



CUDCC

Module 8

# *Module 8*

# Credit Administration



# Objectives of this Module

- Recognize the major lending risks, its causes and implications in the credit union sustainability
- Be aware of the Board's responsibility in lending
- Understand the concept and importance of capacity-based lending
- Be familiar with the tools used for prudent credit management



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# **Lending Risks, Causes and Implications to Credit Union Operation**



## ***Exercise 1(group)***

- What are the major risks in lending?
- What are the causes of these major risks in relation to the internal policies and procedures of the credit union?
- What are the implications to the credit union operation?



# Delinquency- major risk in lending



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# Causes of Delinquency

- Incomplete credit investigation
- Inadequate credit analysis and poor judgment
- Share capital or savings leveraging





# Causes of Delinquency

- Granting loans without evaluating the 5 C's of credit
- Inadequate loan monitoring & follow-up





# Causes of Delinquency

- Poor lending policy
- Poor training of lending employees
- Not strictly following the loan policy







# Implications of Delinquency to Credit Union Operation

- No liquidity
- Decreasing net profit
- Slow growth of institutional capital
- Lessens ability to provide services to members





# Implications of Delinquency to Credit Union Operation

- results in rationing credit
- Diminishes ability to provide for operational cost including competitive salaries to staff
- Poor image in the community





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**Delinquency the most  
important test of  
institutional strength of a  
credit union.**





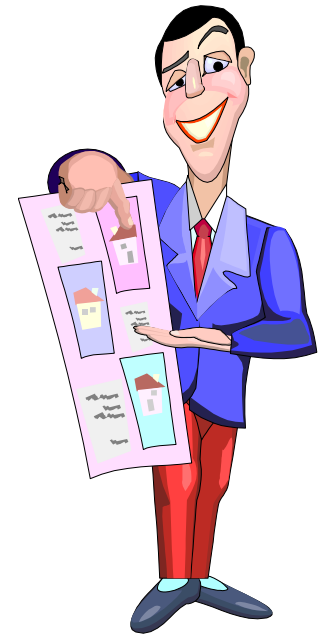
## ***Exercise 2 (credit union)***

- How your credit union determines the loan is delinquent?
- What kind of reports the Board receives on the quality of loan portfolio?
- Describe in your own words the process of calculating Allowance for Loans Losses.



# What is loan delinquency?

- Is the failure of the borrower to pay the loan amortization upon due date.





## When is an account considered delinquent?

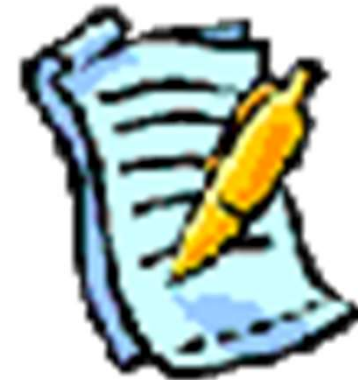
- **After one day missed payment, whatever the mode of payment.**
- **The whole balance becomes past due even it is not due yet.**





## What kind of report the Board receives?

- **Sample Delinquency Report**
- **What is the importance of this report?**





# Sufficient Provision for Allowance for Loan Losses

- *Protection against loan losses is deemed adequate if a credit union has sufficient provision to cover:*
  - 100% of all loans delinquent for more than 12 months
  - 35% of all loans delinquent for 1-12 months
- According to PEARLS standards





## Why do we need to ensure quality of the credit union loans?

- *80% of our assets is invested in loans*
- *More than 80% of our income source is from loans*
- *Loans not repaid constitute direct losses to the credit union assets and indirect losses through income received*

