

## Credit Risk Management Module - Case risk measurement

Maize Valley branch of Centenary Bank was one of the most successful branches in agricultural lending. It has grown rapidly. A new branch manager has been in office since 1 October 2013 as there were some doubts about the performance of his predecessor. The new branch manager has been very disciplined in ensuring good appraisals and analysis by loan officers and has held excellent credit committees. Both were confirmed by a recent audit report.

Recently the branch has seen an increase in PAR and the Head Office wants the branch to stop lending to agriculture. The branch manager sees a lot of good lending opportunities and has the feeling the loans the branch is disbursing are generally good loans.

The branch manager decides to analyze his agricultural portfolio to argue against a lending stop. He first looks at the trends in portfolio migration of his agricultural portfolio. He has the following data at hand:

	Mar-14	Apr-14	May-14
Current	3,000,000	3,100,000	2,900,000
PAR 1-30	120,000	160,000	100,000
PAR31-60	85,000	35,000	80,000
PAR 61-90	50,000	50,000	24,500
PAR 91-120	40,000	25,000	48,000
PAR 121-150	20,000	20,000	23,750
PAR 151-180	-	12,000	20,000

He also wants to know if the loans that were given out since he took over the branch were of better quality than loans given out under his predecessor. He has organized the following data on monthly disbursement amounts:

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Amount disburs	300,000	305,000	310,000	295,000	300,000	290,000	320,000	280,000	290,000	285,000	300,000	310,000	320,000

Then he pulled data from the system that showed him the amounts in arrears+ write offs by month of disbursement.

MOB	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
1		3,000	1,100	1,500	-	-	-	-	-	-	-	-	-
2	3,000	9,000	1,100	-	-	-	-	-	-	-	-	-	-
3	3,000	10,000	1,100	-	-	-	-	-	-	-	-	-	-
4	5,000	10,000	4,000	2,000	-	1,000	-	1,100	-	-	-	-	-
5	6,000	8,000	6,000	6,000	-	1,300	-	-	-	-	-	-	-
6	8,000	8,000	70,000	12,000	300	1,400	-	3,000	-	-	-	-	-
7	15,000	12,000	130,000	12,000	800	1,500	-	-	-	-	-	-	-
8	15,000	16,000	17,000	12,000	1,300	1,800	-	-	-	-	-	-	-
9	15,000	16,000	17,000	12,000	1,500	-	-	-	-	-	-	-	-
10	13,000	16,000	16,000	12,000	-	-	-	-	-	-	-	-	-
11	21,000	26,000	25,000	-	-	-	-	-	-	-	-	-	-
12	25,000	30,000	-	-	-	-	-	-	-	-	-	-	-
13	25,000	-	-	-	-	-	-	-	-	-	-	-	-

Exercise: Calculate migration rates and vintage analysis. Analyze the data and help the branch manager argue his case to avoid a lending stop.