MicroSave Briefing Note # 61

Establishing a Credit Administration & Control Unit

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What are credit administration and credit controls?
Credit administration and credit controls are the two key components in the active management support of the frontline credit processes of making individual loans and client management. Credit administration (organizing and managing credit processes) and credit controls (tools for minimizing and managing risks) are both essential to manage portfolio quality and to operate efficiently. This handout demonstrates how to organize a Credit Administration Unit (CAU), and the accompanying handout 9.2 explains the functions of a CAU.

Why is it important to think about credit administration and credit controls?
As financial institutions grow in terms of volume, diversity, and complexity; risks increase disproportionately and it becomes increasingly challenging to analyse and manage credit portfolios. Institutions grow in terms of the number and size of loans, diverse products and clients, multiple locations and more employees, and more complex processes and procedures. At the same time, larger financial institutions are often subject to increased regulatory, governance, transparency requirements and have rapidly changing risk profiles as they grow and become more formalized. One of the most effective ways to address a larger institution's new reality where pro-active risk management is critical is to create a dedicated CAU and expand and upgrade credit controls.

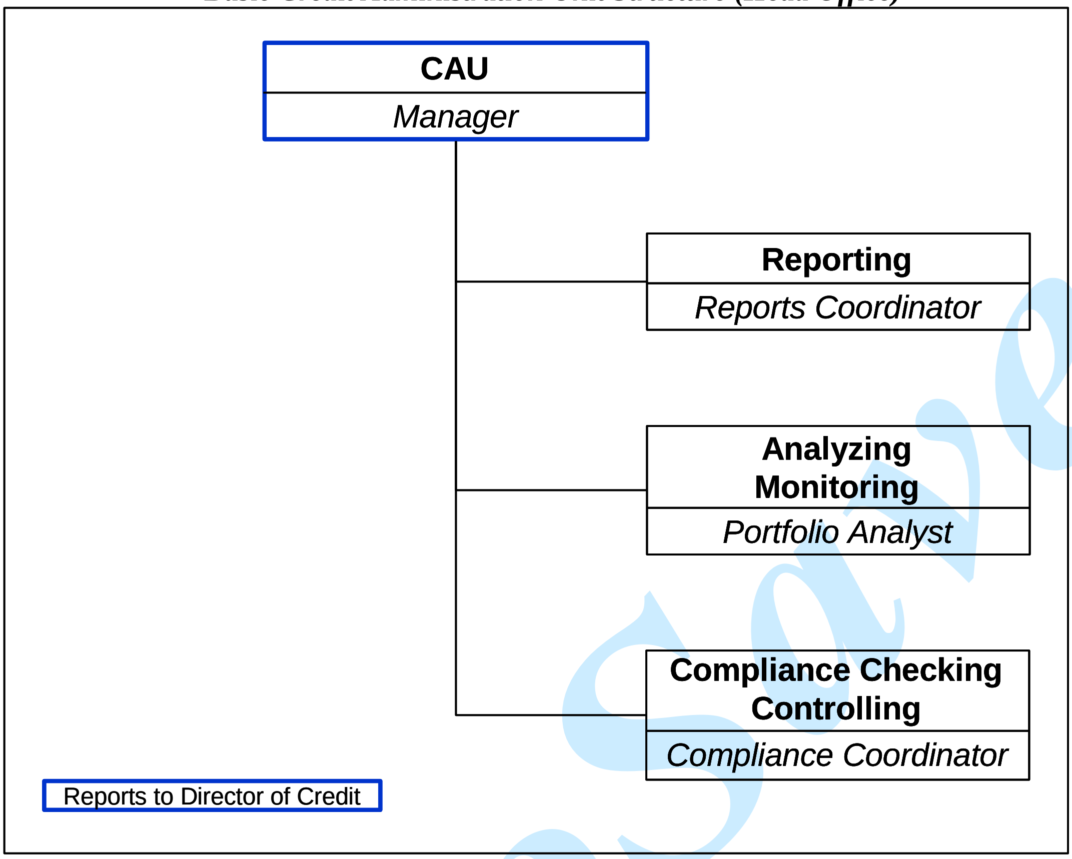
Essential components of a lending institution's credit roles

Credit Approvals	Credit Administration	Credit Controls
(Making the loan)	*(Managing the Portfolio)*	*(Minimizing the Risk)*
Client selection Credit analysis Loan approval Loan disbursement Client monitoring Loan repayment	Gathering, analyzing, and presenting the data (reporting) Monitoring the loan portfolio Maintaining files and databases Administering credit processes and action plans Using the credit controls	Policies and procedures Management information systems Internal controls Compliance checks Limits, terms and quotas (LTQs)

What is the right credit administration and control structure for an institution?
Every financial institution needs to have some of the functions of credit administration and some credit controls. Beyond a certain size, an institution will need a dedicated credit administration unit and a full set of credit controls. The choice of the right credit *administration and control structure* for an institution depends on multiple factors, such as:

- *Organisation type:* e.g. specialized microfinance institutions, units of commercial banks, savings and credit cooperatives, finance companies
- *Organisation structure:* branches and regions; centralized or decentralized
- *Size:* number of clients and loans; number of branches and loan officers
- *Regulatory status:* Compared to non-regulated institutions, regulated institutions have complex compliance requirements, particularly in relation to reporting and maintaining prudential standards..
- *Products*: More numerous and more complex products require closer monitoring and more management.
- *Risk profiles:* Risks – credit, financial, operating, product, economic – increase as a portfolio and institution grow.

Basic Credit Administration Unit Structure (Head Office)



NB: The head office structure can be replicated at a regional as well as branch level, if appropriate. In smaller institutions, there may be a full contingent of dedicated staff but the functions of the CAU should be assigned to someone.

How should one staff a CAU?

Typical job positions, roles and responsibilities in a CAU include:

Credit Administration Manager – coordinates and manages the activities and staff of the CAU; provides the director of credit with all necessary information and operational support; organizes and oversees action plans and compliance to credit policies, procedures, and processes; assures interface with other operating units of the institution.

Reports Coordinator - gathers and organizes credit related data, especially consolidation of reports; prepares management reports and regulatory compliance reports; maintains files and records; keeps calendar of credit activities.

Portfolio Analyst - monitors the loan portfolio; analyzes data identifying trends, problems; prepares analytical reports and makes recommendations for actions; prepares documents for regular portfolio reviews; and assists the manager.

Compliance Coordinator – conducts regular reviews of credit departments in branches and makes recommendations for changes; provides support to credit managers and loan officers; monitors compliance to policies/ procedures and limits/targets/quotas; coaches loan officers and provides training support in use and implementation of policies and procedures.