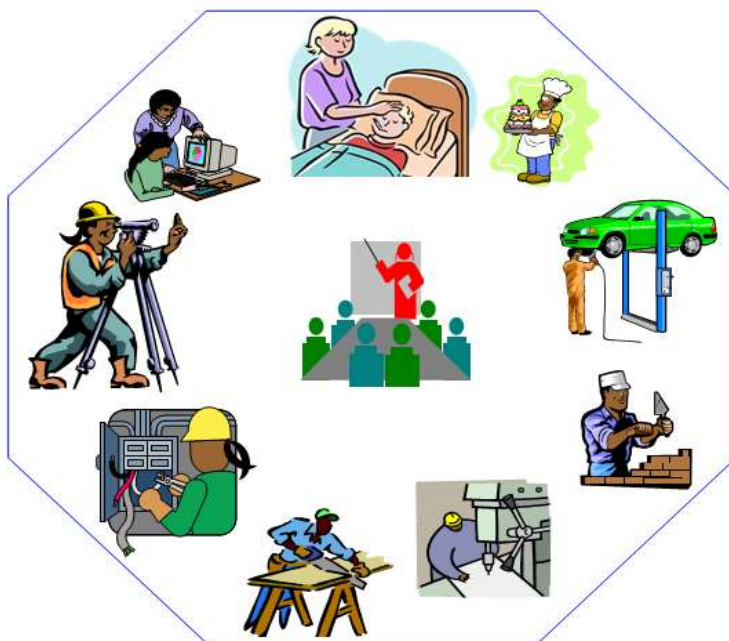


COOPERATIVE ACCOUNTING AND AUDITING LEVEL-I

**Based on January 2022, Version Occupational
standard**



Module Title: - Processing Application for Credit

LG Code: AGR CAA M1 M02 LO (1-4) LG (42-45)

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Table of Contents

Introduction to the Module	2
LO #1 Check and Verify Application Details	3
Instruction sheet	3
Information Sheet -1.....	4
Self-check 1	9
LO #2 Submit Assessment and Decision.....	10
Instruction sheet	10
Information Sheet 2.....	10
Self Check 2.....	21
LO #3 Determine Term of Loan and Interest	22
Instruction sheet	22
Information Sheet 3.....	22
LAP Test - 3	31
LO # 4 Maintain Application Records and Complete Necessary Documentation.....	32
Instruction sheet	32
Information Sheet 4.....	32
Self Check 4	40
References	42

Introduction to the Module

Dear learner, the Ethiopian TVET system is now focused on the labor market demands and industry relevance. This translates that the main objectives of the TVET system is to qualify its graduates according to the occupational requirements of the industry. In this learning guide there are four learning outcome which are broke down in to four information sheets. These are listed as follows Check and verify application details, Submit assessment and decision, Determine term of loan and interest and Maintain application records and complete necessary documentation. In this learning guide, some learning activities and self-check exercises are included to make your study clear, attractive and precise. These are very important in deepening and enhancing your understanding of the learning out comes in the module. If you skip doing those activities and exercises, your level of understanding will be limited and insufficient. As a result, you are strongly dedicated and encouraged to do it on time accordingly. Upon the completion of the module you will be able to perform the objectives listed on instruction sheet.

Learning Outcomes:

After learning this module, the trainees will be able to:

- Check and verify application details
- Submit assessment and decision,
- Determine term of loan and interest
- Maintain application records and complete necessary documentation.

This unit covers application of knowledge, skill and attitude to process Credit Application, including Check and verify application details, Submit assessment and decision, Determine term of loan and interest, and Maintain application records and complete necessary documentation.

LG #39	LO #1 Check and Verify Application Details
Instruction sheet	
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Identifying types of credit in cooperative • Gathering Information required for credit • Verifying information for accuracy and compliance <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Identify types of credit in cooperative • Gather Information required for credit • Verify information for accuracy and compliance 	
Learning Instructions:	
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 	

Information Sheet -1

1.1. Identifying types of credit in cooperative

Definition of Credit

The term of credit has many meanings in the financial world, but credit is generally defined as a contract agreement in which a borrower receives a sum of money or something of value and repays the lender at a later date, generally with interest.

Cooperatives provide health, social or educational services. Various categories of stakeholder may become members, including paid employees, beneficiaries, volunteers (up to 50% of members), financial investors and public institutions.

1.2. Gathering Information Required for Credit

Information Requirements

The information requirements for credit, identifies the information that must be received before credit will be granted, such as a credit application, personal guarantee, credit report, and audited financial statements.

The cooperative loan process starts with the borrower filling out a loan application and providing the lender with actual and projected financial information. Once the application has been received and reviewed, the lender will commence its formal review of the borrower and its financial information.

Based on its review of the borrower and its financial information, the lender will submit the borrower's loan application to its credit committee, which will then decide whether and on what terms the lender will extend credit to the borrower.

The lender's terms are usually communicated to the borrower in the form of a "commitment letter" detailing how much it will lend, what it requires as collateral for the loan and the amount of commitment fee to be paid.

Information requires may include, but not limited to:

- Audited Financial reports creditors
- Application letters

- Business plan creditors
- Loan balance of applicants
- Financial Transaction Reports manuals
- Applicant saving balance

Audited Financial Reports - The financial statements are used by investors, market analysts, and creditors to evaluate a cooperative's financial health and earnings potential to grant loan for members.

Application Letters

Loan Application means the application along with the supporting documents submitted by the borrower for the purpose of availing a finance facility from the Lender for the purpose stated in the End Use of funds letter. Loan applications must be appraised in the field as well as in the office.

To the Loan officer,

Arada Branch,

XYZ Co-operative Bank.

Dear Sir,

I am a member in good standing of the SMART Co-operative Society. I have heard that the Co-operative Bank will grant loans for agricultural development purposes. I have recently bought some land near Adama Town and wish to establish a poultry farm. I therefore wish to apply for a loan of 20,000 birr for this purpose and can offer securities for this amount.

Business Plan of Creditors

- The key item your lenders and investors will look at because it spells out your business.

Loan Balance of Applicants

- Loan application is written when the applicant wants to seek monetary assistance in the form of loan mostly on a mortgage of property. Since it is a request, the letter should be written in a polite tone.

Financial Transaction Reports manuals

Applicant Savings Balance

In cooperatives, the applicant savings balance is the amount of money that is available on each member ledger. Each member account balance is the net amount available after all deposits and credits have been balanced with any charges or debits.

All requested information below must be submitted before an application will be reviewed by the committee.

1. Current business plan with three-year operating projection.
2. Current By-Laws of the cooperative.
3. List of Board of Directors and current membership.
4. Members must be the citizens, or permanent residents.
5. Cooperative must reside in the state.
6. Emerging enterprise is given priority.
7. Adequate financial records for past three years.
8. Repayment ability.
9. Credit worthiness.
10. Legal capacity to carry out loan obligation.
11. Reasonable security to support loan (100%) must be free and clear of lien, and a lien search must be provided.
 - a) If land is used, please provide legal description and copy of deeds and value of property.
 - b) If equipment is used, please provide the following: Proof of Ownership, Quantity, Kind, Manufacturer, Size and Type, Condition, Year of Manufacturer and Serial Number, and value.
12. No crop production applications will be accepted past the optimum planting date.
13. No livestock production applications will be accepted past the optimum gestation period.
14. Cooperative Members with past due accounts will not be considered for additional funding unless special arrangement have been made in writing prior to applying for the loan.

Relevant legislative requirements may include, but not limited to:

- Relevant Investments laws
- Financial Institutions Code of conduct
- Personal Property Securities laws
- Proclamation of cooperatives
- By law of cooperative society

Relevant Investments Laws - Law of investment, in general, is a branch of a law consisting of set of rules that regulate investment. Investment law may be either international law on foreign investment or national law.

Financial Institutions Code of Conduct - The Code shall apply to all the employees of the Financial Institution, provided that the board of directors of the institution shall adopt a policy of ethics and professional conduct in accordance with the Code, relevant laws and instructions issued by competent authorities. The Code defines the minimum ethical conduct.

Personal Property Securities Laws - The Personal Property Securities (PPS) register provides a single online place for people around Ethiopia to:

- register their security interests in personal property to protect those interests
- search to see if personal property is covered by a security interest that may mean, for example, it can be repossessed.

Proclamation Of Cooperatives: Whereas, it has become essential to establish and manage cooperative societies for those persons with common interest by bringing together their finance, knowledge, resources and labour voluntarily to meet their common economic, social and cultural needs and other aspiration which would then allow mutual support and create savings.

By Law of Cooperative Society - The by-laws contain the rules and regulations governing the operation of the cooperative.

Process of Credit Applications

The following performance criteria must be followed for processing applications from cooperatives for credit facilities.

1. Identify the member's needs and provide credit facilities.
2. Clearly explain the features and conditions of credit facilities to the member.
3. The member should submit the application, and the requisition must be approved by the cooperative.
4. Promptly refer to difficulties in processing applications.
5. Once approved, the requisitions go to the loan officer for authorization procedures

1.3. Verifying Information for Accuracy and Compliance

Checking credit is an important step before issuing credit. It allows you to make an informed decision about the level of risk associated with extending credit to the customer. Before retail firms extend credit to a customer, it is an important step to check a customer's credit history. Before offering credit, the retailers get a credit application form filled in and signed by the member.

The information to be collected from the members or credit check is as follows:

- **Release of information:** In order for the retailer to do a complete credit check on a customer, they will need the customer's permission.
- **Signature:** A signature on the credit application form means that the customer has read and understood all the terms and conditions listed and also agrees with them.
- **Address:** Having the correct address will assure that a credit check pulls up the right information.
- **Employment:** Accurate employment information of the customer allows the retailers to take a look into the customer's employment history to see how long he or she was at each job.

Self-check 1	Written test
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Name.....ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (4 points)

- Which one of the following information is not collected for accuracy and compliance?
 - Release of information
 - Signature
 - Address
 - All of the above
- Which one of the following service credit Cooperative provide to its members?
 - Health
 - social
 - educational
 - All of the above
- What information is requested and must be submitted before a loan application will be reviewed by the committee?
 - Current business plan with three-year operating projection.
 - Current By-Laws of the cooperative.
 - List of Board of Directors and current membership.
 - Members must be the citizens, or permanent residents.
 - All of the above

Test II: Short Answer Questions (4 points)

- Write all the criteria that must be followed for processing applications from cooperatives for credit facilities.

LG #40	LO #2 Submit Assessment and Decision
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<p>Instruction sheet</p> <p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Conducting credit assessment and credit policy • Forming credit decision • Referring Decisions to advance funds or extend credit • Deciding to accept or reject credit application • Recommending to accept or reject applications to provide credit <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Conduct credit assessment and credit policy • Form credit decision • Refer Decisions to advance funds or extend credit • Decide to accept or reject credit application • Recommend to accept or reject applications to provide credit <p>Learning Instructions:</p> <ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks
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Information Sheet 2

2.1. Conducting Credit Assessment and Credit Policy

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In order to carry out a reliable and accurate creditworthiness assessment, institutions and creditors should design relevant documentation regarding credit decisions and loan agreements in a way that helps identify and prevent a misrepresentation of the information by the borrower, credit intermediary or staff members of the institution that is involved with the assessment of the application.

Credit assessment May be included but not limited to:

- Ability to pay
- Historical background of creditors
- Availability of saving
- Registration of property securities
- Designated approval staff/Committee
- Lending unit

Ability to Pay

The ability to repay refers to an individual's financial capacity to make good on a debt.

Historical Background of Creditors

It's a record of your credit activity, including whether you pay your bills, how many credit cards you have, what types of credit you use and how much debt you carry. Lenders use your credit history to determine whether to approve you for a loan or a credit card.

Availability of Saving

Saving is the portion of income not spent on current expenditures. In other words, it is the money set aside for future use and not spent immediately.

Registration of Property Securities

Registering your security interests on the Personal Property Securities Register (PPSR) improves your chances of recovering what's yours, should a customer default.

Designated Approval Staff/Committee

Staff Committee means a committee of at least three City employees designated by the Director, at least one of whom shall be a person with appropriate professional qualifications.

Lending unit

Lending (also known as "financing") occurs when someone allows another person to borrow something. Money, property, or another asset is given by the lender to the borrower, with the expectation that the borrower will either return the asset or repay the lender.

• Credit Policy

Definition of Credit Policy

A credit policy contains guidelines that structure the amount of credit granted to customers, as well as how collections are to be conducted for delinquent accounts. The policy is an essential element of the finances of a business, since it impacts the amount of working capital required to support accounts receivable, and also influences the amount of bad debt losses. A credit policy typically addresses the topics noted below.

Credit policy includes reference to:

- Bay laws of cooperatives
- Rules and regulations of cooperatives
- National Bank of Ethiopia (NBE) Credit directives requirements
- Company's / cooperatives credit guide lines

Bay Laws of Cooperatives:

The by-laws of a proposed society shall contain provision in respect of the following matters — the name of the society

- a. The registered address of the society
- b. The objects for which the society was established
- c. the purposes to which the funds may be applied
- d. The qualifications for membership, the terms of admission of members, and the mode of election.
- e. The nature and extent of the liability of members;

- f. the manner of raising funds, including the maximum rate of interest on deposits;
- g. The total number of members of the committee;

The quorum of the committee; and such other matters relating to the operation and purposes of the society as the Registrar may approve.

Rules and Regulations of Cooperatives: Cooperative acts shape the cooperative enterprise and regulate the rules. They are in the control of a democratic rule with elected members.

National Bank of Ethiopia (NBE) Credit Directives Requirements: the National Bank of Ethiopia shall approve repayment of external loan provided that the repayment request is as per the condition mentioned in Article 5 of these directives.

Companies / Cooperatives Credit Guidelines: The “Guidelines for Cooperative Legislation” are a rewrite of the “Framework for Cooperative Legislation” of which a revised version was presented to and endorsed by the International Co-operative Alliance (ICA) General Assembly 2001 in Seoul. The basic features of this revised version remain unchanged.

2.2. Forming Credit Decision

2.2.1. Making Credit Decisions

Overview

The basic objective in making credit decisions is to find ways to approve an order with reasonable expectation that the customer will pay in accordance with established credit terms. A decision to grant or not to grant credit affects sales revenue, profit, production and procurement. If the customer is a good credit risk, the order may be approved as submitted.

Otherwise, alternatives should be developed that are acceptable to the credit department and the sales department—and still meet the customer’s needs. It is desirable to establish routine procedures for making most credit decisions.

Credit approval, through the use of order limits or overall credit limits, can streamline the workload in the credit department. The goal is to approve credit with minimum delay, provide customers with prompt service and control administrative costs. If routine orders can be processed quickly and efficiently, the credit professional has additional time to devote to more demanding credit matters. This chapter discusses approaches and decision factors associated with making credit decisions with speed, accuracy and efficiency.

2.2.2. Credit Analysis Process

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The credit analysis process refers to evaluating a borrower's loan application to determine the financial health of an entity and its ability to generate sufficient cash flows to service the debt. In simple terms, a lender conducts credit analysis on potential borrowers to determine their creditworthiness and the level of credit risk associated with extending credit to them.

Stages in the Credit Analysis Process

The credit analysis process is a lengthy one, lasting from a few weeks to months. It starts from the information-collection stage up to the decision-making stage when the lender decides whether to approve the loan application and, if approved, how much credit to extend to the borrower.

The following are the key stages in the credit analysis process:

1. Information collection

The first stage in the credit analysis process is to collect information about the applicant's credit history. Specifically, the lender is interested in the past repayment record of the customer, organizational reputation, financial solvency, as well as their transaction records with the bank and other financial institutions. The lender may also assess the ability of the borrower to generate additional cash flows for the entity by looking at how effectively they utilized past credit to grow its core business activities.

The lender also collects information about the purpose of the loan and its feasibility. The lender is interested in knowing if the project to be funded is viable and its potential to generate sufficient cash flows. The credit analyst assigned to the borrower is required to determine the adequacy of the loan amount to implement the project to completion and the existence of a good plan to undertake the project successfully.

The bank also collects information about the collateral of the loan, which acts as security for the loan in the event that the borrower defaults on its debt obligations. Usually, lenders prefer getting the loan repaid from the proceeds of the project that is being funded and only use the security as a fall back in the event that the borrower defaults.

Information Requirements

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The information requirements for credit, identifies the information that must be received before credit will be granted, such as a credit application, personal guarantee, credit report, and audited financial statements.

3. Information analysis

The information collected in the first stage is analyzed to determine if the information is accurate and truthful. Personal and corporate documents, such as the passport, corporate charter, trade licenses, corporate resolutions, agreements with customers and suppliers, and other legal documents are scrutinized to determine if they are accurate and genuine.

The credit analyst also evaluates the financial statements, such as the income statement, balance sheet, cash flow statement, and other related documents to assess the financial ability of the borrower. The bank also considers the experience and qualifications of the borrower in the project to determine their competence in implementing the project successfully.

Another aspect that the lender considers is the effectiveness of the project. The lender analyzes the purpose and future prospects of the project being funded. The lender is interested in knowing if the project is viable enough to produce adequate cash flows to service the debt and pay operating expenses of the business. A profitable project will easily secure credit facilities from the lender.

On the downside, if a project is facing stiff competition from other entities or is on a decline, the cooperative may be reluctant to extend credit due to the high probability of incurring losses in the event of default. However, if the cooperative is satisfied that the borrower's level of risk is acceptable, it can extend credit at a high interest rate to compensate for the high risk of default.

2.3. Referring Decisions to Advance Funds or Extend Credit

2.3.1. Definition of Advance Funding

Advance funding is any advance made on a future commitment or payment. The term advance funding is used very broadly and can involve a wide assortment of financial scenarios ranging from personal or project loans, future contractual payments like annuities or royalties and government appropriations.

Advance funding can take a variety of different forms. Some examples of advance funding are: payday loans, and lawsuit settlement advances. Usually, advance funding would involve an assignment of the contract or series of payments due in the future, or waiver of the amount of

those payments sufficient to repay the advance. In most cases, the advance funding will be discounted for some imputed amount of interest.

1.3.2. Extending credit

Extending credit to members can bring you increased sales, a competitive edge, and stronger customer relationships. However, you run the risk of not getting paid. The key is to stay on top of unpaid invoices so they don't become delinquent.

Extending credit to members allows them to purchase goods and services and pay for them later on. Offering credit is often a win-win for both merchants and buyers and having a formal credit policy is among the most important best practices for managing accounts receivable. Customers have more purchasing power and tend to buy more if they aren't limited to the cash they have at the time of the sale. Extending credit can benefit cooperatives by establishing trust with your members and increasing customer loyalty.

To establish an effective credit policy, it's important to communicate your credit terms clearly and do your due diligence in terms of only lending to credible members. Invoice factoring might be used in conjunction with customer credit to facilitate cash flow.

Security May include, but not limited to:

- Application may be for an unsecured or secured loan
- Goods mortgage
- Real property mortgage
- Third party security:
- co-borrower
- guarantor
- Personal Property Securities laws requirements.

Application May Be For an Unsecured or Secured Loan

- With a secured loan, you give the lender the right to seize the asset you use as collateral should you fail to repay the loan. With an unsecured loan, no assets are required — though you'll still face credit implications if you default on your loan payments.

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- Unsecured loans are the reverse of secured loans.

Goods Mortgage: Mortgage indemnity is insurance which your lender may take out for its protection in case, at some future stage, you fall significantly behind with your mortgage payments and your lender has to repossess your property and sell it.

Real Property Mortgage: Real Property Mortgage means a mortgage, deed of trust, security deed or other security document granting a Lien on any Mortgaged Property to the Collateral Agent for the benefit of the Secured Parties to secure the Obligations, in each case, as amended, supplemented or otherwise modified from time to time.

Third Party Security: Third-party security protects an organization from the risk associated with third-party vendors. Companies have traditionally spent time and money securing their perimeter and on-premise systems but have given little focus to the security practices at their vendors.

Co-borrower: A co-borrower, sometimes called a co-applicant, is a person who shares liability for repaying a loan with another person.

Guarantor: A guarantor is a responsible party (which is a parent in most instances) that signs on to the lease and agrees to “take on,” or assume, the obligations set forth under the lease, most notably the payment of rent.

Personal Property Securities Laws Requirements: Personal Property Securities Laws - The Personal Property Securities (PPS) register provides a single online place for people around Ethiopia to:

- register their security interests in personal property to protect those interests
- search to see if personal property is covered by a security interest that may mean, for example, it can be repossessed

2.4. Deciding to Accept or Reject Credit Application

When you apply for credit, the lender will review the Five C’s to decide whether you are a good credit risk (whether you are likely to pay back the loan on time).

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- **Capacity** – Ability to repay the loan
- **Capital/Cash** – Personal money that you have or have invested in the business
- **Collateral** – Assets you are willing to use as repayment in case you cannot repay the loan
- **Conditions (loan)** – What is the money going to be used for? What are the overall economic conditions?
- **Character** – The general impression you make on the lender

Five Common Reasons Why Loan Application May Be Rejected

Bad Credit History Leading to Loan Rejection

Credit history is a report of all the previous loans an applicant has taken in the past. It also takes into account; an analysis of how the loan was repaid. Now, one of the foremost things a lender does is to make reference to your credit history. Undergoing this task provides the lender with information on the number of loans you have before they proceed with issuing another.

Awareness of your credit score prior to applying for a loan will inform you if you have poor or no credit at all. If so, you can be certain that your loan application will be denied because you are too much of a risk.

Limited or Insufficient Collateral

Lenders as banks or financial technology companies are typically not willing to risk lending money to businesses without some sort of reimbursement. Should you decide to loan from a bank, there is every tendency to request a physical property or an equivalent that they can hold on to if a loan is not repaid?

What should you do in this light? You should create a collateral document that lists everything you can put up as collateral. You can include both business and personal assets since the former may not have the equipment to offer as collateral. Following this, you may have to offer your home or car as collateral.

Loan Rejection Due to Over-Indebtedness

An applicant's salary, account balance or statement of account does not automatically justify the approval of a loan. Rejection or denial of loan might be due to outstanding loans on the part of the applicant. That's right:

A lender is able to ascertain when an applicant has a number of loans running concurrently. This is a risk-management decision for the lender and they may not be willing to take chances. Actually, it's a no-no.

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Low Income/Profits

Like we have established earlier, lending platforms are in the business of giving out loans such that they can make returns for themselves. Judging by your application, it is possible to discover that your business may not possess the potential to repay them. In this light, an application may be denied. This, however, is not to encourage the adoption of pseudo proposals for your business. No, you do not want to try that.

The simple message is: If you apply for loans that are considered too large for you or your business' capacity, the proposal may be declined.

Weak Business Plan or Proposal

Investors will not probably consider your loan application if you present a shallow business proposition. To ensure the approval of your loan sequel to submission, here is a simple rule of thumb: Do justice to the thoroughness and explicitness of your business plan.

This paints the picture to your prospective investors that you have conducted research, or that you know your target customers. What's more, is that it demonstrates you have a clear mission statement with goals in mind, and contains a calculated estimate of sales and profit projections.

2.5. Recommending Accepting or Rejecting Applications to Provide Credit

- **Approval or rejection of the loan application**

The final stage in the credit analysis process is the decision-making stage. After obtaining and analyzing the appropriate financial data from the borrower, the lender makes a decision on whether the assessed level of risk is acceptable or not.

If the credit analyst assigned to the specific borrower is convinced that the assessed level of risk is acceptable and that the lender will not face any challenge servicing the credit, they will submit a recommendation report to the credit committee on the findings of the review and the final decision.

However, if the credit analyst finds that the borrower's level of risk is too high for the lender to accommodate, they are required to write a report to the credit committee detailing the findings on the borrower's creditworthiness.

The committee or other appropriate approval body reserves the final decision on whether to approve or reject the loan.

Self Check 2	Written Test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (2 points)

- Credit assessment may be made by:
 - Designated approval staff/Committee
 - The interviewer
 - A central lending unit
 - All of the above
- An applicant's _____ does not automatically justify the approval of a loan.
 - Salary
 - account balance
 - statement of account
 - All of the above
- Extending credit to members **can not** bring which one of the following for the cooperative?
 - increased sales
 - a competitive edge
 - stronger customer relationships
 - None of the above

Test II: Short Answer Questions (17 points)

- What are the Five C's the lender will review to decide whether you are a good credit risk (whether you are likely to pay back the loan on time)?
- List down five common reasons why loan application may be rejected.

LG #41	LO #3 Determine Term of Loan and Interest
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Instruction sheet	
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> Identifying short-, medium- and long-term loan Approving interest rates Performing Loan repayments schedule and interest <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> Identify short-, medium- and long-term loan Approved interest rates Perform Loan repayments schedule and interest 	
Learning Instructions:	
<ol style="list-style-type: none"> Read the specific objectives of this Learning Guide. Follow the instructions described below. Read the information written in the information Sheets Accomplish the Self-checks Operation Sheet Do the “LAP test” 	

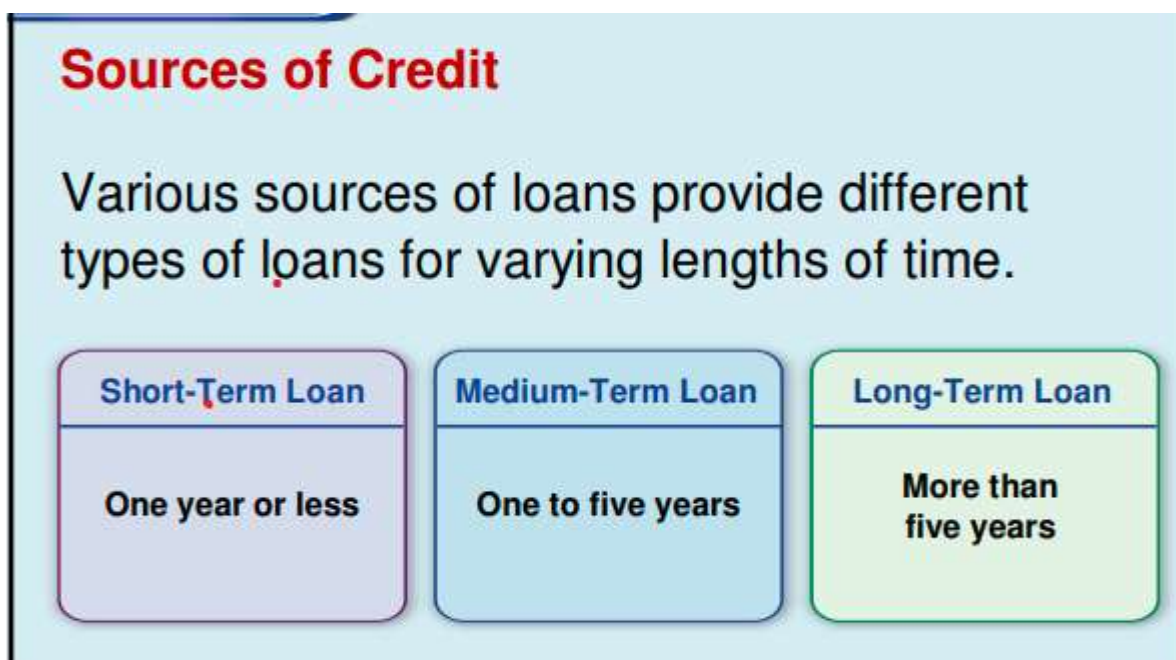
Information Sheet 3

3.1 Determining Short-, Medium- and Long-Term Loan

- Classification of Credit Term – Loan can be classified as**

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- I. **Short-Term Loan:** mean loans or advances with repayment or maturity period of 1 (one) year or less. There are many different types of short-term loan, the most common of which are :
 - “Buy Now, Pay Later,”
 - “Unsecured Personal Loans and
 - Payday Loans.”
- II. **Medium-Term Loan:** loans or advances with repayment or maturity period of more than 1 (one) year but less than or equal to 5 (five) years.
- III. **Long-Term Loan:** loans or advances with repayment or maturity period of more than 5 (five) years.



3.2 Obtaining Approved Interest Rates

Several Co operative banks provide competitive interest rates on Fixed Deposits. Interest rates from various banks range from 5.40 percent per annum to 6.25 percent per annum for normal people.

The regulations ask cooperatives to maintain the spread rate at a maximum of 6 percent. This is the difference between the interest rate cooperatives charge borrowers and the interest rate they pay depositors. According to the law, cooperatives need to fix the base interest rate by taking the

average of the base rate of commercial banks, cooperative banks and cooperative associations and obtaining approval from the central bank or the Ministry of Finance.

The government moved to impose an interest rate cap after many cooperatives got into trouble due to lack of a mechanism to control interest rates.

Influencing Factors

Cost of funds, competition, need for surplus or breakeven, availability or subsidy, profitability of borrowers' projects.

3.3 Performing Loan Repayments Schedule and Interest Amount

Loan repayments schedule May include but not limited to;

- Amortization method
- Decline method
- Instalment method

Amortization Method: The declining-balance method is an accelerated method of amortization where the periodic interest payment declines, but the principal repayment increases with the age of the loan.

Decline Method: The declining-balance method is an accelerated method of amortization where the periodic interest payment declines, but the principal repayment increases with the age of the loan.

Instalment Method: An installment loan provides a borrower with a fixed amount of money that must be repaid with regularly scheduled payments. Each payment on an installment debt includes repayment of a portion of the principal amount borrowed and also the payment of interest on the debt.

Interest may include but not limited to;

- Simple interest
- Compound interest
- Annuity

Simple interest is a quick and easy method of calculating the interest charge on a loan. Simple interest is determined by multiplying the daily interest rate by the principal by the number of days that elapse between payments.

Where, I Interest (in birr or dollars)

p = principal (in birr or dollars)

r = rate of interest per period (assumed to yearly)

t = time period i(n year)

Example: if 4000 birr is borrowed for two years at an annual interest rate of 9%, how much interest will be received at the end of the 2 years period?

Solution:

Given p = 4000 birr

r = 9% = 0.09

t = 2 years

Required: simple interest (I) = ?

$I = prt = 4000 \text{ birr} \times 0.09 \times 2$

= **720 birr**

- **Compound Interest**

Compound interest or 'interest on interest'.

The formula for compound interest is

$A = P (1 + r/n)^{nt}$,

Where:

A = the future value of the investment/loan, including interest

P = the principal investment amount (the initial deposit or loan amount)

r = the annual interest rate (decimal)

n = the number of times that interest is compounded per unit t

t = the time the money is invested or borrowed for

Example: if an amount of 5,000 birr is deposited into a savings account at an annual interest rate of 5%, compounded monthly, the value of the investment after 10 years can be calculated as follows.

$P = 5000$.

$r = 5/100 = 0.05$ (decimal).

$n = 12$.

$t = 10$. If we plug those figures into the formula, we get the following:

$$A = 5000 (1 + 0.05 / 12)^{(12 * 10)} = 8235.05.$$

So, the investment balance after 10 years is **8,235.05birr**

Self Check 3	Written Test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (2 points)

- Which one of the following is an example of source of loan?
 - short term loan
 - Medium term loan
 - Long term loan
 - All of the above
- Interest may include:
 - Simple interest
 - Compound interest
 - Annuity
 - All of the above
- Interest on interest refers to _____.
 - Simple interest
 - Compound interest
 - Both A and B
 - Neither A nor B

Test II: Short Answer Question (7 points)

- Write down the three most common types of short-term loan,

26 Page	Author/Copyright: Ministry of Labor and Skills	Cooperative Accounting and Auditing Level I	Version 1 September , 2022
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2. What is an installment loan?
3. How simple interest is determined?

Operation Sheet 3	Loan Amortization Schedules
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When loan is amortized, part of each payment is interest on the balance outstanding, and the remainder is used to reduce the balance outstanding. The largest interest charge occurs at the first payment, because interest due on the entire principal and of course the smallest reduction of principal occurs at the time of the first payment.

Step 1: Determine the payment value. First we calculate the value of the payments using known methods, such as the formula for a general ordinary annuity:

$$PV = PMT \left[\frac{1 - (1+i)^{-n}}{i} \right]$$

Or, we can use a financial calculator to compute the payment: Enter the known information as follows:

Enter the known information as follows:

Present Value (PV) = 10000 birr

Compound per year = 2

Interest per year = 6%

Future Value (FV) = 0

N = 2 x 3 = 6 times

Compute the payment.

CPT PMT = **1845.975005**

The answer is rounded to the nearest cent. PMT = birr **1,845.98**

Step 2: Construct the columns and rows of an amortization schedule with the known information. See table below.

Table 3.1 **Loan Amortization Schedules**

Payment Number	Payment Amount	Interest Paid	Principal Paid	Remaining Principal
0	0	0	0	Birr 10,000
1	1, 845.98			
2	1, 845.98			
3	1, 845.98			
4	1, 845.98			
5	1, 845.98			
6	1, 845.98			
Total				

Step 3: Calculate the missing information in each row using the steps below.

Step 3a: Calculate the interest component of the payment (Interest Paid) by multiplying the periodic interest by the remaining principal (from the previous row).

$$\text{Interest Paid} = i * \text{Remaining Principal}$$

$$0.03 * \text{birr } 10,000 = \text{birr } 300$$

Step 3b: Calculate the Principal Paid by subtracting the Interest Paid from the Payment Amount.

$$\text{Principal Repaid} = \text{Payment Amount} - \text{Interest Paid}$$

$$\text{Birr } 1,845.98 - \text{birr } 300 = \text{birr } 1545.98$$

Step 3c: Subtract the Principal Paid from the Remaining Principal (in the previous row).

$$\text{Remaining Principal} = \text{Remaining Principal (from the previous row)} - \text{Principal Paid}$$

$$\text{Birr } 10,000 - \text{birr } 1545.98 = \text{birr } 8454.02$$

Table 3.2 **Loan Amortization Schedules with solution**

Payment Number	Payment Amount	Interest Paid	Principal Paid	Remaining Principal
0	0	0	0	Birr 10,000
1	1, 845.98	300	1545.98	8454.02
2	1, 845.98	253.62	1592.36	6861.66
3	1, 845.98	205.85	1640.13	5221.53
4	1, 845.98	156.65	1689.33	3532.20
5	1, 845.98	105.97	1740.01	1792.19
6	1, 845.98	53.77	1792.21	-0.02
Total				

Step 4: Adjust the last payment.

It often happens that the remaining principal is not exactly 0 after the last payment. This is because rounding to the nearest penny after each step loses some precision in the answer. To account for this, the Payment Amount and the Principle Paid columns are adjusted to the appropriate amount to make the final balance (Remaining Principal) zero.

In our example, the following changes are made in the last payment row:

6	1, 845.98	53.77	1792.21	0
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Step 5: Sum the totals for Payment Amount, Interest Paid and Principal Paid.

Table 3.3. Sum the totals for Payment Amount, Interest Paid and Principal Paid.

Payment Number	Payment Amount	Interest Paid	Principal Paid	Remaining Principal
0	0	0	0	Birr 10,000
1	1, 845.98	300	1545.98	8454.02
.
.	.	.	.	
6	<u>1, 845.98</u>	<u>53.77</u>	<u>1792.21</u>	0
Total	<u>11075.86</u>	<u>1075.86</u>	<u>10,000</u>	

LAP Test - 3	Performance Test
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Name.....ID..... Date.....

Time started: _____ Time finished: _____

Instructions:

Given necessary templates, tools and materials you are required to perform the following tasks within 1 hour. The project is expected from each student to do it.

Task 1. A debt of 100,000 birr is amortized by making equal payments at the end of every six months for 5 years, and interest is 9% compounded semi-annually.

Required: Prepare loan amortization Schedule

LG #45	LO # 4 Maintain Application Records and Complete Necessary Documentation
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Instruction sheet	
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Maintaining and updating Recording system • Monitoring and recording File and record movements • Producing credit documentation for credit <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Maintain and update Recording system • Monitor and record File and record movements • Produce credit documentation for credit 	
Learning Instructions:	
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 	

Information Sheet 4

4.1. Maintain and Update Recording System

Records Creation

32 Page	Author/Copyright: Ministry of Labor and Skills	Cooperative Accounting and Auditing Level I	Version 1 September , 2022
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Records creation is the first stage of the records lifecycle. The objectives of this stage are to create complete and accurate records that provide adequate information to document the organization, functions, policies, decisions, procedures, and essential transactions of the agency and that are designed to furnish the information necessary to protect the legal and financial rights of the Government and of persons directly affected by the Department's activities.

- ***Updating Ledgers of the cooperative members as needed***

Organization policy and procedures may include information in regard to:

- Administrative and clerical systems
- Coding systems
- Lender requiring or not requiring mortgage indemnity insurance
- Product and account and service range
- Range of responsibility

Administrative And Clerical Systems - In a clerical job, you get on-the-job training to ensure that you can perform your tasks correctly and efficiently, but most of your work is repetitive. Administrative positions require some education and training in preparation for more complex tasks and a higher level of responsibility.

Coding Systems: In information processing: Acquisition and recording of information in digital form. ...of binary digits are called coding systems, the counterpart of writing systems. A combination of three binary digits can represent up to eight such characters; one comprising four digits, up to 16 characters; and so on.

Lender requiring or Not Requiring Mortgage Indemnity Insurance: Mortgage indemnity is insurance which your lender may take out for its protection in case, at some future stage, you fall significantly behind with your mortgage payments and your lender has to repossess your property and sell it.

Product and Account and Service Range: A product range refers to variations of a single product that are made in order to create similar yet distinctly different products.

Range of responsibility: These increases, which were agreed by the then prime minister, reflected changes to the scope and range of responsibility in the roles of a number of special advisers following their reappointment after the general election".

4.2. Monitoring and Recording File and Record Movements

4.2.1. The Loan File

The loan file is where it all begins. Depending on whether or not you are the loan processor of a larger company or both the loan officer and loan processor of a smaller office, the work of the loan processor starts here with this file (well folder). The loan file will contain--you guessed it--the loan application.

In addition, it will include comments made by anyone who has had their input in the loan application process as well as any notes about the potential borrower that was made during the loan interview process. Read through the application, comments, notes, and overall loan request. You should make sure that you understand the loan in its entirety before moving forward. If you have any questions about the loan you need to clarify these issues with the Loan Officer *before* moving forward

After you have reviewed the information and have a clear picture of the loan and why the applicant is requesting it, you'll enter this information into your company's loan processing computer system. There are many programs out there that your employer will use; many of them are a combination of home-grown software packages.

However, the reason this information needs to be fully entered into the computer system is because fulfilling all the requirements of a successful loan is tedious and deadline specific. The loan processing software you use will keep you on track for the next steps that need to be completed as well as their related deadlines. Once this information has been fully entered into the computer system, you can now proceed to the next step.

4.2.2. File Movement Manual

A file movement manual assists in managing the movement of files, specifically:

- Where a file is located.
- Who is in possession of a file?
- An effective file management system supports the:
- Accountability of files for security purposes.

- Overall integrity of the filing system.

Systems for monitoring and recording the movement of files vary between legal offices. In most cases the type of system a legal office uses will depend upon the size of the firm. Larger legal offices, for instance, would usually tend to have more formalized and complex systems for recording the movement of files, whilst smaller firms may prefer to use more simplified and informal systems.

A formalized system of file movement would generally make use of one or a combination of the following file recording devices:

- File registers
- Outcards
- Electronic software
- Calendars and diaries

These will now be explained in more detail.

File Registers

At various times, legal practitioners may need to temporarily consult a file that has been placed in long term storage, such as archived files or Deeds. When this occurs the movement of the required file from storage back into active use will need to be registered. In most legal offices, file registers are used to do this. A file register is a book or an electronic device used to record the movement of a file as it moves from storage back into active use and back into storage again.

A file register may record:

- The date the file was put into storage
- Where the file is located
 - When the file can be destroyed
 - The date the file was opened
 - the date the file was taken from storage
 - The date it is expected to be returned
 - Who requested the file

G. Who retrieved the file

H. Who currently is in possession of the file.

Below is an example of a file register:

Date Borrowed	File Name	File Number	Requested by	Received by	Expected Date of	Date of Return
17/12/2022	Audit Report	1325	Hana Girma	Hana Girma	17/12/2022	17/12/2022
18/12/2022	Sale of Property	1335	Meron Abebe	Meron Abebe	19/12/2022	19/12/2022
27/12/2022	Purchase of Property	1223	Leta Tulu	Leta Tulu	28/12/2022	29/12/2022

The most common types of file registers in a legal office are the Deed and archive registers. The Deed and archive registers would, in most offices, resemble the example above. However, unlike archive registers, Deed registers may be accessed by clients

Outcards

Outcards are another way of tracking document movement. An outcard is a card that records the movement of a file from storage. Outcards are usually placed inside the file index. When placed in the file index, outcards are placed in the same position as the index card for the file. After a file is returned to storage, the outcard registering the movement of the file is taken from the file index and disposed of. Outcards would usually record the same information as the file registry. Therefore, in filling out an outcard you would be expected to record the date the file was taken from storage, the date it is expected to be returned, who requested the file, and who retrieved it .

Electronic software

In some legal offices file movement is recorded electronically. Files might be tracked electronically via the use of a computer based file register or as part of an integrated file management system. When file movement is recorded electronically the person taking a file from storage is electronically registered as being in possession of the file. More advanced computer systems are also capable of generating reminder notices for overdue files. These notices appear on the personal computer of the person in possession of the file. Electronically based registries normally require the same information as a paper based registries and outcards. Thus, in using an electronically based registry to record file movement, an entry on a computer

should be made detailing the date the file was taken from storage, the date it is expected to be returned, who requested the file, and who retrieved it.

Calenders and diaries

Calenders and diaries may also be used to register file movement. Registering the issue date and the expected date of return of files on a calendar or in a diary may help Legal Administration staff see which files are currently in use and which are overdue. Legal Administration staff may then send reminders to people in possession of overdue files. Reminders may be sent verbally, electronically, or via a return slip. At times, a legal practitioner with an overdue file may want to re-negotiate a time for the return of the file. If this is the case, the agreed new date of return should be recorded in the file registry or any other system used to track files.

Small Legal Firms

In smaller legal firms, the system of file movement is more likely to be informal. The system could be as informal as asking who in the office has a particular file. It is important to note that whatever system your office uses to record file movement, the effectiveness of any recording and tracking system is reliant upon the accuracy of record keeping. Therefore, it is imperative that all information is filled out thoroughly and accurately. Misplaced files At times files are misplaced and you may need to search the office to find a file. If a file has been misplaced you should:

- Look in the file index under similar file names
- Examine the file register or outcards for information regarding the last recorded borrower.
- Check the filing cabinet either side of the file you are looking for.

Document movement Legal practitioners regularly send documents outside of the office with the expectation of their return. For example, a legal practitioner may send a contract to a client to be signed. After execution, the client would return the document to the legal practitioner.

Through this process, a Legal Administration Assistant would track the contract as it moved from the legal practitioner to the client and from the client back to the legal practitioner.

The movement of documents in and out of a legal office needs to be carefully monitored as document delays may undermine the progress of a case. Therefore, legal practitioners encourage the Legal Administration staff to carefully monitor document movement and inform them of key

developments. Legal Administration staff usually record the date documents are despatched and the date they are expected to be returned in electronic diaries, paper based diaries and/or calenders. These devices greatly assist Legal Administration Assistants to monitor document movement

4.3. Producing Credit Documentation for Credit

Credit Documents mean the agreements, instruments, certificates or other documents at any time evidencing or otherwise relating to, governing or executed in connection with or as security for, a Loan, including without limitation notes, bonds, loan agreements, letter of credit applications, lease financing contracts, banker's acceptances, drafts, interest protection agreements, currency exchange agreements, repurchase agreements, reverse repurchase agreements, guarantees, deeds of trust, mortgages, assignments, security agreements, pledges, subordination or priority agreements, lien priority agreements, undertakings, security instruments, certificates, documents, legal opinions, participation agreements and inter creditor agreements, and all amendments, modifications, renewals, extensions, rearrangements, and substitutions with respect to any of the foregoing.

Loan documents are documents provided and requested by lenders for the purpose of providing a loan. They are typically statements of personal and financial information of the borrower to approve a loan. These documents are used by the lenders to evaluate whether or not they will provide you with a loan. Loan documents are necessary to initiate a loan approval process by a lender. A financial institution's ability to collect on a loan can depend on the accuracy and completeness of the loan documents.

Documentation May include, but not limited to:

- Approval of offer documents
- Disclosure and associated documents
- Loan schedule
- Security documents

Approval of Offer Documents - An offer document is a written document issued by a company for the shareholders of another company that explains why it wishes to purchase shares in their company and describes all the details related to its offers.

Disclosure and Associated Documents - A disclosure document is the broad term used to describe all regulated fundraising documents for the issue of securities.

Loan Schedule - Find a loan officer. The amortization schedule is a record of your loan payments that shows the principal amounts and the interest included in each payment. The schedule shows all payments until the end of the loan term.

Security Documents - The term “security documents” refers to documents that incorporate specific elements intended to make them more difficult to counterfeit, falsify, alter or otherwise tamper with.

Self Check 4	Written Test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (4 points)

- A file movement manual assists in managing the movement of files, specifically:
 - Where a file is located.
 - Who is in possession of a file
 - Accountability of files for security purposes.
 - Overall integrity of the filing system
 - All of the above
- A file register may record:
 - Where the file is located
 - When the file can be destroyed
 - The date the file was opened
 - the date the file was taken from storage
 - All of the above
- Documentation may include, but not limited to:
 - Approval of offer documents
 - Disclosure and associated documents
 - Loan schedule
 - Security documents
 - All of the above

4. A formalized system of file movement would generally make use of one or a combination of the following file recording devices:

- A. File registers
- B. Outcards
- C. Electronic software
- D. Calendars and diaries
- E. All of the above

Test II: Short Answer Question (16 points)

- 1. What is recorded on the file register?
- 2. If a file has been misplaced how you do find it?
- 3. What are Loan documents?
- 4. Define Security Documents

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42 Page	Author/Copyright: Ministry of Labor and Skills	Cooperative Accounting and Auditing Level I	Version 1 September , 2022
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