



FINCA[®]

New focus in credit risk management: work-outs and restructuring

EFSE Annual Meeting 2010 – Ohrid FYR Macedonia

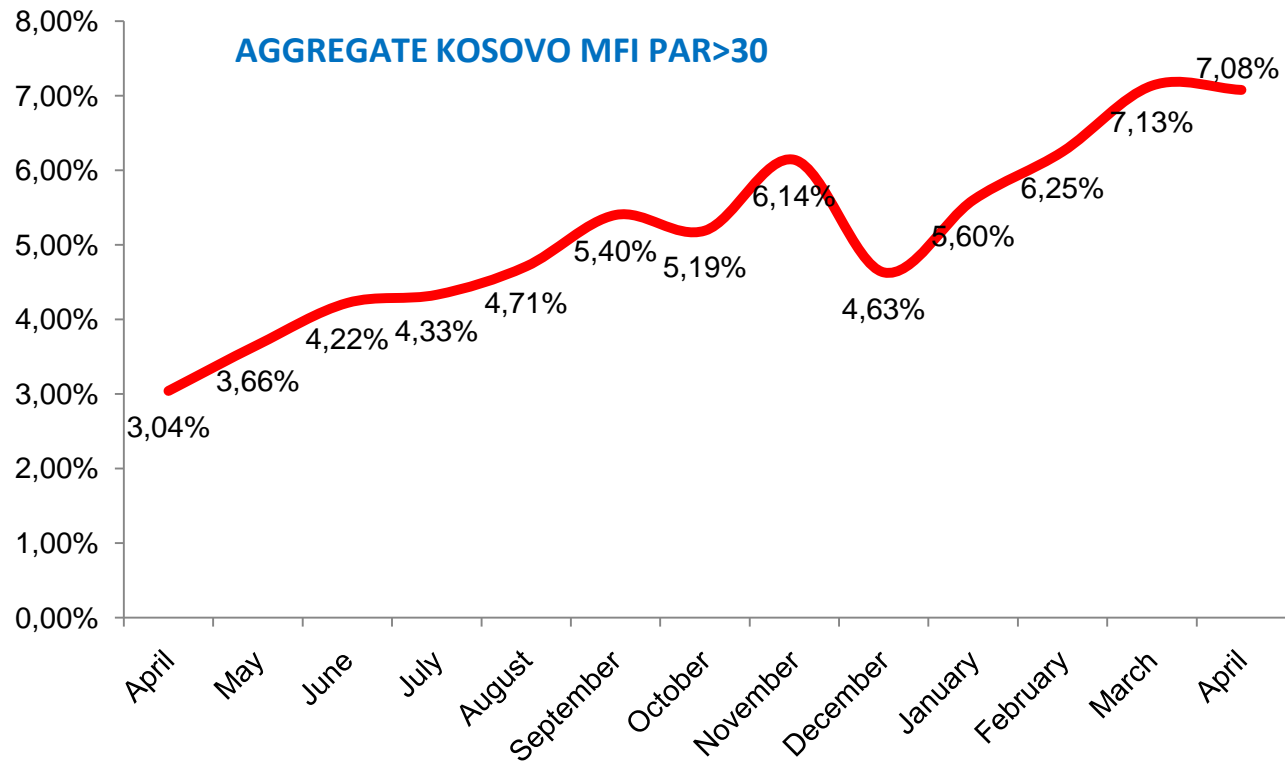
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Ella Beavers, Country Director, FINCA Kosovo



A WORRYSOME TREND...Kosovo MFI PAR>30

April 2010 YTD



'In times of economic growth, the race for market share tends to outweigh the focus on portfolio and risk management. In times of economic slowdown, efficient portfolio and workout management becomes a key profitability driver for the Financial Institution.'



LOAN RECOVERY MUSTS

WHAT TO DO:

- **Act Quickly**
- **Be Flexible**
- Client **MUST** know the institution has its **finger on the pulse all the time**
- **Be Creative**
- **Be Specific**
- **Get all involved** (Client, family, guarantors, friends, spouses....)

WORKOUT PHASE - PROBLEM LOAN ASSESSMENT

- Determine if problem is temporary or more permanent
- Plan for the worst case scenario
- Caution rather than alarm (initially)
- Get informed and collect as much information on client, business, industry
 - *Some causes can be avoided by the actions of the MFI and some cannot.*
 - *Further, sometimes the borrower has retained the capacity to repay but does not want to. These are the most difficult types of delinquent borrowers.*
- Check Credit Files to ensure documents are in order
- Develop a plan for business recovery and on time repayment
- Verify legal position and inspect collateral physically
- Set deadlines and demand to be kept

WORKOUT PHASE - COURSE OF ACTION AND PLAN

The best course of action will depend on the following:

- Cooperation of the borrower
- How serious is the situation
- The strengths and weaknesses of the MFI's position
- What caused the problem?

Each workout situation is unique and it is impossible to have “one size fits all” plan

- Must be realistic and suitable for both parties
- Both client and MFI must agree to the same plan
- The plan should be in writing and signed by both parties
- MFI must commit to following and monitoring the plan

WORKOUT PHASE - LOAN RESTRUCTURING

GENERAL RULE ON RESTRUCTURING

Restructure loans only in cases when a client or loan group has fallen into arrears through no fault or lack of foresight of its own:

- Acts of God (Flood, Fire, Civil unrest, Hurricane, Landslide etc).
- Death or grave illness
- An extraordinary recession or market downturn across the entire industry.
- Change in government legislation or Government

When restructuring consider:

- There must be no other way to recover the loan
- Client is willing to repay
- Business has capacity and reasonable sales forecasts for recovering repayments
- Reasonable certainty on future repayments with the new terms
- Reasonable certainty that the event causing the arrears will not reoccur

It is important to remember that restructuring can be a seductive trap that helps keep portfolio measures looking good, and avoids tough borrower issues.

LESSONS LEARNT

Key Success Factors

- Strategy: Internal, Outsourcing and Staffing
- Segmenting / Specializing
- Efficient Early Warning Signals System
- Clear cut decision making process: intensive monitoring, restructuring, follow up and liquidation
- Proper IT infrastructure and Reporting System
- Appropriate Provisioning Policies

Key Impediment Factors

- Weak MIS
- Lack of efficient monitoring and early warning signals
- Decentralized Management
- Lack of incentives and performance management
- Low training and lack of collection skills
- Weak links of operations and risk management departments
- Lack of pro-active management
- Tendency to avoid problem until too late
- Too much emphasis on loan origination
- Tendency not to involve legal unit until it is too late