

Deutsche Bank



BRANCH OFFICE QUESTIONNAIRE

Microfinance Due Diligence Questionnaire with Loan Application

Name of the Institution.....

Country.....

Analyst:.....

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A. General Questions

1. Name of the person(s) being interviewed.

2. How long has s/he been involved with the MFI?

3. What relevant experience does s/he have fulfilling his/her role at the financial institution?

4. Does the branch have a separate budget? **YES** _____ **NO** _____ If “Yes”, what are the primary line items?

5. Who supervises the branch? How is supervision implemented? How frequently are the supervision visits?

6. What is the size of the market that this branch covers (*population*)? Have you segmented the market?

7. What strengths does your MFI have that the competition does not? How do you compare with the competition?

B. Underwriting Process (Head Loan Officer / Branch Manager)

Follow Up Questions from Application

1. How competitive is the market(s) in which your MFI operate? Who are the key competitors?

2. Please walk me through your loan underwriting process. *Key to this exercise is to determine what criteria are used to approve or deny a loan (ability to pay, guarantee, share leverage, credit history, etc.)*

5. Are loans granted as a multiple of a mandatory savings account (leveraging)? **YES** _____ **NO** _____
If so, what is the mandatory savings %? _____

6. Could you please rank the following criteria considered in the credit analysis

Criteria	Rank
Savings Leverage Factor	
Type/Amount of Guarantee	
Repayment Capacity	
Credit History	
Character of the Individual	

7. What is the maximum and minimum that you can loan to one person or group of people?
Maximum _____ Minimum _____

8. Do you maintain a list of all guarantors as a control to determine the level of risk for each guarantor?
YES _____ **NO** _____

9. Is your interest on collateral registered? **YES** _____ **NO** _____ If no, why not?

10. How is a loan's repayment period determined? *Do the loan terms and repayment methods coincide with the cash flows from the financed activity? For example, agricultural loans are generally term loans, as the farmer borrows money to buy seeds, fertilizer, feed etc., and then after the crop has been harvested pays back the loan with the money generated from the sale of the crop.*

11. Review loan classification table. Should confirm if interest is charged against the outstanding balance or amount awarded (flat)?

- i. Outstanding Balance _____
- ii. Amount Awarded (Flat) _____

12. How do you calculate the effective rate?

Compare this rate to the portfolio yield in the projections – further discussion may be required in case of substantial differences.

13. Do you make second mortgage, piggy-back loans or “top-ups”? **YES** _____ **NO** _____ *If they do, make sure to pull at least one of these loans in your loan file review and evaluate the credit analysis conducted for these types of loans to evaluate analysis.*

14. Do you have concentration limits by type of credit product? **YES** _____ **NO** _____

15. Is there a maximum loan size based on equity of the institution? **YES** _____ **NO** _____

16. If YES, how is it determined? *As a rule of thumb, loans that are larger than 10% of equity would be considered a concentration of risk. It can also be a sign of insider abuse or lack of internal control.*

17. Have you experienced any losses from errors or fraud? **YES** _____ **NO** _____
When reviewing loan files, simple checks on calculations and analysis can highlight existing control strengths/weaknesses.

18. (If answer above was affirmative) Please describe the fraud.

19. Does a third-party review loan analysis & documentation to ensure that it adheres to documented policies and procedures? **YES** _____ **NO** _____ Dept? _____
As the institution grows in geographical size and complexity, it is important that transactions are reviewed more consistently than a periodic internal audit visit.

20. Does someone review disbursement documentation to ensure compliance with policies and procedures? **YES** _____ **NO** _____ Who? _____
If answer is the branch manager, than individual loan file read is important, as branch managers many times do not have time to thoroughly review documentation, or in the event of fraud could be involved.

21. Are interviews by loan officers required for all loans or are there circumstances where an interview is not required?

22. Are there circumstances that an applicant would not be eligible? *Ask the loan officer/manager to provide examples of recent applicants that were rejected. If the loan officer/manager cannot readily provide examples, this should be a red flag and loan process should be looked at more closely.*

23. Who verifies that collateral attachments are registered. *In small institutions, it is likely that the loan officer will be responsible for this task. In an ideal world, there should be a separation of duties. However, in situations where this is not possible, additional control mechanisms should be put in place such as more frequent internal audit reviews, or at a minimum, external auditors should include this in their review.*

24. Do loan officers handle cash in the field? **YES** _____ **NO** _____ If so, how do you manage the risks?

2. Do you have covenants or the ability to demand payment of the loan when the conditions for repayment have deteriorated or the precept of the original loan had been falsified? **YES** _____ **NO** _____

3. How many days past due before a loan is considered to be delinquent? Days: _____

4. Is the entire loan balance included in the delinquency calculation or just the amount of payment that is late?
(Walk through a couple of examples to be sure.) _____ Balance _____ Payment

5. What is the total amount and percent of delinquent loans? Amount _____ Percent _____ %
As of date: _____

6. What type of analysis is done on third-party guarantors?

7. Is there an established hierarchy for partial repayment in the loan policies, (i.e. legal costs, delinquency charges and interest should be deducted before reducing the principal)? **YES** _____ **NO** _____
If so, what is it?

8. In the last year, how many times have you collected from a client using (*estimate unless collect information*):

a. Savings	_____
b. Collected from the co-maker	_____
c. Seized collateral	_____
d. Attorney Collection	_____
e. Arbitration	_____
f. Court Action	_____

9. How many lawyers do you have working on collection efforts? _____ Date _____

10. Is the transfer to legal collections mechanical (i.e. by date) or is there subjectivity involved? Under what circumstances are exceptions allowed? *It is important to review the actual transfer of loans into legal collection to see how it actually happens in practice?*

11. Do you monitor/track the work that lawyers are doing? What controls do you have in place?

12. Have you liquidated a guarantee in the last year? **YES** _____ **NO** _____ How many? _____

Section Rating & Rationale (Include Loan Application Observations)

1=Excellent; 2=Significantly Above Average; 3=Above Average 4=Average; 5=Below Average; 6=Significantly Below Average; 7=Seriously Deficient

Rating: _____

D. Loan Loss Reserves, Charge-Offs and Recovery Policies (Head Loan Officer / Branch Manager)

Follow Up Questions from Application

1. Do you have a policy for charging-off uncollectible loans? *Make sure that description includes time period after which loans are written-off. Also note if there is any subjectivity in charge-off policies or clean up comes after a number of days (i.e. collectibility is not a factor).*

2. When was the last time you wrote-off an uncollectible loan?

3. How are recoveries of loans that are charged-off moved back onto the balance sheet or income statement?

4. For assets seized from delinquent borrowers, do you appraise the property value before recording the value in the books? If not, how can the MFI be certain of the value of the asset?

5. What is the value recorded in your financial statements of assets seized to recover defaulted loans?

Section Rating & Rationale (Include Loan Application Observations)

1=Excellent; 2=Significantly Above Average; 3=Above Average 4=Average; 5=Below Average; 6=Significantly Below Average; 7=Seriously Deficient

Rating: _____

E. Restructuring Process (Head Loan Officer / Branch Manager)

Follow Up Questions from Application

1. Can delinquent loans be refinanced or paid later than their contracted date without penalty?
YES _____ **NO** _____ What are the criteria used?

2. Are restructured loans included in the delinquency calculation?

Section Rating & Rationale (Include Loan Application Observations)

1=Excellent; 2=Significantly Above Average; 3=Above Average 4=Average; 5=Below Average; 6=Significantly Below Average; 7=Seriously Deficient

Rating: _____

F. Client Protection Principles (Head Loan Officer / Branch Manager)

Look at the MFI's loan application (pages 5-7) to review which actions the MFI claims to take to uphold the Client Protection Principles and ask the appropriate questions below to test those claims. (Also see section H for client protection questions that relate to loans reads.)

Follow Up Questions from Application

Avoiding Client Over-indebtedness:

1. Are there written credit policies that give loan officers explicit guidance regarding borrower debt thresholds?
YES _____ **NO** _____ If the answer is yes, ask to see them.

2. Do clients receive training/guidance on evaluating their own debt capacity?
YES _____ **NO** _____

3. Does the credit underwriting process include checks on client credit history and existing debt?
YES _____ **NO** _____ If the answer is yes, ask how this checking is done.

4. Does Management regularly obtain information about debt levels among the MFI's clients?
YES _____ **NO** _____ If the answer is yes, ask to see the reports that contain that information.

5. Do you receive a peer assessment of the level of client over-indebtedness from group members (applicable to group lenders)?
YES _____ **NO** _____

Transparent Communication with Clients:

1. Are interest rates (incl. fees, commissions) or other product prices are published, displayed and provided to clients?
YES _____ **NO** _____ If the answer is yes, ask to see areas where they are displayed.

2. Do loan officers disclose penalty and pre-payment fees before loan contracts are signed?
YES _____ **NO** _____

3. Do communications address client literacy limitations (e.g. reading contracts out loud, materials in local languages)?

YES ____ **NO** ____ If the answer is yes, ask how this is done.

4. Do clients have an opportunity to ask questions and receive information prior to signing contracts?

YES ____ **NO** ____ If the answer is yes, ask how this is done.

5. Do clients receive transaction receipts and regular, clear, accurate account statements?

YES ____ **NO** ____ If the answer is yes, ask to see a sample account statement.

Appropriate Collections Practices:

1. Is there a code of acceptable and unacceptable debt collection practices in place?

YES ____ **NO** ____ If the answer is yes, ask for more details on the practices.

2. Are debt collection procedures and time frames (e.g. times/locations when collections are appropriate, etc.) clearly outlined in a staff book of rules?

YES ____ **NO** ____ If the answer is yes, ask to see a copy of the book.

3. Are efforts made to negotiate reasonable repayment plans prior to seizing assets? (The answer to this question can also be inferred by the questions in the collections process section.)

YES ____ **NO** ____

4. Do you monitor staff and any third party collections agents to ensure compliance with acceptable practices?

YES ____ **NO** ____ If the answer is yes, ask how this monitoring is carried out.

5. Do you provide debt counseling services?

YES ____ **NO** ____ If the answer is yes, ask how these services are provided.

Staff Ethical Codes of Conduct:

1. Is there a Board-approved code of ethics that defines organizational values and ethical standards expected for staff?

YES ____ **NO** ____ If the answer is yes, ask to see the code.

2. Are there staff rules that describe acceptable/unacceptable behavior, reprimands and violations that can result in employment termination?

YES _____ **NO** _____ If the answer is yes, ask to see a copy of the rules.

3. Do all staff sign annual pledges to follow ethical codes?

YES _____ **NO** _____ If the answer is yes, ask to see a copy of the pledge.

4. Are there anti-corruption policies in place, provided to each staff member and enforced by decision-makers?

YES _____ **NO** _____ If the answer is yes, ask to see a copy of the policies.

Client Complaint Resolution:

1. Is there a written policy requires customer complaints are taken seriously, investigated and resolved in a timely manner?

YES _____ **NO** _____ If the answer is yes, ask to see the policy.

2. Are specialized personnel designated to handle customer complaints and problem solving?

YES _____ **NO** _____ If the answer is yes, ask who does this and what their job description is.

3. Are customers informed of their right to complain, and do they know how to submit a complaint?

YES _____ **NO** _____ If the answer is yes, ask how this is done.

4. Are complaints and their resolution tracked and used to improve products, sales techniques and customer interactions?

YES _____ **NO** _____ If the answer is yes, ask how this is done.

5. Are suggestion boxes provided in each place of business?

YES _____ **NO** _____ If the answer is yes, ask to see one.

6. Is there a hotline or call center with toll free access available to clients?

YES _____ **NO** _____ If the answer is yes, ask how clients know the number and if they use that.

G. Review of Loan Files (Loan Officer and/or Branch Review)

Should review **at least 6 loan files**. When reviewing loan files, look at the amount and consistency of documentation for similar loan types. Note, different loan types will have different documentation requirements, e.g. mortgage loans require a certification of lien, consumer loans would not.

1. Name of the person(s) being interviewed.

2. How long has s/he been involved with the MFI?

3. What relevant experience does s/he have fulfilling his/her role at the financial institution?

4. *If interest is calculated based on the amount awarded, review loan application to see if nominal (flat) or effective (outstanding balance) rates have been provided. Make sure you use effective rates in your analysis.*

5. Within loan files can one find:

- | | | | |
|------------------------|-------|----------------------------|-------|
| a. Loan Application | _____ | b. Loan Approval Signature | _____ |
| c. Promissory Note | _____ | d. Loan Contract | _____ |
| e. Salary Confirmation | _____ | f. Credit Analysis | _____ |
| g. Loan Evaluation | _____ | h. Credit Scoring Output | _____ |

6. Overall, do the loan files provide adequate evidence of due diligence done on borrowers and a sound analysis of ability to repay?

7. Who is responsible for the loan files? Are there controls around loan files as to who can handle them, ability to leave the building, fireproof file cabinets, etc. Is there any system whereby a file is checked out?

8. *(Observation Only)* How organized are the filing systems? When you request loan files, are they able to readily produce them?

H. Review of Loan Files for Client Protection Principles (Loan Officer and/or Branch Review)

Look at the MFI's loan application (pages 5-7) to review which actions the MFI claims to take to uphold the Client Protection Principles and ask the appropriate questions below to test those claims. (Also see section F for client protection questions that do not relate to loans reads.)

Avoiding Client Over-indebtedness:

1. In the loan files, is there evidence that the credit underwriting process includes an evaluation of client ability to repay the loan?
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2. Credit underwriting process includes checks on client credit history and existing debt?
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3. Is there evidence in the loan files that the MFI does not rely solely on guarantees for repayment?
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Transparent Communication with Clients:

1. Do the contracts in the loan files use plain language and provide full disclosure of prices, terms and conditions?
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2. Does the amortization schedule in loan contract separate principal, interest, fees, and shows amount and due dates of installments?
-

Appropriate Collections Practices:

1. Do the loan contracts explain what the borrower should expect in case of late repayment or default?
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