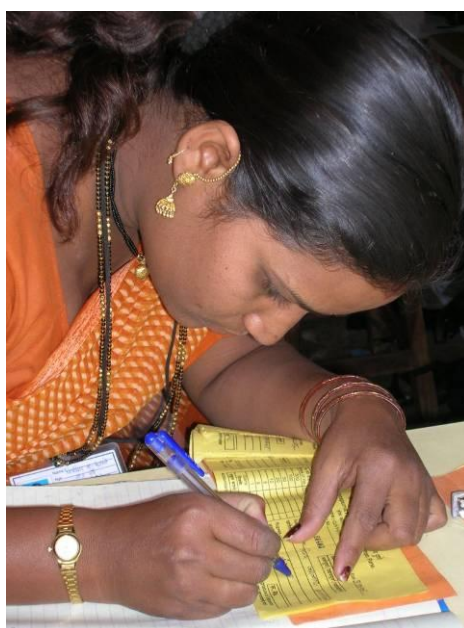


Toolkit for Loan Portfolio Assessment of Micro Finance Institutions



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This toolkit needs comments from trainers to provide additional training tips, examples and ideas! Your thoughts and comments are anticipated and welcomed for the next version.

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How to conduct a Loan Portfolio Assessment– A Best Practices Toolkit for Microfinance Institutions

1 OBJECTIVES OF A LOAN PORTFOLIO ASSESSMENT

The loan portfolio is the primary income generating asset for an MFI¹ and it is most commonly subject to material misstatements. Most MFI failures stem from the deterioration in the quality of the loan portfolio. An assessment of the risks and inadequacies inherent in an MFI's portfolio therefore assumes tremendous importance and this is the most important objective of a 'loan portfolio assessment'.

MFI credit (lending) operations have unique characteristics that portfolio assessors must first understand. Several aspects that need attention include:

- **Difficulty in maintaining portfolio information** - MFIs grant a large number of small loans, and process a very large number of (repetitive) tiny payments. Their operations often tend to be dispersed over a wide geographic area. As a result, MFIs utilize streamlined and decentralized operating structures in order to be efficient. These factors make it a challenge to maintain effective portfolio information and management systems. Lack of portfolio information is a serious aspect which could result in lower portfolio quality - 'bad' loans not being identified and followed up.
- **Decentralization could cause deviation from prescribed credit policy and result in fraud, error or manipulation** - Decentralization implies that relatively few staff members are involved in approving, disbursing, monitoring, and collecting each loan. This structure increases the opportunity for deviation from approved policies, and for fraud, as well as increases the risk of error or manipulation when branches transfer information to headquarters.
- **Mandate of efficiency may result in lesser controls/procedures/information/supervision** - To handle small and repetitive transactions efficiently, MFIs come under great pressure to cut costs, sometimes, even at the expense of adequate portfolio controls. Lack of adequate information flow, as well as insufficient supervision of clients and loan officers could in the long time affect portfolio quality.
- **Burgeoning growth of portfolio could result in failures of established systems** - Many MFI portfolios are growing rapidly. This growth puts pressure on systems and if capacities to manage the increased volumes do not exist, portfolio quality will get affected in the medium / long term. Secondly, a rapidly growing portfolio has a larger percentage of loans in the early stages of repayment. Delinquency problems often occur in the later stages of the repayment cycle or in the third / fourth loan cycles when loan amounts are relatively large. Also, an increasing outstanding may not reflect increased delinquency ratios even though absolute volumes may be high. Pressure from donor / lending agencies, lopsided incentive structures and at times the mindless number game can all lead to quick disbursement of loans sometimes, even without demand – this is clearly a recipe for disaster. This pressure can also create an environment for fraud.
- **Restructuring (rescheduling and refinancing) of delinquent loans is an often-used strategy to camouflage portfolio quality** - MFIs generally dislike provisioning for problem loans or writing them off. They want to maintain a good image in the eyes of outsiders, especially donors. This sometimes leads to restructuring or refinancing as a tool to hide delinquency.
- **Weak information systems may not even permit MFIs to recognize delinquency** - MFI information systems are often inadequate and systems for operational loan tracking are seldom integrated with their accounting systems. The lack of appropriate systems may mean that MFIs may not even recognize delinquency in their portfolio and consequently may not make any efforts to tackle it.

¹ The term MFI is broadly used and includes Micro Finance Institutions, Commercial Banks, Non Banking Finance Companies / Institutions, Cooperatives / Credit Unions and other such entities involved in delivering financial services to low income people

These issues, among others, make the loan portfolio assessment a very crucial but rather complicated and time consuming exercise. Assessors will need to allocate significant effort in the review of the loan portfolio and to carry out field visits. This tool kit is designed to help portfolio assessors in their efforts of conducting an effective assessment of an MFI's loan portfolio.

The assessment of loan assets of an MFI's portfolio, would include, an assessment of the systems and procedures and associated lending internal controls as well. Thus, it will not only provide essential feedback with a view to safeguard the MFI's primary asset - the loans to its members – but more importantly, it should also enable stakeholders to understand the risks inherent in the MFI's loan portfolio and systems/ procedures used to mitigate this risk. This information could prove useful in two ways: (1) facilitate prudent decisions regarding investing in the MFI (either directly or indirectly); and more importantly, (2) help isolate specific areas for capacity building and technical assistance for enhancing the portfolio quality of the MFI.

Structure of this tool

The next few sections, which basically comprise the portfolio assessment tool will attempt to answer the following (not exhaustive) questions:

- How to conduct a loan portfolio assessment?
- What are the key portfolio assessment procedures to be performed?
- Is there a checklist of what to do?
- How to assessment record keeping?
- How to review loan policies?
- How to determine the loan sample?
- How to document the review?
- How to learn about the MFI's system of internal controls over the lending activity?
- What are the key considerations in reviewing internal controls over the lending function?, and
- Many other (such) questions related to the loan portfolio assessment in the context of microfinance.

The **next section** outlines the basic methodology in terms of how to structure the loan portfolio assessment. The **third section** describes the checklist and tool, which has been generated after extensive field-testing among 6 branches of 2 large MFIs and 3 branches of 2 commercial banks in South Asia/India. These checklist items correspond to the various steps given in Figure 1 in the methodology section. An **Excel Rating Sheet**, operationalising this check list has also been included.

The **last section** is the appendix which provides explanatory notes to technical aspects such as best practices format of the portfolio report and procedure for generating this report, best practices definitions and interpretations of key portfolio management indicators along with sample calculations, best practices methods for ageing of over due (past due) loans in an MFI's portfolio, summary of key accounting process and transactions for loan portfolio management and glossary of key financial terms for loan portfolio management.

2 BASIC METHODOLOGY FOR CONDUCTING A LOAN PORTFOLIO ASSESSMENT

Purpose: To provide a rapid yet rigorous assessment of an MFI's loan portfolio over a period of 2/3 weeks by a team of 4/5 people. The methodology outlined below is also diagrammed in **Figure 1**. A checklist of items corresponding to the various steps is also provided in **Section 3**.

Step 1. Tracing Individual Loans: Head Office to Borrower²

- 1.1 Select 50-100 borrowers, at random, with outstanding (and some closed) loans and specific loan numbers from the Head Office records.
- 1.2 Selection of borrowers/loans should be done such that there is enough of a sample in the different loan types provided by the MFI. *Also, at least 75% of the loans should be outstanding while the remaining 25% should include properly closed/written-off loan.*
- 1.3 Trace the loan status (with outstanding/closed/written-off amounts) of these 50-100 borrowers/loans down to the Branch Office records.
- 1.4 Trace the loan status (with outstanding/closure/written-off amounts) of these 50-100 borrowers/loans down to the borrowers own passbooks.
- 1.5 Trace regular and overdue repayments and reconcile into the MFI's PAR analysis including method of assessment of age of overdue, sequence of appropriation of client repayments and the like.
- 1.6 If differences exist in the loan outstanding/closure/write-offs for a client across various levels of analysis, then all concerned transactions need to be reviewed and reconciled.

Step 2. Tracing Individual Loans: Borrower to Head Office

- 2.1 Select 50-100 borrowers with outstanding (and some closed) loans and specific loan numbers at random from a series of 10-20 randomly selected group meetings.
- 2.2 Selection of borrowers/loans should be done such that there is enough of a sample in the different loan types provided by the MFI. *Also, at least 75% of the loans should be outstanding while the remaining 25% should include properly closed/written-off loans.*
- 2.3 Trace the loan status (with outstanding/closure/written-off amounts) of these 50-100 borrowers from their passbooks up to the Branch Office records.
- 2.4 Trace the loan status (with outstanding/closed/written-off amounts) of these 50-100 borrowers up from the Branch Office records to the Head Office records.
- 2.5 Trace regular and overdue repayments and reconcile into the MFI's PAR analysis including method of assessment of age of overdue, sequence of appropriation of client repayments and the like.
- 2.6 If differences exist in the loan outstanding/closure/write-offs for a client across various levels of analysis, then all concerned transactions need to be reviewed and reconciled.

Step 3. Cross-verification with other accounting records like cashbook, receipts, vouchers and reconciliation of these with loan ledgers and the like

- 3.1 Take 25-50 cash and/or cheque/draft (preferably loan related) transactions from and/or to Branch Offices and trace these transactions from/to Head Office cashbook and/or Branch Office cashbook and reconcile with bank statements and receipts/vouchers at both Head Office and branch levels.
- 3.2 Take 25-50 cash and/or cheque/draft (preferably loan related) transactions from/to Branch Offices and trace these transactions from/to Branch Office cashbook to client passbooks and reconcile receipts/vouchers at Branch Office and other levels.
- 3.3 To save time as well as enhance efficiency and effectiveness, this can be done for the selection of the 50-100 clients given in Steps 1/2.

² **Note:** For Self Help Group (SHG) institutions, the above references to "Head Office" should be taken to refer to the bank/MFI that finances the SHGs and the references to "Branch" should be taken to refer to the SHG.

Step 4. Verification of loan administration and documentation (primarily on the basis of the loans and accounting records reviewed in Step 1-3)

- 4.1 Verify whether loan administration is in accordance with policies and procedures
- 4.2 Ascertain whether the loan documentation is in accordance with approved policies and procedures
 - 4.2.1 Is loan size in accordance with the MFI's policies and procedures?
 - 4.2.2 Has the collateral/group guarantee been appropriately documented and communicated to the borrowers?
 - 4.2.3 Are the nominal and effective interest rates/fees the same as is stated in the loan policy and documentation?
 - 4.2.4 Are other loan terms and conditions the same as is stated in the loan policy and documentation?

Step 5. Verification of loan accounts for rollovers and restructuring (This step is designed to ascertain whether the client really proved willingness and ability to satisfy the loan obligation or is the apparent loan repayment affected by a follow-up fresh loan disbursement?)

- 5.1 Review loan ledgers in 3 randomly selected branches for lump-sum repayments at the end of the loan period and immediate disbursement of follow-on loans over the last 12 months
- 5.2 Review the loan ledgers in 3 randomly selected branches for re-scheduling/re-financing/write-off of loans over the last 12 months:
 - 5.2.1 Are re-scheduling/re-financing/write-offs in accordance with policies and procedures?
 - 5.2.2 Are re-scheduling/re-financing/write-offs appropriately captured in the PAR analysis?

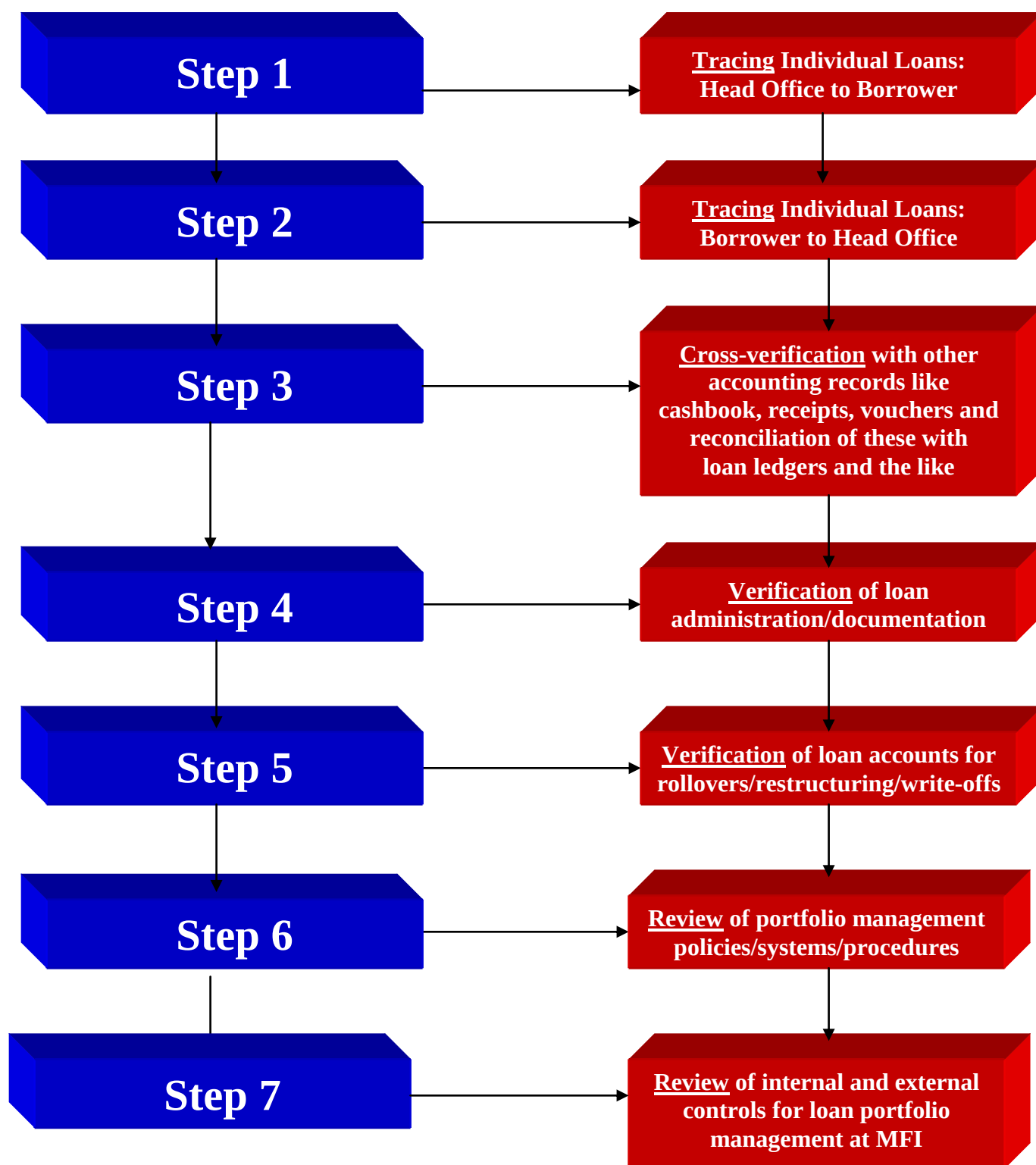
Step 6. Review of loan portfolio management policies/procedures/systems

- 6.1 See detailed checklist below for detailed review steps.
- 6.2 Review loan (credit) policy including all terms and conditions for various types of loans
- 6.3 Review delinquency measurement and management policy
- 6.4 Review loan loss provisioning and write-off policy
- 6.5 Review other policies for loan portfolio management

Step 7. Verification of internal and external controls for loan portfolio management

- 7.1 See detailed checklist below for verification steps.

FIGURE 1 – METHODOLOGY FOR CONDUCTING A LOAN PORTFOLIO ASSESSMENT



3 CHECKLIST TOOLS FOR USE IN LOAN PORTFOLIO ASSESSMENT

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
Steps 1, 2 and 3	TRACING OF LOANS, HEAD OFFICE TO BORROWER, BORROWER TO HEAD OFFICE AND RECONCILIATION OF THESE WITH ALL KEY LOAN RELATED RECORDS		
A			
1	Lesser loan amounts have been disbursed than stated in the records		
2	Higher loan amounts have been disbursed than stated in the records		
3	Loans have been disbursed before date stated in the records		
4	Loans have been disbursed after date stated in the records		
5	Loans exist in records but have not been disbursed at all to client (There could be many reasons for this)		
B	REPAYMENT SCHEDULES		
6	Repayment schedules do not exist for loans		
7	Repayments schedules for loans keep changing		
8	Repayment schedules for loans are different from that agreed with client at time of loan disbursement/in loan agreement		
C	PRINCIPAL AMOUNT COLLECTED FROM CLIENTS		
9	Principal amounts actually collected from clients are lesser than installment amounts due (as per loan term/policy/contract) and arrears reported in the loan account		
10	Principal amounts actually collected from clients are higher than installment amounts due (as per loan term/policy/contract) and arrears reported in the loan account		
11	Principal prepayments by clients are not recorded		
12	Regular and on-time principal payments by clients are understated and mentioned as overdue		
13	Date of installment (principal) recovery is different when compared to due date for installment recovery		

³ Please refer Excel sheet attached with this folder for an Excel Rating Tool

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
14	Date of installment (principal) recovery is different when compared to date the loan account is credited		
15	Principal overpayments (at end of loan) are not returned to clients		
D	INTEREST/SERVICE/OTHER CHARGES ACTUALLY CHARGED ON/REFUNDED TO CLIENTS		
16	Lesser interest is charged on clients compared to interest rate quoted on letter of offer (loan contract/policy)		
17	Higher interest is charged on clients compared to interest rate quoted on letter of offer (loan contract/policy)		
18	Lesser service/other charges are charged on clients than as per policy		
19	Higher service/other charges are charged on clients than as per policy		
20	Deficient interest/service/other charges are not recovered from clients		
21	Excess interest/service/other charges collected are not returned to clients (at end of loan)		
22	Nominal and effective interest rates as per loan terms/policy are very different from those actually charged on clients		
E	CALCULATION OF OVER DUE AMOUNTS		
23	Installment due amounts do not exist		
24	Installment due dates do not exist		
25	Installment due amounts exist but are not followed in implementation		
26	Installment due dates exist but are not followed in implementation		
27	Installment due amounts are not consistent, they are being changed		
28	Installment due dates are not fixed, they are being changed		
29	Overdue amounts are not calculated accurately		
F	APPROPRIATION OF CLIENT REPAYMENTS		
30	Client repayments are first appropriated towards principal and later towards interest		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
31	Client repayments are never appropriated towards overdue amounts – either interest or principal		
32	Fines or penalties are charged but not paid by the customers		
33	Late fees or charges are not collected although required as per loan policy		
G	LOAN REPAYMENTS		
34	Repayment account is not maintained correctly – i.e., not in same names as the original loan account		
35	Theoretical effective yield on portfolio does not match actual effective yield on portfolio		
36	Last months actual repayments received does not match the expected / theoretical repayments receivable (based on the repayment schedules of loans outstanding)		
37	The months before the previous months actual repayments received does not match the expected / theoretical repayments receivable (based on the repayment schedules of loans outstanding)		
H	DELINQUENCY		
38	Repayments from clients are much less than repayments required (as per due amounts/dates) and other sources of funds are used to make repayments.		
39	Repayments from groups are much less than repayments required (as per due amounts/dates) and other sources of funds are used to make repayments.		
40	Part of the clients repayments are misappropriated by staff		
41	Staff pay up shortfall amounts, cover up for delinquent loans		
I	LOAN WRITE-OFFS		
42	A loan written off as per list has actually not been written off		
43	Loan write-off amounts for loans are not internally consistent within institutions' records		
44	Actual write-off amounts for loans do not tally with client records		
45	Written off loan collections are not brought into accounts of institution		
STEP 4	LOAN ADMINISTRATION PROCEDURES AND LOAN DOCUMENTATION		
J	LOAN ADMINISTRATION AND CREDIT POLICY		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
46	Loan policies do not exist for each type of loan offered		
47	Policies do not address all terms and conditions for a loan, i.e. interest rate, maturity, collateral, late fees, etc.		
48	There is no proper contract between institution and borrower		
49	Contract between institution and borrower is incomplete		
50	Borrower's previous credit history is not on borrower's loan file		
51	Loans have been disbursed to borrowers with poor previous repayment records		
52	Loans are not properly classified as either current or past due loans		
53	Some loans have an unusual date of first payment, contrary to credit policy		
54	Some loans have an unusually small principal installment repayment amount, contrary to credit policy		
55	Some loans have an unusual interest repayment amount, contrary to credit policy		
56	Some loans have unusual loan installment due dates, which are contrary to credit policy		
57	Dates of disbursement are different from original approvals		
58	Amount disbursed is different from original approvals		
59	Persons approving loans are not authorized to do so		
60	Loans, mentioned in disbursement records, have not been actually disbursed to clients		
61	Clients to whom loans have been disbursed as per records do not exist in the said address		
62	Fees are not collected as per credit policy		
63	Commissions are not collected as per credit policy		
64	Interest/other charges are not collected as per credit policy		
65	Overall, loans disbursed are not in accordance with policy		
66	Conditions to disbursement are neither met nor properly documented (especially, when exceptions exist)		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
K	LOAN APPLICATION		
67	The loan application summary (note) has not been signed by required members of the credit committee (at all levels)		
68	Exceptions to loan policy are not approved by the Credit Committee		
69	Signatures on credit application have not been verified		
70	Applicant signature does not exist		
71	Credit officer signature does not exist		
72	Blank spaces have not been completed, where applicable and required		
73	Certified copy of Original ID of borrower is not attached with credit application (if applicable)		
74	Financials of prior loans of borrower client are not provided along with application (summary)		
75	Prior loans data given with application is inaccurate		
76	Financials have not been reviewed/signed by credit committee/authorised persons in application summary		
L	LOAN TERMS		
	Loan terms are actually different from set policy values/limits for following parameters		
77	The stated nominal interest rate		
78	The stated effective interest rates (nominal rate + fees etc)		
79	The stated size of the loan		
80	The stated range of the loan		
81	The stated repayment period in specified number of installments		
82	The stated installment frequency specified in days, weeks, months etc		
83	The stated grace (moratorium) period for the loan		
84	The stated service and other charges/fees		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
85	The size of the installment (for EMI type loans)		
M	LOAN AUTHORIZATION AND APPROVAL		
86	Loans authorization and approval limits have not been adhered to		
87	Credit committees are not operational at the branch/other levels		
88	All the loans have not received the approval of the relevant credit/other committees		
89	Quorum for credit/other committees has not been observed at all times		
90	Single borrowers limit exceeds minimum prescribed limit in terms of a percentage of the banks/institution's core capital		
N	LETTER OF OFFER (LOAN CONTRACT):		
91	Letter of offer (contract) is not properly addressed in name (s) of persons (to be addressed to)		
92	All borrowers have not been listed with their names/addresses		
93	Borrower names do not match (account) records		
94	Guarantors names are not listed (with their addresses)		
95	Guarantor names do not match their IDs		
96	Principal amounts/limits have not been clearly stipulated		
97	Interest and other fees related to the loan have not been captured properly		
98	Securities have not been expressly stated		
99	Payment mode and installment amount are not captured in the letter of offer (contract)		
100	All blank spaces have not been completed correctly		
101	Letter of offer has not been signed by the relevant authority as per approval limits		
102	Letter of offer has not been signed/accepted by the borrower		
103	Disbursement checklist has not been completed and it has not been duly signed by the authorised persons		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
104	Signatures do not match the specimens held in records; they have not been verified before filing.		
	ONLY FOR LARGE INDIVIDUAL LENDING COLLATERALISED LOANS, PLEASE INCLUDE THE FOLLOWING. For traditional m-f loans, please skip to item 187.		
	CREDIT APPLICATION SUMMARY		
O	CHATELS MORTGAGE – BORROWER:		
105	Date, on which instrument has been done, is not shown		
106	Chattels document has not been filled in duplicate		
107	All borrowers names and addresses have not been listed		
108	All assets and their detailed descriptions is not available		
109	Required assets serial numbers have not been included		
110	All blank spaces have not been filled in correctly		
111	Collateral listed does not match that originally approved		
112	Estimated values of assets/collateral has not been provided		
113	There is no signature by borrower		
114	Credit officer is not witness to the mortgage process		
115	Chattels affidavit is not signed by credit officer		
116	Chattels affidavit has not been witnessed by commissioner of oaths/advocate		
P	CHATELS MORTGAGE – GUARANTOR:		
117	Date, on which instrument has been done, is not shown		
118	Chattels document has not been completed in duplicate		
119	The names and address of all guarantors' is not available		
120	All assets and their detailed descriptions is not available		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
121	Required assets serial numbers have not been included		
122	All blank spaces have not been filled in correctly		
123	Collateral listed does not match that originally approved		
124	Estimated values of assets/collateral has not been provided		
125	There is no signature by guarantor		
126	Letter of intent to guarantee has not been signed by guarantor		
127	Credit officer is not witness to the mortgage process		
128	Chattels affidavit is not signed by credit officer		
129	Chattels affidavit has not been witnessed by commissioner of oaths/advocate		
Q	CHATELS/GOODS – BORROWER:		
130	No photocopy in the credit file		
131	All Borrower(s) are not listed		
132	Guarantor(s) are not listed correctly		
133	All blank spaces have not been completed correctly		
134	Required assets serial numbers are not available		
135	Collateral listed does not match that originally approved		
136	Estimated values of assets/collateral has not been provided		
R	CHATELS/GOODS – GUARANTOR:		
137	No photocopy in the credit file		
138	All Borrower(s) are not listed		
139	Guarantor(s) are not listed correctly		
140	All blank spaces have not been completed correctly		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
141	Required assets serial numbers are not available		
142	Collateral listed does not match that originally approved		
143	Estimated values of assets/collateral has not been provided		
S	VEHICLES AS COLLATERAL:		
144	Log Book – ownership is not proven - name(s) do not match ID(s)/certificates of registration.		
145	Copy of transfer form – has neither been properly filled out nor duly signed.		
146	Copy of insurance showing Bank/Institution as beneficiary and/or bank/institution interest is not there		
147	Copy of borrower's pin number does not exist in credit file		
T	PROPERTY (LAND) AS COLLATERAL:		
148	There is no copy of the title deed in the loan file		
149	The names on the title differ from those on the account details in the system/manual MIS		
150	Copy of the caution and memorandum of deposit have not been properly filled out and signed		
151	Copy of insurance showing Bank/Institution as beneficiary and/or bank/institution interest is not there		
U	REFERENCES:		
152	Reference forms have not been completed/duly signed		
V	GUARANTEE:		
153	No copy in the credit file		
154	All blanks have not been filled in correctly		
155	Signatures do not match with the one on customer's ID (certified copy of the same held)		
156	No advocate signature		
157	No proper witness		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
158	No proper date		
W	OTHER DOCUMENTS:		
159	No copy of borrower(s) ID(s) in file		
160	No copy of articles and memorandum of association		
161	No copy of operating license		
162	No copy of registration documents, articles of Incorporation (if a Ltd. Liability)		
163	No copies of insurance certificates		
	COLLATERAL FILE		
X	COPIES:		
164	First page of the credit summary (Loan Fact Sheet) showing approval terms (in front) not in file		
Y	ORIGINAL BANK DOCUMENTS:		
165	Letter of offer is not signed by the authorized signatories		
Z	ORIGINAL TITLE DOCUMENTS: VEHICLES:		
166	No log book		
167	No transfer form signed in blank		
168	No valuation report by authorized valuer		
169	No insurance certificate with bank interest noted		
AA	PROPERTY: LAND:		
170	No title deed		
171	No valuation report by authorized valuer		
172	No memorandum of deposit/caution		
AB	SECURITIES		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
173	Securities pledged are unacceptable as per policy		
174	All security documents have not been kept in a fireproof safe under dual control		
175	Loan security margins have not been observed at all times		
176	All the securities have not been valued by an approved panel of valuers		
177	Securities offered to the bank/institution do not have appropriate insurance covers, with bank/institution's interest noted on such policies		
178	All securities are neither appropriately registered in security register nor arranged systematically		
179	Substitutions of securities has not been approved by the relevant credit committee/authorised persons		
AC	RECORDS WITH REGARD TO LOANS/OTHER PRODUCTS		
180	Different loan disbursement amounts are stated by, loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
181	Different loan disbursement dates are mentioned by, loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
182	Different client names and addresses are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
183	Different installment repayment dates are stated by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
184	Different nominal and effective interest rates (nominal interest charges plus fees etc) are mentioned by, loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
185	Different loan periods (number of installments) are stated by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
186	Different loan purposes are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
187	Differing amounts are mentioned as loan outstanding by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		
188	Differing installment frequencies (daily, weekly, monthly etc) are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
189	For collateralized loans, institution does not have the valid (legal) title		
190	For collateralized loans, institution does not have the valid asset insurance		
191	Loans exist in records but proceeds are not credited in the clients savings or current account or their name		
192	Loan proceeds are credited in client savings or current accounts but not there is no proper documentation		
193	Unauthorized loans exist due to overdrawn savings or current accounts without proper authority/documentation		
194	Overall, proper loan disbursement records do not exist		
195	Overall, established loan policies and procedures are not followed		
AD	LOAN DOCUMENTATION		
196	It is incomplete		
197	It is not accurate		
198	It is not transparent (striking off, cutting and pasting, pencil writing etc)		
199	It is not up-to-date		
200	It is not internally consistent		
STEP 5	VERIFICATION OF LOAN ACCOUNTS FOR ROLLOVERS AND RESTRUCTURING		
AE	LOAN RESCHEDULING/REFINANCING		
201	Fresh loan disbursements to clients, some of whom do not qualify for a loan, have shrouded loan delinquency status		
202	Rescheduling of overdue loans - Amounts, Loan Periods, Repayment Frequency and/or other aspects have been changed - has shrouded loan delinquency status		
203	Refinancing of over due loans has shrouded loan delinquency status		
204	Write-offs of over due loans have shrouded loan delinquency policy		
205	Loan terms are changed during the course of a loan to camouflage loan delinquency		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
206	Lump-sum payments are made for overdue loans, followed by immediate disbursement of fresh loans indicating unwillingness of clients to make loan repayments (one type of greening)		
207	Refinancing of over due clients exists - fresh loans have been given to clients with overdue loans		
208	Rescheduling decisions have not been approved by the required authorities/relevant (credit) committee		
209	Refinancing decisions have not been approved by the required authorities		
210	Rescheduling for loans is not applied for by clients/customers in writing		
211	Rescheduling decisions are not backed by sufficient rationale and explanation		
212	Refinancing decisions are not backed by sufficient rationale and explanation		
AF	LOAN WRITE-OFF		
213	No approvals have been obtained for loan write-offs		
214	Reasons for loan write-offs are inappropriate		
STEP 6	REVIEW OF LOAN PORTFOLIO MANAGEMENT POLICIES, PROCEDURES AND SYSTEMS		
AG	POLICIES WITH REGARD TO LOAN PORTFOLIO MANAGEMENT		
215	There is no proper credit policy		
216	There is no proper delinquency policy		
217	There is no proper write-off policy		
AH	DEFINITION OF DELINQUENCY (PAST OR OVER DUE) AND DEFAULT		
218	Loans with installment (s) not paid (on due date and even till date) are not classified as delinquent		
219	Grace period for loans permits a very flexible definition of delinquency which is not accurately stated		
220	Loans with installment (s) not paid (on due date and even till date, despite significant passage of time beyond loan term) are not classified as default. Thus, loans not likely to be collected are still reflected in the books		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
AI	PORTFOLIO QUALITY AND REPAYMENT		
221	Prepayments are not subtracted while calculating repayment indicators		
222	Repayment indicators do not use standard best practices definitions		
223	Portfolio quality indicators do not use standard best practices definitions		
224	No adjustments are made to portfolio quality indicators for rescheduling, refinancing, write-offs and fresh loan disbursements for which repayment is yet to begin		
225	No adjustments are made to repayment indicators for rescheduling, refinancing, write-offs and fresh loan disbursements for which repayment is yet to begin		
AJ	LOAN TRACKING SYSTEMS		
	Loan tracking (computerized) systems and records are not effective. They are:		
226	Incomplete		
227	Inaccurate		
228	Not transparent		
229	Not updated		
230	Not consistent with other records		
AK	AGE CALCULATION FOR OVERDUE LOANS		
231	Use of installment method of ageing understates age of past due loans beyond loan term		
232	Use of installment method of ageing overstates age of past due loans within loan term		
233	Use of incorrect method of ageing understates/overstates age of past due loans within/beyond loan term		
234	Ageing of past due loans is not stated correctly on the delinquent loan lists/portfolio ageing reports		
235	Age of past due loan is understated due to changing of loan installment repayment dates		
236	Loans with installments overdue are excluded		
237	Loans with '0' principal overdue and interest overdue are excluded		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
238	Loans with principal overdue and “0” interest overdue are excluded		
239	Loans with penalties/late fees/fines overdue and installments overdue are excluded		
240	Ageing of past due loans and provisioning do not match the loan repayment frequency		
AL	LOAN LOSS PROVISIONING AND WRITE-OFFS		
241	Provision amounts are derived as a % of loan outstanding and not based on age of past due loans, especially in the absence of historical data		
242	Historical write-off (or uncollected loan) data indicates that current provisioning is not sufficient		
243	Loan loss provisioning and loan loss reserves have not been established as per policy/best practices		
244	Loan loss provisioning and loan loss reserves have not been established as required by regulation		
245	Loan loss provisioning is not based on ageing of past due loans		
246	Loan write-offs are not as per credit policy		
STEP 7	REVIEW OF INTERNAL AND EXTERNAL CONTROLS FOR LOAN PORTFOLIO MANAGEMENT		
AM	INTERNAL CONTROL SYSTEMS		
247	The methodology of the internal audit function is not rigorous and comprehensive		
248	The internal audit reports are not sent direct to the Board, especially without interference from the management		
249	The internal audit reports are not acted upon/responded to by those concerned		
250	Loans disbursed to clients (as per records) are actually used by others such as staff/outside		
251	Loan repayments from clients have been appropriated by staff/others		
252	Loan repayments are not properly credited into cash/bank accounts		
253	Staff keep loan repayment cash at home and/or with themselves		
254	Receipts are not issued for loan repayments received from clients		
255	There is a mismatch between loan disbursement records and transaction records in terms of amounts		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
256	There is a mismatch between loan disbursement records and transaction records in terms of dates		
257	There is no segregation of duties between employees handling loan applications and employees involved in loan sanctioning		
258	At the institution, there are no designated individuals who exclusively maintain the loan records		
259	Irregularly disbursed loans have not been ratified		
260	Loan related cheques are not restrictively endorsed immediately upon receipt		
261	The names of staff authorized to sanction and disburse loans are not removed/disabled from the system after the individuals have left the employment		
262	The access rights to sanction and disburse loans are not withdrawn after the staff has been transferred to other duties, incompatible with credit or to another branch.		
263	An individual or staff has got access rights to maintain, sanction and disburse loans		
264	Collections on written off loans have no related records		
265	Collections on written off loans are not paid into bank accounts		
266	There is no notification of disbursement made - supporting data to prevent duplicate disbursement is lacking		
267	Monitoring practices do not ensure that late payments are identified and followed up, and delinquency is properly reported.		
268	Repayments from overdue loans are not being proactively collected		
269	The delinquent loan list is not accurate		
270	The delinquent loan list is not up-to-date		
271	All customer/client accounts related to loan accounts are not established in accordance with the existing legal framework		
272	Loan portfolio has some unusual trends in the types or concentrations of loans with a relatively few very large loans that make up a significant part of total loans in value		
273	Access to credit system is not strictly regulated through user passwords		
274	Loan data entry is not done by credit officer		
275	Reassignments of loan cases from one credit officer to the other is not properly documented		

3.1 CHECKLIST FOR LOAN PORTFOLIO ASSESSMENT IN MFIs/BANKS³			
Item Nos	Description of Steps	0-Present; 1-Absent; NA- Not Applicable	Special Remarks
276	Overall, internal controls over the lending activity are not adequate		
AN	LOAN PORTFOLIO DATA AND FINANCIAL STATEMENTS/EXTERNAL AUDIT DATA		
277	There has been no proper external audit		
278	External audit has not been done on time		
279	Institution has not been audited for all years from date of registration		
280	Audit figures do not match those in records, especially loan portfolio records		
281	Institution has not deployed adequate amount of assets as loans outstanding		
282	Institution has too much investment in fixed assets or idle cash		
283	Share capital is not accounted for fully in the balance sheet		
284	All expenses and incomes are not reflected in the income statement		
285	All receipts and payments are not accounted for fully		
286	All loan transactions and accounts that should be presented in the financial statements are not included		
287	Actual loan outstanding is different from loan outstanding stated on balance sheet		
288	Accrued interest amounts for “interest due” but “not received” from clients does not match that mentioned in financial statements		
289	Theoretical effective yield on portfolio does not match actual effective yield on portfolio		
290	Some loans are not included in the financial statements at appropriate amounts		
291	Some loans are not included in the financial statements as per actual dates		

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
STEPS 1, 2 AND 3 - Tracing of loans, head office to borrower, borrower to head office and reconciliation of these with all key loan related records			

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
DISBURSEMENT TO CLIENTS 1. Lesser loan amounts have been disbursed than stated in the records 2. Higher loan amounts have been disbursed than stated in the records 3. Loans have been disbursed before date stated in the records 4. Loans have been disbursed after date stated in the records 5. Loans exist in records but have not been disbursed at all to client (There could be many reasons for this)	1. For given loan number and client, check the client loan application and corresponding loan contract for amount approved 2. Compare with loan ledger and look at amounts and dates of disbursement 3. Compare with cash book/bank records to see actual disbursements – amounts and dates 4. Compare with DPN (Demand Promissory Note) if applicable and verify all aspects including client signature, amounts and date. Please note the disbursing officer and if necessary, the place and time of disbursement 5. If disbursal is into client savings/current account, then compare with amount credited into account and the date on which this has happened 6. If amounts, dates and other aspects in 3 or 4 or 5 (which must be consistent with one another) are different than those in 1 or 2 (which must also be internally consistent with each other), then there is a problem with loan disbursement clearly	1. Cash/bank books/records including client savings/current accounts 2. Loan ledgers 3. Demand promissory notes (DPNs) 4. Proof of receipt of loan by clients (voucher etc) 5. Client loan utilisation check records (if applicable) 6. Client records (if applicable) 7. MIS records of loan disbursement (cash payments reports on a daily basis for the period concerned) 8. Reconciliation of dates and amounts among the above	• Apart from perusal of records, assessor also needs to interview clients and staff • Cross checking with clients can be really useful here and if the model permits clients to have copies of records, please verify them. • In some models, there is a loan utilisation check and these records could be looked into. • In models with many levels/layers of staff between headquarters and client, reconciliation of records is very critical to ensure physical transfer of cash from headquarters to client • Depending on the context, a time lag of a maximum of 1 week between disbursal at HQs and receipt of client money could be acceptable – the key is to track flow of the loan money and ensure that it indeed reached the client in the said amounts and on the said dates (with a maximum variance of 1 week)

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
REPAYMENT SCHEDULES 1. Repayment schedules do not exist for loans 2. Repayments schedules for loans keep changing 3. Repayment schedules for loans are different from that agreed with client at time of loan disbursement/in loan agreement	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Analyse whether the pattern in 3 and 4 are different from that stated in 1 and 2 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent with one another) are different from each other, then there is a problem with loan repayment schedules	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) 2. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) 3. MIS records of client transactions	Comparison of these records for changes in repayment pattern, installment amounts would help isolate any changes in repayment schedules
PRINCIPAL AMOUNT COLLECTED FROM CLIENTS 1. Principal amounts actually	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc)	Comparison of these records for principal repayment would help isolate if any of these aspects with principal

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
collected from clients are lesser than installment amounts due (as per loan term/policy/contract) and arrears reported in the loan account 2. Principal amounts actually collected from clients are higher than installment amounts due (as per loan term/policy/contract) and arrears reported in the loan account 3. Principal prepayments by clients are not recorded 4. Regular and on-time principal payments by clients are understated and mentioned as overdue 5. Date of installment (principal) recovery is different when compared to due date for installment recovery 6. Date of installment (principal) recovery is different when compared to date the loan account is credited 7. Principal overpayments (at end of loan) are not returned to clients	approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent	2. MIS records of client transactions (both principal and interest, over dues etc) 3. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) 4. Loan closure reports from MIS	repayment exist. - Sequence of appropriation of client repayments is very critical as is the definition of over dues - Method of the aging of past due loans is very important - In models with many levels/layers of staff between headquarters and client, reconciliation of records is very critical to ensure physical transfer of cash from client to headquarters - Sometimes, flexible installments and grace periods could affect (distort) the calculation of over dues and their age. Appropriate adjustments would have to be made for these aspects

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
	with one another) and 3 and 4 (which must be internally consistent with one another and also same as stated in 1 and 2) are different from each other and the calculations in 5 above, then there is a problem with the principal amount collected and the actual loan repayment		
INTEREST, SERVICE, OTHER CHARGES ACTUALLY CHARGED FROM/REFUNDED TO CLIENTS 1. Lesser interest is charged on clients compared to interest rate quoted on letter of offer (loan contract/policy) 2. Higher interest is charged on clients compared to interest rate quoted on letter of offer (loan contract/policy) 3. Lesser service/other charges are charged on clients than as per policy 4. Higher service/other charges are charged on clients than as per policy 5. Deficient interest/service/other charges are not recovered from clients 6. Excess interest/service/other charges collected are not returned to clients (at end of loan)	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) 2. MIS records of client transactions (both principal and interest, over dues etc) 3. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) 4. Loan closure reports from MIS	• Comparison of these records for interest repayment would help isolate if any of these aspects with interest repayment exist • Sequence of appropriation of client repayments is very critical as is the definition of over dues • Method of appropriation of client repayments is very fundamental to understanding this aspect as also the calculation of over dues and the age of the past due loan • In models with many levels/layers of staff between headquarters and client, reconciliation of records is very critical to ensure physical transfer of cash from client to headquarters • Sometimes, flexible installments and grace periods could affect (distort) the calculation of over dues

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
7. Nominal and effective interest rates as per loan terms/policy are very different from those actually charged on clients	sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent with one another and also same as stated in 1 and 2) are different from each other and the calculations in 5 above, then there is a problem with the interest amount collected and also the actual loan repayment		and their age. Appropriate adjustments would have to be made for these aspects Please make sure that interest charges are appropriately calculated. For example, consider a case where flat rate of interest is applied and the duration since disbursement has already exceeded the loan tenure. In this case, if the institution collects interest first, the principal may remain overdue beyond loan term. In such a situation the credit policy may not stipulate the interest to be levied on the over due principal beyond loan term (as interest is calculated on a flat basis)
CALCULATION OF OVER DUE AMOUNTS - Installment due amounts do not exist - Installment due dates do not exist - Installment due amounts exist but are not followed in implementation - Installment due dates exist but are not followed in implementation - Installment due amounts are not consistent, they are	- For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) - Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due dates / amounts –	- Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) - Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) - MIS records of client transactions - MIS records of past dues loans and portfolio report of all loans	- Comparison of these records would help isolate whether any of these aspects is present or absent - Sequence of appropriation of client repayments is critical as is the definition of over dues

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
being changed 6. Installment due dates are not fixed, they are being changed 7. Overdue amounts are not calculated accurately	both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent with one another) are different from each other and the calculations in 5 above, then there is a problem with the over due amount calculation and also the actual loan repayment		
APPROPRIATION OF CLIENT REPAYMENTS 1. Client repayments are first	1. For given loan number and client, check the client loan application and corresponding loan contract for	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book	• Comparison of these records would help isolate whether any of these aspects is

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
appropriated towards principal and later towards interest 2. Client repayments are never appropriated towards overdue amounts – either interest or principal 3. Fines or penalties are charged but not paid by the customers 4. Late fees or charges are not collected although required as per loan policy	amount/date of disbursement approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in	etc) 2. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) 3. MIS records of client transactions 4. Methods (along with rationale) used for appropriating client repayments towards principal, interest, over dues – sequence and amount calculations	present or absent • The definition of over dues is critical and here it may be useful to take into account grace and moratorium periods afforded to clients ex ante (or even a priori) • Sequence of appropriation should be as per best practices

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
	1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent with one another) are different from each other and the calculations in 5 above, then there is a problem with the appropriation of client repayments and also the actual loan repayment		
LOAN REPAYMENTS 1. Repayment account is not maintained correctly – i.e., not in same names as the original loan account 2. Theoretical effective yield on portfolio does not match actual effective yield on portfolio 3. Last months actual repayments received does not match the expected / theoretical repayments receivable (based on the repayment schedules of loans outstanding) 4. The months before the previous months actual repayments received does not match the expected / theoretical repayments receivable (based on the repayment schedules of loans outstanding)	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) 2. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) 3. MIS records of client transactions 4. Methods (along with rationale) used for appropriating client repayments towards principal, interest, over dues – sequence and amount calculations	• Check for client names. This can particularly be a problem in some cultures where same names exist for several clients (maybe with same initials!). Photo or other identification could be crucial here • If appropriation is correct, then this can be spotted. So, first make sure that there is correct appropriation and then check on average loan outstanding done at least on a monthly basis. • Sequence of appropriation of client repayments is very critical as is the definition of over dues

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
	sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent with one another) are different from each other and the calculations in 5 above, then there is a problem with the actual loan repayment		
DELINQUENCY 1. Repayments from clients are much less than repayments required (as per due amounts/dates) and other sources of funds are used to make repayments. 2. Repayments from groups are much less than repayments required (as per due amounts/dates) and other sources of funds are used to make repayments. 3. Part of the clients repayments are misappropriated by staff 4. Staff pay up shortfall	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement approved and proposed schedule of repayments (at time of contract) along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) 2. MIS records of client transactions (both principal and interest, over dues etc) 3. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 4. MIS records of receipts and payments reports on a daily basis for the period concerned	• Comparison of these records would help isolate if any of these aspects are present or absent • Sequence of appropriation of client repayments is critical as is the definition of over dues, method of ageing past due loans, adjustments for grace periods and other such factors • Interviews with clients and interaction with staff would also be useful

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
amounts, cover up for delinquent loans	records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. If amounts, dates and other aspects in 1 and 2 (which must be consistent with one another) and 3 and 4 (which must be internally consistent) are different from each other and the calculations in 5 above, then there is a problem with the actual loan repayment in terms of delinquency		
LOAN WRITE-OFFS 1. A loan written off as per list has actually not been written off 2. Loan write-off amounts for loans are not internally	1. For given loan number and client, check the client loan application and corresponding loan contract for amount/date of disbursement approved and proposed schedule of repayments (at time of contract)	1. Loan contract, letter of offer, and loan ledger and client records if any (like loan sheet/pass book etc) 2. MIS records of client transactions (both principal and	• Comparison of these records would help isolate if any of these aspects are present or absent • Sequence of appropriation of client repayments is very

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
consistent within institutions' records 3. Actual write-off amounts for loans do not tally with client records 4. Written off loan collections are not brought into accounts of institution	along with other terms and conditions including treatment of over dues and penalties (if any) 2. Compare with loan ledger and look at amounts and dates of disbursement and schedule of repayments including periodicity along with installment due amounts/dates – both principal and interest 3. Compare with cash book/bank records to see actual disbursement and repayment – amounts and dates 4. Compare with client records to see actual disbursement and repayment – amounts and dates 5. Check to see if the method of appropriation of client repayments is correct as also the calculation of over dues along with age and the appropriation of client repayments towards these in the correct sequence. This would require the creation of a loan repayment table consistent with the terms of the loan and best practices principles of ageing a loan using the correct sequence for appropriation of client repayments (penalties first followed by interest overdue, interest due, principal over due and finally principal) 6. Using the result from 5 above, check to see whether the loan is still outstanding or overdue or both (in case the loan is beyond the loan	interest, over dues etc) 3. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 4. Loan closure reports from MIS 5. MIS records of receipts and payments reports on a daily basis for the period concerned	critical as is the definition of over dues - Interviews with clients whose loans have been written off are essential to determine if collections were made. - Talking to staff would also be useful

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
	term). 7. This can be verified using the formula, Date of Assessment - Date of Disbursement. 8. If this is > Loan Term, then loan is past the loan term; otherwise not. Here adjustments will have to be made for any rescheduling that may have occurred and this requires computation of the following: • Checking the Date of Disbursement + Loan Term and this should not be greater than Date of Assessment. • If it is the case (or loan is passed the loan term) and there are outstanding loan amounts (as per the original loan contract) but loan is not shown as an over due loan, then rescheduling is said to have occurred 9. Using data from steps 6, 7 and 8, check with other client records to see if the client money (savings, shares etc) have been adjusted to the loan outstanding (which could be over due) and the balance written off 10. Check the loan write-off records in MIS for the specific client 11. If amounts, dates and other aspects in 10 are different from the calculations in 5, 6, 7, 8 and 9 above, then there is a problem with the loan write-off		
STEP 4 - Loan administration procedures and loan documentation			
LOAN ADMINISTRATION	Examination of documents given in next	1. Loan/credit policy document and	• Sometimes, policy may be

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
AND CREDIT POLICY 1. Loan policies do not exist for each type of loan offered 2. Policies do not address all terms and conditions for a loan, i.e. interest rate, maturity, collateral, late fees, etc. 3. There is no proper contract between institution and borrower 4. Contract between institution and borrower is incomplete 5. Borrower's previous credit history is not on borrower's loan file 6. Loans have been disbursed to borrowers with poor previous repayment records 7. Loans are not properly classified as either current or past due loans 8. Some loans have an unusual date of first payment, contrary to credit policy 9. Some loans have an unusually small principal installment repayment amount, contrary to credit policy 10. Some loans have an unusual interest repayment amount, contrary to credit policy 11. Some loans have unusual loan installment due dates,	column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	its examination for various aspects like definition of delinquency, loan terms and other issues 2. Letter of offer / contract / application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled.	silent on these aspects and that needs to be noted. - For example, consider a case where flat rate of interest is applied and the duration since disbursement has already exceeded the loan tenure. In this case, if the institution collects interest first, the principal may remain overdue beyond loan term. In such a situation the credit policy may not stipulate the interest to be levied on the over due principal beyond loan term (as interest is calculated on a flat basis) - Must check for large lump sum payments by clients for previous loans, which could be followed immediately by disbursement of a fresh loan. - The key is to isolate the number of installments that were overdue in a previous loan along with the average time taken to settle the over dues. Merely looking at whether the total loan has been repaid can be misleading - Must check whether loans with '0' principal overdue and interest overdue are

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
which are contrary to credit policy 12. Dates of disbursement are different from original approvals 13. Amount disbursed is different from original approvals 14. Persons approving loans are not authorized to do so 15. Loans, mentioned in disbursement records, have not been actually disbursed to clients 16. Clients to whom loans have been disbursed as per records do not exist at the said address 17. Fees are not collected as per credit policy 18. Commissions are not collected as per credit policy 19. Interest/other charges are not collected as per credit policy 20. Overall, loans disbursed are not in accordance with policy 21. Conditions to disbursement are neither met nor properly documented (especially, when exceptions exist)			classified as overdue loans. The converse is also true - Look for informal grace or moratorium periods. For example, sometimes, policy may stipulate that clients could pay back in 46 weekly installments over a 52 week loan period and as a result, sometimes, a loan whose installment has not been paid for 6 weeks could still be called a current loan while in reality it is not - Other aspects would have been examined in Steps 1 – 3
LOAN APPLICATION 1. The loan application summary (note) has not	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of	1. Loan/credit policy document and its examination for various aspects like definition of	Signatures and verification are critical and must be examined for

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
been signed by required members of the credit committee 2. Exceptions to loan policy are not approved by the Credit Committee 3. Signatures on credit application have not been verified 4. Applicant signature does not exist 5. Credit officer signature does not exist 6. Blank spaces have not been completed, where applicable and required 7. Certified copy of Original ID of borrower is not attached with credit application (if applicable) 8. Financials of prior loans of borrower client are not provided along with application (summary) 9. Prior loans data given with application is inaccurate 10. Financials have not been reviewed/signed by credit committee/authorised persons in application summary	the aspects are present or absent	delinquency, loan terms and other issues 2. Letter of offer / contract / application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled.	• Exceptions typically occur when signatures and verification are not present • Legal enforcement of loan contract could become problematic when such conditions exist • Borrower past data must be checked thoroughly – it could be incomplete or inaccurate
LOAN TERMS Loan terms are actually different from set policy values/limits for following parameters	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and	• Comparison of loan policy document with data from steps 1-3 (especially, best practices construction of loan

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
1. The stated nominal interest rate 2. The stated effective interest rates (nominal rate + fees etc) 3. The stated size of the loan 4. The stated range of the loan 5. The stated repayment period in specified number of installments 6. The stated installment frequency specified in days, weeks, months etc 7. The stated grace (moratorium) period for the loan 8. The stated service and other charges/fees 9. The size of the installment (for EMI type loans)		other issues 2. Letter of offer/contract/application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled.	repayment by client) is very critical and it will highlight whether any of the aspects are present
LOAN AUTHORIZATION AND APPROVAL 1. Loans authorization and approval limits have not	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and	• Comparison of loan policy document with credit committee decisions and notes along with data from

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
been adhered to 2. Credit committees are not operational at the branch/other levels 3. All the loans have not received the approval of the relevant credit/other committees 4. Quorum for credit/other committees has not been observed at all times 5. Single borrowers limit exceeds minimum prescribed limit in terms of a percentage of the banks/institution's core capital		other issues 2. Letter of offer/contract/application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled. 10. Credit committee minutes and files at various levels and the respective notes	steps 1-3 (especially, best practices construction of loan repayment by client) is very critical and it will highlight whether any of the aspects are present
LETTER OF OFFER (LOAN CONTRACT)	Examination of documents given in next column with data gathered in steps above	1. Loan/credit policy document and its examination for various	Signatures and verification are critical and must be

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
1. Letter of offer (contract) is not properly addressed in name (s) of persons (to be addressed to) 2. All borrowers have not been listed with their names/addresses 3. Borrower names do not match (account) records 4. Guarantors names are not listed (with their addresses) 5. Guarantor names do not match their IDs 6. Principal amounts/limits have not been clearly stipulated 7. Interest and other fees related to the loan have not been captured properly 8. Securities have not been expressly stated 9. Payment mode and installment amount are not captured in the letter of offer (contract) 10. All blank spaces have not been completed correctly 11. Letter of offer has not been signed by the relevant authority as per approval limits 12. Letter of offer has not been signed/accepted by the borrower 13. Disbursement checklist has	will automatically reveal whether any of the aspects are present or absent	- aspects like definition of delinquency, loan terms and other issues 2. Letter of offer/contract/application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled. 10. Credit committee minutes and files at various levels and the respective notes	examined for • Client account names, number and loan number and borrower name must be matched • Exceptions typically occur when signatures and verification are not present • Legal enforcement of loan contract could become problematic when loan contract is incomplete • Borrower past data must be checked thoroughly – it could be incomplete or inaccurate

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
not been completed and it has not been duly signed by the authorised persons 14. Signatures do not match the specimens held in records; they have not been verified before filing.			
CREDIT APPLICATION SUMMARY	Only for large individual lending collateralised loans, please include the following.		
CHATELS MORTGAGE – BORROWER 1. Date, on which instrument has been done, is not shown 2. Chattels document has not been filled in duplicate 3. All borrowers names and addresses have not been listed 4. All assets and their detailed descriptions is not available 5. Required assets serial numbers have not been included 6. All blank spaces have not been filled in correctly 7. Collateral listed does not match that originally approved 8. Estimated values of assets/collateral has not been provided	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Instrument (affidavit) and all details therein including date, place and process of creation 2. Supporting documents for the instrument if any 3. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 4. Letter of offer/contract/application, repayment schedule and client records 5. Credit committee minutes and files at various levels and the respective notes	• Signatures and verification are critical and must be examined for • Client account names, number and loan number and borrower name must be matched • Exceptions typically occur when signatures and verification are not present • Legal enforcement of loan contract could become problematic when loan contract is incomplete • Assets details including serial numbers must be noted • Any encumbrance on the asset must also be ascertained • Clear evidence of whether process adopted is transparent and witnesses require to be checked

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
9. There is no signature by borrower 10. Credit officer is not witness to the mortgage process 11. Chattels affidavit is not signed by credit officer 12. Chattels affidavit has not been witnessed by commissioner of oaths/advocate			
CHATTELS MORTGAGE – GUARANTOR: 1. Date, on which instrument has been done, is not shown 2. Chattels document has not been completed in duplicate 3. The names and address of all guarantors' is not available 4. All assets and their detailed descriptions is not available 5. Required assets serial numbers have not been included 6. All blank spaces have not been filled in correctly 7. Collateral listed does not match that originally approved 8. Estimated values of assets/collateral has not been provided 9. There is no signature by guarantor	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Instrument (affidavit) and all details therein including date, place and process of creation 2. Supporting documents for the instrument if any including asset documents 3. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 4. Letter of offer/contract/application, repayment schedule and client records 5. Credit committee minutes and files at various levels and the respective notes	• Signatures and verification are critical and must be examined for • Client account names, number and loan number and borrower name must be matched • Exceptions typically occur when signatures and verification are not present • Legal enforcement of loan contract could become problematic when loan contract is incomplete • Assets details including serial numbers must be noted • Any encumbrance on the asset must also be ascertained • Clear evidence of process adopted and guarantor's/witnesses to it and their guarantee/witness to the process require to be

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
10. Letter of intent to guarantee has not been signed by guarantor 11. Credit officer is not witness to the mortgage process 12. Chattels affidavit is not signed by credit officer 13. Chattels affidavit has not been witnessed by commissioner of oaths/advocate			checked
CHATTELS/GOODS – BORROWER: 1. No photocopy in the credit file 2. All Borrower(s) are not listed 3. Guarantor(s) are not listed correctly 4. All blank spaces have not been completed correctly 5. Required assets serial numbers are not available 6. Collateral listed does not match that originally approved 7. Estimated values of assets/collateral has not been provided	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Instrument (affidavit) and all details therein including date, place and process of creation 2. Supporting documents for the instrument if any including asset documents 3. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 4. Letter of offer/contract/application, repayment schedule and client records 5. Credit committee minutes and files at various levels and the respective notes	• Signatures and verification are critical and must be examined for • Client account names, number and loan number and borrower name must be matched • Exceptions typically occur when signatures and verification are not present • Legal enforcement of loan contract could become problematic when loan contract is incomplete • Assets details including serial numbers must be noted and matched with original approvals • Any encumbrance on the asset must also be ascertained • Clear evidence of process adopted and guarantor's/witnesses and

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
			their guarantee/witness to the process require to be checked
CHATELS/GOODS – GUARANTOR: 1. No photocopy in the credit file 2. All Borrower(s) are not listed 3. Guarantor(s) are not listed correctly 4. All blank spaces have not been completed correctly 5. Required assets serial numbers are not available 6. Collateral listed does not match that originally approved 7. Estimated values of assets/collateral has not been provided	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Instrument (affidavit) and all details therein including date, place and process of creation 2. Supporting documents for the instrument if any including asset documents 3. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 4. Letter of offer/contract/application, repayment schedule and client records 5. Credit committee minutes and files at various levels and the respective notes	- Signatures and verification are critical and must be examined for - Client account names, number and loan number and borrower name must be matched - Exceptions typically occur when signatures and verification are not present - Legal enforcement of loan contract could become problematic when loan contract is incomplete - Assets details including serial numbers must be noted and matched with original approvals - Any encumbrance on the asset must also be ascertained - Clear evidence of process adopted and guarantor's/witnesses and their guarantee/witness to the process require to be checked
VEHICLES AS COLLATERAL: 1. Log Book – ownership is not proven - name(s) do not match ID(s)/certificates of registration. 2. Copy of transfer form – has	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Documents and all details therein including those with regard to ownership, insurance and other aspects 2. Loan/credit policy document and its examination for various aspects like definition of	- Ownership and insurance documentation is critical as also transfer forms etc - Legal enforcement of loan contract could become problematic when these

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
neither been properly filled out nor duly signed. 3. Copy of insurance showing Bank/Institution as beneficiary and/or bank/institution interest is not there 4. Copy of borrower's pin number does not exist in credit file		delinquency, loan terms and other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	aspects are incomplete - Assets details including serial numbers must be noted and matched with original approvals - Any encumbrance on the asset must also be ascertained
PROPERTY (LAND) AS COLLATERAL: 1. There is no copy of the title deed in the loan file 2. The names on the title differ from those on the account details in the system/manual MIS 3. Copy of the caution and memorandum of deposit have not been properly filled out and signed 4. Copy of insurance showing Bank/Institution as beneficiary and/or bank/institution interest is not there	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Property documents and all details therein including those with regard to ownership, title, insurance and other aspects 2. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	- Ownership, title, and insurance documentation is critical - Legal enforcement of loan contract could become problematic when these aspects are incomplete - Assets details including registration/survey numbers must be noted and matched with original approvals - Any encumbrance on the asset must also be ascertained
REFERENCES: 1. Reference forms have not been completed/duly signed	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Reference forms and all details therein including signatures 2. Loan/credit policy document and its examination for various aspects like definition of	- Completed forms are critical as also signatures - Legal enforcement of loan contract could become problematic when these

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
		delinquency, loan terms and other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	aspects are incomplete
GUARANTEE: 1. No copy in the credit file 2. All blanks have not been filled in correctly 3. Signatures do not match with the one on customer's ID (certified copy of the same held) 4. No advocate signature 5. No proper witness No proper date	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Guarantee documents and all details therein for completeness 2. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	• Clear intention to guarantee must be ascertained • Presence of signatures and their verification is also very critical including the that of the witness
OTHER DOCUMENTS: 1. No copy of borrower(s) ID(s) in file 2. No copy of articles and memorandum of association 3. No copy of operating license 4. No copy of registration documents, articles of Incorporation (if a Ltd. Liability)	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. All necessary documents including Memorandum and Articles of Association, evidence of incorporation, insurance certificates and all details therein for completeness 2. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and	• Look for notes or remarks on whether originals had been verified as copies can be fabricated • Notarised copies are useful here • Cross-checking with notary may be required in some cases

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
5. No copies of insurance certificates		other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	
COLLATERAL FILE COPIES: 1. First page of the credit summary (Loan Fact Sheet) showing approval terms (in front) not in file	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Examination of documents given in steps above will automatically reveal whether any of the aspects are present or absent 2. Credit committee minutes and files at various levels and the respective notes	Look for any exceptions approved for by the credit committee
ORIGINAL BANK DOCUMENTS: 1. Letter of offer is not signed by the authorized signatories	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues like hypothecation etc 2. Letter of offer/contract/application, repayment schedule and client records 3. Credit committee minutes and files at various levels and the respective notes	Determine authorised signatories (based on documentation) and cross – check actual signatures and match with verification records
ORIGINAL TITLE DOCUMENTS: VEHICLES: 1. No log book 2. No transfer form signed in blank 3. No valuation report by	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Documents and all details therein including those with regard to ownership, insurance and other aspects 2. Loan/credit policy document and its examination for various	- Ownership and insurance documentation is critical as also transfer forms etc - Legal enforcement of loan contract could become problematic when these

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
authorized valuer 4. No insurance certificate with bank interest noted		aspects like definition of delinquency, loan terms and other issues like hypothecation etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	aspects are incomplete - Assets details including serial numbers must be noted and matched with original approvals - Any encumbrance on the asset must also be ascertained - Storage of originals in a safe and fire proof place is very critical
PROPERTY: LAND: 1. No title deed 2. No valuation report by authorized valuer 3. No memorandum of deposit/caution	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Property documents and all details therein including those with regard to ownership, title, insurance and other aspects 2. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues like hypothecation, margins etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at various levels and the respective notes	- Ownership, title, and insurance documentation is critical - Legal enforcement of loan contract could become problematic when these aspects are incomplete - Assets details including registration/survey numbers must be noted and matched with original approvals - Any encumbrance on the asset must also be ascertained - Storage of originals in a safe and fire proof place is very critical
SECURITIES 1. Securities pledged are unacceptable as per policy 2. All security documents have not been kept in a fireproof safe under dual control	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Security documents and all details therein including those with regard to ownership, title, insurance and other aspects 2. Loan/credit policy document and its examination for various	- Storage of original securities in a safe and fire proof place is very critical - Any encumbrance on the security must also be ascertained

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
3. Loan security margins have not been observed at all times 4. All the securities have not been valued by an approved panel of valuers 5. Securities offered to the bank/institution do not have appropriate insurance covers, with bank/institution's interest noted on such policies 6. All securities are neither appropriately registered in security register nor arranged systematically 7. Substitutions of securities has not been approved by the relevant credit committee/authorised persons		aspects like definition of delinquency, loan terms and other issues like hypothecation, margins etc 3. Letter of offer/contract/application, repayment schedule and client records 4. Credit committee minutes and files at	• Ownership, title, and insurance documentation is critical • Legal enforcement of loan contract could become problematic when these aspects are incomplete • Valuation of security provided must be appropriately done through a transparent process as also any substitution of the security
RECORDS WITH REGARD TO LOANS/OTHER PRODUCTS 1. Different loan disbursement amounts are stated by, loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 2. Different loan disbursement dates are mentioned by, loan documentation/records (loan	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 2. Letter of offer/contract/application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including	• Basically, data from steps above would indicate whether any of these conditions are present or absent • The key is look for deviations (or exceptions) from authorisations and check whether they have approved or not • In case discrepancies exist, specific interviews with clients, staff and credit

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
application form, letter of offer, loan ledger, cash/bank books) and client statements/records 3. Different client names and addresses are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 4. Different instalment repayment dates are stated by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 5. Different nominal and effective interest rates (nominal interest charges plus fees etc) are mentioned by, loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 6. Different loan periods (number of installments) are stated by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank		transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled. 10. Credit committee minutes and files at various levels and the respective notes	committee concerned is a must to bring transparency to the whole process and the associated data and records

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
books) and client statements/records 7. Different loan purposes are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 8. Differing amounts are mentioned as loan outstanding by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 9. Differing installment frequencies (daily, weekly, monthly etc) are mentioned by loan documentation/records (loan application form, letter of offer, loan ledger, cash/bank books) and client statements/records 10. For collateralized loans, institution does not have the valid (legal) title 11. For collateralized loans, institution does not have the valid asset insurance 12. Loans exist in records but proceeds are not credited in the clients savings or current			

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
account or their name 13. Loan proceeds are credited in client savings or current accounts but not there is no proper documentation 14. Unauthorized loans exist due to overdrawn savings or current accounts without proper authority/documentation 15. Overall, proper loan disbursement records do not exist 16. Overall, established loan policies and procedures are not followed			
LOAN DOCUMENTATION 1. It is incomplete 2. It is not accurate 3. It is not transparent (striking off, cutting and pasting, pencil writing etc) 4. It is not up-to-date 5. It is not internally consistent	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	1. Loan/credit policy document and its examination for various aspects like definition of delinquency, loan terms and other issues 2. Letter of offer/contract/application, repayment schedule and client records 3. Borrower's loan file and all related documents like DPN's 4. MIS records of borrower's past credit history including transactions 5. Comparison with list of overdue loans and the associated conditions 6. MIS records of client	• The key is look for deviations (or exceptions) from authorisations and check whether they have approved or not • In case discrepancies exist, specific interviews with clients, staff and credit committee concerned is a must to bring transparency to the whole process and the associated data and records • Perusal of records as on the dates of the assessment are very critical to ascertain whether they are regularly updated and complete • Judgements about accuracy

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
		transactions (both principal and interest, over dues etc) 7. Loan ledger 8. Cash/bank books/records including client savings/current accounts, receipts and their reconciliation, deposit slips (if applicable) and other client records (if available) 9. Best practices construction of loan repayment by clients using correct method of ageing past due loans, appropriation of loan repayments and other aspects – this would have been calculated in steps 1- 3 and compiled. 10. Credit committee minutes and files at various levels and the respective notes	will come from the steps given earlier including construction of the loan repayment schedule as per best practices, after making the necessary adjustments
STEP 5 - Verification of loan accounts for rollovers and restructuring			
LOAN RESCHEDULING, REFINANCING 1. Fresh loan disbursements to clients, some of whom do not qualify for a loan, has shrouded loan delinquency status 2. Rescheduling of overdue loans - Amounts, Loan Periods, Repayment Frequency and/or other aspects have been changed - has shrouded loan delinquency status 3. Refinancing of over due	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	MIS design documents including database design, loan ledger and tracking system (if manual), delinquency, credit and write-off policy documents, portfolio report for last three years (at least) and data from all other records given in steps above	• Most critical thing to look for is the date of original disbursement • Add to this the tenure of the loan and see if the loan has passed its term • If on the dates of the assessment, the loan has passed the original loan term but is still outstanding and not been classified as overdue, then rescheduling has occurred • Please also look for any lump sum payments made for

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
loans has shrouded loan delinquency status 4. Write-offs of over due loans have shrouded loan delinquency policy 5. Loan terms are changed during the course of a loan to camouflage loan delinquency 6. Lump-sum payments are made for overdue loans, followed by immediate disbursement of fresh loans indicating unwillingness of clients to make loan repayments (one type of greening) 7. Refinancing of over due clients exists - fresh loans have been given to clients with overdue loans 8. Rescheduling decisions have not been approved by the required authorities/relevant (credit) committee 9. Refinancing decisions have not been approved by the required authorities 10. Rescheduling for loans is not applied for by clients/customers in writing 11. Rescheduling decisions are not backed by sufficient rationale and explanation 12. Refinancing decisions are			overdue amounts, followed by immediate disbursement of fresh loans. This again is a symptom of rescheduling/re-financing • A review of the receipts and their reconciliation at various levels coupled with construction of the correct best practices ageing based repayment schedule (given in steps 1 –3) above will ensure one to ascertain whether there has been re-scheduling etc

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
not backed by sufficient rationale and explanation			
LOAN WRITE-OFF 1. No approvals have been obtained for loan write-offs 2. Reasons for loan write-offs are inappropriate	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Credit, delinquency and write-off policies and procedures and data from all other records given in steps above	• Written approvals for write-offs and corresponding dates to ensure that there is no write-off using a back dated procedure • Check the corresponding accounting records • In case a reserve exists, the typical write-off is processed as follows: Decrease loan outstanding (credit of asset) and Decrease of loan loss reserve (debit of negative asset) • MIS (computerised) systems need to be validated for this as well
STEP 6 - Review of loan portfolio management policies, procedures and systems			
POLICIES WITH REGARD TO LOAN PORTFOLIO MANAGEMENT 1. There is no proper credit policy 2. There is no proper delinquency policy 3. There is no proper write-off policy	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Credit, delinquency and write-off policies and procedures and data from all other records given in steps above	• Look for written down policies • Look for evidence with regard to use of these policies • Look for evidence of violation of these policies • In case of write-offs, these are mere accounting entries. See how the institution handles these written off loans. Pursuing recovery until the economic cost of recovery is greater than the

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
			written-off amount is necessary Please check for how collections from written-off loans are to be handled and how they are actually handled. Some internal control failures are possible here
DEFINITION OF DELINQUENCY (PAST OR OVER DUE) AND DEFAULT - Loans with installment (s) not paid (on due date and even till date) are not classified as delinquent - Grace period for loans permits a very flexible definition of delinquency which is not accurately stated - Loans with installment (s) not paid (on due date and even till date, despite significant passage of time beyond loan term) are not classified as default. Thus, loans not likely to be collected are still reflected in the books	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	MIS design documents including database design, loan ledger and tracking system (if manual), delinquency, credit and write-off policy documents, portfolio report for last three years (at least) and data from all other records given in steps above	- Grace periods need to be spotted and adjusted for as noted earlier - Irrespective of the date of disbursement, some models keep the 1st repayment date as the last of the succeeding month. This aspect needs to be noted - Another way grace period can affect portfolio quality is through the definition of delinquency. For example, sometimes, policy may stipulate that clients could pay back in 46 weekly installments over a 52 week loan period and as a result, sometimes, a loan whose installment has not been paid for 6 weeks could still be called a current loan
PORTFOLIO QUALITY AND REPAYMENT Prepayments are not subtracted while calculating	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	MIS design documents including database design, loan ledger and tracking system (if manual), portfolio report for last three years (at least)	Standard definitions of indicators, standard method of calculation and standard ways of interpretation are

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
repayment indicators 2. Repayment indicators do not use standard best practices definitions 3. Portfolio quality indicators do not use standard best practices definitions 4. No adjustments are made to portfolio quality indicators for rescheduling, refinancing, write-offs and fresh loan disbursements for which repayment is yet to begin 5. No adjustments are made to repayment indicators for rescheduling, refinancing, write-offs and fresh loan disbursements for which repayment is yet to begin		and data from all other records given in steps above	very critical • Adjustments for rescheduling, refinancing, write-offs and/or fresh loan disbursements are very critical • Portfolio quality indicators are better than repayment indicators but they suffer limitations, especially with aspects that increase the denominator and/or decrease the numerator • Sometimes, institutions show good portfolio quality indicators but because they use a wrong method of appropriation. A simultaneous look at the interest yield should reveal whether this is the case or not – lower yield coupled with good portfolio quality indicators suggests serious delinquency • In many models, there are many levels and there may be silent delinquency in that at the lowest (individual client) level, there is delinquency but the group manages it at its level using savings/other cash resources. This cannot go on for long and hence, it is important to

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
			get a good understanding of the portfolio quality indicators at various levels rather than just the superficial and uppermost levels
LOAN TRACKING SYSTEMS Loan tracking (computerized) systems and records are not effective. They are: 1. Incomplete 2. Inaccurate 3. Not transparent 4. Not updated 5. Not consistent with other records	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	MIS design documents including database design, loan ledger and tracking system (if manual), portfolio report for last three years (at least) and data from all other records given in steps above	• Method of appropriation, ageing method and method of generation of loan loss provision table etc need to be carefully ascertained. • Sometimes, in a computerised system, it may be difficult to isolate this. To overcome this problem, a few records maybe taken at random from the MFIs books. Manual calculation for appropriation, aging etc. and comparison with the results generated by the computer will help in assessing the computerized system.
AGE CALCULATION FOR OVERDUE LOANS 1. Use of installment method of ageing understates age of past due loans beyond loan term 2. Use of instalment method of ageing overstates age of past due loans within loan term 3. Use of incorrect method of ageing	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Portfolio report for last three years (at least) and data from all other records given in steps above	• Method of ageing is very critical and that must be as per best practices • Correct age of a past due loan on a specific date = Date of age calculation – date of earliest unpaid overdue • Method of appropriation is very critical and must be as per best practices sequence

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
understates/overstates age of past due loans within/beyond loan term 4. Ageing of past due loans is not stated correctly on the delinquent loan lists/portfolio ageing reports 5. Age of past due loan is understated due to changing of loan installment repayment dates 6. Loans with installments overdue are excluded 7. Loans with '0' principal overdue and interest overdue are excluded 8. Loans with principal overdue and "0" interest overdue are excluded 9. Loans with penalties/late fees/fines overdue and installments overdue are excluded 10. Ageing of past due loans and provisioning do not match the loan repayment frequency			• Loan rescheduling, loan refinancing and other aspects must be taken into account • All over dues (principal, interest and fines etc) must be included while generating list of past due loans • Provisioning must be based on actual age and must match age which is a surrogate for the risk with regard to a loan
LOAN LOSS PROVISIONING AND WRITE-OFFS 1. Provision amounts are derived as a % of loan outstanding and not based on age of past due loans, especially in the absence of	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Portfolio report for last three years (at least) and data from all other records given in steps above	• Understanding how provisioning is done is critical – what is the basis for provisioning? Is it historical data or ageing or some mere percentage of loan outstanding (with no rationale what-so-ever)

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
historical data 2. Historical write-off (or uncollected loan) data indicates that current provisioning is not sufficient 3. Loan loss provisioning and loan loss reserves have not been established as per policy/best practices 4. Loan loss provisioning and loan loss reserves have not been established as required by regulation 5. Loan loss provisioning is not based on ageing of past due loans 6. Loan write-offs are not as per credit policy			• It is critical to check the ageing of past due loans at point of verification and compare provisioning percentage after ageing with actual • Method of appropriation of client repayments, definition of delinquency, levy of penalties and other fines have an impact on provisioning and must be understood • Whether all overdues are used as a basis for generation of the loan loss provision table also needs clarity as one can have impact if only principal overdue is used to generate a list of overdue loans – in such cases, those loans with ‘0’ principal overdue and some interest overdue may be left out and would distort the true picture and camouflage the true risk in the portfolio • Sometimes, best practices and regulatory requirements may differ and if the institution is adopting more stringent norms because of adoption of best practices while being different from that prescribed by regulation,

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
			the institution need not be penalised. The converse may also be true and needs to be ascertained whether by keeping the provisioning to the regulatory requirements, the institution is at perceived risk because the regulatory requirements are less stringent than best practices • Sometimes, institutions say that they have a 15% loan loss provision ratio, which actually means nothing by itself. Institutions could have provisioned 15% when their ageing suggests that they may actually require 30% (case of under provisioning) whereas some organisations could have provisioned just 5% whereas as per the ageing they may require just 3% (case of over provisioning)
STEP 7 – Review of internal and external controls for loan portfolio management			
INTERNAL CONTROL SYSTEMS 1. The methodology of the internal audit function is not rigorous and comprehensive 2. The internal audit reports are not sent direct to the Board, without interference from the management 3. The internal audit reports	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Internal audited reports for last three years (at least) and data from all other records given in steps above	• Walking through the internal audit process is very critical • Ensuring independence of reporting of internal auditors is also very important • Action taken reports of internal audits must also be closely evaluated and cross-checked with successive internal audit reports

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
are not acted upon/responded to by those concerned 4. Loans disbursed to clients (as per records) are actually used by others such as staff/outside 5. Loan repayments from clients have been appropriated by staff/others 6. Loan repayments are not properly credited into cash/bank accounts 7. Staff keep loan repayment cash at home and/or with themselves 8. Receipts are not issued for loan repayments received from clients 9. There is a mismatch between loan disbursement records and transaction records in terms of amounts 10. There is a mismatch between loan disbursement records and transaction records in terms of dates 11. There is no segregation of duties between employees handling loan applications and employees involved in loan sanctioning 12. At the institution, there are no designated individuals who exclusively maintain			• Reconciliation of receipts and payments and their associated records is very crucial to determining this • Timing of recognition of income and expenses also critical • Income recognition norms and rules for reversal of recognised income also important • Method of accounting employed is also critical • Segregation of duties is very important for delivery of financial services and this must be ascertained at various levels • Security of MIS (especially, computerised) must be evaluated in terms of various aspects • It is important to check for use of delinquency lists and action plans with regard to these. Action taken report with regard to delinquency action plans will help understand the proactiveness of the institution in tackling delinquency • Ability of institution to spot delinquency through use of correct method of ageing, appropriation of client

3.2 EXPLANATION FOR CHECKLIST 3.1			
ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
the loan records 13. Irregularly disbursed loans have not been ratified 14. Loan related cheques are not restrictively endorsed immediately upon receipt 15. The names of staff authorized to sanction and disburse loans are not removed/disabled from the system after the individuals have left the employment 16. The access rights to sanction and disburse loans are not withdrawn after the staff has been transferred to other duties, incompatible with credit or to another branch. 17. An individual or staff has got access rights to maintain, sanction and disburse loans 18. Collections on written off loans have no related records 19. Collections on written off loans are not paid into bank accounts 20. There is no notification of disbursement made - supporting data to prevent duplicate disbursement is lacking 21. Monitoring practices do not ensure that late payments			repayments, classification of loan delinquency and other aspects are also critical • Action on deviant behaviour with regard to internal control failures is also critical to provide the demonstration effect and serve as a safeguard or control mechanism in the future. In other words, please check whether the organisation has taken action on staff for reported and identified internal control failures – failure to take action relegates the control to a dummy control often

3.2 EXPLANATION FOR CHECKLIST 3.1

ASPECT	VERIFICATION	RECORDS MANUAL/COMPUTERISED)	REMARKS
are identified and followed up, and delinquency is properly reported. 22. Repayments from overdue loans are not being proactively collected 23. The delinquent loan list is not accurate 24. The delinquent loan list is not up-to-date 25. All customer/client accounts related to loan accounts are not established in accordance with the existing legal framework 26. Loan portfolio has some unusual trends in the types or concentrations of loans with a relatively few very large loans that make up a significant part of total loans in value 27. Access to credit system is not strictly regulated through user passwords 28. Loan data entry is not done by credit officer 29. Reassignments of loan cases from one credit officer to the other is not properly documented 30. Overall, internal controls over the lending activity are not adequate			

LOAN PORTFOLIO DATA AND FINANCIAL STATEMENTS/EXTERNAL AUDIT DATA 1. There has been no proper external audit 2. External audit has not been done on time 3. Institution has not been audited for all years from date of registration 4. Audit figures do not match those in records, especially loan portfolio records 5. Institution has not deployed adequate amount of assets as loans outstanding 6. Institution has too much investment in fixed assets or idle cash 7. Share capital is not accounted for fully in the balance sheet 8. All expenses and incomes are not reflected in the income statement 9. All receipts and payments are not accounted for fully 10. All loan transactions and accounts that should be presented in the financial statements are not included 11. Actual loan outstanding is different from loan outstanding stated on balance sheet 12. Accrued interest amounts for	Examination of documents given in next column with data gathered in steps above will automatically reveal whether any of the aspects are present or absent	Audited Statements for last three years (at least) and data from all other records given in steps above	• Vertical and horizontal analysis of the financial statements is critical • Method of ageing, appropriation of client repayments, classification of loan delinquency and other aspects are critical to matching portfolio records and financial statements • Reconciliation of receipts and payments and their associated records is very crucial to determining this • Timing of recognition of income and expenses also critical • Income recognition norms and rules for reversal of recognised income also important • Method of accounting employed is also critical
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“interest due but not received” from clients does not match that mentioned in financial statements 13. Theoretical effective yield on portfolio does not match actual effective yield on portfolio 14. In some loans, appropriate amounts are not included in the financial statements 15. Some loans are not included in the financial statements as per actual dates			
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3.3 CHECKLIST FOR ASSESSMENT OF RECORDS					
Records available	Quality of Records Available in terms of accuracy	Quality of Records Available in terms of completeness	Quality of Records Available in terms of internal consistency	Quality of Records Available in terms of regular updating	Quality of Records Available in terms of transparency
Files and Records List for Loan Portfolio Management					
Receipts/ Vouchers/Third Party Vouchers/ Bills					
Cash Book					
General Ledger					
Loan Ledger					
Savings Ledger					
Insurance Register					
Share Capital Register					
Membership Fees/Admission Register					
Client Details Book					
Demand Promissory Notes					
Utilization Certificates for Credit					
Staff Attendance Registers for all M-F Program Staff					
Movement Registers for Field Visits of Loan Officers etc					

3.4 COMPARATIVE ANALYSIS OF KEY PORTFOLIO QUALITY INDICATORS		
Key Indicators	Sample Indicators as per Portfolio Assessment⁴	Population Indicators given by MFI
PAR > 1 Day		
PAR > 30 Days		
PAR > 60 Days		
Loan loss provision ratio		
On-time repayment rate		
Cumulative repayment rate		
Arrears rate (Portfolio in Arrears)		
Yield on Portfolio		

3.5 SUMMARY REPORT ON LOAN PORTFOLIO ASSESSMENT		
Summary Remarks	☒ Yes	☒ No
As per the sample assessment, the MFI's/Institution's loan losses and/or delinquency are materially higher than reported.		
The MFI/Institution records in terms of Completeness, Accuracy, Transparency, Regular Updating and Internal Consistency leave much to be desired.		
• Completeness		
• Accuracy		
• Transparency		
• Regular Updating		
• Internal Consistency		
Appropriate delinquency management systems and procedures do not exist		
While appropriate delinquency management systems and procedures exist on paper, they are not followed in implementation		
The MFI/Institution has no delinquency management document (procedure manual) available for guidance		
Despite significant delinquency, there is no evidence of a delinquency action plan		
Action taken reports with regard to delinquency are not available		
The evidence from the loan portfolio assessment identifies unusual risks that would warrant more extensive loan testing and appraisal on an exhaustive and larger scale		

⁴ Please use Excel based tool provided along with toolkit, if required.

ANNEX 1 – BEST PRACTICES PORTFOLIO REPORT**ANNEX 1.1 – BEST PRACTICES PORTFOLIO REPORT**

MY MFI

Loan (Principal) Amounts, Key Parameters as on...	Date 1/04/2004
Total value of loans disbursed (End of period)	445,000
Total number of loans disbursed (End of period)	48
Value of loans outstanding (End of period)	200,996
Number of loans outstanding (End of period)	31
Average outstanding balance of loans (End of period)	6,484
Value of payments in arrears (End of period)	3,426
Value of outstanding balance of loans in arrears (End of period)	48,969
Value of loans re-scheduled (End of period)	0.00
Value of loans re-financed (End of period)	0.00
Value of loans written-off (End of period)	0.00
Value of cumulative principal due (End of Period)	247,430
Value of cumulative principal paid (End of Period)	244,004
Value of cumulative principal paid on-time (End of Period)	210,637
Value of principal prepaid (End of Period)	2,190
Average loan size	9,271
Average loan term (months)	10

Loan Loss Provision Table

Description Loans days in Past Due	No. of Loans	Amount in Arrears (US \$)	Unpaid Principal Balance (US \$)	Portfolio at Risk	Provision Rate	Loan Loss Provision (US \$)
Current Loans	26	0	152,027	0.0 %	0 %	0
1 – 30 Days Past Due (PD)	2	488	13,305	6.62 %	10 %	1,330
31 – 60 Days PD	1	1,406	33,291	16.56 %	25 %	8,322
61 – 90 Days PD	0	0	0	0.00 %	50 %	0
91 – 180 Days PD	1	902	1,743	0.87 %	75 %	1,307
181 – 365 Days PD	0	0	0	0.00 %	90 %	0
above 365 Days PD	1	630	630	0.31 %	100 %	630
Total	31	3,426	200,996	24.36 %		11,590

Total Outstanding Portfolio (US \$.) : 200,996**Loan Loss Provision Ratio : 5.77%****Key Indicators**

Arrears Rate	Portfolio at Risk (PAR) >= 1 Day	PAR >= 1 Day, PAR Adjusted for Rescheduling, Refinancing, Write-offs and Fresh Loan Disbursements
1.70%	24.36%	24.36%

Aged Portfolio At Risk (PAR) and Repayment Rates (RR)

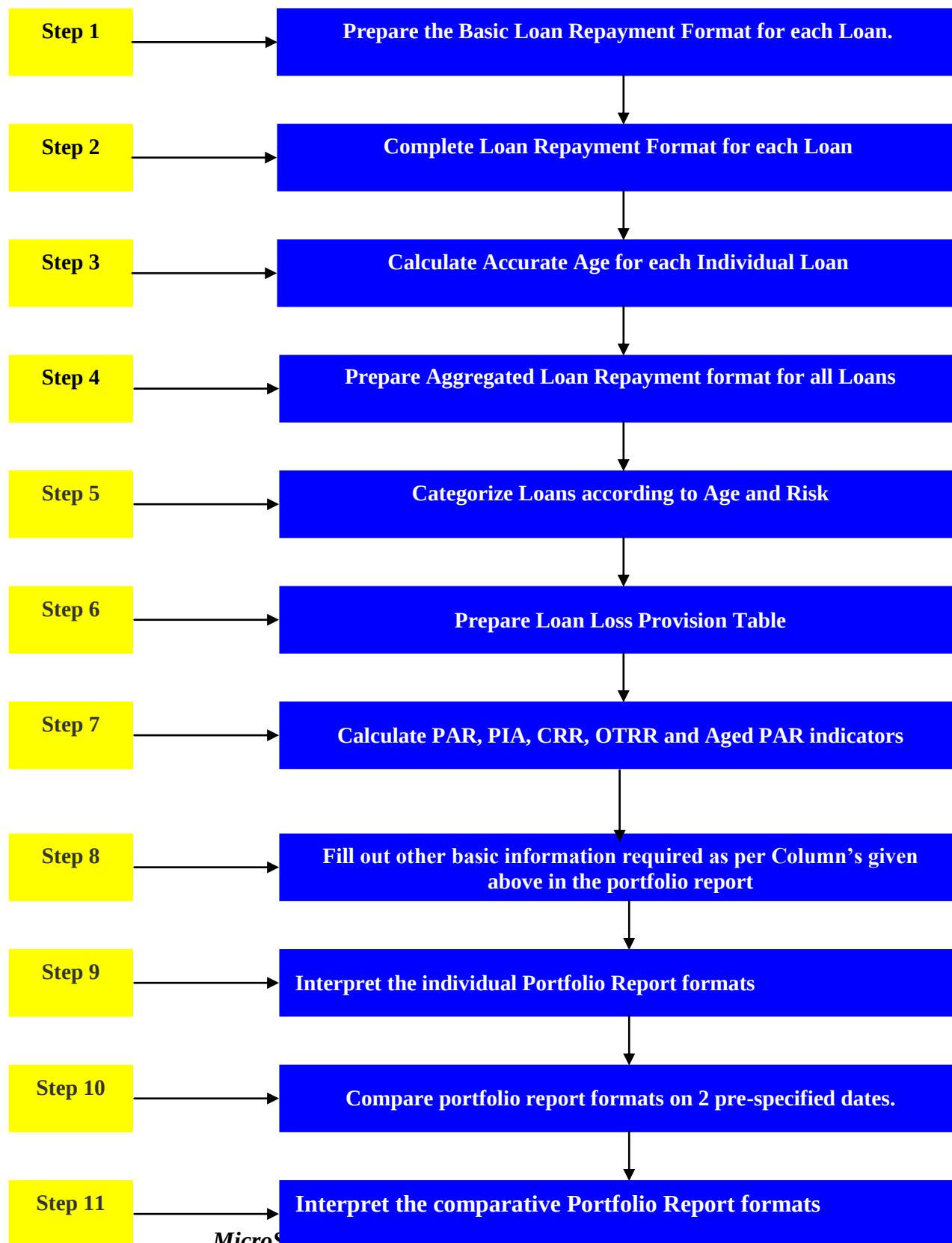
PAR > 30 (Days)	PAR > 60 (D)	PAR > 90 (D)	PAR > 180 (D)	On-Time RR	Cumulative RR
17.74%	1.18%	1.18%	0.31%	85.13%	97.73%

Ageing done as per best practices method and prepayments are subtracted for repayment rates

ANNEX 1.2 – BEST PRACTICES COMPARTIVE PORTFOLIO REPORT

MY MFI

Loan (Principal) Amounts, Key Parameters as on...	Report Date - 1/04/2003	Comparison Date - 1/04/2002	Change in Parameter	Direction of Change	Remarks
Total value of loans disbursed (End of period)	445000.00	250000.00	195000.00	Increased	Positive
Total number of loans disbursed (End of period)	48	28	20	Increased	Positive
Value of loans outstanding (End of period)	200996.00	131242.00	69754.00	Increased	Positive
Number of loans outstanding (End of period)	31	25	6	Increased	Positive
Average outstanding balance of loans (End of period)	6483.74	5249.68	1234.06	Increased	Positive
Value of payments in arrears (End of period)	3426.00	1814.00	1612.00	Increased	Negative
Value of outstanding balance of loans in arrears (End of period)	48969.00	4458.00	44511.00	Increased	Negative
Value of loans re-scheduled (End of period)	0.00	0.00	0.00	No Change	Status Quo
Value of loans re-financed (End of period)	0.00	0.00	0.00	No Change	Status Quo
Value of loans written-off (End of period)	0.00	0.00	0.00	No Change	Status Quo
Average loan size	9270.83	8928.57	342.26	Increased	Positive
Average loan term (months)	10	10	0	No Change	Status Quo
Loan Loss Provision Amount	11590.50	3498.30	8092.30	Increased	Negative
Loan, (Principal) Amounts Key Indicators as on...	Report Date - 1/04/2003	Comparison Date - 1/04/2002	Change in Indicator	Direction of Change	Remarks
Portfolio at Risk (PAR) > = 1 Day	24.36%	3.40%	20.96%	Increased	Negative
PAR Adjusted for Rescheduling, Refinancing and Write-offs	24.36%	3.40%	20.96%	Increased	Negative
PAR > 30 Days	17.74%	3.40%	14.34%	Increased	Negative
PAR > 60 Days	1.18%	3.40%	-2.22%	Decreased	Positive
PAR > 90 Days	1.18%	3.40%	-2.22%	Decreased	Positive
PAR > 180 Days	0.31%	0.79%	-0.48%	Decreased	Positive
Loan Loss Provision Ratio	5.77%	2.67%	3.10%	Increased	Negative
On-Time Repayment Rate	85.13%	79.25%	5.88%	Decreased	Negative
Cumulative Repayment Rate	97.73%	97.81%	-0.08%	Decreased	Negative
Arrears Rate	1.70%	1.38%	0.32%	Increased	Negative

Figure 2 - Flow Chart For Generating The Portfolio Report

PORTFOLIO REPORT AND COMPARATIVE PORTFOLIO REPORT	
STEP	FILLING THE FORMAT AND INTERPRETING IT
1.	↑ Prepare the Basic Loan Repayment Format for each Loan.
2.	↑ Complete Loan Repayment Format for each Loan.
3.	↑ Calculate Accurate Age for each Individual Loan
4.	↑ Prepare Aggregated Loan Repayment format for all Loans.
5.	↑ Categorize Loans according to Age and Risk.
6.	↑ Prepare Loan Loss Provision Table.
7.	↑ Calculate PAR, PIA, CRR, OTRR and Aged PAR indicators.
8.	↑ Fill out other basic information required as per Column's given above in the portfolio report.
9.	↑ Interpret the individual Portfolio Report formats
10.	↑ Compare portfolio report formats on 2 or more pre-specified dates.
11.	↑ Interpret Comparative Portfolio Report formats
12.	↑ This will assist in isolating risky loans by use of the age of their over dues and also calculate the amount of loan loss provisions required, to off set the risk.
13.	↑ This will also help to get an overall picture of Portfolio, Quality, as well as understand trends in Portfolio quality specifically, LLPR, PAR, AGED PAR and PIA, which should show a decreasing trend while CRR and OTRR should show an increasing trend.

ANNEX 2 - ASSET QUALITY INDICATORS

1. This group of ratios are very crucial because the “portfolio” is the primary income generating asset of a micro-finance institution (MFI or CDFI)
 2. The risk that some of the loans will not earn revenue and may not be paid back (at all) is very real and must be anticipated
 3. Hence, management of this risk is critical because it impacts the very viability of the micro-credit operation
 4. Therefore, timely and periodic monitoring of this group of ratios should enable MFIs to detect delinquency, which, in the long-term, could de-capitalise the MFI and put the entire micro-finance operations in jeopardy
- Portfolio at Risk/Aged Portfolio at Risk (Pessimistic Measure of Delinquency)
 - Arrears Rate⁵ (Optimistic Measure of Delinquency)
 - Loan Loss Provision Ratio
 - Loan Loss Ratio

Apart from the above asset quality ratios, there are the traditionally used Repayment Rates (On-Time Repayment Rate, Cumulative Repayment Rate, and Current Repayment Rate). They are not genuine measures of portfolio quality.

Statement / Reports Required For Asset Quality Indicators

Statement/ Reports/Records	Requirements
Portfolio Report with Ageing Analysis	Yes, this alone is required and sufficient. But, the ageing of loans must be done in an accurate manner.
Balance Sheet	Could be used if appropriately structured, especially to include information on past due and restructured loans
Income Statement	Some information is useful, especially with regard to loan loss provisions
Loan Ledger (Individual)	Yes, required and very important

⁵ This is not a healthy indicator but is often required for statutory reporting

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
PORTFOLIO AT RISK (AQI)	Sum of Unpaid Principal Balance of All Loans with Payments Past Due (1 to 365 Days and more)	A decreasing Portfolio at Risk is positive but this trend can be misleading because a lower ratio can be obtained by simply increasing the denominator.	➤	➤ PAR attempts to measure the default risk in a portfolio by using past as well as future data	➤ Loan ledger with disbursement date, installment schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues (please refer to technical appendix on ageing for determining age of the portfolio) Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple ageing table report or comprehensive portfolio report (please refer to technical appendix on financial statements for description of portfolio report) Step 3: Using either of these reports, sum the	Rescheduling	Decreases Numerator	No Impact on Denominator	☞ Reduces the whole PAR Ratio, while default risk still exists
	Total Gross Outstanding Loan Portfolio (Sum of Principal Outstanding of All Loans)	In other words, sudden and large disbursements of loans could mask the actual delinquency risk.	➤	➤ Its estimation is based on the key question that, if all delinquent borrowers are to completely default, then how much (money) would the MFI stand to lose?	➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a		Refinancing	Decreases Numerator, assuming overdue amounts are rescheduled	Increases denominator, if additional amounts are given to same client	☞ Reduces the whole PAR Ratio, while default risk still exists
	Global Standard =	Alternatively, in a	➤	➤ From this perspective,			Write-offs	Decreases Numerator	Decreases Denominator	☞ Reduces the whole PAR Ratio, while default

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
		growing MFI that is fast expanding in terms of loan disbursements, the same limitation applies. Adjustment will name to be made accordingly to get a correct rate of PAR		Portfolio at Risk (PAR) provides a pessimistic estimate of the default risk in an MFIs portfolio	simple ageing table or comprehensive portfolio report	unpaid principal balance of all loans with payments past due (or overdue or arrears) and divide it by the Total Gross Outstanding Portfolio (which is the sum of the outstanding principal amounts of all loans). This is the Total Portfolio at Risk or PAR ≥ 1 Day (The procedure for this, with examples is outlined in the above referred technical appendix) Step 4: Arrive at the Portfolio at Risk (PAR) for past due loans with different ages as outlined below. PAR is usually calculated for several categories ☞ $PAR > 1 \text{ Day} =$				risk still exists
							Fresh Loan Disbursements for which repayments are yet to begin (including those with a long grace/moratorium period)	No Impact on Numerator	Increases Denominator	☞ Reduces the whole PAR Ratio, while default risk still exists
							Incorrect ageing of past dues, based on the installment method of ageing (Please see Technical Annex on Ageing)	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability
							Sequence of	Decreases	Decreases	☞ Reduces

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
						<i>Sum of PAR 1-30 Days + ... PAR > 365 Days</i> ☞ <i>PAR > 30 Days = Sum of PAR 31-60 Days + ... PAR > 365 Days</i> ☞ <i>PAR > 60 Days = Sum of PAR 61-90 Days + ... PAR > 365 Days</i> ☞ <i>PAR > 90 Days = Sum of PAR 91-120 Days + ... PAR > 365 Days</i> ☞ <i>PAR > 180 Days = Sum of PAR 181-365 Days + PAR > 365 Days</i> ☞ <i>PAR > 365 Days = Sum of PAR > 365 Days</i>	payments, Principal first and interest next	the numerator	es the denominator as well	the whole PAR Ratio, while default risk still exists ☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability and through reduction of interest payments (yield)
							Weekly Repayments	No Impact on	No Impact	☞ Distorts the age

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
								Numerator	on Denominator	of past dues (over dues) and affects provisioning, reserve and sustainability Here, PAR > 30 days will have to interpreted differently as for a loan with weekly repayments, it means that at least 4 installments have

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
										become past due and are at risk. This is very different from the conventional PAR > 30 days used for loans with monthly repayments
							Balloon Repayment, as in case of agriculture loans (> 90 Days or equal to a quarter)	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
										sustainability ☞ Here, PAR > 30 Days, > 60 Days, > 90 Days etc may have to redefined and interpreted accordingly
ARREARS RATE (AQI)	Sum of Arrears (Principal Over Due) Amounts of All (Past Due) Loans Total Gross Outstanding		➤	➤ It estimates default risk in a portfolio by taking into account the actual past dues in a portfolio – i.e., how much of the total outstanding	➤ Loan ledger with disbursement, schedule and repayment data on each individual loan backed-up a comprehensive credit policy	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple	Rescheduling	Decreases Numerator	No Impact on Denominator	☞ Reduces the whole Ratio, while default risk still exists
			➤				Refinancing	Decreases Numerator, assuming overdue amounts are reschedule	Increases denominator, if additional amounts are given to same client	☞ Reduces the whole Ratio, while default risk still exists

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
	g Loan Portfolio (Sum of Principal Outstanding of All Loans) Global Standard =		➤	portfolio is over due or in arrears ➤ In many ways, Arrears Rate is an optimistic estimate of the default risk ➤ Its major limitation stems from the fact that it assumes that the world of tomorrow will be the same as today – i.e., at the maximum, the over dues (or arrears) that exist today will	outlining various terms and conditions ➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a simple ageing table or comprehensive portfolio report	ageing table report or comprehensive portfolio report Step 3: Using either of these reports, sum the arrears or over due amounts of all past due loans and divide it by the Total Gross Outstanding Portfolio (which is the sum of the outstanding principal amounts of all loans). This is the Total Arrears Rate or Portfolio in Arrears Step 4: If required, Arrears Rate (AR) can also be calculated for several age categories as shown below ☞ AR > = 1 Day $= \frac{\text{Sum of AR 1-30 Days} + \dots + \text{AR > 365 Days}}{\text{Days}}$	Write-offs Fresh Loan Disbursements for which repayments are yet to begin (including those with a long grace/moratorium period) Incorrect ageing of past dues, based on the installme	d Decreases Numerator No Impact on Numerator No Impact on Numerator	Decreases Denominator Increases Denominator No Impact on Denominator	☞ Reduces the whole Ratio, while default risk still exists ☞ Reduces the whole Ratio, while default risk still exists ☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

TABLE 11 KEY INDICATORS FOR CREDIT PORTFOLIO MANAGEMENT											
Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?				
				manifest themselves tomorrow and hence, measuring actual over dues provides an estimate of the default risk in a portfolio		☞ AR > 30 Days = Sum of AR 31-60 Days+...AR > 365 Days ☞ AR > 60 Days = Sum of AR 61-90 Days+...AR > 365 Days ☞ AR > 90 Days = Sum of AR 91-120 Days+ ...AR >365 Days ☞ AR > 180 Days = Sum of AR 181-365 Days+ AR >365 Days ☞ AR > 365 Days⁶ =Sum of AR > 365 Days	nt method of ageing				
							Sequenc e of payment s, Principal first and interest next	Decreases the numerator	Decreases the Denomina tor	☞ Reduces the whole Ratio, while default risk exists ☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability directly and through reduction of interest payments (yield)	
							Weekly Repaym ents	No Impact on Numerato r	No Impact on Denomina tor	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability ☞ Here, Arrears Rate > 30 days	

⁶ This is PAR > 1 Year

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
										will have to interpreted differently as for a loan with weekly repayments, means that at least 4 installments have been past due and are at risk. This is very different from the conventional Arrears Rate > 30 days used for loans with monthly repayments
							Balloon Repayments, as in case of agriculture loans (> 90 Days or quarter)	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of dues (over dues) and affects provisioning, reserve and sustainability ☞ Here, Arrears Rate > 30 Days, > 90 Days etc may have to be redefined and interpreted

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
										accordingly
LOAN LOSS RESERVE RATIO (AQI)	$\frac{\text{Total Loan Loss Reserve Amount}}{\text{Total Gross Outstanding Loan Portfolio (Sum of Principal Outstanding of All Loans)}} = \text{Global Standard}$	A decreasing Loan Loss Reserve Ratio is Positive but keeping the ratio tailored to the actual portfolio quality is the most crucial aspect. This ratio is also vulnerable to large and sudden increases in loan disbursements.	➤ Loan Loss Reserve Ratio (also called as “LLR” Ratio) is a percentage (%) ➤ It reflects accumulated provision expenses (minus write-offs) and gives an indication of management’s expectation of future loan losses. ➤ Generally speaking,	➤ LLR Ratio attempts to pragmatically enable the MFI to counter the default risk in a portfolio by using past as well as future data and assigning probabilities for likely future losses ➤ Its estimation is based on the key question that, given a category of past due loans and its	➤ Loan ledger with disbursement, schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions ➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a simple	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple ageing table report or comprehensive portfolio report as on date Step 3: Probability assignment of likely losses (called as provisioning %), based on the age category of a past due loan, could be based on MFI/Industry historical data and/or best practices	Rescheduling	Decreases Numerator	No Impact on Denominator	☞ Reduces the loan loss reserve and LLR ratio, while default risk still exists
							Refinancing	Decreases Numerator, assuming overdue amounts are rescheduled	Increases denominator, if additional amounts are given to same client	☞ Reduces the loan loss reserve and LLR ratio, while default risk still exists
							Periodic Write-offs	Decreases Numerator	Decreases Denominator	☞ Reduces the loan loss reserve and LLR ratio, while default risk still exists
							Fresh Loan Disbursements for which repayment	No Impact on Numerator	Increases Denominator	☞ Reduces the LLR ratio, while default risk still exists

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
			it is a rough indicator of the overall quality of the portfolio and it represents the “loan loss reserve amounts maintained by an MFI to offset the default risk in its total (outstanding) loan portfolio”	associated likely probabilistic losses due to delinquency, how much (money) would have to be maintained as a (loan loss) reserve to offset this future loss? ➤ From this perspective, LLR provides a pragmatic estimate of the default risk in an MFI’s portfolio and provides guidance to	ageing table or comprehensive portfolio report	Step 4: Using either of these reports, sum the loan loss provision amounts (which equals unpaid principal balance for a past due loan category x probabilistic provision %) for all categories of past due loans. This gives the Total Loan Loss Provision Amount for the period (usually a year) Step 5: Then do the following mathematical calculation to get the Total Loan Loss Reserve, as on date Existing Loan Loss Reserve (from Balance Sheet) – Opening Balance + Total Loan Loss	nts are yet to begin (including those with a long grace/moratorium period)			
							Incorrect ageing of past dues, based on the installment method of ageing	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability ☞ Reduces the loan loss reserve and LLR ratio, while default risk still exists
							Sequence of payments, Principal first and interest	Decreases the numerator	Decreases the Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
				MFIs on how to counter these potential (likely) losses. ➤ Based on the historical default rate or best practices, the Reserve Ratio indicates what percentage of the loans outstanding is expected to be unrecoverable. ➤ Prudent financial management and full disclosure		Provision Expense for Period (Calculated Above) - Loan Write-offs = Total Loan Loss Reserve (as on date) – Closing Balance Step 6: Then, divide the above arrived at Total Loan Loss Reserve by the Total Gross Outstanding Portfolio (as on date) to get the Loan Loss Reserve Ratio	next			and through reduction of interest payments (yield) ☞ Reduces the loan reserve and LLR ratio, while default risk still exists
							Weekly Repayments	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability ☞ Here, PAR > 30 days will have to be interpreted differently as for a loan with weekly repayments, it means that at least 4 installments have become past due and are at risk. This is very different from the conventional PAR

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
				would imply that this figure should reflect the maximum projected unrecoverable loans. ➤ Calculating the reserve ratio requires the presence of an effective MIS, especially for large MFIs - manually doing the aging analysis required for calculating the reserve ratio could well turn out very						30 days used for loans with monthly repayments. The probabilistic provisioning assignments may also have to change as do the age categories
							Balloon Repayments, as in case of agriculture loans (> 90 Days or equal to a quarter)	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects provisioning, reserve and sustainability ☞ Here, PAR > 30 Days, > 60 Days, 90 Days etc may have to be redefined and The probabilistic provisioning assignments may also have to change as do the age categories

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT										
Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
				tedious.						
LOAN LOSS RATIO (AQI)	Amount Written-Off during period ----- Average Outstanding Loan Portfolio Global Standard =	A decreasing Loan Loss Ratio is positive but keeping this to low levels is very crucial, especially from a long-term perspective.	➤ Loan Loss Ratio is a percentage (%) ➤ This ratio represents the proportion of loans that the institution has removed from its books because of a serious	➤ It represents the “actual loan amounts written-off as a % of the average outstanding loan portfolio” ➤ Write-offs are loan amounts written off during the period in	➤ Loan ledger with disbursement , schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate the loan repayments schedules for all loans and summarize these in the form of a simple ageing table report or comprehensive portfolio report and this should be for a	Rescheduling, Refinancing,	No Impact on Numerator	No Impact on Denominator	☞ Falsely reduce the age of the overdues and thereby may prevent write-offs (of uncollectable loans) when required
							Refinancing	No Impact on Numerator	Increases denominator	☞ Reduces the ratio in % terms
							Fresh Loan Disbursements for	No Impact on Numerator	Increases Denominator	☞ Reduces the ratio in % terms

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?			
			doubt with regard to their recovery. ➤ When loans are written-off, the accounting entries reduce the gross outstanding portfolio and loan loss reserve. ➤ So, unless, an MFI is under reserved, the transaction will not affect total assets, net loan portfolio, expenses	question for which the ratio is being calculated. ➤ Average loan outstanding is calculated based on actual loan amounts outstanding using several data points within the period ➤ It reflects actual loan write-offs during a period and is an important measure of MFI	➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a simple ageing table or comprehensive portfolio report ➤ Key financial statements like the Balance Sheet and Income Statement, appropriately constructed	period (in most cases, a year). Step 3: Using either of these reports, sum the loan loss provision amounts (which equals unpaid principal balance for a past due loan category x probabilistic provision %) for all categories of past due loans. This gives the Total Loan Loss Provision Amount for the period (usually a year) Step 4: Then do the following calculation to get the Loan Write-Offs during the period Existing Loan Loss Reserve (from Balance Sheet) – Opening Balance +	which repayments are yet to begin (including those with a long grace/moratorium period) Incorrect ageing of past dues, based on the installment method of ageing	No Impact on Numerator	No Impact on Denominator	☞ Distorts the age of past dues (over dues) and affects actual write-offs (if required)

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
			or net income. If the loan loss reserve is inadequate to cover the amount written off, an additional provision expense will have to be generated ➤ Write-offs have no bearing whatsoever on collection efforts or on the client's obligation to repay, which	management's ability to tackle delinquency, especially from a long-term perspective ➤ Generally speaking, it is a rough indicator of the overall quality of an MFI's loan portfolio ➤ Some institutions will undertake aggressive write-offs to sanitize their portfolios. They will then show a low		Total Loan Loss Provision Expense for Period (Calculated Above) - Total Loan Loss Reserve (from Balance Sheet) – Closing Balance = Loan Write-offs (During the Period) Step 5: Calculate the average outstanding portfolio during the period (for instance, a year) using the following procedure: Divide the period (year) into appropriate sub-periods – for example, a year could be divided into 12 sub-periods of a month each Take the actual loans	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
			continue.	Portfolio at Risk and only the Write-Off Ratio will allow an analyst to detect that this improvement is more apparent than real. ➤ The Write-Off Ratio is therefore better understood in the context of the Portfolio at risk of an institution, In fact, its main purpose is to serve as a control		outstanding at the beginning of the period Add to this the sum of loans outstanding at the end of each sub-period (i.e., month) Then compute Average Loan Outstanding as follows Average Loan Outstanding (During Period) = $B + E1 + E2 + E3 + \dots + E12$ 13 Step 6: Divide Loan Write Offs during period by Average Loans Outstanding to get the Loan Loss Ratio	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
				indicator that will allow better understanding of Portfolio at Risk			
CUMULATIVE REPAYMENT RATE (AQI)	$\frac{\text{Total amounts paid so far by Clients} - \text{Prepayments}}{\text{Total amounts due from Clients till date}} \times 100$ Global Standard =	An increasing Cumulative Repayment Rate is positive	Total amount paid so far by clients minus prepayment as a proportion of the total amount due from the clients till date	➤ Cumulative repayment rate helps get a sense of a repayment performance over a long period of time. ➤ Ceteris paribus, institutions that have a good track record of repayment over a large number of years, have certainly demonstrate	➤ Loan ledger with disbursement, schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions ➤ Aggregation of the loan ledger data with regard to	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple table as given in the (technical appendix for determining age of the portfolio) Step 3: Sum the total principal amounts paid so far by clients	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
				d a consistency in their ability to manage their loan effectively. ➤ It is a simple percentage (%)	delinquent and current loans – either a simple ageing table or comprehensive portfolio report ➤ Key financial statements like the Balance Sheet and Income Statement, appropriately constructed	Step 4: Sum the prepayments, if any made by them so far. Prepayment would have occurred if the total amount paid by the client exceeds the total amount due from the client Step 5: Sum the total amounts due from the client till date (today or date of aggregation etc) Step 6: Then do the following calculation to get the Cumulative Repayment Rate Total amounts paid so far by Clients – Prepayments x 100 Total amounts due from Clients till date	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
ON-TIME REPAYMENT RATE (OTRR) (AQI)	$\frac{\text{Total Amounts paid as per schedule by Clients} - \text{Prepayments}}{\text{Total Amounts Due from Clients till date as per schedule}} \times 100$ ----- Global Standard =	An increasing On-Time Repayment Rate is positive	Client repayment made on-time minus prepayment as a proportion of amount due from client (as per schedule)	➤ On-time repayment is a measure of credit discipline and it helps in cash flow management. ➤ The better the on-time repayment rate, the lower the postponement of interest income, the greater the efficiency of portfolio rotation and other aspects, ceteris paribus. ➤ It is a	➤ Loan ledger with disbursement, schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions ➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a simple	Step 1: Create a loan repayment schedule, identify whether the loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple table as given in the (please refer to technical appendix for determining age of the portfolio) Step 3: Sum the total principal amounts paid as per schedule till date by clients Step 4: Sum the prepayments, if any made by them so far.	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
				simple percentage (%)	ageing table or comprehensive portfolio report ➤ Key financial statements like the Balance Sheet and Income Statement, appropriately constructed	Prepayment would have occurred if the total amount paid by the client exceeds the amount due from the client Step 5: Sum the total amounts due from the client till date (today or reference date) Step 6: Then do the following calculation to get the On-Time Repayment Rate Total Amounts paid as per schedule by Clients – Prepayments x 100 ----- Total Amounts Due from Clients till date	
CURRENT PERIOD	Total Amount	An increasing Current	The proportion of client repayments in	➤ Current period repayment	➤ Loan ledger with disbursement	Step 1: Create a loan repayment schedule, identify whether the	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
D REPAY MENT RATE (AQI)	Received during period – Prepayments x 100 ----- Total Amount Due (to be collected during period) Global Standard =	Repayment Rate is positive	current period minus prepayment as a proportion of all amount due from client in current period	rate helps in understanding the behavior of clients and performance of the institution in the on-going period. ➤ This can especially be useful when the institution has several years of micro-finance experience and a large overall disbursement, which can usually camouflage 'poor' performance	, schedule and repayment data on each individual loan backed-up a comprehensive credit policy outlining various terms and conditions ➤ Aggregation of the loan ledger data with regard to delinquent and current loans – either a simple ageing table or comprehensive portfolio	loan is delinquent and age the loan in days with regard to past dues Step 2: Aggregate loan repayments schedules for all loans and summarize these in the form of a simple table as given in the (please refer to technical appendix for determining age of the portfolio) Step 3: Define the current period for calculating the repayment rates Step 4: Sum the total principal amounts paid so far by clients in current period Step 5: Sum the prepayments, if any made by them so far.	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
				e in the current period. ➤ In other words, an excellent repayment track record in the past can shroud current poor repayment performance, especially if the volume of money lent in the current period is quite small in comparison to that lent cumulatively. Having the current period repayment	report ➤ Key financial statements like the Balance Sheet and Income Statement, appropriately constructed	Prepayment would have occurred if the total amount paid by the client exceeds the amount due from the client Step 6: Sum the total amounts due from the client till date in the current period (today or date of aggregation etc) Step 7: Then do the following calculation to get the Current Repayment Rate Total amounts paid by Clients in Current Period – Prepayments x 100% ----- Total amounts due* from Clients in Current Period	

TABLE 2.1 - KEY INDICATORS FOR LOAN PORTFOLIO ASSESSMENT

Name of the Ratio	Formula	Trend	Ratio Simple Definition	What the Ratio Measures?	What minimum records are required for calculating the ratio?	How to calculate the ratio?	What events/activities affect (distort) the ratio? Impact on Numerator? Impact on denominator? How they affect the Ratio?
				rate is useful in such cases.			

ANNEX 3 – HOW TO AGE A LOAN PORTFOLIO AND CALCULATE PORTFOLIO QUALITY INDICATORS?

Step 1 Using the loan policy and business rules please clearly identify the following for each and every (outstanding) loan:

- ⇒ Loan Amount Disbursed
- ⇒ Number of Installments
- ⇒ Frequency of Installments
- ⇒ Interest Rate (Annual)
- ⇒ Interest Computation Method
- ⇒ Repayment Assumptions (including grace/moratorium period, whether equal installments for principal are there etc)

Step 2 Using the above fill out the Principal and Interest Amounts Due with Dates Due for each installment of every loan.

Step 3 Write down the total amounts paid by clients along with dates of payments (these are transactions of repayments made by clients)

Step 4 Calculate interest due as per payment date for each installment. If due date of installment and payment date are one and the same then interest due as per payment date will be the same as interest due as per schedule. Otherwise it will differ. This is a very crucial aspect that should not be ignored

Step 5 Once the transaction amounts are available allocate or distribute these total amounts as per the following norms

- ⇒ 1st towards Fines/penalties (1st),
- ⇒ 2nd towards Interest Overdue (2nd)
- ⇒ 3rd towards Interest Due if it is actually due on the date of payment (3rd)
- ⇒ 4th towards Principal Overdue (4th)
- ⇒ 5th towards Principal (5th)

If there are no fines, it will first go towards Interest Overdue, then Interest Due if it is actually due on that date, then Principal Overdue and Last towards Principal

Step 6 Now at end of each installment check whether total amount paid = Fines Paid + Interest O/D Paid + Interest Paid + Principle O/D Paid + Principle Paid

Step 7 At end of each installment also get the following totals

- ⇒ Principle Outstanding,
- ⇒ Principle Overdue,
- ⇒ Interest Overdue
- ⇒ Principle Paid
- ⇒ Interest Paid
- ⇒ Fines Paid, and
- ⇒ Prepayments

Prepayments will occur when a client makes payment in excess of principal + interest due (including over dues) plus fines to be paid till that installment

Step 8 Check if Principle or Interest O/D > 0 and if so then determine age of the over due loan as of a particular date or installment.

Step 9 To calculate age as at end of any installment check for unpaid over dues (principle or interest) and also ascertain when they occurred.

Step 10 Age at end of installment can be calculated as follows

Age of Overdue Loan

= Date at which Age is being Calculated (i.e., today or date at end of installment)

– (Minus)

Date at which earliest UNPAID Overdue occurred

= “Y” Days.

Here unpaid is as of the reference date of calculating the age.

Step 11 Then categorize loans as per age as given below. This would lead to a loan loss provision table given later

- ⇒ Current Loans (**Loans with No Over Dues**)
- ⇒ Loans $\leq$ **30 Days Past Due**
- ⇒ Loans between **31-60 Days Past Due**
- ⇒ Loans between **61-90 Days Past Due**
- ⇒ Loans between **91-120 Days Past Due**
- ⇒ Loans between **121-180 Days Past Due**
- ⇒ Loans between **181- 365 Days Past Due**
- ⇒ Loans $>$ **365 Days Past Due**

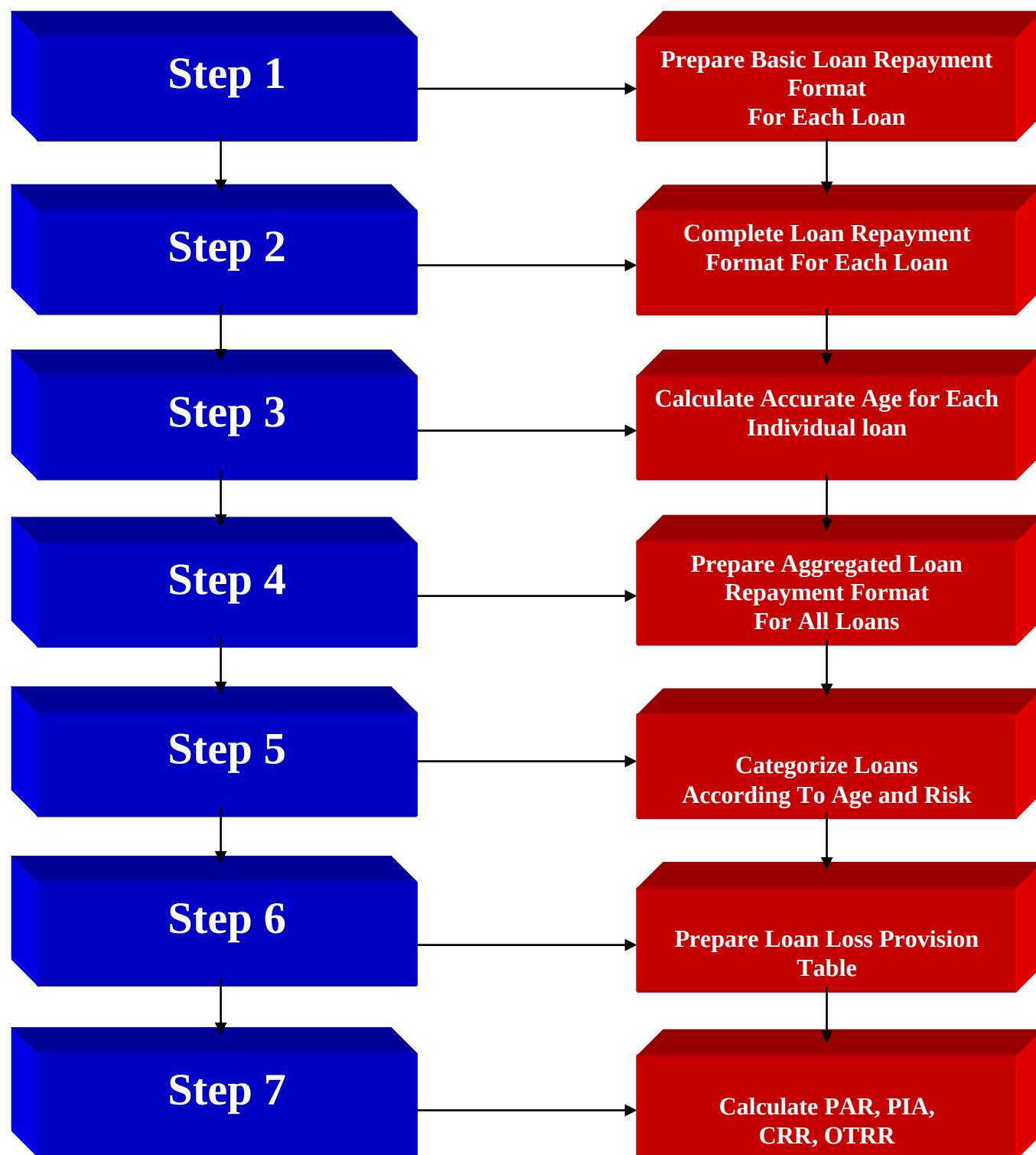
Step 12 **Calculating Portfolio Quality Indicators**

Calculate Portfolio at Risk (PAR), Portfolio in Arrears (PIA) and Aged Portfolio at Risk (Aged PAR) using the loan loss provision table or aggregated loan repayment format.

Cumulative Repayment Rate (CRR) and On-Time Repayment Rate (OTRR) can be calculated for each loan from the individual loan repayment formats or for the entire portfolio from the aggregated loan repayment format

These steps are diagramed in Figure 3.1

FIGURE 3.1 - CALCULATING PORTFOLIO QUALITY INDICATORS



¹ **PAR** - Portfolio at Risk
PIA - Portfolio in Arrears

CRR - Cumulative Repayment Rate
OTRR - On-Time Repayment Rate

3.1 Ageing of Loans, Example Using the Correct Methodological Approach

Assumptions for Example 1

Loan Amount to Client A	1000
Disbursement Date	31/07/2002
Number of Installments	10
Frequency of Installment	Monthly
Interest	18%
Months in a Year	12
Method of Interest Calculation	Declining Balance

- ⇒ 1000 units of currency were disbursed to **Client A on 31/07/2002 (July 31st 2002)**
- ⇒ The loan amount (Principal or Prin.) is payable in 10 monthly equal installments along with interest levied at 18% on the declining loan balance, calculated on a monthly basis.
- ⇒ However, interest is calculated on a daily basis when payments for installments are made a few days late to account for the late days.
- ⇒ The 1st installment falls due on the last day of the succeeding month – here the loan was disbursed on 31st of July 2002 and thus, the 1st installment falls due on 31st of August 2002. Subsequent installments fall due on the last day of succeeding months
- ⇒ Accordingly, Client A's Loan Installment Schedule is as shown in Table 1 below

Table – 3.1 Client A's Loan Installment Schedule			
I	II	III	IV
Installment Number	Date Due	Prin Due as Per Schedule	Int Due as Per Schedule
1	31/08/2002	100	15.00
2	30/09/2002	100	13.50
3	31/10/2002	100	12.00
4	30/11/2002	100	10.50
5	31/12/2002	100	9.00
6	31/01/2003	100	7.50
7	28/02/2003	100	6.00
8	31/03/2003	100	4.50
9	30/04/2003	100	3.00
10	31/05/2003	100	1.50
All 10 Installments	NA	1000	82.50

Transactions made by Client A is given in Table 3.2 below

Table – 3.2 – Transactions by Clients	
S No of Installment	Amount Paid
1	115.00
2	113.50
3	112.00
4	110.50
5	109.00
6	107.50
7 onwards	No Payment

Now, as given above, assume that Client A makes a 1st payment of 115 (units of currency) on 31/08/2002, that is on the due date of the 1st installment. First, 15 (units of currency) will go towards interest amount due as per schedule while 100 will go towards prin. amount due as per schedule.

I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Installment Number	Date Due	Prin Due	Int Due as Per Schedule	Date Paid	Int Due as per payment date	Amount Paid	Int Paid	Prin Paid	Cum Prin Paid	Prin. Prepaid	Prin Outstanding
1	31/08/2002	100	15.00	31/08/2002	15.0	115.00	15.0	100.00	100.00	0	900.00

Interest due as per payment date is same as interest due as per instalment schedule because due and payment dates are same. If payment were made 1 day later than 31st of August 2002, then interest due would be higher. If Client A had made repayment on 1st of Sept. 2002, then interest payable would be approximately 15.50. This is a crucial aspect which should not and cannot be ignored.

Interest Paid of 15 units of currency

Prin Paid of 100 units of currency

Please Note: Some MFIs charge interest from day 1 but this depends on the orientation and policy of the MFI. Please note that this is merely an assumption, which can be changed as also repayment schedules and modes. What needs to be emphasized is the fact that this will apply equally to all situations wherein different assumptions are used.

What does the earlier Table show us?

- 1) If Paid Total Amount – Due Total Amount = 0, and
- 2) If Paid Date – Due Date = 0

Then, we safely conclude that the client has no over dues and also made 100% on-time repayment. If either of these conditions is not true, then, it would be safe to conclude that the client has not made 100% on-time repayment. An analysis of the over dues would make it clearer. This is done hereafter in the explanations of the various columns in the Loan repayment tables: **Table 2 below** and **Table 3 (page after that)**.

Table 3.3 - Columns and Explanations	
Column	Explanation
Column I	Installment number, which is from 1 to 10, as the loan is given for 10 installments
Column II	Date on which installment is due, which is the last date of the month as per credit policy. For 1 st installment alone, as per credit policy, the due date is the last day of the month succeeding the month of loan disbursement. Here, the loan was disbursed in July 2002 and hence, due date for 1 st installment is 31 st August 2002
Column III	Prin. Due per installment, which is 1000 units of currency (loan disbursed) divided by 10 equal monthly installments for repayment, which is 100
Column IV	Interest due if the client pays as per schedule, which is $(1000 \times 18)/(100 \times 12) = 180/12 = 15$ for 1 st installment; $(900 \times 18)/(100 \times 12) = 13.50$ and so on
Column V	Actual date when client makes (made) payment
Column VI	This is the interest due as per payment date. If the client pays 1 day later than the due date, the interest to be paid would be 15.50 for the 1 st installment
Column VII	Total amount actually paid by client, which will first go towards interest and the remaining will go towards prin. amounts and these are given in Column's VIII and IX
Column VIII	Actual Interest Paid
Column IX	Actual Prin. Paid
Column X	Cumulative Prin. Paid, which is sum of Prin. amounts, paid so far.
Column XI	Prin. Prepaid or any excess amount paid over and above the due (and overdue) amounts
Column XII	Prin. Outstanding, which is loan disbursed – cum prin. paid. At end of 1 st installment, this is $1000 - 100 = 900$
Overdue Definition⁷	Gives the OD processing date. In the case of the 1st installment, all amounts are due by 31/08/2002 and if not paid by that day, they become 'overdue amounts', the next day which is 1/09/2002 – this date is also called as the OD processing date. If there were an overdue for installment 1, then on 1/09/2002, the age of this over due would have been 1 day = $1/09/2002 - 31/08/2002 = 1$ day. Please refer to Installment 7, where overdues exist as client does not make payments by the due date, which is 28/02/2003. Thus, on 1/03/2003, the over dues have an age of 1 day.
Column XIV	For installment 7, on 1/03/2003, the interest OD is 6 which is arrived by subtracting interest due '6' from interest paid '0' = $6 - 0 = 6$
Column XV	Likewise , for installment 7, on 1/03/2003, the prin. OD is 100 which is arrived by subtracting prin. due '100' – prin. paid '0' = $100 - 0 = 100$

⁷Definition of Overdues is also crucial. When does a loan become overdue or pastdue is an aspect that must be clearly specified. It is suggested that the day after an amount is due, the amount if not paid becomes overdue. If on 30th April, 2003, an amount of Rs 100 is due and it is not paid, then, on 1st May 2003, this amount is in arrears or overdue

Column XVI	The actual age of the over dues after installment 7, specifically on 1/03/2003 is one day, which is arrived by subtracting 1/03/2003 (reference date for taking age) from 28/02/2003 (due date). At the end of installment 8, specifically on 1/04/2003, the actual age of the over dues are 1/04/2003 – 28/02/2003, which is 32 days because, interest of 6 and prin. 100 from installment 7 are still unpaid. Also, additionally, interest of 6 and prin. 100 from 8th installment has also become overdue with age of 1 day. However, while calculating the age of the loan, we will have to take the EARLIEST UNPAID OVERDUE into account, which occurred because the 7th installment was not paid on 28th February 2003 and which has still remained unpaid even on 1/04/2003
Column XVII	Shows whether the overdue has been settled or not. This, also helps to ensure that when the clients make payments, the money first goes towards interest overdue (1st), then interest due (if interest is due on that date as per schedule), then prin. over due and last towards prin due. In this case, even after the end of installment 10, specifically on 1/06/2003, it is clear that interest and prin. over dues from installment 7 are yet to be settled
Column XVIII	Shows prin overdue that was paid
Column XIX	Shows interest overdue that was paid

Thus, the loan repayment schedule can be filled out for all installments as per explanations and columns given earlier

Table 3.4 - Loan Repayment Schedule with Declining Interest

I	II	III	IV	V	VI	VII	VII I	IX	X	XI	XII	XIII	XIV	XV	XVI	XVII	XVIII	XIX
Instal lment Num ber	Date Due	Prin Due	Int Due as Per Sched ule	Date Paid	Int Due as per payment date	Amount Paid	Int Paid	Prin Paid	Cum Prin Paid	Prin. Prepa id	Prin Outsta nding	OD Process Date	Cum. Interes t OD	Cum. Prin OD	Age of OD (Actua l)	OD Settled	Prin O/D Paid	Int O/D Paid
1	31/08/2002	100	15.00	31/08/2002	15.0	115.00	15.0	100.00	100.00	0	900.00	1/09/2002	0.00	0.00	0	No OD	0	0
2	30/09/2002	100	13.50	30/09/2002	13.5	113.50	13.5	100.00	200.00	0	800.00	1/10/2002	0.00	0.00	0	No OD	0	0
3	31/10/2002	100	12.00	31/10/2002	12.0	112.00	12.0	100.00	300.00	0	700.00	1/11/2002	0.00	0.00	0	No OD	0	0
4	30/11/2002	100	10.50	30/11/2002	10.5	110.50	10.5	100.00	400.00	0	600.00	1/12/2002	0.00	0.00	0	No OD	0	0
5	31/12/2002	100	9.00	31/12/2002	9.0	109.00	9.0	100.00	500.00	0	500.00	1/01/2003	0.00	0.00	0	No OD	0	0
6	31/01/2003	100	7.50	31/01/2003	7.5	107.50	7.5	100.00	600.00	0	400.00	1/02/2003	0.00	0.00	0	No OD	0	0
7	28/02/2003	100	6.00	Not Paid	6.0	0.00	0.0	0.00	600.00	0	400.00	1/03/2003	6.00	100.00	1	OD Not Paid	0	0
8	31/03/2003	100	4.50	Not Paid	6.0	0.00	0.0	0.00	600.00	0	400.00	1/04/2003	12.00	200.00	32	OD Not Paid	0	0
9	30/04/2003	100	3.00	Not Paid	6.0	0.00	0.0	0.00	600.00	0	400.00	1/05/2003	18.00	300.00	62	OD Not Paid	0	0
10	31/05/2003	100	1.50	Not Paid	6.0	0.00	0.0	0.00	600.00	0	400.00	1/06/2003	24.00	400.00	93	OD Not Paid	0	0

Age at end of 9th installment as per accurate method of ageing

At the end of the 9th installment, specifically on 1/05/2003, the actual age of the loan is 62 days as Prin. of 100 and interest of 6 are still over due from installment 7. **The formula for calculating actual age is**
1/05/2003 – 28/02/2003 = 62 days.

Age at end of loan term as per accurate method of ageing

At the end of the loan term, specifically on 1/06/2003, the actual age of the loan is 93 days as Prin. of 100 and interest of 6 are still over due from installment 7. **The formula for calculating actual age is**
1/06/2003 – 28/02/2003 = 93 days.

Table – 3.5 Best Practices Ageing

Post Loan Term, we continue with the same loan example below. Let us assume that no payments are made by the client henceforth

Installment Number	Reference Date	Prin Due	Int Due as Per Schedule	Date Paid	Int Due as per payment date	Amount Paid	Int Paid	Prin Paid	Cum Prin Paid	Prin. Pre paid	Prin Outstanding	OD Process Date	Cum. Interest OD	Cum. Prin OD	Age of OD (Actual)	OD Settled	Prin O/D Paid	Int O/D Paid
Term Over	30/06/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/07/2003	30.00	400.00	123	OD Not Paid	0	0
Term Over	31/07/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/08/2003	36.00	400.00	154	OD Not Paid	0	0
Term Over	31/08/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/09/2003	42.00	400.00	185	OD Not Paid	0	0
Term Over	30/09/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/10/2003	48.00	400.00	215	OD Not Paid	0	0
Term Over	31/10/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/11/2003	54.00	400.00	246	OD Not Paid	0	0
Term Over	30/11/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/12/2003	60.00	400.00	276	OD Not Paid	0	0
Term Over	31/12/2003	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/01/2004	66.00	400.00	307	OD Not Paid	0	0
Term Over	31/01/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/02/2004	72.00	400.00	338	OD Not Paid	0	0
Term Over	29/02/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/03/2004	78.00	400.00	367	OD Not Paid	0	0
Term Over	31/03/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/04/2004	84.00	400.00	398	OD Not Paid	0	0
Term Over	30/04/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/05/2004	90.00	400.00	428	OD Not Paid	0	0
Term Over	31/05/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/06/2004	96.00	400.00	459	OD Not Paid	0	0
Term Over	30/06/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/07/2004	102.00	400.00	489	OD Not Paid	0	0
Term Over	31/07/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/08/2004	108.00	400.00	520	OD Not Paid	0	0
Term Over	31/08/2004	NA	NA	Not Paid	6.0	0	0.00	0.00	600.00	0	400.00	1/09/2004	114.00	400.00	551	OD Not Paid	0	0

Age at end of 31/03/2004 (as on 1/4/2004) as per accurate method of ageing	At the end of 31/03/2004, specifically on 1/04/2004, the actual age of the loan is 398 days as Prin. of 100 and interest of 6 are still over due from installment 7. The formula for calculating actual age is 1/04/2004 – 28/02/2003 = 398 days.
Age at end of 31/08/2004 (as on 1/9/2004) as per accurate method of ageing	At the end of 31/08/2004, specifically on 1/09/2004, the actual age of the loan is 551 days as Prin. of 100 and interest of 6 are still over due from installment 7. The formula for calculating actual age is 1/09/2004 – 28/02/2003 = 551 days.

Let us take another example and compute the age for the following loan at end of each installment till the 10th installment using above format. Also, let us calculate age one day after each installment due date and 1 day before each installment due date. Also, let us determine age of the loan 1 day, 1 month and 8 months after the loan term.

Date of Disbursement	30/09/2002
Loan Amount	10000
No of Installments	10
Interest, Reducing Balance	24%
Value /Inst	1000

The transactions made by the client are as follows

Installment Number	Total Amount Paid	Date Paid
1	80	31/10/2002
2	106	30/11/2002
3	3000	31/12/2002
4	35	31/01/2003
5	1050	28/02/2003
6	0	31/03/2003
7	2500	30/04/2003
8	1060	31/05/2003
9	1050	30/06/2003
10	1000	31/07/2003

Table – 3.6 Best Practices Ageing - Solution to Example 2

Description	Date	Total Amount Paid	Installment Number	Prin Due as per schedule	Int Due as per schedule	Date Due	Date Paid	Int Due as Per Payment Date	Total Paid	Prin Paid On-Time	Int. Paid On-Time	Prin Prepaid	Cum Prin O/D	Cum Interest O/D	Prin O/S	Prin O/D Paid	Int O/D Paid	Age as at End of Installment
Date of Installment	31/10/2002	80	1	1000	200	31/10/2002	31/10/2002	200	80	0	80	0	0	0	10000	0	0	0
Position the next day	1/11/2002	0							0	0	0	0	1000	120	10000	0	0	1
Position as on 1 Day before due date of 2nd Installment	29/11/2002	0							0	0	0	0	1000	120	10000	0	0	29
Date of Installment	30/11/2002	106	2	1000	180	30/11/2002	30/11/2002	200	106	0	0	0	1000	120	10000	0	106	30
Position the next day	01/12/2002								0	0	0	0	2000	214	10000	0	0	31
Position as on 1 Day before due date of 3rd Installment	30/12/2002								0	0	0	0	2000	214	10000	0	0	60
Date of Installment	31/12/2002	3000	3	1000	160	31/12/2002	31/12/2002	200	3000	586	200	0	0	0	7414	2000	214	0
Position the next day	01/01/2003								0	0	0	0	414	0	7414	0	0	1
Position as on 1 Day before due date of 4th Installment	30/01/2003								0	0	0	0	414	0	7414	0	0	30
Date of Installment	31/01/2003	35	4	1000	140	31/01/2003	31/01/2003	148	35	0	35		414	0	7414	0	0	31
Position the next day	01/02/2003								0	0	0	0	1414	113	7414	0	0	32

Position as on 1 Day before due date of 4th Installment	27/02/2003								0	0	0	0	1414	113	7414	0	0	58
Date of Installment	28/02/2003	1050	5	1000	120	28/02/2003	28/02/2003	148	1050	0	148	0	625	0	6625	789	113	28
Position the next day	01/03/2003								0	0	0	0	1625	0	6625	0	0	29
Position as on 1 Day before due date of 4th Installment	30/03/2003								0	0	0	0	1625	0	6625	0	0	58
Date of Installment	31/03/2003	0	6	1000	100	31/03/2003	31/03/2003	133	0	0	0	0	1625	133	6625	0	0	59
Position the next day	01/04/2003								0	0	0	0	2625	265	6625	0	0	60
Position as on 1 Day before due date of 4th Installment	29/04/2003								0	0	0	0	2625	265	6625	0	0	88
Date of Installment	30/04/2003	2500	7	1000	80	30/04/2003	30/04/2003	133	2500	0	133	0	391	0	4391	2235	133	30
Position the next day	01/05/2003								0	0	0	0	1391	0	4391	0	0	31
Position as on 1 Day before due date of 4th Installment	30/05/2003								0	0	0	0	1391	0	4391	0	0	60
Date of Installment	31/05/2003	1060	8	1000	60	31/05/2003	31/05/2003	88	1060	0	88	0	419	0	3419	972	0	31
Position the next day	01/06/2003								0	0	0	0	1419	0	3419	0	0	32
Position as on 1 Day before due date of 4th Installment	29/06/2003								0	0	0	0	1419	0	3419	0	0	60
Date of Installment	30/06/2003	1050	9	1000	40	30/06/2003	30/06/2003	68	1050	0	68	0	437	0	2437	982	0	30

Position the next day	01/07/2003								0	0	0	0	1437	0	2437	0	0	31
Position as on 1 Day before due date of 4th Installment	30/07/2003								0	0	0	0	1437	0	2437	0	0	60
Date of Installment	31/07/2003	1000	10	1000	20	31/07/2003	31/07/2003	49	1000	0	49	0	486	0	1486	951	0	31
Position the next day	01/08/2003							1	0	0	0	0	1486	1	1486	0	0	32
Position 1 month later	31/08/2003							30	0	0	0	0	1486	31	1486	0	0	62
Position as at	31/03/2004							208	0	0	0	0	1486	239	1486	0	0	275

Table – 3.7 Categorisation of Loans

Once we have aged each and every loan in the portfolio like as done above, it can be categorized as follows by the MIS for decision making and management of the portfolio

S.NO	STATUS OF LOAN	AMOUNT IN ARREARS	UNPAID PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PORTFOLIO AT RISK(PAR)	PROVISION RATE	PROVISION AMOUNT
1	CURRENT	0	14044904	7500	0.00%	0%	0
2	LOANS WITH PAST DUES < = 30 DAYS	95000	3889756	900	19.20%	10%	388975.6
3	LOANS WITH PAST DUES BETWEEN 31-60 DAYS	73000	1297365	120	6.40%	25%	324341.25
4	LOANS WITH PAST DUES BETWEEN 61-90 DAYS	43000	425375	45	2.10%	50%	212687.5
5	LOANS WITH PAST DUES BETWEEN 91-120 DAYS	16000	178394	32	0.88%	75%	133795.5
6	LOANS WITH PAST DUES BETWEEN 121-180 DAYS	14900	164206	16	0.81%	90%	147785.4
7	LOANS WITH PAST DUES BETWEEN 181-365 DAYS	25000	225000	7	1.11%	100%	225000
8	LOANS WITH PAST DUES > 365 DAYS	32000	32000	9	0.16%	100%	32000
9	TOTAL	298900	20257000	8629	30.67%	-	1464585.25
Provision Rate		7.23%					
Arrears Rate		1.48%					
PAR		30.67%					
PAR > 30 Days		11.46%					
PAR > 60 Days		5.06%					
PAR > 90 Days		2.96%					
PAR > 120 Days		2.08%					

Calculating the correct age is the basis for all portfolio quality indicators and the key to having a good MIS in micro-finance

To calculate the correct age of an overdue loan, the following steps are suggested

Step 1 Using business rules and credit policy prepare the loan repayment format (given in Table 3 earlier) in an accurate manner.

Step 2 For this proper and timely maintaining of adequate records is a must. Among other things the following are the minimum documents required:

- ⇒ Individual Loan Ledger
- ⇒ Aggregated Loan Ledger

Step 3 Also clearly state the loan terms especially with regard to:

- (a) Loan Disbursed Amount
- (b) Disbursement Date/Schedule
- (c) Loan Term in Number of Installments – 10, 20, 30 etc
- (d) Frequency of Repayment of Installment – Weekly, Monthly or otherwise
- (e) Due Date for 1st Installment – exactly 1 week or month from disbursement. Mention upfront any grace or moratorium period. Also, clarify in case of monthly repayment schedules, whether month end is considered as the due date
- (f) Disclose moratorium (Grace Period), if any. For example, many MFIs are using the following method. All loans disbursed in the previous months, will have their 1st installment due on the last day of the next month. That is, loans disbursed on 1st January 2002 and 21st January 2002 will have their first installment due on the last date of February 2002. This again must be clarified and specified as it has a significant impact on all calculations including ageing, portfolio quality, ratios and sustainability
- (g) Interest Rate and Method of Interest Calculation including fines, penal interest etc
- (h) Sequence of Payment – Which is to be taken first including interest overdues, interest, principal overdues and principal etc. The suggested sequence is Fines, Interest Overdues, Interest Due, Principal overdues and Principal

Step 4 Definition of Overdues is also crucial. When does a loan become overdue or pastdue is an aspect that must be clearly specified. It is suggested that the day after an amount is due the amount if not paid becomes overdue. If on 30th April 2003 an amount of Rs 100 is due and it is not paid then on 1st May 2003 this amount is in arrears or overdue (or past due)

Step 5 When overdues from several past installments exist while calculating age of the overdue it is important to take the date on which the earliest installment (among these several installments) first fell overdue.

Step 6 But this must be done only if amounts from that installment are still unpaid.

Step 7 If amounts from that installment have been paid then the next earliest installment for which unpaid overdues exist must be taken as the basis for calculating age.

Thus, the generic formula for calculating the age of an overdue loan as on any date is as follows

Reference Date of Calculation (Today or As On Date)

- (Minus)

Date of Earliest Installment with Unpaid Over Dues

= “Y” Number of Days of Age

3.2 WHY SHOULD THE INSTALLMENT METHOD OF AGEING NOT BE USED?

Example 2

Let us consider another example.

- ⇒ Let us assume that 1032 (**Prin. alone**) has not been paid by a client and part of it is overdue from August 1st 2001
- ⇒ The loan term ends on 31st January 2002
- ⇒ The value per (monthly) installment is 180 (**Prin. alone**)
- ⇒ The age of the overdue loan is often calculated as per formula below

Formula for Calculating the Age of the Overdue Loan

Age of Overdue Loan =	Prin. Overdue Amount
	Installment Amount

As per the above formula, the age, as at 1st February 2002, for the above loan is

Age of Overdue Loan (1 st February 2002) =	Prin. Overdue Amount	=	1032	=	5.96 Months
	Prin. Installment Amount		180		

This is absolutely correct, as 6 months intervene between 1st August 2001 and February 1st 2002 – August 2001

Further Assumptions

- ⇒ Now, let us now assume that we are on July 1st 2002.
- ⇒ Let us also assume that no further repayments have been made by the client – that is, not a single unit of currency has been paid back by the client

Recalculating the age of the overdue loan as on July 1st 2002

The age of this overdue loan, as per the (installment) above method of ageing calculation, is still 6 months – i.e., prin. overdue amount divided by value of installment (prin.) which is $1032/180 = 5.96$ months = 6 months

But the actual (correct) age is

6 months till loan term end

(Aug 01, Sept 01, Oct 01, Nov 01, Dec 01 and Jan 02)

+

5 months from February 1st 02 till July 1st 02 (Feb 02, Mar 02, Apr 02, May 02, and June 02)

or

11 months in all

So what is considered 180 days past due is actually 330 days past due, as shown above.

Thus, the incorrect method of ageing has an impact on the **REAL** ability of the MFI to actually collect money [the further the borrower is in terms of actual age of the overdue, the less likely for an MFI to get it back]. Also, it distorts provisioning, income and finally, sustainability.

In fact, after a loan is past its scheduled loan term, if this incorrect method of ageing is used, Portfolio at Risk (PAR) by Age will always be under reported⁸

Implications

Consider that there are several loans that are actually more than 330 days past due. While individually they may constitute a small percentage and contribute accordingly to PAR, cumulatively, as a large number of such loans exist, their impact on PAR would be significant. And this becomes even more serious when their age is distorted and PAR by age is used as a standard. This aspect is highlighted sequentially.

⁸**The converse is also true – for loans within the loan term, the installment method of ageing would always over report age. Only at the end of the loan term (near about), would the installment method of ageing give the correct (accurate) age.** In our example, this is age as at Jan 31st 2002 where the actual age is the same as the age as calculated through the installment method of ageing.

Example 3**Consider another example...**

- ☞ The loan term finishes on January 31st 2002
- ☞ The amount of prin overdue is 400 (part of which is overdue since December 1st 2001)
- ☞ The prin amount per (monthly) installment is 200
- ☞ The age as per the installment method, as at February 1st 2002 is
= 400 divided by 200 = 2.0 months

As noted earlier, this is correct.

- ☞ Now, assume that we are on June 1st 2002.
- ☞ The age as per the installment ageing formula is still 2 months (assuming that the client has not paid back any further amounts)
- ☞ This age of 2 months is however not correct as demonstrated earlier and also as shown in the discussion hereafter

2 months from Dec 1st 01 till end of loan term (31st of Jan 2003)

- + Whole of February 02
 - + Whole of March 02
 - + Whole of April 02
 - + Whole of May 02
- = 6 months**

Now, assume that PAR > 60 Days is used as a standard or a benchmark. Thus, if the ageing done by the MFI is based on the installment (incorrect) method, such loans as the one above, which are actually 6 months past due **WILL never** come into the fold of PAR > 60 Days.

And if there are a large number of such loans, because of the erroneous method of ageing, the reported PAR values will also portray an incorrect picture and hence, the standard of using PAR based on age would also become ineffective.

This has implications for provisioning, income recognition and sustainability apart from mere portfolio management. These aspects are highlighted below in sequential fashion.

3.3 IMPACT ON PROVISIONING, WRITE-OFFS, INCOME RECOGNITION AND SUSTAINABILITY

Example 4

Using data from the examples I, II and III, let us assume the following about a small MFIs portfolio

- ⇒ We are at a specific date and would like to age the MFI's portfolio as on this date
- ⇒ There are 122 outstanding loans of which 72 are current (with no overdues).
- ⇒ Of the remaining 50 loans, as per the accurate method of ageing, 10 are like in the category of example 1 whereby they are actually 551 days past due whereas the incorrect installment method says that they are only 120 days past due
- ⇒ Likewise, 10 loans are in the category of example 2, whereby they are actually 330 days past due whereas according to the erroneous installment method of ageing they are only 180 days past due
- ⇒ The last 30 loans are like in example 3, whereby they are actually 6 months past due whereas the incorrect installment shows them to be just 60 days past due
- ⇒ **Let us assume that we are using PAR > 60 days or PAR > 90 days or PAR > 120 days or PAR > 180 days as a standard and would**
- ⇒ **like to compare the aged Portfolio with that of other MFIs**

Table 3.8 - Data for Assessing Impact on Provisioning and Sustainability

	Example 1	Example 2	Example 3
Number of Loans	10	10	30
Loan Outstanding per loan	400	1032	400
Principal Over Due per loan	400	1032	400
Actual Age of over due for each loan	551 days	330 days	180 days
Age of over due for each loan as per Installment Method	120 days	180 days	60 days
All the Overdue Loans are past their loan term. For the sake of convenience, we are assuming the same values for overdues and other aspects, exactly as given in the 3 examples.			

See below the ageing tables as per the accurate method of ageing and installment method of ageing

Table 3.9 - Loan Loss Provision Based on Accurate Ageing

Description of Loans	No. of Loans	Amount in Arrears (Currency Units)	Unpaid Principal Balance (CU)	Portfolio at Risk	Provisioning Rate	Loan Loss Provision (CU)
Current	72	0	100000	0.00%	0%	0
1 - 30 Days Past due	0	0	0	0.00%	10%	0
31 - 60 Days Past due	0	0	0	0.00%	25%	0
61 - 90 Days Past due	0	0	0	0.00%	50%	0
91 - 120 Days Past due	0	0	0	0.00%	75%	0
121-180 Days Past due	30	12000	12000	9.50%	90%	10800
181 – 365 Days Past due	10	10320	10320	8.17%	100%	10320
above 365 Days Past due	10	4000	4000	3.17%	100%	4000
Total	122	26320	126320	20.84%	NA	25120

Table 3.10 - Loan Loss Provision Based on Inaccurate Installment Method of Ageing

Description of Loans	No. of Loans	Amount in Arrears (Currency Units)	Unpaid Principal Balance (CU)	Portfolio at Risk	Provisioning Rate	Loan Loss Provision (CU)
Current	72	0	100000	0.00%	0%	0
1 - 30 Days Past due	0	0	0	0.00%	10%	0
31 - 60 Days Past due	30	12000	12000	9.50%	25%	3000
61 - 90 Days Past due	0	0	0	0.00%	50%	0
91 - 120 Days Past due	10	4000	4000	3.17%	75%	3000
121-180 Days Past due	10	10320	10320	8.17%	90%	9288
181 - 365 Days Past due	0	0	0	0.00%	100%	0
above 365 Days Past due	0	0	0	0.00%	100%	0
Total	122	26320	126320	20.84%	NA	15288

Table 3.11 – Comparative Analysis of Ageing and Provisioning Data Using the 2 methods of Ageing

Indicators	Accurate Method of Ageing	Installment Method of Ageing	Difference between 2 methods	Installment Method understates Risk by extent below
PAR	20.84%	20.84%	0.00%	0.00%
Arrears Rate	20.84%	20.84%	0.00%	0.00%
PAR > 30 Days	20.84%	20.84%	0.00%	0.00%
PAR > 60 Days	20.84%	11.34%	9.50%	9.50%
PAR > 90 Days	20.84%	11.34%	9.50%	9.50%
PAR > 120 Days	20.84%	8.17%	12.67%	12.67%
PAR > 180 Days	11.34%	0.00%	11.34%	11.34%
PAR > 365 Days	3.17%	0.00%	3.17%	3.17%
Loan Loss Provision Rate	19.89%	12.10%	7.79%	7.79%

AGED PAR CATEGORIES TYPICALLY INCLUDE THE FOLLOWING...

PAR > = 1 Day = Sum of PAR 1-30 Days+31-60 Days+...PAR > 365 Days
 PAR > 30 Days = Sum of PAR 31-60 Days+61-90 Days+ ...PAR > 365 Days
 PAR > 60 Days = Sum of PAR 61-90 Days+91-120 Days+ ...PAR > 365 Days
 PAR > 90 Days = Sum of PAR 91-120 Days+121-180 Days+ ...PAR > 365 Days
 PAR > 180 Days = Sum of PAR 181-365 Days+ PAR > 365 Days
 PAR > 365 Days (1 Year) = Sum of PAR > 365 Days

- ⇒ Thus, as shown in the previous Tables, the installment method of ageing, *grossly understates the risk whether we use PAR >60 days or PAR >90 Days or PAR >120 Days or PAR > 180 Days as a standard* - when the portfolio has overdue loans past their loan term
- ⇒ When MFIs use the installment method of ageing, very risky assets (especially, those past the loan term most unlikely to be collected) are shown as collectable or somewhat collectable assets
- ⇒ Specifically, take the case of PAR > 60 days, which is a commonly used standard in micro-finance. As much as 9.50% of risky assets are omitted from this category when the installment method of aging is used.
- ⇒ Likewise, for PAR > 120 days, as much as 12.67% of risky assets are crucially overseen
- ⇒ While the actual proportion of risky assets shrouded while using the installment method depends on the actual composition of the portfolio, the key point here is that:

1) it understates risk, when overdue loans are past their loan term and

2) it over states risk when the overdue loans are within the loan term

⇒ Similarly, provisioning is also affected as shown by the specific example; using the installment method of ageing results in the portfolio being under provisioned by almost 7.79%, when the over due loans are past their loan term.

Impact of Installment Method of Ageing on Loan Loss Provisioning

Example 1 loans, which are actually 551 days past due are under provisioned by 1000 units of currency. This is because, using the accurate method of ageing, they come into the category of loans > 365 past due, thereby having a 100% provision rate which makes the provision amount as 4000 (4000 Outstanding X 100%).

However, as per the installment method of ageing, they come into the category of loans between 91 – 120 days past due, which carries a provision rate of 75%, making the provision amount as 3000 (4000 X 75%). Likewise, under provisioning for example 2 loans is 1032 and for example 3 loans, it is 7800.

- ⇒ The converse (over provisioning) can also be shown to be true whereby the installment method of ageing results in over provisioning - when an MFI's portfolio has all overdue loans within the loan term
- ⇒ Likewise, this also impacts write-offs: specifically, when MFIs use the installment method of ageing (and all over due loans are past their loan term), they will not write-off loans that actually need to be written off.
- ⇒ The corollary here is that MFIs may thus continue accruing interest for such loans when they actually should not be doing so.
- ⇒ In other words, the installment method of ageing also has an impact on income (or loss) recognition and de-recognition and in both cases (when loans are past their loan term as well as within it), these tend to get distorted as well
- ⇒ Thus, all of the above also distort the financial statements and are likely to present an inaccurate picture of the true financial situation of the MFI in question
- ⇒ Therefore, this approximate and inaccurate method of ageing is better avoided
- ⇒ One may also be tempted to argue that if an MFI has overdue loans within the loan term and also passed the loan term and if it uses the installment method of ageing, the negative effects will balance out each other – such an argument is dangerous and tantamount to saying that 2 mistakes will even out.

- ⇒ In conclusion, all stakeholders involved in micro-finance should try and ensure that this inaccurate installment method of ageing is not used by MFIs and other stakeholders to age the loan portfolio. This is very crucial to building reliable and valid indicators to assess micro-finance performance as the process is as important as the outcomes. The overall impact of using the installment method of ageing is summarized in **Table 3.12** and diagrammed in **Figures 3.2** and **3.3**

**Box 1: Impact of Ageing Method on
Loan Write-Offs and Interest Reversals**

As per the accurate method of ageing, 10 loans (with total Principal Overdue of 4000 units of currency and total Principle Outstanding of 4000 units of currency) would have to be written off (as age of overdue loans is > 551 days) whereas as per the installment method of ageing, they would not be written off (as age would be just 120 days)

Taking same values for Interest Overdue as given in example 1, the total accrued interest for these 10 loans, which would have to be reversed, would be 1140 units of currency (UC) {114 per loan x 10 loans} and this reversal should have taken place as actual age of each of these 10 loans is 551 days. But, it will not happen if age is calculated using installment method, as then the age would just be 120 days (for each loan).

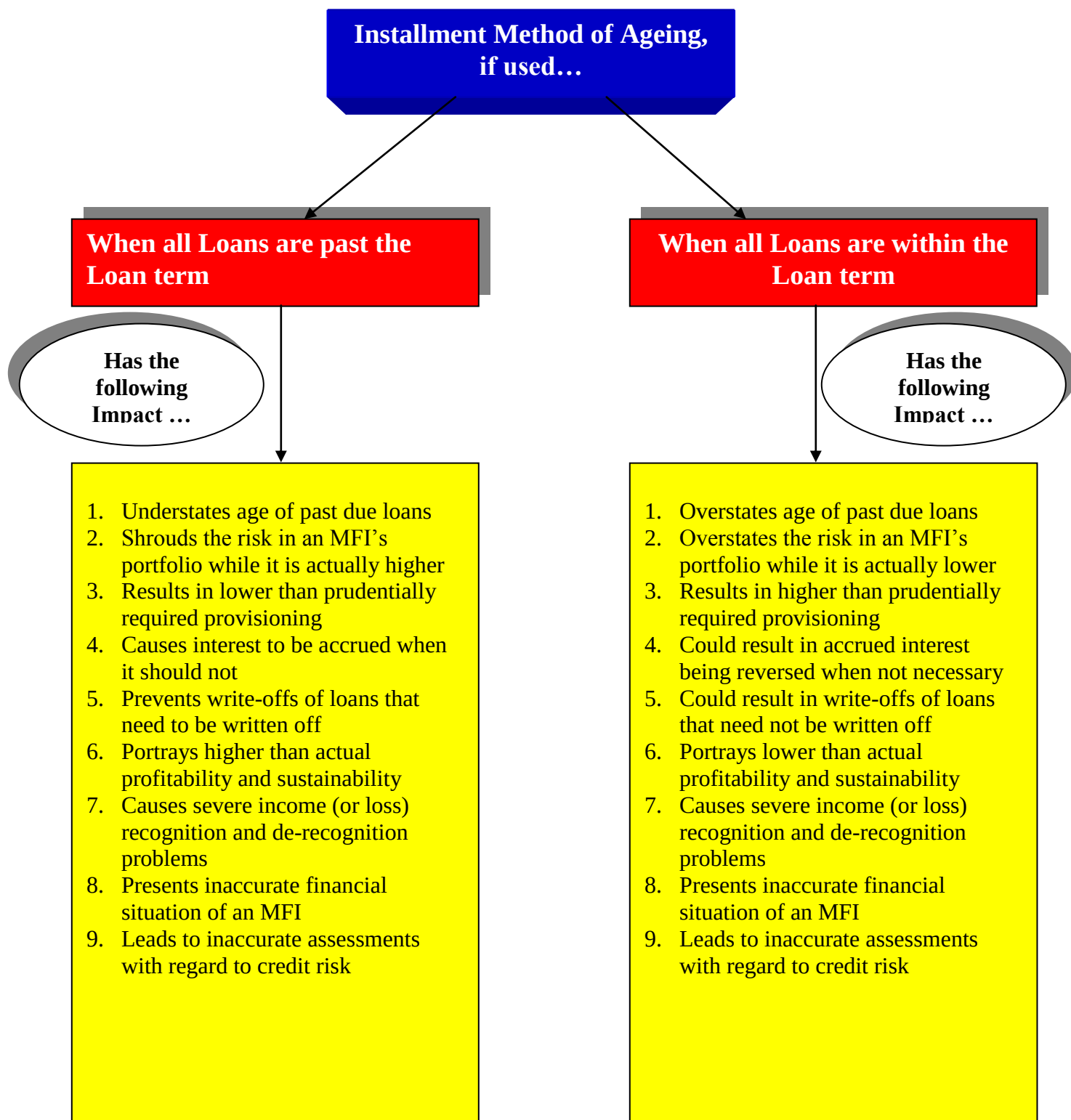
Table 3.12 - Summary Impact of Using Incorrect Installment Method of Ageing

1) Impact on Portfolio Quality		
Parameter/Activity	When Installment Method of Ageing is used and all loans are beyond the loan term	When Installment Method of Ageing is used and all loans are within the loan term
PAR (not aged)	⇒ Not affected	⇒ Not Affected
Arrears Rate (not aged)	⇒ Not affected	⇒ Not Affected
Aged Portfolio at Risk	⇒ Age is understated	⇒ Age is over stated
Loan Loss Provision	⇒ Results in Under Provisioning	⇒ Results in Over Provisioning
Write-offs	⇒ Loans with older age over dues that need to be written-off are actually not written-off. Hence, most risky assets continue to exist on the portfolio	⇒ Loans that need not be written-off could be written off due to age being overstated
Income Recognition and Reversal	⇒ As loans with older age over dues that need to be written-off are actually not written-off, interest (not likely to be got) is still being accrued and this is not a correct practice.	⇒ Accrued interest could be de-recognized because age is over stated
2) Impact on Financial Statements		
Financial Statement	When Installment Method of Ageing is used and all loans are beyond the loan term	When Installment Method of Ageing is used and all loans are within the loan term
Portfolio Report	⇒ Understates Risk	⇒ Overstates Risk
Balance Sheet	⇒ Inaccurate as interest accrued will never be reversed as age is under stated, especially if rules for reversal are based on age ⇒ Loan loss reserve is understated because of lower provisions	⇒ Inaccurate as interest accrued could be reversed because age is over stated, especially if rules for reversal are based on age ⇒ Loan loss reserve is overstated because of higher provisions
Income Statement	⇒ Understates provision expenses and over states income when the accrual method of accounting is used. ⇒ Distorts true picture of profitability and sustainability and overstates profitability and sustainability by understating provision expenses and accruing income on loans that need to be written-off	⇒ Overstates provision expenses ⇒ Distorts true picture of profitability and sustainability
3) Implications for Different Stakeholders		

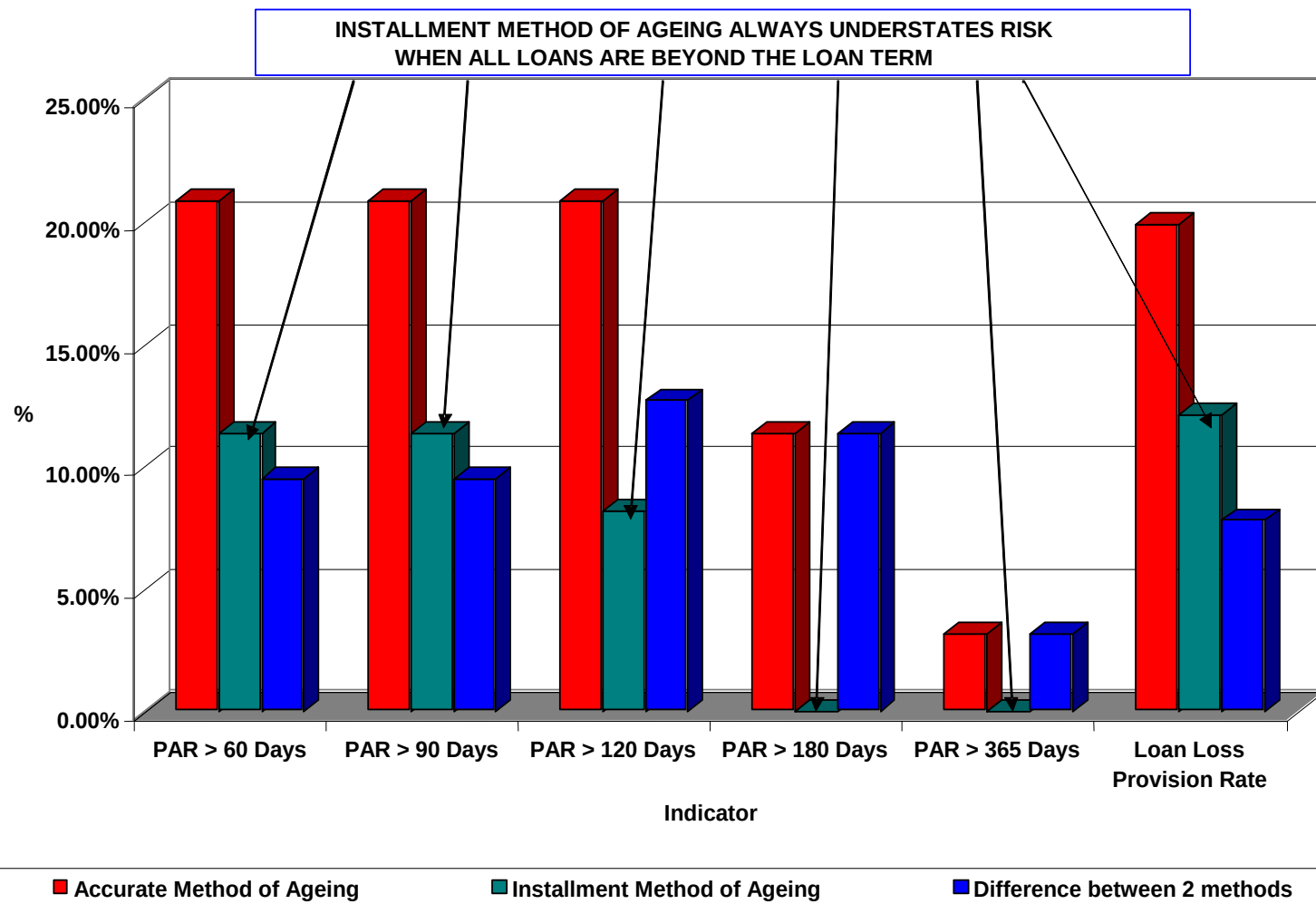
Table 3.12 - Summary Impact of Using Incorrect Installment Method of Ageing

Stakeholders	When Installment Method of Ageing is used and all loans are beyond the loan term	When Installment Method of Ageing is used and all loans are within the loan term
Micro-Finance Institutions	⇒ MFIs classifying their riskiest assets as less risky ⇒ Under provisioning when actually a higher provisioning is required ⇒ MFIs showing higher than actual income, profitability and sustainability ⇒ Accrual of interest on loans that need to be written-off and for whom already accrued interest perhaps needs to be reversed	⇒ MFIs classifying their less risky assets as more risky ⇒ Over provisioning when actually a low provisioning is enough ⇒ Showing lower than actual income, profitability and sustainability ⇒ Reversal of accrued interest when perhaps not necessary
Donors, Wholesalers and Investors	⇒ An inaccurate picture of an MFI's portfolio quality – most risky assets can never be discerned as they have a lower reported age in comparison to actual age ⇒ An inaccurate picture of an MFI's financial situation as reflected by The Income Statement and Balance Sheet – Overstatement of Income, Profitability and Sustainability and inaccurate portrayal of asset quality	⇒ An inaccurate picture of an MFI's portfolio quality ⇒ An inaccurate picture of an MFI's financial situation as reflected by The Income Statement and Balance Sheet
Regulators	⇒ MFIs not conforming to prudential norms and regulations established by authorities	⇒ MFIs not conforming to prudential norms and regulations established by authorities
Credit Rating Agencies	⇒ Inaccurate assessment of an MFIs true credit worthiness as also the risks involved in transacting business with the MFIs concerned	⇒ Inaccurate assessment of an MFIs true credit worthiness as also the risks involved in transacting business with the MFIs concerned
MIS Developers	⇒ MIS using wrong logic of determining age of over due loans and also resultant inaccurate outputs and reports	⇒ MIS using wrong logic of determining age of over loans and also resultant inaccurate outputs and reports
Clients	⇒ An inaccurate picture of an MFI's financial situation	⇒ An inaccurate picture of an MFI's financial situation

FIGURE 3.2 WHY THE INSTALLMENT METHOD OF AGEING SHOULD NOT BE USED BY THE MICRO-FINANCE SECTOR?



Comparative Analysis of Impact of Ageing Method on Portfolio Quality Indicators in Example 4



3.4 DISCUSSION

To calculate the correct age of an overdue loan, we suggest the following steps

Step 1 Using business rules and credit policy prepare the loan repayment format (given in Table 3 earlier) in an accurate manner.

Step 2 For this proper and timely maintaining of adequate records is a must. Among other things the following are the minimum documents required:

⇒ Individual Loan Ledger

⇒ Aggregated Loan Ledger

Step 3 Also clearly state the loan terms especially with regard to:

- (i) Loan Disbursed Amount
- (j) Disbursement Date/Schedule
- (k) Loan Term in Number of Installments – 10, 20, 30 etc
- (l) Frequency of Repayment of Installment – Weekly, Monthly or otherwise
- (m) Due Date for 1st Installment – exactly 1 week or month from disbursement. Mention upfront any grace or moratorium period. Also, clarify in case of monthly repayment schedules, whether month end is considered as the due date
- (n) Disclose moratorium (Grace Period), if any. For example, many MFIs are using the following method. All loans disbursed in the previous months, will have their 1st installment due on the last day of the next month. That is, loans disbursed on 1st January 2002 and 21st January 2002 will have their first
- (o) installment due on the last date of February 2002. This again must be clarified and specified as it has a significant impact on all calculations including ageing, portfolio quality, ratios and sustainability
- (p) Interest Rate and Method of Interest Calculation including fines, penal interest etc
- (q) Sequence of Payment – Which is to be taken first including interest overdues, interest, principal overdues and principal etc. The suggested sequence is Fines, Interest Overdues, Interest Due, Principal overdues and Principal

Step 4 Definition of Overdues is also crucial. When does a loan become overdue or pastdue is an aspect that must be clearly specified. It is suggested that the day after an amount is due the amount if not paid becomes overdue. If on 30th April 2003 an amount of Rs 100 is due and it is not paid then on 1st May 2003 this amount is in arrears or overdue (or past due)

Step 5 When overdues from several past installments exist while calculating age of the overdue it is important to take the date on which the earliest installment (among these several installments) first fell overdue.

Step 6 But this must be done only if amounts from that installment are still unpaid.

Step 7 If amounts from that installment have been paid then the next earliest installment for which unpaid overdues exist must be taken as the basis for calculating age.

Step 8 Thus the generic formula for calculating the age of an overdue loan as on any date is as follows

Reference Date of Calculation (Today or As On Date)

- (Minus)

Date of Earliest Installment with Unpaid Over Dues

= “Y” Number of Days of Age

3.5 OTHER ISSUES OF IMPORTANCE

This annex briefly highlights the distorting impact of using the installment method of ageing in portfolio management. Many other technical issues are equally important for loan portfolio management in micro-finance and some of these are identified below. The MIS analyst must be careful of such aspects when making the reports and keep these issues in mind.

1

What happens when MFIs use a different sequence for client repayments? Some MFIs first adjust a client's repayment towards principal and then towards interest. When this happens and there is delinquency this triggers a reduced portfolio yield (as compared to effective interest rates) rather than a higher portfolio at risk.

2

Likewise when clients make prepayments there is a strong possibility that Prin. Overdue could be '0' while interest overdue could still be there. Take the case of a client making equal installment payments of 100 (Prin.) on reducing interest (18%) for a 10 month period. Let us assume that on the due date for the 1st installment the client pays 215 (units of currency) towards the following - 15 towards interest for 1st installment, 100 towards prin for 1st installment and 100 towards prin for 2nd installment⁹ (prepayment made for 2nd installment during 1st installment).

Assume that the client who has prepaid the prin for the 2nd installment (at the 1st installment itself) does not come to pay the interest for the 2nd installment (which is due only on the actual due date (of the 2nd installment)).

When this happens, the client will not have any prin overdue (as prin was prepaid) but will most certainly have interest overdue. Any ageing report will find it difficult to track this because most often loan ageing is based on the prin amounts rather than interest amounts. *The key question is how should MFIs treat this issue and what should portfolio managers do?*

3

Likewise, there are many other aspects like adjusting the portfolio at risk measure for rescheduling, refinancing, write offs, fresh loan disbursements for which repayment is yet to begin and the like. Unless aspects like these are followed according to technical best practices norms, managing an MFI's portfolio, will, at best, be inaccurate and inefficient just like when the installment method of ageing is used to classify and manage an MFI's loan portfolio.

⁹This is because interest for the 2nd instalment cannot be collected at the time of the 1st instalment as it is not due then and is due only at the time of the 2nd instalment.

Table – 3.13 CALCULATION OF PAR AND ARREARS RATE FROM AN AGGREGATED LOAN LEDGER

Client	Loans Disbursed	Prin. Amount Due till Date	Prin. Amount Paid till Date ¹⁰	Prin. Amount Past Due	Unpaid Principal Balance of All loans	Unpaid Principal Balance of Past Due loans (i.e., for whom Column 5 > 0)
CL 1	CL 2	CL 3	CL 4	CL 5 = CL 3- CL 4	CL 6 = CL 2 – CL 4	CL 7
a	10000	3000	2000	1000	8000	8000
b	5000	1000	500	500	4500	4500
c	10000	5000	2500	2500	7500	7500
d	7000	4000	3000	1000	4000	4000
e	5000	1000	900	100	4100	4100
f	20000	10000	10000	0	10000	0
Total	57000	24000	18900	5100	38100	28100
PAR		73.75%				
ARREARS RATE		13.39%				
PAR/ARREARS RATE		5.51				
Arrears Rate Understates Risk by		81.85%				

PAR = Unpaid Principal Balance of Past Due Loans/ Total Outstanding Portfolio
= Column 7 Total / Column 6 Total = 28100/38100 = 73.75%

Arrears Rate = Arrear (Principal Overdue or Past Due) Amounts / Total Outstanding Portfolio
= Column 5 Total / Column 6 Total = 5100/38100 = 13.39%

¹⁰This can be further segregated into Principal Amounts Paid as Per Schedule (On-Time) and Principal Amounts Paid as Over Dues

Table – 3.14 Summary Format of Repayment Schedule

I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
S No	Loan Disbursed	No of Installments	Current Installment	Due per Installment	Cumulative Due So Far	Cumulative Paid On-Time So Far	Cumulative Paid as Overdue So Far	Cumulative Paid So Far	Cumulative Overdue or Arrears	Cumulative Prepayments	Prin. Outstanding	Prin. Outstanding for OD Loans
1	20000	10	9	2000	18000	15000	3000	18000	0	0	2000	0
2	30000	10	7	3000	21000	20000	3000	23000	0	2000	7000	0
3	45000	10	9	4500	40500	32000	10000	42000	0	1500	3000	0
4	200000	10	10	20000	200000	200000	0	200000	0	0	0	0
5	20000	10	4	2000	8000	8000	3000	11000	0	3000	9000	0
6	400000	10	1	40000	40000	39000	700	39700	300	0	360300	360300
7	20000	10	4	2000	8000	2000	6000	8000	0	0	12000	0
8	30000	10	4	3000	12000	12000	0	12000	0	0	18000	0
9	20000	10	4	2000	8000	8000	0	8000	0	0	12000	0
10	20000	10	6	2000	12000	12000	0	12000	0	0	8000	0
11	20000	10	5	2000	10000	2000	7000	9000	1000	0	11000	11000
12	20000	10	2	2000	4000	2000	3000	5000	0	1000	15000	0
13	250000	10	0	25000	0	0	0	0	0	0	250000	0
14	250000	10	0	25000	0	0	0	0	0	0	250000	0
Total /Avg	1345000	11.67	NA	NA	381500	352000	35700	387700	1300	7500	957300	371300

Indicator	Formula	Value in %
On-Time Repayment Rate (OTRR)	$\frac{\text{Column VII Total} - \text{Column XI Total}}{\text{Column VI Total}}$	90.30%
Cumulative Repayment Rates (CRR)	$\frac{\text{Column IX Total} - \text{Column XI Total}}{\text{Column VI Total}}$	99.66%
CRR (Prepayments Included)	$\frac{\text{Column IX Total}}{\text{Column VI Total}}$	101.63%
PIA (Arrears Rate)	$\frac{\text{Column X Total}}{\text{Column XII Total}}$	0.14%
PAR (Portfolio at Risk)	$\frac{\text{Column XIII Total}}{\text{Column XII Total}}$	38.79%
PAA Adjusted (Arrears Rate)	$\frac{\text{Column X Total}}{\text{Column XII Total} - (\text{Sum of Row 13+14, Column XII})}$	0.28%
PAR (Portfolio at Risk) Adjusted	$\frac{\text{Column XIII Total}}{\text{Column XII Total} - (\text{Sum of Row 13+14, Column XII})}$	81.19%

Table – 3.15 CALCULATION OF PAR AND ARREARS RATE FROM A CONSOLIDATED AGEING REPORT

I	II	III	IV	V	VI	VII	VIII
Type of Loans	No of Loans	Arrears Amount	Unpaid Principal Balance	% of Total Outstanding	Portfolio At Risk	Provisioning Rate	Loan Loss Provision Amount
Current Loans (No Over Dues)	100	0	200090	59.89%	0.00%	0%	0
Loans with Overdues less than 30 Days	20	2000	20000	5.99%	5.99%	10%	2000
Loans with Overdues between 31-60 Days	10	3000	33000	9.88%	9.88%	25%	8250
Loans with Overdues between 61-90 Days	3	30000	60000	17.96%	17.96%	50%	30000
Loans with Overdues between 91-180 Days	4	12000	12000	3.59%	3.59%	75%	9000
Loans with Overdues between 181-365 Days	5	7000	7000	2.10%	2.10%	90%	6300
Loans with Overdues greater than 365 Days	3	2000	2000	0.60%	0.60%	100%	2000
Total	145	56000	334090	100.00%	40.11%	NA	57550

PAR = Unpaid Principal Balance of Past Due (Over Due) Loans/ Total Outstanding Portfolio

PAR = **(Column IV Total – Current Loans Outstanding)/Column IV Total**

PAR = $(334090 - 200090)/334090 = 40.11\%$

Arrears Rate = Arrear (Principal Overdue or Past Due) Amounts / Total Outstanding Portfolio

Arrears Rate = **Column III Total / Column IV Total**

Arrears Rate = $56000/334090 = 16.76\%$

ANNEX 4 - CALCULATION AND INTERPRETATION OF BEST PRACTICES LOAN PORTFOLIO MANAGEMENT INDICATORS

4.1 Portfolio at Risk - Calculation and Interpretation

Step 1 Use the formula given below

$$\frac{\text{Unpaid Principal Balance of Past Due Loans (1 to 365 days and more past due)}}{\text{Total Gross Outstanding Loan Portfolio}}$$

Description	2000	2001	2002
Unpaid Principal Balance of Past Due Loans (A)	40000	40000	36000

Numerator of Formula

Step 2 Take the **Unpaid Principal Balance of Past Due Loans** for Year 2000 – it is **40000** (Please refer to Portfolio Report, Row 9, Column IV for Unpaid Principal Balance of Past Due Loans for Year 2000)

Description	2000	2001	2002
Total Gross Outstanding Loan Portfolio (B)	104000	140000	168000

Denominator of Formula

Step 3 Take the **Total Gross Outstanding Loan Portfolio** for Year 2000 – it is 104000 (Please refer to Portfolio Report, Row 6, Column IV for total gross outstanding loan portfolio for Year 2000)

Step 4 Divide **Unpaid Principal Balance of Past Due Loans** by **Total Gross Outstanding Loan Portfolio** and as shown below, we get **Portfolio at Risk** as 38.46% for year 2000

Portfolio at Risk	2000	2001	2002
Unpaid Principal Balance of Past Due Loans (A)	40000	40000	36000
Total Gross Outstanding Loan Portfolio (B)	104000	140000	168000
Portfolio at Risk Value = A / B	38.46%	28.57%	21.43%

Step 5 Likewise, as given above, the portfolio at risk for Years 2001 and 2002 are respectively **28.57%** and **21.43%**

¹¹The sample portfolio report can be found at the end of this annex – Table 4.1

Step 6 - The trend in portfolio at risk, as depicted by the graph next page, is decreasing, which is positive. PAR has come down by nearly 17.03% during the period 2000-2002. While the Total Outstanding Loan Portfolio has grown by 20.23% during 2000-2002, the unpaid principal balance of past due loans has come down by just 10%. However, there have been loan write-offs as well during this period. Hence, reduction in PAR appears to be due to some collection of arrears, increase in total outstanding loan portfolio and loan write-offs.

Step 7 Calculation of Portfolio at Risk by Age

Table 4.1 Ageing Analysis of Loans - Year 2002									
I	II	III	IV	V	VI	VII	VIII	IX	X
PR	17	Type of Loans	Number of Loans	Arrears Amount	Unpaid Principal Balance	% of Loan Outstanding	Portfolio at Risk	Provisioning %	Provision amount
PR	18	Current Loans	2,880	0	132,000	78.57%	0.00%	0%	0
PR	19	Less than 30 Days past due	400	7,000	17,500	10.42%	10.42%	10%	1750
PR	20	31- 60 Days past due	150	3,000	10,000	5.95%	5.95%	50%	5000
PR	21	61- 90 Days past due	120	2,000	5,000	2.98%	2.98%	75%	3750
PR	22	> 90 Days past due	50	2,000	3,500	2.08%	2.08%	100%	3500
PR	23	Total	3,600	14,000	168,000	100.00%	21.43%	na	14000

PAR > =1 day (past due) is

Sum of

PAR < 30 days (past due) – 10.42% (Portfolio Report, Row – 19, Column – VIII) +
 PAR > 31 – 60 days (past due) – 5.95% (Portfolio Report, Row – 20, Column – VIII) +
 PAR > 61 – 90 days (past due) – 2.98% (Portfolio Report, Row – 21, Column – VIII) +
 PAR > 90 days (past due) – 2.08% (Portfolio Report, Row – 22, Column – VIII)

= 21.43% for year 2002 (Portfolio Report, Ageing Table, Row – 23, Column – VIII)

Similarly,

PAR > 30 days (past due) is

Sum of

PAR > 31 – 60 days (past due) – 5.95% (Portfolio Report, Row – 20, Column – VIII) +
 PAR > 61 – 90 days (past due) – 2.98% (Portfolio Report, Row – 21, Column – VIII) +
 PAR > 90 days (past due) – 2.08% (Portfolio Report, Row – 22, Column – VIII)

= 5.95% + 2.98% + 2.08% = 11.01%

Likewise,

PAR > 60 days (past due) is

Sum of

PAR > 61 – 90 days (past due) (Portfolio Report, Row – 21, Column – VIII) +
PAR > 90 days (past due) (Portfolio Report, Row – 22, Column – VIII)

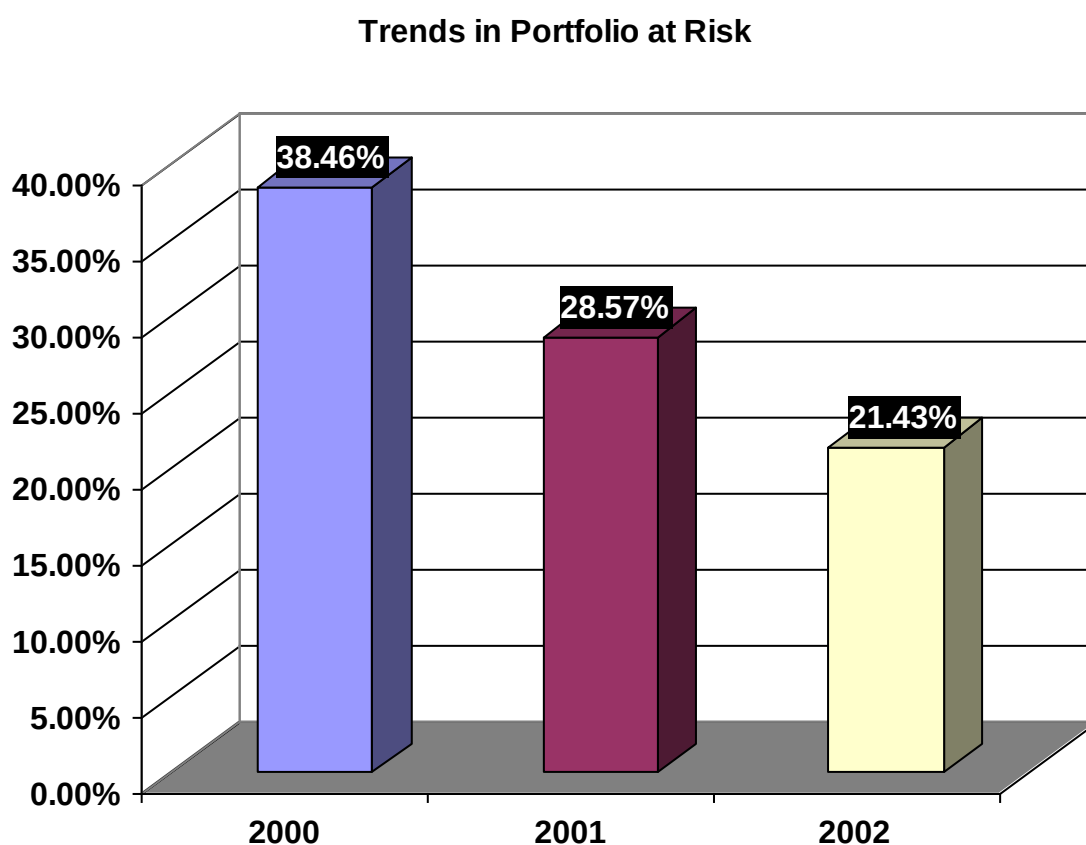
$$= 2.98\% + 2.08\% = 5.06\%$$

Similarly,

PAR > 90 days (past due) is 2.08%

This, way portfolio at risk by age can be calculated. The detailed procedure is given in annex 3, which outlines the technically correct procedure for ageing past due loans.

Graph – 1



4.2 Arrears Rate - Calculation and Interpretation

Step 1 Use the **formula** given below

$$\frac{\text{Arrears Amounts (or Principal Overdue / Past Due)}}{\text{Total Gross Outstanding Loan Portfolio}}$$

Description	2000	2001	2002
Arrears Amount (A)	20000	18000	14000

Numerator of Formula

Step 2 Take the **arrears amount** for Year 2000 – it is **20000** (Please refer to Portfolio Report, Row 8, Column IV for arrears amount for Year 2000)

Description	2000	2001	2002
Total Gross Outstanding Loan Portfolio (B)	104000	140000	168000

Denominator of Formula

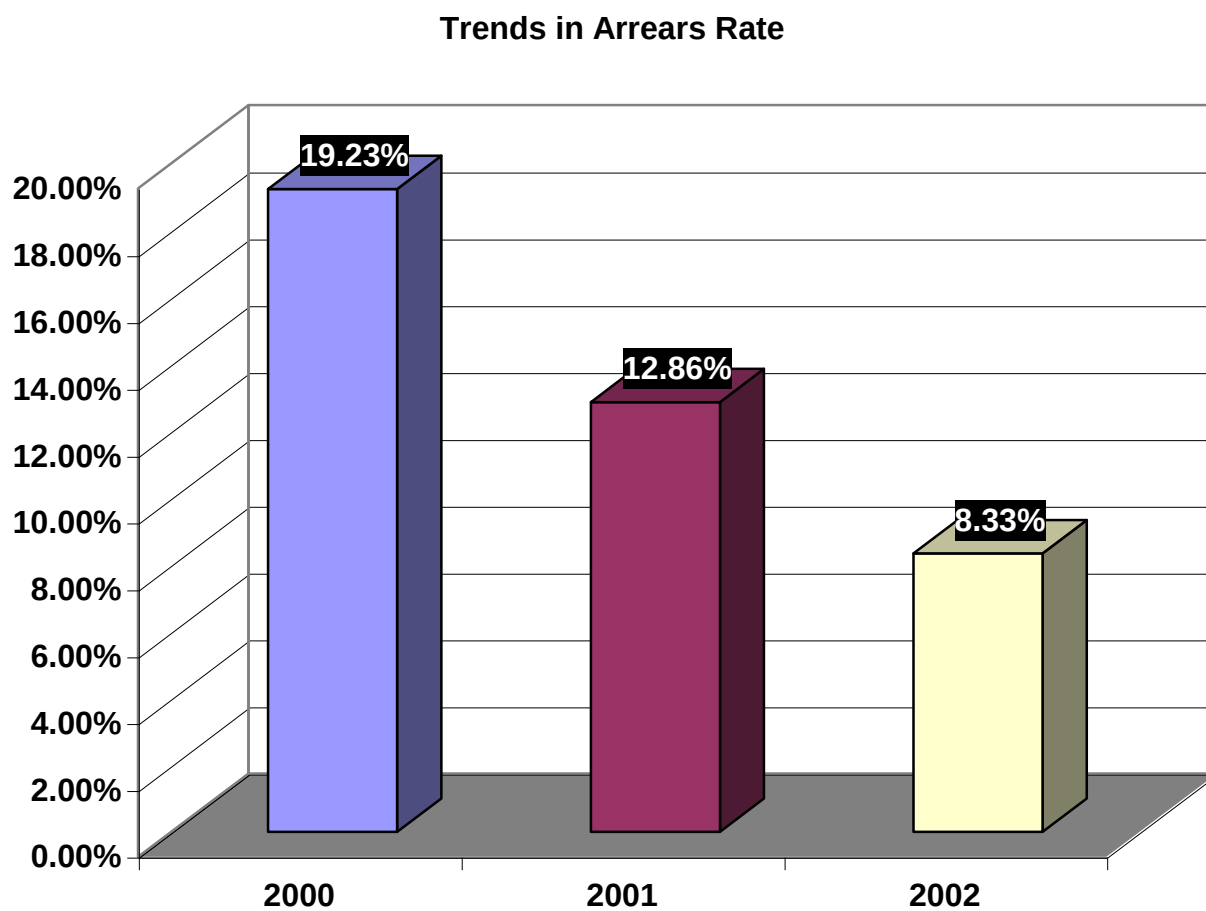
Step 3 Take the **Total Gross Outstanding Loan Portfolio** for Year 2000 – it is 104000 (Please refer to Portfolio Report, Row 6, Column IV for total gross outstanding loan portfolio for Year 2000)

Step 4 Divide **arrears amount** by **Total Gross Outstanding Loan Portfolio** and as shown below, we get **arrears rate** as 19.23% for year 2000

Arrears Rate	2000	2001	2002
Arrears Amount (A)	20000	18000	14000
Total Gross Outstanding Loan Portfolio (B)	104000	140000	168000
Arrears Rate Value = A / B =	19.23%	12.86%	8.33%

Step 5 Likewise, as given above, the arrears rate for Years 2001 and 2002 are respectively **12.86% and 8.33%**

Step 6 The trend in arrears rate, as depicted by the graph below, is decreasing, which is positive. Arrears Rate has come down by nearly 10.90% over the 3 year period, while the Total Outstanding Loan Portfolio has grown by 20.23% during the same period

Graph – 2

4.3 Loan Loss Reserve Ratio - Calculation and Interpretation

Step 1 Use the **formula** given below

$$\frac{\text{Loan Loss Reserve Amount}}{\text{Total Outstanding Loan Portfolio}}$$

Description	2000	2001	2002
Loan Loss Reserve Amount (A)	10000	10000	14000

Numerator of Formula

Step 2 Take the **Loan Loss Reserve Amount** for Year 2000 – it is **10000** (Please refer to Balance Sheet Adjusted 2, Row 10, Column IV for Loan Loss Reserve Amount for Year 2000)

Description	2000	2001	2002
Total Outstanding Loan Portfolio (B)	104000	140000	168000

Denominator of Formula

Step 3 Take the **Total Outstanding Loan Portfolio** for Year 2000 – it is 104000 (Please refer to Portfolio Report, Row 6, Column IV for total gross outstanding loan portfolio for Year 2000)

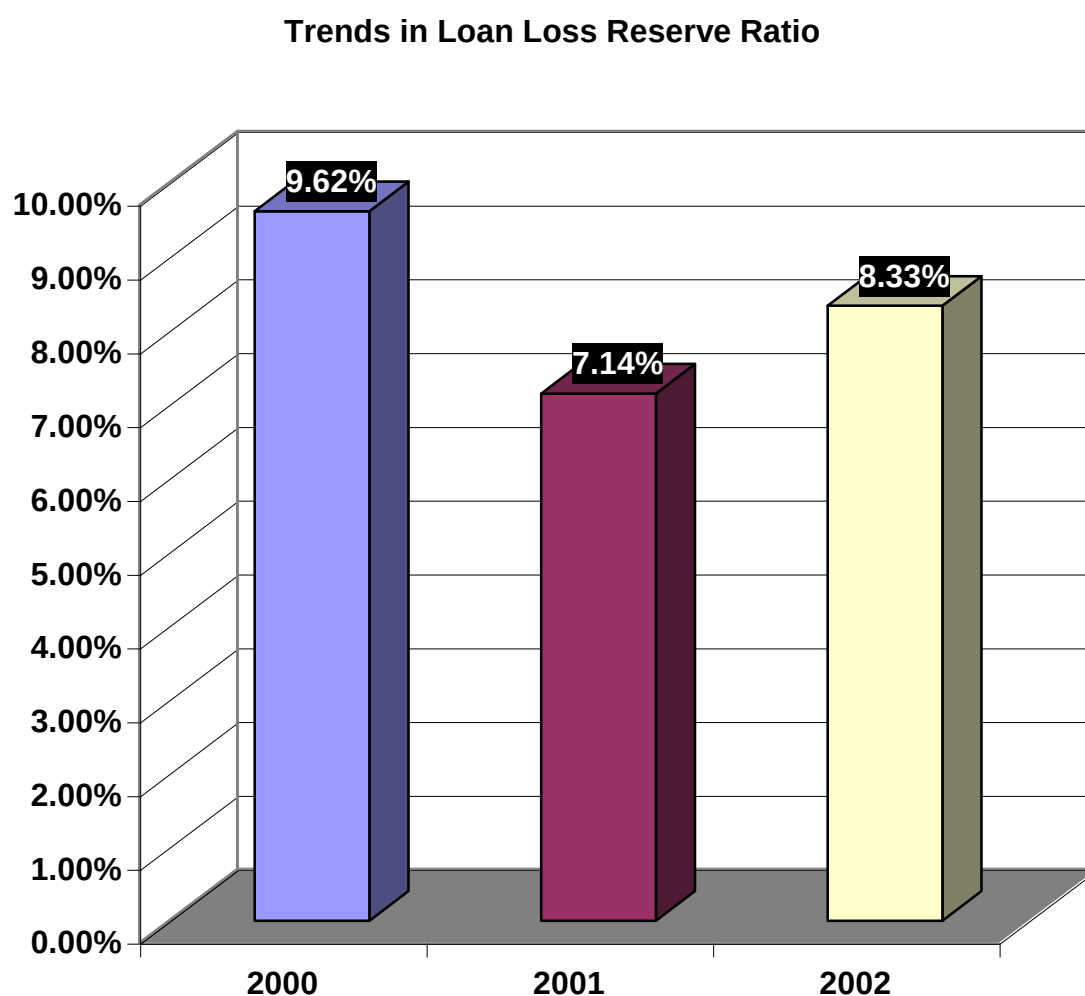
Step 4 Divide **Loan Loss Reserve Amount** by **Total Outstanding Loan Portfolio** and as shown below, we get **Loan Loss Reserve Ratio** as 9.62% for year 2000

Loan Loss Reserve Ratio	2000	2001	2002
Loan Loss Reserve Amount (A)	10000	10000	14000
Total Outstanding Loan Portfolio (B)	104000	140000	168000
Loan Loss Reserve Ratio Value = A/B =	9.62%	7.14%	8.33%

Step 5 Likewise, as given above, the loan loss reserve ratio for Years 2001 and 2002 are respectively 7.14% and 8.33%

Step 6

The overall trend in loan loss reserve ratio, as depicted by the graph below, is decreasing¹¹. Please note that the loan loss reserve ratio decreases (in year 2001) and again increases (in year 2002). The reason for this is that there has been a substantial write-off in year 2001. Please note that the loan loss reserve amount of 14000 is derived from the Portfolio Report, based on an ageing analysis of all loans.

Graph – 3

¹¹ Whether this is positive or not, actually depends on the specific situation and overall portfolio quality – i.e., whether a portfolio is under reserved or over reserved.

¹² Whether this is positive or not, actually depends on the specific situation and overall portfolio quality – i.e., whether a portfolio is under reserved or over reserved

4.4 Loan Loss Ratio - Calculation and Interpretation

Step 1 Use the **formula** given below

$$\frac{\text{Amount Written-Off}}{\text{Average Outstanding Loan Portfolio}}$$

Description	2000	2001	2002
Amount Written-Off (A)	0	6000	1000

Numerator of Formula

Step 2 Take the **Amount Written-Off** for Year 2000 – it is **0** (Please refer to Portfolio Report, Row 10, Column IV for Amount Written-Off for Year 2000)

Description	2000	2001	2002
Average Outstanding Loan Portfolio (B)	90000	122000	150000

Denominator of Formula

Step 3 Take the **Average Outstanding Loan Portfolio** for Year 2000 – it is 90000 (Please refer to Portfolio Report, Row 7, Column IV for average outstanding loan portfolio for Year 2000)

Step 4 Divide **Amount Written-Off** by **Average Outstanding Loan Portfolio** and as shown below, we get **Loan Loss Ratio** as 0.00% for year 2000

Loan Loss Ratio	2000	2001	2002
Amount Written-Off (A)	0	6000	1000
Average Outstanding Loan Portfolio (B)	90000	122000	150000
Loan Loss Ratio Value = A/B =	0.00%	4.92%	0.67%

Step 5 Likewise, as given above, the loan loss ratio for Years 2001 and 2002 are respectively **4.92%** and **0.67%**

Step 6 The overall trend in loan loss ratio, as depicted by the graph below, is decreasing, which is positive. As noted earlier, in 2001, 6000 worth loans were written-off, which is why the ratio increases and then again decreases in 2002.

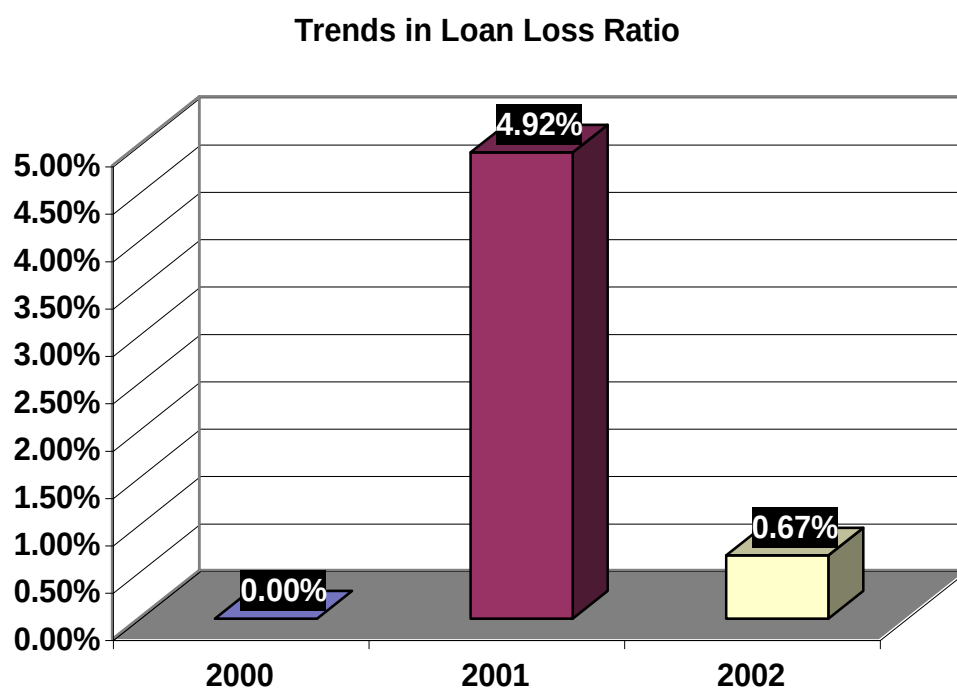
How to find out if write-offs have been made in a particular year?**Loan Loss Reserve (Opening Balance)****+****Loan Loss Provision (during year)****-****Loan Write-offs (during year)****=****Loan Loss Reserve (Closing Balance)**

Applying the same for year 2001, we have the following:

Loan Loss Reserve (Opening Balance) = 10000**(Balance Sheet, Adjusted 2, Row =10, Column = IV)****+****Loan Loss Provision Created (during 2001) = 6000****(Income Statement, Adjusted 2, Row = 14, Column = V)****-****Loan Reserve (Closing Balance) = 10000****(Balance Sheet, Adjusted 2, Row = 10, Column = V)****=****Loan Write-off during year 2001 = 6000**

which is $10000 + 6000 - 10000 = 6000$

(Portfolio Report, Row = 10, Column = V)

Graph – 4

I	II	III	IV	V	VI	VII	VIII	IX	X
Table 4.2 – PORTFOLIO REPORT FOR SAMPLE CALCULATIONS									
Statement	Row Number	SAMPLE PORTFOLIO REPORT	Year(s)						
PR	1	Portfolio Data	2000	2001	2002				
PR	2	Total Value of Loans Disbursed during the period	176000	260000	320000				
PR	3	Total Number of Loans Disbursed during the period	2200	2600	3200				
PR	4	Number of Active Borrowers (end of period)	2640	3100	3600				
PR	5	Average Number of Active Borrowers	2170	2870	3350				
PR	6	Value of Loans outstanding (end of period)	104000	140000	168000				
PR	7	Average outstanding balance of Loans	90000	122000	150000				
PR	8	Value of payments in arrears (end of period)	20000	18000	14000				
PR	9	Value of outstanding balances of loans in arrears (end of period)	40000	40000	36000				
PR	10	Value of loans written off during the period	0	6000	1000				
PR	11	Average initial loan size	160	200	200				
PR	12	Average loan term (months)	24	24	24				
PR	13	Average number of credit officers during the period	8	12	12				
PR	14	AGEING ANALYSIS OF LOANS - YEAR 2002							
PR	15	Type of Loans	Number of Loans	Arrears Amount	Unpaid Principal Balance	% of Loan Outstanding	Portfolio at Risk	Provisioning %	Provision amount
PR	16	Current Loans	2,880	0	132,000	78.57%	0.00%	0%	0
PR	17	Less than 30 Days past due	400	7,000	17,500	10.42%	10.42%	10%	1750
PR	18	Between 31- 60 Days past due	150	3,000	10,000	5.95%	5.95%	50%	5000
PR	19	Between 61- 90 Days past due	120	2,000	5,000	2.98%	2.98%	75%	3750
PR	20	> 90 Days	50	2,000	3,500	2.08%	2.08%	100%	3500
PR	21	Total	3,600	14,000	168,000	100.00%	21.43%	na	14000

ANNEX 5 – ACCOUNTING PROCESS AND TRANSACTION SUMMARY FOR LOAN PORTFOLIO MANAGEMENT AND MICRO-FINANCE

SIMPLE RULES TO FOLLOW FOR ACCOUNTING TRANSACTIONS

- 1) Debit the receiver, credit the giver
- 2) Debit what comes in, credit what goes out
- 3) Debit all losses and expenses, credit all incomes and gains

Asset Increases – Db

Asset Decreases – Cr

Liability Increases – Cr

Liability Decreases – Db

Equity Increases – Cr

Equity Decreases – Db

Expenses - Db

Expenses Increases – Db

Expenses Decreases – Cr

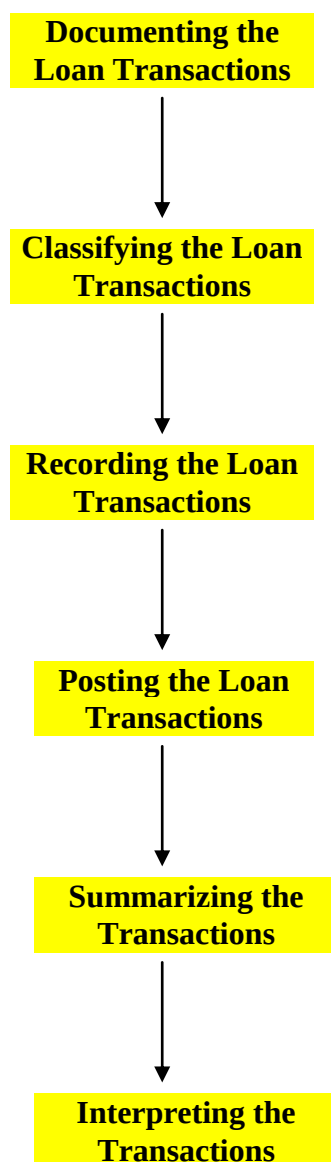
Revenues (Income) - Cr

Revenue (Income) Increases – Cr

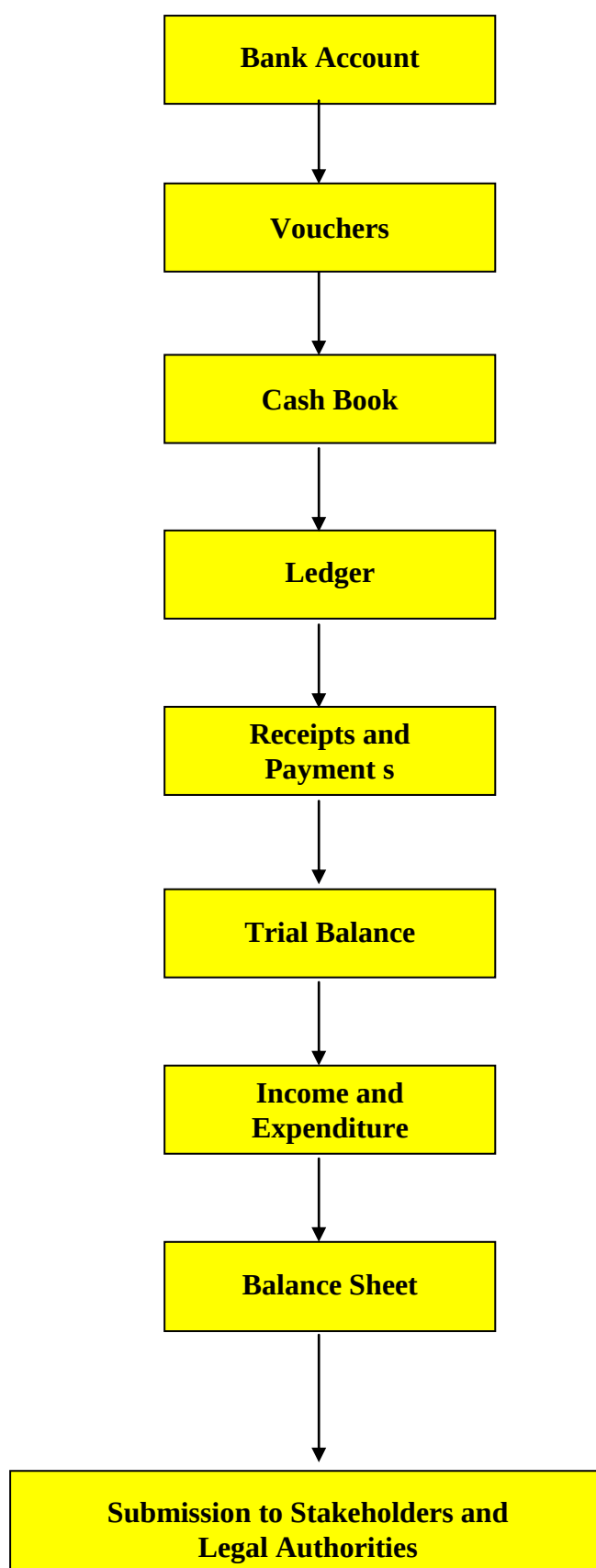
Revenue (Income) Decreases – Db

5.1 ACCOUNTING PROCESS FOR LOAN PORTFOLIO MANAGEMENT

The accounting process for loan portfolio management can be depicted by way of the following simple Flow Chart (Figure 5.1):



The loan transactions are documented by preparing vouchers and issuing receipts. After classifying and recording in the cash book, journal book, petty cash book as the case may be, the transactions, are posted to the ledger and a trial balance is extracted summarizing the transactions. The financial statements such as Receipts and Payments Account, Income and Expenditure Account and Balance Sheet are then constructed to ascertain the financial health of the institution. This process is depicted in Figure 5.2 given in the next page.

FIGURE 5.2 - FLOW CHART OF THE LOAN ACCOUNTING PROCESS

5.2 MICRO-FINANCE TRANSACTION SUMMARY

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
1	Member Savings A/C Opening	Asset, Cash	Inc	Db	Liability Savings Specific Member Savings A/C	Inc	Cr
2	Member Share A/C Opening	Asset, Cash	Inc	Db	Equity Share Specific Member Share A/C	Inc	Cr
3	Member Processing Fees	Asset, Cash	Inc	Db	Income Operational Income, Member Processing Fees	Inc	Cr
4	Member Savings A/C Closing	Asset, Cash	Dec	Cr	Liability Savings Specific Member Savings A/C	Dec	Db
5	Member Share A/C Closing	Asset, Cash	Dec	Cr	Equity Share Specific Member Share A/C	Dec	Db
6	Member Processing Fees Refund (of Excess)	Asset, Cash	Dec	Cr	Income Operational Income, Member Processing Fees	Dec	Db
7	Savings Deposit	Asset, Cash	Inc	Db	Liability Savings Specific Member Savings A/C	Inc	Cr
8	Savings Withdrawal	Asset, Cash	Dec	Cr	Liability Savings Specific Member Savings A/C	Dec	Db
9	Savings Deposit Modification - Increase	Asset, Cash	Inc	Db	Liability Savings Specific Member Savings Account	Inc	Cr
10	Savings Deposit Modification - Decrease	Asset, Cash	Dec	Cr	Liability Savings Specific Member	Dec	Db

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
					Savings Account		
11	Savings Withdrawal Modification - Increase	Asset, Cash	Dec	Cr	Liability Savings Specific Member Savings Account	Dec	Db
12	Savings Withdrawal Modification - Decrease	Asset, Cash	Inc	Db	Liability Savings Specific Member Savings Account	Inc	Cr
13	Fixed Deposit Opening	Asset, Cash	Inc	Db	Liability FD Specific Member FD A/C	Inc	Cr
14	Fixed Deposit Closure	Asset, Cash	Dec	Cr	Liability FD Specific Member FD A/C	Dec	Db
15	Fixed Deposit Modification - Increase	Asset, Cash	Inc	Db	Liability FD Specific Member FD A/C	Inc	Cr
16	Fixed Deposit Modification - Decrease	Asset, Cash	Dec	Cr	Liability FD Specific Member FD A/C Account	Dec	Db
17	Loan Disbursement to clients	Asset, Cash	Dec	Cr	Asset, Loans Outstanding, Specific Member Loan Outstanding A/C	Inc	Db
18	Loan Repayment by clients	Asset, Cash	Inc	Db	Asset, Loans Outstanding, Specific Member Loan Outstanding A/C	Dec	Cr
19	Loan Prepayment by clients	Asset, Cash	Inc	Db	Asset, Loans Outstanding, Specific Member	Dec	Cr

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
					Loan Outstanding A/C		
20	Loan Prepayment by clients	Asset, Cash	Inc	Db	Liabilities Prepaid Loans Specific Member Loan A/C	Inc	Cr
21	When installment comes due for prepaid	Liabilities Prepaid Loans Specific Loan Account	Dec	Db	Asset Loans Outstanding Specific Member Loan A/c	Dec	Cr
22	Loan Disbursement to clients Modification - Increase	Asset, Cash	Dec	Cr	Asset, Loan Outstanding Specific Member Loan A/C	Inc	Db
23	Loan Disbursement to clients Modification - Decrease	Asset, Cash	Inc	Db	Asset, Loan Outstanding Specific Member Loan A/C	Dec	Cr
24	Loan Repayment by clients Modification - Increase	Asset, Cash	Inc	Db	Asset, Loan Outstanding Specific Member Loan Account	Dec	Cr
25	Loan Repayment by clients Modification - Decrease	Asset, Cash	Dec	Cr	Asset, Loan Outstanding Specific Member Loan Account	Inc	Db
26	Interest Payment by Clients	Asset, Cash	Inc	Db	Income Operational Income Interest in Member Specific Loan A/C	Inc	Cr
27	Interest due from client is Recognized but not paid	Asset, Accounts Receivable , Specific Member	Inc	Db	Income Operational Income Interest in Member Specific	Inc	Cr

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
		Interest Payable Account			Loan A/C		
28	When Interest is actually paid	Asset, Cash	Inc	Db	Asset, Accounts Receivable, Specific Member Interest Payable Account	Dec	Cr
29	When a Past Due (Overdue) Loan is Rescheduled Now, as rescheduling has taken place, system must record and track it elsewhere to calculate adjusted PAR	Asset, Loan Outstanding, Current Loan, Specific Member Loan A/C	Inc	Db	Asset, Loan Outstanding, Past Due Loan, Specific Member Loan A/C	Dec	Cr
30	When a past due loan is refinanced There are 4 accounts (and 2 processes) that will be affected a) Rescheduling of Past Due Loans Outstanding b) Outflow of money for refinancing amount in excess of the rescheduled amount As an example let us say Rs 12,000 is the refinanced amount for a past due loan of Rs 3000. Now, as before, as rescheduling and refinancing has taken place, system must record and track it elsewhere to calculate adjusted PAR	Asset, Current Loan Outstanding, Specific Member Loan A/C Asset, Cash	Inc Dec	Db Rs 3000 Cr Rs 12000	Asset, Past Due Loan Outstanding, Specific Member Loan A/C Asset, Current Loan Outstanding, Specific Member A/C	Dec Inc	Cr Rs 3000 Db Rs 12000
31	When a past due loan is written off The written off loans should also be tracked and also because we decrease the loan outstanding and the loan loss reserve, the net loan outstanding will remain the same as provisions have been	Asset, Loan Outstanding, Past Due Loans, Specific Member Loan A/C	Dec	Cr	(-ve) Asset, Loan Loss Reserve	Dec	Db

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
	made and added to the reserve						
32	Past Due Loans Rescheduled – Modification Increase	Asset, Loan Outstanding, Current Loan, Specific Member Loan A/C	Inc	Db	Asset, Loan Outstanding, Past Due Loan, Specific Member Loan A/C	Dec	Cr
33	Past Due Loans Rescheduled – Modification Decrease	Asset, Loan Outstanding, Current Loan, Specific Member Loan A/C	Dec	Cr	Asset, Loan Outstanding, Past Due Loan, Specific Member Loan A/C	Inc	Db
34	When a past due loan is refinanced Modification Increase Rescheduling Rs 1000 Refinancing – Rs 1000	Asset, Current Loan Outstanding, Specific Member Loan A/C Asset, Cash	Inc Dec	Db Rs 1000 Cr Rs 1000	Asset, Past Due Loan Outstanding, Specific Member Loan A/C Asset, Current Loan Outstanding, Specific Member A/C	Dec Inc	Cr Rs 1000 Db Rs 1000
35	When a past due loan is refinanced Modification Decrease Rescheduling Rs 1000 Refinancing – Rs 1000	Asset, Current Loan Outstanding, Specific Member Loan A/C Asset, Cash	Dec Inc	Cr Rs 1000 Db Rs 1000	Asset, Past Due Loan Outstanding, Specific Member Loan A/C Asset, Current Loan Outstanding, Specific Member A/C	Inc Dec	Db Rs 1000 Cr Rs 1000
36	Past due loan written off Modification Increase	Asset, Loan Outstanding, Past Due Loans, Specific Member Loan A/C	Dec	Cr	(-ve) Asset, Loan Loss Reserve	Dec	Db

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
37	Past due loan written off Modification Decrease	Asset, Loan Outstanding, Past Due Loans, Specific Member Loan A/C	Inc	Db	(-ve) Asset, Loan Loss Reserve	Inc	Cr
38	Loan Received from Wholesaler (Payable in quarterly installments of Rs 15 Lakhs for 4 years). Interest is 11% If interest is less than market rate of interest (PLR), then subsidized loan. Otherwise, commercial loan. All money to be repaid in 1 year under current liabilities All money to be paid after that under long-term liabilities	Liability, Current Liability, Subsidized Loan, Specific Wholesale r Loan Account Payable Liability, Long- Term Liability, Subsidized Loan, Specific Wholesale r Loan Account Payable	Inc Inc	Cr Cr (Rs 1.80 Crores to be paid back in 3 years (12 quarters) after this 1 st year)	Asset, Cash	Inc	Db Rs 2.40 Crores
39	Wholesaler Loan Repayment every quarter	Liability, Current Liability, Subsidized Loan, Specific Wholesale r Loan Account Payable	Dec	Db	Asset, Cash	Dec	Cr
40	Wholesaler Loan Repayment Prepayment of entire loan before 1st repayment begins	Liability, Current Liability, Subsidized Loan, Specific Wholesale r Loan Account	Dec	Db Rs 60,00,000 (Rs 15,00,000 x 4 quarters)	Asset, Cash	Dec	Cr Rs 2.40 Crores

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
		Payable		for 1 year)			
		Liability, Long-Term Liability, Subsidized Loan, Specific Wholesaler Loan Account Payable	Dec	Db (Rs 1.80 Crores to be paid back in 3 years (12 quarters) after this 1 st year			
41	Wholesaler Loan Received Modification Increase Rs 4.00 Crore overall repayable in 4 years (16 quarters)	Liability, Current Liability, Subsidized Loan, Specific Wholesaler Loan Account Payable	Inc	Cr Rs 1,00,000	Asset, Cash	Inc	Db Rs 4 Crore
		Liability, Long-Term Liability, Subsidized Loan, Specific Wholesaler Loan Account Payable	Inc	Cr Rs 3 Crore			
42	Wholesaler Loan Received Modification Decrease Rs 1.20 Crore from original Rs 2.40 crore	Liability, Current Liability, Subsidized Loan, Specific Wholesaler Loan Account Payable	Dec	Db Rs 30,00,000	Asset, Cash	Dec	Cr Rs 1.2 Crore
		Liability, Long-Term Liability,	Dec	Db Rs 90			

S No	Transaction	Account Affected	Type	Debit/Credit	Account Affected	Type	Debit/Credit
		Subsidized Loan, Specific Wholesaler Loan Account Payable		Lakhs			
43	Wholesaler Interest Paid	Financial Expenses, Wholesaler Interest Expenses	Inc	Db	Asset, Cash	Dec	Cr
44	Wholesaler Interest Payable on date when due, but not paid	Liabilities Accounts Payable, Wholesaler Interest Payable, Specific Wholesaler Loan Interest A/C	Inc	Cr	Financial Expenses, Wholesaler Interest Expenses	Inc	Db
45	When wholesaler interest is actually paid	Asset, Cash	Dec	Cr	Liabilities Accounts Payable, Wholesaler Interest Payable, Specific Wholesaler Loan Interest A/C	Dec	Db
46	Wholesaler Fees Paid	Asset, Cash	Dec	Cr	Financial Expenses, Wholesaler Fees Expenses	Inc	Db

This has also been summarized in diagrams in the next few pages

Figure 1

Transaction – Member Savings A/C Opening

Account # 1 Affected

**Asset,
Cash**

**What
Happens?**

Increase

**Whether
Debit or
Credit**

Debit (DB)

Account # 2 Affected

**Liability,
Savings,
Specific Member Savings A/C**

**What
Happens?**

Increase

**Whether
Debit or
Credit**

Credit (CR)

Figure 2

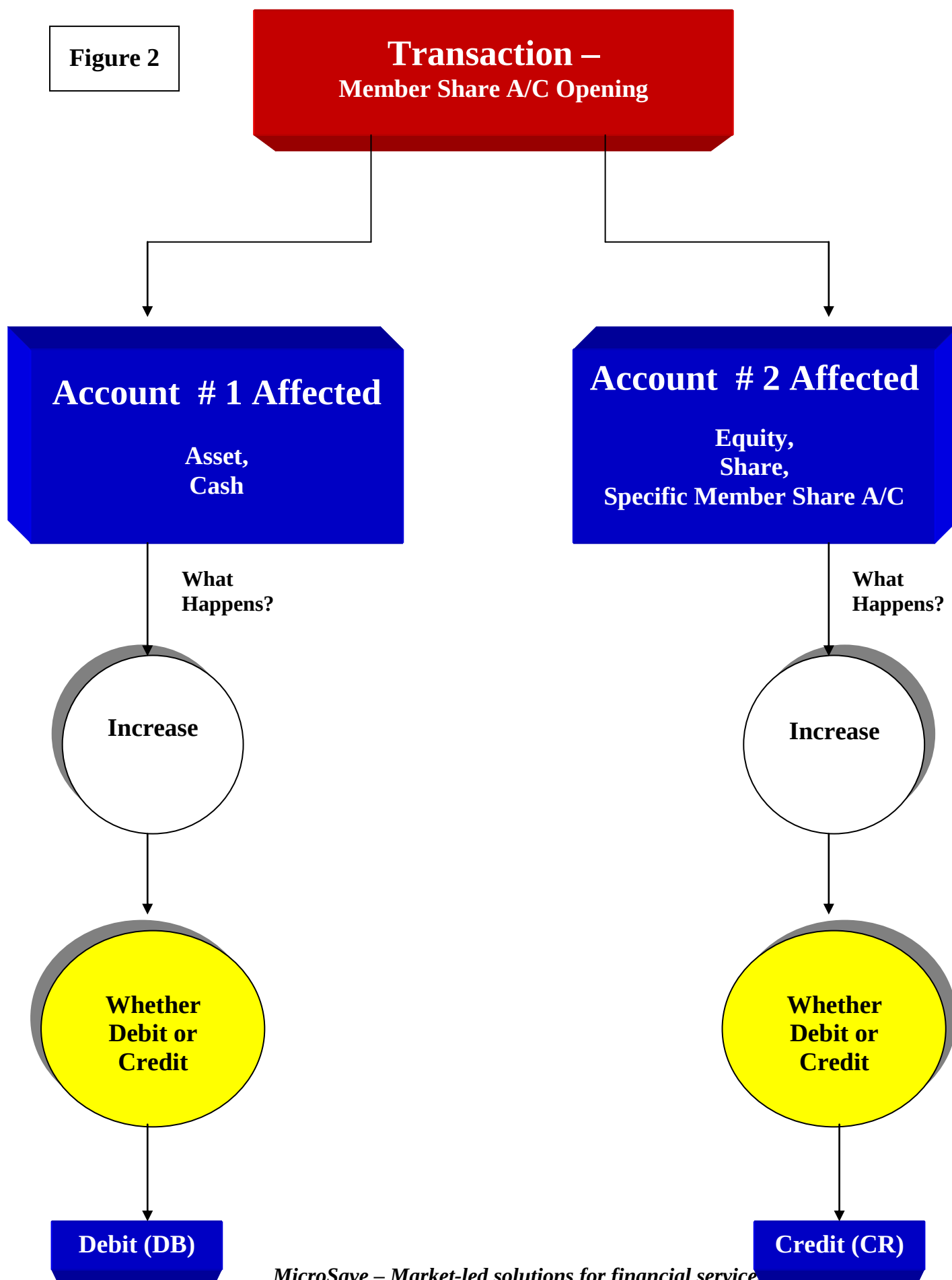


Figure 3

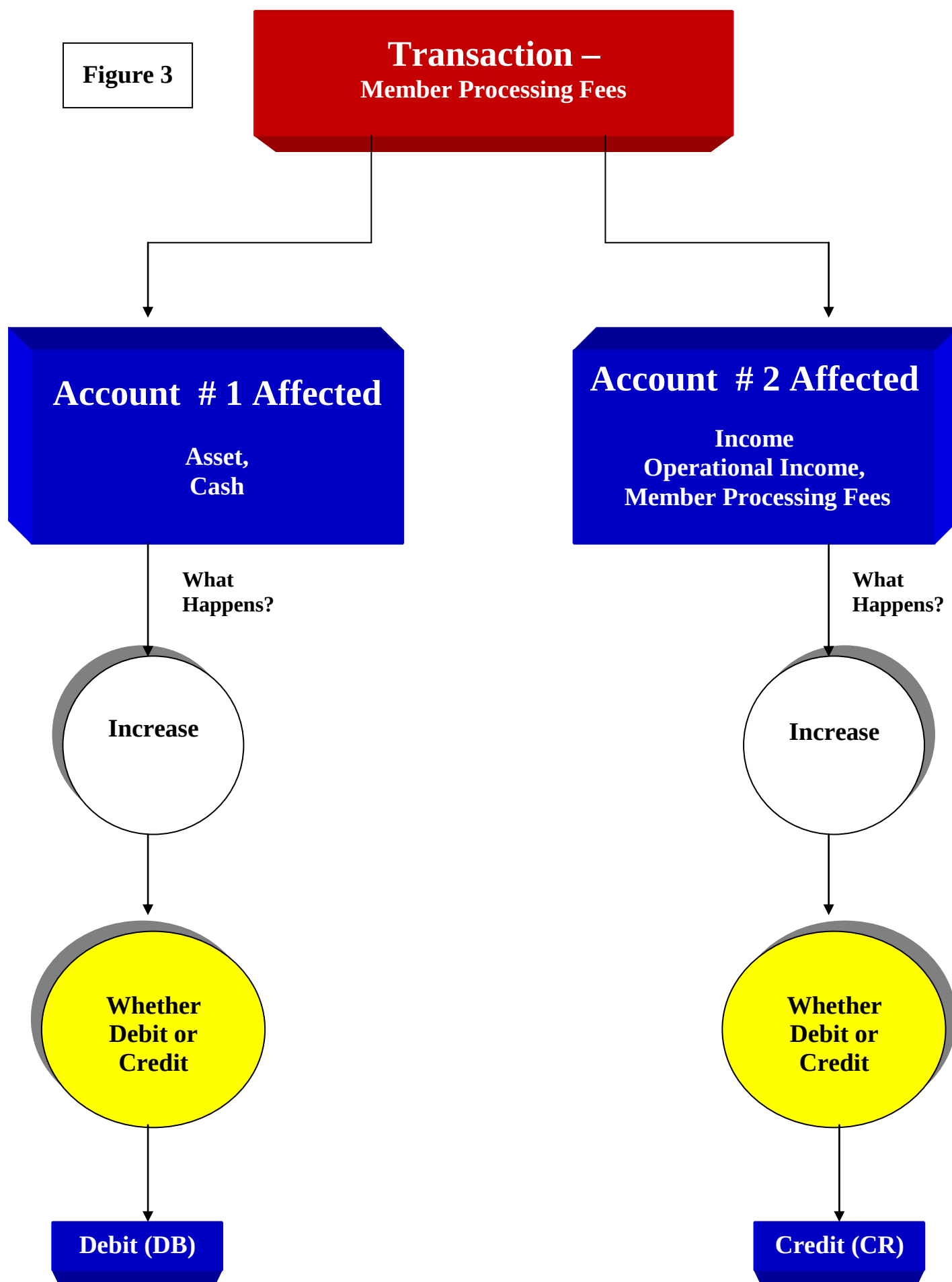


Figure 4

Transaction – Member Savings A/C Closing

Account # 1 Affected

**Asset,
Cash**

**What
Happens?**

Decrease

**Whether
Debit or
Credit**

Credit (CR)

Account # 2 Affected

**Liability
Savings
Specific Member Savings A/C**

**What
Happens?**

Decrease

**Whether
Debit or
Credit**

Debit (DB)

Figure 5

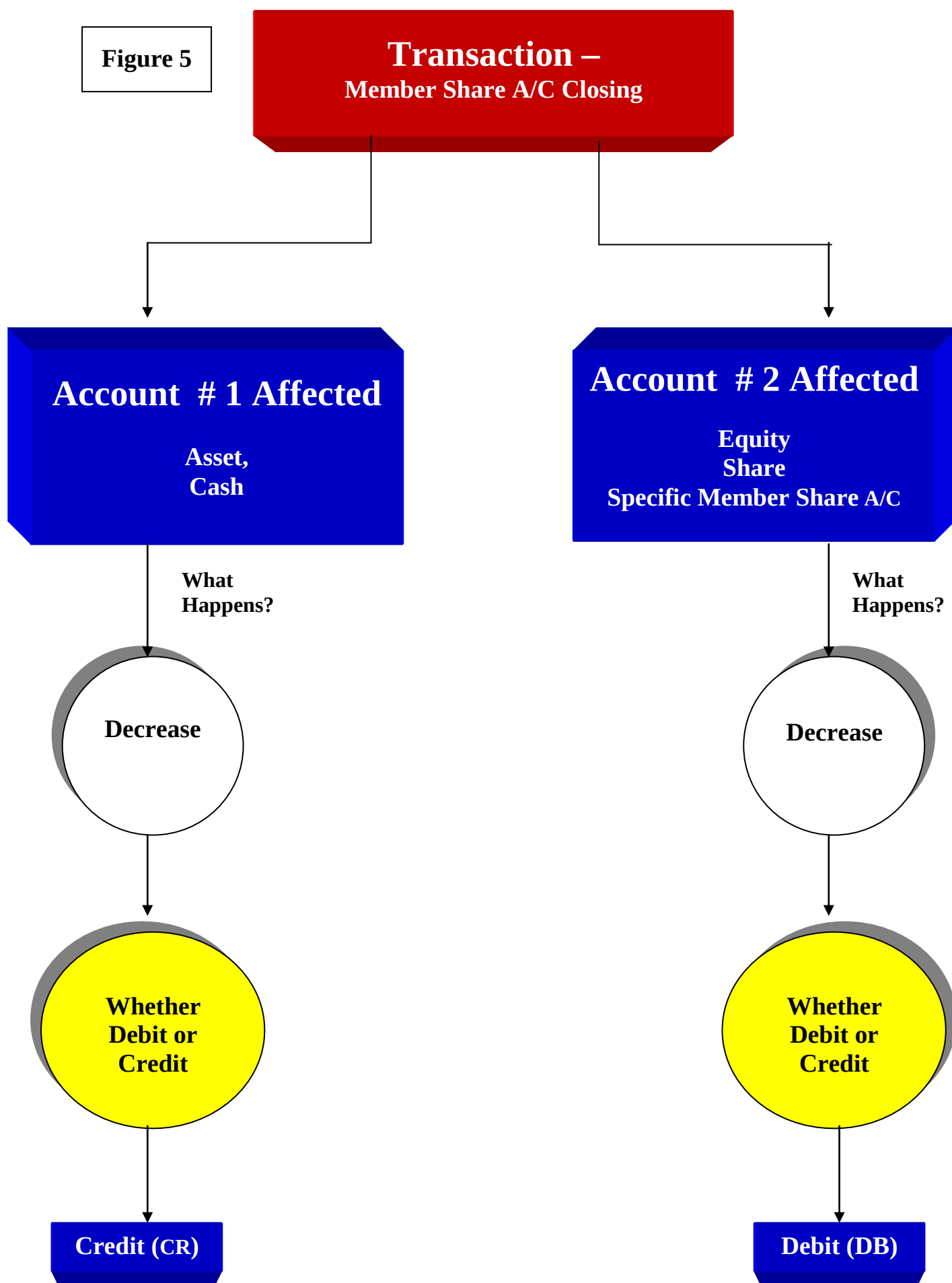


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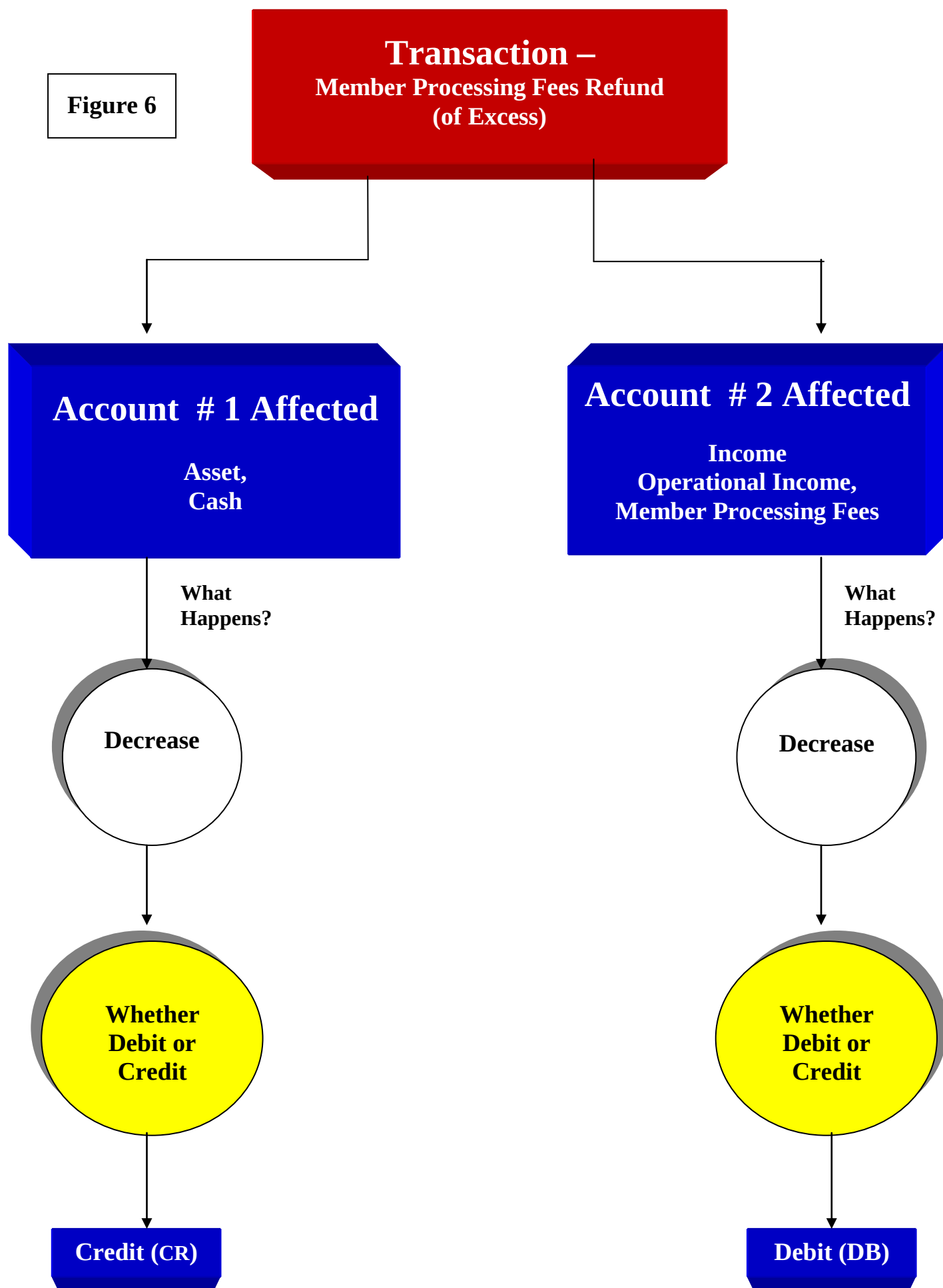


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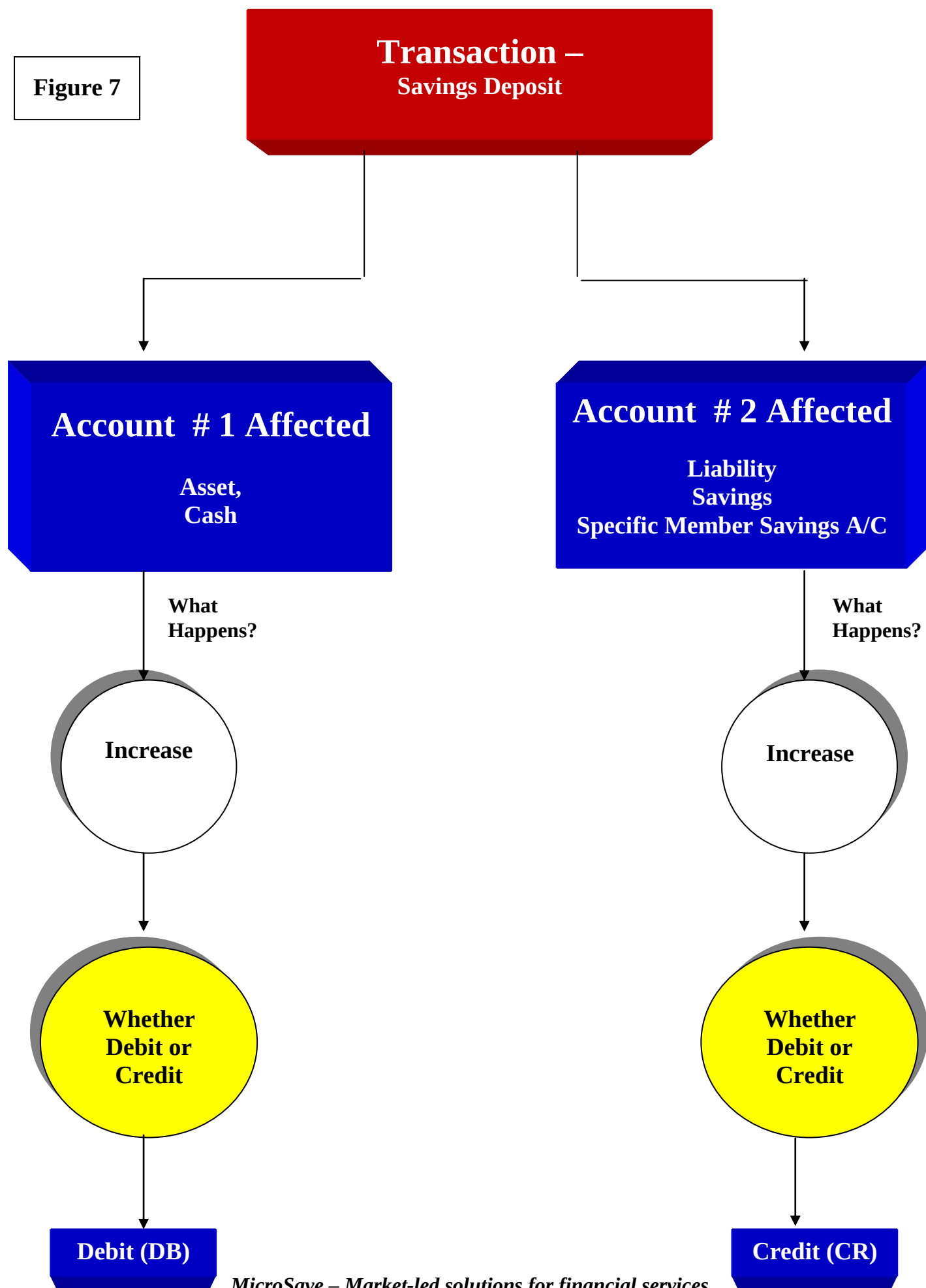


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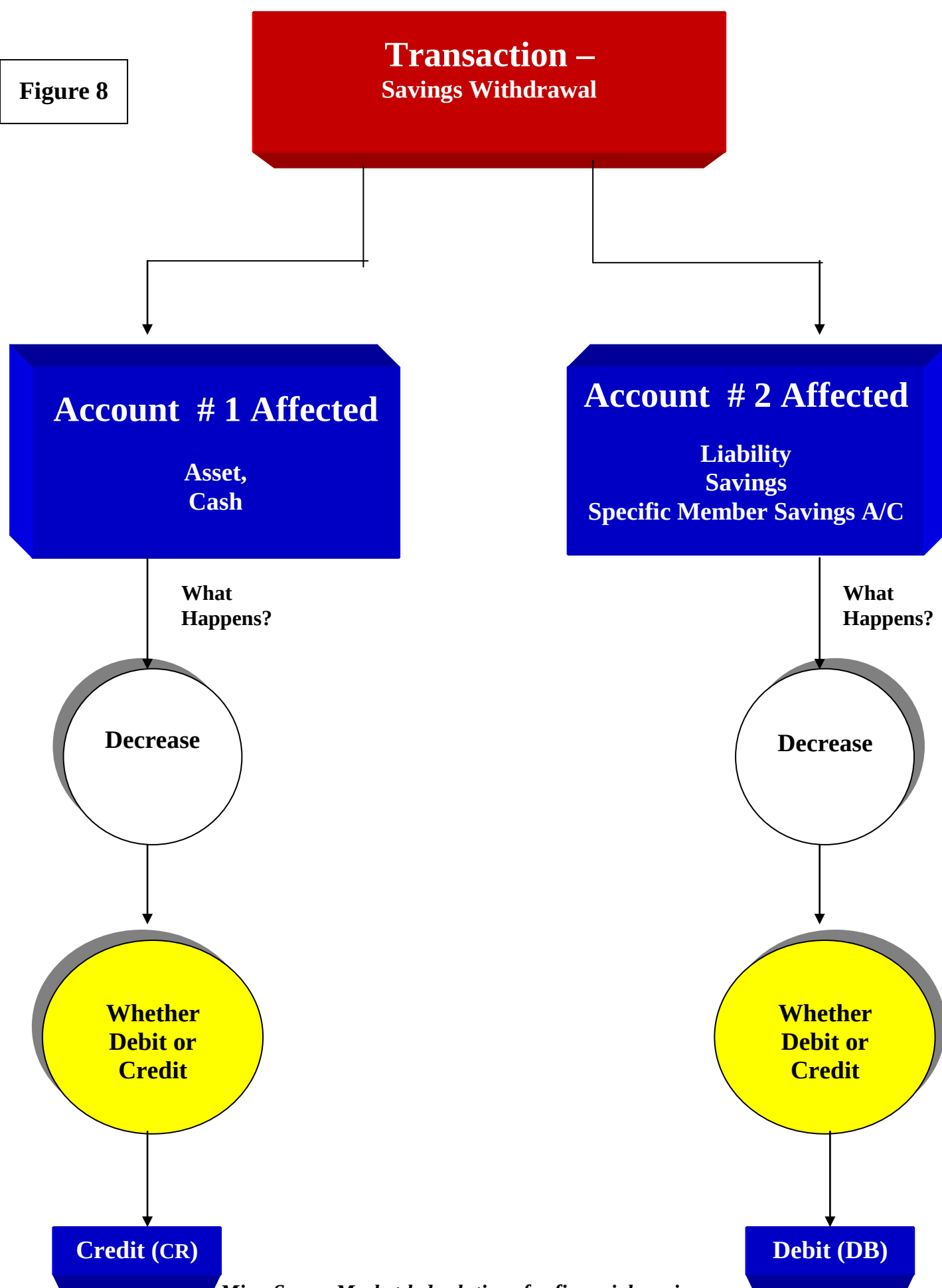


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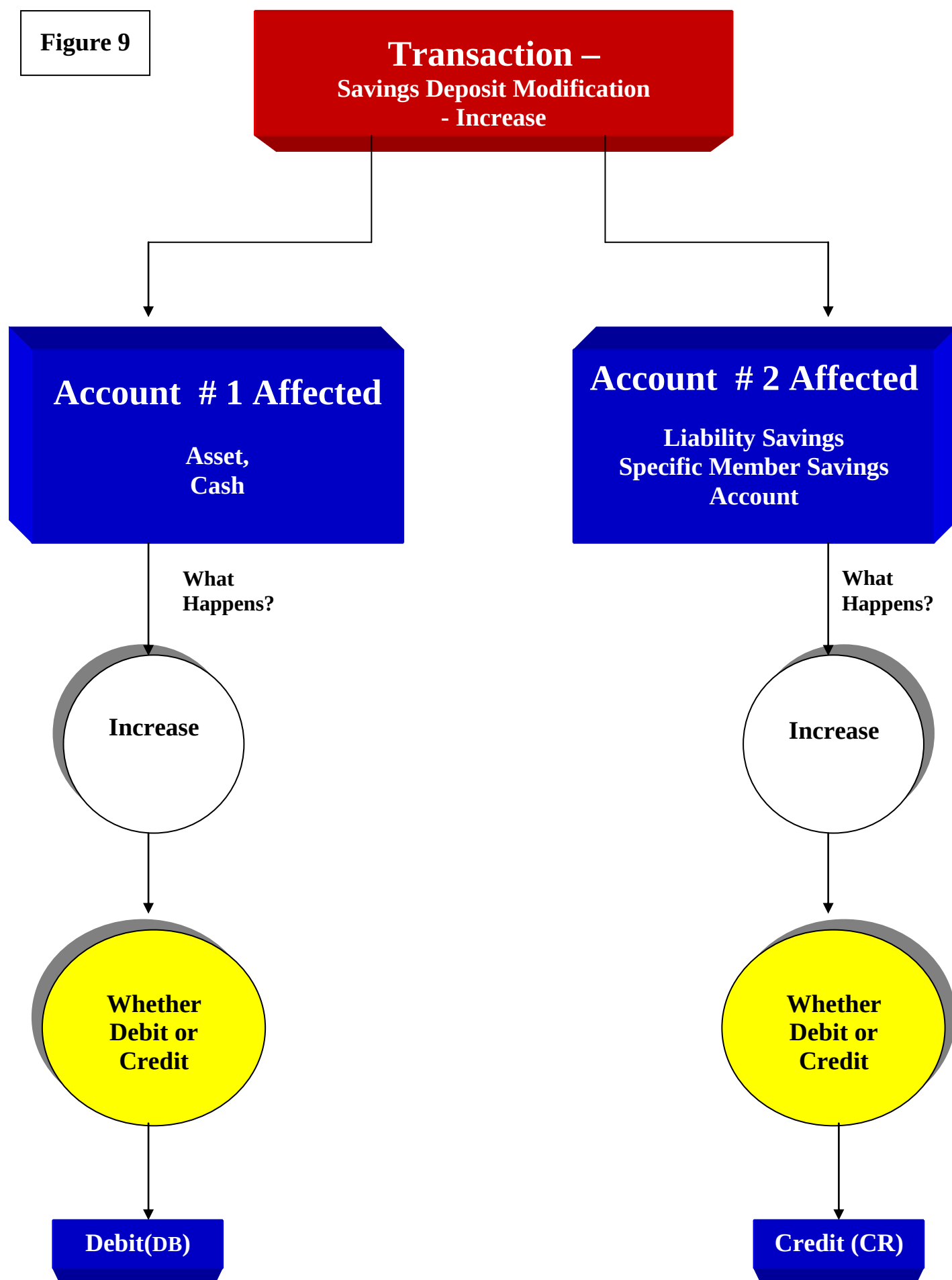


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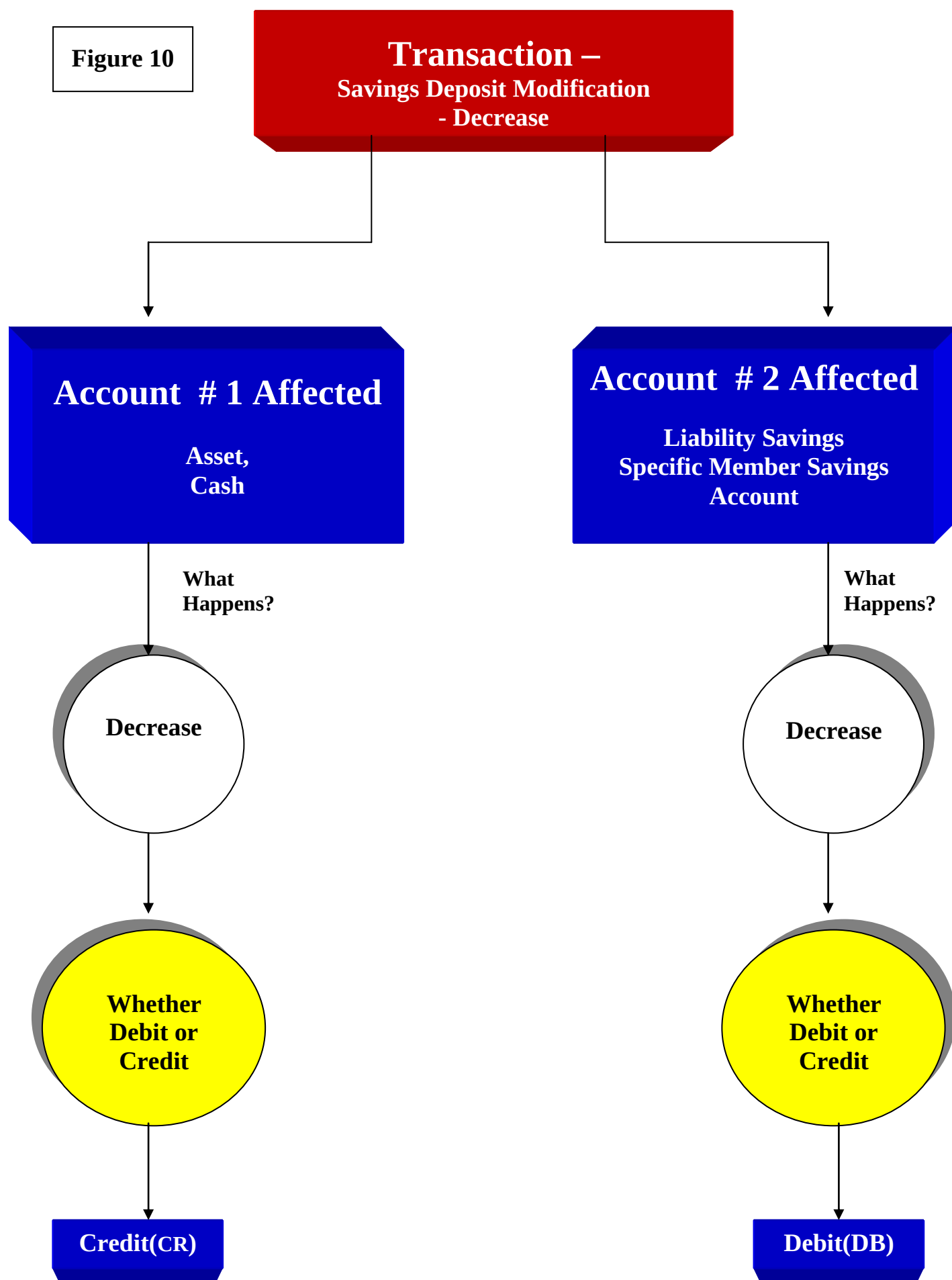


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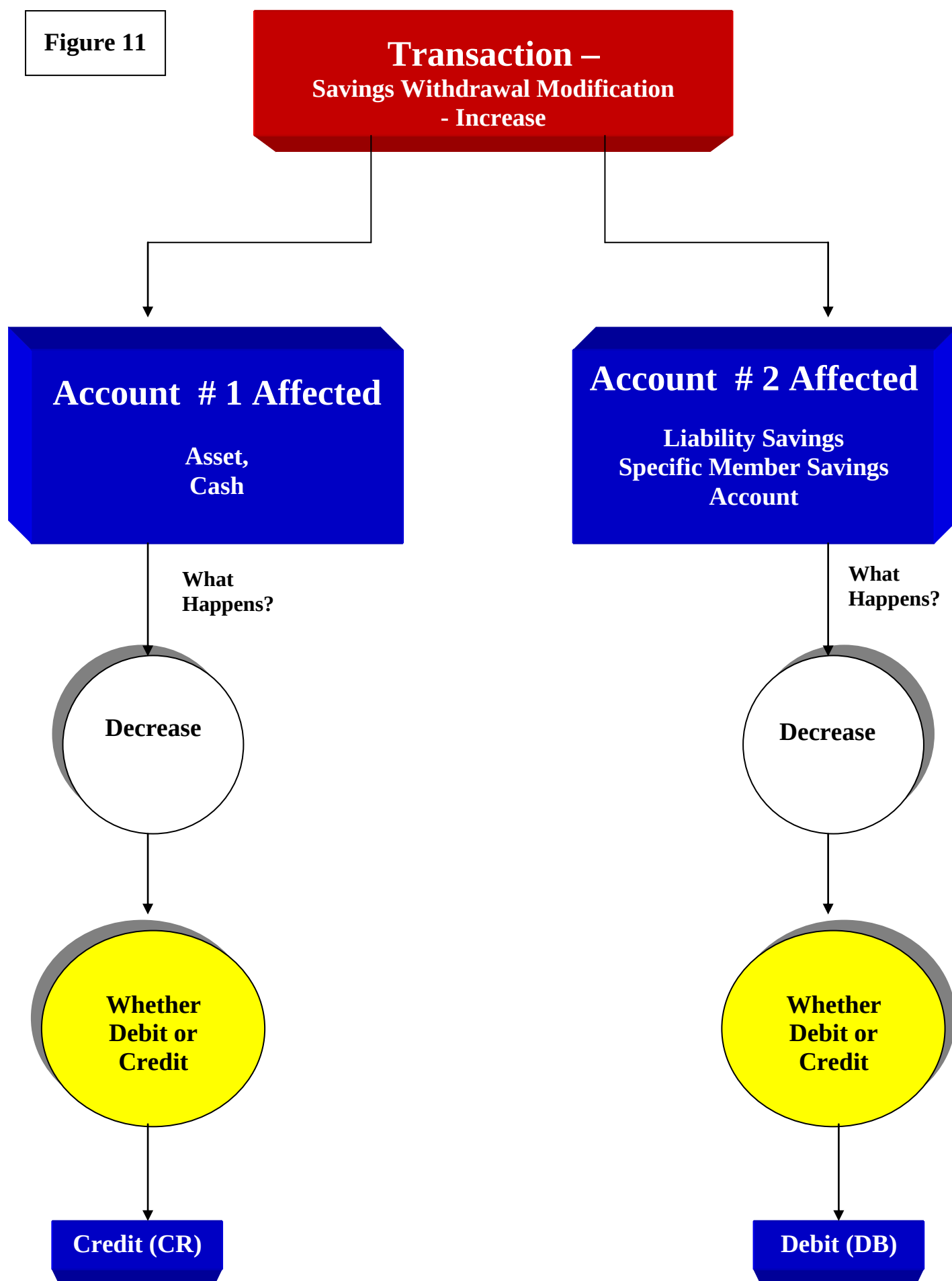


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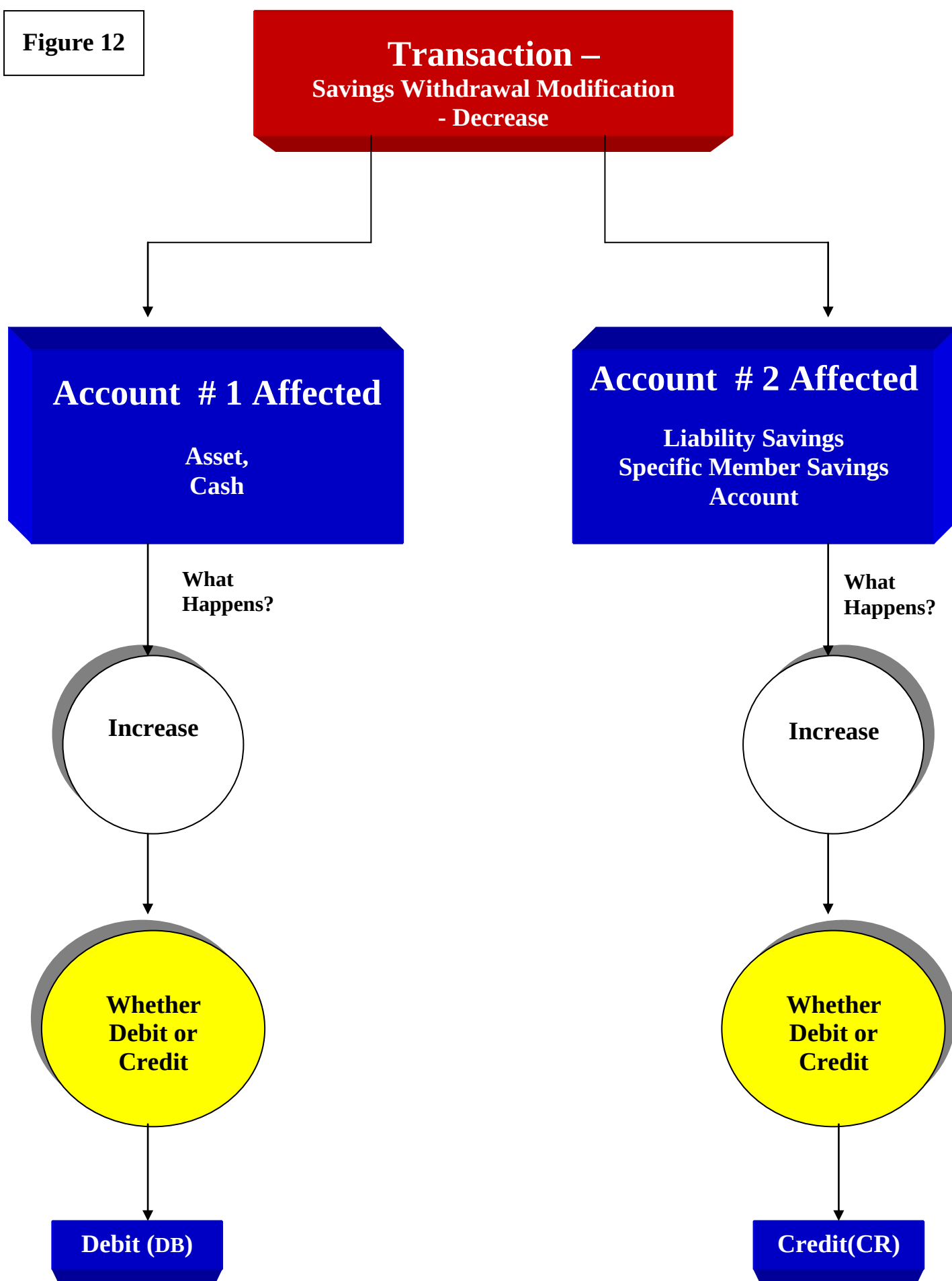


Figure 13

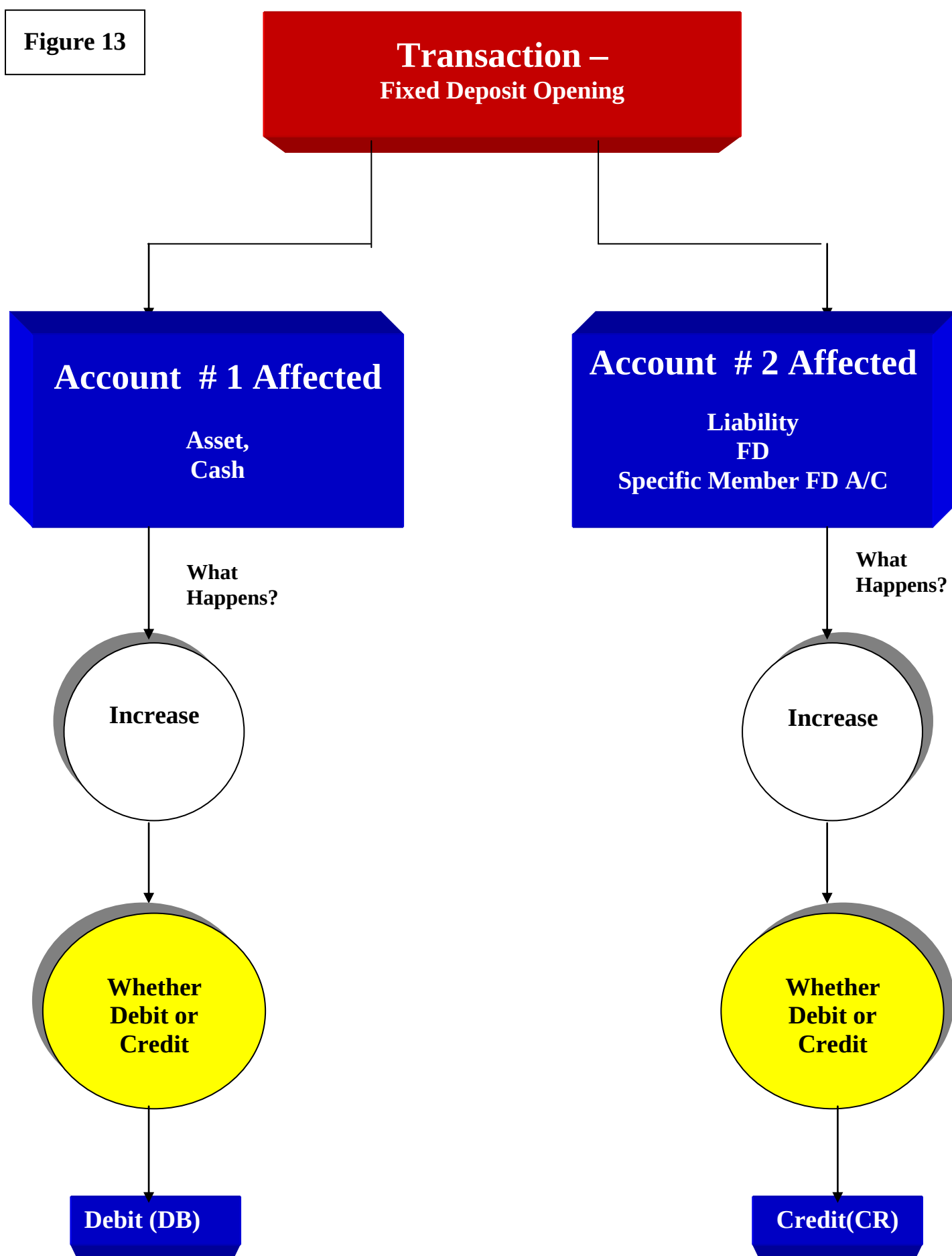


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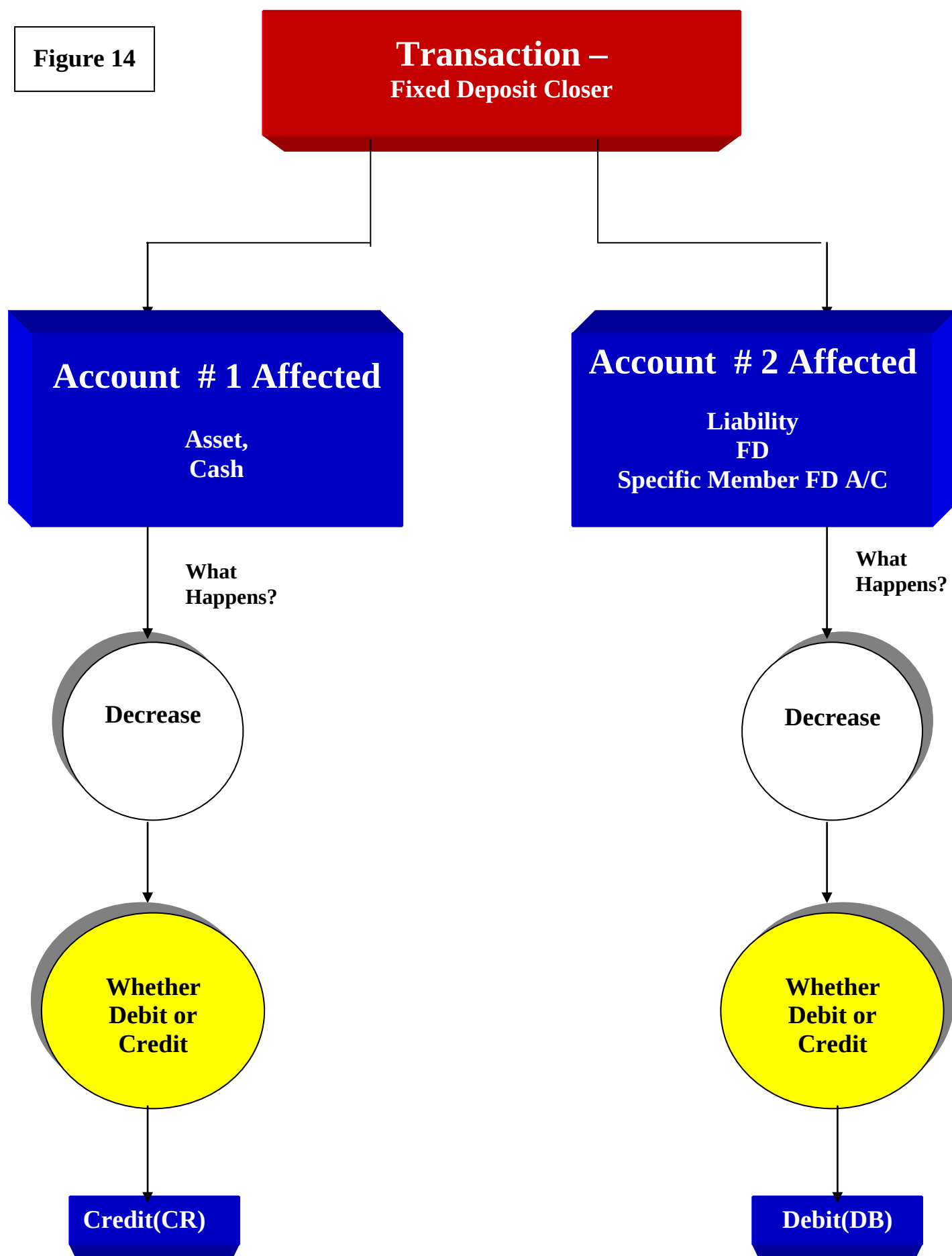


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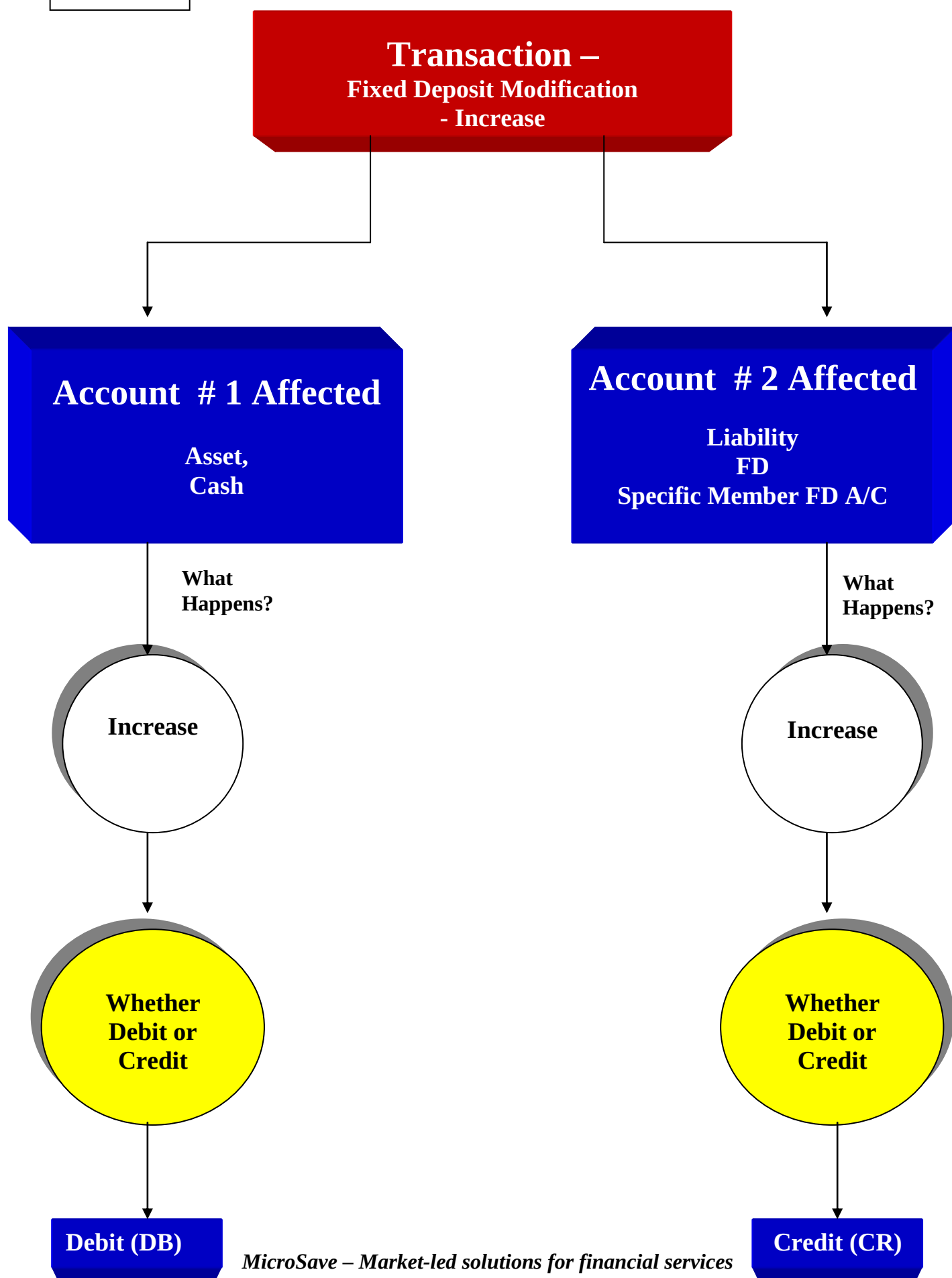


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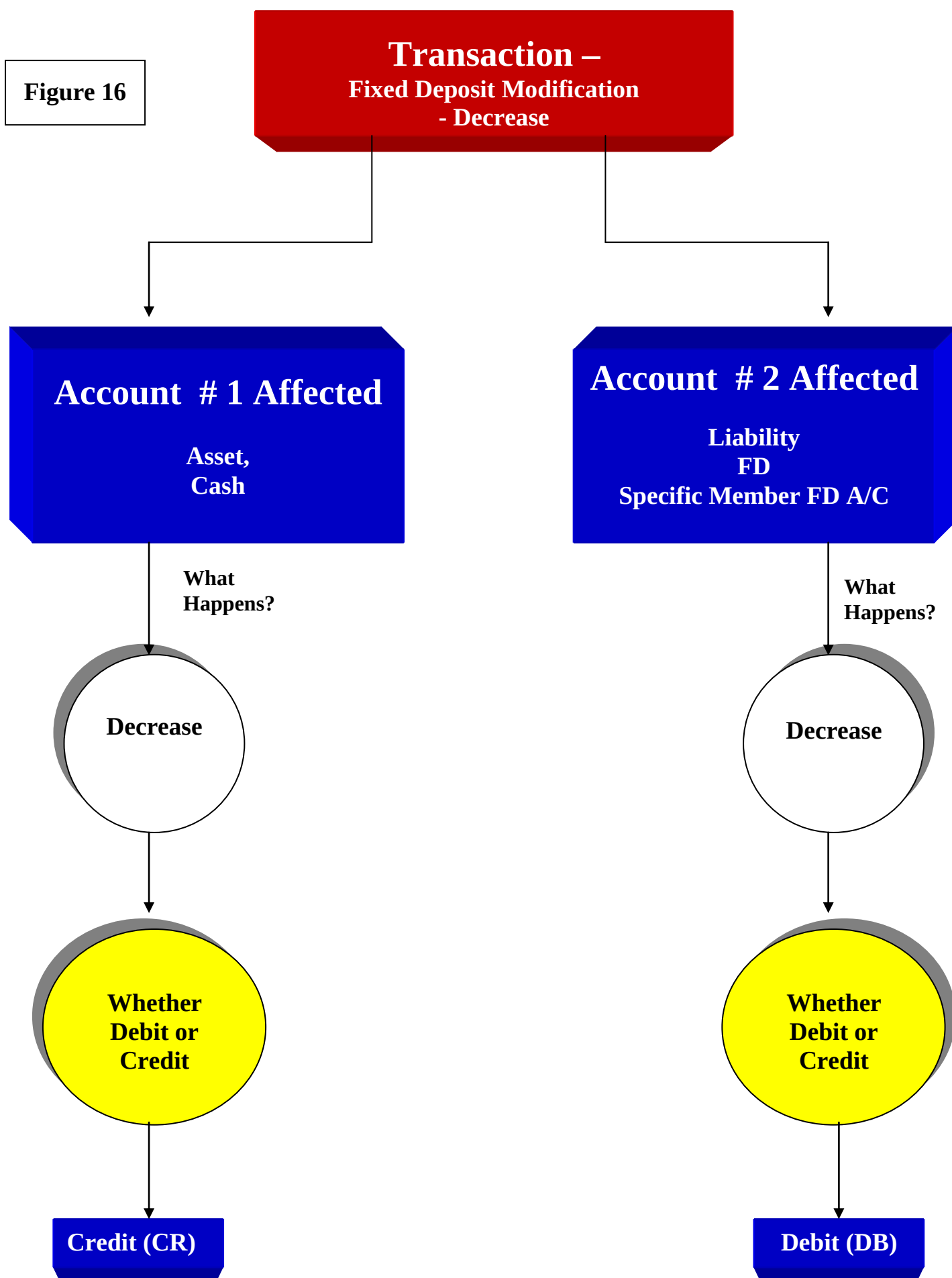


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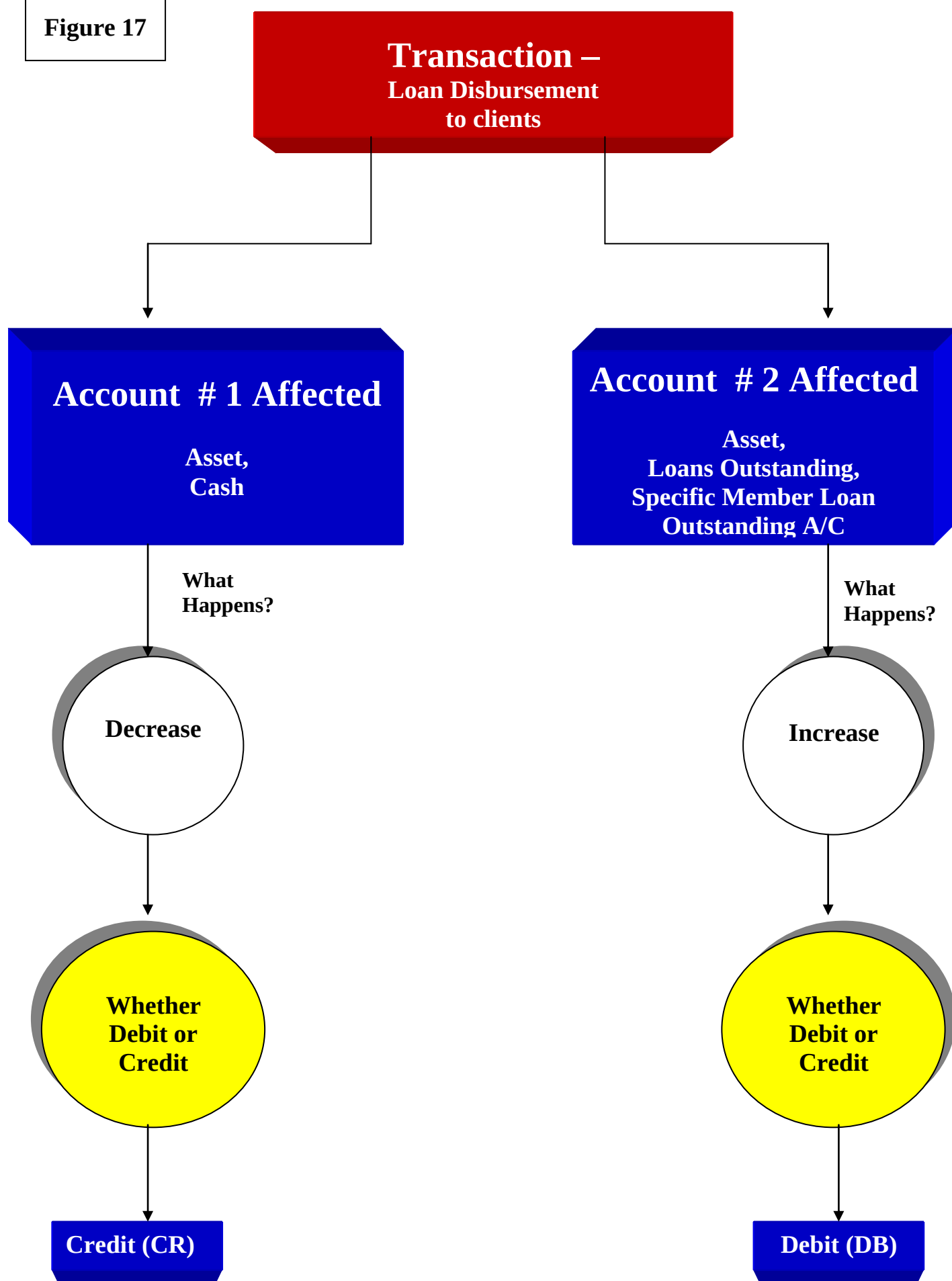


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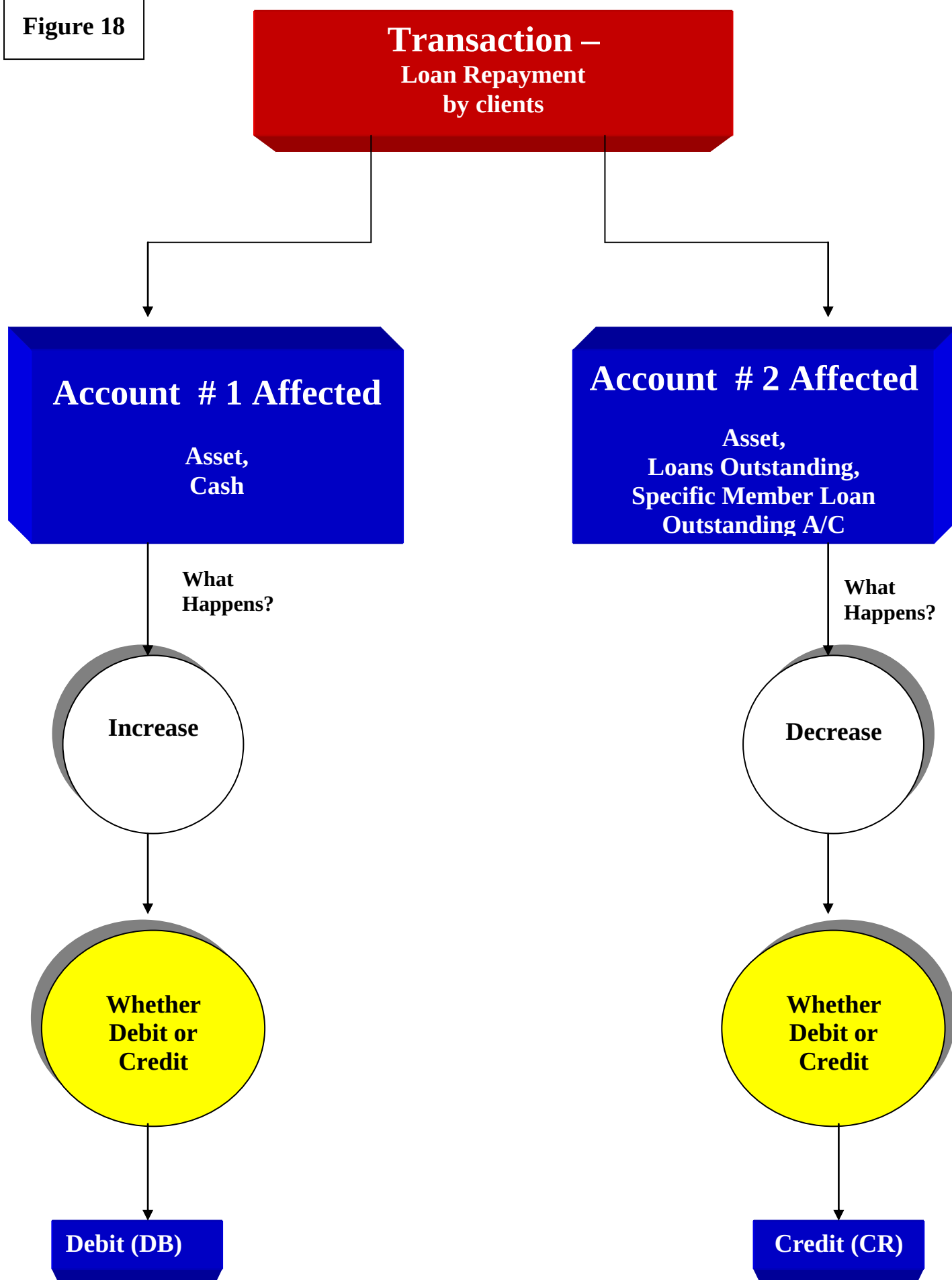


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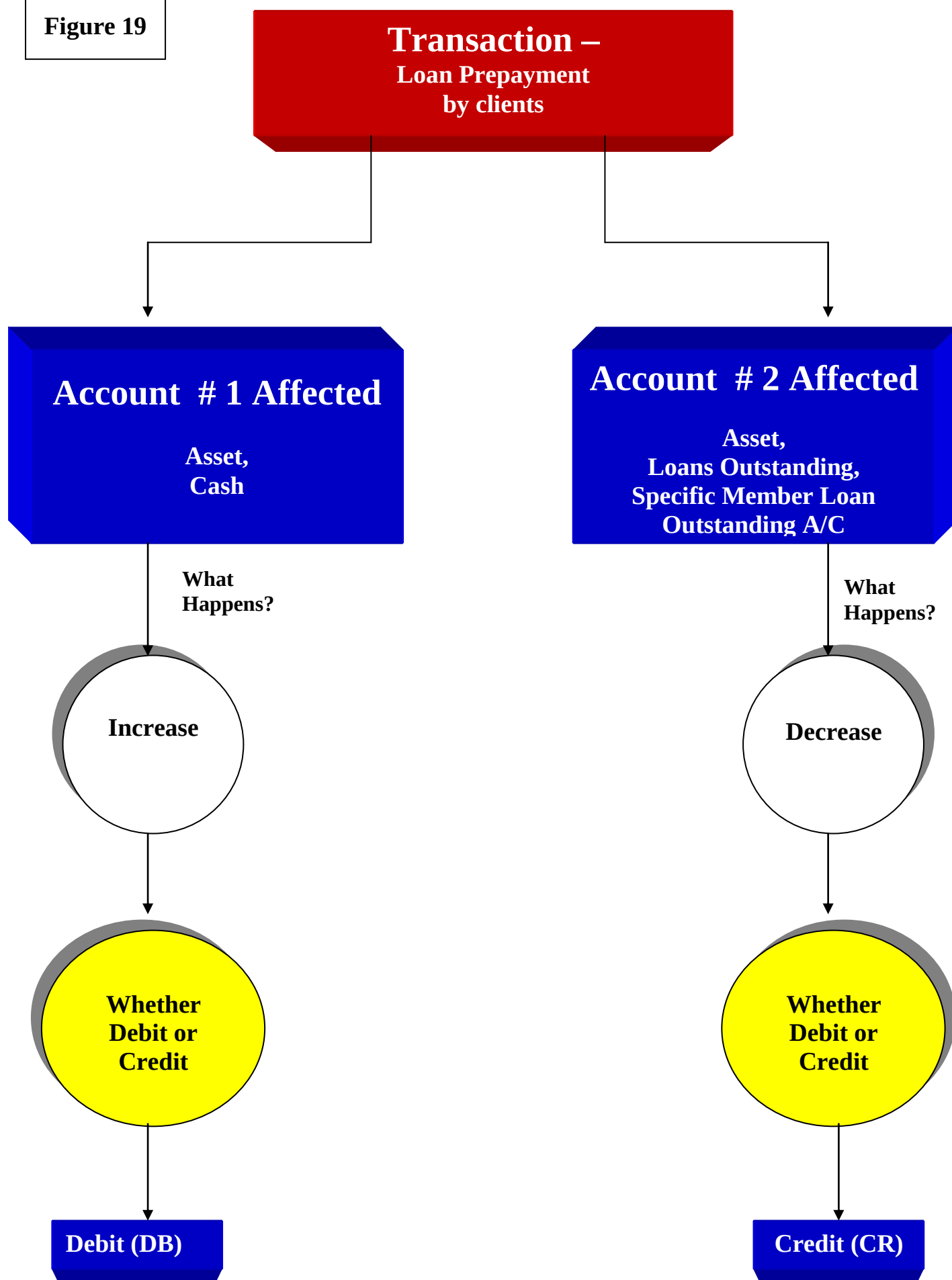


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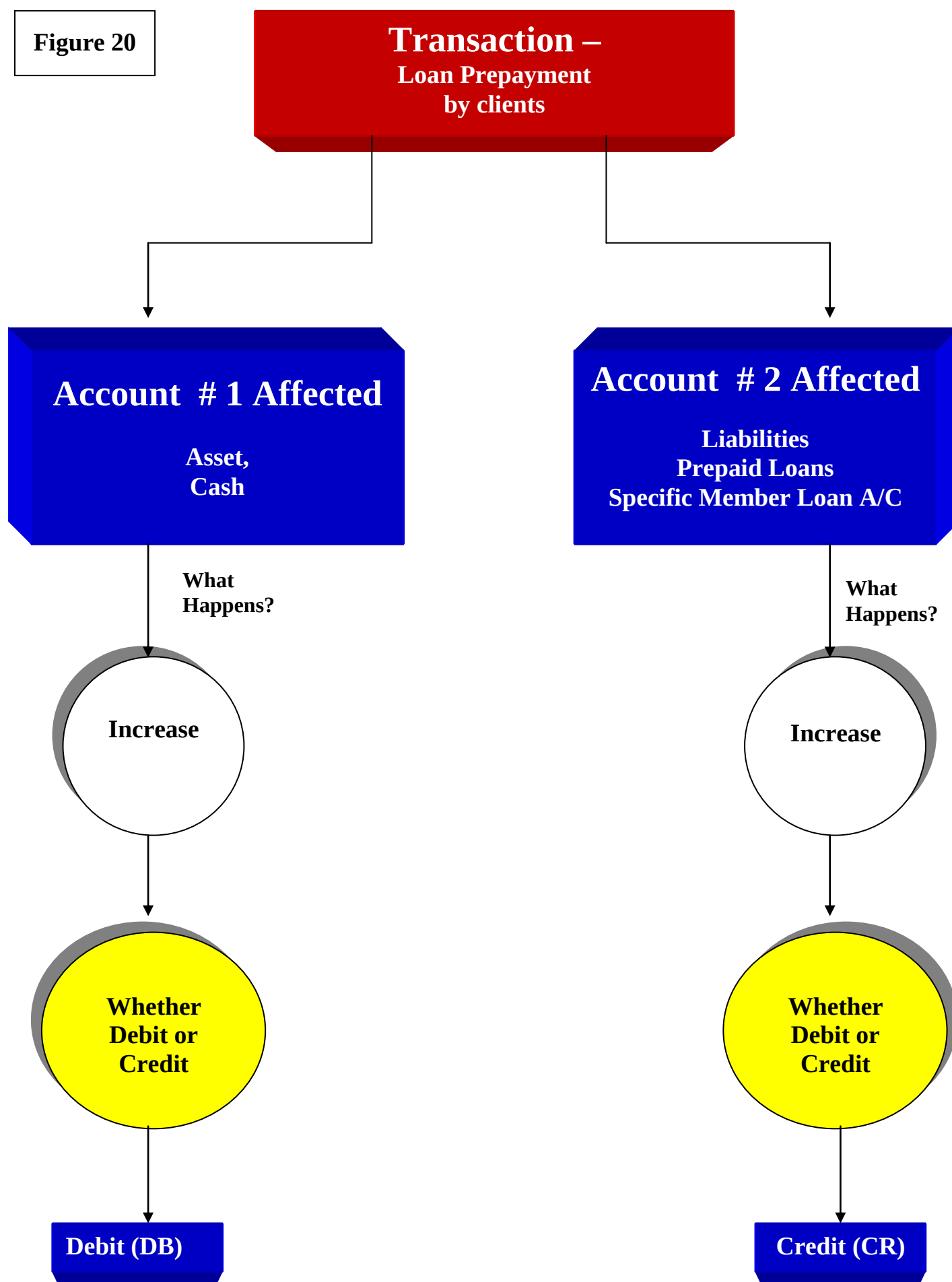


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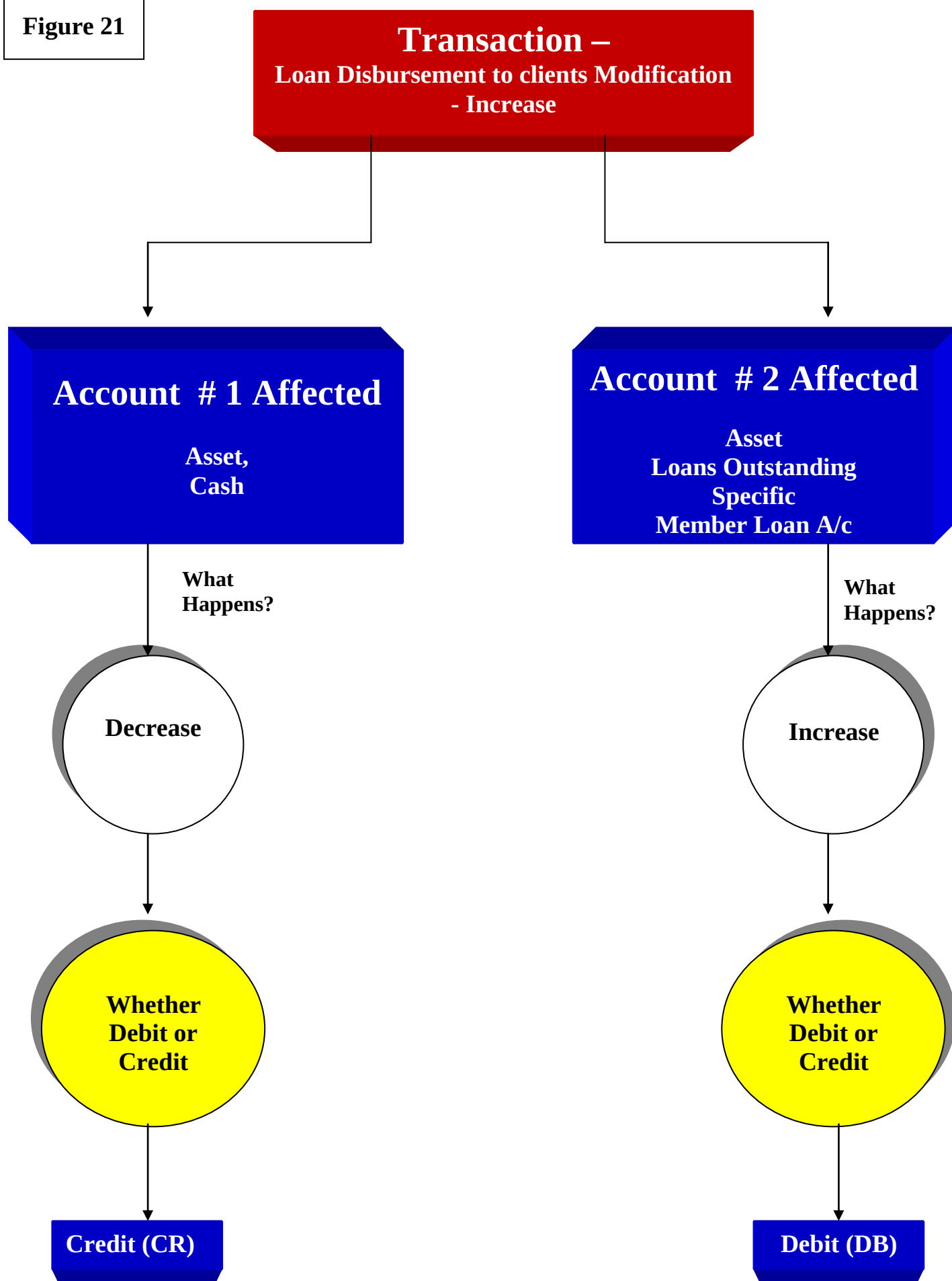


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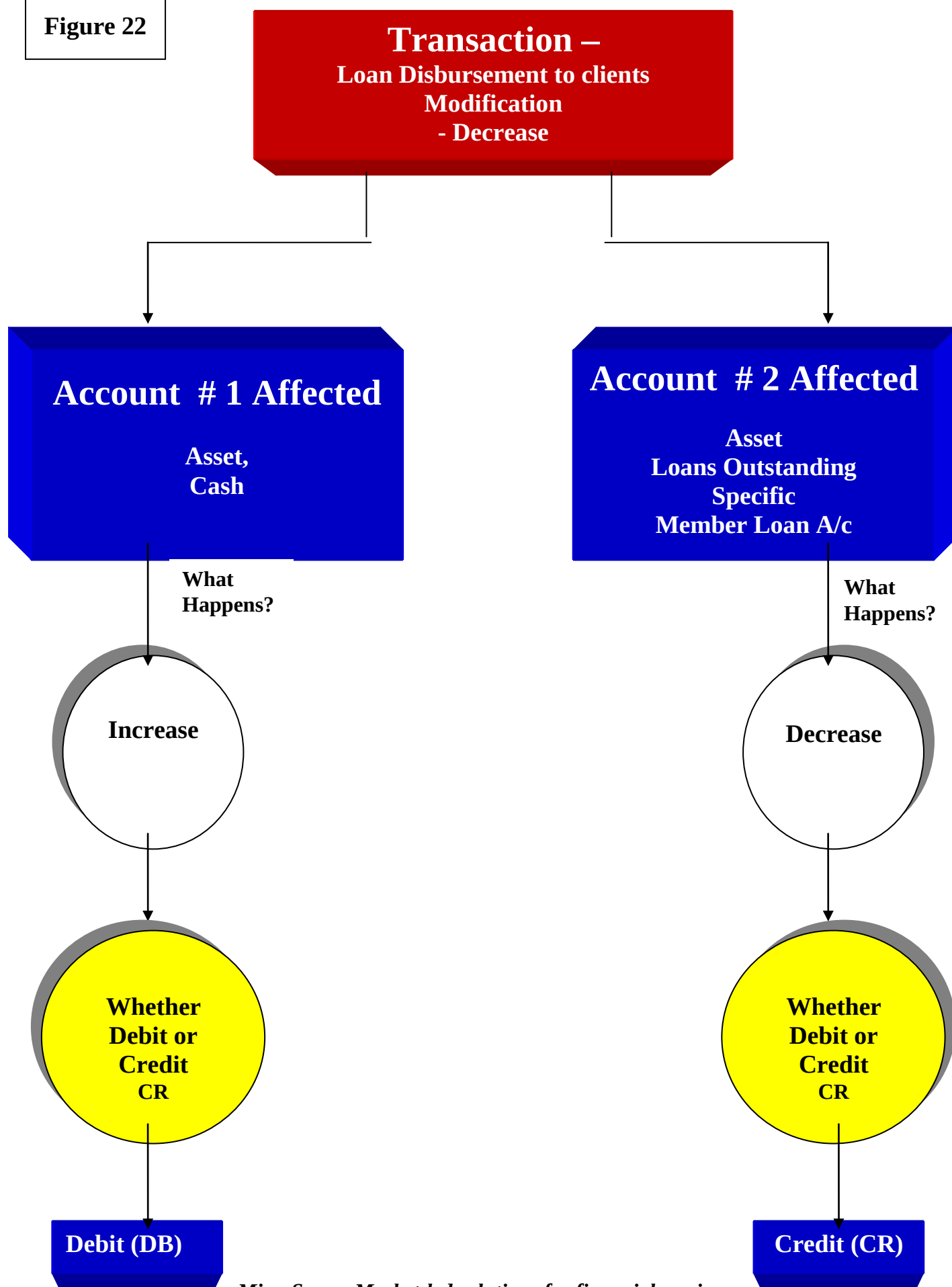


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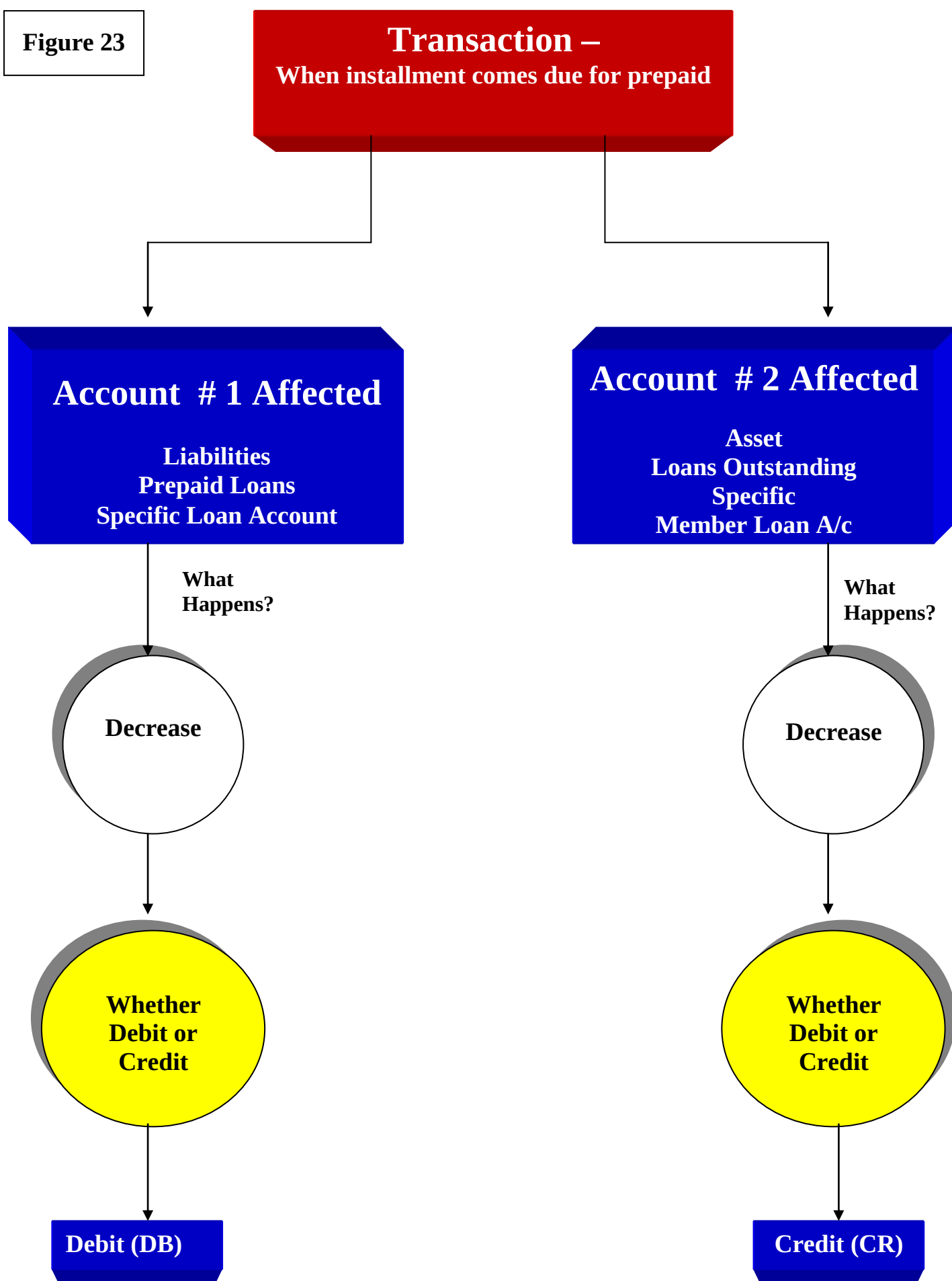


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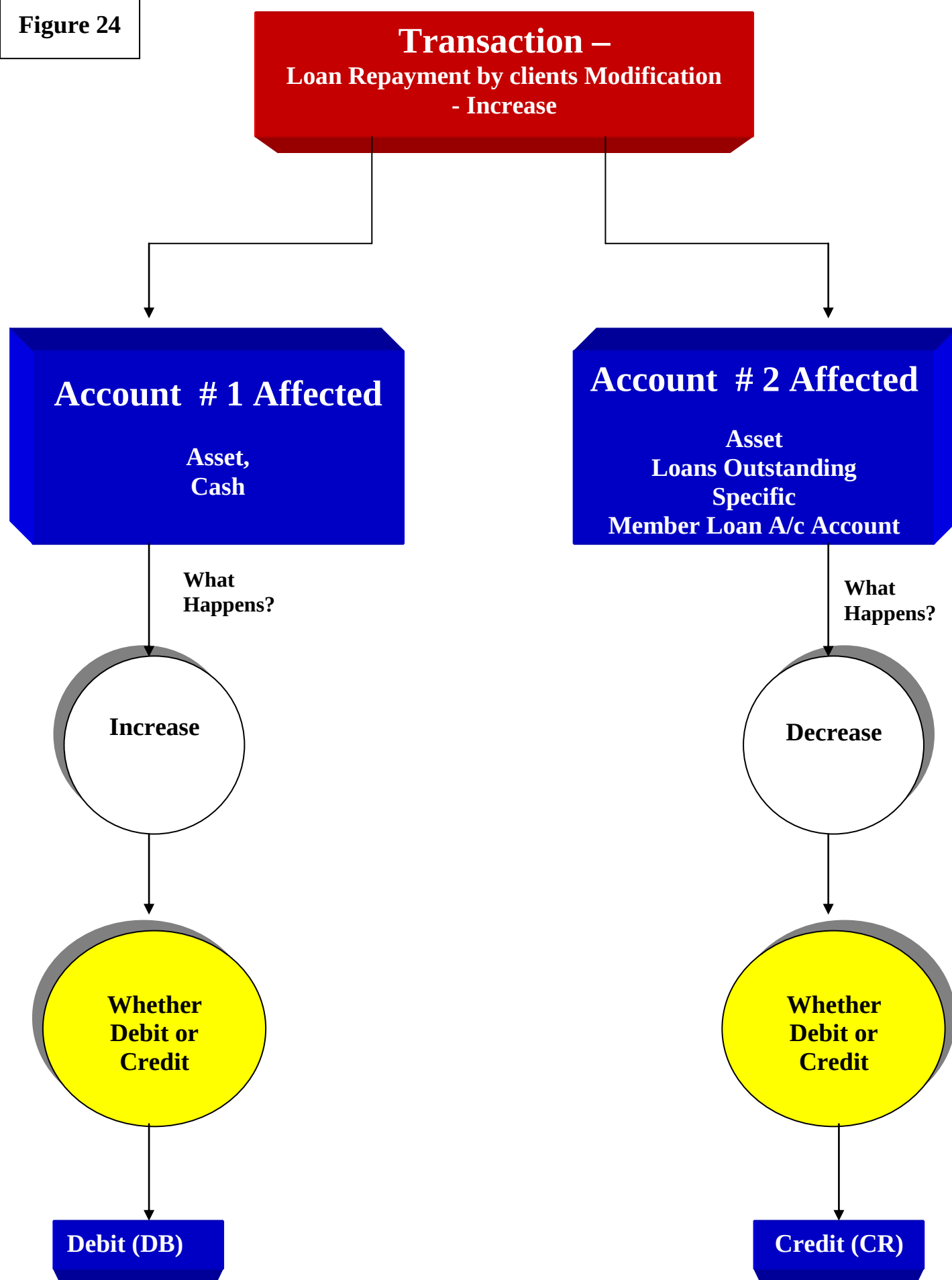


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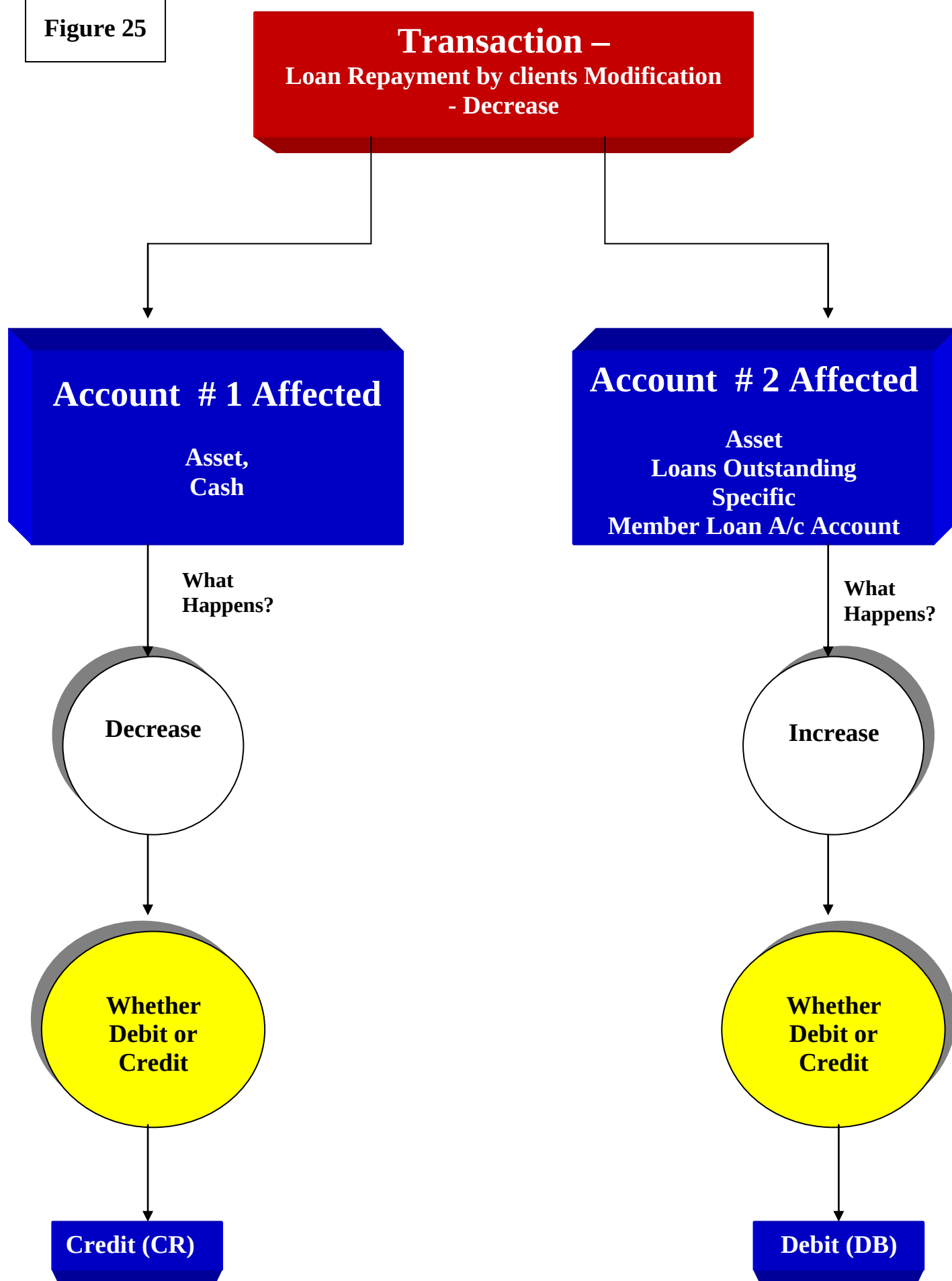


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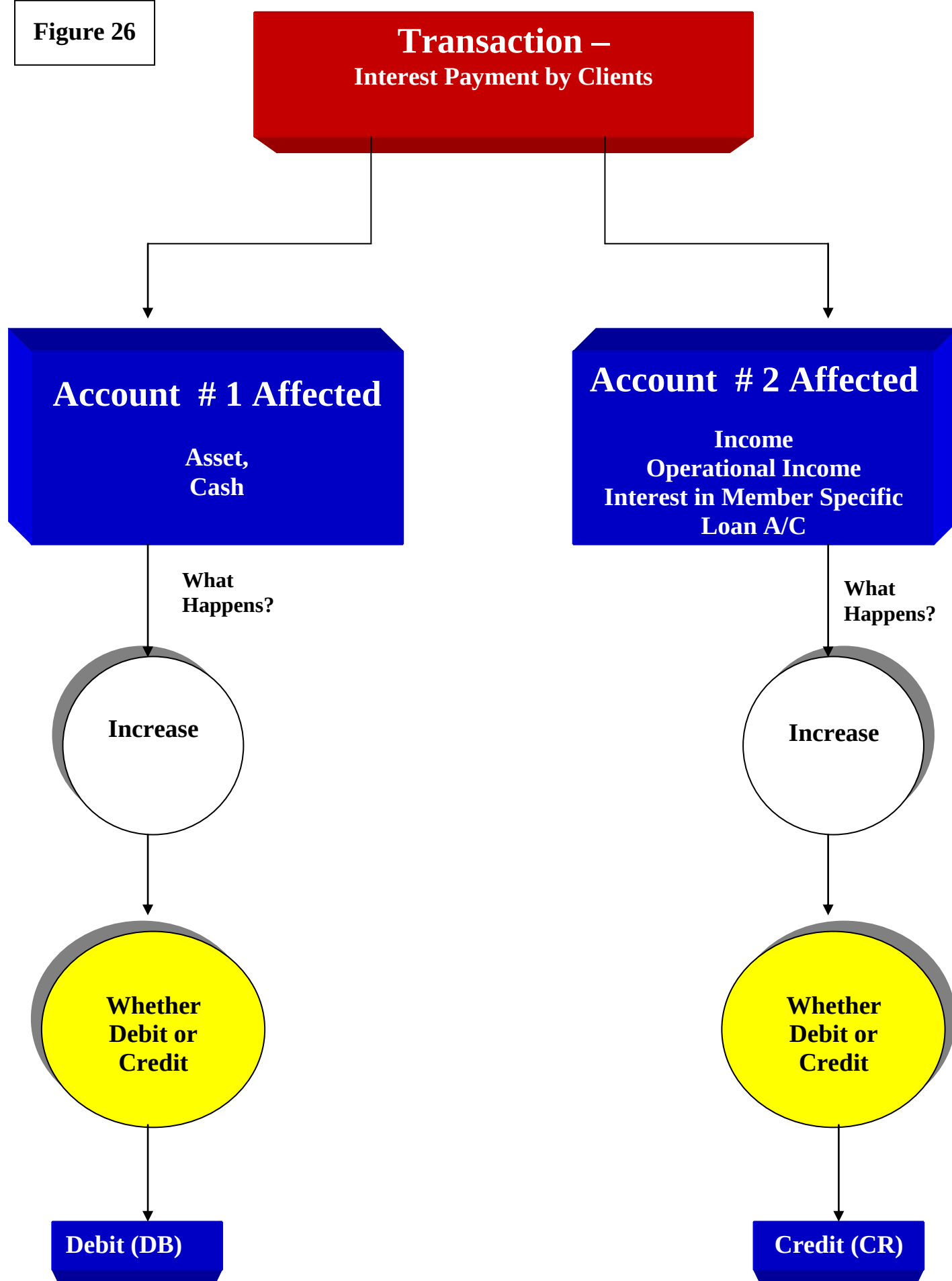


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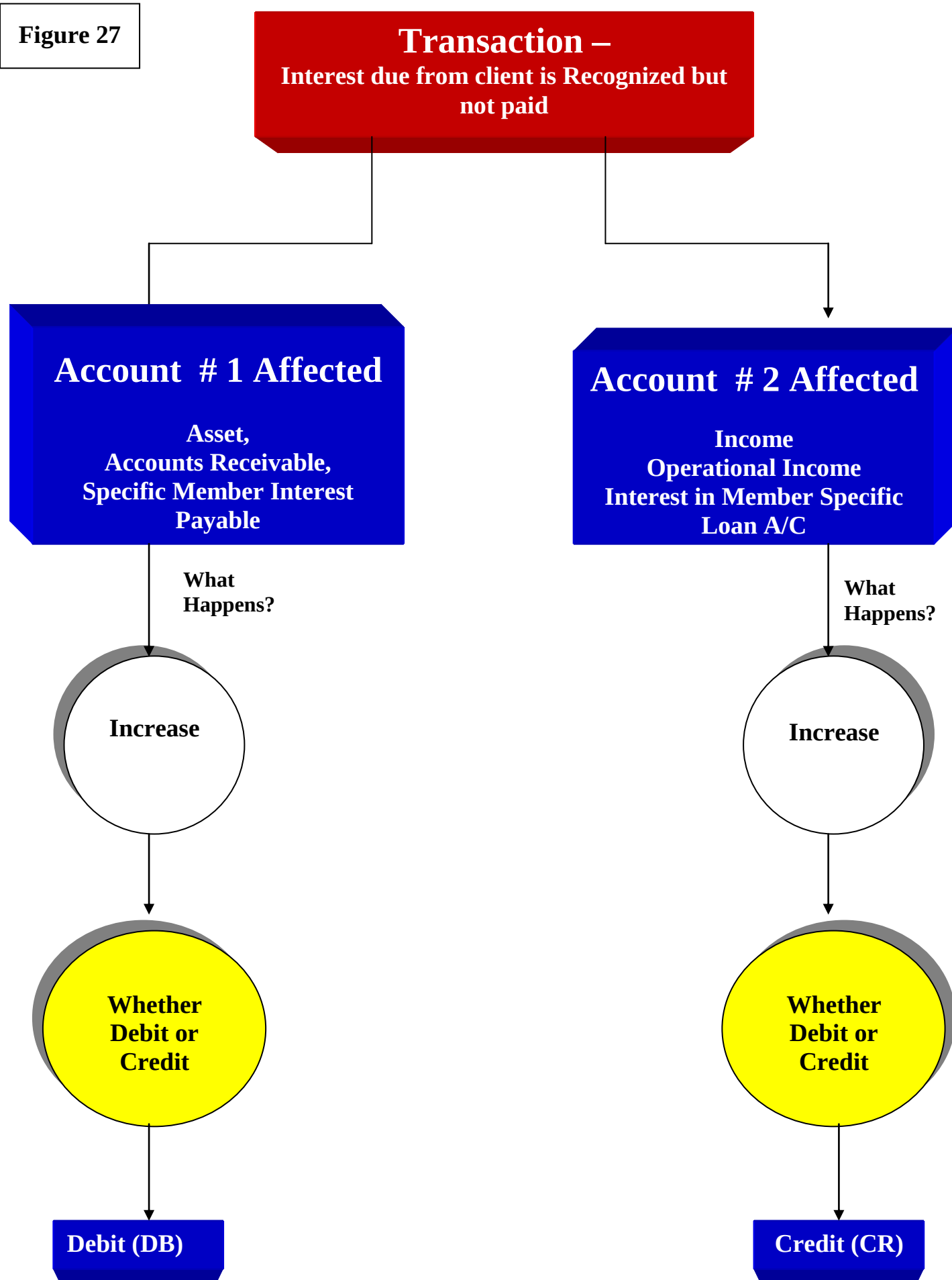


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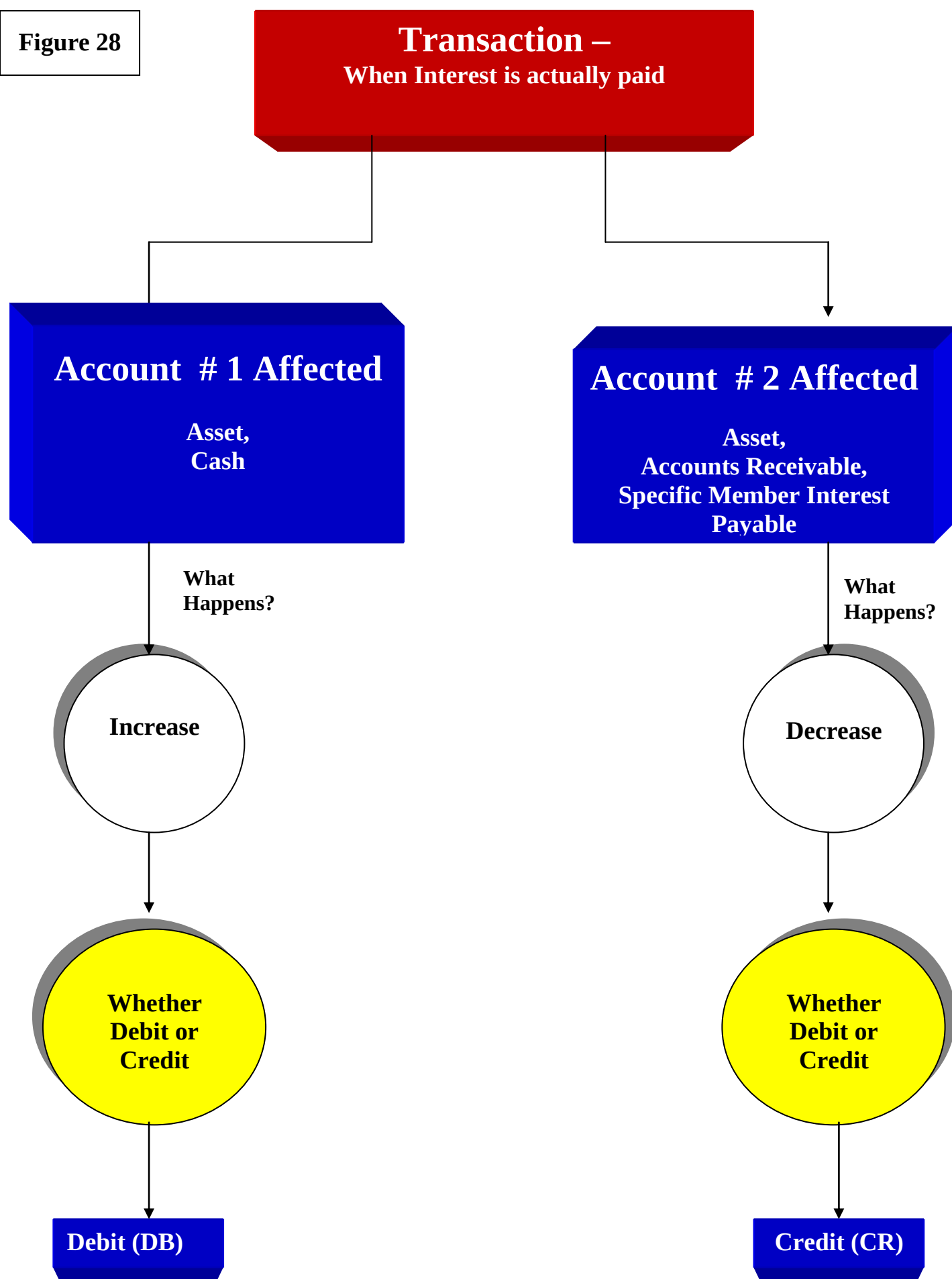


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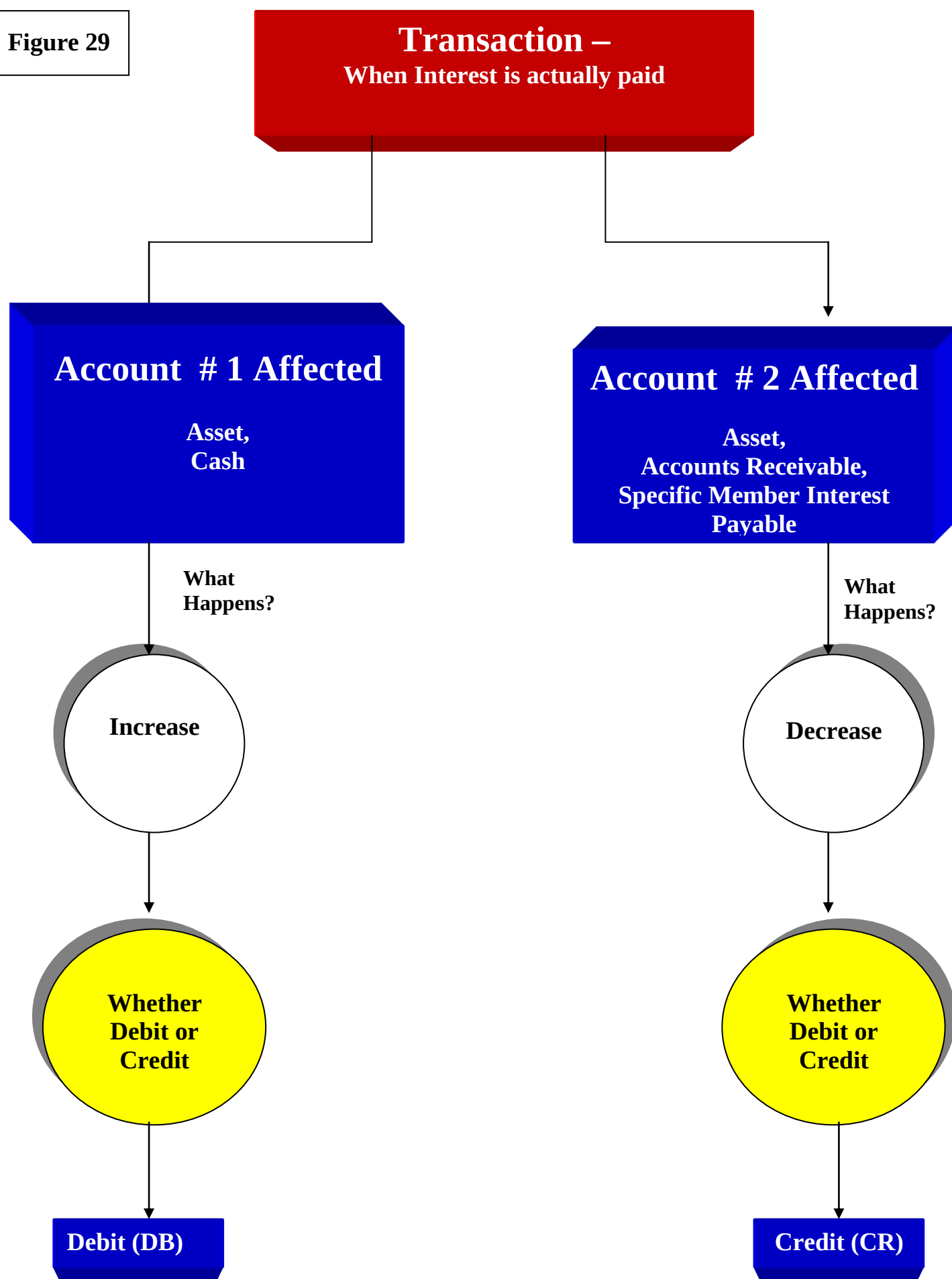


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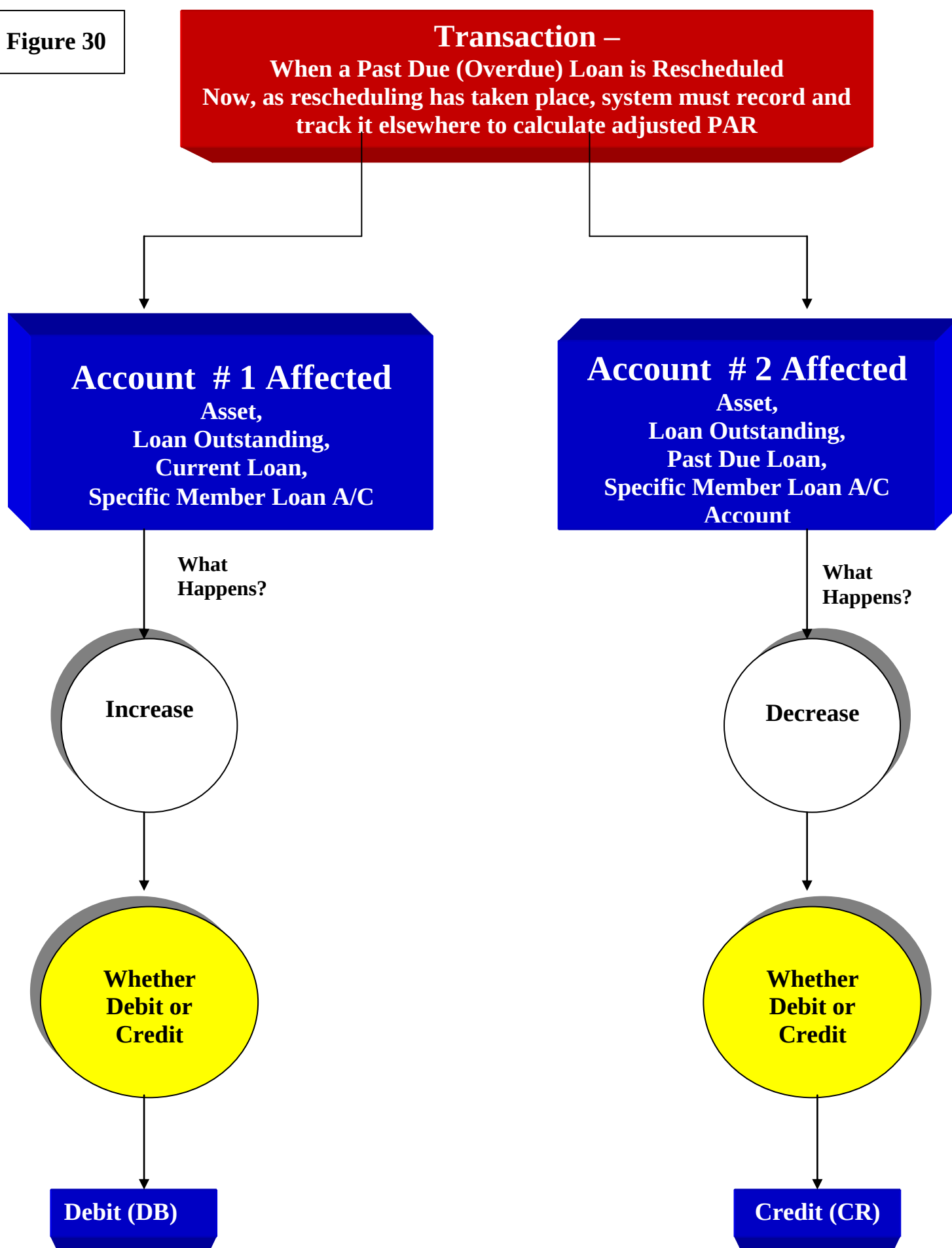
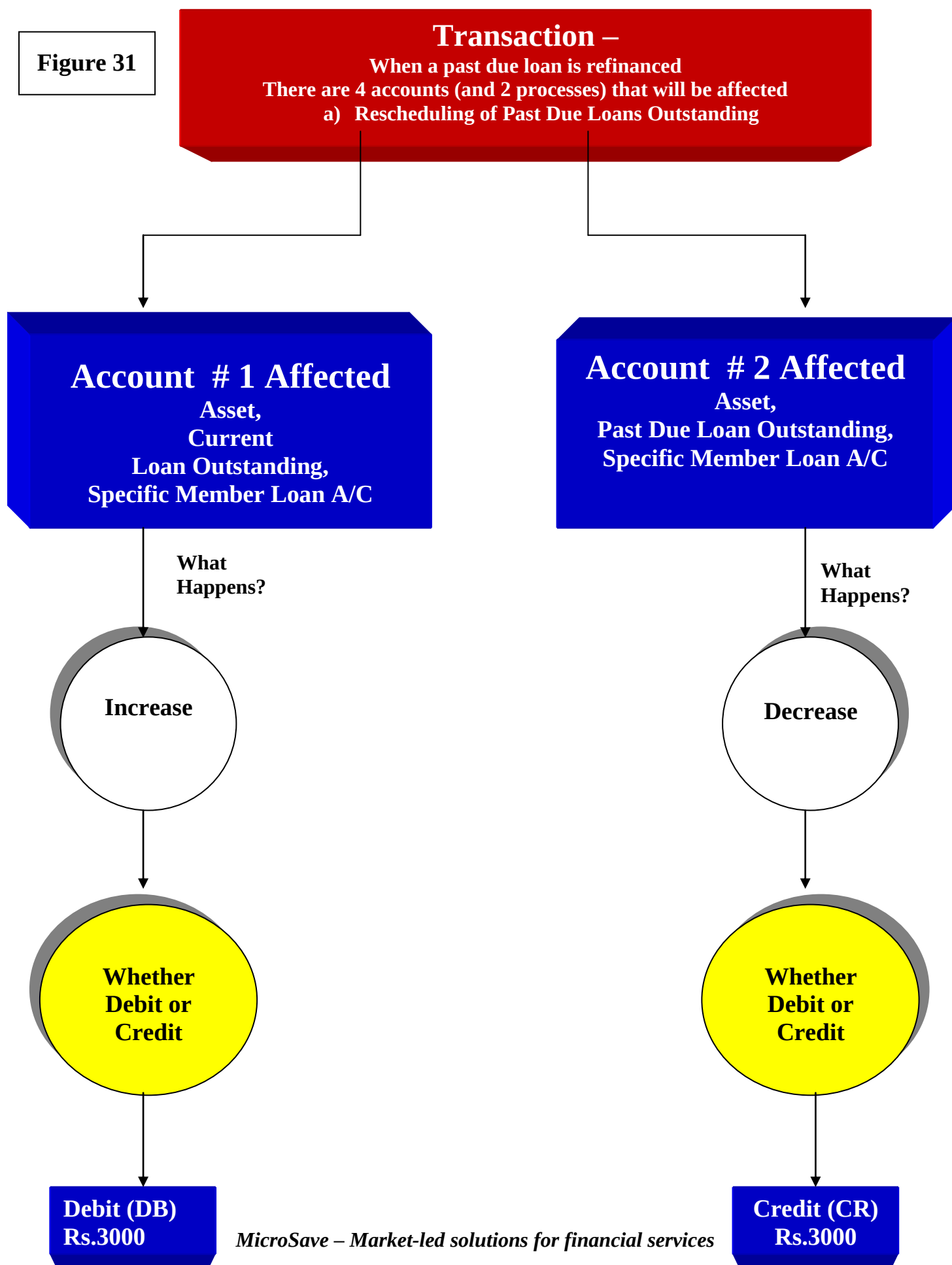


Figure 31



Transaction –

Figure 32

When a past due loan is refinanced

There are 4 accounts (and 2 processes) that will be affected

b) Outflow of money for refinancing amount in excess of the rescheduled amount
As an example let us say Rs 12,000 is the refinanced amount for a past due loan of Rs 3000. Now, as before, as rescheduling and refinancing has taken place, system must record and track it elsewhere to calculate adjusted PAR

Account # 1 Affected

Asset,
Cash

What
Happens?

Decrease

Whether
Debit or
Credit

Credit
Rs.12000

Account # 2 Affected

Asset,
Current Loan Outstanding,
Specific Member A/C

What
Happens?

Increase

Whether
Debit or
Credit

Debit (DB)
Rs.12000

Figure 33**Transaction –****When a past due loan is written off**

The written off loans should also be tracked and also because we decrease the loan outstanding and the loan loss reserve, the net loan outstanding will remain the same as provisions have been made and added to the reserve

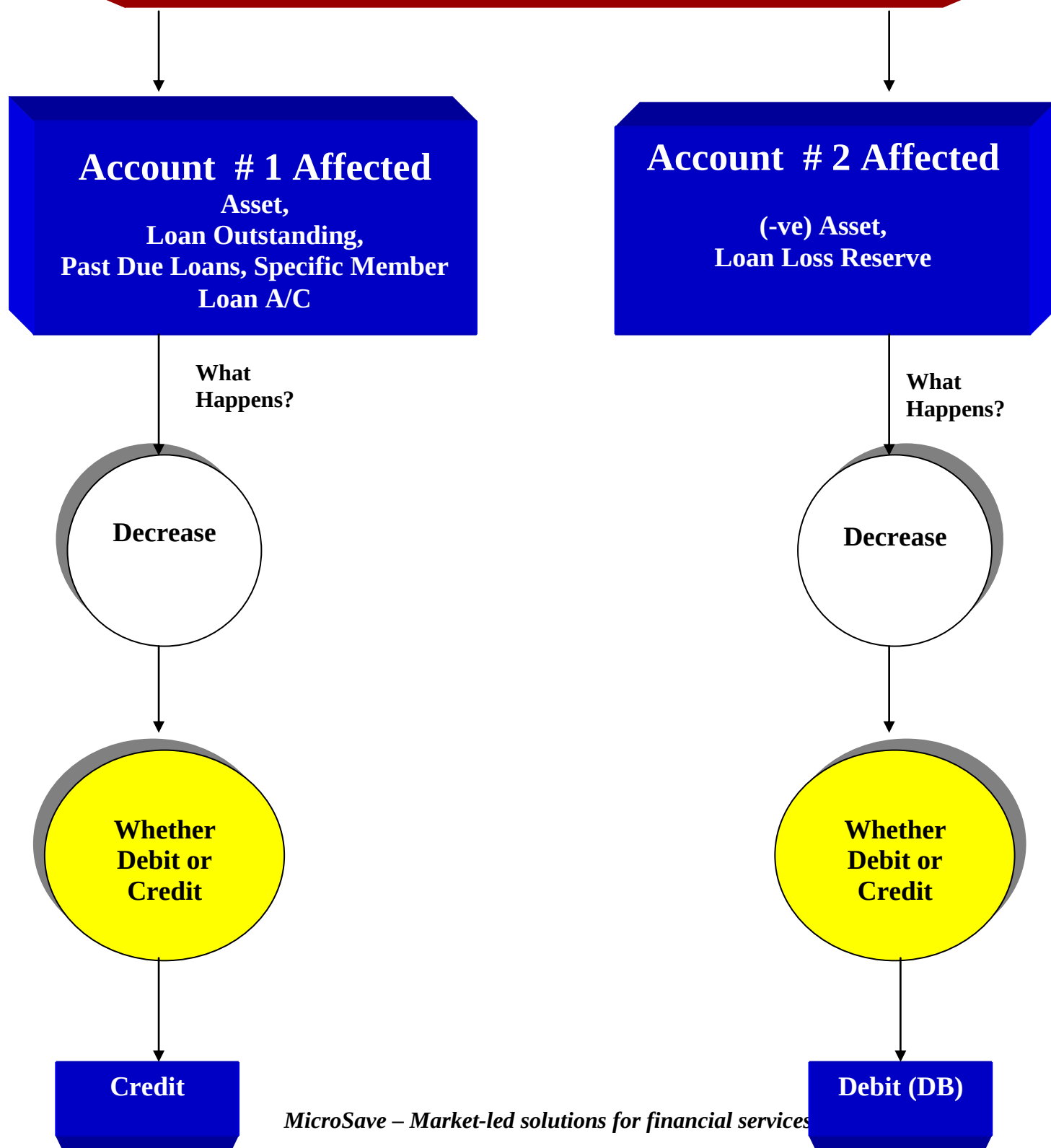
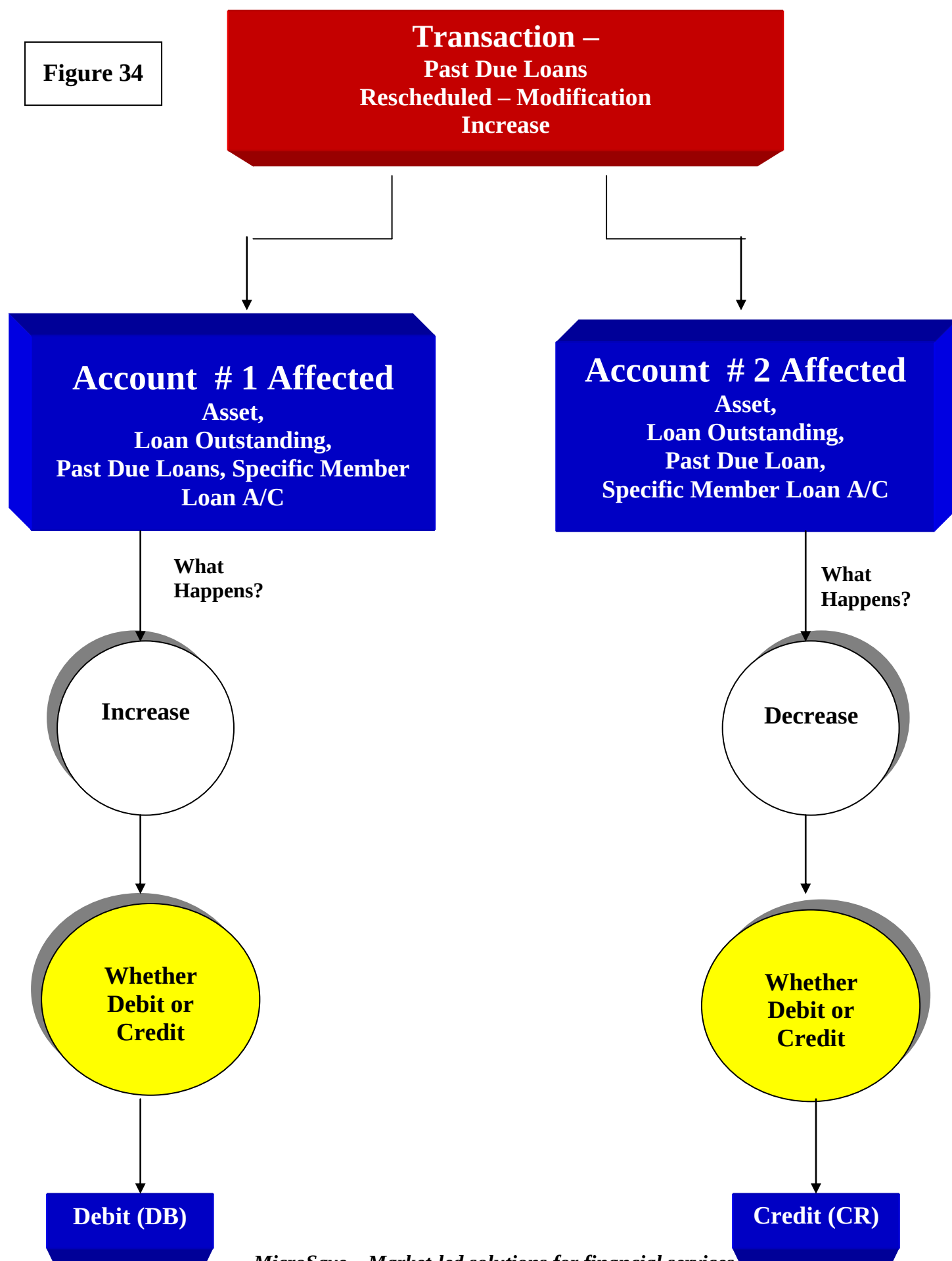


Figure 34



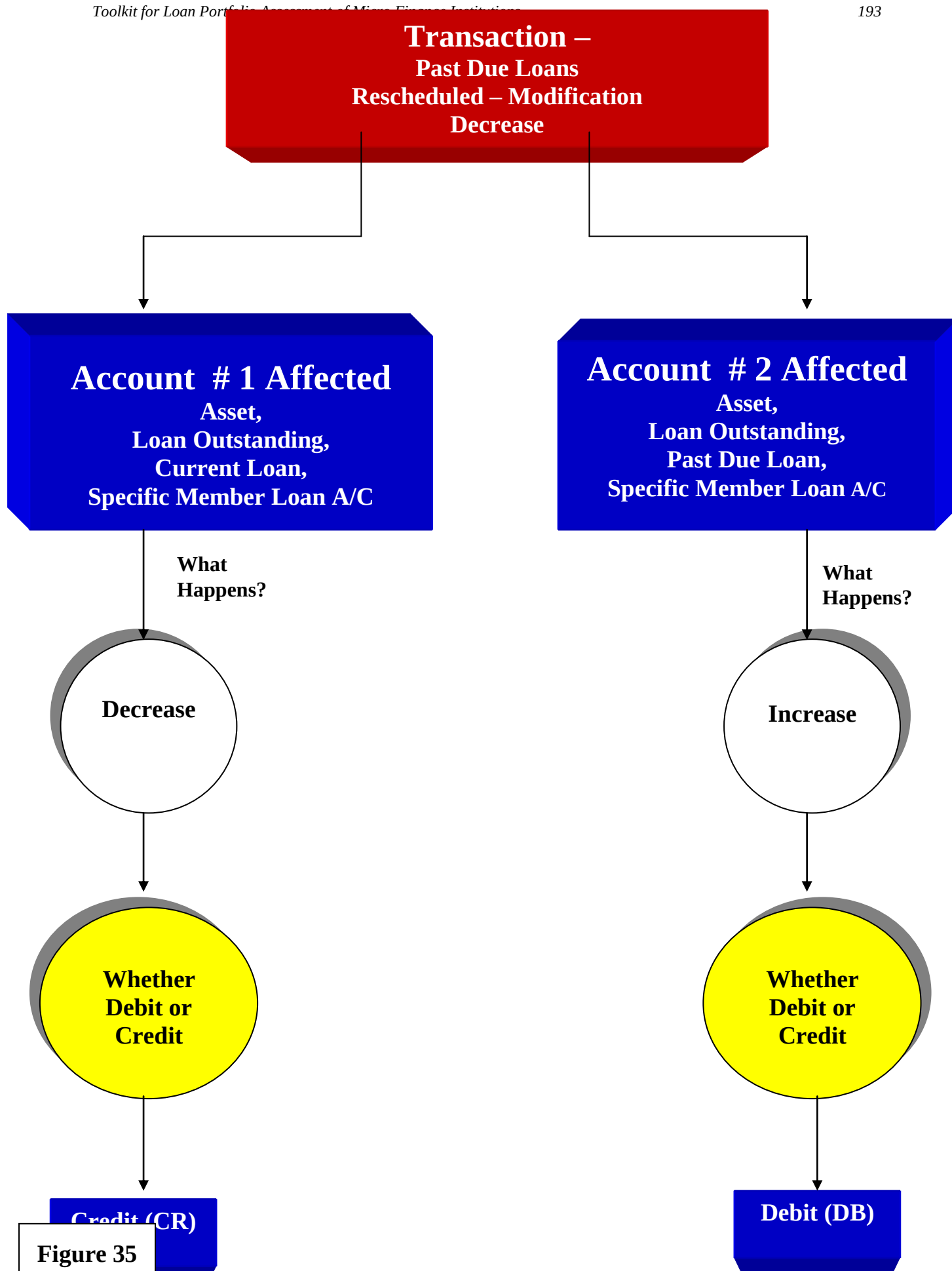


Figure 35

Figure 36

Transaction –
When a past due loan is refinanced
Modification
Increase

Account # 1 Affected
Asset,
Current
Loan Outstanding, Specific
Member Loan A/C

What
Happens?

Increase

**Whether
Debit or
Credit**

Debit (DB)
Rs.1000

Account # 2 Affected
Asset,
Past Due Loan Outstanding,
Specific Member Loan A/C

What
Happens?

Decrease

**Whether
Debit or
Credit**

Credit (CR)
Rs.1000

Figure 37

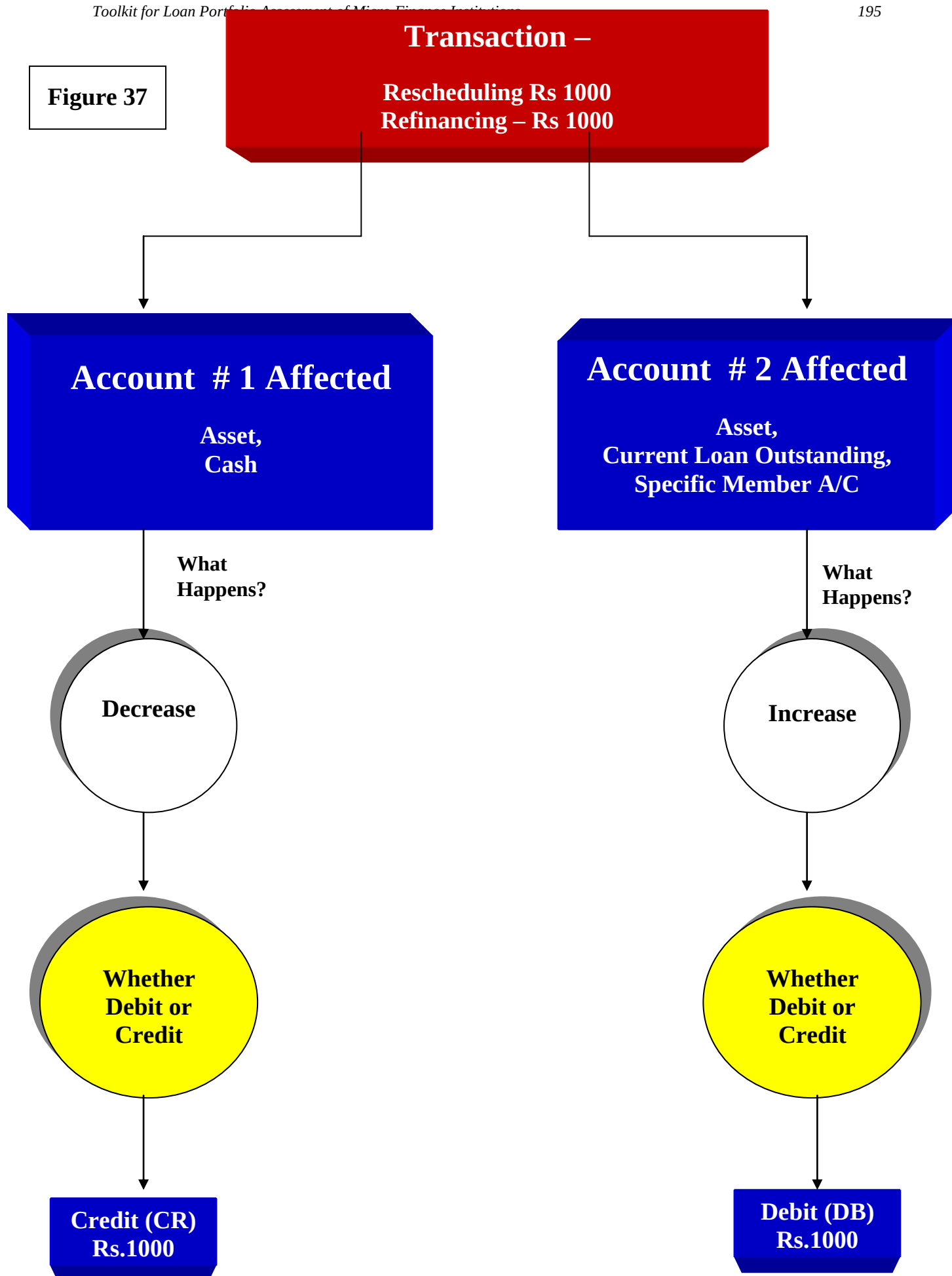


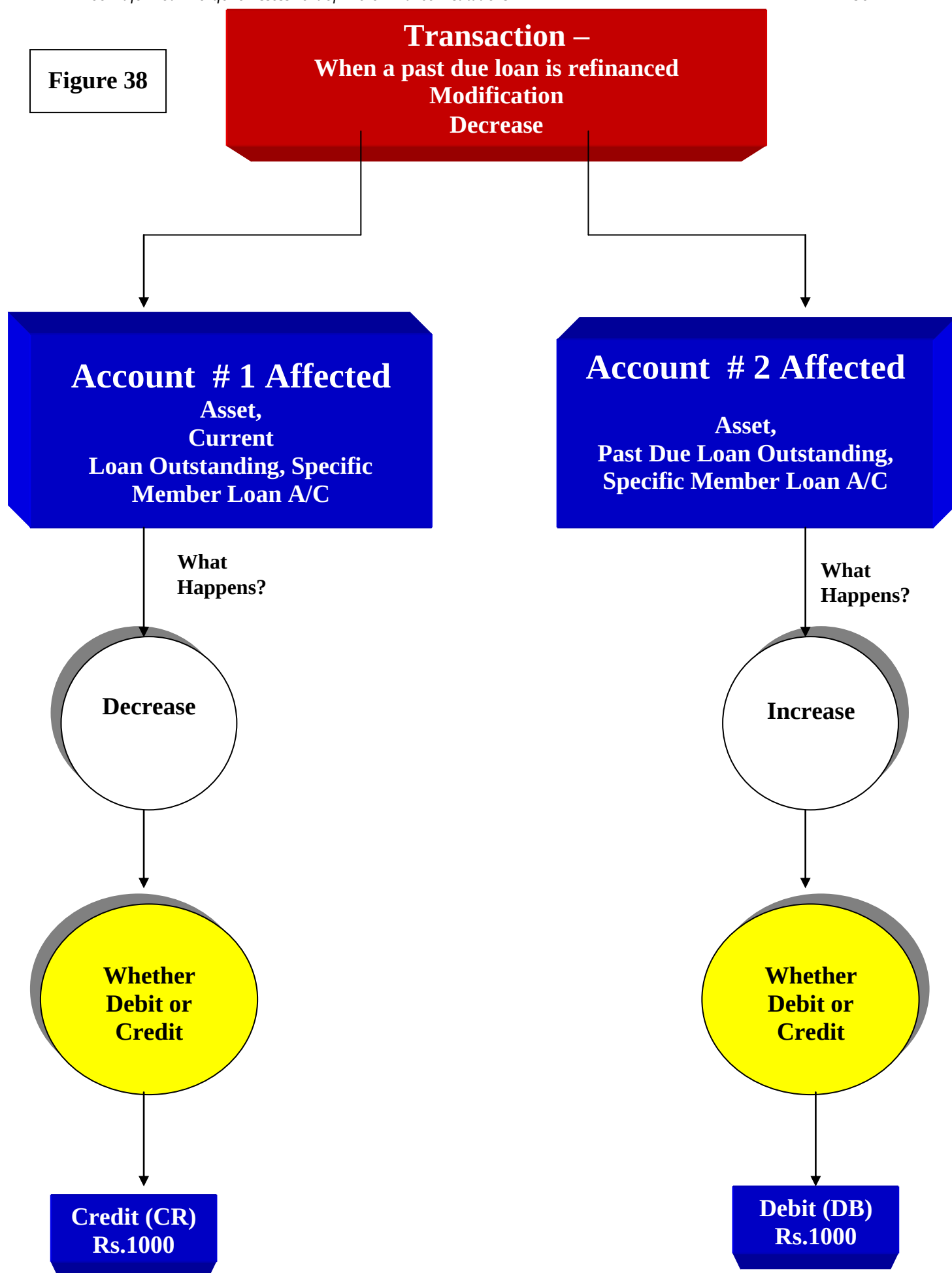
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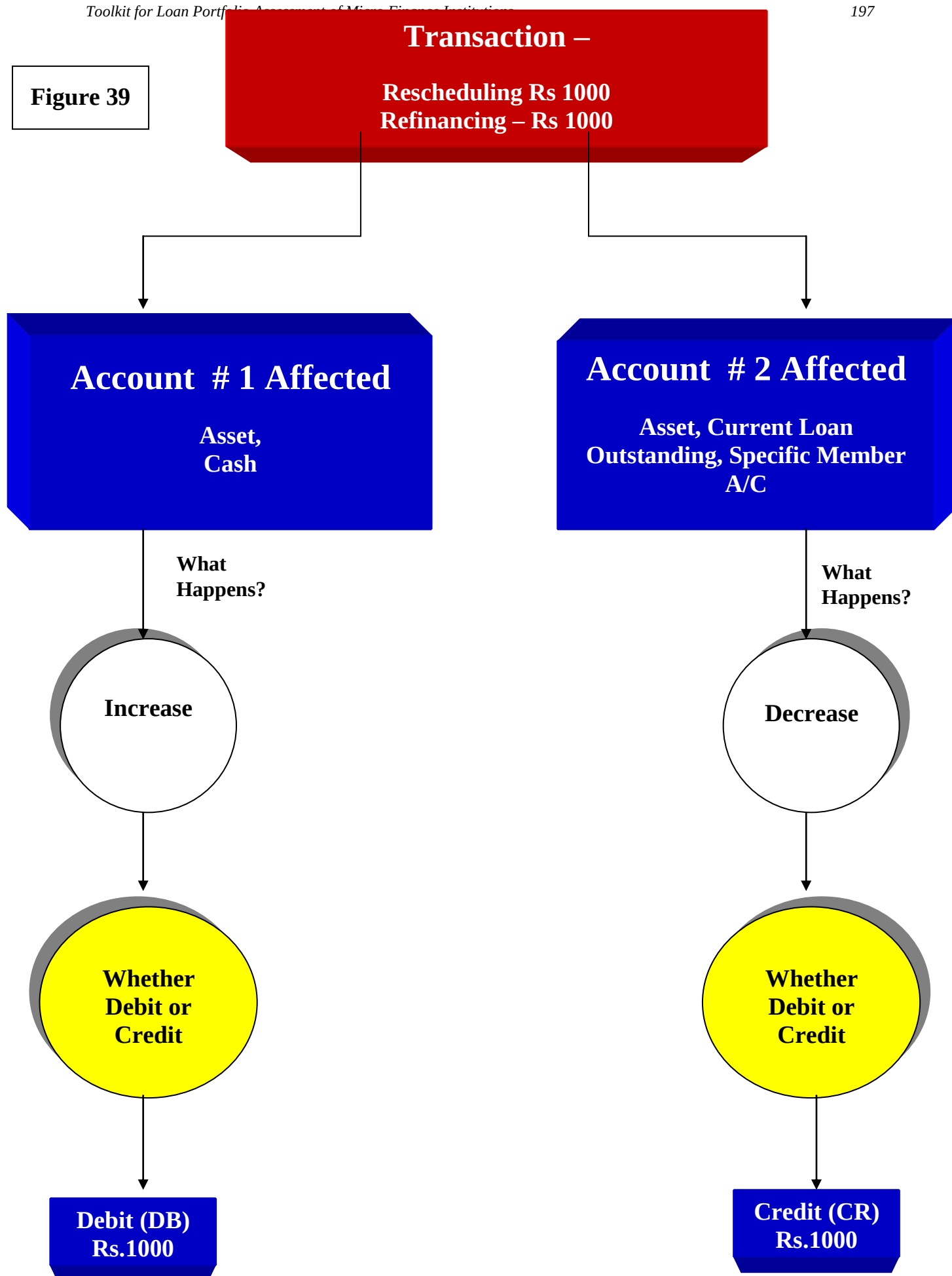
Figure 39

Figure 40

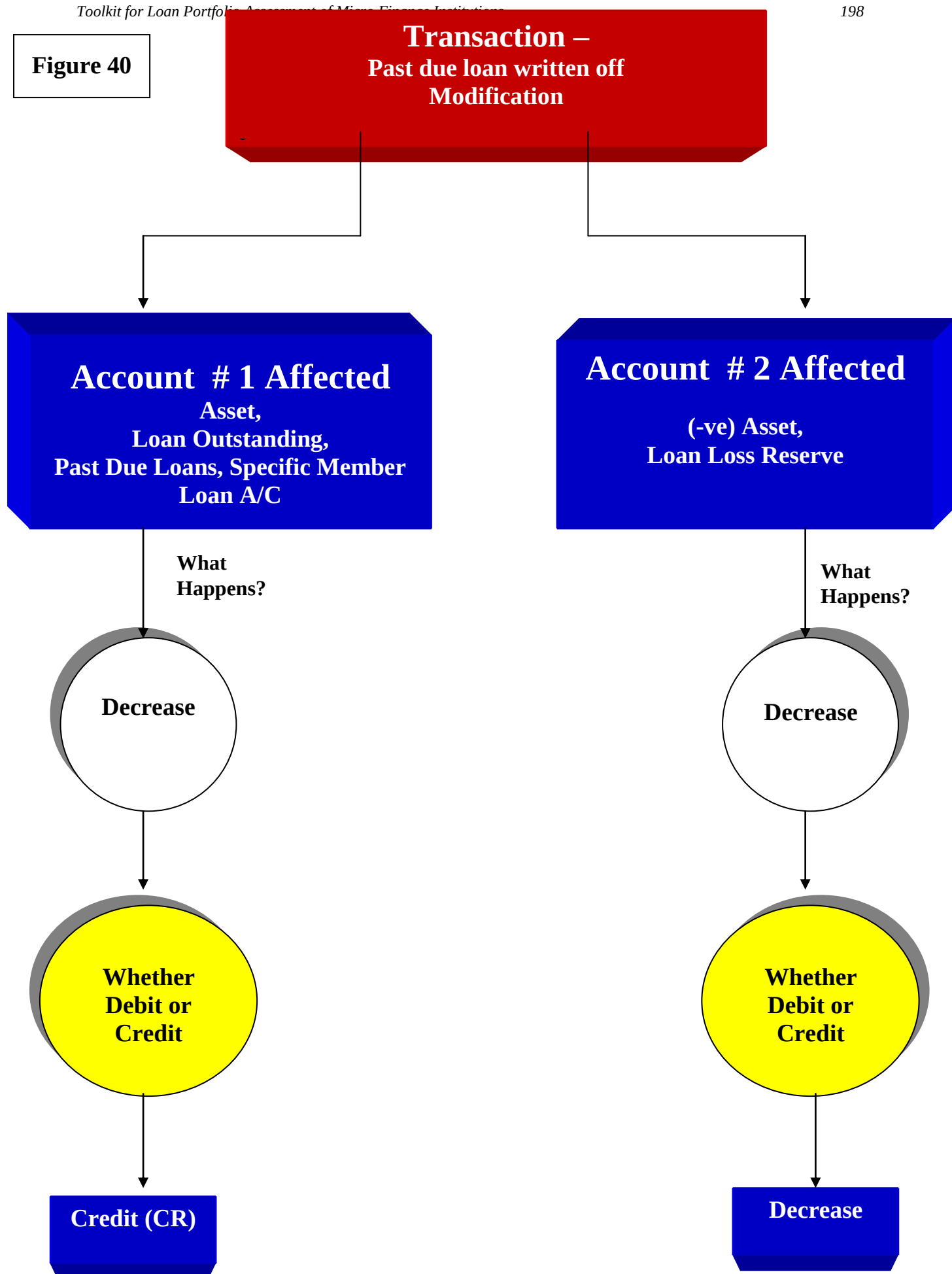
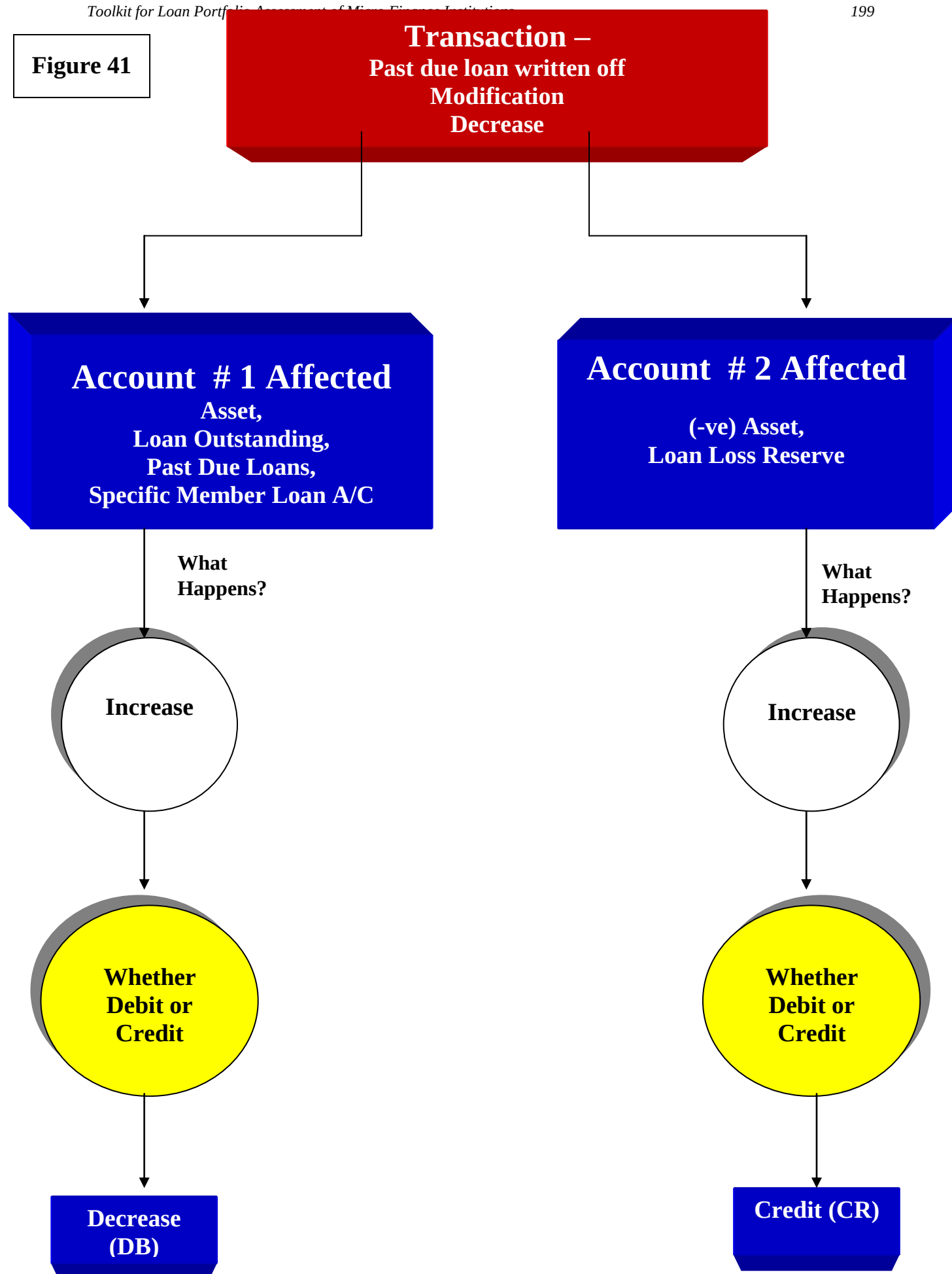


Figure 41



ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Account	➤ Formal record that represents, in words, money or other unit of measurement, certain resources, claims to such resources, transactions or other events that result in changes to those resources and claims. ➤ An individual form or record used to record and summarize information related to each asset, each liability, and each aspect of owner's equity. ➤ The form used to record additions and deductions for each individual asset, liability, capital, revenue, and expense.
Account form of balance sheet	➤ A balance sheet with assets on the left-hand side and liabilities and capital on the right-hand side.
Account Payable	➤ Amount owed to a CREDITOR for delivered goods or completed services. ➤ A liability created by a purchase made on credit or for a sum of money borrowed.
Account Receivable	➤ Claim against a DEBTOR for an uncollected amount, generally from a completed transaction of sales or services rendered or for a sum of money lent.
Accountant	➤ Person skilled in the recording and reporting of financial transactions.
Accounting	➤ Recording and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the FINANCIAL STATEMENTS. ➤ The process of recording, summarizing, analyzing, and interpreting financial (money-related) activities to permit individuals and organizations to make informed judgments and decisions. ➤ The process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information.
Accounting Change	➤ Change in (1) an accounting principle; (2) an accounting estimate; or (3) the reporting entity that necessitates DISCLOSURE and explanation in published financial reports.
Accounting Cycle	➤ The steps involved in the recording and summarizing processes of accounting. ➤ The principal accounting procedures employed to process transactions during a fiscal period.
Accounting equation	➤ The equation that expresses the relationship between the accounting elements in a simple mathematical form: Assets = Liabilities + Net Worth
Accounting period	➤ The period of time for which operating and financial statements are regularly prepared. ➤ A period that is typically one year; however, it can be any length of time for which accounting records are maintained, often for a month.
Accounting Policies	➤ The principles, bases, conventions, rules and procedures adopted by management in preparing and presenting financial statements.
Accounts	➤ The liability that results from purchasing goods or services on credit.

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Payable	➤ Amounts entities owe suppliers for goods and services. Listed in the current liabilities section on the statement of financial position.
Accounts payable ledger	➤ A subsidiary ledger that lists the individual accounts of creditors. Also called the creditors' ledger.
Accounts receivable	➤ The asset arising from selling goods or services on credit to customers. Listed in the current assets section on the statement of financial position. An asset account that shows the total currency (dollar or rupee or pound) amount due from credit customers.
Accounts Receivable	➤ Money owed to an MFI for services rendered or loans made.
Accounts Receivable ledger	➤ A subsidiary ledger containing only accounts of borrowing clients; also called the clients (debtors) ledger.
Accrual	➤ An expense or revenue that gradually increases with the passage of time.
Accrual Basis	➤ Method of ACCOUNTING that recognizes REVENUE when earned, rather than when collected. Expenses are recognized when incurred rather than when paid. ➤ The basis of accounting that requires that revenue is recorded when earned, no matter when cash is received, and that expenses are recorded when incurred, no matter when cash is paid.
Accrued Expenses	➤ Expenses that build up or accumulate during the current period but will not be paid until the next period. Also called accrued liabilities. ➤ Unbilled amounts earned by others during a given period which are not yet due
Accrued Interest	➤ The amount of interest owing but not paid.
Accrued Revenue	➤ Revenue that has been earned in the current accounting period but will not be received until the next period. Also called accrued assets. ➤ Accrued interest is an example from the financial services and micro-finance sector
Accrued salaries	➤ Salary that is unpaid at the end of an accounting period. Also called accrued wages.
Accumulated Depreciation	➤ Total DEPRECIATION pertaining to an ASSET or group of assets from the time the assets were placed in services until the date of the FINANCIAL STATEMENT. ➤ The total depreciation from the start of the life of a physical asset to any point in time. ➤ This total is the CONTRA ACCOUNT to the related asset account.
Acid-test ratio	➤ The ratio of the sum of cash, receivables, and marketable securities to current liabilities.

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
	➤ The ratio of quick assets to current liabilities. A yardstick commonly used is a 1-to-1 ratio. Also called quick ratio.
Active Clients	➤ The number of clients with loans outstanding on any given date. An institution's official statistics on active clients are usually recorded as the number of clients with loans outstanding on the date its financial statements are filed.
Active Loan Portfolio	➤ The total amount loaned out less the total amount of repaid loans; i.e., all money that is "on the street" or owed to the institution in the form of loans on the date the report is filed.
Addition	➤ A capital expenditure that literally adds on to an existing physical asset. The cost of an addition is debited to the physical asset account.
Adequate disclosure principle	➤ States that financial statements or the explanatory notes and schedules that go with the statements must disclose all relevant data about the financial position of an entity
Adjusting entries	➤ Entries made at end of an accounting period to bring balances of certain accounts up to date.
Aging Schedule	➤ A schedule in which accounts receivable (loans to clients) are grouped into age categories and an estimated bad debts (provision) rate is applied to each age category.
Aging the receivables	➤ A way of estimating bad debts expense when using the balance sheet approach. ➤ The process of analyzing the accounts receivable and classifying them according to various age groupings with the due date being the base point for determining age.
Allowance Method	➤ A method of accounting for bad debts in which the amount estimated to be uncollectible is established at the end of an accounting period in an adjusting entry. Uncollectible accounts are then written off by debiting Allowance for Doubtful Accounts. The method of accounting for uncollectible receivables, by which advance provision for the uncollectibles is made
Amortization	➤ Gradual and periodic reduction of any amount, such as the periodic write down of a BOND premium, the cost of an intangible ASSET or periodic payment Of MORTGAGES or other DEBT.
Amortization	➤ The periodic write-off of the cost of an intangible asset. ➤ The periodic expense attributed to the decline in usefulness of an intangible asset or the allocation of bond premium or discount over the life of a bond issue.
Amortization	➤ The reduction of debt by regular payments of interest and principal sufficient to pay off a loan by maturity.
Amortization	➤ A schedule that shows precisely how a loan will be repaid. The schedule gives

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Schedule	the required payment on each specific date and shows how much of it constitutes interest and how much constitutes repayments of principal.
Amortize	➤ To liquidate on an installment basis; an amortized loan is one on which the principal amount of the loan is repaid in installments during the life of the loan.
Analytical Procedures	➤ Substantive tests of financial information, which examine relationships among data as a means of obtaining evidence. Such procedures include: (1) comparison of financial information with information of comparable prior periods; (2) comparison of financial information with anticipated results (e.g., forecasts); (3) study of relationships between elements of financial information that should conform to predictable patterns based on the entity's experience; (4) comparison of financial information with industry norms.
Annual percentage rate (APR)	➤ APR includes interest, fees, commissions and the calculation method on the principal. It represents the income the MFI should earn on the loan. It is calculated by using the internal rate of return function on a financial calculator or spreadsheet. It represents that portion of the effective interest rate to the borrower, which does not include savings.
Annual Report	➤ Report to the stockholders of an MFI which includes the MFI's annual, audited BALANCE SHEET and related statements of earnings, stockholders' or owners' equity and cash flows, as well as other financial and business information. ➤ A report an MFI publishes for its shareholders at the end of each fiscal year. The report includes required elements such as an auditors' report and the MFI's statement of earnings, statement of financial position, and statement of cash flows. The report also includes elements such as letters and articles by the MFI's executives, information on its financial condition, and significant events.
Annuity	➤ Series of payments, usually payable at specified time intervals.
Apportionment	➤ The process of dividing operating expenses among departments.
Assessment	➤ Also called evaluation. Assessments include instrumental appraisals, rating exercises, and other activities that may determine how well an institution performs financially, operationally, and managerially.
Asset	➤ Any item of economic value, either physical in nature (such as land or buildings) or a right to ownership, as expressed in cost or some other value, owned by an individual or entity. ➤ Anything of value. Any interest in real or personal property, which can be appropriated for the payment of debt. ➤ Anything MFI's own. These things might be physical assets such as buildings, vehicles, equipment, and cash. Listed as a category on the statement of financial position.
Asset-Based	➤ Loans granted usually by a micro-finance institution where the asset being

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Financing	financed constitutes the sole security given to the lender.
Audit	➤ A review of (1) the operating, administrative, and financial activities of an agency for conformance with all legal and administrative requirements and conformance with the principles of economy and efficiency; or (2) selected claims, cost proposals, grants, loans, or similar agreements entered into by an agency for conformance with the principles of economy and efficiency.
Audit Engagement	➤ Agreement between an audit firm and its client to perform an AUDIT.
Audit Sampling	➤ Application of an AUDIT procedure to less than 100% of the items within an account BALANCE or class of transactions for the purpose of evaluating some characteristic of the balance or class.
Auditing Standards	➤ Guidelines to which an AUDITOR adheres. Auditing standards encompass the auditor's professional qualities, as well as his or her judgment in performing an AUDIT and in preparing the AUDITORS' REPORT.
Auditor	➤ Person who AUDITS financial accounts and records kept by others. ➤ A person or firm an entity hires as an independent third party to review its financial information. The auditor's main purpose is to make sure the statement of earnings, statement of financial position, and statement of cash flows fairly present the MFI's financial condition, and that they comply with auditing standards set forth by the various regulatory bodies
Auditors' Opinion	➤ A summary of the findings of a firm of certified public accountants (Chartered accountants) that audits, or examines, an MFI's financial statements. This report is included in the MFI's annual report. Also called auditors' report and report of independent accountants.
Automated data processing (ADP)	➤ The general term applied to the processing of data by mechanical or electronic equipment that operates with a minimum of manual intervention.
Auxiliary Record	➤ A business record that is not essential but is helpful in maintaining records that are essential; an example is the petty cash payments record.
Average Balance Per Saver	➤ Total Deposits / Total Number of Savers
Average collection period for accounts receivable	➤ A rough measure of the length of time accounts (loan) receivable have been outstanding. Calculated by dividing 365 days by the accounts receivable turnover.
Average outstanding Loan size	➤ Gross Loan Portfolio / Number of Active Borrowers
Bad Debt	➤ A debt that is not collectible and is therefore worthless to the creditor. ➤ All or portion of an ACCOUNT, loan, or note receivable considered to be uncollectible. ➤ An account receivable that, for one reason or another, cannot be collected.

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Balance	➤ Sum of DEBIT entries minus the SUM of CREDIT entries in an ACCOUNT. If positive, the difference is called a DEBIT BALANCE; if negative, a CREDIT BALANCE. ➤ The balance of an account is determined by footing (adding) the debit side, footing the credit side, and calculating the difference between the two sides.
Balance form of account	➤ A ledger account form with four amount columns that many MFIs prefer to use because the balance is always known and it is easy to see whether the balance is a debit or a credit. Also called the four-column account form. The amount of difference between the debits and the credits that have been entered into an account.
Balance Sheet	➤ Financial statement presenting measures of the assets, liabilities and owner's equity or net worth of business firm or nonprofit organization as of a specific moment in time. ➤ Basic FINANCIAL STATEMENT, usually accompanied by appropriate DISCLOSURES that describe the basis of ACCOUNTING used in its preparation and presentation of a specified date the entity's ASSETS, LIABILITIES and the EQUITY of its owners. Also known as a STATEMENT OF FINANCIAL CONDITION. ➤ A listing of a firm's assets, liabilities, and owner's equity at a specific point in time. Other terms used to describe the balance sheet are statement of financial position and position statement.
Balance Sheet	➤ A financial report showing the status of a MFI's assets, liabilities, and owners' equity on a given date.
Balance Sheet approach	➤ A method of estimating the bad debts expense under the allowance method in which the expense is based on aging the accounts receivable
Bank	➤ An organization, usually a corporation, chartered by a state or government, which does most or all of the following: receives demand deposits, honors instruments drawn on them and pays interest on them; discounts notes, makes loans and investment in securities; collects checks, drafts, and notes; certifies depositor's checks; and, issues drafts and cashier's checks.
Bank Checking account	➤ An amount of cash on deposit with a bank that the bank must pay at the written order of the depositor
Bank reconciliation	➤ Making the bank statement balance agree with the checkbook balance. The method of analysis that details the items that are responsible for the difference between the cash balance reported in the bank statement and the balance of the cash account in the ledger
Bank statement	➤ A monthly report showing the bank's record of the checking account.
Bankruptcy	➤ A condition in which a firm does not have sufficient cash to pay its creditors. ➤ Legal process, governed by federal statute, whereby the DEBTS of an insolvent person are liquidated after being satisfied to the greatest extent

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	possible by the DEBTOR'S ASSETS. During bankruptcy, the debtor's assets are held and managed by a court appointed TRUSTEE.
Benchmarking	➤ Peer group benchmarking puts performance measurements in context by comparing an institution (e.g., an MFI) with similar institutions based on a common factor, such as region, size or methodology. A benchmark can also refer to the standard against which all similar institutions are compared.
Board of Directors	➤ Individuals responsible for overseeing the affairs of an entity, including the election of its officers. People elected by a MFI's shareholders to oversee the business and appoint officers.
Book of Original entry	➤ The journal is referred to as the book of original entry because it is the first place in which transactions are formally recorded.
Book Value	➤ Amount, net or CONTRA ACCOUNT balances, that an ASSET or LIABILITY shows on the BALANCE SHEET of a company. Also known as CARRYING VALUE. ➤ The difference between the cost of an asset and its accumulated depreciation.
Book value of an asset	➤ The cost of an asset less the balance of any related contra asset account. The value of an asset, a liability, or a stockholders' equity account. For a fixed asset, it is typically the cost of the asset minus accumulated depreciation. As entities continue to use fixed assets to generate revenue, the book values lessen, and sometimes ultimately reach zero.
Bookkeeping.	➤ The recording of business data in a prescribed manner.
Break – Even	➤ This is a term used to describe a point at which revenues equal costs.
Break-Even Analysis	➤ An analytical technique for studying the relationships between fixed cost, variable cost, and profits. A breakeven chart graphically depicts the nature of breakeven analysis. The breakeven point represents the volume of business at which total costs equal total revenues (that is, profits equal zero).
Break-even Point	➤ The point in operations where total (MFI) income exactly equals total fixed and variable costs; the point of zero profit or loss.
Bridge Loan	➤ Short-term loan to provide temporary financing until more permanent financing is available.
Budget	➤ Financial plan that serves as an estimate of future cost, REVENUES or both. ➤ A formal statement of management's financial plans for the future.
Budgeted Balance sheet	➤ A balance sheet that estimates each element of financial condition at a specified future time.
Budgeted Income statement	➤ An income statement that estimates net income for the next fiscal period, based on all income statement budgets.

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Term	Definition
Business	➤ An organization that operates with the objective of earning a profit.
Business Entity concept	➤ The principle that states that, for accounting purposes, a business is a distinct economic entity or unit that is separate from its owner and from any other business.
Business Plan	➤ A document that describes an MFI's current status and plans for several years into the future. It generally projects future opportunities for the organization and maps the financial, operations, marketing and organizational strategies that will enable the organization to achieve its goals.
Business transaction.	➤ The occurrence of an event or of a condition that must be recorded in the accounting records.
Bylaws	➤ Collection of formal, written rules governing the conduct of a MFI's affairs (such as what officers it will have, what their responsibilities are, and how they are to be chosen). The owners of a business entity approve bylaws. A set of policies that act as an entity's constitution.
Capital	➤ Broadly, all the money and other property of a corporation or other enterprise used in transacting its business.
Capital Adequacy	➤ A quantitative and qualitative measure of an MFI's level of equity versus the risk it incurs. This measurement shows a program's ability to absorb loan loss.
Capital expenditure.	➤ A cost that adds to the utility of an asset for more than one accounting period. Examples include additions, betterments, and extraordinary repairs. Capital expenditures increase either the value or the life of the asset and are debited to either the asset account or its accumulated depreciation account, depending on the type of expenditure.
Capital expenditures budget	➤ A budget used for long-term planning of when physical assets will need to be replaced.
Capital Investments	➤ Money used to purchase fixed assets for a business, such as land, buildings, or equipments. Also, money invested in a business on the understanding that it will be used to purchase permanent assets rather than to cover day-to-day operating expenses.
Capital.	➤ The rights (equity) of the owners in a business enterprise (including MFI)
Capitalization	➤ Long-term debt, preferred stock and net worth. The loan capital of a community development loan fund; includes that which has been borrowed from and is repayable to third parties as well as that which is earned or owned by the loan fund (i.e. "permanent capital").
Cash	➤ In its most basic meaning, cash is currency (paper money) and coin. The definition in a business context also includes checks, money orders, traveller's

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Term	Definition
	checks, cashier's checks, bank drafts, and receipts from credit card sales.
Cash Basis	➤ Method of bookkeeping by which REVENUES and EXPENDITURES are recorded when they are received and paid. ➤ A basis of accounting where revenue is recorded only when cash is received, and expenses are recorded only when cash is paid.
Cash budget	➤ A budget that estimates the expected cash to be received and spent over a period of time.
Cash Cycle	➤ The length of time between a purchase of materials and collection of accounts receivable generated by the sale of the products made from the materials.
Cash Equivalents	➤ Short-term (generally less than three months), highly liquid INVESTMENTS that are convertible to known amounts of cash. ➤ Highly liquid, short-term investments that can be turned to cash with little or no delay
Cash Equivalents	➤ Instruments or investments of such high liquidity and safety that they are virtually equal to cash.
Cash Flow	➤ In investments, NET INCOME plus DEPRECIATION and other non-cash charges. In this sense, it is synonymous with CASH EARNINGS. Investors focus on cash flow from operations because of their concern with a firm's ability to pay dividends.
Cash Flow Financing	➤ Short-term loan providing additional cash to cover cash shortfalls in anticipation of revenue, such as the payment(s) of receivables.
Cash Flow Forecast	➤ An estimate of the timing and amount of an MFI's inflows and outflows of money measured over a specific period of time typically monthly for one to two years then annually for an additional one to three years.
Cash Flows	➤ Net of cash receipts and cash disbursements relating to a particular activity during a specified accounting period. ➤ Cash receipts and cash payments from operating activities, investing activities, and financing activities.
Cash Payments journal	➤ A special journal used for recording all disbursements of cash. Also called the cash disbursements journal.
Cash Ratio	➤ Ratio of cash and cash equivalents to liabilities; in the case of a bank, the ratio of cash to total deposit liabilities.
Cash Receipts journal	➤ A special journal used to record all receipts of cash, regardless of the source.
Cash	➤ Any medium of exchange that a bank will accept at face value. ➤ Currency and checks on hand and deposits in banks. Listed in the current assets section on the statement of financial position.

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Term	Definition
Certificate of Deposit (CD)	➤ Formal instrument issued by a bank upon the deposit of funds which may not be withdrawn for a specified time period. Typically, an early withdrawal will incur a penalty.
Charges	➤ Charges or fees by the bank that are subtracted directly from the depositor's account and appear on the bank statement. Also called bank charges.
Chart of Accounts	➤ A directory or listing of accounts in the ledger. ➤ A listing of all the accounts used by a business enterprise.
Cheque	➤ A written order directing a bank to pay a specified sum of money to a designated person or business.
Cheque Register	➤ A modified form of the cash payments journal used to record all transactions paid by cheque.
Cheque stub	➤ Part of a check that remains in the cheque book as a permanent record of the check.
Cheque book	➤ A bound book of cheques with stubs; the depositor's record of the checking account.
Classified Balance sheet	➤ A balance sheet that divides the assets and liabilities sections into the following subsections: current assets and long-term assets, and current liabilities and long-term liabilities.
Classified Income statement	➤ An income statement divided into the following sections: revenue cost of goods sold (funds), operating expenses, and other income and expenses.
Clients in Bottom half of the population below the poverty line (Percentage)	➤ Percentage clients in bottom half of the population below the poverty line (where the poverty line is defined as population living on less than US\$ 0.50/day).
Clients starting micro-enterprise for the first time (Percentage)	➤ Percentage clients who access financial services from the MFI and who are starting a micro-enterprise for the first time.
Closing Entries	➤ An entry necessary to eliminate the balance of a temporary account in preparation for the following accounting period.
Collateral	➤ Assets pledged to secure the repayment of a loan. ➤ ASSET provided to a CREDITOR as security for a loan. ➤ Asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In a microfinance context, collateral can vary from fixed assets (a sewing machine) to cross-guarantees from peers.

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Term	Definition
Combined Financial Statement	➤ FINANCIAL STATEMENT comprising the accounts of two or more programmes.
Commercial/ Financial Viability	➤ See Financial Self-Sufficiency
Commercialization	➤ In a microfinance context, commercialization refers to the move by MFIs to provide services on a financially self-sufficient basis and under prevailing commercial principle and regulations.
Commission	➤ are one-time charges, generally calculated as percent of the loan amount.
Community-based finance institution:	➤ The term "Community-based finance institution" (CBFI) has been formulated to define organizations, which enable low-income groups to participate fully, and democratically in the development process and which have their roots in the community. Frequently, these organizations are referred to as co-operatives, but some community-based organizations are in fact not co-operatives but groups with a similar structure and objectives [UN-ESCAP (1991)].
Comparative Financial Statement	➤ FINANCIAL STATEMENT presentation in which the current amounts and the corresponding amounts for previous periods or dates also are shown. ➤ A side-by-side comparison of a company's financial statements for two or more accounting periods.
Competitive Advantage	➤ The strategies, skills, knowledge, resources or competencies that differentiate an MFI from its competitors.
Compliance Audit	➤ Review of financial records to determine whether the entity is complying with specific procedures or rules.
Composite-rate depreciation	➤ A method of depreciation based on the use of a single rate that applies to entire groups of assets.
Compound Interest	➤ Interest computed on principal plus interest earned in previous periods. Compound Interest is the concept of earning interest on interest in a savings account. This occurs when the interest is left in the account from period and the bank 'capitalizes' the interest for purposes of paying interest in later periods.
Conservatism	➤ An investment strategy aimed at long-term capital appreciation with low risk; moderate; cautious; opposite of aggressive behaviour; show possible losses but wait for actual profits. Concept that directs the least favourable effect on net income.
Consistency	➤ ACCOUNTING postulate, which stipulates that, except as otherwise noted in the FINANCIAL STATEMENT, the same accounting policies and procedures have been followed from period to period by an organization in the preparation and presentation of its financial statements. The accounting principle that requires a firm (MFI) to continue to use a method once chosen,

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Term	Definition
	rather than switch from method to method arbitrarily or for temporary advantage.
Consolidated Financial Statements	➤ Combined FINANCIAL STATEMENTS of a parent company and one or more of its subsidiaries as one economic unit.
Contingent Liability	➤ Potential LIABILITY arising from a past transaction or a subsequent event. ➤ A possible liability, such as on a discounted note of a customer, that may become a real liability if certain events occur. ➤ A potential obligation that will materialize only if certain events occur in the future.
Contract	➤ A formal written statement of the rights and obligations of each party to a transaction.
Cooperative/Credit Union	➤ A non-profit financial institution that is owned and operated entirely by its members. Cooperative/Credit Unions provide financial services for their members, including savings and lending.
Co-operative:	➤ A co-operative, as defined by the International Labour Organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking [UN-ESCAP (1991)].
Correcting entry	➤ An entry used to correct certain types of errors in the ledger.
Cost	➤ The financial measure of resources consumed in accomplishing a specific purpose such as performing a service, carrying out an activity, or completing a unit of work or a specific project. ➤ An input into the delivery of a product. There are three common inputs in manufacturing: (1) raw materials (finance etc), (2) direct labor, and (3) overheads.
Cost Accounting	➤ Procedures used for rationally classifying, recording, and allocating current or predicted costs that relate to a certain loan product or service. ➤ The field of accounting that is used to determine the dollar value of services manufactured. ➤ Accounts that are presented on the income statement; used to determine the cost of rendered services / products to customers.
Cost of Capital	➤ The discount rate that should be used in the capital budgeting process.
Costs and consequences of delinquency	➤ Postpones/reduces Interest Income. ➤ Affects Cash Flow Negatively, Prevents Loan Disbursement on time and hence, impact outreach ➤ De-capitalize the Portfolio (or revolving loan fund) 4) Creates a negative

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Term	Definition
	image about the program ➤ Creates a negative image about the program ➤ Lowers morale of staff ➤ Creates a bad precedent for other clients who could join the bandwagon ➤ Ultimately, affects program sustainability
Credit	➤ Entry on the right side of a DOUBLE-ENTRY BOOKKEEPING system that represents the reduction of an ASSET or expense or the addition to a LIABILITY or REVENUE. (See DEBIT.) ➤ The allowance of cash or services in the present, with payment expected in the future. To credit (Cr.) an account means to enter an amount on the right, or credit, side of the account.
Credit Balance	➤ BALANCE remaining after one of a series of bookkeeping entries. This amount represents a LIABILITY or income to the entity. (See BALANCE.) ➤ Occurs when the amount on the credit side of an account is greater than the amount on the debit side.
Credit Loss	➤ A loan receivable that has proven uncollectible and is written off.
Credit period	➤ The amount of time an MFI allows a client to repay a loan.
Credit Rating	➤ Usually used to determine an MFI's credit risk, a credit rating is an evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting
Credit Risk	➤ Financial and moral risk that an obligation will not be paid and a loss will result.
Credit Scoring	➤ Measures the risk associated with each credit applicant/ micro-borrower. Credit scoring is an automated system that assigns points for various credit factors, providing lenders with the ability to grade prospective clients and to calculate the risk of extending credit. In a microfinance context, the credit scoring method is modified to take into account a micro-entrepreneur's experience, character and capacity to repay. The final credit score is an overall measure of the creditworthiness of the credit applicant.
Credit Terms	➤ Conditions under which credit is extended by a lender to a borrower.
Credit Union	➤ A non-profit, cooperative financial institution owned and run by its members. Members pool their funds to make loans to one another. The members elect the volunteer board that runs each credit union. Most credit unions are organized to serve people in a particular community, group or groups of employees, or members of an organization or association. ➤ Credit unions are community based financial co-operatives and most offer a full range of services. All are owned and controlled by members who are also shareholders.
Credit	➤ In the financial sector, co-operatives, which enable savings to be made, and

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Term	Definition
Union and Cooperatives	loans to be taken are generally known as "credit unions" which are registered under the legislation dealing with co-operatives. The basic credit union is composed of a group of people having a "common bond" who may be resident in the same neighbourhood or employed at the same place of work, or it can be a religious or ethnic grouping. The principal reason for the emphasis on a common bond is that the social pressure of the group is considered a very important condition as security for loans. It is a form of collateral which is not available in conventional finance [UN-ESCAP (1991)].
Credit	➤ The right side of an account; the amount entered on the right side of an account; to enter an amount on the right side of an account.
Creditor	➤ Party that loans money or other ASSETS to another party. A business or person to whom a debt is owed.
Creditor	➤ Person or business that is owed money.
Cumulative Principal Due	➤ Cumulative Principal Due is the total principal due from a client as of the current installment
Cumulative Principal Overdue	➤ Cumulative Principal Overdue is the difference between cumulative principal due and cumulative principal paid (for any given client/loan) as of the current installment
Cumulative Principal Paid	➤ Cumulative Principal Paid is the total principal paid by a client as of the current installment
Cumulative Repayment Rate	➤ (CRR) = Principal amount paid so far – pre-payments by Principal amount due so far
Current Asset	➤ ASSET that one can reasonably expect to convert into cash, sell, or consume in operations within a single operating cycle, or within a year if more than one cycle is completed each year. ➤ Cash and assets that will be sold, used up, or turned into cash within the current accounting period, usually one year. Besides cash, examples are receivables.
Current Assets	➤ Cash and other MFI assets that can be readily turned into cash within one year.
Current Liabilities	➤ Debts that are due for payment within one year. Examples are accounts payable, salaries payable, and the current portion of notes payable. ➤ Obligations an MFI has to others, payable within one year. Listed in the liabilities category on the statement of financial position. ➤ Obligation whose LIQUIDATION is expected to require the use of existing resources classified as CURRENT ASSETS, or the creation of other current liabilities. ➤ A liability that will be due within a short time (usually one year or less) and that is to be paid out of current assets.
Current Liabilities	➤ Debts or other obligations coming due within a year.

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Term	Definition
Current Ratio	➤ Current assets divided by current liabilities -- a measure of liquidity. Generally, the higher the ratio, the greater the "cushion" between current obligations and a firm's ability to meet them. The ratio obtained by dividing current assets by current liabilities. It is an indicator of a firm's ability to pay its short-term debts as they become due. The ratio of current assets to current liabilities.
Current Value	➤ (1) Value of an ASSET at the present time as compared with the asset's HISTORICAL COST. (2) In finance, the amount determined by discounting the future revenue stream of an asset using COMPOUND INTEREST PRINCIPLES.
Debit	➤ Entry on the left side of a DOUBLE-ENTRY BOOKKEEPING system that represents the addition of an ASSET or expense or the reduction to a LIABILITY or REVENUE. (See CREDIT.). To debit (Dr.) an account means to enter an amount on the left, or debit, side of the account.
Debit Balance	➤ BALANCE remaining after one or a series of bookkeeping entries. This amount represents an ASSET or an expense of the entity. (See BALANCE.) ➤ Occurs when the amount(s) on the debit side of an account is greater than the amount(s) on the credit side.
Debt	➤ An amount owed for funds borrowed. The debt may be owed to an organization's own reserves, individuals, banks, or other institutions.
Debt Capacity	➤ An assessment of ability and willingness to repay a loan from anticipated future cash flow or other sources.
Debt Service	➤ Amount of payment due regularly to meet a debt agreement; usually a monthly, quarterly or annual obligation.
Debt/Equity Ratio	➤ Total debt divided by total Equity.
Debtor	➤ Party owing money or other ASSETS to a CREDITOR.
Decentralized branch accounting	➤ A system of accounting for branches in which each branch keeps its own records and prepares its own financial statements.
Declining Balance Method of interest calculation	➤ represents interest Calculated on the principal amount of the loan that is actually in the hands of the borrower during each amortisation period. For example, if a borrower has a Rs.100 loan for two months with two equal payments of the principal and an interest rate of 3% a month. Thus her monthly payments would not be equal. The first month she should pay Rs.53 and the second she would be pay Rs.51.50.
Default	➤ A failure to discharge a duty. The term is most often used to describe the occurrence of an event that cuts short the rights or remedies of one of the parties to an agreement or legal dispute, for example, the failure of the client to pay a loan installment, or to comply with mortgage covenants. Failure to meet any financial obligation. Default triggers a CREDITOR'S rights/remedies identified in the agreement and under the law.

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Term	Definition
Default and Micro-Finance	➤ Default occurs when a client cannot/will not make loan repayments and the institution (SHG or MFI) does not expect any further payment from the client ➤ Failure to make timely payment of interest or principal on a loan, or to otherwise comply with the terms of a loan.
Deferral	➤ A postponement of the recognition of an expense already paid or a revenue already received. Expenses and revenue that have been recorded in the current accounting period but are not incurred or earned until a future period.
Deferred Charge	➤ Cost incurred for subsequent periods which are reflected as ASSETS. Another name for deferred expenses, usually applying to advance payments that cover more than a year.
Deferred Credits	➤ Another name for deferred revenue, usually applying to amounts received more than a year in advance.
Deferred expenses	➤ Advance payments for goods or services that benefit more than one accounting period.
Deferred Income	➤ Income received but not earned until all events have occurred. Deferred income is reflected as a LIABILITY.
Deferred revenue	➤ The advance receipt of revenue that will not be earned until a future accounting period.
Deferred revenue	➤ $(\text{Net Operating Income} + \text{Taxes}) / \text{Period Average Assets}$
Deficit	➤ Financial shortage that occurs when LIABILITIES exceed ASSETS. A debit balance in the Retained Earnings account.
Deflation.	➤ A period when prices in general are falling and the purchasing power of the currency (dollar or pound or rupee) is increasing.
Delinquency	➤ Delinquency is a situation that occurs when loan payments are past due and delinquent loans are loans in which any payment is past due
Delinquency	➤ Delinquency is a situation that occurs when loan payments are past due ➤ Delinquent loans are loans in which any payment is past due Delinquent loans are loans in which any ➤ Delinquent loans are also called as loans in arrears ➤ Delinquent payments are also called as payments in arrears In other words, a borrower who does not make the scheduled repayment on the due date is considered to be in arrears. Even if a part payment has been made, the borrower is still considered to be in arrears. For example, If 10 instalments of Rs 100 each were due as of yesterday and 9 instalments of Rs 100 have been paid back as of today (by the borrower), then, as per today, the loan is delinquent loan which has one instalment that has not been paid back. Similarly, if an instalment is due on the 5th of May, 2003 and if it is not paid on that date (by the borrower), then on the 6th of May, the loan should be classified as a past due loan.

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Term	Definition
Delinquency management	The outstanding portfolio or the principal amount of loan outstanding is the most important and largest asset for an MFI as it generates Income (Interest and Fees). In other words, it is the main product of the business demanded by clients and it is the reason for an MFI being in existence. Hence, ensuring that this asset is safeguarded (from delinquency) is very crucial for any micro-finance institution. This is because delinquency is like a 'hidden beast' that can eat away the portfolio (de-capitalize) of any micro-finance institution and prevent it from becoming sustainable. Therefore, managing delinquency to ensure that it does not raise its head is very critical in any micro-finance program and it helps MFIs work towards that objective by providing best practices guidelines and lessons from the global
Delinquency Measurement	➤ Delinquency can be <u>measured</u> by using two generic measures ➤ Portfolio based measures (Portfolio at Risk and Arrears Rate) ➤ Repayment based measures (Cumulative Repayment Rate and On-Time Repayment Rate)
Delinquent	➤ In a monetary context, something that has been made payable and is overdue and unpaid
Deposit interest rate (Percentage)	➤ Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. [Source: World Development Indicators database]
Deposit Slip	➤ A form that is prepared when coin, currency, or checks are deposited in a bank account. It indicates the depositor's name and account number and summarizes the amount deposited. Also called deposit ticket.
Depositor	➤ The business or person under whose name a checking account is opened.
Depreciation	➤ Expense allowance made for wear and tear on an ASSET over its estimated useful life. (See ACCELERATED DEPRECIATION and STRAIGHT-LINE DEPRECIATION.) ➤ An allocation process in which the cost of a long-term asset (except land) is divided over the periods in which the asset is used in the production of the business's revenue. ➤ The periodic cost expiration of all plant assets except land. An allowance for wear or age made to the value of a fixed asset, allocating its cost over its estimated useful life. Listed in the assets category on the statement of financial position. ➤ Amortization of fixed assets, such as plant and equipment, so as to allocate the cost over their depreciable life.
Development Finance	➤ Term that encompasses all financial services provided to low-income clientele in less developed nations - including micro-loans, microsavings, micro-insurance, etc.
Direct expense	➤ An expense that is associated with a specific department; an expense that benefits only that department and that would not exist if the department did not exist.

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Term	Definition
Direct method	➤ A format for the statement of cash flows that discloses each major class of cash inflow and cash outflow from operating activities. It shows the amount of cash received or paid for revenues and expenses reported on the income statement. This is the method recommended by best practices.
Direct write-off method	➤ A method of accounting for bad debts in which the expense is recorded at the time of the write-off of a customer's account. ➤ A method of accounting for uncollectible receivables, whereby an expense is recognized only when specific accounts are judged to be uncollectible.
Disbursement	➤ The actual transfer of financial resources. The disbursement of a micro-loan reflects the transfer of the loan amount from the lending institution to the borrower.
Disclaimer of Opinion	➤ Statement by an AUDITOR indicating inability to express an opinion on the fairness of the FINANCIAL STATEMENTS provided and the reason for the inability.
Disclosure	➤ Process of divulging accounting information so that the content of FINANCIAL STATEMENTS is understood.
Dividend	➤ A distribution of earnings to the owners of the entity. A distribution of earnings of an MFI (or SHG) to its owners (shareholders or members).
Donations to subsidize financial services (Net)	➤ Donations received in the financial year to apply towards operation of financial services, less any withdrawal of past year's donations, if any.
Double declining-balance method	➤ A depreciation method that allows greater depreciation in the early years of the life of a plant asset and less depreciation in later years. This is achieved by applying a constant rate to each year's decreasing book value.
Double-entry accounting	➤ Each business transaction affects the accounting elements in at least two ways. Recording both effects of a transaction is called double-entry accounting. A system for recording transactions based on recording increases and decreases in accounts so that debits always equal credits.
Double-Entry Bookkeeping	➤ Method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total DEBITS must equal total CREDITS.
Drawee	➤ The bank on which a check is drawn.
Drawer	➤ The business or person who writes a check.
Dual Effect	➤ The principle that states that all business transactions are recorded as having at least two effects on the basic accounting elements.
Due date	➤ The date on which a loan must be paid – this is based on the installment

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Term	Definition
Due Diligence	➤ The process of systematically evaluating information, to identify risks and issues relating to a proposed transaction.(i.e. verify that information is what it is proposed to be).
Earned capital	➤ Capital that arises from profitable operations of the MFI; usually called retained earnings.
Earnings	➤ In general, refers to a company's total earnings less total expenses and including interest and income tax.
Earnings Per Share (EPS)	➤ The portion of an MFI's profit assigned to each share. For example, if the profit is Currency (Dollar, Rupees, Pounds) 1 million and 500,000 shares are outstanding, the earnings per share would be Currency (Dollar, Rupees, Pounds) $1 \text{ million} \div 500,000 \text{ shares} = \text{Currency (Dollar, Rupees, Pounds) } 2$.
Effective interest rate	➤ Effective interest rate includes the effects of interest, fees, commissions and calculation method and other loan requirements (forced savings, discounting) on the total cost of the loan. It represents the financial costs to borrower. It is calculated by using the internal rate of return function on a financial calculator.
Endorsement	➤ A signature or stamp on the back of a check that transfers ownership of the check to the bank or another person.
Equipment	➤ The physical assets needed by a business in order to operate.
Equity	➤ The value of property in an organization greater than total debt held on it. Equity investments typically take the form of an owner's share in the business, and often, a share in the return, or profits. Equity investments carry greater risk than debt, but the potential for greater return should balance the risk. ➤ Residual INTEREST in the ASSETS of an entity that remains after deducting its LIABILITIES. Also, the amount of a business' total assets less total liabilities. Also, the third section of a BALANCE SHEET, the other two being assets and liabilities. ➤ The right or claim to the properties of a business enterprise. ➤ The part of a business enterprise's assets that belongs to the owners. In other words, the amount that would remain if a company sold all of its assets and paid off all of its liabilities. Listed as shareholders equity on the statement of financial position and on the statement of shareholders equity.
Equity	➤ The net worth of a business, consisting of capital stock, capital (or paid-in) surplus (or retained earnings), and, occasionally, certain net worth reserves. Common equity is that part of the total net worth belonging to the common shareholders. Total equity includes preferred shareholders. The terms common stock, net worth, and common equity are frequently used interchangeably.
Escrow	➤ Money or property put into the custody of a third party for delivery to a GRANTEE, only after fulfillment of specified conditions.

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Term	Definition
Exempt Organization	➤ Organization which is generally exempt from paying income tax. Exempt organizations include religious organizations, charitable organizations (NGO-MFIs etc), social clubs, and others.
Expected Return	➤ The total amount of money (return) an investor anticipates to receive from an investment.
Expenditure	➤ Payment, either in cash, by assuming a LIABILITY, or by surrendering ASSET.
Expense	➤ The amount of assets consumed or services used in the process of earning revenue. ➤ The costs of operating a business. Unlike the cost of an asset, the cost of an expense does not provide a future benefit to the business. Therefore, its effect is a reduction in owner's equity. ➤ Costs such as salaries, rent, office supplies and taxes. Listed in the operating expenses category on the statement of earnings.
External Audit	➤ A formal, independent review of an institution's financial statements, records, transactions and operations. External audits are usually performed by professional accountants in order to lend credibility to financial statements and management reports, to ensure accountability for donor funds, or to identify internal weaknesses in an organization. The external audit process is key to transparency.
Face Value	➤ The nominal value which appears on the face of a document recording an entitlement, generally an amount of money that has to be repaid on the maturity of a debt instrument.
Fair Market Value	➤ The highest price available, expressed in terms of cash, in an open and unrestricted market between informed, prudent parties acting at arm's length and under no compulsion to transact.
Fee	➤ A charge for services
Fees	➤ Fees are normally fixed amount charges, generally calculated as a percentage of the loan. Examples would be notary or legal fees. Fee amounts are normally independent of the principal amount of the loan.
Finance Company	➤ Company engaged in making loans to individuals or businesses. Unlike a bank, it does not receive deposits from the public.
Financial Assistance	➤ Economic assistance provided by unrelated third parties, typically government agencies. They may take the form of loans, loan guarantees, subsidies, tax allowances, contributions, or cost-sharing arrangements.
Financial Expense	➤ All interest, fees and commissions incurred on all liabilities, including deposit accounts of clients held by the MFI, commercial and concessional borrowings, mortgages, and other liabilities.

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Term	Definition
Financial forecast	➤ A statement indicating an enterprise's financial plans and expectations for the future.
Financial Incentive	➤ An expression of economic benefit that motivates behavior that might otherwise not take place.
Financial Institution	➤ Organization engaged in any of the many aspects of finance including MFIs, commercial banks, development banks, thrift institutions, investment banks, securities brokers and dealers, credit unions, investment companies, insurance companies etc
Financial Position	➤ Status of a firm's assets, liabilities, and equity accounts as of a certain time, as shown in its financial statement.
Financial Revenue	➤ Includes revenue generated from both the Gross Loan Portfolio and investments.
Financial Self-Sufficiency (FSS)	➤ Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds.
Financial Statements	➤ Presentation of financial data including BALANCE SHEETS, INCOME STATEMENTS, STATEMENTS OF CASH FLOW AND PORTFOLIO REPORT, or any supporting statement that is intended to communicate an entity's (MFI's) financial position at a point in time and its results of operations for a period then ended. Summaries of financial activities.
Fiscal period	➤ The period of time that covers a complete accounting cycle. A fiscal year is a fiscal period covering twelve months; it does not necessarily coincide with the calendar year. Period of 12 consecutive months chosen by an entity as its ACCOUNTING period which may or may not be a calendar year. ➤ A 12-month time period that may or may not be from January 1 to December 31 or April 1st to March 31st ➤ The annual accounting period adopted by an enterprise.
Fixed Assets	➤ Any tangible ASSET with a life of more than one year used in an entity's operations. ➤ Anything MFIs use for delivery of financial services/products. ➤ Often called "Property, plant, and equipment" because that's what fixed assets usually are. Listed after current assets in the assets category on the statement of financial position.
Fixed Assets	➤ Long-lived property of a micro-entrepreneur or firm that is used in that business' production (i.e., a sewing machine is a fixed asset for a micro-entrepreneur who makes clothing). Fixed-asset lending is a type of microfinance product that disburses loans expressly for the purpose of purchasing these fixed assets, which aid in production volume and income. Land, buildings, plant, equipment, and other assets acquired for carrying on the business of an MFI with a life exceeding one year. Normally expressed in financial accounts at cost, less accumulated depreciation.

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Term	Definition
Fixed costs	➤ Costs that do not change as production changes; costs that occur even without any production
Fixed Expenses	➤ Cost of doing business which does not change with the volume of business. Examples might be rent for business premises, insurance payments, heat and light.
Fixed Interest Rate	➤ A rate that does not fluctuate with general market conditions.
Fixed Rate Loan	➤ Loan for a fixed period of time with a fixed interest rate for the life of the loan.
Fixed-Asset Lending/ Loan	➤ Microfinance product in which loans are disbursed expressly for the purpose of purchasing fixed assets, which aid in production volume and income.
Flat rate method of interest calculation	➤ represents interest calculated by multiplying the term of the loan by the monthly interest rate by the principal amount, irrespective of the payment plan.
Flexible budget	➤ A budget that is actually a series of budgets for different levels of activity
Flexible Term	➤ Optional periods of time during which the conditions of a contract will be carried out.
Forecast	➤ Prospective FINANCIAL STATEMENTS that are an entity's (MFI's) expected financial position, results of operations, and cash flows. Future-oriented financial information prepared using assumptions all of which reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions.
Formalized Line of Credit	➤ A contractual commitment to make loans to a particular borrower up to a specified maximum during a specified period, usually one year.
Fraud	➤ Wilful misrepresentation by one person of a fact inflicting damage on another person.
Funding Costs	➤ The price of obtaining capital, either borrowed or equity, with intent to carry on business operations.
Funds statement.	➤ The statement of changes in financial position.
Fungibility	➤ The quality of money that makes one individual specimen indistinguishable from another. Anything used as money (gold, shells, bank notes) must have this quality. The fungibility of money makes it difficult for lenders to ensure that borrowers use the loan funds in the way lenders wish; one way they try to get round "misuse of funds" is to lend in kind. Often a person will borrow money for one stated purpose, but the effect of the loan is to finance another activity. Say, for example, that I intend to improve my house using savings but

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Term	Definition
	someone offers me a home improvement loan on attractive terms. The effect of the loan is not to increase quality of the housing stock, as the lender intended, but to enable me to undertake some other activity I could not otherwise have financed buying a motorcycle, taking a holiday, or perhaps partying every night. Micro finance lenders such as donors and NGOs tend to dislike this because (a) they don't think poor people should use their limited incomes on such things, and (b) it reduces the funds available for lending to other potential clients or beneficiaries [Varley, 1995].
Future Value	➤ The amount to which a payment or series of payments will grow by a given future date when compounded by a given interest rate. FVIF future value interest factor.
General Expense	➤ Expense incurred in the general operation of a business. Expenses related to (1) running a firm's office or (2) any other operating activities that do not involve its income operations. Also called administrative expenses.
General Ledger	➤ Collection of all ASSET, LIABILITY, owners EQUITY, REVENUE, and expense accounts. A ledger containing the financial statement accounts. The principal ledger, when used in conjunction with subsidiary ledgers that contains all of the balance sheet and income statement accounts.
Going Concern	➤ Assumption that a business (MFI) can remain in operation long enough for all of its current plans to be carried out.
Going Concern concept	➤ The concept that assumes that a business entity has a reasonable expectation of continuing in business at a profit for an indefinite period of time.
Goodwill	➤ Premium paid in the acquisition of an entity over the fair value of its identifiable tangible and intangible ASSETS less LIABILITIES assumed. ➤ An intangible asset made up of such factors as an excellent reputation, a fine location, a superior product line, or outstanding management skills. Used to give a partner a greater capital credit than the amount of assets invested. ➤ An intangible asset that adds value to the worth of a company; for example, the reputation of its products, services, or personnel. Listed in the assets category (sometimes as "Investments and sundry assets") on the statement of financial position.
Governance	➤ Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets.
Governing Documents	➤ Official legal documents that dictate how an entity is operated. The governing documents of a CORPORATION include ARTICLES OF INCORPORATION and BYLAWS; a PARTNERSHIP includes the partnership agreement; a TRUST includes the trust agreement or trust indenture; and an LLC includes the ARTICLES OF ORGANIZATION and OPERATING AGREEMENT.
Grace Period	➤ Length of time during which repayments of loan principal are excused. Usually occurs at the start of the loan period.

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Term	Definition
Gross Loan Portfolio	➤ The outstanding principal balance of all of the MFI's outstanding loans including current, delinquent and restructured loans, but not loans that have been written off. It does not include interest receivable.
Group Lending	➤ Lending mechanism which allows a group of individuals - often called a solidarity group - to provide collateral or loan guarantee through a group repayment pledge. The incentive to repay the loan is based on peer pressure - if one group member defaults, the other group members make up the payment amount.
Guarantee	➤ To take responsibility for payment of a debt or performance of some obligation if the person primarily liable fails to perform.
Guaranteed Loan	➤ A pledge to cover the payment of debt or to perform some obligation if the person liable fails to perform. When a third party guarantees a loan, it promises to pay in the event of a default by the borrower.
Guarantee	➤ Legal arrangement involving a promise by one person to perform the obligations of a second person to a third person, in the event the second person fails to perform.
Historical cost	➤ Original cost of an asset to an entity.
Horizontal analysis	➤ The comparison of each item in an MFI's financial statements in the current period with the same item from a previous accounting period or periods. The percentage analysis of increases and decreases in corresponding items in comparative financial statements.
Housing Finance	➤ A specialized loan product that allows households of both micro-entrepreneurs and wage earners to finance home improvements or additions. Loans tend to be longer-term, and in larger amounts, than traditional micro-enterprise loans. In the case of micro-business owners, home improvement loans can enhance at-home businesses.
Income	➤ Inflow of REVENUE during a period of time. (See NET INCOME.)
Income Statement	➤ Summary of the effect of REVENUES and expenses over a period of time. A summary of a business's revenue and expenses for a specific period of time, such as a month or a year. Other terms used to describe the income statement are earnings statement, operating statement, statement of operations, and profit and loss statement.
Independent auditors' report.	➤ A report accompanying financial statements, in which chartered accountants (CAs) express an opinion as to the fairness of the statements.
Indirect expense	➤ An expense of operating a business that is not associated with a specific department; expenses that benefits an entire business and would continue to exist even if a specific department were eliminated.

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Term	Definition
Indirect Labor	➤ The cost of those employees who work in the company, but not on the product itself. Example – Accountants not working in the credit program.
Inflation	➤ A period when prices in general are rising and the purchasing power of the currency (dollar or rupee or pound sterling) is declining.
Informal Finance System	➤ "Informal" refers to types of institutions. Most community-based financial institutions are formal organizations, although they are not normally targeted for a particular purpose. While every group exhibits some degree of formality, the term "informal" is used principally to describe traditional systems of savings and loans [UN-ESCAP (1991)].
Informal Sector/ Economy	➤ A subset of the economy consisting of self-owned enterprises and the enterprises of informal employers, in both urban and rural areas. The businesses of the informal sector are not registered with any taxation or regulatory bodies. The main features of the informal sector are ease of entry, self-employment, small-scale production, labor-intensive work, lack of access to organized markets, and lack of access to traditional forms of credit
Insolvent	➤ When an entity's LIABILITIES exceed its ASSETS.
Insurance Company	➤ A firm licensed to sell insurance to the public.
Intangible Asset	➤ Asset having no physical existence such as trademarks and patents. ➤ A long-lived asset that is useful in the operations of an enterprise, is not held for sale, and is without physical qualities. ➤ Long-term assets used in a business that lack physical substance. Examples include patents, copyrights, trademarks, and franchises. ➤ Anything nonphysical, such as goodwill, trademarks, and patents, that have value for a company. ➤ Listed in the assets category (sometimes as "Investments and sundry assets") on the statement of financial position. ➤ Positive peer pressure in micro-finance be such an intangible asset
Interest	➤ Payment for the use or forbearance of money. The charge for credit; calculated as principal x rate x time. Interest is the amount a borrower pays in addition to the principal of a loan to compensate the lender for the use of the money. A charge for the use of money supplied by a lender.
Interest and Yield Difference	➤ The term "interest" indicates the percent rate of return which the company that issues the fixed deposit agrees to pay you each year on the principal amount of your deposit. This rate normally remains constant during the period of the fixed deposit and is indicated in the fixed deposit offer document itself. Consider a fixed deposit of Rs. 5,000 with a period of two years and an interest rate of 10 percent payable annually. The company issuing this fixed deposit will pay you Rs. 500 (i.e. Rs. 5000 X 10 /100) as interest each year for two years. What, then, is "Yield"? Yield is simply the percent return that you get on an investment. In the example above, you receive Rs. 500 per year on the amount of Rs. 5,000 you invested in the fixed deposit. To calculate the yield, divide Rs. 500 by Rs. 5,000 and multiply the result by 100. Here, the

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	yield too works out to 10 percent. Does this mean that there is no difference between yield and interest? No, there is a difference between the two only if the frequency of interest payment is different. It is here that the concept of Yield to Maturity (YTM) comes into play. YTM indicates the percent return that you can earn by holding on to your fixed deposit till the date of its maturity i.e. without withdrawing it prematurely. YTM is particularly useful when you want to make a comparison of the returns on different investment options in order to be able to decide which investment to choose. Calculation of YTM is done on the assumption that the interest amount received on the fixed deposit is reinvested at the same interest rate. This is called compounding.
Interest rate	➤ Interest rate is the expression of interest as a percentage of the principal. Cost of using money, expressed as a rate per period of time, usually one year.
Interim Financial Statements	➤ FINANCIAL STATEMENTS that report the operations of an entity for less than one year
Interim Financing	➤ Short-term loan to provide temporary financing until more permanent financing is available
Intermediary	➤ An independent third party that may act as a mediator during negotiations.
Internal Audit	➤ AUDIT performed within an entity by its staff rather than an independent certified public accountant.
Internal Control	➤ Process designed to provide reasonable assurance regarding achievement of various management objectives such as the reliability of financial reports. The procedures used within a MFI to protect its assets.
Internal transactions	➤ Transactions, such as adjustments, that occur within an MFI and do not affect parties outside the company
Investment	➤ EXPENDITURE used to purchase goods or services that could produce a return to the investor. An MFI's equity ownership in unconsolidated subsidiaries and affiliates. Listed in the category of assets (for example, "Investments and sundry assets") on the statement of financial position.
Invoice	➤ A business document that contains the names and addresses of the buyer and the seller, the date and terms of the sale, a description of the goods, the price of the goods, and the mode of transportation used to ship the goods. The seller calls the invoice a sales invoice; the buyer calls it a purchase invoice. The bill provided by the seller (referred to as a sales invoice) to a purchaser (referred to as a purchase invoice) for items purchased.
Journal	➤ Any book containing original entries of daily financial transactions. ➤ A form in which transactions are recorded in chronological order (by order of date).
Journalizing	➤ The process of recording transactions in a journal.

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Term	Definition
Lease Payment	➤ The consideration paid by the lessee to the lessor in exchange for the use of the leased equipment/property. Payments are usually made at fixed intervals.
Ledger	➤ Any book of accounts containing the summaries of debit and credit entries. ➤ A collective grouping of accounts. The group of accounts used by an enterprise.
Lending Policy	➤ A course of action adopted by a financial institution to guide and usually determine present and future decisions in the light of given conditions.
Lessee	➤ Person or entity that has the right to use property under the terms of a LEASE.
Lessor	➤ Owner of property, the temporary use of which is transferred to another (LESSEE) under the terms of a LEASE.
Letter of Credit	➤ Conditional bank commitment issued on behalf of a customer to pay a third party in accordance with certain terms and conditions. The two primary types are commercial letters of credit and standby letters of credit.
Letter of Intent	➤ A document signifying genuine interest in reaching a final agreement, conditional upon the results of more detailed due diligence and negotiations.
Letters of Credit	➤ A letter of credit is a guarantee of payment by a bank (issuing institution) to a third party for a specific amount of money, if certain conditions are met.
Leverage	➤ Using long-term debt to secure funds for an organization. In the social investment world, often refers to financial participation by other private, public or individual sources ➤ The use of borrowed funds to earn a greater return than the cost of the borrowed funds. ➤ The tendency of the rate earned on stockholders' equity to vary from the rate earned on total assets because the amount earned on assets acquired through the use of funds provided by creditors varies from the interest paid to these creditors. ➤ A company's use of debt, instead of its equity, to support its assets and grow.
Liabilities	➤ Debts owed by the business (MFI). A company's debts to a lender, a supplier of goods and services, a tax authority, a landlord, and others. Listed as a category on the statement of financial position. DEBTS or obligations owed by one entity (DEBTOR) to another entity (CREDITOR) payable in money, goods, or services. A debt of a business enterprise.
Liabilities, Total Liabilities	➤ Total value of financial claims on a firm's assets. Equals total assets minus net worth.
Lien	➤ The right of a party to a contract to take possession of an asset unless payment under the contract is received in full. A lien must be registered under the various provincial laws in order to be valid and enforceable.

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Term	Definition
Limited Liability	➤ Limitation of shareholders' losses to the amount invested. Means that shareholders of a corporation are not personally liable for the debts of the company
Line of Credit	➤ Agreement by a bank that an MFI may borrow at any time up to an established limit. An agreement negotiated between a borrower and a lender that establishes the maximum amount against which a borrower may draw. The agreement also sets out other conditions, such as how and when money borrowed against the line of credit is to be repaid.
Liquid Asset	➤ An asset that can be quickly converted into cash. Examples include cash and marketable securities. Cash equivalents, and marketable SECURITIES.
Liquidity	➤ Refers to how quickly an asset can be turned into cash, used up, or expire; used in reference to assets, which are listed on the balance sheet in the order of their liquidity. The degree to which an asset can be cheaply and quickly turned into money
Loan Agreement	➤ A written contract between a lender and a borrower that sets out the rights and obligations of each party regarding a specified loan.
Loan Capital	➤ Borrowed funds having a fixed interest rate.
Loan Guarantee	➤ See Collateral.
Loan Loss Provision	➤ A loan loss provision is the amount shown on the Income and Expenses Statement.
Loan Loss Provision Expense	➤ A non-cash expense that is used to create or increase the Loan Loss Reserve on the balance sheet. The expense is calculated as a percentage of the value of the Gross Loan Portfolio that is at risk of default.
Loan Loss Rate	➤ Total write-offs divided by active portfolio. The loan loss rate is an indicator to measure un-recovered loans.
Loan Loss Reserve	➤ A loan loss reserve is an accounting entry that represents the amount of outstanding principal that is not expected to be recovered by a micro-finance organisation. It is recorded as a negative asset on the Balance Sheet as a reduction of the outstanding portfolio or as a liability.
Loan Loss Reserve	➤ The portion of the Gross Loan Portfolio that has been expensed (provisioned for) in anticipation of losses due to default. This item represents the cumulative value of the Loan Loss Provision Expenses less the cumulative value of Write Offs. It should be noted that the Loan Loss Reserve is usually not a cash reserve, but rather an accounting device to provide the reader information about the size of the anticipated loan losses. The reserve is built up from specific provision expenses related to the portfolio at risk or in some cases general provision expense against the entire Gross Loan Portfolio.
Loan Loss Reserve	➤ $\text{Loan Loss Reserve} / \text{Gross Loan Portfolio}$

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Term	Definition
Ratio (Percentage)	
Loan Products	➤ Types of loans with particular sets of terms and conditions, and often for a particular use. Within the field of microfinance, loan products include fixed-asset lending, home improvement loans and solidarity group lending.
Loans that are <30 days due	➤ Loans with payments overdue for less than 30 days (from the scheduled date). Always take the first payment (that is overdue) for calculating the overdue age of the loan
Loans that are Above 365 days due	➤ Loans with payments overdue for over 365 days (from the scheduled date)
Loans that are Between 181-365 days due	➤ Loans with payments overdue for between 181 – 365 days (from the scheduled date)
Loans that are Between 31-60 days due	➤ Loans with payments overdue for between 30 – 60 days (from the scheduled date)
Loans that are Between 61-90 days due	➤ Loans with payments overdue for between 61 – 90 days (from the scheduled date)
Loans that are Between 91-180 days due	➤ Loans with payments overdue for between 91 – 180 days (from the scheduled date)
Longer-Term Fixed Assets	➤ Assets having a useful life greater than one year but the duration of the 'long term' will vary with the context in which the term is applied.
Long-Term Debt	➤ DEBT with a maturity of more than one year from the current date. ➤ Debt a company (MFI) will repay after one year. Listed in the liabilities category on the statement of financial position. Wholesaler loans to MFIs are usually long term debt
Long-term investment	➤ An investment that is not intended to be a ready source of cash in the normal operations of a business and that is listed in the “investments” section of the balance sheet. Investments that management intends to hold for more than one year.
Long-term liabilities	➤ Debts that will not come due for payment within one year. Examples are long-term notes payable and mortgages payable. ➤ A liability that is not due for a comparatively long time (usually more than one

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Term	Definition
	year).
Loss	➤ Excess of EXPENDITURES over INCOME for a period or activity.
Management	➤ Management refers to the individuals in an entity that have the authority and the responsibility to manage the entity. The positions of these individuals, and their titles, vary from one entity to another and, to some extent, from one country to another depending on the local laws and customs. Thus, when the context requires it, the term includes the board of directors or committees of the board, who are designated to oversee certain matters (e.g., audit committee).
Management Accounting	➤ Reporting designed to assist management in decision-making, planning, and control. Also known as Managerial Accounting.
Margin	➤ Excess of price over the unit cost – INTEREST MARGIN in case of micro-finance
Market Rate	➤ The rate of interest a company must pay to borrow funds currently.
Matching	➤ The principle of accounting that all revenues should be matched with the expenses incurred in earning those revenues during a period of time.
Matching Principle	➤ A fundamental concept of basic accounting. In any one given accounting period, you should try to match the revenue you are reporting with the expenses it took to generate that revenue in the same time period, or over the periods in which you will be receiving benefits from that expenditure. ➤ A simple example is depreciation expense. If you buy a car that will last for many years, you don't write off the cost of that car all at once. Instead, you take depreciation deductions over the car's estimated useful life. Thus, you've "matched" the expense, or cost, of the building with the benefits it produces, over the course of the years it will be in service. ➤ A fundamental rule of basic accounting. In any one given accounting period, you should try to match the revenue you are reporting with the expenses it took. ➤ Requires that revenue earned during an accounting period be offset by the expenses that were necessary to produce that revenue, so that the accurate net income or net loss for the period can be reported
Maturity date	➤ The date on which the principal (amount) must be repaid. Date on which a debt is due for payment
Maturity value	➤ The principal plus the interest on an instrument like Fixed Deposit made by clients; the amount that must be paid to the payee on the maturity date of the instrument. The amount due at the maturity or due date of an FD/RD and similar instrument.
Mentor	➤ A close personal contact, usually in your industry, who has a network of contacts in the investment community and can assist a person in achieving their objectives.

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Term	Definition
Micro-credit	➤ A part of the field of microfinance, micro-credit is the provision of credit services to low-income entrepreneurs. Micro-credit can also refer to the actual micro-loan.
Micro-enterprise	➤ A small-scale business in the informal sector. Micro-enterprises often employ less than 5 people and can be based out of the home. Micro-enterprise is often the sole source of family income but can also act as a supplement to other forms of income. Examples of micro-enterprises include small retail kiosks, sewing workshops, carpentry shops and market stalls..
Micro-entrepreneur	➤ Owner/ proprietor of a micro-enterprise.
Microfinance	➤ Banking and/or financial services targeted to low-and-moderate income businesses or households, including the provision of credit.
Microfinance Institution (MFI)	➤ A financial institution - can be a non-profit organization, regulated financial institution or commercial bank - that provides microfinance products and services to low-income clients.
Micro-insurance	➤ A developing field of microfinance that provides health insurance and other insurance products to micro-entrepreneurs and employees in the informal sector.
Microloan	➤ A loan imparted by a micro-finance institution to a micro-entrepreneur, to be used in the development of the borrower's small business. Micro-loans are used for working capital in the purchase of raw materials and goods for the micro-enterprise, as capital for construction, or in the purchase of fixed assets that aid in production, among other things.
Money Market	➤ Financial market in which funds are borrowed or lent for short periods. (The money market is distinguished from the capital market, which is the market for long term funds.)
Mortgage	➤ Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.
Net earnings	➤ A MFI's total revenue less total expenses, showing what an MFI earned (or if lost, called net loss) for a set period, usually one year. Listed often literally as the "bottom line" on the statement of earnings. Also called net income and net profit.
Net Financial Revenue Ratio (Percentage)	➤ $(\text{Financial Revenue} - \text{Financial Expense}) / \text{Period Average Assets}$
Net Income	➤ Excess or DEFICIT of total REVENUES and GAINS compared with total expenses and losses for an ACCOUNTING period. Occurs when revenue earned during an accounting period exceeds the expenses of the same period. The final figure in the income statement when revenues exceed expenses. An

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Term	Definition
	MFI's total revenue less total expenses, showing what an MFI earned (or lost, called net loss) for a set period, usually one year. Listed often literally as the "bottom line" on the statement of earnings. Also called net earnings and net profit.
Net Income (After Taxes)	➤ Total revenue less total expenses, operating and non-operating, including all donations and taxes.
Net Income (Before Taxes)	➤ Total revenue less total expenses, operating and non-operating, including all Donations, but before Taxes.
Net Income Before Donations and Taxes	➤ Total revenue less total expenses, operating and non-operating, but before Donations and Taxes
Net Loan Portfolio	➤ Gross Loan Portfolio less the Loan Loss Reserve
Net loss	➤ The final figure in the income statement when expenses exceed revenues.
Net Non-operating Income	➤ Non-operating Revenue less Non-operating Expense
Net Operating Income	➤ Operating Revenue less all expenses related to the MFI's core financial service operations, including Operating Expense, Financial Expense, and Loan Loss Provision Expense. It does not include Donations, or revenues and expenses from non-financial services.
Net profit	➤ A MFI's total revenue less total expenses, showing what it earned (or lost, called net loss) for a set period, usually one year. Listed often literally as the "bottom line" on the statement of earnings. Also called net earnings and net income.
Net realizable value	➤ The difference between the balance in the Accounts Receivable account and the Allowance for Doubtful Accounts account; the actual amount of receivables that the firm expects to collect.
Net Working Capital	➤ Current assets minus current liabilities.
Net Worth	➤ Similar to EQUITY, the excess of ASSETS over LIABILITIES. The owner's equity in a business (MFI's). Listed as total equity on the statement of financial position. The difference between the total assets and total liabilities of a MFI.
Nominal Interest Rate	➤ The contracted, or stated interest rate, unadjusted for price level changes. Nominal rate is the interest rate quoted to the borrower that is to be paid on a loan contract.
Non current assets.	➤ Anything of long-term value to an MFI, including fixed assets and intangible assets. Listed in the assets category (after current assets) on the statement of

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	financial position.
Non-Bank Financial Institution	➤ An institution, which is not regulated by banking supervisory/regulatory or any local public agency, that provides similar services as do banks. They provide tailored-made services to their clients through the offering of lending and deposit vehicles.
Non-operating Expense	➤ All expenses not directly related to the core microfinance operation, such as the cost of providing business development services or training (unless the MFI includes training as a requirement for receiving loans).
Non-operating Revenue depreciation	➤ All revenue not directly related to core microfinance operations, such as revenue from business development services, training, or sale of merchandise.
Non-Profit (NGO)	➤ Non-Government Organization - organization that typically does not have a legal charter authorizing them to engage in financial intermediation. [Source: CGAP, Occasional Paper, April 2000]
Number of Active Borrowers	➤ The number of individuals who currently have an outstanding loan balance with the MFI or are responsible for repaying any portion of the Gross Loan Portfolio. This number should be based on the individual borrowers rather than the number of groups.
Number of Active Clients	➤ Number of individuals who have deposit and/or loan accounts in force with the MFI. A person with more than just one such account (i.e. with 2 loans) is counted as a single client in this measure.
Number of active MF Investments	➤ Number of active financial and technical (e.g. technical assistance) transactions (including loans & debt securities, equity, grants, guarantees and grants) carried on by the fund with its MFI clients.
Number of Personnel	➤ The number of individuals who are actively employed by the MFI. This includes contract employees or advisors who dedicate the majority of their time to the MFI, even if they are not on the MFI's roster of employees. This number should be expressed as a full-time equivalent, such that an advisor that spends 2/3 of her time at the MFI would be considered 2/3 of a full-time employee.
Number of Savers	➤ The total number of individuals who currently have funds on deposit with an MFI, which the MFI is liable to repay. This number applies only to deposits that are held by the MFI, not to those deposits held in other institutions by the MFI's clients. The number is based on individuals rather than the number of groups. It is possible that a single deposit account may represent multiple depositors.
Number of Women Borrowers	➤ Number of Active Borrowers who are women.
Operating activities	➤ Transactions that enter into the calculation of net income; operating activities

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	affect the income statement. For MFIs, this is the delivery of financial services to clients
Operating Expense (Total)	➤ The total of all expenses related to operations, such as all personnel expenses, rent and utilities, transportation, office supplies, depreciation and Other Administrative Expense.
Operating Expense / Loan Portfolio (Percentage)	➤ Operating Expense / Period Average Gross Loan Portfolio
Operating expenses	➤ Expenses incurred in the normal operation of the business – micro-financing. Costs related to an MFI's operations. Examples are salaries, commissions, travel etc. Listed as a category on the statement of earnings.
Operating Expenses/Period Average Fund Assets	➤ $\text{Fund Operating Expenses} / ((\text{Beginning year Fund Assets} + \text{Year end Fund Assets}) / 2)$
Operating Lease	➤ One where the risks and benefits, as well as ownership, stays with the lessor.
Operating Line of Credit	➤ An MFI's commitment to make loans to a particular borrower (SHG also) up to a specified maximum for a specified period, usually one year.
Operating Loan	➤ A loan advanced under an operating line of credit.
Operating Revenue (Total)	➤ Includes all Financial Revenue and Other Operating Revenue.
Operational Self-Sufficiency (OSS):	➤ A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.
Operational Self-Sufficiency (Percentage)	➤ $\text{Operating Revenue} / (\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Operating Expense})$
Opportunity Cost	➤ The potential benefit that is foregone from not following the best (financially optimal) alternative course of action.
Opportunity Costs	➤ In the context of microfinance, opportunity costs include the time or anything "forgone" a borrower spends on applying and filling out the paperwork for a loan.

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Term	Definition
Other Administrative Expense	⇒ Other non-personnel expenses from services integrally connected with financial services.
Other Operating Expense	⇒ Expenses related to operations, such as all personnel expenses, rent and utilities, transportation, office supplies, and depreciation.
Other Operating Revenue	⇒ Revenue that is generated from other financial services, such as fees and commissions for non-credit financial services that are not considered Financial Revenue. This item may include revenues linked with lending such as membership fees, ATM card fees, transfer fees, or other financial services such as payment services or insurance.
Outstanding Portfolio	Outstanding Portfolio is the sum of the principal outstanding of all loans in a portfolio. It is also called as Total Outstanding Portfolio (TOP). It is the largest income generating asset for any institution (SHG or MACs) involved in micro-finance as it is the asset on which income (interest) is earned. Delinquency, if unattended, affects this asset and could result in loss (or postponement) of income for the institution
Overdraft	⇒ The amount by which a check or other payments exceeds the funds on deposits.
Overdue	⇒ Overdue is the same as arrears or past due . When the instalment amount of a loan, which is due on a specific date, is not paid on that date, the amount due but not paid becomes the <u>overdue</u> . The concept age was also briefly introduced in that if on 31 st January 2003, Rs 200 is due and is not paid by 31 st January 2003, then on February 1 st , that instalment is overdue and also the loan is an overdue loan with age of 1 day. . Overdue becomes the principal criteria for identifying a risky loan – a loan is risky if it has overdues. This concept of “riskiness” is used for calculating measures of delinquency like portfolio at risk (PAR) and it has become part of the best practices norms in micro-finance

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Term	Definition
PAR Limitations	PAR has a serious limitation in that it is affected by sudden and large increases in outstanding portfolio and/or decreases in the unpaid principal balance which can be caused in any of the following ways: • Disbursement of loans (increases outstanding portfolio but will not have an impact on the unpaid principal balance of past due loans, especially, if the repayment schedule has not begun) • Rescheduling of past due loans (reduces the unpaid principal balance of past due loans by making them current; there is no impact on outstanding portfolio) • Re-financing of past due loans (reduces the unpaid principal balance of past due loans by making them current and also increases the outstanding portfolio) • Loan write-offs (reduces the unpaid principal balance of past due loans and also reduces the outstanding portfolio) When the outstanding portfolio increases, then the ratio appears lower and so does the risk. Likewise, when the unpaid principal balance of past due loans decreases, the ratio becomes smaller and the risk appears less. <i>But actually, the risk is still high.</i> While the same limitation exists with the arrears rate as well, we limit our discussion to the PAR because it is the recommended ratio. The same formulas can be used for the arrears rate as well.
Participation Fee	➤ Fee charged by a bank for taking part in providing a loan.
Partnership	➤ Non-incorporated business venture of two or more individuals or companies. Profits or losses flow, directly and equally, to the partners.
Payroll register	➤ Summary of the gross earnings, deductions, and net pay for all employees for a specific payroll period.
Penalties or Penal interest	➤ represent interest charged on a loan when payments are missed or delayed. Normally a penalty interest is stipulated in loan contracts to be a certain percent increase over the interest rate applied to the loan. In some cases it is a fixed and predetermined rate.
Pension	➤ Retirement plan offered by an employer for the benefit of an employee, usually at retirement, through a TRUSTEE who controls the plan ASSETS. (See EMPLOYEE BENEFIT PLAN.)
Performance Standards	➤ Normative levels set for specific performance measurements, like portfolio quality or leverage. In the field of microfinance, there are several entities and projects attempting to set universal performance standards for MFIs.
Period	➤ $(\text{Beginning year Total Assets} + \text{Year end Total Assets}) / 2$

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Term	Definition
Average Assets	
Period Average Equity	➤ $(\text{Beginning year Total Equity} + \text{Year end Total Equity}) / 2$
Period Average Gross Loan Portfolio	➤ $(\text{Beginning year Gross Loan Portfolio} + \text{Year end Gross Loan Portfolio}) / 2$
Period Average Personnel	➤ $(\text{Beginning year Personnel} + \text{Year end Personnel}) / 2$
Permanent Capital	➤ Financing needed for the normal operation of a business, that is long term capital and working capital.
Personal Assets	➤ Assets, the title of which are held personally rather than in the name of some other legal entity.
Personal Guarantee	➤ A legal document whereby an individual takes responsibility for payment of debt or performance of some obligation if the person/company primarily liable fails to perform.
Personnel Productivity	➤ $\text{Number of Active Borrowers} / \text{Number of Personnel}$
Petty cash fund	➤ A small amount of cash kept in the office for making small payments for items such as postage and office supplies. A special cash fund used to pay relatively small amounts.
Petty cash payments record	➤ An auxiliary record, one that is used to record payments from the petty cash fund. At the end of the month, the record is summarized and used as a basis for a journal entry.
Petty cash voucher	➤ A voucher used when payment is made from the petty cash fund. It shows the amount of the payment, the purpose, and the account to be debited.
Petty cashier	➤ The person designated to disburse money from the petty cash fund.
Pledged Asset	➤ ASSET placed in a TRUST and used as COLLATERAL for a DEBT.
Portfolio at Risk	➤ Measurement of the total outstanding balance of loans past due - net late payments or payments not yet due - divided by the active portfolio. A more rigorous manner of assessing portfolio quality than portfolio past due/delinquent portfolio.
Portfolio at risk (PAR) =	➤ $\text{Unpaid Principal Balance of Loans with Payments Past Due} / \text{Total Outstanding Portfolio (TOP)}$
Portfolio	➤ The value of all loans outstanding that have one or more installments of

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at Risk > 30 days	principal past due more than 30 days. This includes the entire unpaid principal balance, including both the past due and future installments, but not accrued interest. It does not include loans that have been restructured or rescheduled.
Portfolio at Risk > 30 days Ratio (Percentage)	➤ Portfolio at Risk > 30 days (total) / Gross Loan Portfolio
Portfolio in Arrears (PIA) =	➤ Amount Past Due (or in Arrears or Overdue) by Total Outstanding Portfolio (TOP)
Portfolio Outstanding	➤ See Active Portfolio.
Portfolio Past Due/Delinquent Portfolio	➤ Total amount of loan payments that are due but have not yet been paid divided by active portfolio.
Posting	➤ The process of transferring amounts from the journal to the ledger. The process of transferring debits and credits from a journal to the accounts.
Posting errors	➤ Errors that result from incorrect transfers from the journal to an account or from the ledger to the trial balance.
Prepaid Expense	➤ Cost incurred to acquire economically useful goods or services that are expected to be consumed in the revenue-earning process within the operating cycle. ➤ A purchased commodity or service that has not been consumed at the end of an accounting period. ➤ Another name for deferred expenses, usually applying to advance payments that cover a year or less.
Prime Rate	➤ The interest rate that is charged by the banks to their most credit worthy customers.
Principal	➤ In commercial law, the principal is the amount that is received, in the case of a loan, or the amount from which flows the interest. The amount of money borrowed or the amount of credit extended. Also called the face value. The obligation due under a debt instrument exclusive of interest.
Principal Amount	➤ Generally, refers to the face value of a debt.
Principal Outstanding	➤ Principal outstanding of a loan (on a given date) is the total <u>unpaid</u> principal balance for that loan on that date. It equals the loan disbursed minus cumulative repayments
Principle of materiality	➤ States that proper accounting procedures have to be strictly followed only for events and transactions that would have an effect on a business's financial statements.

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Term	Definition
Prior period adjustment.	➤ Correction of a material error related to a prior period or periods, excluded from the determination of net income.
Profit center	➤ Any segment of a business that incurs expenses while producing revenue.
Profitability	➤ The ability of a business (MFI) to earn a reasonable return on the owners' investments. ➤ The ability of an MFI to earn income.
Projection	➤ Prospective FINANCIAL STATEMENTS that include one or more hypothetical assumptions.
Promissory Note	➤ Written promise committing the maker to pay a specified sum of money either on demand or on some future date, with or without interest.
Proprietor	➤ A single person who is the owner of an unincorporated business.
Published Financials	➤ Financial statements and financial information made public.
Quick Assets	➤ Current assets that can be converted to cash right away, such as receivables and marketable securities. The sum of cash, receivables, and marketable securities.
Quick Ratio	➤ The simple ratio of a MFI's liquid assets to current liabilities. Such assets include cash, marketable securities, and accounts receivable.
R&D	➤ See RESEARCH AND DEVELOPMENT.
Rate of Return	➤ Return on invested capital (calculated as a percentage). Often an investor has, as one of their investment criteria, a minimum acceptable rate of return on an acquisition.
Ratio	➤ A fractional relationship of one number to another. A measure of the relative size of two numbers. Usually, financial ratios are expressed as a times multiple (x) or a percentage (%). Ratios provide a quick way to compare a company (MFI) to its performance over time, to other MFI, and to the industry average.
Ratio Analysis	➤ Comparison of actual or projected data for a particular company (MFI) to other data for that company or industry in order to analyze trends or relationships.
Real interest rates	➤ Real interest rates are rates that have been adjusted to compensate for the effects of inflation. That is the nominal or effective rate minus inflation. A negative real rate implies the interest charged falls below the inflation rate. A positive rate means that the rate of interest is set above the inflation rate.
Realization principle	➤ The principle that states that revenue should be recorded when it is earned, even though cash may not be collected until later.

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Term	Definition
Receivables	➤ Accounts receivable; an amount that is owed the business, usually by one of its clients as a result of the ordinary extension of credit. Amounts of money due from clients or other DEBTORS.
Reconciliation	➤ Comparison of two numbers to demonstrate the basis for the difference between them.
Recourse	➤ In the event a person defaults on a loan, recourse is the right of a person to receive payment. Recourse could give the lender the ability to take possession of the borrowers assets.
Refinancing Agreement	➤ Arrangement to provide funding to replace existing financing, the most common being a refinance of a loan.
Regulation and Supervision	➤ The creation and enforcement of a set of rules and standards for financial institutions, including MFIs. These rules are usually set by a country's central bank or superintendency of banks, or by other banking agencies.
Reinsurance	➤ Process by which an insurance company obtains insurance on its insurance claims with other insurers in order to spread the risk.
Remit	➤ Pay for purchase goods or services by cash, cheque, or electronic payment.
Remittance	➤ A payment in cash, check or electronic transfer.
Repayment Terms	➤ The length of time given a borrower by a lender to repay a debt and the frequency of principal payments, which the borrower has to meet.
Report of independent accountants.	➤ A summary of the findings of a firm of independent certified public accountants that audits, or examines, a company's financial statements. This report is included in the company's annual report. Also called auditors' report and auditors' opinion.
Reserve	➤ ACCOUNT used to earmark a portion of EQUITY or fund balance to indicate that it is not available for expenditure
Restructuring	➤ Reorganization within an entity. Restructuring may occur in the form of changing the components of CAPITAL, renegotiating the terms of DEBT (Loan) agreements, etc.
Retained Earnings	➤ Net profits kept to accumulate in a business after dividends are paid.
Return on Equity (Percentage)	➤ $(\text{Net Operating Income} + \text{Taxes}) / \text{Period Average Equity}$
Revenue	➤ Income earned from carrying out the activities of micro-financing. The amount charged to customers for goods sold or services rendered – interest on loans etc.

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Term	Definition
Reversing entry	➤ An entry made at the start of a new accounting period to reverse an adjusting entry made at the end of the previous period. A reversing entry is the exact opposite of the adjusting entry. An entry that reverses a specific adjusting entry to facilitate the recording of routine transactions in the subsequent period.
Revolving Credit	➤ Line of Credit against which funds may be borrowed at any time, with regular scheduled repayments of a predetermined minimum amount.
Risk	➤ A state in which the number of possible future events exceeds the number of events that will actually occur, and some measure of probability can be attached to them.
Risk of Collection	➤ Chance that a borrower or trade debtor will not repay an obligation as promised.
Rural Bank	➤ Banking institution that targets clients who live and work in non-urban areas and who are generally involved in agricultural-related activities.
Salaried employees	➤ Individuals who work for a fixed amount for a definite period of time, such as a week, a month, or a year.
Salary	➤ A fixed amount paid to employees for a certain period of time, such as a week or a month.
Salvage Value	➤ Selling price assigned to retired FIXED ASSETS or merchandise unsaleable through usual channels. The amount that an asset is expected to be worth at the end of its productive life. Also called scrap value, trade-in value, and residual value.
Salvage Value	➤ The value of a capital asset at end of a specified period. It is the current market price of an asset being considered for replacement in capital budgeting.
Savings	➤ The total value of funds placed in an account with the MFI that is payable on demand to the depositor. This item includes any current, checking, or savings accounts that are payable on demand. It also includes time deposits, which have a fixed maturity date. For an institution with no other form of deposit, Savings includes deposits, as well.
Savings Mobilization	➤ Programs intending to mobilize the capital of the poor and to provide savings accounts, as well as credit services, to microentrepreneurs and low-income households.
Schedule of accounts payable	➤ A listing of the individual creditor balances in the accounts payable ledger.
Schedule of accounts receivable	➤ A listing of the balances in the accounts receivable ledger.

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Term	Definition
Securitization	➤ The process of pooling a group of assets, such as loans or mortgages, and selling securities backed by these assets. Securitization is one way microfinance institutions can access capital markets, improve liquidity and lend more money, all while managing risk.
Security	➤ Collateral offered by a borrower to a lender to secure a loan.
Security Value	➤ The monetary value placed on security by a lender in determining the extent to which it can make loans against such security.
Seed Capital	➤ Equity and loan capital provided for a new and/or existing business undertaking by persons other than the proprietors.
Seed Financing/Capital	➤ Generally, refers to the first contribution of capital toward the financing requirements of a start-up business.
Self-sufficiency:	➤ Self-sufficiency occurs when a micro credit programme can cover all of its operating expenses (including loan losses and the cost of capital) entirely with internally-generated sources of income.
Shareholder	➤ Owner of one or more shares of stock in a corporation.
Shareholder's Equity	➤ Represents the total assets of a corporation less liabilities.
Short-Term	➤ Current; ordinarily due within one year.
Small & Medium Scale Enterprises (SMEs)	➤ Enterprises employing 5 to 10 workers (small-scale) or between 10 and 50 workers (medium-scale).
Solidarity Group	➤ See Group Lending.
Solvency	➤ The ability of an MFI to pay its debts as they come due.
Spread	➤ Difference between two prices, usually a buying and selling price. This happens with interest in the case of micro-finance
Statement of Cash Flows	➤ A statement of cash flows is one of the basic financial statements that is required as part of a complete set of financial statements prepared in conformity with generally accepted accounting principles. It categorizes net cash provided or used during a period as operating, investing and financing activities, and reconciles beginning and ending cash and cash equivalents. ➤ A financial statement that provides information about the cash flows from operating activities, investing activities, and financing activities during an accounting period and the net increase or decrease in cash that occurred. ➤ A financial statement that reports the flow of cash in and out of a company (MFI) for a set period, usually one year. It reports the operating activities, investing activities and financing activities of the company.

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Term	Definition
Statement of Changes in financial position	➤ A basic financial statement devoted exclusively to reporting changes in financial position for a specified period of time.
Statement of earnings.	➤ A financial statement that reports the results of a company's business operations (revenue and expenses) for a set period, usually one year. Also called an earnings report, income statement, statement of operations, and statement of profit and loss.
Statement of Financial Condition	➤ Basic FINANCIAL STATEMENT, usually accompanied by appropriate DISCLOSURES that describe the basis of ACCOUNTING used in its preparation and presentation as of a specified date, the entity's ASSETS, LIABILITIES and the EQUITY of its owners. Also known as BALANCE SHEET.
Statement of financial position	➤ A financial statement that reports a company's (MFI's) assets and the claims against them — liabilities and equity — at a set date noted on the statement. Also called the balance sheet.
Statement of operations	➤ A financial statement that reports the results of a company's business operations (revenue and expenses) for a set period, usually one year. Also called an earnings report, income statement, statement of earnings, and statement of profit and loss.
Statement of profit and loss	➤ A financial statement that reports the results of a company's business operations (revenue and expenses) for a set period, usually one year. Also called an earnings report, income statement, statement of earnings, and statement of operations.
Stepped Lending	➤ The process by which borrowers who repay loans on time are eligible for increasingly larger loans. Stepped lending keeps initial risk at a minimum while allowing microentrepreneurs to grow their businesses and increase their incomes.
Straight-Line Depreciation	➤ ACCOUNTING method that reflects an equal amount of wear and tear during each period of an ASSET'S useful life. For instance, the annual STRAIGHT-LINE DEPRECIATION of a Currency (Dollars, Rupees, Pounds) 2,500 asset expected to last five years is Currency (Dollars, Rupees, Pounds) 500. (See ACCELERATED DEPRECIATION.)
Straight-line depreciation method	➤ A method of depreciation that provides for equal periodic charges to expense over the estimated life of an asset.
Subsidiary Ledgers	➤ Ledgers that contain only one type of account; the example in this chapter is the accounts payable ledger.
Subsidized Rates of Interest	➤ Loan interest rates that are kept artificially low (below market rates) by the lending institution; often subsidized by donations.
Supervision	➤ See Regulation and Supervision.

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Term	Definition
Sustainability	➤ An organization's ability to cover costs. There are varying degrees of sustainability, ranging from not sustainable to financially sustainable (see Financial Self-Sufficiency and Operational Self-Sufficiency). ➤ Sustainability is the ability of a micro credit programme to maintain its operations and continue to provide service to its customers or clients. A Programme is sustainable when a combination of external grants, loans, and internally generated revenues are sufficient to cover all programme expenses over the long term [OECD, 1996].
Tangible	➤ All physical assets used by a business are tangible (capable of being touched).
Tangible Asset	➤ ASSETS having a physical existence, such as cash, land, buildings, machinery, or claims on property, investments or goods in process. (See INTANGIBLE ASSETS.)
Taxes	➤ Includes all taxes paid on net income or other measure of profits as defined by local tax authorities. This item may also include any revenue tax. It excludes taxes related to employment of personnel, financial transactions, fixed-assets purchase or other value-added taxes.
Term	➤ Refers to the maturity or length of time until final repayment on a loan, etc. This is usually the duration of a loan. Loan for a specified time period.
Term Loan	➤ A secured loan made to business concerns for a specific period (normally three to ten years). It is repaid with interest, usually with periodical payments.
Time	➤ The number of years, months, or days for which interest is charged. Also called the term.
Total Assets	➤ Includes all asset accounts net of all contra asset accounts, such as the loan loss reserve and accumulated depreciation.
Total Equity	➤ Total assets less total liabilities. It is also the sum of all of the equity accounts net of any equity distributions such as dividends, stock repurchases, or other cash payments made to shareholders.
Total Liabilities	➤ All the liability accounts representing everything that the MFI owes to others, including all deposits, borrowings, accounts payable, and other liability accounts.
Total Liabilities and Equity	➤ The sum of Total Liabilities and Total Equity
Transaction	➤ Any activity that changes the value of a firm's assets, liabilities, or owner's equity.
Transformation	➤ In a microfinance context, transformation refers to the process by which a nonprofit community organization or an NGO becomes a regulated financial institution.

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Term	Definition
Transparency	➤ The degree of a financial institution/ MFI's openness as determined by a sequence of financial information-gathering and testing. A transparent microfinance organization gathers and reports accurate financial information on its own, to be verified and analyzed by external parties. These external authorities ensure that the MFI's performance complies with appropriate industry standards.
Trend	➤ A pattern in a company's (MFI's) financial performance over time.
Trial Balance	➤ A listing of all ledger accounts with their balances to test the equality of debits and credits; it is usually prepared at the end of each month. A summary listing of the balances and the titles of the accounts.
Unaudited Financial Statements	➤ FINANCIAL STATEMENTS which have not undergone a detailed AUDIT examination by an independent CHARTERED ACCOUNTANT (CA).
Uncollectible account	➤ Another name for bad debt.
Unearned Income	➤ Payments received for services which have not yet been performed.
Unearned revenue	➤ Another name for deferred revenue, usually applying to amounts received a year or less in advance. Revenue received in advance of its being earned.
Unencumbered	➤ Property free and clear of all liens (creditors' secured claims).
Valuation	➤ The act or process of determining the value or price of something. (see fair market value)
Variable costs	➤ Costs that vary in total as production varies, but remain the same per unit regardless of how many units are produced.
Venture Capital	➤ Equity and loan capital provided for a new and/or existing business undertaking by persons other than the proprietors.
Venture Capitalist	➤ Entity investing in companies that have an element of risk but offer potentially above average returns.
Vertical analysis	➤ The expression of each item in a MFI's financial statement as a percent of a base figure, in order to see the relative importance of each item. For the balance sheet, the base is total assets; for the income statement, the base is total revenue. The percentage analysis of component parts in relation to the total of the parts in a single financial statement.
Village Banking	➤ Lending methodology in which clients - typically women - form groups of approximately 10-30 individuals that are autonomously responsible for leadership, bylaws, bookkeeping, fund management and loan supervision. The group pools funds to use for business loans, savings, and mutual support, and members cross-guarantee individual loans.
Voucher	➤ A method of accounting for cash payments in which all payments are authorized in advance and kept track of internally

ANNEX 6 - GLOSSARY OF FINANCIAL TERMS FOR MICRO-FINANCE LOAN PORTFOLIO ASSESSMENT

Term	Definition
Voucher register	➤ The journal in which all vouchers are recorded.
Voucher	➤ A document that serves as evidence of authority to pay cash.
Wage	➤ A fixed hourly rate paid to an employee.
Weighted Average Cost of Capital (WACC)	➤ A weighted average of the component costs of debt, preferred shares, and common equity. Also called the composite cost of capital.
Working Capital	➤ Technically, means current assets and current liabilities. The term is commonly used a synonymous with net working capital. The term often also is used to refer to all short-term funding needs for operations (excluding debt service and fixed assets). A company's investment in current assets that are used to maintain normal business operations. Net working capital, which is the excess of current assets over current liabilities, is also interchangeable with working capital. Both reflect the resources in circulation to meet operating needs and obligations as they come due. ➤ Excess of CURRENT ASSETS over CURRENT LIABILITIES. ➤ The excess of a firm's current assets over its current liabilities. A strong working capital means that the firm is likely to be able to carry on its current operations. ➤ The excess of total current assets over total current liabilities at some point in time. ➤ Defined as the difference between current assets and current liabilities, excluding short-term debt. Funds invested in a company's cash, accounts receivable and inventory. Net working capital is current assets minus current liabilities.
Working Capital Cash	➤ The cash component of working capital.
Write off	➤ When an investment, such as a loan, becomes seriously delinquent or in default and is determined to be uncollectible, the lender may choose to charge the outstanding investment amount as an expense or a loss.
Write Off Ratio (Percentage)	➤ Write Offs for the 12-month period / Period Average Gross Loan Portfolio
Write Offs for the 12-month period	➤ Total amount of loans written off during the period. A write-off is an accounting procedure that removes the outstanding balance of the loan from the Gross Loan Portfolio and from the Loan Loss Reserve when these loans are recognized as uncollectible.
Write-off	➤ Charging an asset amount to expense or loss. A microfinance institution writes off loans not expecting to collect them, while continuing to attempt collection. Loan losses or write-offs occur only as an accounting entry. They do not mean that loan recovery should not be pursued. In fact, it should be identified. They decrease the reserve and the outstanding portfolio.

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Term	Definition
Yield	➡ Return on an INVESTMENT an investor receives from DIVIDENDS or INTEREST expressed as a percentage of the cost of the SECURITY. Yield on loans are calculated for micro-finance