are applicable, whether charge creation is required, and so on.

After defining the collateral types and categories, the details required for setting up a collateral record such as collateral description, estimated market value, ownership details, address details, notice days for expiry of collateral, and so on. Optional additional details specific to the collateral type/category can also be captured for example, for a property type of collateral, details such as number of rooms, year of construction/ date of purchase, dimensions of the property and so on can be captured. Similarly for guarantee type of collaterals, the guarantor name and supporting collateral to the guarantee can be recorded.

Multiple charge types can be set-up for a collateral category, with any one as default. Charge details applicable to the collateral such as charge type, priority, and so on can also be captured including other bank charges.

The solution has ability to perform de-dupe of a collateral record and supports configuration of Probable Match criterion for de-dupe (any one or more of the de-dupe parameters can be selected for checking 'probable match').

Other features include:

- Term Deposits with other banks can be linked to a Deposit type of collateral.
- Documents in support of collateral can be uploaded and linked.

2.2.2 Marking Lien Against Deposits

When a deposit type of collateral is provided, the bank marks a lien on the deposit. Multiple deposits can also be provided to form single collateral. Unmarking or release of a lien on a TD taken as collateral can be done on-line. The user can achieve this function by reducing the lien amount to zero and closing the collateral.

2.2.3 Collateral Perfection

The charge recorded on collateral may require stamping and/or registration with the relevant authorities for the bank to have a statutory right over the collateral in case of default by the customer. Oracle Banking Limits and Collateral Management provides for recording registration details for the charge on collateral. Multiple charges can be combined and registered under a single charge registration number.

When collateral is returned to the borrower, the collateral record can be marked as 'Released or discharged'. The release of collateral is affected on-line. The collateral record can also be closed and the charge is released.

2.2.4 Realization of Collateral

If collateral is sold by the bank to recover the amount due from the borrower, the realization details will be recorded against the collateral. This includes details like dates and amounts realized on disposal of the collateral. The costs incurred in connection with the realization process can also be captured in Oracle Banking Limits and Collateral Management. The loan accounts to which the proceeds were appropriated can be recorded as well.

2.2.5 Collateral Valuation

Oracle Banking Limits and Collateral Management supports collateral valuation functionality. The bank undertakes the process of collateral valuation to ascertain the estimated fair market value of the collateral provided by the customer. The hair-cut percentage can be applied to the assessed value of the collateral to arrive at Bank Value and to calculate the Loan to Value Ratio. Collaterals can be Non Market Based or Market Based.

2.2.5.1 Valuation Process for Non-Market Based Collaterals

The valuation for non market based collaterals is generally carried out by the valuation agencies. The process of valuation may be either automatic or manual.

The rules to determine the number of valuations required for given collateral and valuation agency can be defined based on various attributes of collateral such as Collateral Value, Location of Collateral, Loan Value, Valuation Type, and so on.

After initiation of request for valuation, the banker may send an amendment or cancellation request to valuation agency for any reasons.

The banker can also raise the enquiry or questions in relation to a completed valuation report, if any, by initiating a separate request to the valuation agency.

2.2.5.2 Valuation Process for Market Based Collaterals

The customers can offer 'marketable securities' as collateral to back the credit facilities offered by the bank. The Collateral Value is derived based on the numbers and the prices of the Securities provided by the customers.

The latest prices for the Market Based Collateral or Securities can be obtained periodically from various sources such as Stock Exchanges, Bloomberg or Reuters, and so on and are updated against the Securities.

The valuation process for Market based collaterals can be categorized in two types:

- **Schedule Valuation**

In this case, the Valuation of securities is carried out based on the frequency defined for the collaterals where the said Securities are linked.

- **Ad hoc Valuation**

Under this method, the banker can perform the Valuation of a particular security at any point in time, if the banker feels that a particular security is very volatile and an ad hoc valuation is necessary to correctly reflect the Collateral value. This Ad hoc Valuation is conducted over and above the Schedule Valuation. This ad hoc valuation can also be termed as a Forced Revaluation.

Other features related to valuation include:

- Workflow enabled valuation process (even from standalone LCM screen). Separate sequential tasks to be created for request details, report capture, verification, and so on.
- Addition of 'Minimum Number of Valuations' required for the collateral rule.
- Ability to manually select valuers, in addition to existing capability of system derived valuers (based on valuer preference).
- Ability to amend title search report. Verification is made mandatory even for online title search report.

2.2.6 Title Search

Title search is a process of establishing the rightful or legal owner of the collateral offered by the borrower. It is also expected to reveal any existing encumbrance or lien on the collateral. It is usually carried out for property type of collateral. Title search is carried out by an attorney, specialized agency or a title insurance company. Lending institutions usually ensure that the title search process on the collateral submitted by the borrower is duly completed before disbursement of any funds.

The solution offers the bank to maintain title search agencies empanelled to carry out the title search and allows the user to choose specific agents to complete the process.

The application supports user to initiate request for title search, amend an initiated request or cancel an initiated request capturing the search reports and verification.

Other features related to title search include:

- Workflow enabled title search process (even from standalone LCM screen). Separate sequential tasks to be created for request details, report capture, verification, and so on.
- Ability to manually select title search agents, in addition to existing capability of system derived agents (based on title search agent preference).
- Ability to amend title search report. Verification is made mandatory even for online title search report.

2.2.7 Conditions

Conditions are stipulations and constraints, recorded in a contract, to restrict the usage of funds, in order to ensure proper utilization of funds for the specified purposes and to adhere to a stipulated schedule. Normally, before a credit facility is approved, it goes through an underwriting process. Sometimes, the underwriter may find that certain additional information in the application is required to enable him/her to make a decision. The underwriter will then impose a credit condition that states the borrowing entity has to furnish certain additional information in order to process the application.

There could be some state of affairs which can be acceptable at the time of processing of credit application but must be satisfied before Loan Account is opened. Such conditions are called Preliminary conditions.

Similarly there could some conditions which must be complied with before actual loan disbursement is done. Such conditions are referred as Conditions Precedent.

Conditions Subsequent are those conditions that have to be manually monitored for compliance at a pre-defined period during currency of a credit facility.

The application provides for recording the status of compliance for the Conditions. Conditions can also be waived for a single instance (exempt) or for all future instances (waiver), usually at the sole discretion of the lender.

Conditions can be grouped together through definition of Condition Category. The solution supports administering a Conditions Policy to attach conditions to a loan automatically.

Other features include:

- Provision to extend the due date for internal type of Conditions and capture the reason thereof for such extension.
- For Condition Subsequent, capture the reason if the Condition compliance breached status is marked as Yes. It will be optional if the status is marked as No.
- Provision to search Conditions on criteria like Compliance Status, Party ID and Party Name.

2.2.8 Covenants

Covenants are clauses or stipulations in an agreement that requires one party, to do or refrain from doing certain things. Often bankers put such restrictions on borrowers while extending credit facilities. Sometimes, borrowers promises certain future acts to assure the lender that the conduct of business dealings will be fair, healthy and in accordance with the best practices.

Financial institutions use some typical covenants based on the activities financed.

For example, while financing real estate related loans, banks may stipulate that Borrower has to maintain some ratios like Loan to Value Ratio, Debt service coverage ratio, interest service coverage ratio and so on., above a stipulated level.

The application provides that, Covenants can be linked to Borrowing entity as a primary linkage and secondary linkages can be with any of the other entities Party, Credit Facility, or Collateral. Multiple Covenants can be linked to a combination of Borrowing Entity and any other Entity.

The application allows user to capture four types of covenants as listed below.

- **Financial**

This refers to a level that a borrower is required to maintain in key financial ratios such as minimum quick and current ratios (liquidity), minimum return on assets and return on equity (profitability), minimum equity, minimum working capital and maximum debt to worth (leverage).

- **Reporting**

Covenants of reporting type, for example, periodic financial reports every quarter or change in key management personnel.

- **Undertaking**

Covenants of undertaking type, for example, will not enter into new businesses without the consent of the bank.

- **Unstructured**

This refers to the customized case specific covenants that need to be captured at the wisdom of the Loan Approver.

Oracle Banking Limits and Collateral Management has the capability to capture and monitor a list of covenants linked to a Borrowing Entity.

Covenants can be grouped together through definition of Covenant Category. The Bank can administer a Covenants Policy to attach Covenants automatically.

The application provides for recording compliance status for each covenant for each instance. Covenants may also be exempted (for a single instance) or waived (for all future instances) when there is genuine reason. These are usually done at the sole discretion of the lender.

Other features include:

- Provision to extend the due date for internal type of Covenants and capture the reason thereof for such extension.
- Capture of Reason will be mandatory if the Covenant compliance breached status is marked as Yes. It will be optional if the status is marked as No.
- Provision to search Covenants on criteria like Compliance Status, Party ID, and Party Name.

2.2.9 Insurance

Oracle Banking Limits and Collateral Management supports maintenance of data related to all types of insurance policies such as Debt Insurance and Asset Insurance. Debt Insurance is basically to cover the risk of the lender in the event if the borrower fails to make the repayment. Asset Insurance covers the risk on the Asset provided as Collateral.

Based on the type of the Insurance selected, the solution allows capturing applicable data. The application provides for capture of Insurance provider details.

The system can evaluate whether debt insurance is required for a facility or not during Origination, where required the system evaluates the applicant/s eligibility and captures required details. Provision to cancel the policy during cooling period is also supported. However, subsequently if insurance is no longer required for a facility, the user can de-link the insurance policy. In case of Consumer Credit Insurance, the system supports refund of premium on early payment of the loan.

The Primary linkage for the Insurance Policy will be Borrowing Entity and Secondary linkage for the Facility or Collateral. An option will be available to the user to link multiple Facility and Collateral on a Single policy. Multiple Insurance policies can be linked to a single Facility and Collateral. The user will be able to view the history details of the Insurance Policy.

Australia Localization

This chapter describes the key features of Oracle Banking Limits and Collateral Management for Australia localization.

3.1 Key Features

Features specific to Australian Banking requirements, pertaining to Collateral Management are supported. Key features are given below:

- Validations introduced for existing fields under existing collateral types, which would support Australia specific requirements.
- Couple of new collateral types and categories.
- Capability introduced to interface with Personal Property Securities Register (PPSR), for registration of collaterals, introduced.
- Enhancements introduced in Oracle Banking to handle PPSR Registration, Release and Amendment.

