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**MORTGAGE SERVICING MANUAL
DEVELOPED FOR RUSSIA**

Prepared by

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2100 M Street N.W.
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by

**Housing Development Finance Corporation Limited
Bombay, India**

R. SUBRAMANIAM

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EXECUTIVE SUMMARY

The Urban Institute, Washington, under the Technical Assistance Program of the United States Agency for International Development, is structuring Housing Reforms in the Russian Federation and particularly in the City of Moscow, under the changing economy.

The program is headed by Dr. Raymond Struyk, Program Director, Urban Institute, Moscow and covers the entire gamut of activities for the housing sector, which includes legal and regulatory framework and housing finance. The major area of focus in the initial stages is the organisation of the Housing Stock and ways to improve its maintenance.

MOSBUSINESSBANK, a major commercial bank has been identified as a potential mortgage lender as it is a financially strong and well respected bank.

Under the work plan, Housing Development Finance Corporation Limited, Bombay, India (HDFC) has been assigned the area of loan servicing. A servicing expert from HDFC, Mr. R Subramaniam worked with personnel from the MOSBUSINESSBANK and developed mortgage servicing guidelines and procedures. He also helped develop reporting requirements and developed organisation charts giving job descriptions. The draft Servicing Manual and Forms are now ready and are enclosed. MOSBUSINESSBANK in consultation with the Urban Institute, Moscow, will review this manual and their feedback will be incorporated in the final Servicing Manual with its relevant Forms.

Economic conditions

Russia is currently going through major economic and political reform. As a result, inflation is at a very high level and was upward of 2000 percent last year. It is expected to be high in the current year too but will be relatively less than in the previous year.

Inter-bank lending rates are presently around 110 percent and though they do not reflect inflation, are unaffordable.

The saving community in general is not inclined to putting money in banks despite the high rate of interest offered on deposits, due to the uncertainty in the value of the Rouble. Hence, they are retaining money in hard currency to hedge against inflation.

Housing Sector

The housing shortage in Russia, is pretty acute, with more than 25 percent of the entire country's families on the waiting list for housing which could take several years.

Prior to 1991, the State was the major landowner. In urban areas, the State rental housing constitutes more than three fourths of the resident population and in Moscow it is 90 percent. Tenancy charges do not cover operating costs and most of the housing stock is in a badly maintained condition.

Two major changes took place in 1991. The housing stock was transferred to local governments, ensuring a better deal for citizens and the second was allowing privatisation of ownership. Privatisation which was slow to start due to very strong tenancy rights and badly maintained buildings, suddenly accelerated towards the end of 1992, basically due to the possibility of transfer from elderly people to their kin or for making handsome commercial gains.

Purchases of units are currently depressed due to lack of adequate housing finance. With inflation skyrocketing and interest rates upward of 100%, fixed rate mortgage loans are no longer possible.

However, Sberbank (a government owned bank), a major mortgage lender, has been making fixed rate mortgage loans at artificially low rates of interest (they are subsidised to a large extent) which have no relation to the market or inflation rates. The bank has not yet become market oriented due to the risk involved under the present conditions.

Emerging Issues in Housing Finance

Sberbank, the main mortgage lender has in the past two years been giving loans at highly subsidised rates, but this will not continue. Several specialised banks have been set up but they have not been able to make loans due to the interest rate and the credit risks involved.

The intention of making mortgage loans by the banks seems genuine and the forecast for mortgage lending in 1993 is better than it was earlier.

Market responsive products have to be carefully woven and marketed. A design for an indexed product is ready which affords lower initial payments. This product assumes certain rates of growth in income and inflation. The marketing of this product and its education within the bank and to the customer will be among the major factors which will determine the success of the instrument.

As a result of unemployment and dislocation due to on-going privatisation of industry and commercial activities, increasing emphasis has to be laid on the collection function. This function will assume a major dimension in this volatile environment.

This report summarises the discussions Mr Subramaniam had with the MOSBUSINESSBANK personnel. The Draft of the Servicing Manual and the relevant Forms have been finalised as a result of these discussions and are enclosed for review.

TERMS OF REFERENCE

A. BACKGROUND

Russia is currently going through a period of high inflation, political uncertainty and major economic reform. High inflation and interest rates are now hitting the economy with inflation above 2000% last year. The inflation rate will continue to be high though it is likely to progressively diminish to relatively better levels. The indications for the current year are that the inflation rate will be lower than in the past year.

The United States Agency for International Development is extending technical assistance to the country in the housing finance sector. The Urban Institute, Moscow, headed by Program Director, Dr. Raymond Struyk, besides looking into the major activity of housing reforms is also identifying potential mortgage lenders. MOSBUSINESSBANK (MBB), one of the commercial banks, has been identified by the Urban Institute, Moscow as one of the candidates where mortgage lending can be another major line of activity.

The services of a servicing expert from the Housing Development Finance Corporation Limited, was requested who would work with the MBB staff to develop appropriate mortgage servicing guidelines and procedures.

B. OVERALL OBJECTIVES

Since, the economy is opening up, the situation would be more similar to those in less developed countries.

Hence,

- a) Incidence of self-employment will be high and will increase.
- b) Foreclosure laws are non-existent and will have to be implemented and tested thereafter.

The main objectives of the project would be to :

- a) Work with the MBB staff and develop appropriate servicing guidelines and procedures.
- b) Develop reporting requirements to ensure adequate management ability to evaluate the mortgage lending operation.
- c) Develop servicing manuals and forms.
- d) Develop an organisational structure for a loan servicing department including back-office activities.
- e) Develop an organisational chart with job descriptions.

MANUAL OF SERVICING POLICIES AND PROCEDURES

1.0 INTRODUCTION

Servicing forms the most important component of the loan mortgage operations. The life of a mortgage usually extends over 10 to 12 years. Hence, it is imperative that an institution has its servicing function in order. Starting with correct accounting of receipts to the fully paid off stage of a loan, it is vital that all records are maintained correctly and importantly in a timely manner. A satisfied customer usually generates another. Especially, as time goes by and there is competition, it is the quality of servicing that scores, even over marginal monetary considerations.

In the servicing function, collections will form the most important activity. The viability of a mortgage institution will depend mainly on the recovery of the money on the loans it has made.

Many housing finance institutions the world over have gone bust simply because their servicing activity was not effective. An institution should have a good mortgage servicing department, which, while being responsive to customer needs, should have the capability and the responsibility of collecting instalments on time as well as have a good track record of collections. This will apply more so to a country like Russia which is currently going through high rates of inflation and economic instability. The institution should also bear in mind the risk associated with lending in such conditions. Inflation last year was upward of 2,000% while the bank interest rates are currently above 100% making it unaffordable to make normal fixed rate mortgages. Hence an indexed product is being chosen for mortgage lending which will make mortgage loans possible.

**ORGANISATION OF THE MORTGAGE
SERVICING FUNCTION**

2.0 ORGANISATION OF THE MORTGAGE SERVICING FUNCTION

To start with, the MORTGAGE BANK (referred to as BANK hereafter) could have a servicing function which could be organised by functions. Depending upon the nature and size of operations several of these functions could be combined, especially where volumes are low.

The various functions of the mortgage servicing department are :

2.1 THE LOAN CLOSING SECTION :

This section will close the loan in co-ordination with the Customer Service Representative and make disbursement of the loan.

2.2 THE ACCOUNTING SECTION :

This section will record payments from borrowers, post it to their accounts, generate various reports, produce payment coupons, handle accounting enquiries, prepare amortisation schedules, accept and account principal repayments / prepayments as well as service fully paid off loans.

2.3 THE COLLECTION SECTION :

This section will be responsible for collecting overdues from delinquents and keeping arrears under control.

2.4 THE INSURANCE SECTION :

Hazard and property life insurances have yet to evolve in Russia. However, for completeness the procedures are being detailed. This department will manage insurance policies and account for escrow payments and communicate with the borrower on payments on escrow account.

2.5 FILING SECTION :

This section will be responsible for maintenance of all records pertaining to the mortgage, including those at secondary locations.

THE LOAN CLOSING SECTION

3.0 THE LOAN CLOSING SECTION

3.1 The loan servicing stage of the loan commences immediately on the underwriting of the loan being completed by the loans processing department and the loan is ready for closing. After the Customer Service Representative (CSR) has completed the process of obtaining all documents pertaining to the loan, he forwards the loan file to the Loan Closing Section of the Mortgage Loan Servicing Department.

In the loan closing section, a loan closing clerk will satisfy himself on the contents of the file as to its completeness. A date is then fixed for the disbursement and the borrower notified. This notice should indicate to him that all parties that form part of the agreement (co-borrowers) be present to execute the loan agreement. If there is a guarantor to the loan, the form filled by the guarantor and verified by his employer should be available at the time of the closing of the loan. This process of verification should have been completed prior to the loan closing date. The closing clerk will co-ordinate with the accounting section for getting the funds ready for disbursement.

Along with the information of the date of closing, a note on the servicing procedure which includes details of the payment methods as well as the method of calculation of the first month's interest should be explained.

(Refer to 9.1.1 and 9.1.2 of FORMS AND DOCUMENTATION)

3.1.1 POLICY : CALCULATION OF PRE - INSTALMENT INTEREST (PII)

The amount that is to be collected at the time of disbursement will be the simple interest at the payment rate on the number of days from the date of closing to the end of the month in which the loan is closed. This can be termed Pre-Instalment Interest.

The only exception to this rule should be, if the loan is disbursed on the first working day of the month. Hence, if the 1st of a month is a holiday and 2nd is the first working day, then for all closings on 2nd, there will be no Pre - Instalment Interest. In such cases, the monthly instalment as per the payment rate (assuming that an indexed product will be chosen for lending) will be due and payable on the last day of the month.

Eg	
Loan disbursed on 25th Dec '93	- 8 Million Roubles
Contract Rate	- 7% per month
Payment Rate	- 1.25% per month
Interest for Dec 1993	- 8,000,000 *.0125 *
	7/31 = 22,581

Since, the interest for Dec, 1993 has been calculated at payment rate, the difference of interest between the contract and the payment rates has to be capitalised and the new principal balance on Jan 1, 1994 will be 8103871 and the monthly instalment of 113,421 roubles becomes due from Jan '94 and is payable on the last day of every month for the first quarter.

In the above example if, the loan was disbursed on 1st December, '93, the first instalment of 111,967 roubles would be due on 31st Dec, '93 and payable on 31st Dec, '93.

3.2 PAYMENT METHODS

The method of making payments through cheques is now non-existent in Russia. Till such time the cheque system evolves, there will be four payment methods :

- a. Payroll deduction : This method of deduction will involve arrangement with employers who will be required to deduct instalments from salary and remit them to the BANK, through their correspondent bankers or through a pay order.
(Refer to 9.2.1 of FORMS AND DOCUMENTATION)
- b. Debit to bank account : Borrowers can be asked to open bank accounts in the same bank and periodic internal debits can then be made to this account. Due to the high inflationary conditions, borrowers may be averse to opening accounts. However, hard currency accounts can be opened to hedge against inflation.
(Refer to 9.2.2 of FORMS AND DOCUMENTATION)
- c. Cash : This will form the most common method of payment, since the customary mode of payment is cash.
(Refer to 9.2.3 of FORMS AND DOCUMENTATION)

d. Payment at collection account : A new method of payment can be introduced in the form of payments at collection accounts. Under this method, the BANK can open several collection accounts in commercial banks in different areas in the city where borrowers can go and remit their instalments. Under this method, the payment coupon will be in triplicate. One copy of the coupon will be stamped by the collecting banker and returned to the borrower, acknowledging receipt of payment. Out of the other two copies one will be retained by the collecting banker and one sent to the BANK with a statement at regular intervals not exceeding one week. The collecting bankers should also be instructed to transfer funds to the main account of the BANK, so as not to allow funds to remain idle.

(Refer to 9.2.4 of FORMS AND DOCUMENTATION)

3.3 INSURANCE

Before the commencement of mortgage lending operations, insurance schemes for hazard and mortgage should be worked out with insurance companies, by the BANK. These schemes should then be enforced on the borrower at the time of closing and policies assigned to the BANK. The hazard insurance cover shall continuously be changed to cover the market value of the property, while the property life insurance shall be changed to cover the outstanding housing loan.

3.4 LOAN CLOSING ACTIVITY

At the time of loan closing the following activities are done :

- The loan agreement is signed.
- The repayment and insurance schemes are confirmed.
- The payment methods are confirmed.

If the payment method is cash, three coupons are handed over to the borrower.

If the borrower opts for a debit to his bank account, the details of the bank account are obtained. If the borrower opts to open an account, the BANK shall help him do so and maintain the details of this account for making debits to this account every month. At this stage, the borrower should be informed that he should make sufficient funds available, especially in view of the instalments increasing every three months.

If the payment method is through salary deduction an authorisation is obtained.

If the payment method is through collection account three coupons are handed over to the borrower.

- Accept Pre - instalment interest payment wherever applicable.
- Get the hazard and life insurance policies signed.
- Explain the importance of quoting the loan account number in all correspondence.
- Co-ordinate loan entry origination.

3.5 NOTE ON ESCROW ACCOUNT FOR DOWNPAYMENT

The borrower's downpayment can be kept in a hard currency escrow account till such time the loan is closed. At the time of closing, the downpayment and the loan amount can be given to the seller by asking him to open an account with the institution. This is only to facilitate the handing over of the sale proceeds to the seller. The BANK can then prospect the possibility of converting the escrow into a regular savings account into which the monthly instalment could be debited for future payments.

3.6 NOTE ON DEDUCTION FROM SALARY

From the BANK's point of view, assuming that salary deduction arrangements are made possible, this would be the payment method which would have the least risk. Hence, the BANK should make efforts in building relationships with good companies whose employees could be potential borrowers. Some of the points that could be emphasised during such discussions could be to :

- Impress upon the employer that it is a service for his employee.
- In the absence of a cheque payment system, the borrower may have to come to the institution to make payments and probably take the day off.
- Impress upon the employer that the tendency of meeting a personal commitment outweigh the responsibility of servicing a mortgage and hence salary deduction.
- Impress upon the employer to quote the loan account number along with the payments.

The employer must be made aware that the instalments would change every three months or whenever a principal prepayment occurs but that sufficient time will be given to the employer to make these changes before remitting instalments to the BANK. It is suggested that all commencements of /changes in deduction be sent to the company through a person of the BANK to avoid any delay through mail.

The employer should also be instructed to send a list of all employee borrowers who have resigned / been terminated during the month. This will help the collection section to follow up.

The BANK's Activities on this method of payment :

- All copies of the forms pertaining to loans closed upto a certain date can be despatched to the employer giving details of the deduction to be made - i.e. from the salary of which month to which month.
- The deduction form should contain the information to the employer that these instalments would change every three months and that the company will be informed in advance about the change.

THE ACCOUNTING SECTION

4.0 THE ACCOUNTING SECTION

The activities of the accounting section begins with the closing of the loan. All the functions of this section are given in detail in the following paragraphs :

4.1 LOAN ACCOUNT DATA ENTRY

As soon as the loan is closed, based on the advice from the Loan Closing Section, the details of disbursement are entered for the borrower. The number that will be used for this entry will be the same as the number that was allotted to the file during the loan process.

Note : It is recommended that the uniqueness of each number be ensured through a random digit that is suffixed to the account number. This number should also have the BANK branch identification so as to ensure uniqueness across the BANK. The entire number including the random digit should be communicated to the borrower. The borrower should be asked to mention this number in all correspondence with the BANK.

4.2 ACCEPT PAYMENTS

Payments could come through cash, company deduction, collection accounts or through direct debit. Since, cash will be a major mode of payment, some controls on cash receipts have been discussed below :

4.2.1 CASH RECEIPTS

- Issue of receipt from pre-numbered receipts.
- Receipts should be in duplicate with one copy for bank's records.

4.2.2 IMPORTANT CONTROLS :

- Stationery control on receipts has to be exercised. All cancelled receipts should be preserved for records and reconciliation.
- Receipt stationery should be kept under lock and key and their issue controlled and stocks reconciled.
- Cash collection has to be physically verified each day and entered in the cash count sheet.
- Cash Book total should tally with
 - a) physical cash on hand.
 - b) total of receipts issued during the day.
- The cash should be deposited into the BANK's account the following day and the acknowledgment preserved for records.

4.3 POST TRANSACTIONS

- All payments must be recorded and posted to the borrower's account without any delay. This is all the more important before sending reminders or delinquency notices.
- Transactions have to be posted into the borrower's loan account to the appropriate head of account depending on the nature of payment. All instalments are first taken towards interest. This is due to the fact that there will be no principal repayment for most part of the tenure of the loan.
- All non-regular payments must be investigated and posted to their respective heads of account. For instance, if part payments or full payments of loan principal are made, they will have to be adjusted towards the principal balance of the loan outstanding after they have been adjusted towards dues and interest.
- All overdue interest has to be posted into a separate head of account.
- Since, under the indexed product the instalment will change every three months, care should be taken to ensure that the payment received pertains to the changed instalment and not to the old instalment. In any such case, the borrower has to be informed immediately and the account brought upto date.
- Borrowers who have taken loans at other branches of the institution may pay at any branch. In case the payment pertains to some other branch, the payment should be accepted and a credit note sent immediately to the other branch with full details through a credit note.
(Refer to 9.3 of FORMS AND DOCUMENTATION)
- While posting transactions of payments that were paid at some other branch for a borrower of the current branch, the date of payment should again be recorded as the date on which it was paid and not that accounted.
- In case of collection accounts, it is important to record the date on which the payment was made at the collection account. Since there will be a time lag between the time the payment was actually made by the borrower and the advice coming to the BANK from the collecting bank, the date of payment at the collection account will be considered for late payments and not the date on which it was accounted by the BANK.
- All entries pertaining to the loan mortgage accounting should be posted into the general ledger.

Delinquency notices should be sent keeping in mind the time lag in respect of payments made at collection accounts or other branch offices. Also, in the case of deduction from employers, the amount may be received at the institution sometime after the amount was actually deducted from pay. In such cases, accounts which are regular in payment must be flagged off and delinquency letters should be generated separately after taking into consideration the expected time lag.

Note :Whenever a borrower pays at some other branch of the institution for a few months, it may be worthwhile writing to him exploring the possibility of transfer of the file to the branch at which he has been paying recently. This could also give some idea if he has left current employment and taken up some other job where salary deduction facility may be available.

4.4 PRODUCE PAYMENT COUPONS

Since the instalment will change every three months, the borrower has to be informed of the change and also be sent three additional coupons for the next quarter. Depending on the method of payment, the notification to the borrower will vary as discussed below :

- Cash

Three coupons are to be mailed to the borrower indicating the months for which the instalment is to be paid.

- Deduction at source from salary

In this case, an employerwise list of all borrowers whose instalments will change from the succeeding month will be sent a month in advance, with advice to the borrower. As was mentioned earlier, this notification should be made through personal courier.

- Debit to bank account

Where debits are made to bank account, an advice for the change in instalment should be sent to the borrower. In the same advice, a sentence could be added requesting him to ensure that adequate funds are available, more so since instalments are continuously going up.

- Collection Account

In this case three coupons in triplicate have to be mailed to the borrower.

The first of each set of three coupons should carry a message, informing the borrower of the change in instalment.

4.5 ACCEPT AND ACCOUNT PREPAYMENT

It is a common practice during the life of the loan for the borrower to make part payments or full payments towards the principal outstanding on the loan. These reasons could vary and could prove to be a useful source of information for any analysis at a future date. The reasons for prepayment should be ascertained and updated on the system. The average term of lending also stabilizes over a period of time due to prepayments, giving the institution some idea of the match of fund inflows and outflows.

Some of the common reasons could be

- Proceeds of the maturity of a Life Insurance Policy.
- Withdrawal from Provident Fund.
- Sale of personal assets like car, furniture or jewellery.
- Terminal benefits of a borrower from his employer.
- Sale of another property.
- Loans/gifts from relatives.
- Landed estate by virtue of being heir to the deceased.
- Intended sale of mortgaged property.

4.5.1 POLICY :

Since principal prepayments could be made anytime during the course of a month and amortisation done only at the end of the month, some credit should be afforded to the borrower for the principal paid during the month of prepayment.

Hence,

If prepayment is made upto and including the 7th of a month, the outstanding principal should be calculated at the end of the previous month. Simple interest at the payment rate should be charged for the number of days upto the date of prepayment on the amortised balance. The difference in simple interest between the contract and the payment rates for the number of days upto the date of prepayment should be added back to the amortised balance. Principal prepaid should then be reduced from such amortised balance. Thereafter, if the loan principal is still outstanding, a new repayment schedule should be worked out. As far as possible, ensure that the term is reduced by keeping the instalment almost at the same level. If however, the borrower insists on a longer term, then the revised instalment has to be correspondingly reduced.

If the prepayment is made after the 7th, then the loan shall be amortised at the end of the month of prepayment and the loan balance reduced by the amount of prepayment. Revised terms shall follow the same basis that has been mentioned above.

Note : The date of 7th has been chosen, since it requires time for completing paper work pertaining to deduction from salary. The BANK should give enough time for the company to be able to start deducting the revised instalment for the same month in such cases.

(Refer to 9.4.1 to 9.4.4 of FORMS AND DOCUMENTATION)

Following prepayment, the following should be done :

- Take back the coupons for the remaining months in the quarter if the payment mode is cash or through collection account.
- If the payment method is through deduction from salary, then the employer should get information on the revised instalment or on stoppage of deduction on full prepayment.

(Refer to 9.4.5 and 9.4.6 of FORMS AND DOCUMENTATION)

- If the payment is through debit account, then the paying banker should be informed of the change.

A copy of the worksheet of prepayment should be given to the borrower and one preserved in the file for records.

(Refer to 9.4.7 and 9.4.8 of FORMS AND DOCUMENTATION)

4.6 GENERATE REPORTS

The extracting and reviewing of exception reports is very important. This will include reports on excess or short amounts paid by borrower, odd amounts being paid as well as one instalment still being deducted from the employer after the full prepayment of the loan.

- Excess or short payments

This could be where the borrower has paid without a coupon. This could also be through a debit account where the latest advice has been misplaced by the paying banker. All these borrowers should be immediately contacted.

- Odd payments

This would be mainly from salary where instalment to the extent possible has been deducted and remitted to the BANK. Contact the borrower immediately.

- Additional Instalment

In case of full prepayments, the employer sometimes misses out stopping deduction and one extra instalment gets deducted. These payments after verification should be refunded.

4.7 AMORTISATION AND PREPARATION OF AMORTISATION SCHEDULES

Under the indexed product, amortisation will be done at the end of each month and a new balance worked out.

Amortisation schedules have to be prepared as and when a borrower requests such statements. Also, these statements are usually prepared at the end of the year for internal audit purposes.

4.8 SENDING DUE NOTICES

This has been discussed in detail in the Collection Section.

4.9 STATEMENT OF ACCOUNT

Borrowers generally request statements of account at the end of the year for their own records as well as for statutory compliances. A facility should exist on the computer system where these statements could be generated at any time during the year.

(Refer to 9.5 of FORMS AND DOCUMENTATION)

4.10 TRANSFERS OF FILES

Another common activity that takes place after the loan is closed, is the transfer of loan accounts from one branch of the BANK to another. The major reasons for such transfers could be :

- Borrowers taking up jobs elsewhere in the country.
- Borrowers going abroad and wanting their powers of attorney to administer the loan on their behalf.
- For easy servicing and follow up.
- Army officers being transferred frequently and their loan to be serviced at the location where the family permanently resides.

Procedure to be followed :

Originated by borrower :

If the borrower requests for transfer of file, call him for a discussion wherever possible and issue a letter confirming transfer of file.

Originated by BANK.

Contact borrowers who make payments regularly at some other branch and find out if they are willing to get their files transferred to the nearest branch of the BANK for convenient servicing. Obtain a letter in writing asking for transfer of file.

Note : Transfer of files should not be done unilaterally by the BANK without the borrower's written consent. Also, the transferee branch should allot a new loan account number and not continue with the old number.

(Refer to 9.6.1 and 9.6.2 of FORMS AND DOCUMENTATION)

4.11 HANDLING FULLY PAID OFF LOANS

Wherever a loan has been fully paid, the accounting section should verify that all payments have been made including any overdue interest. (In case the checking system is introduced, ensure that the check has been honoured before releasing the original documents to the borrower). The accounts department then sends a note to the legal department asking for documents to be released on a pre-fixed date in consultation with the borrower

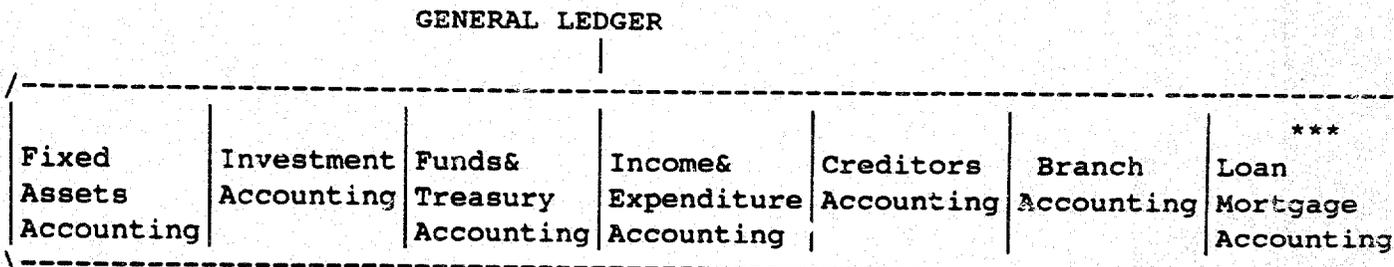
(Refer to 9.7.1 and 9.7.2 of FORMS AND DOCUMENTATION)

4.12 HANDLING ENQUIRIES

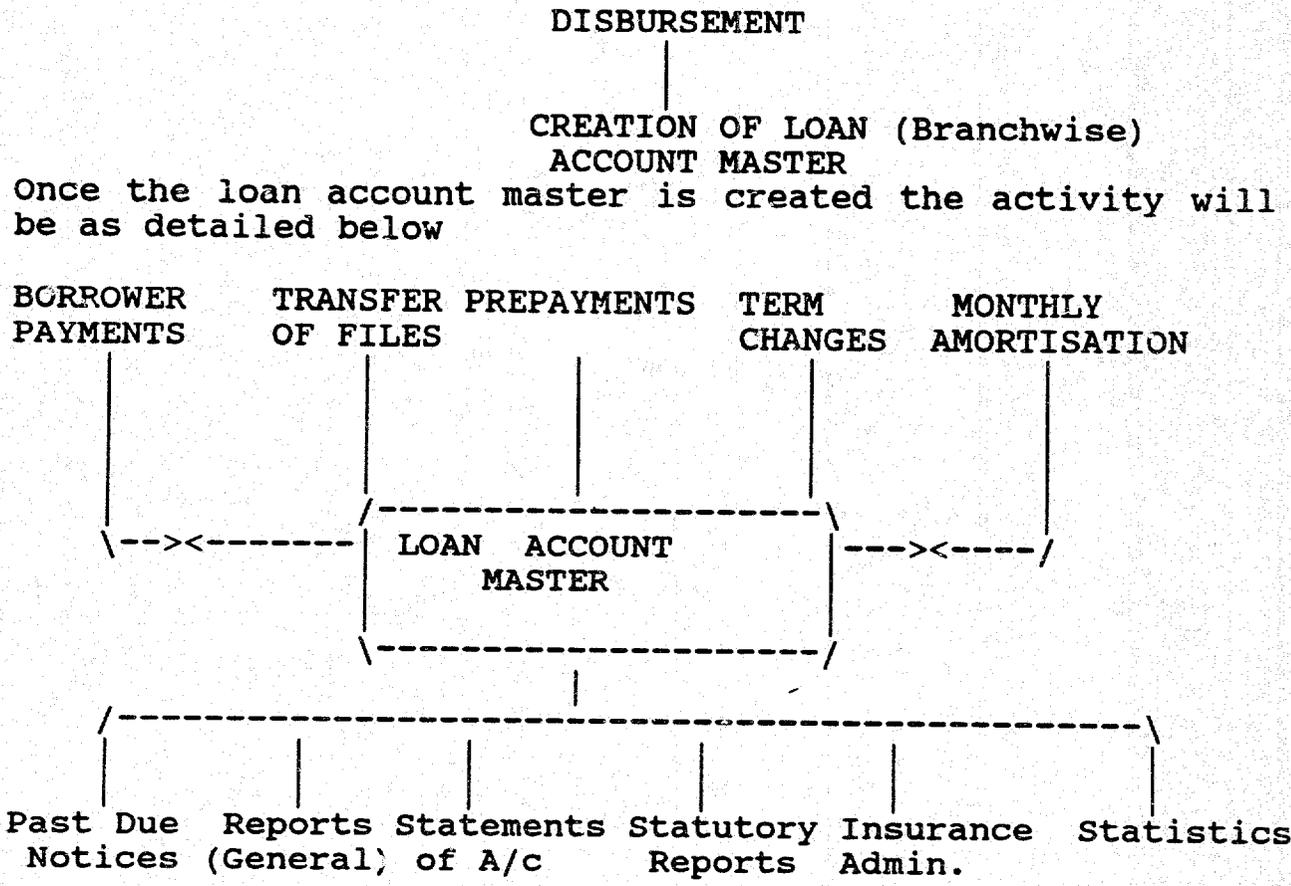
As business picks up, enquiry handling will also be one of the important activities. Borrowers would come up with a host of queries on their loans regarding prepayments, loan balances, discrepancies in payments, statements for payments made etc. All these should be dealt with in the best possible manner by affording quality service

4.13 STRUCTURE OF ACCOUNTING AND ITS FLOW IN A MORTGAGE BANK

A brief structure of the accounting in a mortgage bank is given below. Also, a sample of the accounting entries from the mortgage accounting system to the general ledger is given.



The loan mortgage accounting system will be a stand alone system in the beginning and later will be merged with the rest of the accounting system in the mortgage BANK. The flow chart of activity within the mortgage servicing will be as detailed below



The entries to be passed in the General Ledger pertaining to the Mortgage Loan Accounting would be as follows:

Dr - denotes Debit
Cr - denotes Credit
A/c- denotes Account

The loan mortgage accounting system in the format given above will be the source for entry into the general ledger or the main accounting system. For instance the collections during the week can be summarised and an entry can be passed as follows :

Cash A/c	Dr
Collection A/c	Dr
Savings A/c	Dr
To	
Interest on Housing Loan (instalments received)	
Mortgage Loan Principal (prepayments received)	
Late fee (overdue interest)	
Incidental charges (miscellaneous receipts)	
Head Office a/c (receipts for other branches).	

This entry shall be generated from within the borrower payment processing of the mortgage servicing system. Each of these heads of account shall find a place in the general ledger as Control Accounts. The sum total of the individual components of each of the heads of account in the mortgage servicing system of all borrowers put together should tally with the totals of the control accounts. In other words, the mortgage loan principal outstanding of all borrowers in the mortgage servicing system should be the same as the balance outstanding in the control account in the general ledger.

All accounting entries pertaining to amortisation and capitalisation, crediting of other branches for payments received on their behalf and transfer of files shall be passed based on the reports generated by other modules in the mortgage servicing system. These will be passed using the adjustment voucher transaction.

Examples :

Instalment received by Branch A on behalf of Branch B

In Branch A's books

Cash A/c Dr
 To Head Office Current A/c

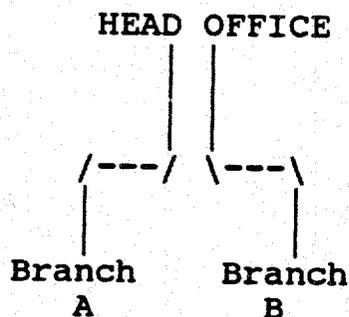
An advice is sent to Head Office and the credit note with details are sent to Branch B.

In Branch B's books

Head Office Current A/c Dr
 To
 Interest A/c
 Mortgage Loan Principal A/c
 Late fee A/c

In the books of Head Office

Branch A Current A/c Dr
 To Branch B Current A/c



In case payments are received on behalf of Head Office or vice - versa Head office will pass entries debiting or crediting the branch and the branch will also pass suitable entries.

Head office should receive extracts of each branch's current account on a monthly basis and inform branches of any discrepancies immediately.

THE COLLECTION SECTION

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5.0 THE COLLECTION SECTION

5.1 INTRODUCTION

Russia is going through a process of radical change. In these circumstances, mortgage lending being difficult, it is imperative that the quality of loans given should be of a high order. However, despite maximum care during the underwriting process, loans tend to become delinquent for a variety of reasons. A mortgage lending institution to survive, should have its collection function as a nerve centre. This function will largely decide the future of a BANK. Its success is directly related to the success of the organisation. Right from the inception of the BANK, the BANK has to be polite but very firm with delinquents as the demonstration effect has far reaching implications. The foreclosure law is in the process of being passed and its effects will not be immediately known. Hence, it is imperative that a long term objective has to be developed as far as collection is concerned. This manual goes into certain depth, the various aspects and the importance of the collection function.

5.2 IMPORTANCE OF THE COLLECTION FUNCTION

Some of the factors which emphasise the importance of a collection function are :

- Good source of Funding for the BANK.
- Good Recovery relates to improved profitability.
- A poor recovery record can make a financial institution non - viable.
- Improves Credit Rating of the Institution.

5.3 FUNCTIONS OF A COLLECTION DEPARTMENT

- To recover amounts due to the institution using different recovery methods

Some of the methods used are :

- sending letters
- making telephone calls
- sending telegrams
- conducting field visits
- contacting guarantors
- contacting referees
- contacting employer
- initiating legal proceedings
- Contacting borrowers who are in arrears and ascertaining the reasons for delinquency
- To maintain and update data on companies that are on strike or lock out

- To provide feed back to the lending department on reasons for delinquency and on companies that are on strike or lock out.
- To try and work out a long term solution with the delinquent borrower.
- To identify and negotiate with companies for obtaining deduction at source facility.

5.4 FACTORS DETERMINING THE SUCCESS OF THE COLLECTION FUNCTION

- The main external factor that shall determine the success of recovery will be the foreclosure law and its effectiveness in Russia.
- Internal factors will be mainly the quality of appraisal, quality of reporting, promptness of sending letters and early identification of potential delinquents.

5.5 EDUCATING THE BORROWER

In order to reduce the incidence of delinquencies, it is important to spend adequate time with a borrower at the time of first disbursement and explain the concept of the product. Also, impress upon the borrower at this time on the penal interest on delayed instalments and importance of quoting account number with every instalment.

5.6 LEVY OF ADDITIONAL INTEREST(LATE FEE) AND INCIDENTAL CHARGES

Additional interest has to be levied to compensate the BANK for the loss of interest during the period of delay. This interest if levied and collected will act as a deterrent to borrowers delaying the payment of their instalment. This has to be exercised right from the beginning except where there is genuine difficulty in the borrower's being able to service the loan. This interest should be higher than the contract rate to ensure that it is a deterrent to the borrower to delay payments.

BANKS generally levy an incidental charge in order to recover the cost incurred in connection with collection. Actual costs should be recorded and recovered. All costs incurred in travel upcountry to contact the delinquent borrower should be recovered as far as possible.

5.7 COLLECTION PROCEDURES

5.7.1 CLASSIFICATION OF DELINQUENTS

Classification of delinquents should be based on number of days passed due (DPD).

5.7.2 GENERATION OF A DELINQUENT LIST

- A delinquent list should be generated at the beginning of the second week of each month with reasons for delinquency locationwise.

Ensure all payments are updated before list is generated (collection accounts and branch credit notes).

5.7.3 SENDING ROUTINE REMINDERS TO BORROWERS AND SCHEDULING FIELD VISITS

Routine reminders should be sent from the Loan Processing department to all borrowers who are in arrears for the first time according to the format in the documentation and forms section of this manual. All other borrowers upto 90DPD should be sent routine reminders.

All letters should be sent after ensuring that all payments have been updated, especially from the following borrowers.

- Those paying at collection accounts.
- Those borrowers whose deductions are being made from salary.
- Those paying at other branches.

These accounts could be flagged off and reminders sent to them at pre-fixed dates.

5.7.3.1 Schedule of Delinquent Letters to be sent

- Letters to first time offenders on 20th of the month following the month in which the first instalment is due. (Refer to 9.8.1 of FORMS and DOCUMENTATION)
- Letter from collection department on 10th (warning). (Refer to 9.8.2 of FORMS and DOCUMENTATION)
- Letters to other borrowers who are 30DPD on 20th of following month with late fee notice. (Refer to 9.8.3 of FORMS and DOCUMENTATION)
- Letters to borrowers who are 60DPD on 20th of the month following 60DPD with late fee and contact by telephone established. (Refer to 9.8.4 of FORMS and DOCUMENTATION)

5.7.3.2 Special Action in case of 90DPD delinquents

- After 90DPD all borrowers are to be personally visited.
- After the visit each borrower has to be sent a letter informing him in brief the outcome of the meeting. This would serve as record in case legal action is to be initiated.
- If no amicable solution is arrived at, contact the guarantors or the employer for a part time solution.

- On all visits, the history sheet of the borrower has to be taken and all the action taken noted on this sheet for future records.
(Refer to 9.9 of FORMS and DOCUMENTATION)
- Visits should be scheduled so as to cover maximum number of borrowers in a location.

Factors to be kept in mind on visits to chronic delinquents

- establish rapport
- determine reasons for delinquency
- determine reasons for inability to meet past commitments
- suggest alternatives :
 - liquidation of assets
 - sale of property
 - temporary support from family members
 - deferment of payment for a temporary period
 - rescheduling of loan
 - collection of 2 or more instalments every month in order to clear the backlog

5.7.4 UPDATION OF RECORDS

As a result of the visit, all changes in address, employment and all conversation with the borrower has to be recorded and updated on the system.

5.7.5 SETTING TARGETS

Individual targets should be set every quarter for cases with the following distribution.

Above 30 days, 60 days, 90 days, 120 days, 150 days and above 150 days.

These targets should be reviewed and revised if necessary.

5.7.6 CO-ORDINATION AND MONITORING

- There should be good co-ordination between the branches.
- Cases should be assigned to specific field staff.
- Visits should be scheduled.
- Rapport with companies has to be built and maintained.
- Co-ordination with other departments is very important, especially on any news of any problems in any company.
- Conducting staff meetings.

5.7.7 GENERATION OF REPORTS

Summaries should be generated weekly and comparisons made. This should be over a distribution of number of months giving numbers and instalment amount outstanding.
(Refer to 9.10 of FORMS and DOCUMENTATION)

5.8 REASONS FOR DELINQUENCY

The reason for delinquency should be ascertained on visits to a borrower since future recovery is dependent on the observations made on previous visits.

Some of the common reasons for delinquency are :-

- A) Unemployment
- B) Business Problems
- C) Employed But Recently Ventured into Business
- D) External Borrowings and Other Debts
- E) Sickness
- F) Marital Problems
- G) Death
- H) Wilful delinquency

Each borrower has to be handled on a case to case basis depending on the reasons ascribed to the delinquency. All reasons have to be updated on the computer system for future reference. An analysis of the reasons for delinquency could give rise to providing feedback to the lending department on the cases who are most likely to be in arrears.

5.9 FORECLOSURE

Foreclosure should be tried only as a last resort. Branches of the BANK should not resort to foreclosure unless the permission of Head Office is obtained.

Foreclosure notices and procedures should commence only after all efforts to arrive at a long term solution has failed. However, if foreclosure laws have been tested to the advantage of the institution, foreclosure should be the method used after approval from Head Office. The demonstration effect resulting out of a foreclosure could be quite effective.

THE INSURANCE SECTION

6.0 INSURANCE SECTION

6.1 The BANK should start negotiating with leading insurance companies to cover the two main types of insurance which will reduce lending risks namely - Hazard and Property Life Insurance.

6.2 HAZARD INSURANCE

In the case of Hazard insurance, the cover should include all sorts of natural calamities as well as civil disturbances and damage due to fire, water or similar sorts of damages.

This premium should be paid yearly and should cover the increase in the value of the property.

These policies should be assigned to the BANK.

6.2.1 PROCEDURE FOR HAZARD INSURANCE :

The premium for the first year should be collected at the time of the closing of the loan. Subsequently 1/12ths of the annual premium should be added to the monthly payment and credited to an escrow account. Once the annual premium becomes due, the actual premium will be debited to the this escrow account and the amount paid to the Insurance company.

As a result of the above, the new premium amount to be added to the monthly instalment, will change and has to be informed to the borrower.

The policy should every year reflect the change in the value of property covered.

6.3 PROPERTY LIFE INSURANCE

Since, the outstanding balance in the borrower's account will increase steeply due to negative amortisation, it is important for the BANK to be covered to the extent of the outstanding housing loan in the event of the death of the borrower.

This premium should be paid yearly and should cover the increase in the balance of the outstanding loan.

These policies should be assigned to the BANK.

This policy should be enforced on the borrower wherever possible and should be made compulsory for all self - employed borrowers.

6.3.1 PROCEDURE FOR PROPERTY LIFE INSURANCE

As in the case of the hazard insurance, the first year's premium should be collected at the time of closing. Thereafter, 1/12ths of the estimated annual premium will be added to the monthly instalment and this will be credited to an escrow account. On the annual premium becoming due, the escrow account will be debited with the actual premium paid to the insurance company.

The next year's premium is then estimated and the borrower informed accordingly of the monthly addition to the instalment due to the premium on the property insurance policy.

The insurance policy should reflect the changing outstanding loan balance.

THE FILING SECTION

7.0 FILING SECTION

- 7.1 This section should maintain all files and records of the mortgage lending activity. All these records should be maintained in a disaster - proof location. Secondary records should be maintained at a remote location which should enable reconstruction of records in case of any exigency.

All original documents like Title to property, Life Insurance Policies, etc. should be kept separate from the file in specially designed envelopes and should be identified by the loan account number. **A sample of this special envelope has been enclosed with this report.** A list of the contents of this envelope should be available in the file. Files will continuously be requisitioned by various employees of the bank for various purposes. This is the main reason for keeping valuable documents separately to avoid the risk of losing, misplacing or mishandling these documents.

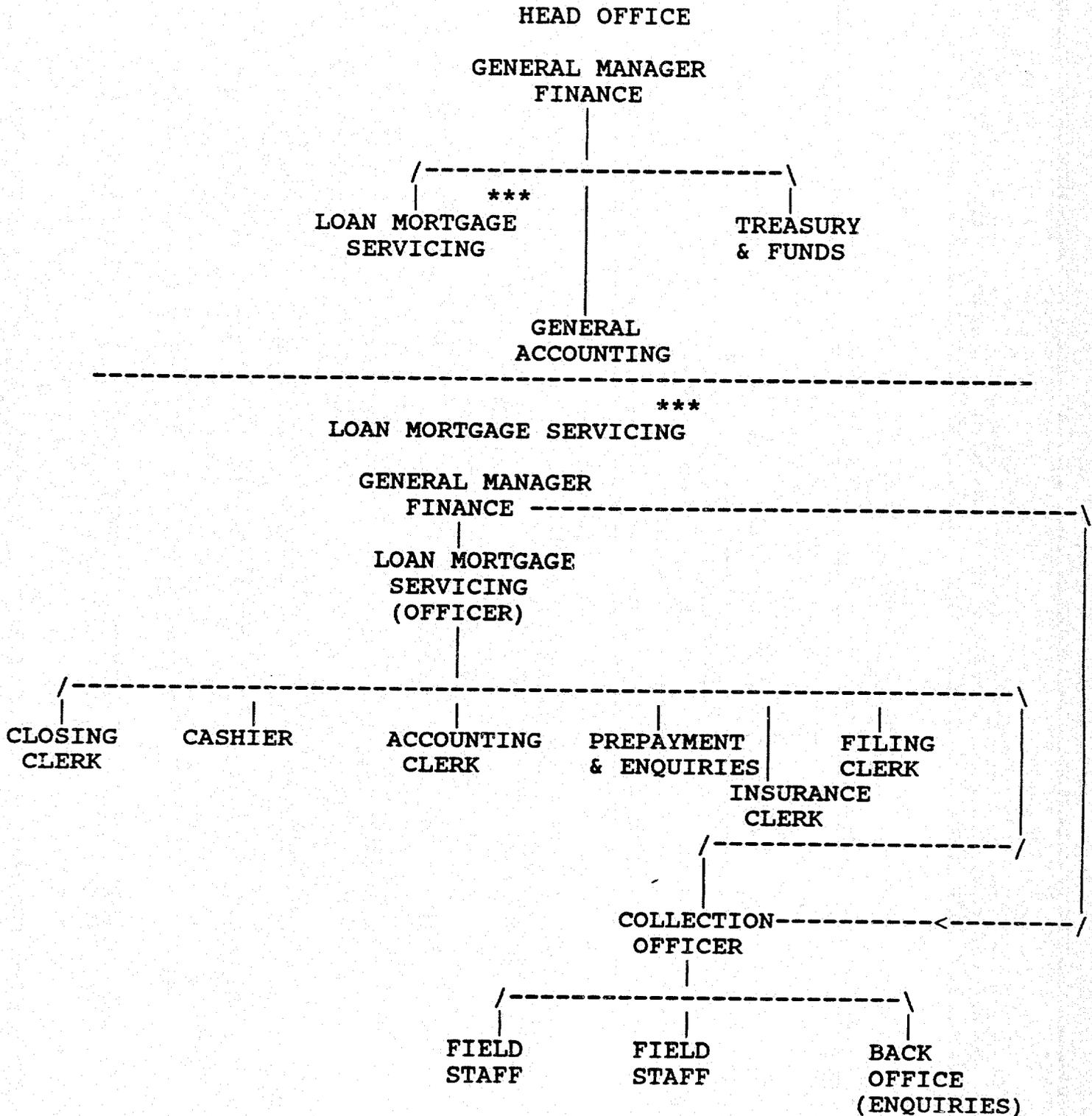
The filing system will on advice from the accounts department hand over the documents to the legal department on fully paid off loans.

A comprehensive computer system should be designed to take care of the filing system including tracking of files.

**ORGANISATION CHART OF
THE SERVICING DEPARTMENT**

8.0 ORGANISATION CHART OF THE SERVICING DEPARTMENT

8.1 The organisation chart for the loan servicing department for a Head Office has been detailed as under. The chart for branches - small, medium and large can be drawn up modifying these, based on volumes.



8.2 JOB RESPONSIBILITIES :

Various job responsibilities have been described and depending on volumes, more than one job description can be handled by one person.

8.2.1 LOAN MORTGAGE SERVICING OFFICER

- Be responsible for the servicing function.
- Read and distribute mail.
- Co-ordinate with the collection section for generation of reports.
- Co-ordinate inter branch operations.
- Conduct staff meetings.
- Generate reports for statistical evaluation.
- Arrange for cash count every day.
- Co-ordinate generation of coupons.
- MIS .

8.2.2 CLOSING CLERK

- Co-ordinate with the lending department for fixing closing dates.
- Send letter to borrower for closing date.
- Do the closing activity.
- Co-ordinate loan account data entry.

(Closing clerk will be able to handle upto 20 closings a day if all other activity pertaining to closing are ready prior to the closing date like fixing of closing dates, getting disbursement ready, loan agreement draft ready etc.)

8.2.3 CASHIER

- Accept payments
- Enter data
- Count cash and tally with receipts issued at the end of the day

(Can handle between 200 and 250 receipts a day)

8.2.4 ACCOUNTING CLERK

- Check cash every day.
- Pass accounting entries for payments received on a periodical basis.
- Pass entries for transfers of files and all adjustments.
- Pass inter branch accounting entries and do inter branch reconciliation.

- Do bank and mortgage loan principal, interest and instalment reconciliation and collection account reconciliation.
- Reply to borrower's letters.
- Co-ordinate with employers on deductions from salary on new deductions, prepayments.
- Generate coupons on monthly basis for borrowers whose instalments are changing in the subsequent month.
- Handle fully paid off loans.

8.2.5 PREPAYMENT AND ENQUIRIES CLERK

- Handle all enquiries including statements of account
 - Handle prepayments and prepayment enquiries
 - Generate prepayment worksheets
 - Co-ordinate generation of new coupons on part prepayment
 - Prepare covering letters for changes on prepayments to borrower and employer.
- (Can handle upto 20 prepayments a day)

8.2.6 INSURANCE SECTION CLERK

- Co-ordinate with the insurance company
- Co-ordinate for passing of entries on escrow
- Inform borrowers on changing premia every year or whenever there is a prepayment or a term change.
- Co-ordinate with collection section on any dues.

8.2.7 COLLECTION SECTION

Since collection is going to assume major importance, the job chart above envisages the reporting of the collections department directly to the General Manager. In the case of branches, this section should report to the Branch Manager.

8.2.7.1 COLLECTION OFFICER

- Generate weekly reports and summaries.
- Consolidate statements for all branches.
- Distribute borrower visits by field staff.
- Set targets for department and individual field staff.
- Work out with employer for deduction at source.
- Circulate list of new employer deductions to all branches.
- Circulate any market news on any activities of any company.
- Co-ordinate with lending department and accounting section.
- Conduct staff meetings.
- Review cases above 90DPD
- Personally follow up on sticky cases.
- Be aware of legal procedures pertaining to foreclosure.
- Work out MIS and Statistics.

8.2.7.2 FIELD STAFF

- Field visits to be undertaken.
- All correspondence with borrower to be recorded.
- Visit reports and outcome to be noted in the file and on the computer system.
- Updation of addresses and records.

8.2.7.3 BACK OFFICE STAFF

To handle borrowers who come with delinquent letters and advise them on payments.

Note : Multiple job descriptions can be handled by one person depending on the volumes. For instance, in a branch where there are only 2000 accounts and 50 closings a month, the closing clerk could do the insurance activity as well as responding to borrower letters. On the other hand, in a large branch of 15000 accounts, you would require more than one person to handle borrower payments because the distribution of payment methods may require another person to enter payments pertaining to collection accounts, which could be substantial in number

FORMS AND DOCUMENTATION

9.1.1 LOAN CLOSING

**LETTER TO BORROWER ON CLOSING OF LOAN AND SERVICING
PROCEDURE :**

We are pleased to inform you that we are closing your mortgage loan at _____(time) on _____(date) at our office. Please note that you will be required to pay a sum of Rb. _____ at the time of closing. This constitutes the Pre-instalment interest for the month of _____ and insurance premia for hazard and property life insurance of Rb. _____.

We are also outlining the servicing procedure for your loan. Please do not hesitate to call us if you have any queries.

Yours sincerely,
for BANK

(LOAN CLOSING SECTION)

9.1.2 LOAN CLOSING

LOAN SERVICING PROCEDURE

Payment Method

You have one of four** choices to make monthly payments to the bank which please indicate.

Payroll deduction

An agreement has already been drawn up with your employer for deduction of instalments pertaining to employees of your company.

(**in case payroll deduction facility exists, the other three methods of payment need not be outlined.)

Debit to bank account

The bank can debit your account for the mortgage payment if you have a bank account with us. Please provide the following information

Name _____
Address _____
Type of Account Savings _____ Current _____
Bank Account no. _____ Branch _____

If you do not have an account with us please indicate the type of account you wish to open :

Saving _____ Current _____
Name _____
Address _____

Cash

You will make your monthly payment at the BANK. Coupons will be given to you at the time of closing and thereafter mailed to you every three months.

Collection Account :

For your convenience we have collection accounts where payments are accepted on behalf of the BANK. A list of such collection accounts is enclosed. In case you wish to make your remittance at our collection account convenient to you please indicate :

Name of the collection account : _____

Insurance :

Note :

In case Hazard and Property life insurances become available at the time of mortgage lending operations, the following two paragraphs have to be added in the servicing procedure.

Hazard Insurance :

Hazard insurance on the property will be required and the premium for the first year will be Rb._____.

Property Life Insurance :

Property life insurance will be required on the property to the extent of outstanding loan balance. The premium for the current year will be Rb._____.

Insurance premium on both types of insurance will be changed every year to cover the value of property as well as the outstanding loan balance. This will be informed to you at the beginning of each year and will be added to your monthly payments.

DECLARATION

I authorise that the BANK secure and process my hazard/Property life insurance policies.

Signature

9.2.1 PAYMENT METHODS

AUTHORITY LETTER

Name of Co & address

Date

I have availed a loan of Rb _____ from BANK to be repaid by me over a period of _____ months.

I hereby authorise you and request you to deduct and remit to BANK the amount mentioned above for the next three months. The payment may change each quarter and the bank will inform you a month in advance of the new instalment.

I agree that your liability will be confined to making arrangement for deduction of the instalments from salary and remitting the amount to BANK. I shall entirely be responsible for any consequences on account of any non-payment of any instalments for reasons beyond your control, such as in the event of proceeding on leave without pay or my drawing advance salary without deduction of the instalment. In any case of non-deduction, it shall be my responsibility to pay the BANK.

I also hereby further authorise you to deduct my bonus / ex-gratia payments / interest subsidy / terminal or other benefits amounts payable by me to BANK either towards the principal amount of the loan, interest, delayed interest or otherwise and remit the same to BANK on specific advice from the BANK.

Please quote my Loan Account Number _____ while remitting instalments to the BANK at the following address:

BANK
ADDRESS

Name _____ Employee No if any _____
Dept _____ Designation _____
Office/Location where employed _____ Phone No. _____

Forwarded Through _____
for BANK

Note

This letter has to be modified to comply with laws in Russia. This form is not a legal assignment and is terminated if the employment ceases

9.2.2 PAYMENT METHODS

DEBIT BANK ADVICE

Name _____
Address _____
Date _____

The Branch Manager

Dear Sir,

Sub : Remittance of monthly instalments to BANK

I have taken a Housing loan from BANK. The instalments to be paid to the BANK will vary every three months and will be informed to you by the BANK.

The current instalment is Rb. _____ which has to be remitted to the bank on the 25th of each month, commencing from the month of _____ at the following address :

Name and Address of the BANK

The amount so remitted may please be debited to my savings/current account number _____ with you.

While remitting the amount each month to BANK, kindly ensure the following :

- i) My name and Loan Account Number _____ with BANK should be quoted.

You are requested to continue making these payments until I issue instructions to the contrary.

Thanking you

Yours faithfully,

C.C. To : BANK - with endorsement.

9.2.3 PAYMENT METHODS

CASH PAYMENT COUPON

Payment month Payment no. Due on/or before Amount

A/c Number

Name of borrower

Message line for change in instalment

9.2.4 PAYMENT METHODS

COLLECTION ACCOUNT COUPON

Coupon no. _____

LOAN REPAYMENT
NAME OF COLLECTION ACCOUNT

_____ Branch

Paid into the Credit of Collection Account of BANK the sum
of Rb. _____ (Roubles _____)

Borrowers Name _____

Account no. _____ for the month of _____.

Message Line for change in instalment

9.3 CREDIT NOTE ADVICE

BANK
MOSCOW

To
Accounts Department
St. Petersburg

Credit Advice # _____

Outward Ref # _____

Attention (Name) _____

We have credited Branch Current Account and debited Bank account with the amount mentioned below.

Being receipts at our Office between _____ (date) and _____ (date) pertaining to your branch as per details below.

Grand total for your branch _____ *

Sr. No.	Account no.	Borrower Name	Amount Rb.	Date	Rcpt/Ref No.
---------	-------------	---------------	------------	------	--------------

- 1.
- 2.
- 3.

*

for BANK

Authorised signatory

9.4.1. PREPAYMENT

INTENTION TO PARTLY PREPAY THE LOAN

(Name & Address)

Date

Dear Mr / Ms Borrower

We are in receipt of your letter dated _____ expressing your intention to partly prepay your loan. The calculations have been given below :

Figures in Roubles

Outstanding Loan	_____
(Amortised depending on the month of intention to prepay)	
Instalments for months upto prepayment	_____
Overdue interest if any	_____
Others	_____
Total	_____

The principal outstanding against your loan after the proposed prepayment of Rb _____ will be Rb _____ as of _____. (month succeeding the amortisation date considered for prepayment). We will revise the terms for insurance based on the loan outstanding and inform you accordingly. The revised payment schedule is as given below

Instalment for next quarter beginning (date as above)

Revised Term (No of months) _____

These figures are valid until _____ (end of amortisation month)

Should you decide to prepay, please contact us before _____ (date same as in the above sentence) personally or by telephone.

Yours faithfully

(Accounting Section Representative)

9.4.2 PREPAYMENT

INTENTION TO FULLY PREPAY THE LOAN

(Name & Address)

Date

Dear Mr / Ms Borrower

We are in receipt of your letter dated _____ expressing your intention to prepay the entire loan. The calculations have been given below :

Figures in Roubles

Outstanding Loan

(Amortised depending on the month of intention to prepay)

Instalments for months upto prepayment

Overdue interest if any

Others

Total

These figures are valid until _____ (end of amortisation month)

Should you decide to prepay, please contact us before _____ (date same as in the above sentence) personally or by telephone.

Yours faithfully

(Accounting Section Representative)

9.4.3 PREPAYMENT

PREPAYMENT - ACTUAL (Part)

(Name & Address)

Date

Dear Mr / Ms Borrower

We are in receipt of your payment on _____ (date) of Rb. _____ towards part prepayment of your loan. The above amount has been adjusted as follows :

Figures in Roubles

Outstanding Loan (Amortised depending on the month of prepayment)	_____
Instalments for months upto prepayment	_____
Overdue interest if any	_____
Simple interest if prepayment is made on or before 7th	_____
Others	_____
Total	_____

The principal amount outstanding against your mortgage loan as on _____ (date) will be Rb. _____ which would be repayable as under

Instalment for next quarter beginning (date as above)

Revised Term (No of months) _____

Yours faithfully

(Accounting Section Representative)

9.4.4 PREPAYMENT

PREPAYMENT - ACTUAL (Full)

(Name & Address)

Date

Dear Mr / Ms Borrower

We are in receipt of your payment on _____ (date) of Rb. _____ towards full prepayment of your loan. The above amount has been adjusted as follows :

Figures in Roubles

Outstanding Loan (Amortised depending on the month of prepayment)	_____
Instalments for months upto prepayment	_____
Overdue interest if any (Simple interest if prepayment is made on or before 7th)	_____
Others	_____
Total	_____

You may kindly get in touch with our legal department for collecting the relevant documents pertaining to the mortgage loan on _____ (date).

Yours faithfully

(Accounting Section Representative)

9.4.5 PREPAYMENT

LETTER TO EMPLOYER ON CHANGE IN INSTALMENT DUE TO PART
PREPAYMENT

(Company Name and address)

Date :

Dear Sirs,

Sub : Deduction of instalment from salary of Mr/Ms.
BORROWER

Loan Account No. _____ Employee No _____ Department _____

Mr / Ms BORROWER who is working in your organisation has been sanctioned and disbursed a loan towards which an instalment of Rb. _____ is presently being deducted from his /her salary and remitted to us.

Mr. BORROWER has now partly repaid his /her loan. As a result of the above prepayment, we request you to remit to us Rb. _____ for the next three months commencing _____.

We take this opportunity to thank you for the kind co-operation extended to us in the matter.

Yours faithfully
for BANK

AUTHORISED SIGNATORY

9.4.6 PREPAYMENT

LETTER TO EMPLOYER FOR STOPPING DEDUCTION IN CASE OF FULL PREPAYMENT.

(Name and address of the company)

Date:

Dear Sirs,

Sub : Deduction of monthly instalment from the salary of
Loan Account no. _____
Employee no. _____
Department no. _____

(Mr / Ms BORROWER) who is working in your organisation had been sanctioned and disbursed a mortgage, towards which a monthly instalment of Rb. _____ is being deducted from his/her salary and remitted to us.

The above mentioned employee has now fully repaid his/her loan. As a result of the above prepayment we request you to discontinue the said deduction from his/her salary from the month of _____.

We take this opportunity to thank you for the kind co-operation extended to us in the matter.

Yours faithfully
for BANK

AUTHORISED SIGNATORY

9.4.7 PREPAYMENT

PREPAYMENT WORKSHEET (PART)

PART - PREPAYMENT WORKSHEET as on 30-APR-94

Loan Account Number :
 Name :
 Loan Amount : Rb.
 Contract Rate Of Interest : % per month
 Payment Rate : % per month
 Term (Years) - Original :

	Amount (Rb.)
Principal Outstanding as on 30-Apr-94	
Less : Prepayment Amount	-----
Principal Balance after prepayment	=====

New term details
 Principal Outstanding as on 01-May-94
 New Term (Months)
 Instalment for next quarter including insurance

Payment Details
 Prepayment Amount
 Instalments upto April '94
 Additional interest
 Incidental charges
 Simple Interest for ___ (no of days)
 Others

Total	----- *** =====
-------	-----------------------

Amount of Rb.*** received vide receipt no _____ dated _____

Remarks :

Letter to borrower	Y
Actual/Intention	A

Prepared By _____ Checked by _____ Authorised By _____

9.4.8 PREPAYMENT

PREPAYMENT WORKSHEET (FULL)

PART - PREPAYMENT WORKSHEET as on 30-APR-94

Loan Account Number :
 Name :
 Loan Amount : Rb.
 Contract Rate Of Interest : % per month
 Payment Rate : % per month
 Term (Years) - Original :

	Amount (Rb.)
Principal Outstanding as on 30-Apr-94	
Less : Prepayment Amount	-----
Principal Balance after prepayment	=====

Payment Details
 Prepayment Amount
 Instalments upto April '94
 Additional interest
 Incidental charges
 Simple Interest for ___ (no of days)
 Others

Total	----- *** =====
-------	-----------------------

Amount of Rb. *** received vide receipt no _____ dated _____

Remarks :

Letter to borrower	Y
Actual/Intention	A
Letter to Legal department	Y

Prepared By _____ Checked by _____ Authorised By _____

9.5 STATEMENT OF ACCOUNT

(Name & Address)

Date

Loan Account number _____

STATEMENT OF ACCOUNT FOR THE PERIOD 01-APRIL-1993 TO 31ST MARCH 1994

BORROWERS : _____ (Name) (All amounts in Roubles)

Loan Amount : Current instalment :

Disbursements upto date :

	Principal	Monthly instalment	Interest	Other Receipts
Opening Balance				Over due int.
Recble during the year				Prepayment
Recd.during the year				Others
O/s on 31-Mar-94				

Transactions during the year :

Date Accounted	Receipt no.	Particulars	Amount
29-APR-1993	693125	Preinstal. interest	10000
01-JUN-1993	241483	Monthly installment	84000
29-JUN-1993	241486	Monthly installment	89000
28-JUL-1993	241488	Monthly installment	89000
26-AUG-1993	250271	Monthly installment	100000
25-SEP-1993	250273	Monthly installment	100000
03-NOV-1993	250277	Monthly installment	100000
24-NOV-1993	250279	Monthly installment	125000
16-DEC-1993	250293	Monthly installment	125000
01-FEB-1994	370552	Monthly installment	125000
26-FEB-1994	370556	Monthly installment	155000
24-MAR-1994	370559	Monthly installment	155000
30-MAR-1994	370570	Monthly installment	155000

for BANK

Authorized signatory

9.6.1 TRANSFER OF FILE

LETTER TO BE SENT TO BORROWER FROM BRANCH TRANSFERRING THE FILE

(Name and address)

Date:

Dear Mr/Ms BORROWER

Sub : Transfer of your Loan account : Account No. _____

As requested by you, we are transferring your file to our St. PETERSBURG office at the following address

(Name and address of St. PETERSBURG office of BANK)

Our St. PETERSBURG office will inform you the new loan account number.

In future, please correspond with our St. PETERSBURG office. For your information, instalments upto _____ (month) have been received and transferred to our St. PETERSBURG branch.

Yours faithfully

(Accounting Section Representative)

9.6.2 TRANSFER OF FILE

LETTER FROM BRANCH TO WHICH THE FILE HAS BEEN TRANSFERRED

(Name and address)

Dear Mr/Ms BORROWER

Sub : Transfer of your loan account

As desired by you, your loan account has been transferred from our MOSCOW office.

Your new loan account number is _____

You are requested to quote this account number in all future correspondence.

Please note that instalments until _____ have been paid and transferred to us from our MOSCOW office.

Yours faithfully

(Accounting Section Representative)

9.7.1 FULLY PAID OFF LOANS

LETTER TO BORROWER FOR COLLECTION OF DOCUMENTS ON FULLY PAID OFF LOANS

(Name and address)

Dear Mr/Ms BORROWER

Sub : Full settlement of your loan - Account No.: _____

This is to inform you that your loan account with us stands fully paid off. We have received all instalments due from you upto date.

You may please get in touch with Mr/Ms _____ of our legal department to collect documents pertaining to your loan.

We thank you for having been associated with the BANK and look forward to serving you in the future.

Yours faithfully
for BANK

Authorised Signatory

9.7.2 FULLY PAID OFF LOANS

INTERNAL MEMO TO THE LEGAL DEPARTMENT FOR RELEASE OF DOCUMENTS

From
Accounts Section

To
Mr/Ms
Legal Department

Mr/Ms _____ (Loan Account No : _____) has paid all dues pertaining to the above mentioned loan. The borrower will contact you on _____ for collecting his original documents.

Yours faithfully

Accounts Section

9.8.1 DELINQUENCY NOTICES

Notice on first delinquency

(Name and Address)

I was rather surprised when your account was referred to me by our collections department due to non-payment of instalments.

As of date your instalment for _____(Month) is due.

You would recall and appreciate that we have been very prompt in responding to your call for assistance, however it seems you have failed to reciprocate.

It is quite surprising that you have allowed your account to be delinquent so early in the life of your loan. I am sure there is a genuine reason for the delay in remitting your instalment.

I would like you to meet me personally to discuss this matter,

Thanking you,
for BANK

Customer Service Representative

9.8.2 DELINQUENCY NOTICES

FIRST NOTICE

A REMINDER

DATE

WE ARE SENDING THIS TO YOU AS A SERVICE, TO HELP MAKE SURE YOU AVOID HAVING ANY LATE CHARGES ADDED TO YOUR MORTGAGE LOAN PAYMENT. SINCE YOUR "GRACE PERIOD" FOR THIS MONTH WILL END ON THE 20TH, WE THOUGHT YOU'D LIKE TO HAVE A QUICK REMINDER NOT TO LET THE TIME SLIP UP ON YOU. PLEASE ARRANGE TO REMIT Rb. _____ BEFORE THE 20TH OF THIS MONTH.

THANKS FOR LETTING US SERVE YOU.

LOAN NUMBER _____
DUE DATE _____

BANK

9.8.3 DELINQUENCY NOTICES

SECOND NOTICE

DATE

DEAR CUSTOMER,
OUR RECORDS INDICATE THAT THE FOLLOWING PAYMENT(S) ARE DUE ON YOUR HOUSING LOAN ACCOUNT. THIS IS TO ADVISE YOU THAT A LATE FEE HAS BEEN CHARGED TO YOUR ACCOUNT. PLEASE PAY THE EXACT AMOUNT SHOWN BELOW.

BRANCH _____	LOAN # _____	DUE DATE _____	PRINCIPAL _____	INTEREST _____	ESCROW _____
		LATE FEES DUE _____			
		OTHER FEES DUE _____			
		TOTAL DUE _____			

BANK

9.8.4 DELINQUENCY NOTICES

THIRD NOTICE

DATE

DEAR CUSTOMER:
OUR RECORDS INDICATE THAT THERE ARE NOW TWO(2) PAYMENTS DUE ON YOUR HOUSING LOAN. IT IS IMPORTANT THAT THE PAYMENTS BE MADE PROMPTLY. IF THE PAYMENTS DUE ARE NOT PAID BY THE 20TH OF THIS MONTH, THERE WILL BE AN ADDITIONAL LATE CHARGE OF _____.

BRANCH _____	LOAN# _____	DUE DATE _____	PRINCIPAL _____	INTEREST _____	ESCROW _____
		LATE FEES DUE _____			
		OTHER FEES DUE _____			
		TOTAL DUE _____			

BANK

9.10 DELINQUENCY SUMMARIES

Follow up summary (All amounts in Roubles)
 Bank Monthwise o/s report Last amortised Date :

Months Amount outstanding Cumm amt Cumm # of Pre Instalment (PI)
 Cases

0	139400	38179400	30	30
1	6343500	38040000	75	35
2	3581900	31696500	40	9
3	2721400	28114600	31	2
4	2435100	25393200	29	5
5	1844600	22958100	24	3
6	1498000	21113500	21	0
7	1498000	19615500	21	2
8	1423000	18117500	19	4
9	1231100	16694500	15	0
10	1231100	15463400	15	0
11	1231100	14232300	15	1
12	1151100	13001200	14	1
13	1077700	11850100	13	1
14	996000	10772400	12	0
>14	9776400	9776400	12	12

38179400

Months Amount outstanding Cumm amt Cumm # of Monthly Instalment (EI)
 Cases

0	2681480	453898570	230	230
1	186771000	451217090	1701	881
2	84500500	264446090	820	292
3	52657400	179945590	528	201
4	32366100	127288190	327	140
5	17267500	94922090	187	42
6	13511700	77654590	145	30
7	10665000	64142890	115	21
8	87630000	53477890	94	18
9	7046700	44714890	76	15
10	6072600	37668190	61	8
11	5284000	31595590	53	7
12	4613600	26311590	46	11
13	2987600	21697990	35	3
14	2815500	18710390	32	6
>14	15894890	15894890	26	26

453898570

- Pl Note :
1. O/s for 0 months is actual o/s for months (0.5)
 2. O/s for 1 to 14 months is on the basis of PI/EI
 Eg · o/s for 2 months is summation of
 all PI/EI for accounts with o/s ≥ 1.5 mnths
 3. o/s 14 months is $(o/s - 14 * EI/PI)$ for all loan accounts
 with o/s months ≥ 14.5