Oracle® Banking Limits and Collateral Management

Functional Overview

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Contents

Preface

Oracle Banking is a one-stop solution for a bank for its core banking operations, across retail and business banking operations. 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/us/corporate/accessibility/index.html.

Access to Oracle Support

Oracle customers have access to electronic support through My Oracle Support. For information, visit http://www.oracle.com/us/corporate/accessibility/support/index.html#info or visit http://www.oracle.com/us/corporate/accessibility/support/index.html#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, see the Oracle Banking Security Guide.
- For the complete list of 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, 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.
italic	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.

1 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 a 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 based on real time LVR computation depending on the choice of LVR method. The corresponding LTV code based on the LVR indicates the health of the credit facility.
- 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 such as Loans, reporting and risk-analytics applications using 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, Collateral and Party
- Maintenance of Insurance Policies related to Facility, Collaterals and Party

2 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 Broker or Introducer details are stamped at the Credit Facility level. The bank can set up credit facilities for various products of the bank such as Loans, Foreign exchange, Overdrafts, Trade Finance, Flexible Credit Facility that supports fixed and variable rate revolving credit accounts, and so on. The 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. Facility start date is the account opening date when the facility is originated from Origination. Oracle Banking Limits and Collateral Management supports the following:

- 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.

- Creation of facility tree (subline under main line) is a configuration in facility category. If facility tree creation is allowed as per the configuration then 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 (operating line).

- A guarantor or a cosigner to the credit facility can be captured at the Credit facility.

- Concession group is a concept that can be used to provide pricing benefits. This is stored at a credit facility level.

- 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.

- Capture start date and end date for draw period and also the repayment period at facility level for HELOC.

- Two methods of Loan to Value Ratio computation are supported, that is Quadrant Deduction method and Uniform LVR method. This computation factors to In Principle Approval and Internal Refinance figures. LVR determines the LTV Code. LVR and/or LTV Code are stamped at the Parent Credit Facility level.

- Oracle Banking Limits and Collateral Management also supports definition of Temporary Excess Limits and limits for Advance against Unclear Funds (AUF). Both the Temporary Excess and the AUF limits are defined at the account level. Bank can configure if system should check due diligence compliance (such as KYC, AML) on customers prior to sanction of temporary excess and advance against unclear funds limits.

- There is also a provision to set up a Periodic Fee at facility level. The loan account or CASA account can be nominated to collect the Periodic Fee at facility level.

- Risk indicators can be attached to the Credit Facility. This prevents facility modification in the event of a garnishment order, litigation or bank assessed risk.

- Credit Facilities can be monitored using available alerts and reports to track utilization and deterioration of LVR.

- Within the sanctioned limit, the flexibility to create new sublines, amend existing sublines and link or delink accounts is supported without the need to perform a fresh Origination process.

- Grace period is maintained in global parameter of renewing the facility after expiry. The system allows renewing the facility within configured period.

- Supervisory LTV (SLTV) Rule: SLTV is a control level LTV that places a restriction on the maximum amount that can be lent to customer against a specific category of collateral. The SLTV for the various combinations of facts can be defined as part of a rule. The rule will be attached in the Global Parameters page under the SLTV accordion. System should refer to the definition of SLTV (as part of the global parameters page) whenever LTV ratio calculation is done (as part of origination or servicing) and should be able to give a warning message thereby prompting the user to ask for additional collateral or mortgage insurance.

The above functionality is addressed in the following pages:

- Global Parameter Details (Fast Path: LCM48)

- Credit Facility (Fast Path: LCMS58)

- AUF/Temporary Excess Limits (Fast Path: LCMS54)

- Borrowing Entity (Fast Path: LCMS51)

- LTV Matrix (Fast Path: LCM52)

2.1.2 Utilization of Limits

Utilization Management is used for keeping an online check on the 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 the exposure of selected Borrowing Entities or customers. The application provides view of Effective Line Amount, Available Amount, Utilized Amount, Blocked amount and Outstanding Exposure.

The application tracks all transactions initiated from various modules which impacts Credit Facility by increasing or decreasing the utilization.

In case of Revolving type of Facility, the increase in Utilization will increase the Utilized amount and the Outstanding Exposure Amount and decrease the Available amount for the associated Borrowing Entity and Credit Facility. Whereas the decrease in Utilization will decrease the utilization and the 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 in Utilization will only decrease the Outstanding Exposure Amount and will not increase the Available amount and also will not decrease then utilized amount.

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

In case an account is rebooked, all previous credit facility utilization will be inquired by using a new account number.

If the credit facility is closed due to the closure of the account and the account is reopened, then the credit facility will also reopen in reopening process of account and credit facility will be available for utilization.

The above functionality is addressed in the following pages:

- Utilization Request (Fast Path: LCM067)
- Utilization Inquiry (Fast Path: LCM68)

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.

Flexible Credit Facility (revolving) allows force placement of earmark on repayment in the revolving account in fixed period.

The above functionality is addressed in the Facility Earmarking (Fast Path: LCMS56) page.

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, Customer, or Customer Group. This view displays the following types of exposures for the selected Borrowing Entity or customer:

- Total Credit Exposure: Origination submissions for Internal Refinance and In Principle Approval are factored in the Total Credit Exposure and displayed in the View Customer Credit Exposure page and File Summary Report.
- Direct Credit Exposure to the customer
- Guaranteed Exposure which indicates the amount guaranteed by customer
- Cosigned Exposure which indicates the amount cosigned by the customer
- Related Exposure which indicates the exposure to parties related to customer
- Associated Exposure is visible for Customer Groups only. This displays the direct and guaranteed exposures of the associate members of a selected customer group.
- Utilization details at Facility, Sub Facility or Account levels
- Collateral Details and Charge details, if any.
  - Collateral address is displayed in Collateral Description field for Property type of collateral in file summary report.

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, 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 page is available.

The above functionality is addressed in the View Customer Credit Exposure (Fast Path: LCM65) page.

2.1.5 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. This is supported by a comprehensive information view to support review by the user, based on the bank's credit policies. On review, the banker may decide to extend the Credit Facility for a further period of time if required and restrict to maximum number of extensions allowed for the facility. 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.

Renewal of expired facilities is supported with the ability to control the charging of facility fees between the expiry and renewal of facility.

The above functionality is addressed in the Facility Review (Fast Path: LCMS19) page.

2.1.6 LCM Serve

LCM Serve is a one-stop solution which provides a single unified view of the credit facilities, collaterals, insurance policies, other types of facilities such as AUF and Temporary Excess, and the compliance status of the terms of credit (conditions and covenants). It helps the bank in performing the following functions:

- Provide a holistic view of the entities linked to the party in LCM and establish a correlation between them to help serve the customer better.

- Provide a comprehensive view of the facilities and the linked entities for prudent risk management by the bank.

- Ability to initiate relevant transactions from the LCM Serve page across all entities of LCM which include facility review or renew, credit facility maintenance, collateral valuation, collateral charge renewal, compliance of condition and covenants, manage linked insurances, and so on.

- Ability to highlight statuses that need immediate action across entities linked to the facility.

- Ability to decrease the facility amount when the credit facility certifies the following conditions:

  - Credit Facility should be revolving.

  - Sub facility creation should not be allowed.

  - Nature of facility should be None.

  - Effective limit basis should be limit amount.

The above functionality is addressed in the Limit and Collateral Management (Fast Path: LCM100) page.

2.1.7 Credit Monitor

Credit Monitor is a single dashboard, which provides both credit management and credit operations teams, a unified view for monitoring and tracking the performance of the credit portfolio. It provides the following details as part of multiple widgets:

- Delinquency and NPA status of the credit portfolio of the party, which includes current outstanding exposure and delinquency status, deterioration in asset classification, cases of frequent default, and so on.

- Factors that indicate credit at risk which includes monitoring the deterioration of credit and risk scores, decline in credit turnover, continuous breaches in condition and covenants, and so on.

- Monitoring and tracking operational activities, such as tracking due dates, overdue dates, and exceptions pertaining to limits, collateral, conditions and covenants, and insurance.

The above functionality is addressed as part of the Credit Monitor (Fast Path: LCM101) page.

The flexibility to configure the dashboard based on the bank's business requirements is provided as part of the Credit Monitor Preferences (Fast Path: LCM102) page.

2.1.8 Other Features

Other features include:

- 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.
- Determination of LTV based on the Bank Value LVR or Market Value LVR of the facility
- Determination of LVR for IPA submission in Origination
- Negotiation of deferred fees at the time of collection
- Charge fees for processing Temporary Excess Limits and Advance against Unclear Funds
- Accrual of Periodic Facility Fees
- Generate report of credit extended to insiders and also track exposure of related interest of insiders. Such exposures can be validated against the insider threshold maintained by the bank.
- Compute available equity in Origination.

> **Note**
>
> For more information on the product features offered by Oracle Banking Limits and Collateral Management, see its functional overview document.

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, Business Assets and so on. Additionally, less prevalent collaterals like Water, Vehicle

License, Industry Business Value, Non-Financial agreement, Intangible assets, Bullion, Aircraft, Artwork, Financial Agreement and Undertaking are also supported.

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. There is also an ability in the solution to identify Low Risk Collaterals and perform check on the identified set of liquid assets. Additionally, the banker can also define if collateral address is mandatory, optional or not required for a given collateral type, as part of the business configuration.

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 can be captured. The collateral description is defaulted to collateral type. In case, address is applicable for a collateral, the collateral description is populated with address. Certificate of title details can be captured on a separate tab during collateral creation process. Optional additional details specific to the collateral type or 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, project name, property contact details can be captured. Similarly for guarantee type of collaterals, the guarantor name and supporting collateral to the guarantee can be recorded. System has the ability to automatically create a personal guarantee collateral when the guarantor is onboarded in OBP as a party.

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. In cases where the charge of the collateral is held by other banks, a deed of priority can be generated to capture the priority of charge and obtain the consent of other banks holding a stake on the collateral. There is an ability to capture the consent for subsequent mortgage while capturing an own bank charge if any higher priority charges of other banks are present for the same collateral.

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

The solution also offers the ability to maintain Risk Indicators for collaterals, with an option to define actions on risk indicators such as Prevent Release of collateral, Prevent discharge of collateral, and so on.

The solution also has the ability to provide a view of all the facilities, sub-facilities and accounts linked to a given collateral, either directly or indirectly.

The solution also has the ability to trigger a reason code based approval when user delinks a supporting collateral from Guarantee and Indemnity collateral.

Other features include:

- Term Deposits and Savings Account with other banks can be linked to a Deposit type of collateral.

- Documents in support of collateral can be uploaded and linked.

- Creation of a General Securities Agreement and capture of the underlying assets that constitute to the General Securities Agreement.

- Capturing of Guarantee Arrangement Type for collateral type Guarantee and Indemnity.

- Capturing of License state and type for Liquor and Vehicle licenses.

- Ability to change collateral sub-category during collateral modifications for Property type of collaterals.

- Ability to increase or decrease the bank haircut value during collateral creation process to an extent of haircut variance range maintained in collateral category preference. Once the collateral is created, bank haircut cannot be amended during the update process.

The above functionality is addressed in the Collateral Details (Fast Path: LCMS08) page.

2.2.2 Marking Lien Against Deposits

When a deposit (Term Deposit and Savings Account) type of collateral is provided, the bank marks a lien on the deposit. Multiple deposits can also be provided to form a single collateral. Unmarking or release of a lien on a term deposit taken as collateral can be done online. The user can achieve this function by reducing the lien amount to zero and closing the collateral. If a risk indicator is maintained against a collateral, there is an option to prevent release of lien against a term deposit.

The above functionality is addressed in the Collateral Details (Fast Path: LCMS08) page.

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. An outbound document can be generated as a part of Charge Creation.

For every charge type, a Charge Registration Renewal Frequency can be configured. A charge renewal date is established from the Charge Registration Date. A continuation statement can be generated x days prior to the charge renewal date.

When collateral is returned to the borrower, the collateral record can be marked as Released or Discharged. The release of collateral is affected online. The collateral record can also be closed and the charge released. A termination statement can be sent to customer.

Bank can configure if the due diligence checks (such as KYC, AML) need to be verified for the collateral owners of the selected collateral. This check will be done before initiating collateral perfection.

Ability is provided to interact with DMS module through the Inbound document policy for identifying the documents to be resolved for the respective collateral entities. Additionally ad hoc documents can also be uploaded through the inbound document panel. There is also an ability to interact with DMS module through the outbound document policy for identifying the recipients and the documents to be dispatched to the respective recipients related to the collateral.

The above functionality is addressed in the Perfection Capture (Fast Path: LCM022) page.

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. Any expense paid for realizing the collateral like legal or brokerage charges can be recorded and collected as part of this process. The loan accounts to which the proceeds were appropriated can be recorded as well. It is also possible to define an approval matrix based on parameters like collateral market value, currency, and so on.

The above functionality is addressed in the Collateral Realization (Fast Path: LCM060) page.

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. Policy deviations, if any, can be lodged as part of the valuation process. 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. There is a collateral category level flag to configure the default valuation mode (automatic or manual) for a collateral category.

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 the request for valuation, the banker may send an amendment or cancellation request to the valuation agency for any reason.

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 number and the price 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 can be updated against the securities. Issuer based limits can also be maintained to limit the exposure to the securities issued by a certain issuer.

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 to which the 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 page). 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.

- Ability to report overdue revaluations and revaluate collaterals based on predefined tolerance.

- Initiate valuation of proposed subdivided or consolidated collaterals.

- Ad hoc revaluation of a single or group of collaterals through a single page.

- Ability to collect preconfigured fees from customer, as a part of standalone valuation request capture.

- A valuation report can be shared with the customer.

The above functionalities are addressed in the following pages:

- Valuation Process (Fast Path: LCM063)

- Valuer Preference (Fast Path: LCM037)

- Adhoc Collateral Revaluation (Fast Path: LCM065)

- Adhoc Security Revaluation (Fast Path: LCM35)

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 the disbursement of any funds.

Maintenance of empanelled title search agencies is supported. The user can choose the specific agent while initiating title search.

Initiation, amendment and cancelation, capture of report and its verification is supported as part of the Title Search process.

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 the user to initiate a 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 page). 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 the title search report. Verification is made mandatory even for online title search report.

- Ability to order automated online title search as part of collateral capture during origination process.

- Ability to automate title verification process based on title verification rules written as part of Rule Author framework.

The above functionality is addressed in the following pages:

- Title Search Process (Fast Path: LCM064)
- Title Search Agent Preference (Fast Path: LCM040)

2.2.7 Collateral Discharge and Release

Oracle Limits and Collateral Management provides the functionality to discharge the charge on a collateral and to release the collateral to the owner or owner-designated third party. The documents taken and held in-custody are handed over and a customer acknowledgement is captured at the time of release. The solution validates whether the collateral release happens only after the collateral is delinked from all facilities and there are no active charges on the collateral.

Bank can collect preconfigured fees as a part of discharge collateral and release collateral.

The above functionality is addressed in the Release Collateral (Fast Path: LCM066) page.

2.2.8 Collateral Consolidation and Subdivision

Division, readjustment and rearrangement of land for rationalization of land holdings or for purposes of contracting residences or units which can be sold individually, is a common practice. Collateral consolidation is the process of merging adjoining land parcels into a single unit for larger land holdings. Subdivision, on the contrary is the process of dividing a land holding into multiple units. The solution supports consolidation and subdivision of collaterals. As part of consolidation, multiple collaterals residing in the system can be consolidated into a single collateral. Likewise, as part of subdivision a single collateral can be subdivided to more than one collateral. The existing conditions, covenants and Insurance of the parent collateral are inherited by the subdivided collaterals.

The above functionality is addressed in the following pages:

- Collateral Consolidation (Fast Path: LCM41)
- Collateral Sub-Division (Fast Path: LCM40)

2.2.9 Conditions or Covenants

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 purpose and to adhere to a stipulated schedule.

In Oracle Banking, the conditions are categorized as following types, based on the point of time at which these conditions are to be complied with:

- Preliminary Conditions
- Precedent Conditions
- Subsequent Conditions

A **Preliminary Condition** is the one that must be satisfied before an account can be created. If the condition is not complied with, the workflow is to be stopped before an account can be created. The tracking of compliance to Preliminary Condition is to be handled manually.

Example: License or permission for starting a business.

A **Condition Precedent** is the one that must occur after account creation but before the loan funds can be disbursed.

Example: Disbursement of the loan at multiple stages of construction.

A **Condition Subsequent** is the one that must occur post loan disbursement, but only once in the life time of the loan. The start date and the end date of the event can be defined in the system while defining a condition subsequent.

Example: Physical verification of stocks, inspection of Plant and Machinery or progress of work.

Covenants are clauses or stipulations in an agreement that requires one party, to do or refrain from doing certain things. The purpose of a covenant is to assist the lender to ensure that the health of loan facilities does not deteriorate suddenly or unexpectedly before maturity.

Banks usually add covenants to a loan contract in order to accomplish the following objectives:

- Maintain acceptable loan quality

- Keep adequate cash flow

- Preserve equity in a borrowing entity with a known weakness in its capital structure as a measure to overcome this weakness

- Keep an updated picture of the borrower's financial performance and status

The application allows the user to capture the following types of covenants:

- **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.

Conditions or Covenants can be created and stored in a central repository which can be used as a template while capturing conditions or covenants for combinations of Borrowing entity and one of the other entities. Conditions or Covenants are to be linked to Borrowing entity as a primary linkage and secondary linkages can be with any of the other entities namely, Party, Credit Facility or Collateral. Multiple Conditions or Covenants can be linked to a combination of Borrowing Entity and any other Entity.

Conditions or Covenants can be grouped together through definition of Condition or Covenant Category. This is not mandatory. However, it will be mandatory only when the bank wants to administer a Condition or Covenant Policy and then attach conditions returned from the condition policy to a Lending submission.

Condition or Covenant Policy Definition can be used by the bank to determine which Condition or Covenant Categories can be applied on the basis of pre defined business rules. The Condition or Covenant policy is linked to one of the Entity linkage levels (Party, Collateral, and Facility). All required business rules are configured under a single Condition or Covenant Policy for each of the entity linkage level. Based on the pre-defined business rules, bank can administer its condition or covenant policy to apply conditions or covenants on a lending submission. This need not be mandatory maintenance but is provided as part of the core functionality of the product.

All conditions or covenants applicable for a lending submission are resolved by solution automatically through administering a condition or covenant policy, during credit assessment. The resolution of applicable conditions or covenants is done at Loan submission level. The conditions or covenants thus returned are discussed with the customer and documented in the Lending Submission for approval. When condition or covenant policy is not administered, user can also link conditions or covenants manually to entities in a Lending submission.

Conditions or Covenants can also be defined as Internal or External to restrict the visibility.

External means that the conditions or covenants view to be made available to the customer and also to be printed on the Term sheet which is sent to the customer. If the Condition or Covenant is not complied by due date (including grace days), the compliance status is marked as overdue and the Condition or Covenant is treated as Breached. The count of days of overdue will start from the due date. If the Condition or Covenant is waived subsequently, a letter of waiver can be sent to the customer.

Internal means that the condition or covenant is only for the bank's internal consumption and not to be printed on the Term sheet. These conditions or covenants can also be referred as Silent Conditions or Covenants. If the silent Condition or Covenant is not complied by due date (including grace days), the compliance status is marked as overdue but the Condition or Covenant is not treated as Breached. However, the count of days of overdue will start from the due date. If the Condition or Covenant is waived subsequently, letter of waiver will not be generated.

The linkage of conditions or covenants can be done through the following modes:

- **External**: The External Condition or Covenant mode is used only when the condition or covenant is populated through an external system input.

- **Derived**: The Derived Condition or Covenant mode is used when derived through an inbuilt logic maintained.

- **Manual**: The Manual Condition or Covenant mode is used when the user captures a condition or covenant manually during Lending Submission.

The following maintenances are supported:

- Setup of Condition or Covenant

- Setup of Condition or Covenant Category

- Setup of Condition or Covenant Policy

- Linkage of applicable conditions or covenants for a combination of Borrowing Entity and any one of the Entities namely, Party, Credit Facility, and Collateral

- Creation of Non Standard Conditions or Covenants

- Waiver of Conditions or Covenants record (All the future Instances are waived)

- Editing of Variable text for Standard Conditions or Covenants

- Condition or Covenant Status can be monitored using Monitor or Update Condition or Covenant Status. Compliance details, extension of due dates, capture of action plan for the breached conditions or covenant instances and exemption of condition or covenant instance can be recorded.

The above functionality is addressed in the following pages:

- Condition\Covenant Code Definition (Fast Path: LCMS03)

- Condition\Covenant Linkage Summary (Fast Path: LCMCD)

- Condition\Covenant Status Update (Fast Path: LCM27)
- Define Conditions\Covenants Category (Fast Path: LCM15)
- Define Conditions\Covenants Policy (Fast Path: LCM12)

2.2.10 Insurance

Insurance refers to an arrangement by which a company undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium.

Insurance is a special type of contract between an Insurance company and its client in which the insurance company agrees that on the happening of certain events the Insurance Company will either make a payment to its client or meet certain costs.

For example, in a car insurance policy, the insurance company agrees that if the car is damaged, the insurance company will pay the cost of repairing it. Under an Income protection policy, the insurance company agrees that if its client is unable to work, the insurance company will pay its client an agreed amount.

There are various types of Insurance available in the market, such as Life Insurance, Property Insurance, Health Insurance, Auto Insurance, Consumer Credit Insurance, Lenders Mortgage Insurance, and so on.

In Oracle Banking Limits and Collateral Management, the following types of Insurances are supported.

- **Debt Insurance**:

   Debt Insurance refers to the Insurance taken to cover the default on the loans or advances taken by the borrower. Debt Insurance is of two types:

   - **Lenders Mortgage Insurance**: Lenders Mortgage Insurance (LMI) is insurance that protects the lender in the event that the borrower defaults on the home loan. It is paid as a one off insurance premium or fee when the loan is advanced. LMI is only applicable if the loan poses a high risk to the bank. This is generally because the bank lends the borrower a very high percentage of the value of the Collateral.

      LMI insurance offsets losses in the case where the mortgagor is not able to repay the loan and the lender is not able to recover its costs after foreclosure and sale of the mortgaged property. LMI is essential particularly where the loan to value ratio is high (the bank has taken additional risk as part of such lending).

      Lender mortgage insurance start date is updated as account opening date in the case of OD and the first disbursement date in the case of loan. The start date of the LMI policy is updated only when the start date does not come from the insurance provider or manually captured.

      LVR percentage of the facility at the time of creation of LMI policy is stored in insurance and displayed in the origination when the LMI data is retrieved.

      LMI protects the bank against loss when:

      - A customer defaults on his or her loan.
      - The sale of collateral provided by the customer does not fully clear the amount owed to the bank.

      LMI is insisted mandatorily by the banks when the loan to value ratio increases beyond the prescribed percentage.

- **Consumer Credit Insurance**: Consumer Credit Insurance (CCI) is designed to protect a consumer's ability to meet their credit product repayments in the event of their death, permanent disablement, or loss of income through injury, illness or involuntary unemployment.

  Illustration:

  ○ Jane takes out a Principal and Interest Loan for $350,000 and a ANZ Mortgage Protect Policy at the same time. A few years later, she is killed in a car accident and her estate makes a claim. The amount on the Policy Schedule is $284,626. However, the Loan Amount is only $264,582. ANZ is paid $264,582 to cover the Loan and $20,044 is paid to Jane's estate.

  ○ Barry takes out a Line of Credit for $350,000 and a Common Wealth Bank's Mortgage Protect policy. He dies of a heart attack and his estate makes a claim. The Life Cover amount on the Policy Schedule is $350,000 but the Loan Amount is less - $264,582. Common Wealth Bank is paid $264,582 against the Loan and $85,418 to Barry's estate.

  The lender may offer the borrower, the opportunity to take out CCI at the time they approve the loan, and the premium may be included in the amount that is being borrowed. The borrower is expected to pay the premium and the interest thereon as part of the regular loan installments.

  Issuing the policy during Origination amend only when the facility amount is increased and single borrower has not opted policy before.

- **Asset Insurance**:
  The bank may also require that the collaterals provided by the borrower be adequately insured against loss or damage of any kind. This is called Asset Insurance. For example, in case of a loan secured by a mortgage on the residential property, insurance may be taken on the property. Similarly, if stock or inventory has been provided as security for a facility, the insurance can cover the goods (and in some cases the warehouse as well). If there is a default by the customer and at the same time there is a loss or damage to the property or stock, the bank can recover the money from the insurance proceeds.

  There are four types of asset insurance:

  ○ **Flood Disaster Protection Insurance:** It is generally used to protect the Property type of collateral which is located in flood area.

  ○ **Asset Insurance Others:** It can be linked to any type of collateral for insuring it.

  ○ **Home and Content Insurance:** It protects the items in homes with the Home and Contents Insurance policy. It can only be viewed and cannot be linked in Insurance Linkage (Fast Path: LCM09) page.

  ○ **Landlord Insurance:** It is an insurance policy that covers a property owner from financial losses connected with rental properties. The policy covers the building with the option of insuring any contents that belong to the landlord that are inside. It can only be viewed and cannot be linked in Insurance Linkage Details (Fast Path: LCM09) page.

The following functionality is supported as part of Insurance Management:

- **Linkage of Insurance Policy to Facility, Collateral, or Party**: The solution supports linkage of Insurance Policy primarily to the Borrowing Entity and secondary linkage to Facility or Collateral. All the linked policies (LMI, CCI, or Asset insurance) can be viewed from the Insurance Linkage Details (Fast Path: LCM09) page.

- **Support to Origination**: The solution supports Origination through services for issuing Insurance Policy (LMI or CCI).

- **CCI Policy Servicing**: The solution supports issuance and servicing of CCI Policy from the standalone Insurance Module. The functionality like Issuance, Opt-in, Opt-out, Change of Nominated Account, Cancellation, Suspension and amendments to the CCI Policies are supported.

The above functionality is addressed in the following pages:

- Service Provider Onboarding (Fast Path: PI028)

- Insurance Linkage Details (Fast Path: LCM09)

- Define Insurance Offer (Fast Path: PM057)

3 US Localization Features

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

3.1 Key Features

The features that are specific to US banking requirements, pertaining to Limits and Collateral Management are supported. The key features are as follows:

- **Insurance Management:**

  - Force Place insurance flag is available in Insurance Linkage Details page.

  - Capture the force placed insurance premium collection as either billed to customer or added to the loan balance.

  - Capture the endorsement details in plan linkage page.

- **Collateral Management:**

  - Interface with Automated Valuation Model (AVM): As part of integration with Equifax, the capability to interface with AVM is supported as part of the collateral management.

  - The interfacing ability is available as part of collateral creation and collateral update, both as part of the Collaterals train stop in Origination and the Collateral Details (Fast Path: LCMS08) page in LCM.

  - As part of collateral creation or update, an interface call can be triggered to AVM to fetch the following collateral details:

    - AVM Value: It includes the market value, the range of the market value and the confidence score for the market value as quoted by AVM.

    - Lien details and collateral owners.

    - Property information.

- The details obtained from the AVM interface are available at the collateral level for manual reconciliation and reference.

4 Australia Localization Features

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

4.1 Key Features

The features that are specific to Australian Banking requirements, pertaining to Collateral Management are supported. The key features are as follows:

- Availability of validations for existing fields under existing collateral types, which support Australia specific requirements.
- Availability of multiple collateral types and categories.
- Ability to interface with Personal Property Securities Register (PPSR), for registration of collaterals.
- Ability to handle PPSR Registration, Release, and Amendment.
- Availability of Water category under Property and License collateral type.
- Availability of Business Assets collateral type.
- **Integration with external interface:**

   An interface to integrate with external system for collateral valuation is supported as part of the collateral management module.

   Following features are supported as part of valuation integration:

   - Service call to fetch the Suggested valuation type of property as suggested by external interface in Collateral Valuation Process (Fast Path: LCM063) and BPM Valuation Request taskflow.
   - Ability to receive a Valuation type for a particular collateral from an external credit decision system and order a valuation to external interface for the recommended valuation type.
   - Fetch Valuation report provided by external interface.
   - Fetch updated collateral address from external interface.
   - Cancellation of valuation request.
   - Valuation query and response with external interface.
   - Ability to send the valuation report received from Valuation vendor to an external system for valuation sufficiency.

   Following features are supported as part of title search integration:

   - Service call to order an online title search from capture application collateral stage.
   - Ability to retrieve title reports from land title office through title search vendor.
   - Ability to trigger title search as part of settlement.