International Journal of Advanced and Applied Sciences, 11(9) 2024, Pages: 134-142

Contents lists available at Science-Gate

International Journal of Advanced and Applied Sciences

Journal homepage: http://www.science-gate.com/IJAAS.html

The credit risk management practices of lending companies in Nueva Ecija: Basis for risk mitigating plan

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ARTICLE INFO

Article history:
Received 8 April 2024
Received in revised form
6 September 2024
Accepted 7 September 2024

Keywords:
Credit risk management
Loan collection performance
Lending institutions
Portfolio-at-risk
Inflation and unemployment rates

ABSTRACT

As the Philippine economy works toward greater stability and aims to improve the social and financial well-being of its citizens, the Central Bank of the Philippines must manage and oversee the movement of money across the country. The circulation of money helps to balance inflation and unemployment rates. In the rural areas of Nueva Ecija, Philippines, one can easily observe various establishments where individuals can apply for loans, particularly from lending companies. Over the past years, this type of business has grown, and as institutions that deal primarily with money, they inevitably face significant risks. This study, using a descriptive method, was conducted to examine the different credit risk management practices used by lending institutions in these municipalities, particularly focusing on credit analysis and collection policies. Additionally, the study aimed to assess the loan collection performance of these lending institutions, considering factors such as portfolio-at-risk, on-time repayment rate, and past-due rate. The results showed that the credit risk management practices of these lending companies do not significantly affect their loan collection performance. The study also identified weaknesses in the common practices of these institutions by analyzing the market. These identified shortcomings serve as the basis for the researchers to propose a plan to reduce the impact of unavoidable risks.

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1. Introduction

Banking and non-banking financial institutions are the two primary subcategories that make up Philippine financial institutions. Non-Banking Financial Institutions are made up of financial businesses that perform functions other than banking and quasi-banking organizations (Wang et al., 2023). When looking for financial assistance or guidance, the first place that most individuals would go through is the bank. However, many individuals also discover that the services provided by the bank do not fully suit their expectations, which leaves them at a loss and resorting to borrowing from non-banking financial companies like lending institutions. A lending company is a corporation that is involved in the practice of lending money, either out of its own capital funds or out of funds received from no more than nineteen different individuals. Instead of taking out loans from banks, Filipinos turn to alternative funding sources with significantly higher interest rates, such as lending companies. Accordingly, twelve percent (12%) of the approximately forty-seven percent (47.10%) who borrow money prefer to borrow through lending/financing firms (Mina et al., 2022).

The Central Bank of the Philippines, as the lender of last resort, served as the highest Central Monetary Authority with the monetary board that is responsible for setting the rules and regulations for all banking and non-banking institutions to maintain the good economic situation in the country by setting different levels of the portfolio. Thus, further monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables, and it is very important in dealing with moral hazard problems that can be encountered even by non-bank financial institutions like lending companies. Considering the worsening economy brought on by the pandemic crisis, a wide range of banks and non-banking entities had formidable difficulties in collecting various

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amortization and loan receivables. This economic downturn is far worse than the one that happened during the 2008 financial crisis (Barrafrem et al., 2020), but as an aid to this, the Central Bank of the Philippines imposed guidelines in line with the "Bayanihan Act" to lessen the burden of different agencies and individual entrepreneurs and to normalize the mobility of money circulating in the economy by decreasing the interest rates to convince local businesses to borrow money from different financial institutions to perpetuate the operation of the business despite crisis. As a realization of this unexpected happening, it can be mentioned that there's no such thing as forever success, particularly when it comes to establishing a business. This is also true for the credit-lending sector; difficulties might arise under any set of circumstances, but it is up to individual businesses to devise strategies for mitigating these different risks. These lending companies' policies and methodologies play a vital role in the evaluations, monitoring, inspections, and approvals in terms of granting and offering credit. According to Tiwari et al. (2020), a well-defined credit policy positively influences loan repayment, which results in reduced delinquency. This strategy is also known as credit risk management practices.

Credit risk management is the identification, measurement, monitoring, and control of risk arising from the possibility of default payment on a loan contract. In addition to this, it covers the technique of moderating losses by knowing the availability of a company's capital as well as its loan loss reserves at any one moment, which is a procedure that has been a struggle for financial institutions for a very long time. Credit risk management's goal is to maximize an institution's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (Zhang and Yu, 2023).

At the present time, lending institutions are being advised to employ a risk management strategy based on a mixture of trust and monitoring to lessen the issues of moral hazard and adverse selection. This helps avoid dealing with financially unstable borrowers and reduce the risk of losing their assets or badly impacting the business reputation, which includes the formation of credit analysis, credit evaluation, and credit scoring; collection policies such as monitoring loans, collection efforts, and commercial portfolios (Gilchrist et al., 2024).

As such, the researchers, who are all supporters of a risk-free financial system, set out to identify the existing risk management practices of selected lending institutions in Nueva Ecija, more specifically in the municipalities of San Isidro and Cabiao. As a result, this study could help current institutions acquire information and develop their standards and practices for the continuous improvement of providing services and offering credit in their present society.

2. Methods

The primary purpose of this research is to investigate the methods of credit risk management utilized by lending institutions located in the province of Nueva Ecija. To successfully finish the study, the researchers opted to apply the descriptive design. The key informants or respondents of the study were the four officers from the selected lending institutions in San Isidro and Cabiao, Nueva Ecija, Philippines. The data collected from the lending officers were encoded, tallied, and analyzed. Statistical tools were utilized in its analysis. Table 1 presents the four-point Likert scale to measure and interpret the data, specifically the current risk management practices of the lending institutions. To examine the stability, validity, and consistency of the answers from the respondents, the researchers performed the test-retest technique. It is a measure of reliability conducted by the researchers, obtained by administering the same test twice over some time to the same respondents, which are, in this case, the responding officers from the different lending institutions.

3. Results and discussion

This section presents the findings obtained from the primary instrument used in this study. The responses were organized, quantified, and interpreted using different statistical tools. The presentation observed the sequence of the specific problems formulated for the study.

Table 1: Research instrument

Scale	Mean range	Verbal description	Verbal interpretation
4	3.26–4.00	Oftentimes	The respondent viewed the statement as being practiced all the time
3	2.51–3.25	Sometimes	The respondent viewed the statement as being practiced occasionally
2	1.76–2.50	Seldom	The respondent viewed the statement as being practiced rarely
1	1.00–1.75	Never	The respondent viewed the statement as having never been practiced

3.1. The profile of the lending institutions

With the given data in Table 2, the study showed that two of the four responding officers, or 50% of the total, are just less than five years in their present positions. Meanwhile, only one of the responding officers had been in charge of his/her position for between 6-10 years. On the other hand, only a single officer is working in his/her position for 11-15 years. It seems that most of the employees are new to their current position. It was noted that the company is in a better position than the competition if the bulk of its staff members have been with the business for ten years or more. Besides, the staff is critical to the success of the organization, and even some of the most successful people in business believe that a successful firm keeps its employees happy and has a high retention rate (Shah et al., 2020).

Table 2: Profile of the lending officer

	Frequency	Percentage (%)	Rank
Number of years in present position			
5 years/below	2	50	1.0
6–10 years	1	25	2.5
11–15 years	1	25	2.5
Total	4	100	
Sex of the officer			
Male	1	25	2.0
Female	3	75	1.0
Total	4	100	
Educational attainment			
High school	0	0	
Vocational	1	25	2.0
Bachelor's degree	3	75	1.0
Total	4	100	

Seventy-five percent of the responding officers are female, while twenty-five percent are male. Regardless of gender, individuals must continue to work on their professional growth to meet their career goals and stay competitive in today's job market. Three officers obtained their Bachelor's degrees before their current roles, suggesting that education plays a significant role in career advancement. One officer, with only a vocational degree, highlights the growing importance of vocational education, which equips individuals with skills that align with the specific needs of industries, such as lending companies. Table 3 outlines the organization's profile, highlighting that only one lending institution has provided microfinance loans for over ten years. Ahiabor (2013) notes that maintaining a small business during tough economic times can be challenging, but a well-established institution can succeed by having efficient employees, providing fast services, and focusing on customer satisfaction. These factors contribute to the institution's reputation as a reliable provider of microfinance loans. Next to it is a lending company that has been in business for between 7–9 years currently, while the other one has been in operation for between 4–6 years. A study pointed out that for the company to achieve sustainability, the top management must have clear communication and a bright point-of-view regarding the operational level up to the managerial level to identify the best course of actions and undertakings to be incorporated into the policy of the organization (Mina et al., 2022).

One of the lending institutions in the study is relatively new, with only 1-3 years of experience. It is crucial for such businesses to attract initial clients and develop core products to compete with established rivals. Three of the respondents report an outstanding loan portfolio of ₱3,000,000.00–₱5,000,000.00, representing their total unpaid loans, including interest. Another respondent has a receivable portfolio of ₱6,000,000.00–₱8,000,000.00. The value of a loan portfolio depends on both the interest earned and the likelihood of full repayment.

Table 2 shows that 50% of respondents offer individual loans, also known as personal loans, for various purposes such as medical, educational, or commercial needs (Raza et al., 2023). Repayment terms vary from two to twenty-four months, depending on the borrower's expertise and the industry. The other half provides group loans, where borrowers meet weekly to discuss repayments. First loans range from ₱5,000.00 to ₱10,000.00, and subsequent amounts depend on repayment performance. Loan amounts are linked to factors like collateral and existing credit (Mallinguh and Zoltan, 2022).

Table 3: Profile of the organization

	Frequency	Percentage (%)	Rank
No. of years in operations			
1–3 years	1	25	2.0
4–6 years	1	25	2.0
7–9 years	1	25	2.0
10 and above	1	25	2.0
Total	4	100	
Outstanding loan Portfolio			
3–5 million	3	75	1.0
6–8 million	1	25	2.0
Total	4	100	
Types of loans			
Individual loans	2	50	1.5
Group loans	2	50	1.5
Total	4	100	
Term of loans offered			
3 months	3	75	1.0
6 months	0	0	
1 year	0	0	
Others (one-time payment)	1	25	2.0
Total	4	100	
Loan repayment period			
Monthly	0	0	
Weekly	3	75	1.0
Others (single)	1	25	2.0
Total	4	100	
Average amounts of loans	Group loans	Individual loans	
Maximum–1st loan	₱10,000.00	₱691,9666.67	
Minimum–1st loan	₱5,000.00	₱14,000.00	
Maximum succeeding loan	₱10,000.00	₱1, 050,000.00	
Minimum succeeding loan	₱7,000.00	₱50,000.00	

Individual borrowers generally have higher loan options, with initial loans ranging from ₱14,000.00 to ₱691,966.67. To borrow larger amounts in future loans (₱50,000.00 to ₱1,050,000.00), they must maintain a good repayment history. Three lending institutions offer 3-month loan terms with payments made fortnightly, weekly, or monthly. One institution offers a single repayment plan, requiring full repayment with interest at the end of the loan term. None of the respondents provide loan terms between six months and one year, which may better suit small-scale enterprises seeking short-term credit.

3.2. The current risk management practices of lending institutions

As can be gleaned from Table 4, the interview method is the most used source of information by the respondents. With this method, a representative from the lending company performs an interview with the possible loaners personally. The representative asks questions to the debtor about the different terms in applying for a loan, and once the interview is finished, the representative would transfer the data that were gathered to the office to review it and decide whether the borrower is approved to get a loan. Applying for a personal loan is much like applying for a job. To secure a loan from a financial institution, a potential borrower must demonstrate their creditworthiness. Submitting the necessary requirements and the loan application form is like submitting a résumé and a portfolio.

Table 4: Credit analysis

No.	Most common sources of information	Weighted mean	Verbal description	Rank
1	Interview	3.75	Oftentimes	1.0
2	Credit bureaus	2.75	Sometimes	3.5
3	Personal references	3.50	Oftentimes	2.0
4	Any billing history with other companies	2.25	Seldom	6.0
5	Networks with other organizations	2.75	Sometimes	3.5
	Average weighted mean	3.00	Sometimes	
	Information gathered from clients			
1	A resident of the community for 1 (one) year	3.00	Sometimes	6.0
2	A thorough credit investigation is being done on the applicant	3.25	Sometimes	2.5
3	Applicants must have an existing business (individual loans)	3.25	Sometimes	2.5
4	Borrowers must be willing to organize themselves into groups of the required number of members	3.00	Sometimes	6.0
5	Borrowers should not have existing loans with other lending institutions	3.25	Sometimes	2.5
6	Screening of applicants by income in their present occupations or source of earnings	3.25	Sometimes	2.5
7	Should hold down consistent employment or be in the professional workforce	2.25	Seldom	8.0
	Average weighted mean	3.18	Sometimes	
	The basis for credit evaluation			
1	C's of credit	4.00	Oftentimes	1.0
2	Credit investigation	3.25	Sometimes	2.0
	Average weighted mean	3.63	Oftentimes	
	Components of credit investigation			
1	Character–willingness to meet credit obligations	2.75	Sometimes	3.0
2	Capacity–ability to meet credit obligations	4.00	Oftentimes	1.0
3	Capital–current available asset	2.50	Seldom	4.5
4	Condition–general economic conditions of the client's line business	3.25	Sometimes	2.0
5	Collateral–owned property or properties of the debtor that can be pledged as a guarantee	2.50	Seldom	4.5
	Average weighted mean	3.00	Sometimes	
	Other components of credit investigation			
1	Address verification	3.75	Oftentimes	1.0
2	Court cases verification	2.50	Seldom	4.0
3	Employment verification	2.50	Seldom	4.0
4	Property/ownership verification	2.50	Seldom	4.0
5	Trade references if any (customer/supplier)	3.00	Sometimes	2.0
	Average weighted mean	2.85	Sometimes	

The data shows that most lending companies rely on credit investigations to assess applicants, particularly for individual loans. Factors such as having an existing business, no current loans with other institutions, and income from their occupation are considered important for loan approval. Personal information, employment history, and income are also verified. Each company has its own method for evaluating creditworthiness, often using the "5 C's of Credit" (character, capacity, capital, condition, and collateral). Among these, "capacity," or the ability to meet financial obligations, is typically the most significant. Address verification and employment status are also key components of credit investigations. From the data presented in Table 5, it can be remarked that regular visitations of project/business of client officers are oftentimes practiced by lending companies as a basis for monitoring loans. Microfinance loan collection policies are designed to make it easier to manage borrowed money. Loan officers are more likely to be successful and timely in collecting payments from borrowers when an appropriate credit collection policy is in place within the institutional framework (Danstun and Harun, 2019). Indeed, microfinance institutions need to have credit collection strategies that would attract clients to find it easy to repay their loans without enforcement.

The lending companies often use the Average Collection Period (ACP) to track payments, aiming to enhance the efficiency of credit administration. For microfinance organizations, it's important that returns on investments exceed loan costs. As part of their collection methods, companies frequently conduct house-to-house visits or rely on group leaders to make payments at the office. Clients are regularly evaluated to ensure they are fulfilling their payment commitments, and follow-ups are crucial, even if they risk losing a client, to maintain effective collection efforts.

Table 5: Credit collection policy

No.	Credit collection policy	Weighted mean	Verbal description	Rank
	The basis for monitoring loans			
1	Regular visitations of project/business of client officer	4.00	Oftentimes	1.0
2	Surprise visits to the business of the client	3.25	Sometimes	2.0
3	The external person does the monitoring or evaluation	2.75	Sometimes	3.0
4	Require submission of financial reports regularly	2.50	Seldom	4.0
	Average weighted mean	3.06	Sometimes	
	Ways of tracking payments			
1	Using the average collection period (ACP)	3.75	Oftentimes	1.0
2	Aging schedule	3.50	Oftentimes	2.0
	Average weighted mean	3.63	Oftentimes	
	Methods of collection			
1	Collectors go house to house	4.00	Oftentimes	1.0
2	Collections are done during center meetings	3.00	Sometimes	3.5
3	Clients go to the office to pay their loans	3.00	Sometimes	3.5
4	Group leaders go to the office to pay	3.50	Oftentimes	2.0
	Average weighted mean	3.06	Sometimes	
	Procedures for delinquent accounts			
1	Send out a delinquency letter	3.25	Sometimes	1.5
2	Make a telephone call to the customer or group leader	3.25	Sometimes	1.5
3	Send collection officer for door-to-door collection	3.00	Sometimes	3.5
4	The client may lose access to other services	3.00	Sometimes	3.5
5	Take legal action against the client	2.50	Seldom	5.0
	Average weighted mean	3.00	Sometimes	

In the bargain, the company oftentimes sends out a delinquency letter and makes a telephone call to the customer or group leader as part of their procedures for delinquent accounts. Microfinance institutions that have a loan portfolio that is at high risk are seeing a high level of delinquency from their consumers (Danstun and Harun, 2019). The microfinance industry needs to recognize that setting interest rates too high can negatively impact the financial stability of lending companies. Exceeding a certain threshold can lead to unsustainable operations, as clients may struggle to repay loans, increasing defaults and harming the overall viability of the organization. Therefore, balancing interest rates to maintain both financial health and accessibility for borrowers is essential for long-term success.

Table 6 shows the loan collection performance of lending companies in Nueva Ecija, with two respondents reporting that 5% or less of their portfolios are at risk. According to Danstun and Harun (2019), an increasing default rate indicates that microfinance institutions are failing to meet the global standard of keeping risky loans at 3% or below. Institutions that invest in building borrowers' capacity to manage loan repayment are more likely to maintain high-quality loan portfolios and minimize defaults.

Table 6: Loan collection performance

Portfolio at risk	Frequency	Percentage (%)	Rank
5% and below	2	50	1.0
6% – 10%	1	25	2.5
12% – 15%	0	0	
16% – 20%	1	25	2.5
21% – 25%	0	0	
26% and above	0	0	
Total	4	100%	
On-time repayment rate			
20% and below	0	0	
21% – 40%	1	25	2.5
41% – 60%	2	50	1.0
61% – 80%	0	0	
81% and above	1	25	2.5
Total	4	100	
Past due rate			
5% and below	2	50	1.5
6% – 10%	2	50	1.5
12% – 15%	0	0	
16% – 20%	0	0	
21% – 25%	0	0	
26% and above	0	0	
Total	4	100	
Basis for measuring loan collection performance	**Weighted mean**	**Verbal description**	**rank**
Portfolio at risk (PaR)	3.75	Oftentimes	1.0
Repayment rate	3.50	Oftentimes	3.5
Past due rate (arrears rate)	3.75	Oftentimes	1.5
Loan loss reserve	3.00	Sometimes	5.5
Written-off ratio	3.50	Oftentimes	3.5
Current recovery rate	3.00	Sometimes	5.5
Average weighted mean	3.42	Oftentimes	

On the other hand, two respondents reported an On-Time Repayment rate of 41%–60%, while one company indicated a rate of 21%–40%. Notably, one company reported an on-time repayment rate of over 81%, which could suggest that this institution provides loans with a single repayment period. The

rate of loan repayment significantly affects the financial sustainability of a lending program. Borrowers who request longer repayment periods often demonstrate financial stability, which may improve the institution's financial performance and reduce the risk to the overall loan portfolio.

Half of the respondents reported a past due rate of 5% or less, while the other half indicated a rate between 6% and 10%. A low past due rate is critical because it reflects payments that have not been made by their due dates. Borrowers with overdue payments face penalties, so it is important for lending institutions to minimize this rate to maintain financial health and ensure timely repayments.

Additionally, portfolio at risk, repayment rate, past due rate (arrears rate), and loan loss reserves are commonly used by lending companies to measure loan collection performance. The high interest rates charged by many microfinance institutions often contribute to loan defaults. Even if these institutions have effective loan assessment and appraisal strategies, increased interest rates can lead to defaults and higher portfolio risk. Therefore, microfinance managers should implement strict debt collection practices that benefit both borrowers and the institution by keeping default rates low and ensuring creditors remain vigilant.

It is important to recognize that not all customers will repay their loans on time or without enforcement. Some customers simply forget, and most are unlikely to pay unless they receive strong reminders. When repayments are delayed, lending institutions face an increase in bad debt within their portfolios. As a result, credit collection efforts aim to expedite loan recovery from customers.

From Table 7, it's clear that the credit analysis and loan collection performance have no significant relationships in all variables. Today, credit risk management encompasses both loan reviews and portfolio analysis. Unfortunately, even though financial institutions worked hard, the number of problems in both developing and developed economies of the world grew by a lot, especially in terms of credit collection.

Table 7: The significant relationship between credit analysis and loan collection performance

Credit analysis		Portfolio at risk	On-time repayment rate	Past due rate	Basis for measuring loan collection performance
Most common sources of information	Pearson correlation	.816	.707	.000	.000
	Sig. (2-tailed)	.184	.293	1.000	1.000
	N	4	4	4	4
Information gathered from clients	Pearson correlation	–.471	–.816	–.577	.577
	Sig. (2-tailed)	.529	.184	.423	.423
	N	4	4	4	4
The basis for credit evaluation	Pearson correlation	.246	.000	-.905	.905
	Sig. (2-tailed)	.754	1.000	.095	.095
	N	4	4	4	4
Components of credit investigation	Pearson correlation	–.816	–.707	.000	.000
	Sig. (2-tailed)	.184	.293	1.000	1.000
	N	4	4	4	4
Other components of credit investigation	Pearson correlation	–.816	–.707	.000	.000
	Sig. (2-tailed)	.184	.293	1.000	1.000
	N	4	4	4	4

*: Correlation is significant at the 0.05 level (2-tailed)

It is obvious from the data shown in Table 8 that the credit collection policy and the performance of the loan collection process do not share any significant relationships in any of the variables. This only means that the lending companies' practices do not have any effect on their credit collection performance. A credit collection policy is a set of principles that construct a procedural set that is utilized to recover accounts receivable that have become delinquent. Thus, regardless of the results of this study, it can be contended that every financial institution, like a lending company, is required to have an in-depth knowledge of credit risk management, including the ability to price their loans on a market-to-market basis, determine the marginal risks adjusted contribution of each loan, and allocate, measure, and monitor economic capital.

The following criteria are the factors subject to the foundation for designing the mitigating and action plan presented in Tables 9 and 10 for the lending institutions.

4. Conclusion

This research was conducted to determine and define the credit risk management practices of different lending institutions in Nueva Ecija. Most of these institutions have been offering microfinance loans for several years with an upstanding portfolio. These lending institutions offered individual and group loans. There are set minimum and maximum loan amounts for both the first and subsequent loans in a group. Individual loans also have predetermined restrictions for first and subsequent loans. Most lenders provide many months' worth of loans with weekly payback schedules.

Interviews are the predominant means by which organizations obtain pertinent data concerning their present risk management procedures. Thorough credit checks of applicants, confirmation of applicants' business existence, and confirmation that borrowers have no outstanding loans with other institutions are among the crucial details collected.

Table 8: The significant relationship between credit collection policy and loan collection performance

Credit collection policy		Portfolio at risk	On-time repayment rate	Past due rate	Basis for measuring loan collection performance
The basis for monitoring loans	Pearson correlation	−.915	−.792	.140	−.140
	Sig. (2-tailed)	.085	.208	.860	.860
	N	4	4	4	4
Ways of tracking payments	Pearson correlation	.246	.000	−.905	.905
	Sig. (2-tailed)	.754	1.000	.095	.095
	N	4	4	4	4
Methods of collection	Pearson correlation	−.915	−.792	.140	−.140
	Sig. (2-tailed)	.085	.208	.860	.860
	N	4	4	4	4
Procedures for delinquent accounts	Pearson correlation	.764	.756	−.535	.535
	Sig. (2-tailed)	.236	.244	.465	.465
	N	4	4	4	4

*: Correlation is significant at the 0.05 level (2-tailed)

Table 9: Proposed risk mitigating plan

Source of risk	Business side implication	Risk category	Mitigating strategy
Lack of regular monitoring of borrower activities	Inability to detect early warning signs of financial distress	Operational risk	Enhanced Monitoring Practices to detect early warning signs of financial distress
Lack of external validation of borrower information	Potential for overlooking critical risk factors	Oversight risk	Strengthening External Evaluations to avoid dependence on internal evaluations.
Inadequate delinquency tracking and reporting	Difficulty in identifying and managing delinquent accounts	Operational risk	Delinquency Management to track delinquent borrowers
Any billing history with other company	Poor background investigation	Business risk	Countercheck the Statement of Accounts (SOA) from other lending institutions (past and present) to determine the credibility and capacity of repaying
Should hold down consistent employment or be in the professional workforce	Sluggard's source of income	Credit risk	Capacity and Credibility must dance together having a stable source of income is one of the parameters as a basis for granting specific loanable amount
Capital–current available asset	Unfavorable acid-test ratios	Business risk	Meeting the current obligation is important to determine the solvency of a certain individual/business debtor
Court cases verification	Undetermined credibility	Business risk	Provide additional verification or security to prove the character of the debtor
Employment verification	Veracity of Information	Credit risk	Requiring the debtor to provide Income Tax Return (ITR) to check the source/s of income
Property/Ownership verification	Authenticity of Documents	Credit risk Liquidity risk	Utilize government agencies to identify the veracity of documents such; LTO, BIR, RD, and banking institutions
Require submission of financial reports regularly	Undetermined financial cash flow	Liquidity risk	Determine the number of years of operation and together with the historical trend
Take legal action against the client	Exhausted allowance for unrealizable accounts	Liquidity risk Credit risk	Provide a more comprehensive repayment scheme for unrealizable accounts
			Document verification

Table 10: Action plan

Mitigating strategy	Persons/departments involve	Reasons and objectives	Recommended action plan
Enhanced monitoring practices	Credit and investigation department	Regular and surprise visitations	Implement regular and surprise visits to assess borrowers' business stability and financial health
Strengthening external evaluations	Credit and investigation department	Utilize external monitors	Use external evaluators for unbiased assessments of borrowers' financial status to identify overlooked risks
Delinquency management	Credit and investigation department	Tiered delinquency procedures	Establish a tiered delinquency process: letters, phone calls, door-to-door collections, and legal action as a last resort
Countercheck the statement of accounts (SOA) from other lending institutions (past and present) to determine the credibility and capacity of repaying	Credit and investigation department	To evaluate the repayment capacity of the borrower based on his/her performance of paying in other lending institutions. More so, to identify the reason/s for adding/transferring accounts	Offer alternative repayment schemes such as long-term plans or asset-based settlements before writing off accounts
Capacity and credibility must dance together-thus having a stable source of income is one of the parameters as a basis for granting a specific loanable amount	Credit analyst legal department	Willingness to pay varies depending on the capacity of repaying. There are some instances that the client/s are willing to pay but do have the capacity for repaying due to the fact of insufficient income	Empower credit investigation staff and rotate their areas of responsibility to avoid collusion
Meeting the current obligation is important to determine the solvency of a certain individual/business debtor	Credit manager credit officer	The acid test ratio is an accounting tool to countercheck the capacity of one entity of meeting the current obligations. Thus, the objective of this plan is to identify the capacity for repaying short-term loans which happened to be the nature of the lending institution	Assess income consistency through tax returns and explore alternative repayment options before writing off accounts
Provide additional verification or security to prove the character of the debtor	Credit and investigation department	To counter check the veracity of documents specifically it is the subject of mortgage such title of land, certificate of ownership, or/CR of cars/motorcycle, among others	For formal businesses, review financial statements; for informal borrowers, require barangay clearance for verification
Requiring the debtor to provide income tax return (ITR) to check the source/s of income	Credit analyst credit bureau credit information corporation (CIC)	To provide more thorough information regarding the credit standing of the borrower	Verify documents through government agencies (e.g., registry of deeds, land offices) and use special power of attorney if needed
Utilize government agencies to identify the veracity of documents such; LTO, BIR, RD; and banking institutions	Other government agencies Credit investigation department Legal officer	The usual practice of requiring collateral for a high number of loans is very common and normal nowadays. Due to this, unfaithful borrowers falsify documents to borrow larger amounts. Hence, this method of information search can screen falsified documents and other fictitious legal instruments	Affiliate with credit bureaus and use income tax returns to check solvency and credit standing
Document verification	Other government agencies, credit investigation department, legal officer	Thorough document authentication	Involve liaison officers in document verification to ensure transparency and prevent fraud
Determine the number of years of operation and together with the historical trend	Credit investigation department	To identify the solvency level of one organization or individual business owners	Require loan applicants to submit DTI registration, barangay clearance, and government-issued ID
Provide a more comprehensive repayment scheme for unrealizable accounts	Legal department	To help the borrowers to settle their finances using other schemes of payment	Provide alternative payment options (e.g., dación en pago, long-term plans) instead of writing off accounts

The five C's of credit form the basis for how institutions evaluate credit, with "capacity" being the most important factor. Verifying applicants' addresses is also a key part of the credit assessment process. To strengthen this study, increasing the sample size and including more regions is recommended. Additionally, the research could be improved by exploring the connections, or lack thereof, between these credit practices and loan performance. This would give a better understanding of how specific practices affect loan outcomes and help improve strategies for managing risks.

Compliance with ethical standards

Ethical considerations

Informed consent was obtained from all participants, and their data were anonymized to ensure confidentiality. Participation was voluntary, and no sensitive information was disclosed.

Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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