CHAPTER 4: CREDIT ADMINISTRATION

4.1 Introduction of the Unit of Learning/Unit of Competency

Credit administration is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to perform credit administration. It involves monitoring the credit repayment, analyzing periodic financials, conducting customer visit, preparing call report, collecting credit arrears, issuing demand letter and performing credit restructuring. The significance of perform credit adminitsration to TVET level 6 banking and finance curriculum, is to equip learners with knowledge and skills to demonstrate communicate, problem solving, dispute resolution organizational, self-management, analytical, interpersonal self-management organizational, credit policy, risk assessment, credit management sector, organizational policy, procedures and systems and norms and culture of different customers so as to fit well in the job place.

The Critical aspect of competency to be covered includes; demonstrated ability to monitor the credit repayment, financial analyses parameters, conducting customer visits, visit reports preparation, collecting credit arrears, issuance of demand letter and credit restructure captured in the system as per standard operating procedure. The Basic resources required include: computers, stationery, scanners, phones, internet connection and transportation.

The unit of competency cover seven learning outcomes. Each of the learning outcomes presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competencies stipulated in the occupational standards and content in curriculum.The information sheet provides definition of key terms, content and illustrations to guide in training. The competency may be assessed through written tests, demonstration, practical assignments, interview/oral questioning and case studies. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector, workplace and job role is recommended.

4.2 Performance Standard

Credit repayment, periodic financials, customer visit, call report, credit arrears and demand letter as per credit policy and credit repayment report.

4.3 Learning Outcomes

4.3.1 List of Learning Outcomes

a) Monitor the credit repayment
b) Analyse periodic financials
c) Conduct customer visit
d) Prepare call report
e) Collect credit arrears
f) Issue demand letter
g) Perform credit facility restructuring

4.3.2 Learning Outcome No 1: Monitor the Credit Repayment

4.3.2.1 Learning Activities

Learning Outcome No 1: Monitor the Credit Repayment	
Learning Activities	**Special Instructions**
1.1. Retrieve credit repayment report as per credit policy 1.2. Review credit repayment report as per credit policy 1.3. Take action as per credit repayment	Group discussions Written assessments

4.3.2.2 Information Sheet No4/LO1: Monitor the Credit Repayment

Introduction

This learning outcome covers; credits, credit monitoring, importance of credit monitoring, methods of monitoring credit repayments and warning signs. It will also cover the impact of technology on credit systems. Understanding these impacts will greatly improve on evaluating and identifying potential customers or borrowers of credit, thus giving banks the guidelines rendered, and on loans to be amounts to various individuals and companies.

Definition of key terms

Demand letter: A request for money or resources owed through a letter stating a loyal claim which is allegedly due or in default.

Credit administrator: An individual responsible for analysing credit data and financial statements of potential customers or firms to determine the ability to pay back the principle and interest within the current laws in the industry.

Interest rate: It is the percentage of principle charged by the bank or other financial companies; or lender to a borrower for the use of its money whereby principle is the money given lent.

Credit standards: The guideline provided by company/ lender on how to determine if a potential customer is credit worthy.

Content/Procedures/Methods/Illustrations

1.1 Credit repayment report is retrieved as per credit policy

Usually credit report entails personal identifying information, a list of credit accounts such as credit limit, type of account for example credit card, mortgage, car/ vehicle loan and customers' history on payment of those accounts.

How to retrieve credit repayment report

i. Determine the individual whose report is to be retrieved
ii. Determine the periods of repayment for which the report is needed
iii. Key in the details completely and pull the comprehensive report
iv. Confirm the last repayment to ensure that the report pulled is the true and actual report
v. Confirm the details that is, whether they have been captured well in the pulled out report
vi. Print the report and have it in hard copy ready for use.

Basic categories of a credit report

Identity: Clients are identified by name; date of birth, social security number, current and past addresses, telephone numbers and employment.

Existing credit information: It entails detailed information about any credit accounts such as credit cards, mortgages and loans that the customer has, for example:

- When each account was opened
- Your credit limit at loan total
- Co-signer information
- Recent account balance
- Highest account balance
- Monthly payment
- Recent payment
- All of your account numbers

a) **Credit accounts:** Credit details of closed accounts remain on customer credit reports for 10 years. An exception is negative accounts which are removed after 7 years.
b) **Payment history:** The most vital information is the payment history which determines 36% of a FICO score.
c) **Public records:** It is details obtained from transactions recorded by state and county governments. It can include property purchases, loans, bankruptcies, foreclosure, court judgments and divorces.
d) **Credit inquiries:** This is a list of companies or firms or individual, who requested a copy of the report in the past two or one year. For example, an involuntary inquiry would be if a lender pre-approved you for a credit.

e) Credit report should be requested any time clients are considering a major purchase that will require a loan, such as car loan, mortgage or home improving projects.

Credit control of both pre and post-sale of income is to ensure that it is timely recovered. It also entails the return of funds/ money through a given period of time which includes both principal and interests. Loans can be fully paid in lump sum at any time, but for some contracts, an early repayment fee may apply. Credit is the trust which enables lenders to facilitate access to money or resource to borrowers who do not pay back immediately to the lenders hence generating a debt, but agree to commit either to repay or return those resources. The resources provided may be financial e.g. receiving a loan or they may consist of goods or services e.g. consumer credit. Credit entails any deferred form of payment. (Graham 87 Feb 2005. Credit Dubai Museum). The account with details of a borrowing customer with all current credit providers and their performances, is retrieved. The credit repayment reports list all the repayment history and credit accounts of every account. The credit report is applied by all creditors to determine the approval of credit facilities.

Grantinty credit approval to borrowers is likely to be provided by firms/ banks, be it individual borrowers or other businesses. This process of granting credits is governed by a series of laws administered by the Federal Trade Commissions, guaranteeing non-discrimination. The laws entail equal credit, fair and accurate credit transaction Act, fair credit reporting Act, truth in lending, and fair debt collection practices. Professionals recommend that lenders develop credit policies that are consistent with company goals; so when credit policies are developed, lenders must consider the cost incurred in granting credit.

Importance of credit repayment report

- It helps to show the actual balances of the loanee
- It can help to clear out misunderstanding between the loan granter and the loanee about repayment
- Details of the credit can be confirmed and changed if they were not well captured
- Actual transactions can be confirmed from the report thus a good print or references

4.1 Credit repayment report is reviewed as per credit policy

It is the monitoring of borrowers' credit history to enable lender to detect any changes. Credit repayment monitoring helps in detecting credit related identity theft and credit related fraud. Banks and firms offer services on alerts of critical changes to ones' credit history, typically granting access to borrower's credit history and subscription basis. Firms issuing credit monitoring will usually alert the customers to significant activities e.g. public records, credit inquiries, negative information, delinquencies, new accounts, employment changes and other changes. A large number of customers gets little benefits from paying for regular credit reporting.

Using the latest credit monitoring system, can assist to prevent identify theft in its early stages, before further damages is acquired to your financial reputation and your finances.

How to report review credit repayment report

i. Check on the principal and credit balance. By examining the principal amount and the balance remaining the bank can tell the progress of the credit.
ii. Check on the capacity of the creditor. Examining whether the creditor still has the capacity to repay the credit is an effective review of the credit.
iii. Check on the collateral. Examining whether the collateral still exists in the form it was pledged, is also another way to review credit repayment report.
iv. Check on the repayment history. Reviewing credit repayment heavily capitalizes on historical payments to determine the efficiency of repayment.
v. Check on the credit conditions. The terms and conditions stipulated during credit can help to review the credit the credit repayment.

The importance of credit monitoring includes;

- Checking for inaccuracies and amending them immediately. Mistakes may happen on anyone’s credit report; hence, have the mistake corrected before finding out about it, when applying for a loan. With credit monitoring your report will be updated hence you can contact the creditor, and have the variances cleared up early enough than later which is very important in protecting you from increasing your interest rates, on any loans you might apply for.
- Protect against identity theft. Applying updated credit monitoring systems can assist in preventing identity theft at its conception period.
- Monitoring credit score changes. Anticipation on your credit score varies from month to month when applying for a loan. Know who is looking into your credit history. Using credit monitoring, one can identify the number of hard inquiries made, and who made them.

Importance of action taking

- It helps to receive the credit advanced out
- It helps to be in compliance with the details on the credit repayment report
- The report can be used to clear individuals from CRB who had been there due to credit non-repayment.
- A good credit standing is created for the customer through the credit report
- Good relations are maintained with good actions on the credit report

4.2 Action is taken as per credit repayment report

When firms/ companies create new loans, they evaluate using a detailed credit assessment on the customer, including the customer’s ability to return or refinance the loan at the period, at maturity. The companies expect the customer’s credit profile to be constant, or to improve at the period the loan will extend.

Ensures covenants and other requirements are in place for a minimum set of standards for the customer's future conduct and financial performance. Technology has a valuable impact on loan portfolio monitoring, particularly by identifying early warnings of risk deterioration. It has transformed monitoring with the use of integrated systems.

Technology has improved in monitoring customers and collate the information related to their financial status in accordance with loan agreement. An integrated system can alert the firm when it is due from customers, or certain activities needs completion internally, such as, regular review or a customer's due diligence visit. Advancement can readily be achieved with the use of automated system reports and notifications to track deteriorating financial status. "Shadow financial covenants" or internal triggers can be created in most covenant systems, such that, when reaching these limits, alerts can be sent to credit analysts or officers, informing them of an impending breach. This capability is especially important when dealing with covenant life transactions where the loan agreement contains limited covenant protection for the lender. (2020, Moody's Analytics).

Monitoring of loan portfolio can now be conducted based on assessed loan level risks, rather than against inflexible portfolio policies. It can be simplified and streamlined, with borrowers experiencing credit deterioration receiving the most attention. It has led to greater efficiency and reduced administration. (2020. Moody's Analytics).

Conclusion

This learning outcome covered credits, credit monitoring, importance of credit monitoring, methods of monitoring credit repayments and warning signs.

Further Reading

1. Read on advanced financial management from Donald R. Van Deventer Kenji Imai. Mark Mesler

4.3.2.3 Self-Assessment

Written Assessment

1. What is the role a of credit administrator?
   a) Analysing credit data and financial statements of potential customers
   b) Request money owed through letter stated
   c) Establishing the truth of a firm
   d) Investment advisor

2. Which of the following is not a bank's significant activity on credit monitoring alert to customers?
    a) Public records
    b) Credit inquiries
    c) Employment change
    d) Integrated system management
3. Which among the following are not the importance of credit monitoring?
    a) Checking for inaccuracies and amending them immediately
    b) Protect against identity theft
    c) Monitoring credit score changes
    d) Financial reputation
4. Which of the following has been impacted positively by technology?
    a) Machine learning and automated monitoring
    b) Lending out finances
    c) Build trust
    d) Deterred form of payment
5. Which of the following contains parties involved in credit repayment monitoring?
    a) Borrower and lender
    b) Underwriter
    c) Valuer
    d) Technology
6. __________ is the return of funds through a given period of time, which includes both principle and interests.
    a) Credit payment
    b) Valuation
    c) Credit
    d) Borrower
7. Which is the correct name of the following explanation "the guidelines provided by company/ lender on how to determine if a potential customer is credit worthy"?
8. Demonstrate the role of a credit administrator.
9. Summarize the procedure of getting a demand letter.
10. Evaluate the technology significance on credit monitoring.
11. Demonstrate the importance of credit monitoring.
12. State the methods of monitoring credit repayment.

Oral Assessment

1. What do you understand by the term interest?
2. Illustrate what an income statement entails.

Case Study Assessment

CRB is an online based subscription service company providing online credit monitoring services to its customers located in Kenya. It was implemented due to increased unregulated credit service providers within the country. The credit monitoring has greatly improved and interest rates regulated between the minimum requirements. Customers/ borrowers have been monitored on their behaviour of credit payments. What is the process of CRB clearance?

4.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board

4.3.2.5 References

Graham87. (2005). Credit. Roman. Grahans Timen

Martin Brown (2007). Money, credit and Banking

Ron Lieter. (2009). A free credit score followed by a monthly bill/. New York, New York Times.

4.3.3 Learning Outcome No 2: Analyse Periodic Financials

4.3.3.1 Learning Activities

Learning Outcome No 2: Analyse periodic financials	
Learning Activities	**Special Instructions**
2.1 Identify financials are as per credit policy 2.2 Determine parameter of financial analysis as per standard operating procedures 2.3 Measure financial analysis parameter as per standard operating procedures 2.4 Qualify financial analysis parameter as per standard operating procedures	Oral assessments Group discussions Projection

4.3.3.2 Information Sheet NO4/ LO2: Analyse Periodic Financial

Introduction

This learning outcome covers introduction of basic accounting, principle of accounting, financial statement (types, preparation, usage, analysis and interpretation) and ratios.

Definition of key terms

Financial analysis: Refers to the assessment of the viability, stability and profitability of a business, firm or either project.

Credit arrears: It is a financial legal term used to refer to the status of payments in relation to deadlines.

Accounting: This is the process of summarizing recording, analysing and reporting financial transaction of a firm to oversight tax collectors, agencies and regulations.

Accounting Principle: These are the essential rules and concepts that governs the field of accounting.

Content/Procedures/Methods/Illustrations

2.1 Financials are identified as per credit policy

Credit policy is a set of principles that an organization uses in deciding who it will loan money or give credit.

Process of credit policy

i. Establishing a credit department mission. Requires support from the high level management so as to develop the mission statement. The statement should conform fully with the corporate (organizational mission).

ii. Setting credit department goals. These goals should be set as per the firms' cash flow requirements. Possible goals set may include:
    - A target for the percentage of bad debts to sale
    - To open new accounts during the present goals

iii. Setting rules and regulations. Ensuring each department member have their roles and responsibilities as per the level of management.

iv. Stipulating procedures. It is important that the rules apply to all customers, with very few exceptions. The procedures should be flexible. To take advantage of technology and best practices, procedure should update periodically.

v. Measuring results. After the credit policy is in place, its effectiveness/ impact is measured.

Principles of Financial accounting

- **Revenue recognition-principle:** This principle is concerned with revenue being realized from an income statement of an enterprise.
- **Historical cost principle:** According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to acquire it at its time of acquisition, and the cost becomes the basis of accounts during the period.
- **Matching Principle:** This principle states that expenses incurred in an accounting period should be matched with the revenues recognized in the same period.
- **Full disclosure principle:** This principle states that financial statement should disclose all the relevant and reliable information which they purport to present so that the information may be useful for the users.
- **Going concern principle:** This statement indicates that a business should continue to be in existence until it accomplishes its agendas.

Importance of identifying financials

- It aids on making decisions.
- The balance sheet shows the company's assets, liabilities and equity that helps to identify the financial position of a company.
- It is used to access the total value of a company thus guiding investors whether to invest or not.
- Financial information helps in prediction of a company about future performance.
- Identification of financial helps a firm know the financial value.

2.2 Parameters of financial analysis is determined as per standard operating procedure

Standard Operating Procedures (SOPs) is documented process that a company has in place to ensure services/ and products are delivered. A parameter is a constant in an equation. In business parameters are defined and measured as constant dimensions or values that are selected from a set of data, considered essential to understanding a situation or solving a problem.

Key Elements of financial Analysis

These are the calculations you should use to conduct a proper financial analysis of your businesses operation. They include:

- Revenues
- Profits (operating, Gross and net profit margin)
- Operational efficiency

$$Accounts\ receivable\ turnover = \frac{net\ \ credit\ sales}{average\ accounts\ receivable}$$

$$Inventory\ Turnover = \frac{cost\ of\ goods\ \ sold}{average\ inventory}$$

Capital Efficiency& solvency

$$Return\ on\ Equity = \frac{Net\ Income}{Shareholders\ Equity}$$

Debt to Equity

$$Debt\ to\ Equity = \frac{debt}{Equity}$$

Liquidity

This is the capability to generate sufficient cash to, cover cash expenses

- Current ratio
- Interest Coverage

Types of financial Analysis

- Vertical
- Horizontal
- Leverage
- Growth
- Profitability
- Liquidity
- Cash flow
- Efficiency

Significance of determining financial parameter

- Assessing the operational efficiency and management performance
- They are able to analyse the financial strengths & weaknesses and credit worthiness of the company
- Analysing current positions of financial analysis
- Assessing the types of assets owned by the business and liabilities which are due
- It provides information on the cash position of the company and how much debt they have in relation to equity
- Ascertaining the profitability of the company over a period of time

- To assess financial statements which contains information on past performances and interpret them as a basis for forecasting future rates of return and assessing risks.
- To assess the relationship between various sources of funds

Importance of financial statements

- Financial statements are basis of understanding of financial positions of a firm.
- Provides information regarding the financial policies and strategies and insight into future performance.
- Financial statement can be used for various purposes:
  a) Analytical tools
  b) Management report card
  c) Basis of prediction
  d) Measures accountability
- Statement of change of equity

Financial statement

Financial statements are written records that convey the business activities and the financial performance of a company.

Types of financial statement

- **Balance sheet**

This provides the overview of a company's assets, liabilities and stockholders' equity at a given period of time.

Table 8: Example of a Balance sheet

Balance sheet			
Fixed assets		**Equity**	
Land	1800	Farms claire	65,000
Barn	22,000		
shares	2,000		
Dairy cows	18,000	Liabilities	
Production lights	2,000	Loan agribank	33,0000
assets	15,000	Accounts payable	2,000
Current assets			
stocks	5,000		
Accounts receivable	8,000		
Bank accounts	10,000		
Total	100,000	Total	100,000

- **Income Statement**

This covers annual financial statements and providers an overview of revenues, expenses, net income and earnings per share.

$$Net\ Income = (Revenue - Expenses)$$

Table 9: Income Statement

Revenues		
Milk	86,000	
Livestock sales	5,000	
Livestock inventory increase	3,000	
		89,000
Variable cost		
Feed	12,000	
Livestock cost	3000	
Expenses of fertilizer and crop protection	2000	
		17,000
Margin		72,000
Fixed cost expenses		
Machinery expenses	2500	
Building expenses	3500	
Building maintenance gas and water	1500	
Rent	500	
Interest rates	5000	
Depreciation on building	3000	
fuel	6000	
		22,000
Profit/Earnings		50,000

- **Cash flow statement**

It presents the movement of cash & bank balances over a period.

Cash flow statement for year ended December 31, 2019

Cash flow from operation

Net earnings

Table 10: Cash flow statement

Cash flow statement **For year ended December 31,2019** **Cash flow from operation**	
Net earnings	25,000
Additional to cash	
Depreciation	1, 000
Decrease in Accounts payable	250
Increase in accounts payable	1, 000
Subtractions from cash	
Increase in inventory	(5, 000)
New cash operations	22,250
Cash flow from inventory	
equipment	
Cash flow from financing	
Notes payable	1, 000
Cash flow financial year 2019	15,750

2.3 Financial analysis parameter are measured as per standard operating procedures

Financial statement analysis

It is the process of receiving and analysing a company's financial statements to make better economic decisions to earn income in future. They are techniques used for financial statement analysis.

Horizontal analysis

It compares data by analysing values of line items across two or more years.

Vertical analysis

Looks at the vertical effects line item have on other parts of the business and also the business's proportions.

Ratio analysis

It uses important ratio metrics to calculate statistical relationships.

Tools of financial analysis

- Profits
- Net profit margin
- Gross profit margin
- Operating profit
- Liquidity
- Current ratio
- Working capital
- Financial leverage
- Debt-to-equity ratio
- Inventory turnover

2.4 Financial analysis parameter qualified as per standard operating procedure

According to SOPs, a financial analysis parameter is an assessment of the viability, stability and profitability of a business, firm or a project. It is performed by professionals who prepare reports using ratios that makes use of information taken from financial statements.

Qualifications of financial analysis

- It must show profits delivered by either a project or a business or firm.
- There must be all the reports that show how and when a financial activity took place.
- Must indicate the ratios in the business/project of all the profits and losses acquired.
- Must not fail to disclose any financial information that could be used to qualify the financial analysis.
- The financial analyst must provide the financial report.

Financial statements interpretation

It is an important management tool as it identifies trends of unusual or unexpected abnormalities. They attempt to determine the significance and meaning of the financial statement data so that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities, (both current and long term) and profitability.

Ratio

Financial ratio is a relative magnitude of two selected numerical values taken from an enterprises financial statement

Types of ratios

Liquidity ratios

$$Current\ ratio = \frac{current\ assets}{current\ liabilities}$$

Asset turnover ratios

$$Inventory\ turnover = \frac{cost\ of\ good\ sold}{average\ inventory}$$

$$Receivable\ turnover = \frac{Annual\ credit\ sales}{Accounts\ receivables}$$

Financial leverage ratio

$$Debt\ ratio = \frac{total\ debt}{total\ assets}$$

$$Debt - to - equity\ ratio = \frac{Tatal\ Debt}{Total\ Asset}$$

Profitability ratios

$$Return\ on\ Assets = \frac{Net\ income}{Total\ Assets}$$

$$Gross\ profit\ Margin = \frac{sales - cost\ of\ goods\ sold}{sales}$$

Conclusion

This learning outcome covered introduction of basic accounting, principle of accounting, financial statement (types, preparation, usage, analysis and interpretation) and ratios.

Further Reading

1. Read on accounting principles from GAAP

4.3.3.3 Self-Assessment

Written Assessment

1. Which one of the following is not a principle of accounting?
   a) Revenue recognition
   b) Going concern
   c) Analysis principle
2. Which one of the following is a type of financial statement?
   a) Analysis
   b) Statement of financial statement
   c) Going concern
   d) Liquidity ratio

3. Which one of the following is not type of ratio?
   a) Net income
   b) Profitability ratio
   c) Asset turnover ratio
   d) Liquidity ratio
4. Cash flow statement present the movement in cash and bank balances over a period. Is it true or false?
   a) True
   b) False
5. Which of the following is a type of ratio?
   a) Return on asset ratio
   b) Current ration
   c) Debt ratio
   d) All of above
6. Identify from the following which one is not a principle of financial accounting.
   a) Revenue recognition principles
   b) Historical cost principle
   c) Matching principles
   d) Current ratio

7. Evaluate the principle of financial accounting.
8. State and analyse types of financial statement.
9. Identify and explain 5 types of financial ratio.
10. Elaborate on financial parameter.
9. Demonstrate significance of determining financial parameter.

Oral Assessment
1. Discuss the term finances.
2. What does income statement entails?

Practical Assessment

Organize a group of students in your class, using relevant tools and equipment, demonstrate to them and illustrate how to prepare statement of financial position trade account and statement of cash flows.

4.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Group discussion
- Geometric set
- Written assessment
- Oral questions

4.3.3.5 References

Elliott, B. and Elliott, T (2009) Financial Accounting and Reporting (15th Edn), Harlow, Essex, Pearson Education limited

Halder,Z(2015).IBS World Industry Report 52211, Commercial Banking in the US.Retrieved February 23,2015 from IBISWorld database

IA513(2010) conceptual framework for financial reporting,London,1ASB

4.3.4 Learning Outcome No 3: Conduct Customer Visit

4.3.4.1 Learning Activities

Learning Outcome No 3: Conduct Customer Visit	
Learning Activities	**Special Instructions**
3.1 Identify customers as per standard operating procedures 3.2 Establish purpose of customer visit as per standard operating procedures 3.3 Establish customer physical location as per standard operating procedures 3.4 Verify Customer physical address as banking policy 3.5 Notify customer of the visit as per standard operating procedure	Discussion Oral Assessments

4.3.4.2 Information Sheet NO4/LO3: Conduct customer visit

Introduction

This learning outcome covers; customers identification, customer visit, preparation of customer visit, what to observe and inquire when visiting a customer, customer verification, ways of handling difficult customers, importance of a customer visit, follow-up after visit and its importance.

Definition of key terms

Customer: Refers to a particular individual or a business entity who/which receives of either a good or a service or both that is from a seller/vendor.

Customer identification: It refers to a process which a bank or a financial institution engages in activities aimed at forming a reasonable belief concerning the identity of a customer.

Customer visit: An arrangement between an employee of a firm and a customer to meet and deliberate on an issue or a number of issues.

Content/Procedures/Methods/Illustrations

3.1 Customers are identified as per SOPs

SOPS refer to stipulated step by step procedure set by the bank that ensures the employer undertake their duties diligently in a bid to attain quality output, efficiency and uniformity of performance.

Importance of identifying customers

- Customer identification aids in determining the level of production
- It ensures that the company can modify its production process to suit the needs of the customer
- Helps in projection of costs and possible benefits
- It is a basis for future decisions such as inventory and expansion policies

The customer identification procedure ensures that organizations are able to verify the underlying identities of the individuals that they wish to engage with in financial transactions or activities. Customer identification involves collecting and verifying a potential customer's information before according to any service or product in exchange for monetary consideration. For example, banks identify its customers based on the needs of the potential customers, age, financial status, economic activity among others. While gathering information about a customer, financial institutions engage in verification procedure. The verification procedure entails confirming the customers; name, date of birth, physical address and the identification number and/or birth certificate/passport number.

The procedure for identity verification can depict either the documents or the non-documentary method. The document approach involves counter- checking the potential customer's ID, birth certificate etc. the non-documentary method may include comparing information given by a customer with the information held by consumer reporting agencies, public databases etc. In the case of banks and other financial institutions, the policies adopted with regards to customer identification may vary depending on the policies such as risk-based approaches embraced by the organization.

The approaches may depend on factors such as:

- The type of customer accounts that a given bank offers.
- The bank's underlined method of opening customer accounts.
- The size of the bank, customer base and location; this may include customer's preferential products and services in diverse locations.
- The available types of identification information present.

Customers form the basis of an organization's existence and therefore its future. Customers can be identified based on their needs and expectations. Customers to an organization can either be:

- Other businesses
- Individuals

Business Customers

In this relationship, other businesses become the customer to the business. Business becomes customers to the organization's products if and only if it uses the products of the company as it is inputs. On the other hand, customers can be identified depending on several factors such as:

- Age of the customers
- Gender and education
- Geographic location

Customers can also be identified based on psychographic variables which include; the beliefs held by a person, buying patterns, lifestyle, hobbies and even perceptions.

3.2 Purpose of customer visit is established as per standard operating procedures

Customer visits provide a basis for deepening the relationships between a financial institution and a customer. Customer visits may range from a full day visit to taking a customer out for lunch. Customer visits help to effectively understand the concerns of the customers to provide a framework for attending to their needs and in return create a loyal customer base.

The Objectives of customer visits include:

- Building relationships with customers/clients.
- Discussing and reviewing a customer's financial information.
- Observing a customer's resources or facilities.
- Customer education and providing adequate suggestions, sharing what may work well for a customer etc.
- Setting the tone for business activities

Thus, an employee of a given financial institution should prepare adequately for a customer visit. Adequate preparation entails determining the agenda for the visit, identifying participants, highlighting a list of questions for the customer and stipulating suitable timeframes for both the employee and the customer. The purpose of the visit also ensures that an employee is able to ask questions and make observations.

Table 11: Do's and Don'ts in customer visit

	Dos	Don'ts
i	Discover the customer's unmet needs.	Forecasting the potential sales in a new market segment.
ii	Discover the day to day use of products and services by the customers.	Close deals relating to sales.
iii	Discover the suitability of product to a customer's eco-system.	Make a conclusion regarding the right product if the customer has to choose from several options.
iv	Acknowledge and appreciate the customer's acceptance to be visited.	Judge which customer to visit and what you aim to learn or discover about a specific customer.
v	Preparation checklists e.g. confirm the visit 1 week before.	Assume what works for one customer may work for another.

The customer visitation may face several challenges such as; un-favourable weather changes, geographical barriers such as unsuitable terrain leading to a customer's premises, a difficult customer, communication barrier among others.

Dealing with difficult customers

Dealing with a difficult customer may prompt or trigger a fight or even high instincts. To deal with a difficult customer, one may:

- Listen: Let the customer articulate his or her issues precisely.
- Build a rapport through empathy: Embrace the customer's frustrations by reflecting the customer's position.
- Be calm and use a lower tone: A calm demeanor will prompt the customer to settle down
- Do not get angry
- Know when to give up
- Fulfill promises, i.e. if you promise to call back, always call back

3.3 Customer physical location is established as per standard operating procedures

Physical location of the customer entails identifying the needs of the customers in a given area against the products and services provided by a given firm. The customer's physical location is determined during the customer visit process. The financial institutions determine a location where its services or products are not utilized effectively and efficiently.

A customers' physical location can be established through:

- Enquiring from the customer about his or her residence
- Using addresses
- Referrals by friends
- Information from credit rating agencies

3.4 Customer physical address is verified as banking policy

During the customer visit, an employee can determine or verify the address of customer based on his or her details. The sources of verification of the customer's physical address details may include information from other credit agencies, use of the customer's details such as pay slips, bills etc.

3.5 Customer are notified of the visit as per standard operating procedure

Once the customer visit plan is outlined, the customer ought to be notified to determine his or her availability on the agreed date. Also, the notification helps to prepare the customer psychologically for the interview. Follow-up after visit involves keeping in touch with the customers after first visit.

Importance of follow-up after visitation

- An institution is able to make the customer feel special and appreciated.
- Follow-up encourages the customer to try new products and services provided by the firm.
- Follow-up ensures the firm can determine the customer needs.
- It ensures that customers are heard and engaged to a great extent.
- It is a form of marketing, hence vital for building customer loyalty.

Conclusion

This learning outcome covered customers identification, customer visit, preparation of customer visit, what to observe and inquire when visiting a customer, customer verification, ways of handling difficult customers, importance of customer visit, follow-up after visit and its importance.

Further Reading

1. Read on forms of customer follow-up from customer visit book by Edward F. McQuarrie

4.3.4.3 Self-Assessment

Written Assessment

1. Why do firms need to identify their customers?
    a) To improve security
    b) Fulfill customer needs
    c) Increase employment opportunities
    d) None of the above
2. The following are factors to consider when preparing for a customer visit, except?
    a) Determining location of the customer
    b) Notifying a customer of a visit date
    c) Assessing availability of financial resources suitable for the visit
    d) Interviewing the customer
3. A customer visit might include:
    a) Giving a discount to a customer
    b) Making delivery to a customer
    c) Meeting for dinner to have a dialogue on political issues
    d) Meeting to discuss business issues with a customer
4. What is the role of a firm in creating a sound business environment for customers?
    a) Price discrimination
    b) Employee pay rise
    c) Customer segregation
    d) Provision of quality products
5. The following are importance of customer visits, except?
    a) Building sound relationships with clients
    b) Observing customers' resources effectively
    c) Expanding the business entity
    d) Setting the tone for the business
6. What would you do during a customer visitation?
    a) Close deals relating to sales
    b) Forecast political sales
    c) Discover the unmet needs
    d) Assume what works for one customer, works for all of them
7. The following are ways of dealing with difficult customers, except?
    a) Be empathetic
    b) Do not get angry
    c) Interject the customer when he is talking
    d) Build a rapport
8. Highlight two reasons for customer visitation.
9. Explain three challenges that can be experienced during customer visitation.

10. Giving examples, differentiate between customer verification and customer identification.
11. Enumerate ways one overcome geographical barrier in customer verification.
12. Enumerate five instances where non-documentary verification may be appropriate.

Oral Assessment

1. Interpret customer visitation and elaborate its importance.
2. Outline factors to consider when planning for a customer visitation.

Case Study Assessment

John Omollo, an employee of Cytonn Investments has been given the task of determining why there is little investment by the people of Kahawa Sukari in the products and services of the firm. Cytonn Investment Company is contemplating having more residents of Kahawa investing in the firm. Besides, some of the old investors in the firm have opted to withdraw their funds from the firm, hence terminating their business association with the firm. Salim, a businessman who resides in Kahawa has been identified as one of the former investors who opted to withdraw funds from the firm while Karimi is hesitant in investing in the firm.

i. What should Omollo take into consideration in preparing to visit Salim over his decision against investing in the firm?
ii. What are the probable challenges Omollo can face in his visitation to Salim and how can he overcome them?
iii. Which strategies can Omollo embrace to convince Karimi into investing in the firm?
iv. Should Omollo engage in follow-up after the visitation? What should he do if Salim declines his request for a visitation?

4.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board

4.3.4.5 References

Fader, P. (2012). Customer Centricity: Focus on the strategic advantage. United States: Wharton School Press

Hill, N; & Alexander, J.(2017). The Handbook of Customers Satisfaction and Loyalty Measurement. London . Rutledge.

McQuarrie, E. F. (2014). Customer Visits: Building a Better Market Focus. London: Routledge

4.3.5 Learning Outcome No 4: Prepare call report

4.3.5.1 Learning Activities

Learning Outcome No 4: Prepare call report	
Learning Activities	**Special Instructions**
4.1 Obtain details of customer to be visited as per standard operating procedure 4.2 Capture visit details as per standard operating procedure 4.3 Prepare visit report as per standard operating procedure 4.4 Take action on visit report as per organizational policy	Oral assessment

4.3.5.2 Information Sheet No4/LO4: Prepare Call Report

Introduction

This learning outcome covers: Call report, purpose of call reports, content of call reports, schedules of call reports discussed in details, the ways of delivering the report to client, customer visit that is details of the customer. The method of preparing visit report is also outlined that is how easy is being written concerning call report that is format and a simple structure of a call report in an organization.

Definition of key terms

Call report: This is a document that contains detailed account of all the calls made during the day and the information is presented in an organized format for a specific purpose.

Format: This is arrangement of an information in a particular set standard for example how the spacing between the lines should be, where titles, dates and names appeared.

Essay: A piece of information written in a particular format purporting some information in a particular way to be presented information is presented by certain structure have been followed.

Schedule: Step or plan of carrying out some process for example steps of writing a call report. That is putting information in column and tables.

Standard: These are rules and regulation followed in order to attain quality in some information. Rules help to avoid misinterpretation of information to certain party.

Content/Procedures/Methods/Illustrations

4.1 Details of customer to be visited are obtained as per standard operating procedure

Procedures are formulated by the firm according to types of customer visits. We have three types of customer visits as illustrated below:

- **On site customer visit:** This means that the bank institution may sometimes visit its customer so that it can obtain the information required as per standard operating procedures this enhances customer awareness as well as increasing the credit value of the firm.

- **Trade show Visit:** This happens whenever the firm is showcasing its product in the market by interacting with the customer, details of customers will be obtained from them directly because this type of customer visit is more social interaction. The firm should understand the market structure this might brought a lot of profit in the firm.

- **Customer comes to the firm:** The customers will visit the organization to see or to buy the goods/ services. This will help organization since it is able to understand the customer details better since it is usually planned earlier. Therefore different banks should set out the procedure of handling the call report in order to save time while dealing with different client in the organization. The format of call report, that is structure and types of customer visit should be set by the department in the organization which deal with customer visits in order to enhance quality services in the organization. The procedure set should be brief, easy to understand and the steps to be followed should be written in a ‘precisely manner’.

The importance of customer details who visited the firm include:

- Building relationship: A customer visit includes representatives from both credit and sales department and it may also include any staff in the company assigned in offering any services of serving the customer.
- It helps in discussing and review financial statements; some companies allows the customer to check the financial statements in the company, such information are included in the procedures which are guiding the company daily operation.

4.2 Visit details are captured as per standard operating procedure

Visitors details ensure clients are served in a fast and within short time. The following method may be used to capture the visit details as illustrated below:

- **Use of forms**

The organisation can print out the forms which have brief information covering the details of the customer visit in form of questions, whenever the customer visit the firm he/she is required to write down his/her detail as per the question on the paper.

- **Warranty cards**

The firm may issue the warranty card to the customer so that whenever he/she will visit to claim warranty due to product deficiency they will be able to capture details of the customer on the warranty card

Warranty cards


Just Build It

WARRANTY CARD : WAR-0002

Product :		Quantity :	1.0 lb(s)
Customer :		Sale Order:	SO26162
Warranty Type :	Free Warranty	Warranty Period :	2
		Warranty Cost :	
Start Date :	08/01/2018	End Date :	08/01/2020

Signature:______________________

Date:______________________

Figure 14: Warranty cards

Source: planet-odoo.com

- **Requesting information over the phone for convenience**

An organization may use the phone call to capture the customer visit, a customer may visit the firm and then later the company realizes that on information was collected from the customer and thus direct call may be used to get information from the customer.

- **A company may develop a rewards program**

When a customer visits the company ad he/she is given a reward. This will motivate the customer to come back and they enjoy it. A firm can make a requirement of the programmer to collect information from the customer.

Importance of capturing customer details

- Details of visiting customers are captured to improve the business such that it helps to isolate client who currently yield high profitability or have capability of doing so. The detailed information obtained from the visit should precise free form errors that are grammatically correct thus enhancing accuracy.
- Details of visit customers are captured in order to identify and understand customer demographic and use this awareness to inform promotional and business campaigns order to make it easy for customers to input their data. Data captures forms should be easy to navigate ad have a logical flow so that it is quick, simple ad stress free for customers to enter their information.

- The organization will also dig deep into their own customer service records to see how customers have interacted with their sales and supports departments in the past, here they are capturing information y use of direct feedback about what worked and what did not, what a customer liked and disliked on a grade scale.

4.3 Visit report is prepared as per standard operating procedure

Visit report may be prepared using different methods. For example we may have a checklist for onsite visits. This report is prepared after the customer visit the sites. The report include the importance of the visit, whom the customer met, items for follow up and who is responsible for what steps. Second example we have internal overview method, the management prepare calls report by determining or examining how the customer should place their orders, how the time between placing and delivering the order correlates and knowing whether the customers made delays while paying their dues. The third example is SWOT analysis method that is; strength and weaknesses, opportunity and threat, analysing that the organization is able to know how to prepare the visit as per standard because some customers have a weakness in time management and some delay in the payment agreed date. Some customers might be a threat to the organization so the company needs to set the procedure of maintaining them in the firm.

SWOT analysis

Figure 15: SWOT analysis
Source: corporatefinanceinstitute.com

Format of a customer visit report

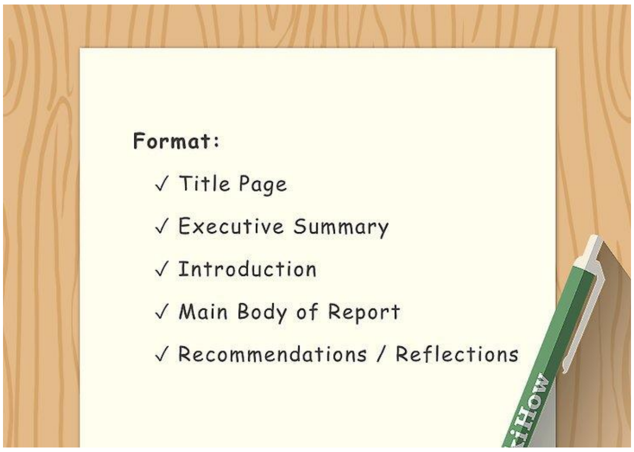

Figure 16: Customer visit report template
Source: wikihow.net

The following procedures pertains the preparation of visit report;

i. The firm should check the requirement of customer visit report, that is the importance of customer in visiting the business, the need of the customer visit,
ii. General information about the visit should be outlined for example; the customer details, the format used might include row and columns whereby the customer would enter his/her details such as dates, names, mobile phone numbers and signatures.
iii. Define the importance of visit to the customer for example the customer is able to negotiate about the company products or even to claim for some compensation, easy format rules should be made brief so that when a customer is writing to the format will be easier for him/her.
iv. The firm should explain what happened during each visits in an orderly manner to avoid confusions. Language used should e simple so that it can understandable.
v. The firm should summarize the operations at the work station for example where to find the customer care desk, where the visitor make registration whenever they visit.

Visit report can be prepared often by the management of the firm, for example call report can be made even on a daily basis in order to enhance good image of the firm, since the customer can be available at any time a call report can be made by use of telephone.

Importance of a visit report

- Visit report helps the firm to record the actual number of customer who report in a certain period of time.
- Visit report helps the firm to make a decision concerning the customer complaints.
- Visit report helps the firm to improve its service since the organization tries to ask questions whenever customer visits.

4.4 Action on visit report is taken as per organizational policy

Action is the process of doing something especially when dealing with certain problem, a customer may take an action when he/ she want to complain about the product. Action on visit report should be determined by the organization policy since the organization has its own department dealing with the issues of customers visit. For example when a client is misunderstanding the set standard operating procedures, it means that the management responsible should immediately review the set procedures to minimize the confusion. However, when a person in charge in preparing call report rules quite unexpectedly due to his/her reasons, other person who is competent enough should be selected and occupy the position call report should be kept in a safe place. The following action may be taken in order to increase the customer visit on the organization, for example such policies include:

i. **Feedback method:** This entails calling back the customer and asking him/her whether he was satisfied with the visit or the product he/she obtained.
ii. **Gifts:** May be given to customers who visits for example a customer may be given a drink and a cake whenever he visits.
iii. **Delivery and thank note:** The firm offer a delivery service to customer whenever he/she visit and buy the product direct in the firm, also thank you note may be used to customer after he visits the firm in order to enhance good relationship with the firm.

When the customers are not visiting the business know that they are unsatisfied and not happy. The following ways should be taken effectively as illustrated below:

- Call the customer: The firm management should call the customer by use of phone to determine what the situation is all about.
- The firm should try to examine evaluate the customer expectations about the product being offered in the firm so as to know how to retain the customers.
- The customer issues should be settled out by the management. This is done by asking customer's questions and they will produce the answers pertaining the problem.

Call report

Call Report

Date	Phone Numbers	Reports	Additional Information

Figure 17: Call report
Source: vanscapital.com

Purpose of call report

- Building relationship: Call reports help the customer and business owner to build a strong relationship such that the customer know exactly what time he/ she called, so when there is a conflict concerning time, a solution can easily be determined.
- Call report help to determine financial health of the bank. In the bank the management uses the call report to improve its services. Call reports recorded are used to determine the needs of customer and what the customer expect from the bank by doing this the bank is able to grow its financial health thus more profit.
- Call report aids as a tool for business continuity. Since call report enhance quality service to customer, the quality effect will enable the firm to retain the customer and by doing this business operations can for gone on future.

Conclusion

This learning outcome covers; the importance of call report, content the format of writing the call report essay. It also outlines the procedures of visit report preparations as per standard operating procedures. It also covered the methods of capturing details of the visits as well as action to be taken by organization policy pertaining visit report. Visit report can be made at any time that is convenient to the firm by use of any method that is relevant and precise. However, different types of customer visits have been provided in the learning outcome and are discussed in details. Finally a call report is an effective tool that every firm should have in order to enhance good relationship between the firm and the customer.

Further Reading

1. Read more on draft report on Draft call report Ri-c November 8, 2012

4.3.5.3 Self-Assessment

Written Assessment

1. Which one of the party does not use the call report?
    a) Suppliers
    b) Customers
    c) Clients
    d) Thieves
2. Which information does not show the benefit of call report?
    a) Call report include information of the client
    b) Call report is used to enhance timely and accurate financial data
    c) Call report involves wastage of time and leads to loss of returns in a business
    d) Call report can be used by lecturers to teach students in class
3. The following are the function of a bank call report. Which one is not?
    a) Bank calls report consist information about the bank.
    b) Bank call report determine financial health report of the bank statements
    c) Bank call report set out how workers should be compensated in the bank.
    d) Bank call reports consist of set procedure of how to handle the clients.
4. Which one of the following is not a method of capturing visit details from the customer?
    a) Use of reward
    b) Use of warranty cards
    c) Use of cohesive methods
    d) Use of forms
5. Which one of the following information is not being included in a call report of a financial information statement for example a bank?
    a) Write off for bad debts
    b) Statement of asset/ liabilities
    c) Cheques dishonoured from the bank
    d) Statement of financial position
6. Which one is not a type of a customer visit?
    a) Customer visiting the firm
    b) On site customer visit
    c) Trade show visit
    d) On home customer visit

7. Is the call report required while preparing customer visiting in the organization?
    a) Yes
    b) No
    c) Yes or no
    d) None of the above
8. Elaborate what a call report is.
9. Evaluate call report effectiveness in financial institution.
10. Identify elements of a good call report.
11. Demonstrate method of preparing visit report as per standard.
12. Highlighting elements of a good report.

Oral Assessment
1. What do you understand with the term call report?
2. Analyse role of visit report to the firm.

Practical Assessment
The learner is requested to visit nearby firm to check how a call report looks like or even download an example of a call report document. They should highlight the following information that is; style used in the report, body content, the format and the kind of language used. The learner should be able to come up with such kind of call report and practice on different types of call report. The learner can extract a financial position statement from the newspaper and use the call report for example, we may have a call report made on sales on a particular time and dates and doing that you the learner will have full content.

4.3.5.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Newspaper: Extract of financial statements.

4.3.5.5 References

Damodaran A (2006). Applied corporate finance 2nd edition, Newyork.NY: John wiley and sons inc.
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4.3.6 Learning Outcome No 5: Collect Credit Arrears

4.3.6.1 Learning Activities

Learning Outcome No 5: Collect Credit Arrears	
Learning Activities	**Special Instructions**
5.1 Establish credit arrears as per standard operating procedures	Group discussions
5.2 Identify customer linked accounts as per credit policy	Case study
5.3 Establish recovery from linked account as per the credit policy	Written Assessment
5.4 Take action as per credit policy	

4.3.6.2 Information Sheet No4/LO5: Collect Credit Arrears

Introduction

This learning outcome covers credit arrears, identification of credit arrears, categories of credit arrears, credit arrears report and related accounts.

Definition of key terms

Credit arrears: This is a legal term for the part of a debt that is overdue after missing one or more required payments.

Credit area report: This is a record of someone who owes either a bank or any lending institution payment behaviour.

Paid in arrears: This means payment is overdue or that the payment is not due until after the service period.

Content/Procedures/Methods/Illustrations

5.1 Credit arrears are established as per standard operating procedures

Process of establishing credit arrears

i. Follow up quickly the late loan
ii. Form a strong solidarity groups
iii. Update and enforce credit policies
iv. Limit the outreach responsibility of each credit officer to a specific geographical area
v. Avoid lending to start up business
vi. Provide financial incentives for credit officers

Importance of establishing credit arrears

- **Loan payment:** Customers are able to pay their loans after communicating to them.
- **Tracking the arrears:** The bank is able to tell who have a credit arrears and are able to locate them.
- **Fares up for the bank:** Once the bank identifies the arrears, they are able to follow up with the customers and that fairs up their income once it is repaid.

There are two types of credit arrears:

a) Interest arrears

This is the amount of interest that is built up on your account since your last payment. Interest is accrued daily based on the loan balance. When a payment is missed, interest continues to accrue on the balance until the next payment. When interest has accrued longer than the agreed repayment period then it is reserved to as interest arrears.

b) Principle arrears

When a loan is drawn down, the amount borrowed, interest rates, terms and agreed level of payments are used to generate an amortization table. This is effectively a plan as to know how the loan is intended to be paid. When payments are missed the actual balance had planned to be at this point in the loan. This referred to as principle arrears.

Categories of credit arrears

- **Payment in arrears:** It is payment that is made once a service has been offered.
- **Payment in advance for example salaries:** It is payment made before the actual service has been provided. They include insurance premium, prepaid electricity bill, lease etc.
- **Annuity in arrears:** This also applies in financial industry when making annuity payment. An annuity is a Non-transaction action that occurs in equal intervals and in equal amounts over a period of time. For example mortgage payment.
- **Dividend in arrears:** The concept also applies when a publicly traded company issue dividends to its investors. It occurs when the company delays in paying the cumulative dividends to its preferred stock holders by the agreed time.
- **Arrears swap in derivatives:** An arrear swap is a type of interest rate swap that is set and pays the interest rate at the end of the coupon period, rather than in the beginning. On the contrary, a standard swap sets the interest at the beginning and pays the interest at the end. It is preferred by speculators who predict the yield curve and receive interest payments at the end of the coupon period. They include preferred, stock credit arrears, common credit arrears, loan repayment and cash credit in arrears.

Table 12. Credit arrears report

SAMPLE OF BANK CREDIT REPORT	
	Equity Credit Report.
	John Mairu.
	File #52431 Date 03/01/2019
	Customer 10012 User Jeney
SSN: XXN-XX6231	
Address- 00237 Kiambu	
Report details	account status
Tradeline overviews	total past due 0
Total 4	day 30 0
Current 0	day 60 0
Current reg 0	day 90 0
	Account balance 10633
	Monthly payment 302
	Collection 0
PERSONAL INFORMATION	
Name: John Mairu	on file sin 07/09/2018
DOB: 8/5/1980	
SSN: XXN-XX 6231	
Employment information	
Employer Brighton Assurance Company	
Position Accountant	

Figure 18: Credit report

Credit report

It is a detailed breakdown of an individual's credit history prepared by a credit bureau

Credit bureau

This is firms that aims at collecting financial information about individuals and create credit reports based on the information and lenders use the reports along with their details to determine loan applicants' credit worthiness.

5.2 Customer linked accounts are identified as per credit policy

Related arrears accounts

a) Call in arrears

Journal entries

- Call in arrears account Dr

  To share allotment a\c

  (Being various outstanding transferred)

- Bank a\c   Dr
  To call in arrears account
  (Being the amount received out of call in arrears a\c)

b) Dividend in arrears a\c
c) Stock credit arrears account

5.3 Recovery from linked account is established as per the credit policy
Process/stages of establishing or credit policy

i. **Establish credit standards:** At this stage, the firm must be able to decide how much credit risk it is willing to accept.
ii. **Establish credit terms:** Here, the firms decide on the length of time before payment must be made and the possibility of offering a discount.
iii. **Obtain customer details:** At this stage, every client who is willing to take a risk on the credit must provide all the necessary information needed to process loan.
iv. **Establish interest:** At this stage, the firm decides how much interest they will have to charge on credit given.

Process to recover linked accounts

i. Establishment of a credit policy
ii. Track payments carefully
iii. Keep all the records on track
iv. Charge interest on overdue payments
v. Cut off credit to overdue clients

Elements of credit policy

- Character
- Collateral
- Capacity
- Capital/funds

Credit policy is a set of principles on the basis of which it determines who it will lend money or gives credit.

Types of credit

- **Revolving credit:** This is a type of credit that gives a maximum borrowing limit and you can make charges up to that limit.
- **Charge cards:** You must pay all charges in full every month.
- **Service credit**: It is your contract with service providers such as gas, electric utilities, cable and internet.
- **Installment credit:** It is a loan for a specific sum of money you agree to repay plus interest and fees on a series of equal monthly payment over a set period of time.

Factors to consider on credit policy

- Bank lending rates
- Households in the economy
- Supply of credit
- Availability of banks to firms and household

5.4 Action is taken as per credit policy

Actions taken according to credit policy are the approval and declining of the credit based on different factors.

Ways to improve credit history policy

i. Pay bills consistently and on time.
ii. Maintain a reasonable amount of unused credit.
iii. Apply for credit only when needed keeping credit inquiries to a minimum.
iv. Check credit reports annually disputing any errors that hurt your report.

Effects of bad credit report

- High interest rates on credit cards and loans
- Credit and loan applications may not be approved
- Difficulty getting approved
- Security deposits on utilities
- Employment denial
- Higher insurance premium
- Calls from debt collectors

Factors affecting good credit report

- **Payment history:** Having a long history of on-time payments is best for your credit scores while missing a payment destroys ones credit report.
- **Credit usage:** The amount you owe an installment loans such as personal loan, mortgage or student loan.
- **Length of credit history:** These includes age of oldest account, newest account & your most recent accounts
- **Credit mix and types:** Having experience with different types of credit, like revolving credit card accounts and installment on loans may improve credit wealth.
- **Recent credits**

Conclusion

This learning outcome covers; credit arrears, identification of credit arrears, categories of credit arrears, credit arrears report and related accounts.

Further Reading

1. Read on credit arrears on the following publication Encyclopaedia of American business. By W.Daris Folsom,Rick Boulware.2014.Business.

4.3.6.3 Self-Assessment

Written Assessment

1. Which of the following is a type of credit arrears?
   a) Interest arrears
   b) Call arrears
   c) Preferred stock
   d) None of the above
2. Which one of the following is not an arrear related account?
   a) Call in arrears
   b) Financial a/c
   c) Credit in arrears
   d) Dividend in arrears
3. A credit arrear is a legal term used for the part of debt that is overdue after missing a payment. Is it true or false?
   a) True
   b) False
   c) Not sure
4. Which one of the following is not a factor that affects credit report?
   a) Dividends arrears
   b) Payment history
   c) Not sure
   d) Credit usage
5. The following are factors to determine while creating a credit policy. Which one is not?
   a) Product of the bank
   b) Supply of credit
   c) Environment
   d) ALL of the above
6. Identify from the following a type of credit arrears.
   a) Annuity arrears
   b) Segment arrears
7. Evaluate five determinants of credit worthiness.

8. What does the term credit MA mean?
9. Identify and elaborate on factors that affect credit worthiness of a client.
10. What are the indicators/determinants of credit arrears?
11. Outline four types of credits.

Oral Assessment

1. What do arrears mean?
2. Elaborate on the following terms;
    a) Dividend in arrears
    b) Call in arrears
    c) Credit arrears
3. Outline two types of arrears.

Practical Assessment

1. In a group of 7 students in your class, take a visit to the nearby bank, in the bank get to learn about credit arrears. Observe the bank environment and learn how credit arrears are treated by the bank according to its policy.

4.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

4.3.6.5 References

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4.3.7 Learning Outcome No 6: Issue Demand Letter

4.3.7.1 Learning Activities

Learning Outcome No 6: Issue Demand Letter	
Learning Activities	**Special Instructions**
6.1 Identify customer arrears as per standard operating procedure 6.2 Prepare demand letters as per standard operating procedure 6.3 Dispatch demand letters as per standard operating procedure 6.4 Record demand letters as per standard operating procedure 6.5 File demand letters as per organizational policy	Lectures Class presentations

4.3.7.2 Information Sheet No4/LO6: Issue Demand Letter

Introduction

This learning outcome covers demand letter, types of demand letter, content of demand letter, importance of demand letter, preparation of demand letter, methods of issuing demand letter and factors to consider when issuing demand letter.

Definition of key terms

Demand letter: Entails a formal and professional document sent by a party to another, the recipient who may have defaulted financially or breaded a contract requesting payment or other action to correct. It is also called a letter of demand, collection letter or a debt collection letter. It is given to the debtor before a legal action is taken that is, it is the last resort in debt recovery.

Content/Procedures/Methods/Illustrations

6.1 Customer arrears are identified as per standard operating procedure (SOPs)

These are payments that are overdue and supposed to be made at a given time period. With the high rise of customer arrears in the organizations, need for identification of the challenge is essential which must meet the SOPs standards. This is essentially possible and important to keep the pace with the rising credit intake by the customers rather than individuals. Answering the question how helps the institution in curbing/minimizing the growing number of arrears and in which case the firm should have plans and procedures in place to help the customers and support them in mitigating the risk of a serious and fattening arrears situation arising at any given time.

Importance of identifying customer arrears

- Helps the bank/financial institutions recover its debts from the customers owing them
- Helps banks determine their extend of risk in terms of credit risk hence take appropriate measures on mitigating them
- The bank/financial institution is able to know who their customers are
- Arrears identification is essential as banks/financial institutions are able to know which products sell well and make necessary improvements on given products

Causes of arrears

- If loans are too large for the cash needs of the business, an individual may opt to have the extra funds directed to own personal use. This results to possible arrears as the individual will have difficulties repaying off the loan.
- Ignorance as well as lack of discipline in the repayment of the loan will result to possible accumulation of arrears.
- Absence of a grace period from time of being disbursed with the loan by the financial institutions.
- Decrease of credit service ability of borrowers hence increase in default rate
- Giving multiple loans to present defaulters.

Reduction of the arrears can be done in the following ways;

- Follow-up visits after missed payments are important as the customer finds it urgent and necessary to repay off the loan.
- The financial institutions must come up with policies in loan recovery and make it available to all customers with loan requests.
- Train staff on effective debt recovery practices
- Reduce credit limit for the customers

6.2 Demand letters are prepared as per standard operating procedure

Demand letter is both a formal and professional document to an individual for defaulting financially or breaching a contract asking them to honour their payments. Preparation of the letter is done after identification of arrears by the customers and is of great significance as;

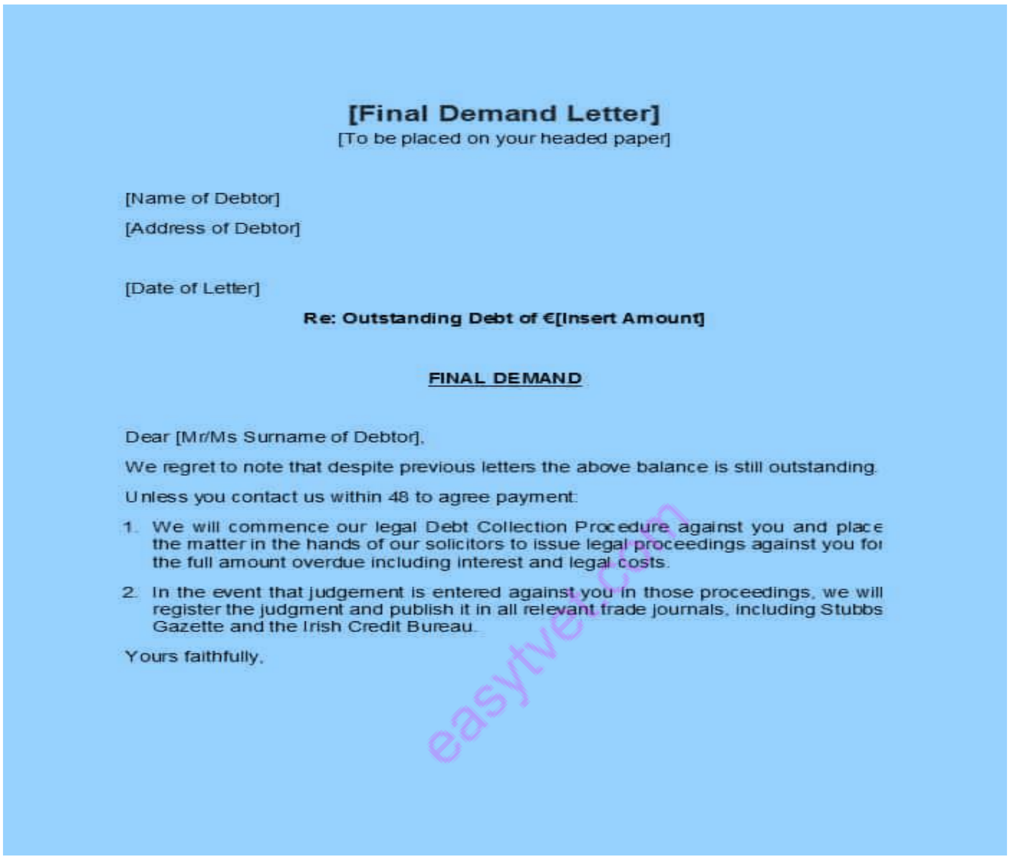
Importance of demand letter

- It establishes that one is seeking settlement for their invoice in a formal and professional way hence debtors/clients do reconsider their invoice with regards to the cost implications (helps encourage settlement).
- It helps establish and maintain goodwill between business parties.
- In case the dispute is litigated, one has a detailed outline of all circumstances resulting in non-payment.

Methods of dispatching demand letters

- Self-delivery
- By post as parcels
- Mails
- Hiring a lawyer to deliver it on your behalf

Demand letter



[Final Demand Letter]
[To be placed on your headed paper]

[Name of Debtor]
[Address of Debtor]

[Date of Letter]

Re: Outstanding Debt of €[Insert Amount]

FINAL DEMAND

Dear [Mr/Ms Surname of Debtor],

We regret to note that despite previous letters the above balance is still outstanding.

Unless you contact us within 48 to agree payment:

1. We will commence our legal Debt Collection Procedure against you and place the matter in the hands of our solicitors to issue legal proceedings against you for the full amount overdue including interest and legal costs.
2. In the event that judgement is entered against you in those proceedings, we will register the judgment and publish it in all relevant trade journals, including Stubbs Gazette and the Irish Credit Bureau.

Yours faithfully,

Figure 19: Demand letter
Source: templatelab.com

Contents/inclusions of a demand letter

The following are the contents of a demand letter;

- Sets out why the payment is being made
- How the payment should be carried out; e.g. in full, installments, etc.
- Directions for the reply
- Deadline for the reply

How to prepare a demand letter

In writing a debt collection letter that will yield results, ensure;

i. To be precise and on point.
ii. Include all the necessary information like name, date and all details of a debt collection letter.
iii. Avoid threats and intimidation and keep it within the debt collection guideline.

iv. Be firm and remind the debtor of the repercussions of non-payment including legal action.
v. Provides facts and figures with attached invoices, statements, copies of the contract and any documents relating to the debt.

6.3 Demand letters are dispatched as per standard operating procedure

The dispatch process comes right after preparation of the demand letters and entails the process of formally distributing the contents of a document to a recipient. Simply delivering the contents of a document to the supposed recipient or debtor asking them to repay off their debts, which could be financial. The dispatch process is done through mails, posts as parcels, hiring a lawyer to deliver it on your behalf etc.

Types of demand letters

- **Debt owed:** Letter requesting debtor to settle their dues must outline reasons for the debt, amount owed and original due date as well as terms of settlement.
- **Action required:** Description of action being requested be well included like providing a service.
- **NSF check (Not Sufficient Fund):** Letter requesting payment after a debtors check is returned. Includes information about the check, payment amount, bank name and check number.
- **Stop repayment:** Letter that requests payment after a debtor puts a halt/ stop payment on a check. Includes check information like check number, payment amount, bank name, date of issue and compensation for bank fees as well.

Considerations before issuing demand letters

i. Try giving the debtor a call and sending reminders before settling for the demand letter.
ii. If the call fails, prepare a letter for dispatch and include the debt due etc.
iii. State in the letter clearly on your intentions to take legal action.
iv. Have a clear explanation on the method of payment of the debts.
v. Attach all relevant supporting documents with all important invoices.

6.4 Demand letters are recorded as per standard operating procedure

After a successful dispatch of a demand letter, recording of the same is done in which case the creditor must retain a copy of the letter for future reference and for proof in cases the debtor/ recipient makes attempts of denying having received it. In reference to the Standard Operating Procedure, the record of the demand letter kept must be a duplicate of the letter dispatched to the debtor.

Importance of record keeping in debt management

Essentially businesses need to keep records of all demand letters due to the following reasons;

- Miscommunications and mistakes are prevented thus smoother debt recovery.

- Accurate, detailed and complete records will give one the best idea of the debt recovery progress hence helps in dispute resolution.
- Well organized and updated credit files help to ensure no account is forgotten and prompt delivery of debt efforts thus follow-up of invoice is enhanced.
- Proper record keeping also enables the financial institution to determine how old the debt is.
- Organization is able to keep track of its customers

6.5 Demand letters are filed as per organizational policy

An organizational policy regards a set of guidelines and best practices put in place to protect the company's employees, customers and stakeholders in a bid to establish expectations and behavioural limitations. Every organization has a central record-keeping system to which every document is filed accordingly. The essence of a good filing system is that it;

- Reduces the time taken to manage finances.
- Enhances the budgeting and planning tasks.
- Readily avails important information within the least time.
- Documents are kept in a safe place thus prevents lose
- Helps organizations be organized, systematic and efficient

A filing system entails an organized, systematic and transparent central record keeping way of organization.

Equipment used for filing

- **Filing cabinet**: Used to keep flat files and suspension files

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Figure 20: Filing cabinet
Source: manutan.ie

- **Date stamp**: Used to date stamp documents that are received on daily basis for later chronological filing.

Figure 21: Date stamp
Source: ezee.sg

- **Steel cabinet**: Used to keep big files that need be enclosed somewhere.

Figure 22: Steel cabinet
Source: luoyanghefengfurniture.com

- **Register:** Used to record files taken out and returned
- **Box file**: Big file used to keep big documents that cannot go into a filing cabinet.

Figure 23: Box file
Source: indiamart.com

Methods of filing

- Filing by subject
- Filing in alphabetical order
- Filing
- By places/geographical order
- Chronological filing

Filing systems

Technological advancement has led to a shift from the traditional filing system to electronic filing system. Most organizations have abandoned traditional filing system which involves much paper work to electronic system.

Benefits of implementing an electronic filing system

- Improved security and compliance
- Faster file retrieval, since documents are indexed, getting to a given customers details is easy as one just needs to type their name and all information is provided
- Saves money as much paper is eliminated
- High safety guaranteed in the event of the office being damaged, the files are safely guaranteed. In the event of the office being damaged, the files are safely kept by automatic back-ups.

Conclusion

This learning outcome covered; need of identification of customer arrears, putting emphasis on demand letters as a method of debt collection, types of demand letter, contents of a demand letter, importance of demand letter, preparation of demand letter, methods of issuing demand letter and factors to consider when issuing demand letter.

Further Reading

1. Read on guidelines in debt collection from the Central Bank Act.

4.3.7.3 Self-Assessment

Written Assessment

1. Which of the following is the major source of revenue of any business?
   a) Purchase
   b) Sales
   c) Commission
   d) Interest

2. Which of the following is not a demand letter?
    a) Not sufficient fund
    b) Stop payment
    c) Debt owed
    d) Debt settled
3. Tiva enterprises experienced a reduction in net operating profit after taxes (NOPAT). Which of the following cannot help explain the decline?
    a) Sales revenue decreased
    b) There was an increase in depreciation
    c) Taxes increased
    d) Interest expense increased
    e) More debts were written off
4. Which of the following would increase the likelihood that a company will increase its debt ratio in its capital structure?
    a) Increase in costs incurred while filing for bankruptcy
    b) An increase in the corporate tax rate
    c) Increase in personal tax rate
    d) Decrease in the corporations' business risk
5. Identify the alternatives that could potentially result in a net increase of a firm's free cash flow for a given year.
    a) Decreasing the accounts payable balance
    b) Increasing the period over which fixed assets are depreciated
    c) Reducing the days-sales-outstanding ratio
    d) Dispatching as many debt collection letters as possible to debtors
6. Peter, an assistant accountant at Vivo Emy Debt Collectors is stuck on the contents of a debt collection letter. Which of the following is not an inclusion?
    a) Payment being claimed
    b) Deadline for reply
    c) Deadline for repayment
    d) Check number
7. According to the fair debt collection practice act, who of the following is not a third party that the debt collector can deal with in debt collection?
    a) The creditor
    b) The debt collector's attorney
    c) The bank
    d) Creditor's attorney
8. Outline and evaluate the importance of dispatching demand letters.
9. Demonstrate the need for a central filing system in any organization.
10. Elaborate your understanding of standard operating procedures.
11. Outline the contents of a demand letter.
12. Summarize the possible causes of arrears in financial institutions.

Oral Assessment

1. Name some of the contents of a demand letter.
2. Summarize your understanding of standard operating procedure.

Case Study Assessment

Fiona runs multiple businesses apart from her permanent job. Lately, she's convinced that her in-flows have had a drastic drop which has consequently impacted her work tremendously as her employer is angry with her performance. Her businesses have really held the bag possibly due to the wrong turn the clients have taken on debt repayments. Fiona offers you an entry level job as a debt collector in one of her companies that is the most hit with uncollected debts and good news you know much on demand letters. Her systems are all in place. Elaborate how you will swiftly utilize these systems to maximize the debt collection exercise for positive results.

4.3.7.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

4.3.7.5 References

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4.3.8 Learning Outcome No 7: Perform Credit Facility Restructuring

4.3.8.1 Learning Activities

Learning Outcome No 7: Perform Credit Facility Restructuring	
Learning Activities	**Special Instructions**
7.1 Receive customer request as per standard operating procedure (SOP) 7.2 Obtain customer details as per standard operating procedure (SOP) 7.3 Confirm acceptability of credit restructure as per bank policy 7.4 Capture credit restructure in the system as per standard operating procedure 7.5 Make credit restructure decision as per bank policy 7.6 Communicate credit restructure decision to customer as per banking policy	Oral Assessment Discussion Written assessments

4.3.8.2 Information Sheet No4/LO7: Perform Credit Facility Restructuring

Introduction

This learning outcome covers; credit restructuring, customers' requests evaluation, customer details verification, validation of the restructure, possible restructure decisions and means of communication of the feedback. The learner should fully understand these contents in-depth. The learner should be open minded and practical in this learning outcome.

Definition of key terms

Credit restructuring: It is a method used by organizations or firms to avoid the risk of default on existing debt. It is mostly used where the borrower/debtor is in financial crisis and is unable to pay the existing loan.

Bank Policies: These are principles/regulations adopted by the bank for reference.

Customer request: This is a formal plea/order/appeal by the customer to the creditor as per his special needs.

Customer details: These are the basic information that aids in gaining a better knowledge of your customer.

System: It is an organized method of the work-flow in an organization set up by the information and communication technology department.

Capturing: This is a manual task whereby data is fed into the system. The system interprets the captured data.

Content/Procedures/Methods/Illustrations

7.1 Customer request is received as per standard operating procedure

In any credit facility, all debtors are obligated to repay their loans, according to their contractual terms. In this case, a debtor/customer should communicate their issues to the creditor instead of waiting for loan default. This can be done in way of writing a letter to the bank's/credit facility's management or by manner of self-representation.

This is only made possible by way of supporting documents to validate your request. The creditor discusses the cause of overdue payment, borrower's financial position.

Customer request is reviewed as follows;

i. **Credit history:** The bank reviews both your credit history and that of your personal guarantor so as to gauge your credit worthiness.
ii. **Collateral available for securing the loan:** In this case the bank would want to make sure that there is a property that secures the loan in case you fail to make the payments.
iii. **Cash flow history and the trends for future projections:** This information is very critical to the bank as they can predict your consistency in loan repayments used on a certain business trend. A tool called cash flow budget worksheet is used in Excel. This worksheet is set for projecting your cash flow for six months. A working cash flow ration is set at different rates by different banks.
iv. **Business reputation/personal traits:** This is as well considered in case the borrower have had successful prior business experience, a good prior credit or depositor relationship referrals by respected community residents, community work involvement and has a good evidence of effort, care and due diligence in the business planning processes and proposals.

7.2 Customer details are obtained as per standard operating procedures

Customer details are accessed in the system to aid in ascertaining his/her capacity, collateral, capital, character and conditions. These are the 5 C's of credit risk assessment. The bank checks whether you have other debts elsewhere e.g. Metropolis, other credit facilities i.e. present and former loans.

They will also consider the following important factors:

- Assets owned to reduce the risk of non-repayment.
- Financing pattern for projection/consistency in repayment
- Tax history. The creditor will ascertain whether you evaded tax
- Work experience.
- Nature of employment. The banker would wish to know whether the contract is permanent or temporary to guarantee loan security.

Customer details describe the basic information that aids in gaining a better knowledge of your customer.

Types of customer information/details

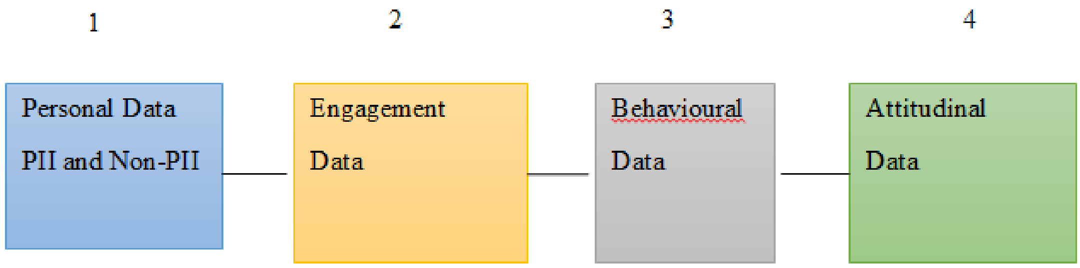

Figure 24: Types of customer information/details

Personal Data (P.I.I and Non P.I.I)

Personally identifiable information (P.I.I) is any information that can be used to recognize an individual’s identity. It includes;

a) **Linked information:** They do not require additional data point e.g. full name, physical address, Email address, Date of birth, etc.

b) **Linkable information:** It cannot identify a person on its own, but it can do so when additional information is provided e.g. Location, Gender, Race, age group and job details.

Non-Personally Identifiable information (Non-PII)

It cannot be used to identify. It is anonymous in nature e.g. IP address, cookies, devices, IDs, etc.

i. **Engagement Data:** It tells you how your customers interact with your brand via various internet/marketing channels e.g. Social media, Email, Feedback etc.

ii. **Behavioural Data:** It helps uncover underlying patterns that customers reveal during their purchase journey. This is possible through subscription details, purchase details, repeated actions, Task completion etc.

iii. **Attitudinal Data:** It is enhanced by the feelings and emotions of your customers. It is carried out through feedbacks, surveys, reviews and customers complaints.

Attitudinal data includes;

- Customer satisfaction
- Sentiments
- Product desirability
- Preferences
- Motivations and challenges
- Purchase criteria

7.3 Acceptability of credit restructure is confirmed as per bank policy

After all considerations in the bank policy are met and the request is verified as valid as to why the debtor is unable to repay the loan at once, the bank then decides to accept the restructure if he has genuine reasons. The request is scrutinized, approved and verified by various head to ascertain correctness and accuracy. Acceptability of credit restructure has many benefits for your business which includes:

- **Consolidated existing debts:** It assists in reducing the number of monthly repayments you have to keep track of consolidating.
- **Plan your finances more easily:** If you are currently paying off numerous loans, which may have different interest rates and loan terms, it can be difficult to plan your company's finances. Restructuring allows you to make plans for your business's future growth.
- **Lower interest rates:** Consolidating your company's existing debts could mean that you pay a lower interest rate overall, reducing the cost of finance to your business from outstanding loans.
- **Freeing up cash in your business:** Restructuring debts can mean you are making lower repayments each month, freeing up cash for running your business and enabling you to grow.

There are two types of debt restructuring

- **General Business Debt Restructuring**: The creditor does not realize any losses during general debt restructuring. It occurs when the creditor extends the loan period or lowers the interest rate allowing the debtor to temporarily gather himself financially then pay later.
- **Troubled Business Debt Restructuring:** It results in a loss to creditors during the process. It occurs when the creditor receives less than the original value of the investment.

The creditor needs to be willing to allow an adjustment to the initial investment and the debtor needs to repay the debt in full to the creditor without challenges.

Advantages of Restructuring

- Legal protection of the debtor from creditor's recovery of society based on the forgiveness of liabilities.
- Protection of assets
- Providing time for the re-launch of the company.
- After successful restructuring, accompany can operate without restrictions.
- The inability to count old liabilities with new liabilities that arose after the beginning of the restructuring process
- If a creditor's bankruptcy claim comes to court during restructuring, the court will deny such claim by court order.

Disadvantages

- During the restructuring process, the administrator approves the debtor's legal action (with the exception of common legal actions.
- In case the restructure plan is not approved the company is declared bankrupt.
- In case the restructuring plan towards the creditor is not being fulfilled the plan becomes legally unenforceable towards this creditor.

7.4 Credit restructure is captured in the system as per standard operating procedure

At this stage of the credit restructuring, the new credit details/data is captured in the system to effect changes. New monthly installments are calculated and the rates adjusted as well as the loan period. The adjusted details are then saved in the system depending on the accounting package the firm is using some use QuickBooks, others sage, SAP, etc.

7.5 Credit restructure decision is made as per bank policy

The creditor, at this point is now satisfied with the supporting documents provided by the debtor or by his negotiator. It is approved by the management. The following decisions are made:

a) Restructuring of the payments and consolidating the debt by defining anew reimbursement schedule in accordance with the real payment possibilities of the debtor.
b) Cancellation of a part of debt if the debtor is unable to pay but there is the possibility of recovering a part of the granted credit.
c) Debt-equity swap. This can be achieved by converting a part of debt in capital (debt V's shares), and by mobilizing new capital in the form of issuance of bonds or shares.

7.6 Credit restructure decision is communicated to customer as per banking policy

As the final stage in credit facility restructuring, the decision is communicated back to customer/debtor by means of a phone call, email or letter, within a reasonable time frame of not more than 10 days as per the policy.

Restructuring techniques

- **Conversion:** Distressed borrowers negotiate with their bankers that their overdraft facilities be converted to term loans. Hence they not only benefit from an extended repayment period but also avoid many penalties and charges associated with overdraft excesses.
- **Below market rate of interest:** This technique offers the borrower a less than market interest rate. This tents to convince the customer that the bank is mindful of its long term financial health and resumes servicing its debt obligations.
- **Concessions, banks can decide to wave** all charges levied on the customer both in the past and in the future.

- **A new repayment schedule:** A loan monthly repayment is determined by the length of repayment period and it's normally calculated to amortize the loan evenly throughout that period.

After the decision is relayed to the debtor through letters, emails or even through calls the restructuring process now is debt settlement/ restructuring pros to the debtor.

- Lower your debt amount
- Help avoid bankruptcy
- Aids in getting creditors and collectors off your back

The cons to the debtor

- Your creditor may not agree to negotiate.
- You could end up with more debt if you stop making payment on a debt, you can end up paying late fees/ interest.
- It can negatively affect your credit, your credit scores can take a hit to the result of any delinquent payment, and the creditor could also sent your account to collections or sue you over the debt.
- Banks analysis before starting their restructuring process if the initiation of it will improve its position, that will allow realizing and respecting of an output from the credit relationship without turning to the expensive process of implementing warranties.

Principles whose applications make the difference between success and failure of their restructure

- The decisions will be taken only on the bases of well checked information and certified by an external auditor.
- The success of restructuring depends on choosing one of the creditor banks as a leader to supervise the process and coordinate in all creditors actions.
- Changing the credit terms and conditions must consider rather to be covered with collateral than the increase of credit that pushes more the burden of the debt and puts in danger the positive effects expected.
- Selling the debts to third parties on the secondary market will be made under the condition that the new creditor will not stop their restructuring process approved at the beginning by old creditor.

The decisions made should be in line with the outlined specifications / policies for the banks by the Central Bank of Kenya.

Conclusion

This learning outcome covered; credit restructuring, customers' requests evaluation, customer's details verification, reasons for credit restructuring, implication of credit restructuring, types of credit restructuring and factors to consider in credit restructuring, validation of the credit restructure, restructure decisions and means of communication of feedback to the customer.

Further Reading

1. Read on Debt restructuring and refinancing from Investment banking India mart

4.3.8.3 Self-Assessment

Written Assessment

1. Which C is not in the category of credit risk assessment?
   a) Capacity
   b) Credit
   c) Capital
   d) Collateral
2. Customer request is reviewed as all this except?
   a) Cash flow history
   b) Collateral available
   c) Ethnicity
   d) Credit history
3. There are 3 types of debt restructuring which, which one is not?
   a) Debt-equity swap
   b) Cancellation of part of debt
   c) Debt appetite
   d) Restructuring of the payments and consolidating the debt.
4. Which of the following is not convenient means of giving back the feedback to the customer?
   a) Email
   b) Phone calls
   c) Letters
   d) Skype

5. While assessing credit-worthiness, which of the following factor is not considered?
    a) Financing pattern
    b) Tax history
    c) Assets owned
6. After how long should the creditor communicate the credit restructure to the customer?
    a) 30 days
    b) 20 days
    c) Not more than 10 days after request
    d) 25 days after request
7. Which of the following activities is not performed while credit restructuring?
    a) Customer request
    b) Customer details
    c) Acceptability
    d) Customer satisfaction
8. Summarize what credit is restructuring.
9. Outline the meaning of capturing in relation to credit restructuring.
10. Elaborate the meaning of a system, discussing its pros and cons.
11. Differentiate the different types of customer details
12. Outline three meaning of bank policies.

Oral Assessment
1. What are customer details and how does it assist in credit restructuring?
2. What is customer request and how is it evaluated?

Case Study Assessment
Turnaround and Restructuring
$8MM multiple store, National Food Chain Franchisee unable to make bank loan payments, in default of franchise agreements with default notices issued for all locations and shareholder's personal resources depleted. Assess whether or on what basis, the franchise remains viable; whether it could cure the various payment defaults; whether the business is worth more broken up and sold or continuing to operate under various store configurations.

4.3.8.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer/excel
- Flip chart/white board

4.3.8.5 References

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