


## Delinquency Revealed: Taking Tough Verdict to Control Loan Delinquency in Credit Unions

ACCU Forum

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14:00 – 15:30

Intro 10 min  
Presentation 35 min  
Panelist 10-15 min  
Open Forum 30 min




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## Assessment and Collection

- First things first ...
  - Assessment
  - Collections
- Easy to Lend money
- Harder to collect money
- Needs to be ...
  - Hard to Lend money to
  - Easy to collect money
- Delinquency / Bad Loans is about Values & Education
- Delinquency / Bad Loans is the Number 1 reason for Credit Union **FAILURE ... NO LONGER IN BUSINESS**




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## Maslow's Hierarchy of Needs

proposed by Abraham Maslow in his 1943 paper - *A Theory of Human Motivation*



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## Philosophy & Approach

- Lending Business Verses Social Development Business
- Credit Risk is about lending money
- Poor Credit Risk is an unwillingness or inability to repay
- Remember ... Lending money is a risky business
- You will always have bad loans ... key is to keep them low
- Lending allows you to make money not to give it away
- Is it the Credit Union or the Borrower that comes first?




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## Causes of Delinquency

- Broadly broken in to two groups ...
  - Internal
  - External
- Internal
  - Poor Policies
  - Poor Staff training
  - Poor Image
- External
  - Natural Disaster
  - Social Unrest
  - Political Unrest
  - Member values



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## The Financial Pain!!!

- Bad Debt Provisioning (a general guide)
  - Full 100% provisioning if 12 months or more delinquent
  - 35% provisioning if delinquent 3 months to 12 months
- Let us say you write off \$50,000
  - Q: What value in loans do you need to write to recover the \$50,000?
  - A: \$3.1m
- It is easier to not write a bad loan!!! In the first place
- Remember ... Delinquency / Bad Debts is the Number 1 reason for failure of a Credit Union
- Low Delinquency is one of the best means of sustaining your Credit Union

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## Early Action ... Makes the Difference

### PAST DUE DAYS RECOVERY RATE

30 Days	95%
60 Days	89%
90 Days	80%
120 Days	70%
240 Days	50%
360 Days	10%



- Early intervention creates a culture of timely repayments
- This is a hard task – but it must be done ... strike early
- If you let it drift you will create an unsustainable culture

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## Control

- Credit Union Image and Philosophy
  - Say NO to the GIVE-A-WAY culture
  - Say YES to the REPAYMENT culture
- Policy Development
  - Assessment process
  - Size and term of the loan
  - Time of Year
  - Pricing
  - Incentive process
  - Training staff & borrowers
- Rescheduling and Refinancing
  - Assisting and solve the issue
  - Do not defer the issue
  - Monitor the arrangement and take action if required



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## Monitoring

- Develop accurate and timely information system
  - Structured approach
- Create benchmarks of performance
  - This provides an early warning system
- Report often against the benchmarks
  - Ensure you stay on top of what is going on
- Take early action
  - Do not sit back and hope
- What is at risk?
  - The ongoing sustainability of the Credit Union and the services you provide

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## Delinquency Crisis – What to do?

- Review Policies & procedures
- Undertake an Audit with Policies and Procedures
- Evaluate & Design an incentives – Internal & External
- Review staff performance – who is poor, who needs training & who should not continue lending
- Cluster all bad loans together – easier to monitor
- Review your Management Information System
- Retrain all staff and if necessary members
- Set a timeframe for improvement and monitor
- Take the financial medicine and write the loans off
- Seek out external Debt Collection agency if the problem is too big, but do this early on

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## To be a Successful Lender ...

- Know your borrower
- Train your staff and borrowers and then re-train them
- Maintain ongoing communication with staff and borrowers about what is required
- Provide the right products and pricing
- Risk must be priced right!
- Be passionate about collecting repayments – make it easy and celebrate
  
- Remember the five C's! ...  
**CAPACITY, CHARACTER, CAPITAL, CONDITIONS, COLLATERAL**

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## Practical Steps

- Well developed Policies & Procedures – Credit & Collections
- Set a Delinquency ratio target – you will miss if you have no target
- Well developed staff selection and training processes
- Training and education program for borrowers
- Not every application is a YES – SAY NO
- If you SAY NO – also offer assistance, training & savings plan
- Well Developed Management Information System
- Break your delinquent loans up into time buckets – up to 30 Days, 31 to 60 days, 61 to 90 days, 91 to 365 days, 365 days plus and report to the Credit committee and the Board
- Well developed relationship with a Debt collector – remember the laws, your values and your morals

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... thank you to all in ACCU for allowing  
me to participate in this workshop

#### For your information

- WAW Credit Union has a Loan Portfolio of \$290m
- Delinquency Ratio of \$0.04% (\$116,000 in balances 30 plus in arrears)

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