

## 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.



**2.5.3 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 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.



## LOAN CHARACTERISTICS

### Purpose:

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

### 1. Term and Modes of Repayment

- 1.1. The term of any loan should be based on factors such as: the life span of the property offered as collateral, or the production cycle of agricultural produce/products, or salary schedule of the member-borrower (whichever is applicable)
- 1.2. The credit union should provide a table of maturity to provide the maximum term for the different types of agricultural loans.
- 1.3. An amortization schedule synchronized with the salary schedule or revenue of the member-borrower should also be provided.
- 1.4. The modes of repayment may be daily, weekly, semi-monthly, quarterly, semi-annually or yearly depending on the type of loan and the produce. Rather than a lump sum payment, privilege and favour should be given to regular payments, synchronizing it with the member-borrower's revenue. When lump sum payment is the only solution, the regular payment of interest (ex. Monthly) until the maturity of the loan, should be required. Of course, anytime a member-borrower is arriving with a lump sum payment, the primary should welcome payment.
- 1.5. Repayment of loans can be made in cash and/or checks, by transfer of funds from a savings account, or by automatic, pre-authorized fund transfer from a savings account in a bank or cooperative with proper authority therefore from the borrower's/co-borrower's accounts.
- 1.6. Payments application follows:
  - Miscellaneous advances (insurance, taxes, processing fees etc.), if any.
  - Fines and penalties
  - Interests
  - Principal



A **suggested table** of maturity for some types of agricultural loans based on gestation period:

<b>Poultry, Fish and Livestock</b>	<b>Maximum Loan Term</b>
1. Poultry: Broiler	90 days
2. Fish (depends on the breed of fish)	120 days
3. Poultry: Duck Raising	180 days
4. Livestock: Rabbit, birds	180 days
5. Livestock: Goats	210 days
6. Poultry: Duck Raising (Duck Egg Production – 4 months old stock)	270 days
7. Poultry: Egg Production (ready to lay pullets)	360 days
8. Livestock: Beef (yearly stock), fattening 270-360 days (1.5 years old calf)	360 days
9. Hog Raising-fattening (2 months old stock)	360 days

A **suggested table** of maturity for other loan types is as follows:

<b>Loan Types</b>	<b>Maximum Loan Term</b>
1. Appliance	360 days
2. Home Improvement	2 years maximum

For commercial loans, the maximum loan term may follow the inventory turnover (cycle of business), taking into consideration the capitalization of the business, its cash flow, paying track record, business prospects as well as the capacity of the member-borrower to meet the amortization schedule.

Acquisition of durables (real estate) and semi durables (motor vehicles) may be financed by the cooperative provided that special attention is given to its expected life (depending on its useful uses), potentials of the property as well as inflationary factors, as in the case of real estate, when determining loan terms. The rules of collateral appraisal shall apply in determining useful life (refer to Collateral Appraisal).

## 2. Acceptable Payments

2.1. Cash - \_\_\_\_\_ currency is acceptable payment for loan obtained from the cooperative borrowers. In applicable cases and if there is a board resolution therefore, foreign monies may be accepted as payment for loans. The rate of conversion shall be the lowest buying rate of three commercial banks in the place of business of the cooperative. Extreme caution is to be exercised to prevent, avoid being a victim of fake or fraudulent transactions.





## 2.2. Checks

- 2.2.1. Checks may be accepted as payment for a borrower's loan if the check is personal, current dated, payable to the order of the credit union, not in anybody's personal account or name. It is always preferable to check with the bank if the check is funded. The credit union should always ask the bank to reserve or earmark the fund even if the bank is not obliged to do it.
- 2.2.2. Third-party checks shall not be accepted if the drawer is not known to the cooperative, or to the collector/loan officer. The check, if accepted, shall be current dated, drawn or issued to the order of the credit union.
- 2.2.3. Post-dated checks may not be accepted if paid for a current amortization. However, it may be accepted if given for future loan amortization (s) not less than seven (7) days period before due date(s).
- 2.2.4. Bounced check-upon receiving a bounced check, the primary's transaction related to the loan must be reversed. The borrower is to pay the interest from the maturity date of amortization. Within two (2) days from receipt of the notice from the bank of a dishonoured check, the loan officer shall make a written demand letter to the issuer/drawer of the check(s) to repay the cooperative two to three days from receipt of the demand; otherwise, legal action shall be taken against the drawer, issuer. After one bounced check, the borrower is not allowed to pay in check anymore, only in cash.

## 2.3. Payment in Kind or Service

- 2.3.1. It is not the business of the cooperative to accept payment in kind. The credit union should convince the borrower to sell the produce and pay what s/he owes the credit union.
- 2.3.2. It could happen exceptionally that a borrower cannot pay otherwise than with service. This practice should be discouraged unless it gives a real service to the credit union. There are occasions where the borrower's service(s) may be needed and used by the credit union for its operation. In this case, the credit union manager, in consultation with the Board of Directors, may accept a payment through competent and experienced service by a borrower, relative to his/her profession, business or field of expertise. The price of said service must not be more than the prevailing rate of similar or other professional services in the locality.



## 2.4. Payment of Loan Proceeds

The payment of the loan is governed by the following guidelines:

- 2.4.1. The Loan Officer must monitor the proper utilization of the borrowers funds; and in case of diversion, the balance of the loan shall become immediately due and demandable.
- 2.4.2. Official receipts and/or certificate of ownership of the property acquired by reason of the loan must be submitted to the credit union to show proof of proper loan utilization.
- 2.4.3. When counterpart fund is required, the member-borrower must prove the existence of a counterpart in one's name before the loan is released. Proof can take the form of official receipts and the like.
- 2.4.4. Documentation related to collateral must be signed in the presence of the cooperative loan staff, notarized and registered expeditiously with the appropriate government agency before the loan is released.
- 2.4.5. When the loan is for the purpose of purchase of appliance, equipment, construction material, farm inputs, etc., the disbursement must be made in the name of the member-borrower and the supplier or paid directly to the supplier at the option of the credit union.

## 2.5. Interest Rates

All loans shall bear an interest based on prevailing commercial bank's market rates; but, sufficient to cover the cost of operation with a comfortable profit margin.

- The interest rate on a loan represents the profitability of the cooperative
- Computation of interest shall be based on diminishing balance; however payments are constant.

## 2.6. Service Fee

Service fee is a fraction of a percentage decided by the Board (usually not more than 2% of the total amount loaned) charged for each new loan to cover processing expenses of the loan. It does not cover expenses related with legal documentation and notarization fees. The service fee shall be deducted from the loan proceed but shall not form part of the loan.



Restructured or extended loans shall be charged a service fee amounting to the same percentage. Should service fee be waived, the approval of the Manager shall be first secured.

## 2.7. Penalty

2.7.1. Penalty shall be charged starting on the first day following the missed amortization payment

2.7.2. In case grace period is granted on missed amortization, penalty is charged after the stipulated grace period.

2.7.3. The penalty rate shall be 3% per month on the amortization due at the most; but, in no case shall be lower than the service fee charged;

2.7.4. Penalties may be waived upon authorization of the Manager.

## 2.8. Delinquent Loans

Loan repayments much be done according with the pre-arranged repayment schedule. Loans are considered delinquent when any amortization is not paid on due date. When an account becomes delinquent, the outstanding balance of the loan becomes immediately (if there is an acceleration or diversion clause in the promissory note) due and demandable.



## 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 (Annex 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 based on the interview findings in accordance with the borrower's cash flow and repayment capacity. The amortization schedule (Annex 2) 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 (Annex 1)
  - Amortization Schedule (Annex 2)
  - Sources of Income and Expenditures (Annex 3)
  - Profit and Loss Statement or Sources of Investments (Annex 4)
  - Statement of Assets and Liabilities (Annex 5)
  - Self-assessment Form (Annex 6)



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 (Annex 8) 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 (Annex 3).
- 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 collateral appraisal from (Annex 7)
- 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 (Annex 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 (Annex 9) 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.



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.

- 3.5. 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.
- 3.6. 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.
- 3.7. 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.
- 3.8. 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.
- 3.9. 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, outsource 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 (Annex 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 (Annex 11) to measure the loan utilization.
- 6.2. Loan Officers monitor loan repayments by preparing the weekly target collection list (Attachment 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 (Attachment 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 (Attachment 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**

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

### **3. Documents after the Approval**

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



## 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, neighbourhood 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, neighbourhood 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 neighbourhood, 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, jewellery, 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



## 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:
  - 1.1.1. Allow even distribution of workload on delinquent accounts to the collection staff. The workload will be distributed either by account number, area or alphabetically.
  - 1.1.2. 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.
  - 1.1.3. 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 <b>“A Reminder”</b>	The Loan department/unit will generate delinquency notice.
15	Second Notice to be sent <b>“Have you Forgotten?”</b> . 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 <b>“May we have your Past-Due Payment?”</b> 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 <b>“This is your final chance.”</b> 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"> <li>▪ Every loan that is 2 or more month delinquent shall be addressed at the Monthly Board Meeting</li> <li>▪ A formal workout agreement made between Credit Union and Member</li> </ul> <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"> <li>▪ 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.</li> <li>▪ The Loan Department/Committee/Manager recommends the formal workout agreement according to the policy.</li> </ul>





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 10<sup>th</sup> 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: \_\_\_\_\_

\_\_\_\_\_  
**General Manager**



# 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  
of receipt of this notice.*

Amount Due: \_\_\_\_\_

Date Due: \_\_\_\_\_

\_\_\_\_\_  
**General Manager**



## 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 of 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.



## FORECLOSURE POLICY

### Purpose:

The purpose of this policy is to guide management on the process by which XYZ Credit Union terminates a member's right to possession of mortgaged real property due to default; obtaining legal and physical possession of the property so that it can be sold to satisfy the debt.

### 4. Procedures

The board of directors has set the following foreclosure process:

- 1.1. Generally, all real estate loans are recommended for foreclosure at month-end after the loan is three payments past due.
- 1.2. The process will be initiated at the recommendation of the collector working on the account.
- 1.3. The recommendation and file will be forwarded to the collection department manager for review.
- 1.4. The review will verify that:
  - 1.4.1. Collection efforts were adequate and were documented accurately.
  - 1.4.2. All efforts to successfully resolve the default failed.
  - 1.4.3. The member has not filed for bankruptcy.
  - 1.4.4. There are no legal restrictions to prevent foreclosure.
  - 1.4.5. The accounting for payments by the member is accurate and has no unresolved disputes.
  - 1.4.6. A drive-by appraisal of the property by an approved appraiser has been requested.
- 1.5. The collection department manager, finding the foreclosure recommendation warranted, will present the case to the Legal Counsel and General Manager.
- 1.6. The Legal Counsel and General Manager will review the recommendation and approve the commencement of foreclosure or refer the file back to the collection department manager for additional work.
- 1.7. If foreclosure is approved, the Legal Counsel will take over the file and begin the foreclosure process. The Legal Counsel will work closely with the collection department manager during the process in the event an acceptable remedy to foreclosure is found before the sale of the property. While the Legal Counsel will handle most foreclosures, in the event an outside attorney is retained, file documentation will be delivered to that attorney.



- 1.8. The attorney will handle the legal process in the country in which the property is located. The attorney will:
  - 1.8.1. Notify the member that the foreclosure process has begun.
  - 1.8.2. Review the title to the property and notify subsequent lien holders of the impending sale.
  - 1.8.3. Select the date and time of sale.
  - 1.8.4. Advertise the property for sale in the local newspaper for three to four consecutive weeks.
  - 1.8.5. Represent the credit union at the sale proceedings.
  - 1.8.6. Complete the necessary paperwork to give clear title to the credit union.
- 1.9. At the foreclosure sale, the foreclosing attorney will place the first bid on the property. That bid will include the:
  - 1.9.1. Principal balance of the loan;
  - 1.9.2. Interest and late charges due to date of sale;
  - 1.9.3. Expense for maintenance, insurance, taxes, and other costs incurred in preserving the property value;
  - 1.9.4. Expenses of the foreclosure sale;
  - 1.9.5. Unpaid escrow items.
- 1.10. The sale will be held in accordance with the country law.
- 1.11. The collection department manager will set up an account with the accounting department to record costs associated with the foreclosed property. If the credit union is the successful bidder, the member's loans account will be credited for the amount of the principal balance and the General Ledger Foreclosed Properties account will be debited with a corresponding entry.
- 1.12. The collection department manager will oversee maintenance of the property and make every effort to sell it for a fair, equitable price that will result in no loss to the credit union.

## **5. Post Foreclosure Process**

- 2.6. Once the attorney has recorded the foreclosure deed, a notice to vacate the property must be sent to the mortgagors. If the mortgagors do not vacate the premises within the ten-day period, the account will be referred back to the attorney to initiate an abatement action.
- 2.7. Once the property has been vacated, the collection department manager should physically inspect the property for an initial assessment. As soon as possible, a



locksmith should be hired to change the locks and take other appropriate action to secure the premises.

- 2.8. If furniture or other personal belongings of the former mortgagors remains on the premises, the collection department manager should take steps to have the items removed.
- 2.9. If necessary arrangements should be made for the upkeep of the lawn as well as the interior. The Legal counsel must approve repairs needed to bring the property into a sellable condition.
- 2.10. The collection department manager should have a post-foreclosure appraisal performed by a licensed appraiser to determine the value of the property.
- 2.11. Once the appraisal has been received, the account should be reviewed to determine if a write-down is necessary.

## 6. Alternative to Foreclosure

In some cases, XYZ Credit Union may choose to accept a deed from the member instead of foreclosing. The most important aspect of accepting a deed in lieu of foreclosure is that it has to be a voluntary conveyance. Credit Union staff should never propose this solution to the member. Every case should be judged individually, and a title attorney should be consulted for help with the evaluation. Any offer to accept a deed in lieu of foreclosure must be approved by the Chairperson and General Manager. The basic process is:

- 3.1. Perform a physical inspection of the property and record obvious deficiencies. A “full” appraisal may also be required.
- 3.2. Order an updated title search in order to find possible superior, secondary and tax liens. Determine the position of the credit union’s lien.
- 3.3. Perform a financial analysis of total costs required to obtain clear title, and probable losses or gains.
- 3.4. If analysis of the case indicates a deed in lieu of foreclosure is an acceptable remedy, the credit union’s attorney will prepare the necessary documents for the member to sign over the property.



## 7. Disposal of Foreclosed Properties

- 4.1. Disposals of foreclosed properties financed by XYZ Credit Union are processed much the same as its regular properties.
- 4.2. All foreclosed property should be placed for sale at the earliest possible opportunity.
- 4.3. XYZ Credit Union will attempt to market the property without the assistance of a real estate agent where possible. The collection department will use appropriate means to advertise the property to the membership and the general public.
- 4.4. If the property cannot be sold within a reasonable time, a knowledgeable real estate agent should be engaged to market the property. The Chairperson/General Manager must approve Sale of all foreclosed property.
- 4.5. Potential purchases should submit in writing on a standard real estate sales contract. The bid should include the purchase price and any conditions requested by the purchases. The bid should be accompanied by earnest money in an amount that equals \_\_\_\_\_ per \_\_\_\_\_ sales price.
- 4.6. Once a bid is accepted, a written sales contract must be executed by the buyer and signed by the Chairperson/General Manager. The sales contract will contain the sales price, the conditions and contingencies of the sale, a tentative closing date, and an agreement on the allocation of closing costs.



**Report 1: Daily/Weekly Collection Monitoring Report**

<b>COLLECTOR</b>					<b>AREA:</b>				
<b>FOR THE PERIOD COVERING:</b>									
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:				







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



**Report 3: Schedule of Loan Releases**

<b>SCHEDULE OF LOAN RELEASES</b> <b>FOR THE MONTH ENDING: _____</b>						
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 _____			Noted by: _____ Date _____ Manager			
Bookkeeper						
Checked by: _____ Date: _____						
Accountant						



**Report 4: Schedule of Restructured Loans**

<b>SCHEDULE OF RESTRUCTURED LOANS</b> <b>FOR THE MONTH ENDING: _____</b>						
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						







**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><b>PERSONAL INFORMATION:</b> Please print in ink or type: Name: _____ Membership No. _____ Date of Birth: _____ Res. Cert. No. _____ issued on _____ at _____ Home Tel. No. _____ Bus. Tel. No. _____ Present Address: _____ _____ Years of stay at present address: _____ Married: ___ Separated: ___ Unmarried: ___ Name of Spouse: _____ Employer: _____ Monthly Income: _____ No. of Dependents: _____ In school: _____ List ages of Dependents not listed by other applicant: _____</p>	<p><b>INCOME:</b> Employment Income: _____ per _____ Other Income: _____ per _____ Source: _____ Spouse Income: _____ per _____</p> <p><b>ASSETS:</b> Savings Amount: _____ Deposited at: _____ Checking Amount: _____ Deposited at: _____</p> <table style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:70%; text-align: left;">List Assets you Own &amp; Location</th> <th style="width:30%; 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> </tbody> </table>	List Assets you Own & Location	Pledged Collateral	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____						
List Assets you Own & Location	Pledged Collateral																		
_____	_____																		
_____	_____																		
_____	_____																		
_____	_____																		
_____	_____																		
<p><b>EMPLOYMENT:</b> Name and Address of Employer: _____ _____ _____ Your Present Position: _____ Supervisor's Name: _____ Date of Employment: _____ Working Hours: _____ If self-employed, Type of Business: _____ Start of Business: _____ Is Duty Station Transfer expected this year/next year? _____ If yes, where? _____ And when? _____</p>	<p><b>DEBTS:</b></p> <table style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:60%;">Creditors (Name &amp; Address)</th> <th style="width:20%;">Original Amt.</th> <th style="width:20%;">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>	Creditors (Name & Address)	Original Amt.	Present Bal.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
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_____	_____	_____																	
_____	_____	_____																	
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_____	_____	_____																	
_____	_____	_____																	
<p><b>OTHER INFORMATION:</b> <i>If a "yes" answer is given to a question, explain on attached sheet.</i></p> <table style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:70%;"></th> <th style="width:10%; text-align: center;">YES</th> <th style="width:20%; 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>		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?	_____	_____				
	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?	_____	_____																	



**REFERENCES:**

Name and Address of Character References:

- 1. \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Tel. no.: \_\_\_\_\_
- 2. \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Tel. no.: \_\_\_\_\_
- 3. \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Tel. no.: \_\_\_\_\_

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.

Conforme: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_  
*Applicant's Signature*

Co-Maker/Co-Signor: \_\_\_\_\_  
*Please print name & sign*

With Spouse Consent: \_\_\_\_\_  
*Please print name & sign*







**FORM 3 - Sources of Income and Expenditures Statement of Borrowers**

PARTICULARS	MONTHLY	ANNUALLY
<b>Sources of Income:</b>		
1. Salaries and Wages		
2. Income from Business		
3. Income from Financial Investments/Dividends		
4. Other Income		
<b>Total Income</b>		
<b>Less: Expenditures or Cash Outlays</b>		
<b>Expenditures:</b>		
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		
<b>Total Expenditures:</b>		
<b>Cash Outlays:</b>		
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)		
<b>Total Cash Outlay</b>		
<b>Total Expenditures and Cash Outlays</b>		
Net Cash (Total Income-Total Expenditures & Cash Outlays)		
Less: Contingency (20% of total expenditures & cash outlays)		
<b>Net Cash after contingency</b>		

*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.*

\_\_\_\_\_  
Signature over Printed Name of Member-Borrower  
Attested by: \_\_\_\_\_ Date: \_\_\_\_\_  
Loan Officer

Date: \_\_\_\_\_  
Verified & Corrected by: \_\_\_\_\_ Date: \_\_\_\_\_  
Credit Investigato



**FORM 4 – Profit and Loss Statement of the Borrower**

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

**SOURCES OF INVESTMENT:**

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



**FORM 5 – statement of Assets Liabilities of the Borrower**

Particulars	Amount
<b>Inventory of Assets</b>	
1. Deposits: <input checked="" type="checkbox"/> Credit Union <input checked="" type="checkbox"/> Banks Others: _____	
2. Share Capital: <input checked="" type="checkbox"/> Credit Union Others: _____	
3. Personal/Movable Properties: <input checked="" type="checkbox"/> Vehicle/Car <input checked="" type="checkbox"/> Machineries/Equipment <input checked="" type="checkbox"/> Home Appliances & Furniture <input checked="" type="checkbox"/> Jewelries or Expensive Art Works Others (Please Specify) _____	
4. Fixed Assets: <input checked="" type="checkbox"/> Building/s <input checked="" type="checkbox"/> Land <input checked="" type="checkbox"/> Land Improvements	
5. Other Assets (Please Specify): _____	
<b>INVENTORY OF LIABILITIES AND DEBTS</b>	
1. Loans: <input checked="" type="checkbox"/> Credit Union <input checked="" type="checkbox"/> Banks <input checked="" type="checkbox"/> Informal Lending (Relatives, Friends, Money lenders, etc.) <input checked="" type="checkbox"/> Others (Please specify): _____	
2. Account Payables: 1. Credit Unions 2. Suppliers/Wholesalers 3. Manufacturers	
3. Mortgages and Encumbrances if any: 1. Land 2. Buildings 3. Land Improvements 4. Motor Vehicle 5. Machineries/Equipment 6. Jewelries	
4. Taxes and Permits (Please specify): _____	
5. Other Liabilities/Debts (Please specify): _____	
<b>NET WORTH (Total Assets-Liabilities)</b>	
<b>Less: 10% contingency</b>	
<b>NET WORTH AFTER CONTINGENCY</b>	

*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 later, shall cause the disapproval of my loan application.*

\_\_\_\_\_  
 Signature over Printed Name of Member-Borrower

Date: \_\_\_\_\_

Attested by: \_\_\_\_\_ Date: \_\_\_\_\_ Verified by: \_\_\_\_\_ Date: \_\_\_\_\_  
 Loan Officer Credit Investigator



### ANNEX 6 – Self Assessment Form of the Member-Borrower

	Yes (1 point)	No (-1 point)		
Name of Borrower: _____ Address: _____ Amount Applied: _____				
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?				
<b>Total Points</b>			<b>Net Points</b>	

*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.*

\_\_\_\_\_  
Name and Signature

Date: \_\_\_\_\_

Attested by:

Verified & Corrected by:

\_\_\_\_\_  
Loan Officer

\_\_\_\_\_  
Credit Investigator

Date: \_\_\_\_\_

Date: \_\_\_\_\_



## FORM 7 – Collateral 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:			



**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:**

<b>Results:</b> Condition and Serviceability of the Vehicle and its Accessories:
<b>Actual Usage of the Vehicle:</b>



**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
<b>1. CHARACTER</b>			
<b>1.1. Length of stay at present job and/or business</b>			
<b>1.2. Housing Stability</b>			
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)			
<b>2. PAYING CAPACITY</b>			
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			
2.5. Records of Expense (proof of expenditures)			
2.6. Health condition - borrower & dependents			
<b>Business</b>			
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)			
<b>3. CAPITAL</b>			
<b>3.1. Growth in deposits (bank and others)</b>			
<b>3.2. Asset inventory &amp; quality (current, fixed and movable)</b>			
<b>3.3. Ownership of properties (economic life and status)</b>			
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			
<b>4. COLLATERAL</b>			
4.1. Real Estate Property <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 1.2.1. Acquisition Cost per Types & Classification <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 <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: - 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			
<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			
<p><i>Draw a sketch map of the land/improvements of Real Estate Property</i></p>			

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.



## Form 9 -Credit Rating Scale – Business

Name of Member-Borrower: \_\_\_\_\_

Address: \_\_\_\_\_

### 1. CHARACTER = 30

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?	5	5 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?	5	
1.3. Credit Bureau: Does s/he have no negative record in at the credit bureau?	5	
2. Good Will/ Reputation		
2.1. Does the MB possess a good reputation in the business community and with other organizations?	5	
2.2. Does the MB command respect in the community?	2	
3. Is the MB a permanent resident of the community (Housing Stability)?		
3.1. Less than 2 years	1	
3.2. 3-5 years	3	
3.3. Over 5 years	5	
4. Human relations		
4.1. With the family	1	
4.2. In the workplace	1	
4.3. In the community	1	
<b>Total</b>	<b>30</b>	

### 2. CAPACITY TO PAY = 50

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?	2	
4. Is the cash flow available and sufficient to meet future loan amortization?	15	
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?	3	
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	10	
▪ If yes	3	
<b>Total</b>	<b>50</b>	

**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	
<b>Total</b>	<b>5</b>	

**4. COLLATERAL/CO-MAKERS = 10**

Criteria	Maximum Raw Score (MRS)	Rating
1. Can the collateral be easily converted to cash any time?	2	
2. Is the value of the collateral more than the loan amount applied for and can meet the policy valuation?	2	
3. Is the collateral free from encumbrances or lien?	2	
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?	2	
5. Is the spouse willing/has consent on the loan applied for?	2	
<b>Total</b>	<b>10</b>	

**5. CREDIT CONDITIONS = 5**

<b>Criteria</b>	<b>Maximum Raw Score (MRS)</b>	<b>Rating</b>
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	
<b>Total</b>	<b>5</b>	
<b>GRAND TOTAL</b>	<b>100</b>	

Evaluated by:

Date: \_\_\_\_\_

\_\_\_\_\_  
Loan Officer

## Credit Rating Scale – Individual

Name of Member-Borrower: \_\_\_\_\_

Address: \_\_\_\_\_

### 1. CHARACTER = 30

Criteria	Maximum Raw Score (MRS)	Rating
4.2. Does the Member-Borrower (MB) have a good record of credit payment to the credit union and other institutions?		
1.4. Credit Union: Does he/she has proven habit of repaying loans to the coop?	5	
1.5. Other credit union/banks identified: Does the members have a proven habit of repaying loans to other financial institutions identified by him/her?	5	
1.6. Credit Bureau: Does s/he have no negative record in at the credit bureau?	5	
<b>2. Goodwill/ Reputation</b>		
2.1. Does the MB possess a good reputation in the community and with other organizations?	5	
2.2. Does the MB command respect in the community.	2	
<b>3. Is the MB a permanent resident of the community (Housing Stability)?</b>		
3.1. Less than 2 years	1	
3.2. 3-5 years	3	
3.3. Over 5 years	5	
<b>4. Human relations</b>		
4.1. With the family	1	
4.2. In the workplace	1	
4.3. In the community	1	
<b>Total</b>	<b>30</b>	



**2. CAPACITY TO PAY = 50**

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 More than 5 years	5 10	
2. What is the frequency of the regular income of the MB?		
▪ Daily, weekly, semi-monthly, monthly? ▪ Bi-quarterly, quarterly? ▪ Semi-annual?	10 5 5	
3.Does the regular income of the member match the loan amortization schedule?		
▪ YES ▪ NO	10 0	
4.Will the duration of the proposed loan match the anticipated duration of the job of the MB?		
▪ YES ▪ NO	10 0	
5.Are there loan exposures besides this loan being applied for? (Degree of indebtedness and liabilities)		
▪ If no ▪ If yes	10 5	
<b>Total</b>	<b>50</b>	

**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	
<b>Total</b>	<b>5</b>	



**4. COLLATERAL/CO-MAKERS = 10**

Criteria	Maximum Raw Score (MRS)	Rating
1.Can the collateral be easily converted to cash any time?	2	
2.Is the value of the collateral more than the loan amount applied for and can meet the policy valuation?	2	
3.Is the collateral free from encumbrances or lien?	2	
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?	2	
5.Is the spouse willing/has consent on the loan applied for?	2	
<b>Total</b>	<b>10</b>	

**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"> <li>▪ YES</li> <li>▪ NO</li> </ul>	0 2.5	
2. Does the member's job pose health hazards to himself or others? <ul style="list-style-type: none"> <li>▪ YES</li> <li>▪ NO</li> </ul>	0 2.5	
<b>Total</b>	<b>5</b>	
<b>GRAND TOTAL</b>	<b>100</b>	

Evaluated by:

Date: \_\_\_\_\_

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 Loan Officer


## FORM 10 – 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:

<b>Credit Rating</b>	<b>Decision/Requirements</b>
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