

# Credit administration

Credit administration is an important element of the credit process that support and control extension and maintenance of credit. Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios. Banks should also have separate units to perform credit administration function.

## Objectives of Credit Administration

- To ensure safety of bank funds by reducing credit risk.
- To ensure proper documentation and enforceability of loan agreements.
- To monitor loan performance and detect early warning signals.
- To ensure compliance with internal policies and regulatory requirements.
- To maintain a healthy credit portfolio that balances profitability with risk.

A typical credit administration unit generally performs the following functions:

## Credit Documentation:

Credit documentation includes the information and/or verifications used to analyse and support the loan decision and any subsequent loan servicing decision. Documentation needs will vary given the loan size, risk, and complexity. Documentation must provide adequate support for the decision made.

It also ensures completeness of documentation (loan agreements, guarantees, transfer of title of collaterals, etc.) in accordance with the approved terms and conditions of credit;

The following list represents documentation guidelines for loan origination and servicing:

Loan application

For corporate loans; legal form of borrowing entity with copies of articles of incorporation or partnership

History of company and management biographies

Financial statements

Current financing sources

Security Documents and Collateral Evaluation

Personal Property and Real Estate Search Reports

Credit Bureau Report

Banking references for the borrower

**Credit Disbursement:** Ensuring that credit approval have been obtained from the competent authority and all other formalities have been completed before any loan disbursement is affected;

**Credit monitoring:** This process starts after disbursement of credit and include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments;

### **Loan Repayment:**

The obligors should be communicated ahead of time as and when the principal and/or commission income becomes due. This may be done either by providing details of the due dates and repayable amounts for both commission and principal in the facility agreement or through a separate communication to the obligor before each due date of the principal and/or commission income or by adopting both these practices. Any delinquencies involving non-payment or late payment of principal or commission should be tagged and communicated to the management. Proper records and updates should also be made after receipt of overdue amount;

**Maintenance of Credit Files:** All credit files should be properly maintained including all original correspondence with the borrower and necessary information to assess its financial health and repayment performance. The credit files should be maintained in a well-organized way so that these are easily accessible to external / internal auditors. Banks may resort to maintain electronic credit files only if permitted by relevant law(s) and subject to compliance of all relevant rules/regulations;

### **Collateral and Security Documents:**

The bank has to ensure that all collateral/security documents are kept in a secured way and under dual control. Proper record of all collateral/security documents should be maintained to keep track of their movement. Procedures should also be established to track and review relevant insurance coverage for facilities/collateral wherever required. Physical checks on collateral/security documents should also be conducted on a regular basis.

Banks should ensure that the credit administration function should be independent of business origination and credit approval process. In developing their credit administration function, banks should ensure:

- the efficiency and effectiveness of credit administration operations, including monitoring documentation, contractual requirements, legal covenants, collateral, etc.;
- the accuracy and timeliness of information provided to management information systems;
- adequate segregation of duties;
- the adequacy of controls over all “back office” procedures; and
- compliance with prescribed management policies and procedures as well as applicable laws and regulations.