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PREFACE

Lending is the bread and butter of the credit union's business. It is a delicate area – subject to losses due to economic downturns, portfolio mismanagement, loan officer judgment errors and deficient lending policy.

And, with different people managing different areas in different ways, oversight becomes a real problem. It is easy to lose control and end up with problems where there should not be any. Problem loans absolutely must be managed effectively and efficiently while minimizing charge-offs.

ACCU recognizes that Loan Officers play vital role in ensuring that loans are properly written and managed; not only to guarantee collection, most importantly its purpose - creating wealth to members rather than creating additional financial burden. Members receiving loans on the basis of share leveraging instead of capacity based lending is a common issue in many credit unions. Due to this practice, credit unions are dealing with high delinquency affecting its long-term sustainability.

ACCU developed the Credit Union Business Solution No. 17 – Credit Union Loan Officers' Competency Course attempting to cover the A to Z of lending. The Solution provides practical tool for loan officers to perform their duties and responsibilities without losing grip to the original objective of credit union lending.

It is anticipated that the HRD Workshop will provide constructive feedback enabling ensure that the Solution serve as response to the loan management issues faced by credit unions in Asia.



**ASSOCIATION OF
ASIAN CONFEDERATION OF CREDIT UNIONS**

**Trainers Training on
Credit Union Loan Officer's Competency Course**

GENERAL INFORMATION

OBJECTIVES:

The objective of the training is to introduce a course to the National Federation to train the Loan Officers of credit unions.

Thus, after attending the program, the trainers will be able to:

1. Define the roles and responsibilities of the Loan Officer and Credit Committee
2. Design the appropriate Credit Union responsible lending objectives
3. Develop a well written loans policy for the credit union
4. Design the loan process and documentation for the credit union
5. Commit to adhere to the collection, delinquency and charge-off policy
6. Risks assess the current credit management system of the credit union
7. Recommend necessary changes needed to mitigate the risks in the credit union's lending operation

SUBJECT AREAS:

1. Roles and Responsibilities of the Credit Committee and Loan Officer	<ul style="list-style-type: none">• Differentiation of Credit Committee and Loan Officer• Job Description of Credit Committee• Job Description of Loan Officer
2. Credit Union Responsible Lending	<ul style="list-style-type: none">• F.W. Raiffeisen's Statements on Credit Union Lending• Principles of Responsible Lending
3. Loans Policy	<ul style="list-style-type: none">• Sample Loan Policy
4. Loan Process and Documentation	<ul style="list-style-type: none">• Loan Process• Loan Documents• Loan Interview Process
5. 5 Cs of Credit	<ul style="list-style-type: none">• Character• Capacity to Pay• Collateral• Capital• Credit Condition• Debt Ratio• Cash Flow Lending• Credit Rating Tool• Credit Investigation Policy
6. Collection and Delinquency Policy	<ul style="list-style-type: none">• Delinquency• Collection Policy• Delinquency Policy• Loan Charge-Off Policy
7. Family Budgeting	<ul style="list-style-type: none">• Financial Goal Worksheet• Money Management Calendar

DURATION

The training is a 21 hour 3-day residential training for the trainers, credit committee and loan officers.

USE

The training described in this manual will be attended by the training officers, education committees and members of credit unions. The training is appropriate for the front liner or staff in charge of financial counseling to members. The ideal number of participants is 25 to maximum of 30.

TRAINING APPROACH AND METHOD

The training has adopted a highly active learning approach through the use of participative learning methods and built-in action commitment. Participants will not be trained in a general or passive way. Trainees are working in groups and on their own. The trainer will act more as a 'facilitator' of learning than a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage contributions from such individual insight and experience, so that all will go away having accumulated the knowledge that each brought to the program. Trainees will appreciate the value of teamwork and make a positive contribution when working with others to solve problems and complete tasks.

What are some Cooperative Learning Approaches?

Several learning approaches used in this training manual are described below.

1. **Jigsaw** - Each group, in a five to six member team, is given information for only one part of the learning activity. However, each trainee needs to know all information. Trainees work cooperatively with different teams. All trainees seek the same information, study it, and decide how best to teach it to other teams. After this is accomplished, each group should be able to complete all the learning activity.
2. **Think-Pair-Share** - This strategy can be used before introducing new concepts. It gives everyone in the class time to access prior knowledge and provides a chance for them to share their ideas with someone. Think-Pair-Share helps trainees organize their knowledge and motivates learning of new topics. There are three steps to Think-Pair-Share with a time limit on each step signaled by the facilitator. (1) Trainees are asked to brainstorm a concept individually and organize their thoughts on paper. (2) Trainees pair up and compile a list of their ideas. (3) Each pair will then share with the entire class until all ideas have been recorded and discussed.
3. **Send-a-Problem** - Trainees are placed in heterogeneous teams of four to six. Each team designs a problem to send around the class. The other teams solve the problem. Since all of the teams send their own problem, there are a series of problems solved in this one activity. Results are shared with the class.
4. **Round Robin** - Trainees are placed in heterogeneous teams of four to six. Each trainee has an opportunity to speak without being interrupted. The discussion moves clockwise around the team; everyone must contribute to the topic. The team may use an item to pass around as a visual aid to determine who has the floor. Round Table is another version. The difference being that a piece of paper is passed around and each member writes instead of speaks about the topic.

5. **Mind Mapping** - Mind Mapping is the process of visually depicting a central concept with symbols, images, colors, keywords, and branches. This is a fast and fun way to take visual notes, foster creativity, stretches trainee's visual thinking skills, make learning contextual and meaningful, and promote active involvement with the learning content. Pairs of trainees may create their own mind map or they may simultaneously add to the team and/or class mind map.

The shared learning is, in fact, almost always more important than the knowledge that you, the facilitator, or the manual itself can contribute. You should treat each trainee as a source of ideas as valuable as the facilitator. The material in this manual is designed to help the facilitator elicit contributions from the trainees on each subject matter. It is important however, that the facilitator is able to process the ideas of the trainees and lead them to the learning activities.

The built-in action commitment at the end of the training will give each trainee the opportunity to make use of the expertise in changing behavior and transferring skills to others. The course also poses a personal challenge to trainee to practice what they have learned in their lives. Once the trainee applied the learning to their personal lives, they will be an effective trainer.

ADAPTING THE MATERIAL

Before using the manual in real training situation, you may want to adapt it to your circumstances. Follow the procedure below.

Read through the material and decide whether or not:

- The program can be run as it is
- Only certain topics or sessions should be used
- New topics and sessions should be added

Your decision will depend on the training needs of your trainees and the means you have at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts.

Modify them to reflect local practices, to include local currencies, terminologies etc. Note that the currency used in the manual is US Dollars but this could be tailored to the country's context. Amounts in the examples can also reflect the local economic standards. Such adaptation will help trainees identify more easily with situations described in the materials and will increase impact and effectiveness of the program.

Further, the manual also uses the term "credit union" referring to cooperative financial institution. This could be modified based on the local situation so as not to mislead the trainees especially the members of credit unions. In Asia, credit unions is equivalent to credit cooperatives, savings and credit cooperatives, thrift and credit cooperatives, savings and credit unions, peoples credit fund, village banks, community based financial institutions etc.

Do not regard this manual as a book with all or the only answer. It is intended as a collection of suggestions and ideas which you must adapt, modify, use or reject as you think fit. ACCU is open for suggestions to improve the manual and recognizes that this initiative is evolving in nature.

PREPARING YOURSELF

The following steps are suggested before conducting the training:

1. Read the session guides carefully; be sure that you understand the content and that you can predict what is intended to happen inside the classroom.
2. Work through the exercises by yourself and be sure you understand them clearly. Do not limit yourself with the session guides; if necessary research from the internet for more information.
3. Note on the material itself as many local examples as you can to illustrate the points raise.
4. Plan the whole session carefully; predict approximately how many minutes each section of the session is likely to take. Make appropriate modifications to fit the time available for you. Do not restrict yourself to the time suggested in the manual.

CONDUCTING THE PROGRAM

The following steps are suggested in conducting the training:

1. Divide the participants into teams of four to six depending on the size of the group. Ideal is four teams of four to six members each.
2. Do not put the trainees in rows so that the only face they can see is your own.
3. Be sure that the session is clearly structured in the trainee's minds. It is like telling a good story – with beginning, middle and end. Let the participants know what is going to happen in this training program.
4. Be flexible; do not follow the material obediently. Be prepared to change the approach, depending on the situation and available resources. Just be cautioned that while you are changing the training approach, make sure that the objective of the program will be achieved.
5. If you fail to draw a particular answer from trainees, it is your fault, not theirs. Persist, asking the same question in different ways, hinting at the response you want. Only make the point yourself as a last resort.
6. Use silence to provoke response if no one answers a question wait 20 to 30 seconds. This gives the trainees time to collect their thoughts – and the courage to speak.
7. Avoid talking too much; trainee discussions should take up some three-quarters of the total time. Ask, listen and guide rather than talk.
8. Never ridicule a trainee's answer or suggestion; it may have some merit and the attempt itself is commendable.
9. If you cannot answer a trainee's question ask another trainee to respond. You are the facilitator, not the source of knowledge.
10. Be dynamic; move around, walk up and down the classroom. Your physical activity helps keep everyone alert.

IMPACT OF THE TRAINING

- National federations will have trainers to integrate technical assistance and training to credit unions on Loan Officers Competency Course
- The trainers will have to train at least another 5 trainers
- The national federations will have a training module for Loan Officers Competency Course
- Credit unions will observe responsible lending practices

DAILY SCHEDULE

Time	Topics	Duration (hours)
Day 1		
08:30 – 9:00	Orientation of the Program – Objectives, Logistical Arrangements	0.50
9:00 – 10:00	Self –Disclosure	1.00
10:00 – 10:30	AM Break	-
11:00 - 12:00	Roles and Responsibilities of the Loan Officer	1.00
12:00 - 13:00	Lunch	-
13:00 - 15:00	Credit Union Responsible Lending Objectives	2.00
15:00 – 15:30	PM Break	-
15:30 – 17:00	Loan Policy	1.50
Day 2		
8:30 – 9:00	Management Report	0.50
9:00 – 10:00	Loan Process and Documentation	1.00
10:00 – 10:30	AM Break	-
10:30 – 12:00	Continuation ... Loan Process and Documentation	1.50
12:00- 13:00	Lunch	-
13:00 - 15:00	5 Cs of Credit	2.00
15:00 – 15:30	PM Break	-
15:30 – 17:00	Collection and Delinquency Policy	1.50
Day 3		
8:30 – 9:00	Management Report	0.50
9:00 – 10:30	Continuation ... Collection and Delinquency Policy	1.50
10:30 – 11:00	AM Break	-
11:00 – 12:00	Recommendations: Changes Required in the Credit Union Credit Management	1.00
12:00 – 13:00	Lunch Break	-
13:00 – 15:00	Action Plan and Evaluation	1.50
	Total	17.00

SESSION GUIDE

INTRODUCTIONS

08:30 – 9:00

Orientation of the Program

Objectives:

By the end of the of the session, participants will:

- Feel welcome;
- Know their fellow learners are; and
- Be familiar with the course program and key themes.

Session Contents:

- Introductions (organizations sponsoring the training and resource persons)
- Personal goals
- Course purpose and objectives
- Housekeeping rules
- Introduction of props and posters
- Assigning Teams

Introductions – 5 minutes

- Have the **FL 1** Welcome showing for the participants as they enter the room. Welcome participants to the course and hope that they enjoy attending the Loan Officers training event.
- Introduce yourself and explain what the Credit Union Federation is or the sponsoring organization and its mission (our mission is to ...). Provide a brief background of yourself to build credibility that the facilitator/s is/are qualified to run the course.
- The course is about competency course for credit union loan officers. Assure the participants that the training is practical, participatory and fun. There will be lots of opportunity to learn together in groups. The whole process is inspiring as participants can internalize the sessions, in particular the issues in managing loans. Assure that the implementation of this training contribute in the effective management of the credit union loan portfolio.

Personal Goals - 10 minutes

Introduce **FC 2**: Personal Goals Flip Chart with the Goal and arrow cut out picture in the middle.

Ask the participants to write their names and the goals in attending the training. Review the goals

Course Purpose and Objectives – 10 minutes:

- Explain the **FC 3** and relate these objectives to the personal goals of the participants:

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1. Define the roles and responsibilities of the Loan Officer and Credit Committee
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3. Develop a well written loans policy for the credit union
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Housekeeping Rules – 10 minutes:

Introduce the poster **FL 4**. Note that the rules are also printed on the name blocks on their tables. Key point on rules:

- **Involve** - the course is designed with participatory techniques so it is essential they feel comfortable to share experiences and work together to complete various activities. Assure the participants that the information shared during the training will be held in confidence.
- **Ask questions** – it is important that they ask if they do not understand any aspect of the course or need the facilitator to repeat or further explain any topic. Participants are encouraged to speak their mind in case important things are not well explained or understood. The program is designed to break the barrier between facilitator and learners as well as with their co-learners.
- **Make Mistakes** - it is okay to make mistakes. It is normal and it is one way of learning – we should only need to learn the lessons. Learners should be encouraged to speak without hesitation.

- **Have Fun** - the most important of all. Since the sessions are meant for audience of different background, the training is designed to inspire learners with the use of different methodologies that infuse fun and excitement.

Besides the rules, involve the participants in preparing the housekeeping rules. This can be assigned as Poster **FL 5 – Housekeeping**. Ask participants to contribute. Most likely these are:

- On time, no tardiness
- Switch off Mobile Phones

Participants may add more on the housekeeping and also set penalties to violators.

Introduce Poster FL 6 Parking Lot

There are times that participants may ask out of the topic questions or points that will be discussed in the succeeding topics. Instead of answering them right away, the Parking Lot can be used to post questions that will be dealt with in the later topics or it can be answered towards the end of the session, if time is permitted. If the question is not everybody's concern, the facilitator can also answer the question to the concerned participant after the session or during coffee break.

Assigning Teams – 15 minutes

Assigning of Groups (see the groupings) – group names using the **Team Logo**.

Suitable for: Groups of most sizes, particularly in this training where participants are divided into teams. This should be a good warm up activity.

Each team has a flipchart sheet and colored markers/crayons and have to design a colorful logo to portray the team values and name. Underneath, they have to put a motto. Have lively background music on.

Self-Disclosure Introduction – 40 minutes (if group is less than 20)

Objective:

To break the ice by forcing people to introduce themselves by means of their drawing ability, rather than their words.

Materials required:

8 x 11.5 paper or Letter size or A4 size paper ,pens, pencil

Procedure:

Introduce poster **FL 7**. Provide the trainees of a letter size or A4 size paper. Ask them to draw pictures that describe themselves in a creative way. These can be sketches of themselves, their hobbies, jobs, interests, or family. Anything that can describe them is fair game. Ask each trainee to write his or her name at the back of the paper and attach an adjective that not only describes a dominant characteristic, but also starts with the first letter of her or his name (e.g. Serious Sarah, Mathematical Mary, Bicycling Bill, Creative Cathy, Dazzling Daisy etc.)

Collect all the papers in a box. A volunteer is chosen at random to pick out a paper and look at the drawing, not the name side of the paper. The introducer then tells the group as much as possible about the card owner by interpreting the sketch, making any assumptions desired. After each introduction, the person who drew that sketch stands and clarifies, corrects, or more truthfully completes his or her introduction. That person then pulls out another paper and proceeds to introduce that trainee. Continue the process until all persons are introduced.

Discussion Questions:

- Why do we stick so closely to 'just the facts' in our self introductions – name, job, employer?
- How comfortable did you feel disclosing, through art, other aspects about yourself?
- What were some of the more interesting things discovered?

Tips:

If you suspect that team members will be hesitant about interpreting others' drawings, you can volunteer to be first and provide a richly developed, previously prepared interpretation of a cohort's drawing (but it's best to warn the other individual first)

People who do not consider themselves artistic may have reservations about creating a drawing and sharing it with others; so preface the activity with the caution that you do not have to be an artist to do this. Any rough sketch will do.

The time required depends on the number of participants.

- Allow 2-3 minutes for team members to draw their sketches
- Allow 1 minute for each introduction and one minute for the person who was introduced to supplement the information
- Allow 5 minutes for the team to discuss their observations and learning at the conclusion of the exercise.

If the group is more than 30, the trainer may opt not to use the Self-Disclosure, instead the Name Raffle Draw can be used as an ice breaker.

Name Raffle Draw:

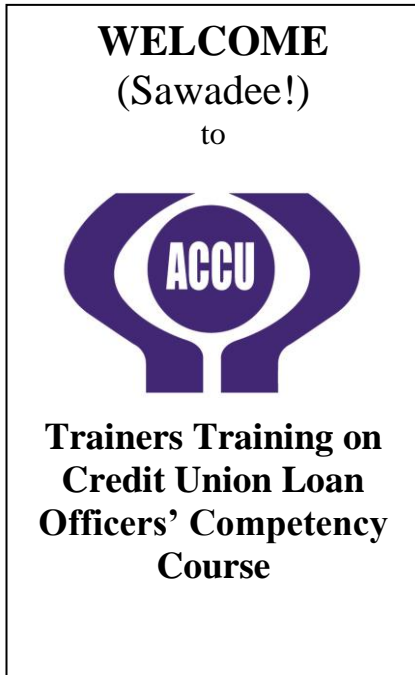
Have one box containing the cut out names of the trainees including facilitator. Ask the trainees to introduce themselves to as many trainees as they can during breaks. Pick at least 5 names every after break or during sessions when you feel the energy level is going down. The names picked shall be identifying as many trainees as they can. Wrong name identification will be a deduction to the score earned. The most names identified will be given prize. The name raffle draw must be completed at the end of the first day.

Introduce the Flip Chart 8: **ACTION WALL**

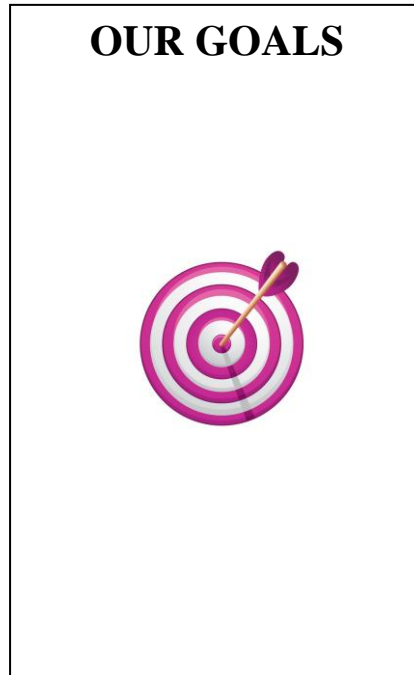
At the end of each session, trainees would have in mind actions they would implement after this training. Ask them to write on sticky notes to remind them during the action planning.

Sample Posters:

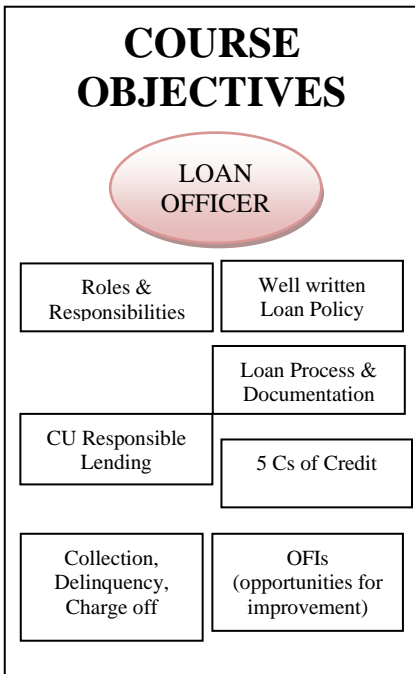
FC 1



FC 2



FC 3





FC 4




FC 5

HOUSEKEEPING

 Punctuality


 Switch off
Mobile
phones

 Rest
Rooms
(give directions)

May also include other housekeeping info.

FC 6

PARKING LOT
Post your questions here using sticky notes.



FC 7

**SELF
DISCLOSURE**

Describe yourself in a drawing:

- **hobbies**
- **jobs**
- **interests**
- **family**
- Write name
- attach an adjective of your dominant characteristic starting with the first letter of your name (e.g. Serious Sarah, Mathematical Mary, Bicycling Bill, Creative Cathy, Dazzling Daisy etc.)

FC 8

ACTION WALL
Post the things you want to implement after this training.

1

DUTIES & RESPONSIBILITIES OF THE CREDIT COMMITTEE/ LOAN OFFICER

(1-hour session – 60 minutes)

LEARNING OUTCOMES

Do:	<ul style="list-style-type: none">• Explain the duties and responsibilities of the credit committee and the loan officer.
Know:	<ul style="list-style-type: none">• Design the job description of the credit committee and loan officer based on the structure normally discussed in cooperative law or bylaws of the credit union.
Feel:	<ul style="list-style-type: none">• Agree on the need for a clear and specific job description for credit committee and loan officer to perform their duties and responsibilities effectively.

Topic **Duties and Responsibilities of Credit Committee/Loan Officer**

Time Allocation 1 hour (60 minutes)

Materials

1. Masking Tape
2. Flip Charts
3. Marking Pens
4. Cut out meta cards on the specific duties of the Credit Committee and Loan Officers

Handouts

- Job Description of the Loan Officer and Credit Committee

Session Guide **1. Introduction:**

Introduce the learning outcomes of the session. Inform that at the end of the session, participants will be able to:

Do:

- Explain the duties and responsibilities of the credit committee and the loan officer.

Know:

- Design the job description of the credit committee and loan officer based on the structure normally discussed in cooperative law or bylaws of the credit union.

Feel:

- Agree on the need for a clear and specific job description for credit committee and loan officer to perform their duties and responsibilities effectively.

Differentiation of Credit Committee and Loan Officer

2. For 10 minutes, ask the trainees to illustrate the difference between the Credit Committee and Loan Officer in a poster. The differentiation can be in the form of functions, structure, skills, authority and capacities, which will be depicted in a drawing.
3. A designated judge from each group will check the output of another group as the facilitator explains the differentiation.

4. Explain the following obvious differentiations:

	Credit Committee	Loan Officer
Source of authority	General Meeting through election or Board of Directors by appointment	As appointed by the General Manager
Status	Volunteer	Professional staff
Term	With term limit – 3 years	No term limit, but depends on performance
Competence required	Experience on loan evaluation, professional qualification is a plus	Professional qualification
Decision	Collective	Individual
Authority	Higher level of approval authority	Limited amount of approval authority subject to confirmation of the loan supervisor or general manager
Reporting	AGM or Board	Loan Supervisor or GM

Trainer's Notes:

The credit committee is elected by the members of the annual general meeting (AGM) or appointed by the board of directors. The method used to staff the committee normally is discussed in the credit union law. The committee usually serves on a voluntary basis and reports to the membership or the board of directors, depending if they were elected or appointed. The committee usually consists of not less than 3 or more than 5 members.

In some countries, a clause in the bylaws allows the credit committee to delegate the powers to the loan officers. Since loan officers are experienced professionals, they are able to grant more loans that are complex and the credit union can provide additional loan products to the membership. In new or small credit unions with very limited loan products, such as share secured, co-signed, and unsecured loans, the credit committee is usually capable of evaluating the borrower's ability to repay the loan and making the loan decision. These loan types normally have short maturities, are for small amounts and the paper work needed to properly secure the loan is limited to the application and note.

As credit unions grow and expand the range of loan products offered, the use of professional loan officers instead of the credit committee is a good business decision. Vehicle, real estate, business, and agricultural loans are complicated. The documentation to secure the loan is extensive and labor intensive. The evaluation of the borrower's ability to repay is also much more complicated; it usually are for much greater amount and a longer term so the risk posed to the credit union is far greater.

Job Descriptions: Credit Committee and Loan Officers

5. Use the 'University Challenge' method. Suitable for: Two opposing teams.
6. Print - 'Credit Committee' and 'Loan Officer' in separate meta cards. The size of the fonts should be readable – about 72 to 100 depending on the size of the group.
7. Print each of the specific responsibilities of the credit committee and loan officer in meta cards (see below).
8. Place them in a box for the draw – total 25 responsibilities, but 5 of them applies to both (see the highlighted texts next page).
9. The task: identify to whom the responsibility belongs. Each team has to send a runner to draw a card from the box. The runner can decide on the answer or can ask help from the group.
10. If the answer is correct without asking help from the group, the runner gets another question and does the same thing. If the answer is wrong, other team gets the chance to draw. However, correct answer with the help of the group does not qualify for another draw. The chance goes to the other group.
11. Runner's correct answer is 5 points; correct answer with the help of the group gets 2 points. Double points will be given to the five responsibilities that apply to both Credit Committee and Loan Officer.
12. Below are the answers on the 'University Challenge'

Credit Committee:

- Meet no less frequently than monthly and more frequently as required by the volume of business referred to the credit committee for decision or review.
- **Render decisions fair to members' and beneficial to credit union's health.**
- Review applications for loans and make decisions upon such applications within the authority delegated to the committee. All loan decisions must be based on the loan policies established by the board of directors and in compliance with applicable law(s).
- Review written appeals of decisions made by loan officers. Review all loan denials and 'marginal' risk cases.

- **Provide financial counseling to members in the wise use of credit**
- Act upon the request of a member with respect to amendment of the terms and conditions of a loan provided that such amendment falls within the loan policy.
- Give preference to the smaller loan applications if the need and credit factors are equal should adequate funds not be available to meet all loan demand.
- Review credit union loan and collection policies along with performance.
- Recommend changes to the policies to improve loan underwriting and collection efforts.
- Direct loan collection action within policy and review management recommendations regarding collection activity to ensure standards are met.
- Maintain complete record of all meetings and actions of the committee.
- Maintain confidentiality of all activities of the committee.
- Ensure that management is maintaining prudential standards relative to the lending operations such as liquidity, provisioning of loans delinquent, delinquency ratio, and charge off.
- **Evaluate the credit union's lending performance annually and compare it to past periods by reviewing a breakdown of borrowers, total number and amount of loans approved, declined, the total number of borrowers, the ratio of borrowers to members, the average loan size, the delinquent loan to total loan ratio, and the net charge off/average loan ratio.**
- Prepare and present a report at the AGM summarizing the loan activity for the year.
- **Remain current on all personal credit obligations with the credit union.**
- Appoint loan officers to assume all or part of the loan granting function. Ensure that the loan officers carry out their duties according to all legal requirements, board policies, and credit committee guidelines.

Loan Officer:

- Interview loan applicants, obtain all the necessary documentation to make the loan decision, properly secure the collateral used to qualify for the loan, and approve the loan according to the policy and applicable law(s).
- Provide information to the membership concerning the different types of loans offered, the terms and interest rates, and the documentation needed to be considered for loan.
- **Render decisions fair to members' and beneficial to credit union's health.**
- **Provide financial counseling to members in the wise use of credit.**
- Refer all borrowers' requests for loan extensions, refinances, or any changes to original loan terms to the credit union manager or as designated in policy.
- Make counter offers to the borrowers that are credit worthy but cannot qualify for the loan they requested.
- Assist management in drafting written procedures that clearly state how each step of the lending process is performed.
- **Remain current on all personal credit obligations with the credit union.**
- Maintain and keep current the loan office minutes, include the following for approved loans; borrower account number, borrower name, amount of loan granted, interest rate, maturity, collateral used to secure the loan and any comments, for denied loans include the borrower name, amount of request, collateral offered to secure the loan, and the reason for denial.
- Maintain all loan documents in fireproof containers and ensure that all documents in the loan file are filed according to procedure.
- Participate in training, seminars, and workshops to improve loan underwriting skills and techniques.
- Make suggestions to the manager concerning changes to the lending policy and/or procedures.
- Highlight risks on the credit union's lending performance. Compare it to past periods by reviewing a breakdown of borrowers, total number and amount of loans approved, declined, the total number of borrowers, the ratio of borrowers to members, the average loan size, the delinquent loan to total loan ratio, and the net charge off/average loan ratio.

13. At the end of the University Challenge, responsibilities are correctly placed under the headings 'Credit Committee' and 'Loan Officer.'
14. Ask trainees to return to their seats. Distribute the Job Description of the Credit Committee and Loan Officer.
15. Ask the following question to the group:
 - What duties and responsibilities of the Credit Committee and Loan Officer are not being performed in your credit union?
16. This will be a group discussion, answers will be written on meta cards. The trainees will come up with several issues. Place them on ACTION WALL. Group the similar ones. The action wall will be used to prepare the action plan on the last day of the training.
17. Remind the trainees that the Job Description for both the Credit Committee and Loan Officer is crucial to establish accountability and responsibility. It should be clearly stated in writing. It should be signed to imply that they reviewed the document and will perform their duties and responsibilities to the best of their abilities. Annually, the compliance with this document should be part of the appraisal process.
18. Summarize the original objectives of the session.

**Credit Committee ¹
JOB DESCRIPTION**

Title	:	Credit Committee Member
Reports to	:	Board of Directors
Supervises	:	Loan Officer

Primary Responsibility:

The Credit Committee provides guidance and information to the Board of Directors regarding lending policies and procedures to ensure that the credit union is acting in the best interest of the members – helping them build wealth through the financial services it provides.

Knowledge and Skills:

- Knowledge of the credit union lending policies
- Knowledge of applicable laws and regulations
- Knowledge on the different types of loan products
- Financial literacy and financial counseling

Specific Responsibilities:

- Meet no less frequently than monthly and more frequently as required by the volume of business referred to the credit committee for decision or review.
- **Render decisions fair to members' and beneficial to credit union's health.**
- Review applications for loans and make decisions upon such applications within the authority delegated to the committee. All loan decisions must be based on the loan policies established by the board of directors and in compliance with applicable law(s).
- Review written appeals of decisions made by loan officers. Review all loan denials and 'marginal' risk cases.
- **Provide financial counseling to members in the wise use of credit**
- Act upon the request of a member with respect to amendment of the terms and conditions of a loan provided that such amendment falls within the loan policy.

¹ The duties and responsibilities of the credit committee are set on a premise where the members of the committee are elected at the annual general meeting (AGM) or appointed by the board of directors. The method used is normally in accordance with the credit union law of such particular country. Further, smaller and newly organized credit unions appoints credit committee in the absence of loan officer. The credit committee serves on a voluntary basis and reports to the members or the board of directors, depending if they were elected or appointed.

Credit union loan officers' Competency course

- Give preference to the smaller loan applications if the need and credit factors are equal should adequate funds not be available to meet all loan demand.
- Review credit union loan and collection policies along with performance.
- Recommend changes to the policies to improve loan underwriting and collection efforts.
- Direct loan collection action within policy and review management recommendations regarding collection activity to ensure standards are met.
- Maintain complete record of all meetings and actions of the committee.
- Maintain confidentiality of all activities of the committee.
- Ensure that management is maintaining prudential standards relative to the lending operations such as liquidity, provisioning of loans delinquent, delinquency ratio, and charge off.
- Evaluate the credit union's lending performance annually and compare it to past periods by reviewing a breakdown of borrowers, total number and amount of loans approved, declined, the total number of borrowers, the ratio of borrowers to members, the average loan size, the delinquent loan to total loan ratio, and the net charge off/average loan ratio.
- Prepare and present a report at the AGM summarizing the loan activity for the year.
- Remain current on all personal credit obligations with the credit union.
- Appoint loan officers to assume all or part of the loan granting function. Ensure that the loan officers carry out their duties according to all legal requirements, board policies, and credit committee guidelines.

Accepted:

Date: _____

LOAN OFFICER² JOB DESCRIPTION

Title	:	Loan Officer
Reports to	:	Loan Department Supervisor or General Manager
Supervises	:	Loan Clerk or Collection Officer

Primary Responsibility:

The loan office provides guidance and information to the loan department supervisor or the General Manager regarding lending policies and procedures to ensure that the credit union is acting in the best interest of the members – helping them build wealth through the financial services it provides.

Knowledge and Skills:

- Knowledge of the credit union lending policies
- Knowledge of applicable laws and regulations
- Knowledge on the different types of loan products
- Financial literacy and financial counseling

Specific Responsibilities:

- Interview loan applicants, obtain all the necessary documentation to make the loan decision, properly secure the collateral used to qualify for the loan, and approve the loan according to the policy and applicable law(s).
- Provide information to the membership concerning the different types of loans offered, the terms and interest rates, and the documentation needed to be considered for loan.
- **Render decisions fair to members' and beneficial to credit union's health.**
- **Provide financial counseling to members in the wise use of credit.**
- Refer all borrowers' requests for loan extensions, refinances, or any changes to original loan terms to the credit union manager or as designated in policy.
- Make counter offers to the borrowers that are credit worthy but cannot qualify for the loan they requested.

² As credit union grow and expand the range of loan products offered, the use of professional loan officers instead of credit committee is a good business decision. The loan officers are employees of the credit union. They report to the loan department supervisor or the general manager. They should have extensive experience in underwriting the loan types offered by the credit union.

Credit union loan officers' Competency course

- Assist management in drafting written procedures that clearly state how each step of the lending process is performed.
- **Remain current on all personal credit obligations with the credit union.**
- Maintain and keep current the loan office minutes, include the following for approved loans; borrower account number, borrower name, amount of loan granted, interest rate, maturity, collateral used to secure the loan and any comments, for denied loans include the borrower name, amount of request, collateral offered to secure the loan, and the reason for denial.
- Maintain all loan documents in fireproof containers and ensure that all documents in the loan file are filed according to procedure.
- Participate in training, seminars, and workshops to improve loan underwriting skills and techniques.
- Make suggestions to the manager concerning changes to the lending policy and/or procedures.
- Highlight risks on the credit union's lending performance. Compare it to past periods by reviewing a breakdown of borrowers, total number and amount of loans approved, declined, the total number of borrowers, the ratio of borrowers to members, the average loan size, the delinquent loan to total loan ratio, and the net charge off/average loan ratio.

Accepted:

Date: _____

2

CREDIT UNION RESPONSIBLE LENDING

(2 hour session – 120 minutes)

OBJECTIVES

Do:	Introduce the principles of responsible lending in credit unions
Know:	<ul style="list-style-type: none">• Understand the application of responsible lending as it relates to the mission of credit union• Identify current issues in credit union lending deviating to the standard responsible lending practices
Feel:	<ul style="list-style-type: none">• Appreciate the importance of understanding responsible lending principles to appropriately position the products and services as financial solutions• Recognize that credit or loans is not the solution to members financial problems and meet their financial goals

Topic	Credit Union Responsible Lending
Time Allocation	2 hours or 120 minutes
Materials	<ol style="list-style-type: none">1. Flip Chart on Life Stages2. Marker Pens3. Sticky notes
Handouts	<ol style="list-style-type: none">4. F.W. Raiffeisen statements on credit union lending5. Sample: Statement of Responsible Lending Practices
Session Guide	<ol style="list-style-type: none">1. Introduction Introduce the learning outcome of the topic saying that “At the end of the session, you as participant will be able to: Do: Introduce the principles of responsible lending in credit unions Know:<ul style="list-style-type: none">• Understand the application of responsible lending as it relates to the mission of credit union• Identify current issues in credit union lending deviating to the standard responsible lending practices Feel:<ul style="list-style-type: none">• Appreciate the importance of understanding responsible lending principles to appropriately position the products and services as financial solutions• Recognize that credit or loans is not the solution to members financial problems to meet their financial goals”2. Explain the next activity on the development of the Principles of Responsible Lending in credit union.3. Distribute the statements from F.W. Raiffesen. These are excerpts from the book written by Raiffeisen entitled ‘The Credit Unions.’ The book was completed in 1866.4. Explain that lessons can be learned on responsible lending based on the convincing statements made by Raiffeisen in his book. The task of the group is to extract from each statement the principles of credit union lending Raiffeisen was conveying. Allocate 10 minutes for this exercise. Ask to write the answers on the meta cards.

Statement 1: The most important business of the credit unions is lending money. How a credit union prospers depends upon the handling of its credit union business. The directors of some credit unions are too anxious, often also inconsiderate of needy people. If they cannot retire from the credit union for many external reasons, they understand their duty as members of the respective board only as guardians to keep away all danger from the credit union. If is worse of course, if the directors neglect the necessary precaution, i.e. if they lend money carelessly.

Statement 2: Credit unions are established to raise the overall economic situation of the members. For this purpose, the behavior and character, in addition to the financial standing of every individual member must be judged. Upon this depends what kind of help may be required, and what condition must be fulfilled in connection with it.

Statement 3: After the credit union is established, only a few members understand its objectives and goals. Most members know little or nothing about the problems involved. A short lecture is not enough to raise a more general understanding. Repeated instructions must be given at meetings as long as it is required in order to implant the right spirit of the credit union. This requires considerable time. The majority of the members carries on their business as before and become aware of the credit union only, when they need its help to overcome a dangerous shortage of money. Many continue to borrow money from usurers and go to meet their ruin in this way in spite of the potential help from the credit union.

Statement 4: The primary duty of the executive board is to explain all sides of the credit union business to the members; to raise their interest in a friendly way; to gain their confidence, not to wait until they are brought down by usurers, poor management, carelessness, etc. but to prevent such disasters, and to lead them in better ways as long as time is left for an improvement.

Statement 5: Help is required under any circumstances for members who offer the necessary guarantee for good use of the money they want to borrow. Guarantee is made on the evidence of sound personality, the reliability of their character and a serious effort to work their way up. If they are able, in addition thereto, to offer satisfactory security, the board should do what is in its power to procure the money required.

Statement 6: The board should not wait until applications for credits are presented to them; to bestow from the beginning upon all members the credit union's assistance; to advise them; to warn them; to free them from usury; to improve their living conditions in every respect – all these recommendations are made under self-understood supposition that they apply only to diligent, thrifty, and assiduous members. We urgently recommend that every possible help be granted to them, and advise strongly at the same time against lending money to lazy, wasting and negligent people.

Statement 7: From the beginning, the credit union shall grant loans only to members who justify the assumption that they will make good use of the loans. This is the only way to achieve orderly business, to avoid court proceedings as much as possible, and to improve the conduct of those members who do not have the right concept as yet. The saying has to be applied here: "God helps those who help themselves." No help from the credit union, neither from God, can be given to those who don't help themselves. The credit union leaders should first take care of the weaker members who are starting to work by themselves for their own improvement. The first financial aid can and shall be given, when this has become evident.

Statement 8: Once the credit union has been established, people often want to start a great number of transactions as quickly as possible. They disregard what use is to be made of the borrowed money, and look for security of the loans only. They satisfy themselves with the fact that some income can be expected, and no risk is involved. This is the most frequent and most detrimental method applied in many credit unions. It causes immeasurable damage. The regression of members of the credit union, who already are in a declining condition, is accelerated by granting them loans recklessly. Their debts increase and no repayment are made when the time for them approaches. The balances to be paid accumulate, and an enforcement of the debt liquidation is finally inevitable. In addition, may guarantors experience losses. The usurer laughs up his sleeve. Having places his profits in safety, the credit union must help him finally to slaughter the poor victim.

5. Ask the groups to post their meta cards on the Board. Sort the same answers. The following will most likely be the answers of the trainees:
 - Lend carefully or prudently
 - Lend to the needy members
 - Lend to raise the overall economic situation of the members
 - Lend only to those with the ability to pay and good character
 - Educate members
 - Financial advice to members
 - Respect members
 - Lending for the good use of money
 - Grant loans to members who demonstrate sincere effort to help themselves

6. Post the following six principles of responsible lending on the white board (print them in meta cards).

7. Ask the trainees to identify the keywords on what should be the contents of each principle:
 - Supporting members
 - Fair Credit Practices
 - Disclosure of Rates and Fees
 - Honest and Non discriminative Promotion
 - Dignified Collection Practices
 - Education on Thrift and Wise Use of Credit
8. Allocate 10-15 minutes for the exercise.
9. Distribute the Sample Principles on Responsible Lending for Credit Unions. Review the sample based on the answers of the group. If the group is small, ask them to circle around the white board. Do not allow participants stay on their seats for more than 20 minutes.
10. Conclude that the principles of responsible lending must be the basis of the loan administration of the credit union. Failure to practice them will result to members getting into debt trap and credit union increasing delinquency.

**SAMPLE
PRINCIPLES FOR RESPONSIBLE LENDING IN CREDIT UNIONS**

At ABC Credit Union, we are committed to responsible lending practice. We acknowledge our obligation to market our products responsibly and stay in touch with the expectations of our members and the community. The following Principles provide additional details of our approach to responsible lending.

1. Supporting Members

We offer the credit assistance service for the benefit of our members. Our credit union will guide our members and will be their financial partner to achieve their life aspirations and goals. We aim to make this as transparent and accessible as possible and seek to facilitate a mutually acceptable arrangement with our members. This can include helping them find solutions if they are in arrears or unable to make contracted repayments on a loan.

2. Fair Credit Practices

We will provide borrowers with accurate, comparable, transparent and complete information about the total cost of loans, including fees or commissions as required under applicable law. This should be provided through an annual percentage rate inclusive of fees and commissions. We shall:

- Allow borrowers a period of time to withdraw from a transaction without a penalty imposed;
- Never offer members products the members cannot repay or will likely cause the member severe financial hardship;
- Provide loan applicants with written responses as to why loan applications have been rejected. Credit union staff or board members should never accept any compensation from a potential borrower in exchange for granting of a loan; and
- Not charge borrowers fees or penalties for early repayment of a loan.
- Lend only what our members can afford to repay. For this, we will follow a strict, detailed and sensible loan criteria process, including the use of credit scoring, credit reference checking and affordability verification to make a full assessment of a person's capacity to repay;

3. Disclosure of Rates and Fees

We will help our members stay fully informed, providing them with the information they need to be confident when making a financial decision. Disclosures on interest rates, fees and other charges on loans will be made clearly in writing and in a form the member or potential member understands.

4. Honest and Non-Deceptive Promotions

- We will market our products and services responsibly.
- We will act with integrity, following ethical and legal selling practices and giving our members information that helps them make informed decisions about our products and services.
- We will not promote loans that have initial low prices, but later reset at higher rates without fully informing the member.

5. Dignified Collection Practices

While consistent and persistent collection practices are necessary, we will not directly or indirectly through collection firms seek to collect member loans by harassing, physically or verbally abusing or oppressing a person. The following conduct is considered unacceptable:

- Using or threatening the use of violence or other criminal means to harm the physical person, reputation or property of any person; or
- Use of obscene or profane language.

6. Education about Thrift and Wise Use of Credit

In accordance with the *International Operating Principles for Credit Unions*, we will should provide members with information and tools on how to accumulate wealth and utilize credit wisely.

Part of our role as responsible lenders is to educate our members to ensure they are confident when making a financial decision and to avoid compromising their financial stability. We do this by:

- offering financial seminars, on topics such life planning
- providing useful tools such as budgeting calculators
- include articles in our quarterly newsletters to promote financial literacy
- include information on our website targeted to age group and life stage
- providing tips on minimizing fees and charges, and
- supporting public school's projects that promote financial literacy.

3

LOAN POLICY

(1.5 hours session – 90 minutes)

LEARNING OUTCOMES

Do:	<ul style="list-style-type: none">Assess completeness and appropriateness of a credit union loan policy
Know:	<ul style="list-style-type: none">Enumerate the policy areas covered in an effective loan policy of a credit union
Feel:	<ul style="list-style-type: none">Recognize that a clear loan policy is vital to successful loan administration.

Topic	Loan Policy
Time Allocation	1.5 hours (90 minutes)
Materials	6. Flip Chart 7. Marker Pens 8. Meta Cards
Handouts	Sample Loans Policy
Session Guide	<p>1. Introduction</p> <p>Introduce the learning outcomes of the topic saying that</p> <p>“At the end of the session, you as a participant will be able to:</p> <p>Do:</p> <ul style="list-style-type: none">• Assess completeness and appropriateness of a credit union loan policy <p>Know:</p> <ul style="list-style-type: none">• Enumerate the policy areas covered in an effective loan policy of a credit union <p>Feel:</p> <ul style="list-style-type: none">• Recognize that a clear loan policy is vital to successful loan administration. <hr/> <p>2. Distribute the sample Loan Policy. Explain that the loan policy contains salient areas required in granting loans.</p> <p>3. Use the Jigsaw method: Jigsaw - Each group, in a five to six member team, is assigned to on a topic from the Loan Policy. However, each trainee needs to know all the policy areas. Trainees work cooperatively with different teams. All trainees seek the same information, study it, and decide how best to teach it to other teams. After this is accomplished, each group should be able to complete all the learning activity.</p> <p>To make the activity more exciting, use a photo cut out based on the number of groups. The group will have to complete the pieces of photo. After satisfactorily teaching the topic assigned, the group will receive a piece of the jigsaw. A prize can be given to the first group successfully completed the jigsaw.</p>

4. Assign the following topics to the groups. Some groups can discuss two topics.

- a) Eligibility
- b) Assessment
- c) Delegation and Approval Authority
- d) Unsecured Loans
- e) Secured Loans
- f) Securities
- g) Interest Rates
- h) Funding
- i) Line of Credit Loans
- j) General Provision

5. Have all the policy areas printed on meta cards. Post them on the wall and briefly interact with the groups.

Note that the policy did not mention anything about share capital leveraging which is a common practice in many credit unions in Asia. Also highlight, that the loan is not a right of the member, it is a privilege for members who help themselves, work hard and has sincere desire to improve his/her overall economic condition.

6. Ask the groups to identify improvement that they will introduce in the existing loan policy of their credit union. Write the keywords in meta cards. Then post it on the 'Action Wall.' These are the areas trainees will have to address in their action plan.

7. Conclude the session summarizing the learning objectives. Inform that the loan policy is the basis to which the loans in the credit union are assessed. The next topics will then deal on the process of assessing the loans.

LOANS POLICY

Purpose:

The purpose of this policy is to set forth credit union's approach and standard operating procedures to guide management, credit committee and board of directors in achieving the strategic objectives of the organization, ensure safety of member deposits and assist in financing the credit needs of the membership.

1. ELIGIBILITY

- 1.1 Eligibility for a loan from the XYZ Credit Union does not confer automatic right on the member to a loan.
- 1.2 The XYZ Credit Union will endeavour to assist each member by making loans promptly for worthwhile purposes.
- 1.3 Each loan so made will comply fully with the requirements of the Cooperative Act/Credit Union Act, the XYZ Credit Union's rules and other policy requirements contained herein.
- 1.4 The XYZ Credit Union will not discriminate against applicants for a loan on the grounds of:
 - Marital Status
 - Race, colour, nationality or ethnic origin.
 - Political Opinion.
 - Religion.
 - Sex.

2. ASSESSMENT

2.1 Documentation

Loan applications should only be accepted on the approved form that should be completed in full by the member before submission for consideration.

2.2 Interview

All members should, wherever possible, be interviewed prior to the granting of a loan. All applicants should be encouraged to save regularly and a member's savings record should be taken into account when the loan application is considered.

2.3 Credit Investigation

Credit investigation shall be obtained on **all** loan applications. Credit investigation should also be obtained for all indemnifiers and guarantors (refer to Credit Investigation Policy).

2.4 Income

No loans shall be made to members less than 18 years of age without a co-borrower (Indemnifier) or to members who are not in receipt of an income sufficient to repay the loan.

No loan shall be made to a member (if indebtedness exceeds member's shares and savings) unless the member has and will continue to have an income sufficient to provide for the repayment of the indebtedness represented by the loan.

2.4.2 The income stated on the loan application should be verified.

2.4.3 Where income is seasonal, assessed income shall not exceed anticipated average weekly income during the term of the loan. (Proof should be held).

2.4.4 When a member is self-employed or when income is seasonal, proof of income should be held in the member's file (adequate proof being accountant's figures and projections).

2.5 Repayment terms

Generally repayment terms shall be as set out below. In special circumstances however a member may apply for relief in writing to the board where responsibility extends to temporary suspension or reduction of repayments in accordance with the Collection and Delinquency Policy.

2.5.1 Unsecured loans

Unsecured loans should have a maximum repayment term of ____ months

2.5.2 Loans secured by way of Chattel Security over second hand goods

Loans secured by Chattel Security over reconditioned or used goods should have a maximum repayment term of ____ months where the loan amount exceeds the unsecured limit of the XYZ Credit Union.

Loans secured by way of Chattel Security of new goods as prescribed by the rules

Loans secured by Chattel Security over new goods should have a maximum repayment term of ____ months for new motor vehicles and _____ months for all other new goods.

2.5.4 Loan secured by way of registered mortgage

The maximum repayment term for loans secured by a registered mortgage is..... years.

The maximum repayment term for loans secured by way of registered mortgages shall be..... so as to allow for unforeseen circumstances that may extend the term of the loan. (E.g. fluctuations in interest rates).

2.5.5 Loans Secured by Other Than Chattel Security or Registered Mortgage

The loans secured by other than Chattel Security or Registered Mortgage shall have a maximum term of ____ months.

2.5.6 General

Generally repayments should be structured at such a level as to ensure (consistent with the provisions set out above) that the maximum term of the loan is not greater in number of years than is represented by each thousand _____ (Pesos, Rupiah, Rupees, Dollars, Baht etc.) borrowed. The maximum repayment terms for loans shall be as follows:

AMOUNT OF LOAN MAXIMUM REPAYMENT TERM

Amount	Months
	6
	12
	18
	24
	30
	36
	36
	36
	48*
And over	60*

** For loans that are unsecured or secured by way of Chattel Security the maximum terms as specified by clauses 2.5.1, 2.5.2 and 2.5.3 shall apply.*

The general maximum term of 60 months (for other than loans for housing purposes secured by way of Registered Mortgage) may only be exceeded under the authority of the Board of Directors, the Board of Directors having given due consideration to exceptional circumstances prevailing within the application.

For loans for housing purposes secured by way of Registered First Mortgage which exceed (amount) the maximum repayment term shall be within the term specified in clause 2.5.4 and shall be set under the discretion of the Board of Directors.

2.6 Deferred/Rejected loans

- 2.6.1** Loans shall not be made to a member with a delinquency record unless the borrower has been able to demonstrate an improved record and is able to provide a satisfactory guarantor, indemnifier, or acceptable security.
- 2.6.2** A loan application may be deferred pending replies to enquiries.
- 2.6.3** The Board of Directors at their next meeting shall consider all loans recommended for rejection where loan approval authority has been delegated.

3. DELEGATION OF APPROVAL AUTHORITY

3.1 Loans to Directors, Sub-Committee Members and Staff of Credit Union

3.1.1 Directors and Their Relatives/ Immediate Family Members

It is a requirement that all loans to Directors, Sub-Committee members and their respective immediate family members must be approved by 2/3 majority of the board present and voting excluding the director with any interest in the application.

3.1.2 Loans to Staff and Their Immediate Family Members

All loans to staff and their immediate family members shall be subject to Board of Directors approval prior to funding.

3.2 **Delegations**

3.2.1 All loans made under delegation from the Board of Directors shall be made in accordance with the Credit Union rules.

3.2.2 The Board of Directors' authority to approve loans has been delegated to the following: (Insert whichever classification is appropriate)

- Credit Committee - amount of approval authority is _____
- Manager-amount of approval authority is _____
- Branch Manager-amount of approval authority is _____
- Loans Manager –amount of approval authority is _____
- Loans Officer-amount of approval authority is _____

3.2.3 Loan applications that fall outside the policy shall be submitted to the Board of Directors with a recommendation from management. Loan applications failing within policy but not approved will be submitted to the Board of Directors for consideration. The Board at their next meeting will consider all loans recommended for rejection.

4. **UNSECURED LOANS**

4.1 **Maximum limit**

The maximum loan, which may be granted without security, is (amount) .

4.2 **General conditions**

The general conditions that should be considered before a loan is approved without security are as follows:

4.2.1 **Employment qualification**

The member should have been in regular employment for a period of not less than 3 years. Commencement and finishing dates of current and previous employers should be verified.

4.2.2 **Residential status**

In general unsecured loans should not be granted to members who have changed address more than twice in 3 years unless the residence is currently occupied and owned by the member.

4.2.3 Temporary premises

Unsecured loans should not be granted to persons residing in temporary arrangements. In most cases in this category it will be necessary to secure the loan and to obtain an indemnity to the loan. In the case of microfinance loan, the group responsibility applies as collateral.

4.2.4 References

Unsecured loans should not be granted to a member who does not have a clear credit reference check.

4.2.5 Purpose of the loan

In general, loans for the purchase or repair of a motor vehicle, bond or flat or rent arrears, payment of fines, debt consolidation, holidays or overseas travel, setting up own or a speculative venture should, if approved, be adequately secured irrespective of the amount of the loan.

5. SECURED LOANS

5.1 Maximum limit

The maximum limit of a secured loan is *(Amount)* for loans secured by mortgage over real estate, and *(Amount)* for loans otherwise secured.

5.2 General conditions

5.2.1 Only securities prescribed by the board within the limits of the rules of the Credit Union shall be taken.

5.2.2 All securities taken will be registered.

5.2.3 A loan shall not be made solely on the strength of the security.

5.2.4 The general policy stated in Section 2.5 above shall apply to loans, notwithstanding the maximum repayment terms set out in the Rules.

5.3 Insurance

All insurable securities taken shall be fully secured with the Credit Union's interest noted on the policy document.

5.4 Valuations of Securities

It is the policy of this Credit Union that the maximum amount of loan that can be approved against security may not exceed the following valuation of the security offered. (Valuation shall be based on the total of the Credit Union loan together with any other form of loan to which this Security is subject)

5.4.1 Real estate

Valuation shall be 75% of independent valuation received (e.g. latest Valuation Department valuation or independent Registered Valuers' Report).

5.4.2 Motor vehicles

The security value for motor vehicles, motorbikes (where considered) shall be deemed to be 60% of the CURRENT TRADE value. Before valuing Chattel Security over motor vehicle or motorbikes, checking must be made with the Land Transportation Department/Office to ensure the reliability of the security.

5.4.3 Life Policies

Written evidence of the surrender value of a policy shall be held with subsequent surrender values being obtained every 2 years.

Valuation shall be 90% of the most recent surrender value obtained from the relevant insurance company.

5.4.4 Chattel Security Over Other Than Motor Vehicles. Caravans and Boats

The Security value for Chattel Security taken over goods other than motor vehicles, caravans or boats (e.g. sporting equipment, tools, power equipment, household furnishings, appliances) shall be deemed to be 25% of estimated realisable value.

5.5 Preparation/Registration of security documents

A solicitor shall undertake the preparation of all real estate securities and any Chattel Security taken, as security shall be registered within 30 days.

6. SECURITIES

6.1 Mortgage (over real estate)

All loan approvals shall be conditional upon acceptance of valuation, searches and certificates. In the event that the loan is required by way of progress payments (in the case of house building, home improvements) loan funds shall be drawn down under the manager's approval on the production of invoices, progress valuations etc.

6.2 Chattel Security

6.2.1 Maximum period

Where a Chattel Security is used to secure a loan and the loan is above the unsecured limit the maximum term of the loan shall be as per Section 2.5 of this policy document.

However, no vehicle over 6 years old may be used to secure a loan in excess of the unsecured limit.

NOTE. The Board have authority to allow vehicles over 6 years to be used as security for loans in excess of the unsecured limit.

6.2.2 Proof of Title

This form of Security is recognised as the most common type of security generally accepted by the Credit Union and as such the taking of this form of security shall be undertaken with the greatest of care.

A written valuation should be sought from a recognised Valuation Company and submitted at the same time the loan application is put forward for consideration. This will establish the current trade value.

Vehicles should be owned freehold before considering them as security and the Certificate of Registration (ownership papers) lodged with the loan application.

A check with the Land Transportation Department/Office should always be undertaken to ensure that no other financial party has an interest in the vehicle.

The vehicle must be comprehensively insured and advice that the Credit Union has a financial interest in the vehicle must be lodged with the insurance company at the point that the loan is disbursed.

6.2.3 Corporate Ownership of Secured Property

Where the security to be taken is in the name of a firm or company a name search and company's title search must be obtained and a copy of the Memorandum and Articles held in order to ascertain the company's power to guarantee.

6.3 Indemnities

Indemnities shall be signed in the presence of the Credit Union staff, the staff of another Credit Union or a solicitor. Each indemnifier must be interviewed by the Credit Union staff (in person or by telephone) and made fully aware of their obligations. A statement of financial position is also to be taken and a credit reference check made.

An indemnity only covers the loan amount originally indemnified and therefore a new indemnity shall be completed for each consolidated loan.

6.4 Minors

No loan shall be made to a person under the age of 18 years unless a suitable indemnifier supports the application over the age of 18 years.

7. INTEREST RATES

Interest Rates shall be as determined by the Board of Directors from time to time.

8. FUNDING

8.1 General

8.1.1 Completion of documentation

Loans shall only be funded after the approved agreement and any appropriate securities have been executed.

8.1.2 Third party cheques

When a loan is for the purpose of consolidation of debts or the purchase of goods or services, the funding cheque shall be drawn in favour of the third parties involved.

8.1.3 Signatories

All funding cheques shall bear two signatures.

8.1.4 Second loans

When a member, who has an existing loan is granted a second loan (NOT an add-on loan), the loans shall be treated as two distinctly separate loans and shall require individual loan agreements with the following additional condition attached to the second loan agreement. "The member hereby agrees and acknowledges that this loan agreement is in addition to and not in substitution for loan agreement number dated the terms and conditions of which apply and remain unchanged in respect of any loans granted to the member by the Credit Union prior to this date".

8.1.5 Validity of approval

An approval of loan shall only remain valid for a period of 1 month unless alternative arrangements are made when the member is informed of the initial approval. In any event an approval shall lapse 3 months after approval date.

8.2 Costs

All costs associated with a loan (i.e. security preparation, registration etc.) shall be borne by the member. On application by the member and the approval of the approving authority these costs may form part of the approved loan.

8.3 Funds flow

The manager shall maintain a daily cash flow record and will strictly control loan funding in accordance with this record. In the event that loan demand exceeds the XYZ Credit Union's funds supply from time to time, approved loans shall be ranked for funding according to the date the application was received by the XYZ Credit Union, provided, however, that loans to members suffering extreme financial hardship may be given priority over this ranking.

9. LINE OF CREDIT LOANS

9.1 Loan limit

The maximum loan, which may be made with, the prescribed security shall be (Amount). The board may vary the upper limit where considered desirable in accordance with the rules of the XYZ Credit Union.

The minimum loan limit shall be (Amount)

9.2 Unsecured line of credit loans

See limits specified above.

9.3 Secured line of credit loans

See limits specified above.

9.4 Agreed repayments

Line of credit loan limits are subject to review after 1 year, when a fresh application form may be required.

Repayments for line of credit loans shall be either:

- a minimum of 5% of approved limit per month; or
- such higher fixed monthly repayment amount as shall be determined by agreement between the Trustees and the member.

9.5 Separate loans

An approved line of credit loan shall not affect the ability and eligibility of members to have other loan accounts with the XYZ Credit Union. The requirements of the rules and current policies with regard to total indebtedness will remain.

9.6 Minimum funding

The minimum value of any advance drawn on the line of credit loan shall be *(amount)*

9.7 Applications

Upon receipt of an application all relevant details shall be entered in a suitably styled register and given a loan number. Applications shall be taken on the appropriate line of credit application form.

A credit reference check shall be obtained on all applications.

The member's financial standing shall be fully examined.

9.8 Loan Limit Review

The Credit Union shall constantly review the status of members who continually maintain constant balances at the maximum available and particular care shall be taken in approving requests for maximum loan limits.

On annual review, if the member is consistently maintaining a set balance level rather than operating the account on a fluctuating basis, then the line of credit loan shall be converted to a "Term Loan" basis.

9.9 Drawings under line of credit

On approval of the line of credit facility, the member shall be supplied with a voucher book for line of credit advances. As members wish to make drawings against their facility the following procedure shall be adopted:

- 9.9.1** A completed voucher form shall be lodged with the cashier who shall authenticate the signature and verify that the drawing is within the approved limit. Provided the transaction is in order, the cashier shall process the advance by use of the appropriate teller program.
- 9.9.2** Vouchers shall be filed with the day's work as appropriate.
- 9.9.3** Management shall monitor funding by the use of daily loans funding report.
- 9.10** The XYZ Credit Union shall provide for delinquency at the rate of 1.0% of advances drawn down in addition to the normal prudential and statutory requirements. The standard procedures of the collection policy are to be followed.

9.1 1 Register

The following information is to be provided in the line of credit register:

- Surname and initials
- Membership number
- Line of credit number
- Limit approved
- Agreed repayment
- Date approved
- Limit increase approved to date increase approved
- Agreed repayment

10. GENERAL

10.1 Percentage of long-term loans

Subject to board policy from time to time, long-term loans (with periods of repayment greater than 60 months) may be granted, provided that the total of all such long-term loans is limited to 30% of total loans outstanding.

10.2 Reporting

The manager will report monthly to the board the following information:

No. and Amount of:

- Funding during month.
- Approvals during the month.
- Approved loans awaiting disbursement
- (list individual accounts over 1 month).
- Applications awaiting acceptance.
- Loans rejected during the month.
- Non-standard approvals.

10.3 Loan Administration and Monitoring Roles and Responsibilities

10.3.1. Board of Directors

- a. Ensure that there is a clear communication of the objectives set for the lending function and for the reporting results, both positive and negative to the members.
- b. Assessing the risks associated with the type of lending that the credit union is, or would like to be, involved in.
- c. Review, approve and revise appropriate lending policies that would ensure the granting of safe loans as well as proper administration of the portfolio.

10.3.2. Credit Committee

- a. Assist employees to identify risks associated with the current loan portfolio and report findings to the board.
- b. Minimize or reduce risks by ensuring that applications are complete, followed by the appropriate level of investigation and analysis.

10.3.3. Loan Officer

- a. Complying with Board approved policies and operational procedures.
- b. Providing timely follow-up and review of all loans.
- c. Completing full applications, thorough investigations, and analysis on all loans. Either making recommendations to the appropriate approval body or approving loans based on the credit union policies and following the 8C's of credit.
- d. Taking appropriate action in a timely fashion when warranted.

10.3.4. General Manager

- a. Design appropriate internal operational procedures to implement the loan policy.
- b. Ensure the appropriate reports are completed and forwarded to the Board of Directors.
- c. Review and control the internal loan process.

4

LOAN PROCESS AND DOCUMENTATION

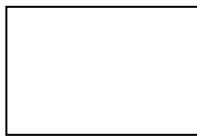
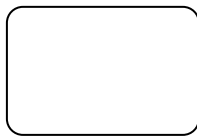
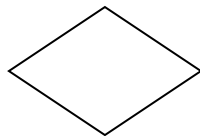
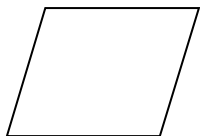

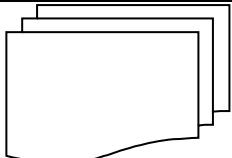
(2.5 hours session – 150 minutes)

LEARNING OUTCOMES

Do:	Prepare a flowchart for loan process and documentation
Know:	<ul style="list-style-type: none">• Skills in loan assessment, documentation and monitoring• Contextualize and adopt the tools in the loan process and documentation
Feel:	Recognize the need for a comprehensive loan process and documentation system in the credit union

Topic	Loan Process and Documentation
Time Allocation	2.5 hours or 150 minutes
Materials	<ul style="list-style-type: none">• Flip Chart• Marker Pens• Meta Cards• Masking tapes
Handouts	<ul style="list-style-type: none">• Loan Process• Loan Documentation
Session Guide	<p>1. Introduction</p> <p>Provide participants a preview of what is going to happen on this session:</p> <p>Do: Prepare a flowchart for loan process and documentation</p> <p>Know:</p> <ul style="list-style-type: none">• Skills in loan assessment, documentation and monitoring• Contextualize and adopt the tools in the loan process and documentation <p>Feel: Recognize the need for a comprehensive loan process and documentation system in the credit union</p> <p>2. Distribute the Loan Process and Documentation papers along with the forms and reporting formats.</p> <p>3. For 10 minutes, ask individual trainee to read documents. Then, discuss it within the group for another 15 minutes. The trainer must be available to answer questions and clarifications from the groups.</p> <p>4. After the group deliberation, entertain some questions from the group, if there are any.</p> <p>5. The next task is for the group to prepare a Loan Process Flowchart based on the loan process given to them.</p>

6. Allocate 30 minutes for this exercise. The following are the objects they will use:

Process	
Alternate Process	
Decision	
Data	
Document	
Multi Document	

Note to facilitator:

The exercise does not expect the trainees to 100% use the flowcharting tool correctly. The purpose is for the trainees to have a visual presentation on what they have learned from the loan process. This exercise is a team effort.

7. Ask the groups to post their output on the wall. Rating of the group's output will be done by another group.
8. After all the presentations, ask each group to write in meta cards the areas they need to improve on the loan process and documentation of their credit union. Post them on the 'Action Wall.'

9. PURPOSES FOR THE LOAN INTERVIEW (10 minutes).

Trainer's Note:

A successful lending program follows the loan application with a loan interview. The interview should be conducted by the loan officer, manager or credit committee depending on the size of the credit union and the size of the loan. The interview will be conducted with the applicant and may also include any guarantors on the loan.

The larger and more riskier the loan, the more extensive the interview will be. It is helpful if the credit union interviewer:

- Elaborate on the information in the application-know the borrower
- Provide credit counseling about the wise use of credit-borrowing
- Credit union is for use of the community, defaulters on loans will ruin the ability for future work of the credit union.
- Determine the reliability of the applicant according to their personal history and references
- Establish a personal relationship- make them understand that this is their credit union.
- Sell other credit union services and educate the member about the credit union philosophy-use this personal time wisely

The final, and most important, reason to conduct a loan interview is to evaluate the three C's of lending.

- A person's character.
- A person's capacity to repay the loan.
- The collateral a person has to back up the loan.
- Point out that they will learn more about the three Cs of lending in the next chapter.
- Close the lecture by telling students that interviews can be conducted in person or over the phone.

10. Explain that there are several guidelines, which should be followed to develop an interview.

11. Print the following guidelines in cards, mix them and ask each group to match the explanation to corresponding guidelines. Use different colors for the guidelines and explanation. Each group receives one set of meta cards to work on.

Credit union loan officers' Competency course

Guidelines	Descriptions
Greet the members	Your first goal is to put the applicant at ease. Call the member by name, make casual conversation, and be interested sincere, and natural.
Getting acquainted	Talk for a few minutes before referring to the application. Remember that loan interviews are uncomfortable for many members. Any effort you make to get acquainted reduces member's anxiety.
Maintaining confidentiality	Prior to the interview, you should have checked your area for privacy. Information should never be repeated to other members nor should information about other members be told to the interviewee. In fact, you should not even repeat member's information to coworkers who do not need to know.
Listening	This is the most important part of effective interviewing. You must determine the needs of your member and can only do this by listening. Active listening means involving yourself in the members' message. Show by the use of certain phrases such as "oh," "I see" or "I understand" that you are indeed listening and understanding.
Take your time	Rushing members will not get the information you need. Give them time to respond to your questions and to finish their thoughts.
Ask Open Ended Questions	Ask Questions that require more than a "yes" or "no" answer. This will open the door to more thought out responses. Questions beginning with words such as: what, who, when, where, why and how should help to encourage the applicant to speak.
Keep Control	The interviewer rather than the member, should conduct and control the course of the interview. Preplan the interview so that you have an agenda of questions or items that you want to cover. You may want to use an interview guide when going over the loan application for assistance in completing the interview.
Content of the Interview	It is most important that the credit union gain a complete understanding of the member's activity and the state of development.

12. Say that ‘we will now have some exercise on how to interview members.’

Trainer's Note:

It pays to have a prepared list of questions when you go into the interview. Be sure that the questions you write will get the responses that you need.

There are three types of questions you can use in an interview:

Closed-end questions. Closed-end questions do not encourage a member to open up. Ask these questions when you need simple, factual responses, such as name and income.

Leading questions. Leading questions prompt the member to answer in a certain way. These should be used only when you are attempting to guide the member to a certain decision. For example, if the member wants more money than he is capable of repaying, you might say, “How would you like a loan that you can repay in a year?” Avoid asking leading questions to determine a person’s ability to pay. If you say, “Will you be able to repay the loan?” a member is going to say “yes” whether or not it is true.

Behavioral questions. These are questions that can’t be answered with a “yes” or “no”. Instead, they require the member to talk about how he has handled credit in the past. For example, let’s say you have a new member and you are trying to learn how sincere he is about repaying the loan. You might ask the following behavioral question. “Think of a time in your past where you owed money, and could not immediately repay it. Describe the situation. What did you do?” The member’s answer will reveal how he goes about resolving financial problems.

13. Facilitate a 30-minute case study. Tell trainees that you will read a series of questions. After the question, the group should write down whether the question is: Closed-end, Leading, and Behavioral.

Note to Trainer:

Since group exercises are carried out from the beginning, it would be more exciting if the scores are tracked from the beginning. This would encourage competition and thus, stimulate learning.

14. To manage your time, allow about 5 minutes to read the questions, and 5 minutes to discuss the answers.

Credit union loan officers' Competency course

15. Here are the questions you should read. The trainer may add more questions depending on the number of groups.

Question	Answer
1. Do you think you need a school fees loan?	This is a leading question because the interviewer is suggesting a type of loan.
2. How did you handle your finances when you lost your job?	This is a behavioral question because the interviewer is asking the applicant to describe how he behaved under a set of circumstances.
3. What do you sell at the market?	This is a closed-end question because the applicant need only give a short, factual answer.
4. Tell me how you plan to budget for this loan.	This is a behavioral question because the interviewer is asking the applicant to describe his plans for managing the loan.
5. Will you be able to pay this loan within twelve months?	This is a leading question because the interviewer is implying that the loan needs to be paid within a year.
6. On your application, the references section is blank. Can you provide me with some references?	This is a closed-end question because the applicant need only give the names and addresses of some references.
7. With respect to your finances, what are you proud of? Is there anything you'd do differently?	This is a behavioral question because the interviewer is asking the member's inner most feeling.
8. Tell me what are your aspirations in life and how will you achieve them?	This is a behavioral question. The member would be able to answer this if he/she has dreams he/she wanted to achieve.
9. How many of your children are studying?	This is a closed-end question because the applicant need only give a short, factual answer.
10. Do you have the capacity to pay the loan on a weekly basis?	This is a leading question because the interviewer is implying that the loan needs to be paid on a weekly basis.

16. Once you have reviewed all the case study questions and answers, use any remaining time for trainees' questions.
17. Summarize this activity in these words: "A well written loan is 90% collected." Ensure that the loans are properly evaluated before its release.

LOAN PROCESS

Purpose:

The purpose of this policy is to guide management on the efficient process of loan evaluation integrating capacity-based lending methodology as one of the keys to successful credit management.

1. Loan Application Stage

- 1.1. Loan applications (Form 1) are submitted to the Loan Officer together with the supporting documents that include among others; identification paper, member's passbook as well as photocopies of ownership documents of collateral offered.
- 1.2. The Loan Officer determines the completeness of the data, signatures and supporting documents as well as validates the member's records to determine the loanable amount and possible loan term. Credit counselling is required and done by the Loan officer, discussing purpose of the loan and repayment terms among others, with the applicant.
- 1.3. The Loan Officer prepares an amortization schedule (form 2) based on the interview findings in accordance with the borrower's cash flow and repayment capacity. The amortization schedule is to be discussed and agreed upon by the borrower/co-borrower in applicable case (s).
- 1.4. A preliminary analysis of the data collected and information gathered from the member/borrower is done by the Loan Officer and the result of the analysis should be duly signed by him/her. The analysis should include the following information:
 - Willingness, knowledge, respect and undertaking to abide by the credit policies of the credit union
 - Loan limit
 - Type of collateral
 - Five C's analysis (capacity, character, capital, condition and collateral)
 - Evaluation by the loan officer of the loan application of the member-borrower
- 1.5. All loan applications, including Directors, Officers, Staff and Related Interest (DOSRI) loan application shall undergo this loan processes; and shall include all documentation required as follows:
 - Application Form
 - Amortization Schedule
 - Sources of Income and Expenditures
 - Profit and Loss Statement or Sources of Investments
 - Statement of Assets and Liabilities
 - Self-assessment Form

The above documents should be in the loan file. Further, the loan officer should inform the member-borrower/co-borrower of the consequences of making false declarations on the loan application and other documents.

2. Credit Investigation

- 2.1. After the loan application stage, the loan applicant and co-applicant shall expressly agree to undergo credit investigation. The credit investigator visits the loan applicant and co-applicant for validation of information supplied using the tools required (*Form 8 - Credit Investigation Report*) to determine among others, the credit worthiness, paying capability, capacity, condition of the applicant (s) or their business, and their sources of *Funds and Expenditures outlays*.
- 2.2. The credit investigation must also cover the following areas:
- Credit history with the credit union
 - Credit history with other creditors i.e community store, relatives, friends, banks pawnshops, lending investor and the like;
 - Checking with the employer of the borrower
 - Investigation of the proof of financial capacity of the principal co-borrower as to:
 - Appraisal of the security offered using the *Security Appraisal Form*.
- 2.3. The credit investigation shall all be done within a period of not more than two (2) days from date of application; and, by a well-trained, experienced credit investigator. All information gathered shall form part of the borrower (s)' loan file.

3. Loan Evaluation

- 3.1. The loan application, with the accomplished *Credit Investigation Report* (form 8) are submitted to the loan officer, who in turn conducts the credit scoring interview with the principal and co-principal borrower using the *Credit Scoring Questionnaire* for submission to the Manager.
- 3.2. The loan application recommendation to grant or not must be made, and signed by the Loan Officer submitted to the loan committee. The reason (s) for approval or denial of the loan application must be stated.
- 3.3. All loan applications that passed the credit investigation and credit scoring procedures are forwarded to the Manger for review, if needed. If no further review is made and approval by the Manager, the same is forwarded to the accounting department for appropriate actions.
- 3.4. Loan application that passed the screening process at the Manager's level are returned to the Loan Officer with appropriate comments and recommendations.

- 3.5. The reason(s) for disapproval shall be stated. The information of loan denial and the reasons must be relayed and discussed with the principal and co-principal borrower(s) by the Loan Officer and/or Manager.
- 3.6. Loan applications that pass the Manager's scrutiny but are not within the Manager's approving authority are sent back to the credit committee for further processing.
- 3.7. The loan applications within the approving authority of the credit committee and which pass the evaluation and then approved, are forwarded to accounting for loan voucher, check preparation. Loan applications that did not pass the re-screening process are returned to the Loan Officer along with the Loan Evaluation form. The form should again clearly state the reason(s) for disapproval and/or remedial measures to be complied with when applicable, duly signed by the Credit Committee Chairperson.
- 3.8. Loans that pass the screening of the credit committee but are beyond their approval authority should be endorsed to the Board of Directors for further action.
- 3.9. Minutes of the credit committee meeting should provide information on loan approvals (name of the member, amount granted etc.) and, the Board action on loans.
- 3.10. For DOSRI loan applications, relatives of the loan applicant with the credit committee, board or loan officer in the credit union must inhibit themselves from the loan deliberation process.

4. Collateral Appraisal

- 4.1. All offered and acceptable collateral must undergo inspection and appraisal.
- 4.2. Appraisal may be conducted by the credit union's in-house appraiser who must be trained and experienced in the job; or, our source the job to a good, reputable appraisal company for loans of substantial amount.
- 4.3. The general practice is outsourcing appraisal jobs for loans of considerable amount and for real property collateral. For loans and collaterals of lesser value, appraisal is done by the credit union.
- 4.4. The loan value for real estate collateral shall not be more than 70% of the conservative appraised value; it is 50% of the conservative appraised value for movable property, which must not be more than three years (3) old.

5. Loan Release

- 5.1. The Manager, the Credit Committee or the Board as the case maybe, within their approving authority, shall approve all loans. Without such approval, a loan cannot be released. A complete list of all approved loans shall be given to the manager.
- 5.2. Accounting prepares the disbursement documents for the Manager's signature. After the manager signs the disbursement papers, the loan documents are returned to the Loan Officer for filing; while the vouchers are forwarded to the Cashier. Mortgage/pledge and other legal documents are then notarized and registered.
- 5.3. The Cashier disburses the loan proceeds to the borrower upon the latter's signing of the voucher and amortization schedule. Priority is given to emergency loans because of the nature of the loan. The borrower is given copies of the amortization schedule as well as promissory note and other pertinent documents.
- 5.4. One copy of the voucher is forwarded to the Loan Officer, serving as supporting document for the disbursement of the loan. A copy is also provided to the posting clerk for recording on the member's ledger.
- 5.5. All loan documents are filed in the individual member's folder; except for the original ownership papers of securities real or personal properties and the like, which are kept in the cooperative's vault.
- 5.6. Description of the collateral, registration number and other documents should be included in the loan file, along with the proof of disbursement.

6. Loan Monitoring

- 6.1. After release of the loan, the collectors monitor the same as to its utilization. The collectors visit each borrower and accomplish the *Loan Utilization Form* (Report 6). The collectors are required to examine the official receipt and/or inventory of goods bought by reason of the loans. Another monitoring tool used in the monitoring visit is the evaluation of the member-borrower's business to measure the loan utilization.
- 6.2. Loan Officers monitor loan repayments by preparing the weekly target collection list (Report 1). This document which is sorted by zone and due date shall serve as basis for the collectors in prioritizing collection activities. Provisional receipts may be issued for money received.

- 6.3. Collections are recorded in the Schedule of Collections (Report 1), which is submitted weekly by the collectors.
- 6.4. At the end of each week, the list of delinquent loans can be derived from the Target Collection List. The List of Delinquent Loans, is in turn forwarded to the loan clerk for computation of fines and surcharges. These delinquency reports shall be incorporated into the following week's collection list.
- 6.5. On a monthly basis, the Loan Officer accomplishes the Schedule of Loan Releases (Report 3), which in turn can be consolidated into quarterly and annual reports, to be submitted to the Manager by the Loan Officer for monitoring purposes and to serve as supporting document in the financial statements.
- 6.6. In addition, on a monthly basis, the Credit Committee should get a status report of the delinquent loans from the Manager. An evaluation based on the criteria of each delinquent loan should be provided to the Credit Committee. Recommendation for the allowance for doubtful accounts should be evaluated.

LOAN DOCUMENTATION

Purpose:

The purpose of this policy is to guide management on the appropriate documentation of loans granted to every member-borrower of the credit union.

1. General Conditions

- 1.6. Loan records shall be maintained for all member-borrowers (as well as co-borrowers) for the duration of the loan; and, for as long as needed.
- 1.7. Credit files, being confidential records of members, must adhere to strict confidentiality, usage, and control.
- 1.8. The effective maintenance of credit records or files for all the member-borrowers must be one of the principal tasks of the credit union for good and efficient management information system.

2. Documents before Loan Approval

- 2.1. Application Form completed and signed by the member-borrower
- 2.2. Details of the project
- 2.3. Audited financial statements of the previous year/s
- 2.4. Income tax return
- 2.5. Repayment history or performance
- 2.6. Credit investigation reports
- 2.7. Proof of Income
- 2.8. Collateral documents
- 2.9. Appraisal of collateral
- 2.10. Loan officer's report or interview of member-borrower
- 2.11. Evaluation report of the loan officer and Manager
- 2.12. Recommendation of the Loan officer and Manager
- 2.13. Decision of the Credit Committee and/or Board of Directors
- 2.14. All other documentation that may be required by the credit union
- 2.15. Certification of non-delinquent tax payment

3. Documents after the Approval

- 3.11. Amortization (Repayment) schedule
- 3.12. Loan contract
- 3.13. Legal documents for collateral
- 3.14. Promissory Notes
- 3.15. Deeds of assignment, if applicable
- 3.16. Chattel/Real Estate mortgage
- 3.17. All other documentation that maybe required by the credit union

FORM 1 - LOAN APPLICATION

Individual Loan: Complete Applicant Section

Amount Requested: _____ Purpose: _____

Loan Term: _____ months Type of Loan: _____

Repayment: _____ payroll deduction _____ Cash

Mode of Payment: daily __ weekly __ monthly __ Bi-monthly __ Quarterly __ Semi-Annual __ Others: __

<p>PERSONAL INFORMATION:</p> <p>Please print in ink or type:</p> <p>Name: _____</p> <p>Membership No. _____ Date of Birth: _____</p> <p>Res. Cert. No. _____ issued on _____ at _____</p> <p>Home Tel. No. _____ Bus. Tel. No. _____</p> <p>Present Address: _____</p> <p>_____</p> <p>Years of stay at present address: _____</p> <p>Married: ____ Separated: ____ Unmarried: ____</p> <p>Name of Spouse: _____</p> <p>Employer: _____</p> <p>Monthly Income: _____</p> <p>No. of Dependents: _____ In school: _____</p> <p>List ages of Dependents not listed by other applicant: _____</p> <p>_____</p>	<p>Income:</p> <p>Employment Income: _____ per _____</p> <p>Other Income: _____ per _____</p> <p>Source: _____</p> <p>Spouse Income: _____ per _____</p> <hr/> <p>Assets:</p> <p>Savings Amount: _____ Deposited at: _____</p> <p>Checking Amount: _____ Deposited at: _____</p> <table border="0" style="width:100%;"> <thead> <tr> <th style="text-align: left;">List Assets you Own & Location</th> <th style="text-align: left;">Pledged Collateral</th> </tr> </thead> <tbody> <tr><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td></tr> </tbody> </table>	List Assets you Own & Location	Pledged Collateral	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____																			
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<p>EMPLOYMENT:</p> <p>Name and Address of Employer: _____</p> <p>_____</p> <p>_____</p> <p>Your Present Position: _____</p> <p>Supervisor's Name: _____</p> <p>Date of Employment: _____</p> <p>Working Hours: _____</p> <p>If self-employed, Type of Business: _____</p> <p>Start of Business: _____</p> <p>Is Duty Station Transfer expected this year/next year? ____</p> <p>If yes, where? _____</p> <p>And when? _____</p> <p>_____</p> <p>References:</p> <p>Name and Address of Character References:</p> <p>1. _____</p> <p>_____ Tel. _____</p> <p>2. _____</p> <p>_____ Tel. _____</p> <p>3. _____</p> <p>_____ Tel. _____</p>	<p>DEBTS:</p> <table border="0" style="width:100%;"> <thead> <tr> <th style="text-align: left;">Creditors (Name & Address)</th> <th style="text-align: left;">Original Amt.</th> <th style="text-align: left;">Present Bal.</th> </tr> </thead> <tbody> <tr><td>_____</td><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td><td>_____</td></tr> <tr><td>_____</td><td>_____</td><td>_____</td></tr> </tbody> </table> <hr/> <p>Other Information:</p> <p><i>If a "yes" answer is given to a question, explain on attached sheet.</i></p> <table border="0" style="width:100%;"> <thead> <tr> <th></th> <th style="text-align: center;">Yes</th> <th style="text-align: center;">No</th> </tr> </thead> <tbody> <tr> <td>Are you a party in a lawsuit?</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Is your income likely to decline in the next two years?</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Have you had property foreclosed upon or repossessed?</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Are you a co-maker, co-signer or Guarantor on any loan not listed above?</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> </tbody> </table> <p>I warrant to the truth and authenticity of all the data, information furnished herein to the best of my knowledge. Any misdeclaration that will be discovered during credit investigation will automatically cause the disapproval of this application. I expressly submit to any credit investigation as well as to furnish any other requirements of the cooperative by reason hereof.</p> <p>Conforme: _____ Date: _____</p> <p align="right">Applicant's Signature</p>	Creditors (Name & Address)	Original Amt.	Present Bal.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____		Yes	No	Are you a party in a lawsuit?	_____	_____	Is your income likely to decline in the next two years?	_____	_____	Have you had property foreclosed upon or repossessed?	_____	_____	Are you a co-maker, co-signer or Guarantor on any loan not listed above?	_____	_____
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<p>Co-Maker/Co-Signor: _____ With Spouse Consent: _____</p> <p align="center">Please print name & sign Please print name & sign</p>																																		

Form 2 - Amortization Schedule

Loan Amortization Schedule				
Date:		Ref. No.:		
Name of Member:				
Amount Applied For:		Purpose		
Amortization Type:				
Amortization Schedule				
Date	Amount due on Principal	Interest Payment	Total Amortization Due	Outstanding Balance

I hereby agree on the forgoing amortization schedule of my loan:

Member-Borrower

Date: _____

FORM 3 - Sources of Income and Expenditures Statement of Borrowers

Particulars	Monthly	Annually
Sources of Income:		
1. Salaries and Wages		
2. Income from Business		
3. Income from Financial Investments/Dividends		
4. Other Income		
Total Income		
Less: Expenditures or Cash Outlays		
Expenditures:		
1. Food Expenses		
2. House Rentals		
3. Education: Tuition Fees		
▪ Miscellaneous Fees		
▪ Books, school supplies and equipment, etc.		
4. Clothing		
5. Medical & dental expenses		
6. Personal hygiene expenses (including barber/parlor expense)		
7. Cooking gas expenses		
8. Transportation expenses		
9. Water Bills		
10. Electricity bills		
11. Telephone bills		
12. Expenses for family gatherings and or outings		
13. Laundry expenses		
14. Salary of house help/servant		
15. Taxes and licenses		
Total Expenditures:		
Cash Outlays:		
1. Payments of other Debts/Amortization): Productive loans (from other Banks/FIs)		
▪ Housing amortization		
▪ Vehicle amortization		
▪ Appliance amortization		
▪ Others (please specify)		
2. Payment for Insurance or pension premiums		
3. Other Cash outlays (please specify)		
Total Cash Outlay		
Total Expenditures and Cash Outlays		
Net Cash (Total Income-Total Expenditures & Cash Outlays)		
Less: Contingency (20% of total expenditures & cash outlays)		
Net Cash after contingency		

I certify to the correctness and truthfulness of the above statements according to my knowledge and belief. Any false declaration made by me, which may be found late, shall cause the disapproval of my loan application.

_____ Date: _____
Signature over Printed Name of Member-Borrower

Attested by: _____ Date: _____ Verified & Corrected by: _____ Date: _____
Loan Officer Credit Investigator

Form 4- Profit and Loss Statement of the Borrower

Regular Business	Monthly	Yearly
Gross Revenue:		
Less: Cost of Goods Sold		
Gross Income		
Less: Operating Expenses		
Salaries/Wages		
Rental		
Electric Bills		
Telephone Bills		
Water Bills		
Taxes, Licenses, Permits		
Interest Expense (from Loans)		
Miscellaneous Expense		
Others (Please Specify)		
Total Operating Expense		
NET INCOME		

SOURCES OF INVESTMENT:

Particulars	Amount	Percentage to Total Investment
Loan from the Credit Union		
Equity (Own Capital)		
Other Sources (Please Specify)		
Total Investment		

Prepared by:

Member - Borrower

Form 5

STATEMENT OF NET WORTH		
		Remarks
Name		
Age		
Spouse's Name		
Spouse's Age		
Spouse's Place of Employment		
Number of Children and Ages		
Home Address		
Work Telephone		
Home Telephone		
Employment/Source of Income		
Monthly Income		
Place of Work		
NET WORTH		
ASSETS		LIABILITIES
Cash Reserve Assets:		Current:
Cash (on Hand)		Housing Loan
Savings in Bank		Auto Loan
Savings in Credit Union		Student Loan
Receivables (collectibles)		
Others (Specify)		
Equity Assets:		
Investment in Business		
Retirement Assets:		Long-Term:
Certificate of Deposits (Time Deposit)		Loan from the Credit Union
Cash Value of Pension Plan/Severance		Loan/Credit from Stores
Others (Specify)		Debt from relatives, friends etc.
		Others (Specify)
Real Estate (Market Value)		
Home		
Rental Property		
Vehicle/Motorcycle/ Boat		
Furniture		
Others		
		Total Liabilities
Total Assets		NET WORTH (Total Assets less Total Liabilities)

Form 6 - Self Assessment Form of the Member-Borrower

Name of Borrower: _____ Address: _____ Amount Applied: _____	Yes (1 point)	No (-1 point)		
1. Did I attend the last General Meeting? As an officer, have I been attending the meeting on a regular basis?				
2. Did I attend the pre-membership seminar? Or Did I attend the latest Loan orientation/ownership meeting?				
3. Was I motivated by its real purpose when I joined the credit union?				
4. Have I been attending ownership meetings and participated actively in the discussion or in activities initiated by the credit union?				
5. Have I been repaying my previous loans to my credit union regularly?				
6. Am I campaigning for additional membership and promoting the services of the cooperative to the community?				
7. Am I increasing my savings deposits in the credit union?				
8. Do I know the Vision, Mission and Goals of my credit union?				
9. Did I use the proceeds of my previous loan to its intended purpose?				
10. Am I willing to attend seminars related to credit union development and the project being applied for?				
Total Points			Net Points	

I hereby certify the correctness of the above answers to the best of my knowledge and belief. Should my answers be found later to be false, this will cause the disapproval of my loan application.

_____ Date: _____
Name and Signature

Attested by:

Verified & Corrected by:

_____ Date: _____
Loan Officer Credit Investigator

Form 7 - Security Appraisal Forms

Appraisal and Valuation of Real Property

Basic Information to be gathered through field investigation

General Information:

1. Name of Registered Owner:	
2. Address: Tel: No.	3. Location of the Property:
4. Registration No.	5. Lot Number:
6. Block No.	7. Land Area (Sq. M.)
8. Acquisition Cost:	9. Current Market Value:
10. Classification of Land: (<i>Commercial, Residential, Industrial</i>)	11. Access to Public Utilities: (<i>Electricity, Water, etc.</i>)
12. Results of Verification from the Registry of Deeds/Assessor's Office	
13. Duration of the loans in years:	

Appraised Value (Actual)

Types of Land	Title No.	Area (Sq. m.)	Appraised value per square meter	Total Appraised Value
Residential ____				
Commercial ____				
Land				
Building/House				
Total				

Sketch Map of the Land and Improvements:

Consider any landmark, adjacent lots, main road, road right of way, rivers/creeks, shorelines, slope, mountains eroded area, etc.

Marketability According to the duration of the Loan (Future Value):

<input type="checkbox"/> Very Good	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor
Reason/s:			

Credit union loan officers' Competency course

Valuation of Real Property:

	Amount
Land: 70% of the Assessed Value whichever is higher (Less 10% Contingency)	
House/Building: 70% of the Total Cost of the Building less Accumulated Depreciation (Less 10% contingency)	
Total Cost of Land and Building	

Appraised by:

Verified by:

Approved by:

Date: _____

Date: _____

Date: _____

Appraisal and Valuation of Chattel Property of a Vehicle

General Information:

Name of Registered Owner:	
Address: Tel: No.	Type and Model:
Plate No.	Color of Painting & Type:
Brand of Motor:	Serial Number:
Horse Power:	Type of Chassis/Serial No.:
Results of Verification from the Registry of Deeds and Land Transportation Office to check any liens or encumbrances:	

Insurance on the Vehicle:

Type of Insurance	Expiry Date	Policy No.	Name of Insurance Company	Insured Value

Road Testing and Evaluation of Vehicle:

Results: Condition and Serviceability of the Vehicle and its Accessories:
Actual Usage of the Vehicle:

Credit union loan officers' Competency course

Valuation of Chattel Property:

Acquisition Cost	Accumulated Depreciation	Functional Value	Appraised Value	Maximum Loan

Computation:

Valuation = 50% of Appraised Value
Appraised Value = Acquisition cost – Accumulated Depreciation + Functional Value
Where:
= Accumulated Depreciation: Acquisition Cost/Estimated Life x No. of Years of Property
= Functional Value: Cost of putting damage back to good order that will increase the value of the property.

Appraised by:

Verified by:

Approved by:

Date: _____

Date: _____

Date: _____

Form 8 - Credit Investigation Report (for Individual or Business)

Name of Loan Applicant: _____ Date of Application: _____

Address: _____ Date of Investigation: _____

Amount of Proposed Loan: _____

Purpose of Loan: _____

Investigation Requested by: _____ Investigation Done by: _____

Areas to Investigate	If Applicable	Available Information	Findings
1. CHARACTER			
1.1. Length of stay at present job and/or business			
1.2. Housing Stability			
1.3. Good will/Reputation of the Borrower (loyalty award from employment/business/ community or civic organizations)			
1.4. Habits of Repayment: <input type="checkbox"/> In the Credit Union: Does she/he have a proven habit of repaying loans to the credit union? <input type="checkbox"/> Other Credit Unions/bank identified by the member: Does she/he have a proven habit of paying loans to other financial institutions			
1.5. Credit Record and standing with other creditors Name of Creditors:			
1.6. Relationship with family/neighbors			
1.7. Morality of the Borrower (Adultery, drugs, smoking, gambling, alcoholism and other illegal activities)			
1.8. Life style and standards (value of thriftiness & savings, spending habits, living beyond means)			
2. PAYING CAPACITY			
2.1. Proof of income (salary slips/checks)			
2.2. Job stability (employment contract and status)			
2.3. Proof of other source of income			
2.4. Risk analysis of job/occupation/business			

Credit union loan officers' Competency course

2.5. Records of Expense (proof of expenditures)			
2.6. Health condition - borrower & dependents			
Business			
2.7. Can the cash flow or net savings suffice to pay for the loan amortizations?			
2.8. Profitability of project to be funded (sales volume)			
2.9. Ability of the member-borrower to execute the proposed project and its competitiveness.			
2.10. Financial Viability of Business/Investment ROI= Net Income/Total Cost of Investment Payback Period: $\frac{\text{Total Cost of Investment}}{\text{Net Income}}$			
2.11. Other Loan Exposures In the credit Union (Total Amount) In other Credit Union & Bank (Total Amount)			
3. CAPITAL			
3.1. Growth in deposits (bank and others)			
3.2. Asset inventory & quality (current, fixed and movable)			
3.3. Ownership of properties (economic life and status)			
3.4. Inventory of Liabilities & debts (Loan outstanding with Banks, credit unions and others)			
3.5. Terms and Condition of other Loans <input type="checkbox"/> Credit Union <input type="checkbox"/> Other Credit Union or banks			
3.6. Verify Net worth (Capital-Liabilities)			
3.7. Establish availability of collateral			

4. COLLATERAL (Security)			
4.1. Real Estate Property <ul style="list-style-type: none"> <input type="checkbox"/> Registered Owner <input type="checkbox"/> Location of Property <input type="checkbox"/> Registration Number <input type="checkbox"/> Land Area <input type="checkbox"/> Acquisition Cost <input type="checkbox"/> Market Value <input type="checkbox"/> Classification of Land <input type="checkbox"/> Verified original copy of land title <input type="checkbox"/> Marketability <input type="checkbox"/> Valuation Cost (70% of appraised value) 			
4.2. Improvement: Building/houses <ul style="list-style-type: none"> 1.2.1. Acquisition Cost per Types & Classification <ul style="list-style-type: none"> <input type="checkbox"/> Residential <input type="checkbox"/> Commercial <input type="checkbox"/> Industrial <input type="checkbox"/> Agricultural 2.2.2. Estimated Life 3.2.3. Market Value 4.2.4. Marketability 4.2.5. Valuation Cost 			
4.3. Chattel or Movable Property: Motor Vehicles <ul style="list-style-type: none"> <input type="checkbox"/> Verified Proof for the date of Acquisition <input type="checkbox"/> Actual usage of the vehicle <input type="checkbox"/> Condition and Functionality <input type="checkbox"/> Certificate of Registration <input type="checkbox"/> Description: <ul style="list-style-type: none"> - Type and model - Plate number - Color and Type - Motor/Equipment - Brand of equipment - Motor/Chassis number - Serial number - Horse power <input type="checkbox"/> Valuation 50% of appraised value 			
4.4. Lien-free collaterals			
5. CREDIT CONDITIONS			
5.1. Status of Employment			
5.2. Status of Business of the Borrower <ul style="list-style-type: none"> <input type="checkbox"/> Availability of market <input type="checkbox"/> Availability of raw materials or suppliers <input type="checkbox"/> Compliance with zoning or building ordinances <input type="checkbox"/> Sanitation and environment impact <input type="checkbox"/> Legality of the business 			
5.3. Term of loan commensurate with payment capacity			

Draw a sketch map of the land/improvements of Real Estate Property

Prepared by:

Credit Investigator

Date: _____

Evaluated by:

Credit Committee Member

Credit Committee Secretary

Credit Committee Member

Approved:

Manager

Note: The Loan Officer identifies for the Credit Investigator; the areas to investigate and the information already available. The investigator has to fulfill the findings and indicate if he finds something different from information available.

Credit union loan officers' Competency course

Report 1: Daily/Weekly Collection Monitoring Report

Collector					Area:				
For the period covering:									
Account Name	Date Due	Account to be collected during the period			Collected during the period	Variance	Ref. No. (OR)	Date Collected	Remarks
		Principal	Interest, Penalties, others	Total amount due					
Total Target Collection									
Prepared by:					Date:				
Checked by:					Date:				

Credit union loan officers' Competency course

Report 2: Aging of Loans

Aging of Loans									
For the month ending _____									
Account name	Amount of Loan	Date Released	Maturity Date	Mode of payment	Current	1-12 months past due	>12 months past due	Loan in Litigation	Remarks
Total									
Prepared by: _____ Date _____ Bookkeeper					Noted by: _____ Date _____ Manager				
Checked by: _____ Date: _____ Accountant									

Credit union loan officers' Competency course

AGING SUMMARY					
Age of Loan	Number of Loans			Outstanding Balance	Remarks
	Male	Female	Total		
Current					
1-12 months past due					
>12 months past due					
Loan in litigation					
Total					

Credit union loan officers' Competency course

Report 3: Schedule of Loan Releases

SCHEDULE OF LOAN RELEASES						
For the Month Ending: _____						
Account Name	Amount of Loan	Loan Type	Date Released	Reference	Maturity Date	Remarks
Total		N/A	N/A	N/A	N/A	
Prepared by: _____ Date _____ Bookkeeper			Noted by: _____ Date _____ Manager			
Checked by: _____ Date: _____ Accountant						

Report 4: Schedule of Restructured Loans

SCHEDULE OF Restructured Loans						
For the Month Ending: _____						
Account Name	Amount of Loan Restructured	Amount Restructured	Loan Type	Date Released	Ref. No.	Maturity Date
Total			N/A	N/A	N/A	N/A
Prepared by: _____ Date _____ Bookkeeper			Noted by: _____ Date _____ Manager			
Checked by: _____ Date: _____ Accountant						

Report 5: Schedule of Loans Charged-off

Monthly Schedule of Loans Charged-off				
For the period covering _____				
Account Name	Loan Balance	Charged-off Date	Amount Charged-off	Balance
Total				

Prepared by: _____ Noted by: _____
Bookkeeper Manager

Date: _____ Date: _____

Checked by: _____
Accountant

Date: _____

5

FIVE Cs OF CREDIT

(2 hours session – 120 minutes)

LEARNING OUTCOMES

Do:	Evaluate loans based on the 5Cs of Credit
Know:	Criteria on the evaluation of the 5Cs of Credit
Feel:	Recognize the need for credit unions to change its loan evaluation system from share leveraging to capacity based lending

Topic	Five Cs of Credit
Time Allocation	2 hours (120 minutes)
Materials	<ul style="list-style-type: none">• Flip Chart• Marker Pens• Sticky Notes• Meta Cards• Masking Tape
Handouts	Credit Scoring Tool Case Studies Cash Flow Based Lending Template
Lesson Guide	<ol style="list-style-type: none">1. Introduction Introduce the topic by asking each group to write at least one answer on what they want to DO, KNOW and FEEL about the topic. Prepare big text of DO, KNOW and FEEL on the white board. Ask them to post the sticky notes. Synthesize based on the following learning outcomes: Do: Evaluate loans based on the 5Cs of Credit Know: Criteria on the evaluation of the 5Cs of Credit Feel: Recognize the need for credit unions to change its loan evaluation system from share leveraging to capacity based lending2. Explain that it is not enough simply to be willing to pay. A person may be extremely honest and have the highest ethical standards, but if he/she does not have the means to repay his debt, he/she will eventually be overwhelmed with the debt. This is why it is also important to examine a person's capacity to repay.3. Highlight that the tool is a guide to assess the five Cs of credit, but the scores will depend on facts and judgment of the loan officer. Remind the trainees that lending on the 5Cs of credit is different from the share capital leveraging. In share capital leveraging, loans can be accessed by a member, even he/she does not have ability to pay.4. Remind the trainees of the 'responsible lending' principle where the credit union must ensure that the loan generates new income or build the wealth of a member.

Credit union loan officers' Competency course

5. Emphasize that the scoring follows:

Character	-	15%
Capacity to Pay	-	70%
Collateral	-	5%
Capital	-	5%
Credit Condition	-	5%
Total		100%

6. Introduce the 5Cs of Credit Bingo Game:

Using the table below, fill the boxes with areas evaluated in the corresponding 'C' of Credit. The answers are printed on an 8" x 5" colored card. Like bingo game, the facilitator will call the answers one by one, and then post it on the flip chart. The participants will then cross out the same answers in their bingo chart. Interact with the groups – some answers may be worded differently, but also can be considered.

The completed Bingo:

Areas need to Evaluate in the 5 Cs of Credit				
Character	Capacity to Pay	Collateral (Security)	Capital	Credit Conditions
Good record of loan repayment in CU	Salaries	Land title	Savings	Environmental concern
Good record of repayment to other institutions	Income from business	Cash value of Insurance policy	Shares	Legal
Good reputation – place of work and neighborhood	Debt ratio	House and lot	Personal assets	Climatic conditions of business
Regular savings habit	Skills of the borrower	Co-maker	Investments	Political conditions

7. Distribute the Credit Rating Scoring Tool and the Credit Investigation Policy. Highlight that the rating tool significant score of 70% to the capacity of the member to pay.

8. Underscore that although income can help you determine whether a member will be able to repay a loan, you cannot look at income alone. You must look at a person's income as it relates to other factors. First, you should look at income as it relates to the size of the requested loan.
9. If the loan amount is a small percentage of a person's income, the person is considered more able to pay the loan than if it were a large portion of the person's income.
10. For example, a person earning \$20,000 a year will probably be seen as able to repay a loan for \$3,000. The loan amount is 15% of the person's income. However, a person earning \$7,000 a year would not be considered able to repay a loan of \$28,000 because the loan is four times the amount of his income.
11. As you evaluate the loan request, check to ensure that the income and the loan amount are correct. If it appears that the income won't support the loan amount, plan to ask about other sources of income.
12. **Debt Ratio:** Another way to evaluate an applicant's ability to pay is to look at a member's monthly expenses as a percentage of their monthly income. This is called a *debt ratio*.

Trainer's Note:

You can calculate a debt ratio by adding all of the applicant's monthly expenses, then dividing them by the applicant's total monthly income.

Expenses include credit card debt, rent or mortgage payments, car payments, and all other payment obligations. Income includes net income, bonuses, any interest or dividends on shares held in the credit union, and all other incoming monies. The higher the debt ratio, the less money there is available to repay the loan.

As a rule, a member's debt ratio should not go over 40-50% (if the person's rent or mortgage is included as an expense) and 25-30% (if the member's rent or mortgage is excluded as an expense). Credit Unions may decide to use a debt ratio as one of the factors to review when evaluating a loan application.

Some will include a member's mortgage or rent as part of the expenses, but allow for a high debt ratio. Others will exclude the mortgage or rent, but opt for a lower ratio. Other credit unions are willing to allow a higher debt ratio as long as the member has adequate assets to handle emergencies.

The debt ratio is a much better way to determine a person's ability to repay than is income.

With income, you only know how much a person has coming in. With debt ratio, you also learn how much of that income is already spoken for.

13. **Income as it relates to assets: explain** Another useful ratio to analyze is the income as it relates to assets.

Trainer's Note:

A person with a high income should be able to accumulate sizeable assets. If an applicant has a high income, but no assets, this could be an indication that the applicant has difficulty managing money.

For example, let's say a member has been making \$40,000 for three years, but has no assets other than a small amount of shares in the credit union. Where has this applicant's money gone? If he has difficulty accumulating assets, will he also have difficulty repaying a loan?

Now let us look at another example. Say a member earns \$8,000 a year, but has been able to save \$3,500 over the past 5 years. This person is very likely a wise money manager and will easily be able to manage the loan payment in his budget.

Two assumptions to avoid

First, be careful about automatically assuming that a high income equates to a good credit risk.

- People with high incomes can mismanage money as well as anyone else.
- Second, be careful about assuming that a low income equates to a bad credit risk.

Often, people with low salaries are good at managing money because they have to be. If you look at all the factors when you are evaluating a person's capacity, you will get a good picture of whether or not he is able to repay the loan.

14. Case Study —CALCULATING DEBT RATIOS (20 minutes)
Tell participants that you will read income and debt information for two applicants. Their job will be to: Determine each applicant's debt ratio based on the income and debt.
15. Indicate whether they would consider the debt ratio as a positive or negative factor in evaluating the member's credit request. Here is the information you should provide.

Applicant #1

Monthly income:

- Net income of \$900.
- Share savings interest of \$90.

Monthly debt:

- School fees loan of \$50.
- Auto loan of \$75.
- Assistance to uncle of \$50.
- The requested loan will have a monthly payment of \$125.
- Total monthly debt would be \$300.

Calculate the debt ratio for Applicant #1.

Would this debt ratio have a positive or negative impact in evaluating the member's credit request?

Answer to Applicant #1

Applicant #1's debt ratio is 30% ($\$300 \div \$990 = 30\%$).
The recommended debt ratio is 25-30% when a member rent is not included as an expense. Since this member's debt ratio would be at 30%, he is on the high end of acceptable.

Therefore, this member's debt ratio would probably be a positive factor in evaluating his credit request. However, it would be wise to scrutinize other factors relating to this member (character, collateral, other financial ratios), and then evaluate all this information.

Applicant #2

Monthly income:

- Net income of \$600.
- Share savings interest of \$20.

Monthly Debt:

- Development loan of \$70
- Auto loan of \$20
- Rent of \$100
- The requested loan amount will have a monthly payment of \$75
- Total monthly debt would be \$265

Calculate the debt ratio for Applicant #2.

Would this debt ratio have a positive or negative impact in evaluating the member's credit request?

Answer to Applicant #2

Applicant #2's debt ratio is 43% ($\$265 \div \$620 = 43\%$).
The recommended debt ratio is 40-50% when a member's rent or mortgage is included as an expense. Since this member's debt ratio would be at 43%, he is well within the acceptable range. Therefore, this member's debt ratio would be a positive factor in evaluating his credit request.

16. Introduce the Cash Flow Based Lending. Highlight that Cash Flow Based Lending is ...

- Based on the borrower's *present* cash flows
- Loan amount is based on the capacity of the borrower to repay
- Repayment schedule is based on the borrower's timing of cash flows
- Collateral is not the primary consideration
Ex. Microenterprise loans, salary loans, business loans

17. Give the following case studies as individual task. The case studies should be solved one at a time. Review the first case study before giving the second one. Print this in separate sheet including the answer template.

CASE 1

Rosanna, a widow is a Regular Member of your coop for almost 5 years and she is one of the recognized MIGS every General Assembly. She has a business in the local public market that is earning well. Her daily income is P4,500 before all the following expenses are deducted:

Business Expenses:

Purchases – 1,800 daily
Labor – 500 weekly
Transportation – 1,000 weekly
Rent – 15,000 monthly
Utilities – 2,000 monthly

Household Expenses:

Food – 5,000 monthly
Utilities – 2,000 monthly
Housing/Rental – 5,000 monthly
Medical – 1,500 monthly

She is also receiving a monthly contribution from her children, now all married, amounting to P5,000. She wants a short-term for Business Loan with an interest rate of 24% per annum that is time 2 her total savings & share capital. Her current balance of Savings deposit is P15,000 and Share capital of P10,000 . The CI officer has verified and assured that the above data was reasonable true.

1. Compute the capacity of Rosanna. What is her maximum entitlement?
2. What is the best payment mode for collection?
3. What is the amount of each amortization?

CASE 2

Riza, an Elementary Private School Teacher for almost 5 years has 2 kids at grades 1 & 2 in the nearby public school. She is a new member of the cooperative. She had invested Php5,500.00 shares during her first month of membership and has Php7,500 accumulated savings. She applies for a Php25,000 loan for the purpose of finishing her house extension. She agreed for salary deduction in collecting its loan. She offered as collateral their parcel of agricultural land and based on the CI/BI it is situated in an area that is known to be good producer of tomatoes. Report from the CI officer also discloses an appliance loan availed by Riza from a local appliance center (in which she was a good debtor) and will be fully paid within 6 months. Her co-makers are her two co-teachers, which were awarded MIGS during the last General Assembly. The Manager and Loan officer analyzes the following cash flow.

INCOME

Riza	8,000/month	(PHP)
Husband (Hardware Employee)	6,000/month	(PHP)

EXPENSES:

Education	1,000/month
Food	5,000/month
Allowance	4,400/month
Recreation	1,000/month
Others:	1,000/month

As per policy of the coop, she is now qualified to avail the Salary Loan in the coop (after 1 month residency) with 12 month term at 2% per month. Levels of authority indicated in the policy is: Manager: up to Php10,000, Credit Committee up to Php20,00, BOD Php25,000 and up. The manager and the loan officer recommend to

1. What is the maximum loan entitlement?
 2. Evaluate the case using the 5 C's of credit.
 3. Are you going to approve the loan?
 4. What would be your basis for the approval or disapproval?
18. Review the answers. Ensure that the trainees are able to fill the Cash Flow Based Lending format correctly.
19. Conclude the session by asking the trainees to write on a meta cards the changes they would like to introduce to their credit union on Capacity Based Lending. Ask to post them on the 'Action Wall.'

CREDIT INVESTIGATION

Purpose:

The purpose of this policy is to guide management on the process by which XYZ Credit Union evaluates loans.

1. Field Investigation

All loan applications must undergo credit investigation to determine trustworthiness of the loan applicant as well as the co-applicant (in applicable cases). A copy of a thorough investigation report must be retained in the member-borrower's file. The loan officer obtains the necessary credit information from loan application of the principal and the co-borrower's, which among others, must have the:

- Name of applying borrower/co-borrower in applicable cases
- Amount of initial loan and outstanding balance

Other information:

- Name of employer
- Monthly gross income
- Project purpose/description of the project
- Total expenditures
- Net disposable income

From the information gathered during the loan application process, the loan officer provides the credit investigator with the information, which must be verified.

2. Factors to be checked

The criteria for granting loans are the five (5) C's of credit: capacity, character, condition, collateral and capital, which are to be measured using the Credit Rating Form.

- 2.1. Capacity – This refers to the member-borrower's proven capability to repay the loan on the agreed terms: i.e. size of amortization and frequency of payments. This information is derived by computing the net disposable income of the member-borrower. As a basic rule, the repayment terms should coincide with the member's cash flow, which could be daily, weekly, semi-monthly or monthly. When the payment is quarterly, semi-annually or annually, the member-borrower should nonetheless be required to make monthly interest payments on the loan.

In determining the capacity of the member-borrower/co-borrower to pay, the following are taken into consideration:

- Total monthly amortization of the debt
- Total debts of the member-borrower or co-borrower in applicable cases (inclusive of debts to the cooperative as well as from other sources)

- Tangible asset value and their appraised value including share capital
 - Regular savings and share capital accumulation
 - Good credit record with cooperative, neighborhood stores, relatives, friends and other lending institutions
- 2.2. Character- This refers to integrity, credibility, trustworthiness of the member-borrower and or the co-borrower in applicable cases, which among others, pertains to one's personal honesty, dealings, reputation within one's residence, neighborhood and organization and/or other affiliations one is a member of. Relatives, friends, must be checked. Character indicates the stability of the member-borrower as to his/her investment. This is indicated by the following:
- Good record of loan repayment with the credit union
 - Good record of loan repayment with other institutions (stores, banks, relatives, etc.)
 - Good reputation in the neighborhood, work, organizations etc.
 - Regular savings habit.
- 2.3. Capital –this refers to the regular, consistent amount of savings or contributions made by the member-borrower (or his/her co-borrower) in the credit union and other institutions, which leads to the build-up of financial, material resources.
- 2.4. Collateral- this refers to any personal or movable asset, as well as real or immovable asset owned by the member-borrower in his/her name that is offered as security for a loan. It could also be a personal or real property owned by a third person, which is offered by this third party as security for the loan. All loans should be collateralized, with the share capital as the minimum security.

The following are collaterals that can be accepted as loan security for mortgage or chattel mortgage:

- 2.4.1. Real property (mortgage) – all real estate offered collaterals shall carefully be inspected, appraised and the mortgage lien annotated on the title. The maximum amount of the loan to be granted shall not be more than 70% of the conservative appraised value.

Required documents:

- Land title (original or transfer certificate of title, tax declaration if untitled land)
- Certification from the Registry of Deed that property has no lien
- Current realty tax payment receipt and certificate of non-tax delinquency
- Registration of the mortgage with the Registry of Deeds; Tax declaration annotated with the Assessor's office of the Municipality where the property is located
- Appraisal report
- Location map
- Building plan
- Insurance

- Real estate mortgage document

- 2.4.2. Personal property (Chattel Mortgage)-movable properties, equipment, inventories, jewelries, motor vehicles, etc.

The amount of the loan shall not be more than 50% of the appraised value of the chattel. The chattel must not be more than three (3) years old.

Documents Required:

- Certificate of ownership
- Registration of ownership with the appropriate government agency
- Deed of sale
- List of equipment, machinery and/or inventories

- 2.4.3. Certificate of time or money market deposit in banks (or with the credit union) with a deed of assignment executed by the borrower and duly endorsed by the bank or credit union.

- 2.4.4. Assignment of deposit with the cooperative

- 2.4.5. Pledge of personal property

- 2.4.6. deed of assignment of salaries of the member-borrower and/or the co-borrower from their employer with the corresponding authority to collect and apply the same to the loan obtained from the credit union.

- 2.4.7. Co-maker (s) are limited to co-make a maximum of two (2) loans. The co-maker(s) are equally liable for the loan should there be a failure in repayment. Before a co-maker is accepted, investigation of his/her financial capacity must be conducted. A member can only co-make two loan at a time; and, a borrower cannot co-make a loan of his/her co-maker.

Documents required:

- Deed of assignment
- Promissory note
- Loan application with co-maker's signature

- 2.4.8. The signature(s) of the spouse(s) of the principal and co-principal applicants must always be present on the loan application form as well as on the promissory note and other pertinent, relevant accessory contract; and signed in the present of the loan officer, notary public except in applicable case(s) when fully secured by savings deposits, time deposits and share capital, as long as these deposits are not jointly owned.

2.4.9. Generally, tax declaration for untitled land is not acceptable as a basis for granting real estate loan; except, when the real property offered is proven not yet under the Torrens title system (titles issue through the Registry of Deeds); and/or if the loan applicant belongs to the indigenous people's groups of the locality and no other document of ownership can be supplied. In such cases, other acceptable collaterals must be required of the member-borrower, or the decision would depend on the cooperative rules and regulations and the board authorization and or decision.

Collateral shall not be the primary consideration in deciding to grant a loan. It does not reduce the risk of the member-borrower to default on his/her loan. It is used only to add value to the loan application when the decision to grant the loan has been made based on the repayment capacity of the member-borrower.

2.5. Condition-refers to external factors affecting the socioeconomic circumstances of the loan applicant and the loan. These factors are:

- Legality of the proposed project
- Environmental soundness of the project
- Appropriateness of the business in relation with the climatic conditions

Credit Rating Scale – Business

Name of Member-Borrower: _____

Address: _____

1. CHARACTER = 15

Criteria	Maximum Raw Score (MRS)	Rating or Scoring
1. Does the Member-Borrower (MB) has a good record of credit payment to the credit union and other institutions?		
1.1. Credit Union: Does he/she has proven habit of repaying loans to the coop?	4	Full score or 0
1.2. Other credit union/banks identified: Does the member has a proven habit of repaying loans to other financial institutions identified by him/her?	2	
1.3. Credit Bureau: Does s/he have no negative record in at the credit bureau?	2	
2. Good Will/ Reputation		
2.1. Does the MB possess a good reputation in the business community and with other organizations?	1	
2.2. Does the MB command respect in the community?	1	
3. Is the MB a permanent resident of the community (Housing Stability? (full score is 2)		
3.1. Less than 2 years	0	
3.2. 3-5 years	1	
3.3. Over 5 years	2	
4. Human relations (score is 1 or 0 for each item)		
4.1. With the family	1	
4.2. In the workplace	1	
4.3. In the community	1	
Total	15	

2. CAPACITY TO PAY = 70

Criteria	Maximum Raw Score (MRS)	Rating or Scoring
1. Does the MB have a stable business?		
If not	0	
If yes, how long:		
Less than 5 years	3	
More than 5 years	5	
2. Is the purpose of the loan capable of earning a net surplus	10	
3. Has the business grown over the years?	5	
4. Is the cash flow available and sufficient to meet future loan amortization?	20	
5. Is the Return on Investment of the business adequate to meet the payment requirement?	5	
6. Does the payback period match the proposed duration of the loan?	5	
7. Are there other loan exposures besides this loan being applied for in the primary or somewhere else? (degree of indebtedness and liabilities)		
▪ If no	20	
▪ If yes	5	
Total	70	

3. CAPITAL STATUS = 5

1. Does the MB maintain savings deposit with the credit union regularly?	1.5	
2. Are there personal properties, savings and business assets that can serve as collateral for the loan? (Asset base)	1.5	
3. Is the asset base growing? (or is the MB saving only for the reason of taking a loan?)	1	
4. Is the net worth favorable (degree of indebtedness)	1	
Total	5	

4. COLLATERAL/CO-MAKERS = 5

Criteria	Maximum Raw Score (MRS)	Rating
1. Can the collateral be easily converted to cash any time?	1	
2. Is the value of the collateral more than the loan amount applied for and can meet the policy valuation?	1	
3. Is the collateral free from encumbrances or lien?	1	
4. Is the co-maker willing to pledge his Savings Deposit/Share Capital and to accept the salary deduction agreement for the duration of the loan?	1	
5. Is the spouse willing/has consent on the loan applied for?	1	
Total	5	

5. CREDIT CONDITIONS = 5

Criteria	Maximum Raw Score (MRS)	Rating
1. Is the project/business environment friendly and legal?	1	
2. Does weather condition severely affect the project?	1	
3. Is the market ripe for the project?	2	
4. Is the community economically active to guarantee some degree of success for the project?	1	
Total	5	
GRAND TOTAL	100	

Evaluated by:

Date: _____

Loan Officer

Credit Rating Scale – Individual

Name of Member-Borrower: _____

Address: _____

1. CHARACTER = 15

Criteria	Maximum Raw Score (MRS)	Rating or Scoring
1. Does the Member-Borrower (MB) has a good record of credit payment to the credit union and other institutions?		
1.1. Credit Union: Does he/she has proven habit of repaying loans to the coop?	4	Full score or 0
1.2. Other credit union/banks identified: Does the member has a proven habit of repaying loans to other financial institutions identified by him/her?	2	
1.3. Credit Bureau: Does s/he have no negative record in at the credit bureau?	2	
2. Good Will/ Reputation		
2.1. Does the MB possess a good reputation in the business community and with other organizations?	1	
2.2. Does the MB command respect in the community?	1	
4. Is the MB a permanent resident of the community (Housing Stability)? (full score is 2)		
3.1. Less than 2 years	0	
3.2. 3-5 years	1	
3.3. Over 5 years	2	
4. Human relations (score is 1 or 0 for each item)		
4.1. With the family	1	
4.2. In the workplace	1	
4.3. In the community	1	
Total	15	

2. CAPACITY TO PAY = 70

Criteria	Maximum Raw Score (MRS)	Rating
1. Does the MB have a stable job?		
If not	0	
If yes, how long:		
Less than 5 years	5	
More than 5 years	10	
2. What is the frequency of the regular income of the MB?		
▪ Daily, weekly, semi-monthly, monthly?	10	
▪ Bi-quarterly, quarterly?	5	
▪ Semi-annual?	5	
3. Does the regular income of the member match the loan amortization schedule?		
▪ YES	20	
▪ NO	0	
4. Will the duration of the proposed loan match the anticipated duration of the job of the MB?		
▪ YES	15	
▪ NO	0	
5. Are there loan exposures besides this loan being applied for? (Degree of indebtedness and liabilities)		
▪ If no	15	
▪ If yes	5	
Total	70	

3. CAPITAL STATUS = 5

1. Does the MB maintain savings deposit with the credit union regularly?	1.5	
2. Are there personal properties, savings and business assets that can serve as collateral for the loan? (Asset base)	1.5	
3. Is the asset base growing? (or is the MB saving only for the reason of taking a loan?)	1	
4. Is the net worth favorable (degree of indebtedness)	1	
Total	5	

4. COLLATERAL/CO-MAKERS = 5

Criteria	Maximum Raw Score (MRS)	Rating
1.Can the collateral be easily converted to cash any time?	1	
2.Is the value of the collateral more than the loan amount applied for and can meet the policy valuation?	1	
3.Is the collateral free from encumbrances or lien?	1	
4.Is the co-maker willing to pledge his Savings Deposit/Share Capital and to accept the salary deduction agreement for the duration of the loan?	1	
5.Is the spouse willing/has consent on the loan applied for?	1	
Total	5	

5. CREDIT CONDITIONS = 5

Criteria	Maximum Raw Score (MRS)	Rating
1.Does the job of the member involve illegal activities and/or environmentally harmful activities? <ul style="list-style-type: none"> ▪ YES ▪ NO 	0 2.5	
2. Does the member's job pose health hazards to himself or others? <ul style="list-style-type: none"> ▪ YES ▪ NO 	0 2.5	
Total	5	
GRAND TOTAL	100	

Evaluated by:

Date: _____

Loan Officer

Credit Rating Approval

The Credit Rating is used to determine the probability of the borrower to pay the loan. This is made up of the Credit Rating Scale used by the Credit Committee or Loan Officer to rate the borrower based on the five (5) C's of Credit (See Annex 6).

This rating shall serve as guide to categorize the borrower on the probability of loan repayment, or if not, whether the borrower is required to secure the loan with collateral.

The credit rating scale shall serve as basis for decision by the Credit Committee and derived as follows:

Credit Rating	Decision/Requirements
70% and below	Disapproved, since it has high probability of failure to pay the loan.
71% to 80%	Approved, but needs collateral, co-makers, obligate savings, and close supervision
81% to 90%	Approved, but needs any collateral and sustained supervision
91% to 100%	Approved with or without collateral

Credit union loan officers' Competency course

CASHFLOW ANALYSIS

BUSINESS	Amount			MONTHL Y
	Daily	Weekly	Monthly	TOTALS
Income from Sales				
Business 1:				-
Business 2:				
Business 3:				
Total Business Income	-	-	-	-
Business Expenses				
Raw Materials/Purchases				
Business 1:				-
Business 2:				
Business 3:				
Labor				-
Rent				-
Utilities				-
Transportation				-
Fuel				
Loan Payments				
Installment/Payment				
Others:				
Total Business Expenses	-	-	-	-
Net Business Income	-	-	-	-
HOUSEHOLD				
Regular Household Income				
Salaries & Wages				
Pension				
Other Income				-
Total, Household Income	-	-	-	-
Household Expenses				
Food				-
Education				
Utilities				-
Housing/Rent				-
Transportation				
Medical				-
Insurance premium				
Loan Payments				
Installments/Payments				
Others:				
Total Household expenses	-	-	-	-
Net Household Income	-	-	-	-

Credit union loan officers' Competency course

TOTAL NET INCOME	-	-	-	-
Less Daily Equivalent of Weekly Net Income	-			
Less Daily Equivalent of Monthly Net Income	-			
Estimated Amount of Debt Service	-			
Adjusted Debt Capacity Rate: 35 %	-			-
Maximum Loan Entitlement for ___ months	-			-
Loan payment for loan of _____ for ___ months				

Maximum Loan Entitlement = $\frac{\text{Adj. Debt Capacity} \times \# \text{ Days or Weeks}}{1 + (\# \text{ Mos.} \times \text{Int. rate per mo.})}$

Loan Payment for Loan of _____ for ___ mos. = $\frac{\text{Recommended loan} \times (1 + (\text{Recommended} \# \text{ Mos.} \times \text{Int. Rate per mo.}))}{\# \text{ days or weeks}}$

CASHFLOW ANALYSIS

BUSINESS	Amount			MONTHLY TOTALS
	Daily	Weekly	Monthly	
Income from Sales				
Business 1:	4,500			135,000
Business 2:				
Business 3:				
Total Business Income	4,500	-	-	135,000
Business Expenses				
Raw Materials/Purchases				
Business 1:	1,800			54,000
Business 2:				
Business 3:				
Labor		500		2,000
Rent			15,000	15,000
Utilities			2,000	2,000
Transportation		1,000		4,000
Fuel				
Loan Payments				
Installment/Payment				
Others:				
Total Business Expenses	1,800	1,500	17,000	77,000
Net Business Income	2,700	(1,500)	(17,000)	58,000
HOUSEHOLD				
Regular Household Income				
Salaries & Wages				
Pension				
Other Income			5,000	5,000
Total, Household Income	-	-	5,000	5,000
Household Expenses				
Food			5,000	5,000
Education				
Utilities			2,000	2,000
Housing/Rent			5,000	5,000
Transportation				
Medical			1,500	1,500
Insurance premium				
Loan Payments				
Installments/Payments				
Others:				
Total Household expenses	-	-	13,500	13,500
Net Household Income	-	-	(8,500)	(8,500)
TOTAL NET INCOME	2,700	(1,500)	(25,500)	49,500

Credit union loan officers' Competency course

Less Daily Equivalent of Weekly Net Income	(214)			
Less Daily Equivalent of Monthly Net Income	(850)			
Estimated Amount of Debt Service	1,636			
Adjusted Debt Capacity Rate: 35 %	573			17,325
Maximum Loan Entitlement for ___ months	42,127			49,033
Loan payment for loan of _____ for ___ months	544			14,133

$$\text{Maximum Loan Entitlement} = \frac{\text{Adj. Debt Capacity} \times \# \text{ Days or Weeks}}{1 + (\# \text{ Mos.} \times \text{Int. rate per mo.})}$$

$$\text{Loan Payment for Loan of _____ for ___ mos.} = \frac{\text{Recommended loan} \times (1 + (\text{Recommended} \# \text{ Mos.} \times \text{Int. Rate per mo.}))}{\# \text{ days or weeks}}$$

CASE STUDIES – CASH FLOW BASED LENDING

CASE 1

Rosanna, a widow is a Regular Member of your coop for almost 5 years and she is one of the recognized MIGS every General Assembly. She has a business in the local public market that is earning well. Her daily income is P4,500 before all the following expenses are deducted:

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Purchases – 1,800 daily
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Utilities – 2,000 monthly
Housing/Rental – 5,000 monthly
Medical – 1,500 monthly

She is also receiving a monthly contribution from her children, now all married, amounting to P5,000. She wants a short-term for Business Loan with an interest rate of 24% per annum that is time 2 her total savings & share capital. Her current balance of Savings deposit is P15,000 and Share capital of P10,000 . The CI officer has verified and assured that the above data was reasonable true.

4. Compute the capacity of Rosanna. What is her maximum entitlement?
5. What is the best payment mode for collection?
6. What is the amount of each amortization?

CASE 2

Riza, an Elementary Private School Teacher for almost 5 years has 2 kids at grades 1 & 2 in the nearby public school. She is a new member of the cooperative. She had invested Php5,500.00 shares during her first month of membership and has Php7,500 accumulated savings. She applies for a Php25,000 loan for the purpose of finishing her house extension. She agreed for salary deduction in collecting its loan. She offered as collateral their parcel of agricultural land and based on the CI/BI it is situated in an area that is known to be good producer of tomatoes. Report from the CI officer also discloses an appliance loan availed by Riza from a local appliance center (in which she was a good debtor) and will be fully paid within 6 months. Her co-makers are her two co-teachers which were awarded MIGS during the last GA. The Manager and Loan officer analyzes the following cash flow.

INCOME

Riza	8,000/month	(PHP)
Husband (Hardware Employee)	6,000/month	(PHP)

EXPENSES:

Education	1,000/month
Food	5,000/month
Allowance	4,400/month
Recreation	1,000/month
Others:	1,000/month

As per policy of the coop, she is now qualified to avail the Salary Loan in the coop (after 1 month residency) with 12 month term at 2% per month. Levels of authority indicated in the policy is: Manager: up to Php10,000, Credit Committee up to Php20,00, BOD Php25,000 and up. The manager and the loan officer recommend to

1. What is the maximum loan entitlement?
2. Evaluate the case using the 5 C's of credit.
3. Are you going to approve the loan?
4. What would be your basis for the approval or disapproval?

6

COLLECTION & DELINQUENCY MANAGEMENT

(3 hours session – 240 minutes)

LEARNING OUTCOMES

Do:	Prepare an effective collection and delinquency management policy and procedures for the credit union.
Know:	Explain the policy areas to be addressed in the effective collection and delinquency policy.
Feel:	Realize the need for credit unions to review and improve their collection and delinquency policy to protect members interest and to ensure the credit union safety and soundness.

Topic **Collection and Delinquency Management**

Time Allocation 3 hours (240 minutes)

- Materials**
- Flip Chart
 - Marker Pens
 - Sticky Notes
 - Prizes for one group (it can be chocolates, candies, cookies or pens)
-

- Handouts**
- Collection and Delinquency Policy
 - Charge Off Policy
-

Lesson Guide

1. Introduction

Introduce the topic by asking each group to write at least one answer on what they want to DO, KNOW and FEEL about the topic. Prepare big text of DO, KNOW and FEEL on the white board. Ask them to post the sticky notes. Synthesize based on the following learning outcomes:

Do:

Prepare an effective collection and delinquency management policy and procedures for the credit union.

Know:

Explain the policy areas to be addressed in the effective collection and delinquency policy.

Feel:

Realize the need for credit unions to review and improve their collection and delinquency policy to protect members' interest and to ensure the credit union safety and soundness.

2. Definition of Delinquency

- Ask each group to define Delinquency. Give them these three words: Emergency is . . .
- Ask them to define Delinquency in 24 words including the three words given.
- Then ask them to cut their definition to 12 words
- Then cut the definition in 6 words
- Then, finally cut the definition in 3 words . . . **neglect of duty or obligation or Financial obligation overdue or loan payment default or debt payment arrears or nonpayment of loans**
- Ask the group to write the 3 words in a meta card; stick them on the flip chart

3. Case Study – Identifying Delinquency Type (15 minutes)

To facilitate the case study, you can copy the case study page at the back of this chapter and distribute it to trainees.

To manage the time, allow about 10 minutes for reading and answering the cases, and 10 minutes for discussing the solutions.

Their job is to identify which of the following types of delinquency each case is.

- Circumstance
- Lack of understanding
- Irresponsibility
- Dishonesty

Case	Answer
Case #1: A member has not paid on his loan for three months. When you call him about it, he tells you he has forgotten the payment amount.	This member is irresponsible and shows it by not paying the Credit Union loan and by not contacting CU if he did indeed forget the loan payment amount.
Case #2: A member hasn't paid on his loan for four months. Every time you call, he has a different excuse. Today when you called, you caught him in a lie. He told you his mother was ill, but last month when you called, he told you his mother died.	This member is dishonest and is probably trying to get out of paying the loan altogether.
Case #3: A member misses one payment and calls you to say his son lost a leg in an accident.	This member is a victim of circumstance and should be allowed time to adjust to his new circumstances.
Case #4: A member misses one payment, but this is the fifth time this has happened in less than a year. When you call the person to talk about it, he tells you he did not know the deadline was so hard and firm. He had always assumed that as long as he paid within a couple of months, it was fine.	The member lacks understanding of the terms of the loan. Take the time to reacquaint him with his obligations.

Highlight that only delinquency based on circumstance is eligible for loan renegotiation.

For members who are dishonest and irresponsible, loans should have not given in the first place. In which case, sufficient interview and credit investigation should be performed before loan is given.

4. Ask the trainees when do they consider the loan is delinquent?
Distribute this case to participants:

Mr. A received a loan of US\$ 1,200 payable in 12 equal monthly installments in December 31, 2010 at 12% interest rate per annum. In January and February, Mr. A paid the loan installment on time. In March, he failed to pay the loan installment.

Question:

- Do you think the loan is delinquent as of March 31, 2011?
- How much is the delinquent loan amount as of March 31, 2011?

Answers:

- Yes
- The amount of delinquent loan is US\$ 1,000.

Explain that the loan is delinquent once a member failed to pay the loan installment in accordance with the agreed contract. The amount of delinquent is the balance of the loan instead of the installment due. The risk is not only for the installment but for the entire loan balance.

5. Give 45 minutes for group study of the Loan & Delinquency Policy and Charge-off Policy. Explain that the exercise would give opportunity for groups to garner score. This will be a teamwork activity.
6. Show the box containing questions about the policies. Two questions per group would be fair enough to cover the topic.
7. The rules:
 - No one is allowed to open his or her handout.
 - Have the names of the group written in a 1/8 sheet of A4 size paper. This will be drawn on which group will take turn in answering the question.
 - The trainer will draw the first group answering the first question. If the group got the correct answer satisfactorily, they get 5 points and select the group to answer the next question and the person to answer the question.
 - However, if the answer is wrong, the group gets minus 5. Any group can steal the point by answering the question. It is either plus 5 (if correct) or minus 5 (if wrong)

Credit union loan officers' Competency course

8. The following are the questions:

<p>Q 1. Why there is a need to centralize the collection of loans?</p>	<p>Allow even distribution of workload on delinquent accounts to the collection officer. Allows more comprehensive performance evaluation and better access to for consultation and training regarding collection matters, policies and procedures.</p>
<p>Q2. Describe the responsibility of the General Manager in the collection of loan?</p>	<p>The General Manager shall be responsible for seeing that the Collection Department follows the rules, practices and procedures set forth in this Policy; that this Policy is periodically reviewed and updated or amended; and that the Collection Department provides all reports when required.</p>
<p>Q 3. What is the responsibility of the Collection Manager?</p>	<p>The Collection Manager shall be responsible for overseeing the day-to-day operations of the Collection Department; insuring that all personnel comply with the rules, practices, procedures and code of conduct set forth in this policy; insuring any reports by the Collection Department are provided when required; and for allocating work assignments to other Collection Department personnel.</p>
<p>Q 4. What is the responsibility of the Collection Officers?</p>	<p>Collection Officers shall be responsible for undertaking the collection practices and procedures set forth in this Policy. Collection Officers shall report to the Collection Manager; be familiar with this Policy; and conduct themselves pursuant to the rules and code of conduct set forth in this Policy and other Credit Union guidelines.</p>
<p>Q 5. Can you give at least 3 Code of Conduct on collection</p>	<ul style="list-style-type: none"> • All applicable country laws will be complied with. • Deceptive collection practices will not be tolerated. • Harassing and abusive tactics are unacceptable and the use of such is the ground for immediate dismissal. • All members are to be treated with respect and understanding on all occasions. When contacted you should always thank the member for their time. • Collectors, in their dealings with members and the public, must always conduct themselves in a professional and businesslike manner. Cooperation and understanding, coupled with a straightforward business approach to collection procedures must be followed. Only forms approved by the Credit Union will be used.

	<ul style="list-style-type: none"> • All employees are expected to know and understand the contents of the Policy and Procedures Manual and may be required to sign a statement indicating such knowledge and understanding. Employees are subject to immediate dismissal for knowingly refusing to follow such policies and procedures.
<p>Q 6. Why the first payment default should be given priority for collection by the credit union?</p>	<p>First Payment Defaults A default on a member's first payment should be resolved quickly to protect the XYZ Credit Union and any collateral securing the loan. Such a default may merely reflect an error or misunderstanding by the member, which should be quickly resolved to insure that such defaults do not continue. On the other hand, such defaults may indicate bad faith or fraud by a member who has no intention of repayment. Such cases should be resolved immediately and legal and/or repossession action should be quickly undertaken.</p>
<p>Q 7. Can you give at least 3 criteria on when the loan can be charged-off</p>	<ul style="list-style-type: none"> • Any loan where the borrower cannot be located. In other words, there has been no contact for 90 days and the borrower is deemed a "skip." It is important to document all contacts. • Any loan that is twelve (12) months delinquent and no payments have been received for three (3) consecutive months, unless otherwise approved by either the CEO/General Manager or the Collection Manager. • Any loan that has been assigned to a collection agency or lawyer. • Any loan that is not secured (collateral or otherwise), and upon which no payment has been received for twelve (12) consecutive months. • Any deficiency balance on a loan upon which no payment has been received and no possible course of action appears to be feasible or warranted. • Any loan determined to be uncollectible regardless of the number of month delinquent.

<p>Q8. What is the asset valuation of the Loans in the Balance Sheet? And how will you arrive at it?</p>	<p>The valuation is net of allowance for loan losses which is 35% for loans delinquent for one to 12 months and 100% for loans delinquency for more than one year.</p>
<p>Q9. Can you give 2 activities after the charge-off is made on loans.</p>	<ul style="list-style-type: none"> • Assign to a collection agent • Reviewed from time to time to determine changes in the circumstances of the member
<p>Q10. What is your action and follow up for loan that has been delinquent for 15 days?</p>	<p>Second Notice to be sent “Have you Forgotten?”. If payment is not made within 15 days after the initial telephone call or reminder letter, a second contact with be made through letter and telephone.</p> <p>The Loan Department/Unit again will generate the second letter encouraging the borrower to bring the account up to date. Penalties imposed for late payment, and future collection efforts are detailed in this letter.</p>

9. Total the scores garnered by the groups. Award the prize to the group earning the highest score.
10. Utilize the remaining time to facilitate question and answer.
10. Conclude the session by asking the trainees to write on a meta cards the changes they would like to introduce to their credit union on Collection and Delinquency management. Ask to post them on the ‘Action Wall.’

COLLECTION AND DELINQUENCY POLICY

Purpose:

The purpose of this policy is to ensure quality loan portfolio.

Objectives:

The basic objectives behind establishing collection policy are as follows:

- a) To provide all staff involved in collection of a concrete guidelines to follow for every circumstance
- b) To ensure that collection techniques do not vary from one individual to another.
- c) To warrant that every endeavor is made in the first instance to assist members who are unable to meet their obligation to XYZ Credit Union.
- d) To assure that collection procedures are instituted immediately and firmly after an effort has been made to assist member and the member has not responded
- e) To guide the management to be diligent in the collection and recovery of the loans it makes to insure not only the safety and soundness of the XYZ Credit Union, but to protect all members in good standing.

1. Responsibility of Collection

1.1. **Centralization of collection** should be made through the Collection Department or Loan Department to:

- .1.1. Allow even distribution of workload on delinquent accounts to the collection staff. The workload will be distributed either by account number, area or alphabetically.
- .1.2. The Collection Manager will be able to evaluate and consult with all the collection staff on an individual basis. This will allow a more comprehensive performance evaluation and better access for consultation and training regarding collection matters, policies and procedures.
- .1.3. Insure compliance with the policy.

1.2. The individual responsibilities of the XYZ Credit Union's collection personnel and management are as follows:

- 1.2.1. The General Manager shall be responsible for seeing that the Collection Department follows the rules, practices and procedures set forth in this Policy; that this Policy is periodically reviewed and updated or amended; and that the Collection Department provides all reports when required.

- 1.2.2. The Collection Manager shall be responsible for overseeing the day-to-day operations of the Collection Department; insuring that all personnel comply with the rules, practices, procedures and code of conduct set forth in this policy; insuring any reports by the Collection Department are provided when required; and for allocating work assignments to other Collection Department personnel.
- 1.2.3. Collection Officers shall be responsible for undertaking the collection practices and procedures set forth in this Policy. Collection Officers shall report to the Collection Manager; be familiar with this Policy; and conduct themselves pursuant to the rules and code of conduct set forth in this Policy and other Credit Union guidelines.
- 1.3. Training. The collection staff shall be provided comprehensive and appropriate internal and external training to insure compliance with this Policy, applicable laws and regulations, and an effective working knowledge of approved collection techniques, which shall be reviewed and updated periodically. The Collection Manager shall be responsible for insuring all collection staff receives necessary and continuing training.

2. Code of Conduct

- 2.1. All applicable country laws will be complied with.
- 2.2. Deceptive collection practices will not be tolerated.
- 2.3. Harassing and abusive tactics are unacceptable and the use of such is the ground for immediate dismissal.
- 2.4. All members are to be treated with respect and understanding on all occasions. When contacted you should always thank the member for their time.
- 2.5. Collectors, in their dealings with members and the public, must always conduct themselves in a professional and businesslike manner. Cooperation and understanding, coupled with a straightforward business approach to collection procedures must be followed. Only forms approved by the Credit Union will be used.
- 2.6. All employees are expected to know and understand the contents of the Policy and Procedures Manual and may be required to sign a statement indicating such knowledge and understanding. Employees are subject to immediate dismissal for knowingly refusing to follow such policies and procedures.

3. Delinquency-Collection Timetable

Days Delinquent	Action	Follow-Up
1-7	Grace Period	None
Within 7 days	First Notice to be sent “A Reminder”	The Loan department/unit will generate delinquency notice.
15	Second Notice to be sent “Have you Forgotten?” . If payment is not made within 15 days after the initial telephone call or reminder letter, a second contact will be made through letter and telephone.	The Loan Department/Unit again will generate the second letter encouraging the borrower to bring the account up to date. Penalties imposed for late payment, and future collection efforts are detailed in this letter.
30	The delinquent loan will be entered on the delinquency schedule.	The Loan Department/Unit enters the total loan balance in the delinquency schedule classification of 1-12 month delinquent. The collection staff will follow-up. Direct contact is made with the member.
30	Third Notice sent “May we have your Past-Due Payment?” to member. Copy of the letter is also sent to guarantor.	Delinquent member is given 20 days from date of mailing to clear account. Verbal follow-up contact continues at least every other day, until the delinquency is resolved.
After 30	* The General Manager/Credit Committee may take appropriate action under this Policy including repossession, and other collection action including filing of legal case.	The Loan Department/Unit shall determine appropriate action under this policy.
After 45 days	Issue the final notice “This is your final chance.” And Meet the member and guarantor.	The Collector with the Credit Committee/Manager meets the member to find out the problems. At this point there should be repayment arrangement agreed upon.
60-90	<ul style="list-style-type: none"> ▪ Every loan that is 2 or more month delinquent shall be addressed at the Monthly Board Meeting ▪ A formal workout agreement made between Credit Union and Member <p>At this stage, legal action should begin. When no security is held, legal action to recover the loan balance shall commence on any account when no acceptable installment arrangement has been made. In special circumstance, for example, if a member has failed to respond, action may be taken earlier.</p>	<ul style="list-style-type: none"> ▪ The Loan Department/Unit shall identify potential losses (i.e. charge-offs/potential recovery based on member's collateral) to ensure proper valuation is reported to management and Board of Directors. ▪ The Loan Department/Committee/Manager recommends the formal workout agreement according to the policy.

Days Delinquent	Action	Follow-Up
After 90 days	Turn over account to attorney or collection agent, if any.	Lawsuit, claim and delivery, foreclosure and further collection efforts.
365 days	If loan has not been repaid, loan charge-off should be considered.	The collection department makes recommendation through the manager on the loan to be charged off based on the policy.

**Note: Repossession or other appropriate action may be taken earlier when necessary to protect collateral in accordance with this Policy and applicable law.*

4. Priority Collection Activity

The Collection Department will prioritize its collection efforts and follow the practices set forth in this Policy. XYZ Credit Union has established the following priorities for collection actions:

- 4.1. **First Payment Defaults** A default on a member's first payment should be resolved quickly to protect the XYZ Credit Union and any collateral securing the loan. Such a default may merely reflect an error or misunderstanding by the member, which should be quickly resolved to insure that such defaults do not continue. On the other hand, such defaults may indicate bad faith or fraud by a member who has no intention of repayment. Such cases should be resolved immediately and legal and/or repossession action should be quickly undertaken.

- 4.2. **Term Loans.** The first accounts, which should be looked at, are term loans i.e. farmers loans, which will be paid after harvest time. The originating loan officer should note on his/her calendar to check the note a few days after the due date. A timely telephone call or short reminder notice prior to the due date usually avoid the account to become delinquent.

- 4.3. **Loan Paid out of Payroll/Payroll Deduction Loans.** The collector should determine which loan accounts are paid by payroll deduction or salary received. If this accounts become delinquent there is a possibility that member is no longer working or on medical or vacation leave without pay. Chances are if a member is not getting paid it will be very difficult for him/her to make a payment. The collector should work with the member in any way possible keeping in mind that the obligations are to the Credit Union as a whole and strict adherence to all policies, including the Credit Union's extension/renewal policy, is required. The member should be contacted to arrange a payment schedule. At the same time, the files should be updated, getting the name of the member's new employer, as well as new address, phone numbers and the name of the nearest relative.

4.4. Loans other Than the Above.

- a. Early contact from loan officer is necessary to let member know that the account is closely monitored.
- b. Always initially approach each member with the idea that they are honest and truthful. Do not convey ideas to the member that XYZ Credit Union does not trust the member or he/she may become defensive and difficult to work with.
- c. Once a contact is made with the member, give him/her a date by which the payment will need to be made.
- d. Always give the member an alternative if possible. For example, state that "the payment needs to be made by the 10th of the month or contact XYZ Credit Union to work out some repayment arrangement."
- e. If a member promises to make a payment by a certain date, be sure this is documented, and follow-up is made thereafter.
- f. If commitment is not met, a constant eye should be kept on the value and condition of the collateral, if there is any. Oftentimes, collateral will be depreciating while the loan pay-offs is increasing as interest is added.
- g. If the loan becomes over 60 days delinquent, more serious action should be taken. Legal action may be required.
- h. The above suggested order of attention to collection efforts basically pertains to delinquencies that are 15-30 days past due. If an account proceeds past that initial stage, continuous monitoring of the account is necessary. Do not just look at the "problem" account after each new delinquent list is received. Weekly or daily review is sometimes necessary once an account becomes two or more payments past due.

5. Installment Arrangement (Renegotiation of Loans)

- 5.1. Only the CEO/General Manager or designated officer is authorized to make installment arrangements.
- 5.2. The following guidelines shall be observed in making the arrangement.
 - 5.2.1. If the installment arrangement is less than the agreed repayment rate specified on the loan agreement the arrangement shall be:
 - Reviewed after a period of 6 months.
 - Ratified by the Board of Directors if approved under delegated authority.
 - 5.2.2. A monitor is to be placed with the relevant credit reference authority for notification of any inquiries or defaults. The monitor is to be removed on completion of a period after a complete review of the member's performance.
 - 5.2.3. The member shall be informed in writing of the conditions of the arrangement, insisting that the loan will revert to the original contract should the arrangement be breached. The member shall sign a copy of the letter in acknowledgement of acceptance of the conditions specified. The copy shall be held by the Credit Union.

- 5.2.4. Complete a "Compromise Loan Agreement".
- 5.3. When conditions of an arrangement are not fully met within 7 calendar days of the special date, the account shall be deemed to be in breach of the arrangement, and proceedings for the collection of the loan shall commence.
- 5.4. The General Manager may declare an account current and vary the agreed repayment rate if an installment arrangement has been maintained for a period of 6 months or more provided that the term of the rearrangement did not exceed the maximum permissible term within the limitations of the Credit Union's rules from the date of the original agreement.
- 5.5. Under no circumstances should the installment arrangement be taken into consideration for the purposes of calculating the arrears position until such time as conditions in 5.4. have been met.

6. Charge-Off Loans against Allowance for Loan Losses

- 6.1. Uncollectible debts are charged-off monthly, however, attempts will still be made to collect these bad debts. The Management should recommend to the Board the following types of loans be charged-off as they occur:
 - 6.1.1. Any loan where the borrower cannot be located. In other words, there has been no contact for 90 days and the borrower is deemed a "skip." It is important to document all contacts.
 - 6.1.2. Any loan that is twelve (12) months delinquent and no payments have been received for three (3) consecutive months, unless otherwise approved by either the CEO/General Manager or the Collection Manager.
 - 6.1.3. Any loan that has been assigned to a collection agency or attorney.
 - 6.1.4. Any loan that is not secured (collateral or otherwise), and upon which no payment has been received for twelve (12) consecutive months.
 - 6.1.5. Any deficiency balance on a loan upon which no payment has been received and no possible course of action appears to be feasible or warranted.
 - 6.1.6. Any loan determined to be uncollectible regardless of the number of month delinquent.
- 6.2. Any loan meeting the above criteria that is not expected from charge-off by the Board of Directors should have the reason for not being charged-off noted in the Board of Directors' minutes.
- 6.3. Charging-off a loan does not mean that the accounts should be forgotten. The loan is still an asset of the Credit Union even though it is not so reflect on the books because of its doubtful value.

- 6.4. The majority of the charged-off loans (except bankruptcies) should be assigned to a collection agency or other legal means of collection upon charge-off authorization.
- 6.5. Charged-off loans should be reviewed from time to time (including those loans assigned to a collection agency for assessing outside efforts for possible recoveries) to determine whether there is a change in the payment ability of the borrower or other party responsible.

7. Asset Valuation Allowance

- 7.1. XYZ Credit Union should determine an adequate and reasonable Allowance for Loan Losses (ALL), which must result in the fair representation of the financial statements in accordance with the Generally Accepted Accounting Principles (GAAP), and thereby meet the requirements for full and fair disclosure.
- 7.2. The following provision for Allowance for Loan Losses should be calculated as follows:
 - a. 35% for loans delinquent for one month to 12 months
 - b. 100% for loans delinquent for more than one year
- 7.3. For interim assessments of provision requirements (i.e. between annual balance dates) a provision of 1% of loan funding made during the month shall be added to the provision account. The assessment under a and b must be made if the calculation is greater than adding of 1% of loan funding to the provision. The provision should be increased to meet the assessed requirement.

8. External Collection Agents (option)

The XYZ Credit Union collection agent will be _____.
The CEO/General Manager or his/her nominee shall be the authorized officer in relation to any court actions instituted by XYZ Credit Union to recover loan outstanding.

9. Accounts Paid in Advance

- 9.1. Unless prior arrangements are made, no member should be allowed to prepay a loan account, and thereby suspend repayments, by more than 90 days. An arrangement to repay a loan account on this basis shall only be made on a written request from the member.
- 9.2. The CEO/General Manager shall report to the Board of Directors on a quarterly basis all accounts paid more than 90 days in advance.

10. Other Credits to Loan Accounts

Payment received, as a credit to a loan account shall not be deemed to be repayment of arrears in the following circumstances:

- 10.1. The payment was made by cheque, which was subsequently dishonoured; or
- 10.2. The payment represented the proceeds of voluntary (part/full discharge) or enforced realization of security either as part or full discharge of the loan account.

11. Reports

Management should submit Monthly Report of Delinquency to the Board.

A Reminder!

Member: _____

Have you overlooked your payment?

Account No: _____

*If so XYZ CU will appreciate receiving
your payment*

Amount Due: _____

Date Due: _____

General Manager

Have you forgotten!

Member: _____

Your payment has not been received.

Account No: _____

We trust this is an oversight and would appreciate prompt payment.

Amount Due: _____

Date Due: _____

General Manager

May we have your past due payment?

Member: _____

We have not received the loan repayment

Account No: _____

We trust that you will settle the account within 20 days upon receipt of this notice

Amount

Due: _____

Date Due: _____

This is your final chance!

Member: _____

Please send your loan repayment.

Account No: _____

We will resort to legal action if

payment is not received within 10 days

Amount

Due: _____

of receipt of this notice.

Date Due: _____

<p>Case #3: A member misses one payment and calls you to say his son lost a leg in an accident.</p>	
<p>Case #4: A member misses one payment, but this is the fifth time this has happened in less than a year. When you call the person to talk about it, he tells you he did not know the deadline was so hard and firm. He had always assumed that as long as he paid within a couple of months, it was fine.</p>	

LOAN CHARGE-OFF POLICY

Purpose:

The purpose of this policy follows:

- a) To ensure the timely recognition of losses and adjustment for non performing assets;
- b) To provide full and fair disclosure of statutory reserves on the financial statements;
- c) To provide guidance for staff preparation of recommendations to the board of directors for charge-off action.

1. Process

- 1.1 Every month, XYZ Credit Union management will prepare for the board of directors a written report of loans and deposit items recommended for charge-off.
- 1.2 Prior to the submission to the board, each account will be review by the Credit Committee. This report will be presented to the board as part of the regular monthly board package.
- 1.3 Action of the board will be recorded in the board meeting minutes and charged-off loans and deposit items will become a permanent attachment to the minutes.

2. Requirements

- 2.1. A loan or deposit item that reaches any status listed here should be referred to the board of directors and recommended for charge-off:
 - 2.1.1. The member/borrower(s), including co maker(s) or co signer(s), has filed for bankruptcy or insolvent (according to each country law).
 - 2.1.2. The borrower(s) is deceased and there is little or no likelihood or recovery from the estate or it has been determined that no estate will be opened. In the event an estate is opened, the collection staff will ensure that the estate has been properly and appropriately notified of the existence of the obligation and will file a claim with the appropriate probate court.
 - 2.1.3. The loan is a deficiency balance from the sale of collateral and the borrower(s) has indicated unwillingness to make further payments.
 - 2.1.4. The loan balance has been assigned to a collection agency or outside attorney.
 - 2.1.5. The loan is 180 days or more delinquent, unless one or more of the following conditions exist:
 - a) The borrower is making monthly payments of at least 66% of the contractual payment, but cannot qualify for refinancing or re-aging by the credit union.

- b) The credit union or the member is writing for settlement of a documented insurance/bond claim.
 - c) The borrower is deceased and the credit union has substantial reason to expect settlement from the estate, co makers, guarantors, or relatives.
 - d) The credit union is waiting for the proceeds from the sale of repossessed collateral.
- 2.1.6. The loan has been determined to be uncollectible by the Collection Manager/Loan Officer regardless of the number of months delinquent.
- 2.1.7. The borrower(s) is determined to be a “skip” and the credit union has been unable to establish any contact with the borrower(s) for ninety (90) days.
- 2.1.8. All collection attempts on returned checks have failed.
- 2.1.9. All collection attempts on an overdrawn account have failed.
- 2.1.10. Fraud has been committed, and there is no realistic chance of recovery.
- 2.1.11. Should the board not approve any recommended charge-off, the action and reason(s) will be noted in the meeting.

3. Post-Charge-Off Activity

- 3.1. Charging off a loan or deposit balance does not mean that the account should be forgotten. The debt is still an asset of the credit union, although, because of its doubtful value, it is not so reflected on the books. Charge-off debts (except bankruptcies) should be assigned to a collection agency, a collection attorney, or the credit union staff attorney.
- 3.2. Charge-off debts should be reviewed from time to time (including those debts assigned to a collection agency or outside attorney) to determine whether any changes in the circumstances of the borrower or other party responsible for payment might make recovery possible.

4. Other Procedures

- 4.1. Prior to recommending an account for charge-off, collection department staff will transfer to the loan all shares and savings legally available for transfer.
- 4.2. If a member has caused a loss to the credit union, services to that member will be restricted.
- 4.3. The Head of the Loan Department/Operations will receive a report of all loans approved for charge-off. The latter with the appropriate staff of the Loans Department will carry out review of the certain charge-off loan files.
- 4.4. The internal auditor/audit committee will review the posting of all newly charge-off loans to the Charge-off Account, an off balance sheet record.

- 4.5. The collection department will maintain records of delinquent and charge-off loans as directed. A profile of charged-off loans will be reported monthly to the board.
- 4.6. The collection department will review other account relationships that a delinquent or charged-off borrower may have with the credit union.
- 4.7. The collection department will prepare a report of loans recommended for charge-off each month for review by the President/Chairperson and the Legal Counsel.

5. Settling Charge-off Account

- 5.1. When attempting to collect on a charge-off account, a collection representative strives to collect the principal and accumulated interest.
- 5.2. When a member approaches a collection representative to settle a charge-off, the proposal should be communicated to the collection department manager and legal counsel. At the time, it will be decided if the amount offered by the member is acceptable as payment in full.
- 5.3. A member who has repaid in full the loss incurred by the credit union on an account may be eligible to reopen a share account and regain full membership status. In such case, credit bureau is informed to reflect the payment in full and remove the charged-off status on the account.
- 5.4. If the amount of the settlement is not acceptable, the collection representative will communicate with the member in an attempt to obtain a just and full repayment of both the principal and interest.

6. Denial of Services

It is the policy of XYZ Credit Union to deny credit and other financial services to those members who have caused the credit union to incur a loss of any sort, and who have not voluntarily repaid the loss or are not in the process of voluntary repaying the loss. This policy applies to all losses, whether the loss was by bankruptcy or otherwise.

7

Family Budgeting:

Developing a Financial Road Map for Members

(3 hours session –180 minutes)

LEARNING OUTCOMES

Do:	<ul style="list-style-type: none">• Financial Goal Worksheet• Money Management Calendar
Know:	<ul style="list-style-type: none">• know the desired destination and exactly how you plan to get there• A clear vision of the financial goals and how to achieve them• Avoid treading side roads that slow the progression to financial freedom
Feel:	<ul style="list-style-type: none">• Create a challenge to achieve financial goals• Realize that prioritizing needs and controlling unnecessary expenses can lead to increase savings• Recognize the need for a plan to achieve the financial goal

Topic	Family Budgeting: Developing a Financial Road Map for Members
Time Allocation	3 hours (180 minutes)
Materials	9. Flip Chart 10. Marker Pens
Handout	<ul style="list-style-type: none">• Financial Goal Worksheet• Money Management Calendar
Session Guide	<ol style="list-style-type: none">1. Introduction Do:<ul style="list-style-type: none">• Financial Goal Worksheet• Money Management Calendar Know:<ul style="list-style-type: none">• know the desired destination and exactly how you plan to get there• A clear vision of the financial goals and how to achieve them• Avoid treading side roads that slow the progression to financial freedom Feel:<ul style="list-style-type: none">• Create a challenge to achieve financial goals• Realize that prioritizing needs and controlling unnecessary expenses can lead to increase savings• Recognize the need for a plan to achieve the financial goal2. Inform that the session will help participants prepare their financial goal worksheet (financial plan) and Money Management Calendar. The importance are:<ul style="list-style-type: none">• Financial Road Map is a remarkable and remarkably affordable tool that does the same for members financial journey, helping them move toward their goals armed with knowledge, clear direction, and confidence.• Money Management Calendar is a habit, an everyday task, especially if members need to stick to a plan to make ends meet. By tracking expenses, members will have the tools to plug the leaks in their spending. The money management calendar starts with and savings tips (previous session) can help members get through the year with more control over their finances.

3. Explain the how to fill the Financial Goals Worksheet. The following are the guides:
- Column 1 – Goal: refers to the savings goals such as Emergency Fund, House repair or acquisition, College Education, Home Furniture/ Equipment, etc. The financial goals will be based on the Financial Life Transition Profile prepared by participants.
 - Column 2 – Short-term financial goal is one year, mid-term is 3 years and long-term is 5 years above.
 - Column 3 - Total Needed: How much is required?
 - Column 4 – Current Savings: How much savings (not including share capital) is currently on hand either in credit union or bank?
 - Column 5 – Additional Savings Needed: Deduct column 4 from Column 3
 - Column 6 – Pay Periods until Target Date: What payment period is affordable for member such as daily, weekly or monthly?
 - Column 7 – Savings Needed per Pay Period: Column 5 divide by the number of days/weeks/months based on the Target date (1 year, 2 years etc.)

Solicit for any clarification or question from the participants. Then, ask them to fill up the Financial Goal Worksheet for 15 minutes.

Suggest the following:

- Short-term financial goal: The first financial goal of every member of the credit union is to build emergency fund. The goal is to save at least equivalent to three (3) to six (6) months daily subsistence of the family.

Explain that in today's environment, it will take at least 6 months to establish a new source of income or gainful employment. Thus, if a member lost job or self-employment opportunities, the member will have no problem in his/her day to day subsistence before being able to find another source of income.

The member can also use the fund for emergency cased instead of depending on credit union loan or loan from relatives and friends. Members are able to manage life crisis by putting up an emergency fund.

- Mid-Term and Short-Term Financial Goal: college education for children or self, repair of house, land purchase, vehicle purchase and house appliances or furniture

At the end of the exercise, participants should have written short-term and long-term financial goals and have plans to achieve them.

-
4. Explain the how to fill the Money Management Calendar. The following are the guides:

Column 1

- Income: received from different sources by the member (including his/her spouse)
- Savings and “Get out of Debt” Goals: deducted from the Income before incurring any expenses. The savings column will be filled out based on the Financial Goals Worksheet in Column 7 – Savings Required per Pay Period. This column gives emphasis that a member has to save and pay the loan first before spending.
- Spendable Income: the income after deducting the savings and debt service goal
- Necessary Expenses: represents expenditures for the needs. These expenditures are necessary for daily survival of the family
- Income after Necessary Expenses: This is the amount available for members to spend for Discretionary expenses or wants. If this can be avoided, then this amount can be allocated for savings.
- Discretionary expenses: expenditure for ‘wants’ or non-necessary expenses. Expenditures not necessary for day-to-day survival.
- Net Income (Deficit): the difference of total income against total expenses.

Column 2: the total budget for the month

Column 3 – 33: represents the day of the month. The member has to spend at least 15 minutes at the end of each day to fill the expenses on a daily basis. This will help the member manage their money.

Column 34: At the end of the month, the total income and expenses is filled in this column.

Column 35: the variance from the budget as against the actual. Member has to fill the reason for significant variances.

For 30 minutes, ask the participants to prepare the monthly family budget by filling up column 2.

5. Conclusion

The Financial Goal Worksheet and the Money Management Calendar should be prepared by the member and his/her spouse. Emphasize that the financial roadmap is the family's commitment to their financial future. The trainer themselves should be practicing the financial plan.

Financial Goals Worksheet

Goal	Target Date (Short-Term is one year and long-term is 3 years)	Total Needed	Current Savings	Additional Savings Needed	Pay Periods Until Target Date (Daily, Weekly, monthly)	Savings Needed per Pay period	Total Planned Savings per month
Build Emergency Fund (equivalent to 3 to 6 months family expenses)							
Total Monthly Savings							

Credit union loan officers' Competency course

Monthly Money Management Calendar for _____

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Description	Mo. Budget	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Actual	Variance
Income																																		
Salaries and Wages																																		
Sales of Products/Business																																		
Investment Earnings (Interests)																																		
Others																																		
Total Income																																		
Less: Savings & Get Out of Debt Goal																																		
Loan Repayment (Principal & Interest)																																		
Personal Access Savings (Emergency Fund)																																		
Education Savings																																		
Other Savings (Specify)																																		
Total Savings & Get Out of Debt Goal																																		
Spendable Income:																																		

Credit union loan officers' Competency course

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Description	Mo. Budget	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Actual	Variance
Necessary Expense (Needs):																																		
Daily Food Consumption																																		
Education (school fees, supplies, transport, uniforms etc.)																																		
Utilities: Gas, Water, electricity																																		
Groceries (Sugar, Coffee, Soap etc.)																																		
Medical Care																																		
Total Necessary Expenses																																		
Income after Necessary Expenses																																		

Credit union loan officers' Competency course

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35		
Description	Mo. Budg et	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Actual	Variance		
Discretionary Expenses (Wants)																																				
Grooming (hair cut, manicure, hair coloring)																																				
Clothing																																				
Mobile Phone																																				
Celebrations,Entertainment (birthdays gifts, parties)																																				
Vices (cigarettes and alcohol drinks)																																				
Total Discretionary Expenses																																				
Total Expenses																																				
Net Income (Deficit)																																				

ACTION PLAN

Goal:

Action Steps	Responsible	Time Frame				Indicators
		Year:				
		Q1	Q2	Q3	Q4	

Prepared by:

Name and Designation

Name and Designation

Name and Designation

Trainers Training on Credit Union Loan Officer's Competency Course

EVALUATION SHEET

Please tick (/) in the appropriate box.

1. How worthwhile was the training for you

	Very Worthwhile		Fairly Worthwhile		Not very worthwhile		A waste of time
--	-----------------	--	-------------------	--	---------------------	--	-----------------

2. How the program was conducted?

	Very well		Fairly Well		Poorly		Very poorly
--	-----------	--	-------------	--	--------	--	-------------

3. Did the program have additional value in your particular job?

Yes ____ **Partly** ____ **No** ____

4. What are the strong points?

5. What are the weak points?

6. Training Methodology

Lecture and discussions

	Too much lecture		Too much discussion		About the right amount of each
--	------------------	--	---------------------	--	--------------------------------

Visual aids

	Not enough		Too much		Okay
--	------------	--	----------	--	------

Group Dynamics

	Very Useful		Just to enjoy		As a habit
--	-------------	--	---------------	--	------------

Group Activities:

<input type="checkbox"/>	Too much group activities	<input type="checkbox"/>	Not enough group activities	<input type="checkbox"/>	About the right amount of group activities
--------------------------	---------------------------	--------------------------	-----------------------------	--------------------------	--

Handouts and reading materials

<input type="checkbox"/>	Too much handout	<input type="checkbox"/>	Not enough handout	<input type="checkbox"/>	About the right amount of handout
--------------------------	------------------	--------------------------	--------------------	--------------------------	-----------------------------------

7. Trainee's participation

<input type="checkbox"/>	Too much participation by trainees	<input type="checkbox"/>	Too less participation by trainees	<input type="checkbox"/>	Okay
--------------------------	------------------------------------	--------------------------	------------------------------------	--------------------------	------

8. Time Schedule

<input type="checkbox"/>	Too short	<input type="checkbox"/>	Too Long	<input type="checkbox"/>	Okay
--------------------------	-----------	--------------------------	----------	--------------------------	------

9. How well did the trainers maintain friendly and helpful manner?

<input type="checkbox"/>	Excellent	<input type="checkbox"/>	Very Good	<input type="checkbox"/>	Good	<input type="checkbox"/>	Fair	<input type="checkbox"/>	Poor
--------------------------	-----------	--------------------------	-----------	--------------------------	------	--------------------------	------	--------------------------	------

10. How well did the trainers keep the session active and interesting?

<input type="checkbox"/>	Excellent	<input type="checkbox"/>	Very Good	<input type="checkbox"/>	Good	<input type="checkbox"/>	Fair	<input type="checkbox"/>	Poor
--------------------------	-----------	--------------------------	-----------	--------------------------	------	--------------------------	------	--------------------------	------

11. How were the training facilities, board and lodging arrangements etc.?

<input type="checkbox"/>	Excellent	<input type="checkbox"/>	Very Good	<input type="checkbox"/>	Good	<input type="checkbox"/>	Fair	<input type="checkbox"/>	Poor
--------------------------	-----------	--------------------------	-----------	--------------------------	------	--------------------------	------	--------------------------	------

12. What were the major benefits you received? (tick as many as you wish)

- Help confirmed some of my ideas
- Presented new ideas and approaches
- Gave me a good change to look objectively at myself and my job
- Acquainted me with problems and solutions from other cooperatives/credit unions
- Other benefits

13. Other comments and suggestions

Sample Training Design Format

Subject :

Training Goal/s: **Goal** is the overall result or the capabilities you hope to attain to by implementing your training plan

Learning Objectives: **Learning objectives** is what would you be able to do as a result of the learning activities e.g. exhibit required skills in problem solving and decision making

List of 'action words' suitable for learning objectives:

Agree	Elicit	Recognize
Analyze	Establish	Risk asses
Apply	Evaluate	Share
Carry out	Exercise	Transform
Change	Explore	Transmit
Commit	Generate	Turn
Create	Identify	Use
Demonstrate	Introduce	
Describe	List	
Design	Pace	
Detail	Practice	
Develop	Present	
Discuss	Produce	

Time Allocation:

Materials Required: Example: white board, board markers, meta cards, colored papers, scissors etc.

Learning Methods and Activities: **Learning methods** –what will you do in order to achieve the learning objectives? e.g. complete course in basic supervision, address major problems that involve decision making, delegate to a certain employee for one month

- What are the skills and knowledge you are planning to impart?
- What they will be able to do, know, avoid or stop as a result of using said skill/knowledge in the real world?

Documentation of evidence of learning:

- **Documentation or evidence of learning** –evidence produced during your learning activities – these are results that someone can see, hear and feel and smell e.g. course grade and written evaluation of the participant problem solving and decision making

- **Evaluation** –assessment and judgment of the written evidence in order to conclude whether the learning objectives were achieved

Post Activity Review: