



Pursuant to Articles 9 and 25 of the Law on FB&H Banking Agency (“Official Gazette of FB&H”, Nos. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12), Article 2 of the Law on Microcredit Organisations (“Official Gazette of FB&H”, No.: 59/06), Article 13 of the Law on Protection of Guarantors in the Federation of Bosnia and Herzegovina (“Official Gazette of FB&H”, No.: 100/13) and Article 18 of the Articles of Association of the FB&H Banking Agency (“Official Gazette of the Federation of B&H”, No.: 42/04), the Management Board of the FB&H Banking Agency, at its 56. meeting held on 18.03.2014. adopted the following

**DECISION
ON MINIMUM STANDARDS FOR DOCUMENTING LENDING ACTIVITIES
OF MICROCREDIT ORGANISATIONS AND ASSESSMENT OF CREDIT
STANDING**

Article 1

This Decision prescribes minimum standards for documenting lending activities of microcredit organisations (hereinafter: MCO), and conditions for assessing and documenting credit standing of a principal debtor, co-debtor and guarantor for loans approved by MCOs, including loans with guarantors as security instruments.

Article 2

- (1) A micro loan (hereinafter: Loan) may be approved by the MCO only based on the relevant written agreement.
- (2) Any changes to maturity or other loan conditions shall be made by the MCO only in writing, through the relevant amendments (annexes) to agreements.

Article 3

MCO shall ensure that a loan file is open for each individual approved loan before entering into a loan agreement, which shall be maintained and updated until final loan repayment.

Article 4

- (1) MCO shall identify all private individuals and legal entities aiming to be their customers and for that purpose provide all information and documents prescribed under the Decision on Minimum Standards for Activities of Microcredit Organisations on AML and Terrorism Financing.
- (2) MCO shall request and obtain at least the data, information and documentation prescribed under this Decision from a loan applicant whose application is taken into consideration.
- (3) If a loan application has been rejected, MCO shall return all generated documentation to the loan applicant with an accompanying letter.

Article 5

The loan file must contain all documents based on which a loan has been approved, as well as any other documents referring to the approved loan, and it shall comprise at least the following:

- a) Loan application signed by the applicant, stating a loan utilisation purpose;
- b) Certified copy of an identification document and certificate of place of residence (e.g. ID Card, passport, residence certificate, etc.) of the principal debtor, co-debtor and guarantor for private individuals;
- c) Certified copy of the commercial registry excerpt of the principal debtor, co-debtors and guarantors for legal entities;
- d) Certified copy of the ruling by the competent authority of the principal debtor, co-debtor and guarantor for sole traders;
- e) Original copy of loan agreement with repayment schedule;
- f) The latest financial statement, including balance sheet, income statement, cash flow statement, etc., signed by the responsible person on behalf of the legal entity;
- g) Certificate of employment and salary or amount of annual income of an applicant for private individuals and documents on other sources of income (e.g. lease agreement, certified statement of the applicant on other income that cannot be documented in any other way);
- h) Documentation referring to the control and evaluation of financial status of the principal debtor and its capacity to repay a loan under agreed conditions, with the relevant analysis/verification made by the responsible employee of the MCO, confirming that the cash flows of the principal debtor are sufficient for loan repayment;
- i) Decision of the competent body of the MCO on loan approval containing maturities, interest and other conditions under which the loan has been approved;
- j) Documentation confirming loan purpose;
- k) If the applicant represents another party, a copy of the document confirming such fact must be provided;
- l) The documents referring to a loan covered by a security instrument (documentation referring to loan security instruments or copies of documents such as promissory notes, pledge, mortgage, insurance, etc.);
- m) Documents stating an amount of cash coverage for assets insured with the relevant institution, if possible;
- n) Documents on costs of works (preliminary invoice) for a loan approved for construction, reconstruction or renovation of real estate – reports on appropriate use of loan proceeds made by the MCO or documents on acceptance of finished works confirming a completion of such works;
- o) In case of amendments to the loan agreement (following the loan approval) - documents that confirm and define this;
- p) Document (a bank statement) confirming loan disbursement, and documents for monitoring and confirming (full or partial) loan repayment and contain a source (method) of loan repayment (payments by the principal debtor or through a collateral enforcement), and in case of prepayment, original copy of the principal debtor's statement on reasons for prepayment;
- q) Documents reflecting financial status of guarantors for the granted loan;
- r) Documents containing information on measures taken by the MCO towards a defaulting principal debtor (e.g. warnings, activation of debtor's security instruments, etc.);

- s) All correspondence and documentation reflecting contacts (if any) between the MCO and the principal debtor, co-debtor or guarantors following conclusion of the loan agreement (e.g. correspondence, report on visit to the beneficiary, etc.),
- t) Written consent for use of data from the CLR (if any) for the principal debtor and co-debtor or guarantor under the loan, and relevant reports from the CLR;
- u) Evidence that the loan guarantor has been informed by the MCO on loan conditions, financial status of the principal debtor and other relevant information;
- v) Credit standing assessment of the principal debtor, co-debtor and guarantor with the documentation confirming such an assessment and credit committee report on approval/rejection of the loan application.

Article 6

- (1) Before conclusion of a loan agreement, MCO shall perform the credit standing assessment of the principal debtor, co-debtors and guarantors based on relevant documentation and data obtained from the principal debtor, by checking against the Central Loan Registry (CLR) and other loan registries, as per prior written consent of entities to whom the data from the registries relate, as well as other public registries and databases.
- (2) Before concluding a loan agreement, MCO shall, with prior written consent of the principal debtor, co-debtor and guarantors, mutually inform them on the documentation and data obtained as part of the process of credit standing assessment.
- (3) If an entity in Paragraph (1) hereof opposes to disclosure of obtained data and documentation for the assessment of its credit standing to other entities, MCO shall inform other entities of this fact.

Article 7

- (1) Credit standing assessment of the principal debtor – private individual shall be made by the MCO based on analysis of:
 - a) its credit history, i.e. regular settlement of earlier contracted obligations, where persons whose loan obligations were serviced by guarantors must not have a loan approved, except in case the guarantors gave their consent;
 - b) level of loan exposure of the principal debtor that is established as a proportion between total monthly loan obligation and total net monthly income of the debtor. Total monthly loan obligations are established based on the CLR statement and potential monthly liabilities that may arise from approval of the requested loan. Total monthly net income is determined based on salary evidenced by confirmation of monthly income (pension check or other regular monthly income) or annual income declaration. If the income cannot be documented as mentioned above, the MCO can take into account income from economic activities or other non-documented income (if the principal debtor delivers certified statement of total income) and sources of income (that are for purpose of calculation of total income weighted with maximum 60%). For the purpose of evaluation of current and future financial capacity of the principal debtor, the MCO should take into account average costs of the household of the principal debtor;
 - c) influence of contingent liabilities already assumed by the debtor, if any.
- (2) MCO shall define in its internal documents a maximum loan exposure limit of the principal debtor over its net monthly income, where the level of credit standing of the

principal debtor must not encumber its regular net monthly income in the amount exceeding the one defined under the Law on Enforcement and the Labor Law.

- (3) In the event that a loan agreement being negotiated entails a co-debtor – private individual in addition to the principal debtor – private individual, MCO shall assess the credit standing of such co-debtor in accordance with Paragraph (1) hereof. MCO may include regular net monthly income of co-debtor in total net monthly income of the principal debtor, taking into account the limits in Paragraph (2) hereof.
- (4) In the event that a loan agreement being negotiated entails a guarantor – private individual in addition to the principal debtor – private individual, MCO shall assess the credit standing of the guarantor in accordance with Paragraph (1) hereof, taking into account that, in case of loan repayment, the instalment amount would not exceed one third of regular net monthly income of each guarantor individually, in case a loan is repaid by guarantor(s).
- (5) In the event that a loan agreement being negotiated entails a co-debtor and/or guarantor – legal entity in addition to the principal debtor – private individual, MCO shall assess the credit standing of such co-debtor and/or guarantor in accordance with Article 8 Paragraph (1) hereof.
- (6) Assessment of credit standing of the principal debtor, co-debtor and guarantor with the documentation confirming the assessment in Paragraphs (1), (3), (4) and (5) hereof is an integral part of the loan file of the principal debtor – private individual.
- (7) In case of restructuring of earlier approved loan, MCO shall make a new assessment of credit standing of the principal debtor, co-debtors and guarantors.
- (8) Within the meaning of this Article, private individuals taking up loans as sole traders are also considered principal debtors/co-debtors – private individuals.

Article 8

- (1) Assessment of credit standing of the principal debtor – legal entity shall be made by the MCO based on analysis of:
 - a) Profitability ratios;
 - b) Liquidity ratios;
 - c) Adequacy of cash flow in terms of debt settlement;
 - d) Indicators of financial structure, primarily level of indebtedness;
 - e) Branches of economy in which the principal debtor has been operating, market position of the principal debtor, specific features of the principal debtor and other relevant indicators;
 - f) Credit history of the principal debtor, i.e. regular settlement of earlier agreed obligations, where persons whose loan obligations are serviced by guarantors must not have a loan approved, except in case the guarantors gave their consent with this;
 - g) Evaluation of current financial capacity of the principal debtor that shall be based on amounts of income and expenses that can be checked, with an adequate conservative approach in evaluation of variable elements of income that have been taken into account, etc.

- (2) Based on the assessment of credit standing of the principal debtor – legal entity, in line with Paragraph (1) hereof, MCO must be confident and be able to show that the principal debtor is a legal entity having a capacity to service its current and future loan obligations in line with agreed conditions.
- (3) In the event that a loan agreement being negotiated entails a co-debtor and/or guarantor – legal entity in addition to the principal debtor – legal entity, MCO shall assess the credit standing of such co-debtor and/or guarantor in accordance with Paragraph (1) hereof. MCO can jointly evaluate the credit standing of the debtor and co-debtor.
- (4) In the event that a loan agreement being negotiated entails a co-debtor and/or guarantor – private individual in addition to the principal debtor – legal entity, MCO shall assess the credit standing of such co-debtor and/or guarantor – private individual in accordance with Article 7, Paragraph (1) hereof.
- (5) Assessment of credit standing of the principal debtor – legal entity with the documentation confirming the assessment in Paragraphs (1), (3) and (4) hereof is an integral part of the loan file of the principal debtor - legal entity.

Article 9

Provisions of this Decision shall also apply to any other private individual and legal entity that has in any way joined or assumed the loan obligation or guarantees for such an obligation

Article 10

- (1) Following the agreement conclusion, MCO shall immediately hand over a copy of the agreement to the principal debtor, co-debtor and guarantor.
- (2) For any other matters that have not been defined in this Decision with reference to loans with guarantors as security instruments, the provisions of the Law on Protection of Guarantors in the Federation of B&H shall directly apply.

Article 11

- (1) MCO shall document that loan disbursement shall be made only through MCO accounts with banks.
- (2) MCO shall document that generated payments of monthly annuities of customers have been deposited on accounts with banks on the following business day at the latest.

Article 12

- (1) If an MCO obtained a right on loan receivables, partially or as a whole, it must open a loan file for that loan on the date of obtaining the right on loan receivables.
- (2) Assignment of receivables from Paragraph (1) hereof can be made only between MCOs.

- (3) The loan file from Paragraph (1) hereof must contain a complete documentation filed with the previous holder of receivables, in form of original or certified photocopies, and aligned with the requirements set under this Decision.

Article 13

- (1) Based on provisions of this Decision, MCOs shall make policies and procedures for documenting credit activities, including the procedure for assessment of credit standing, when approving loans and during loan utilisation, that shall be adopted by the competent bodies of MCO and be subject to periodical evaluations and reviews in line with the evaluation results, at least on an annual level.
- (2) MCOs shall bring their operations in compliance with this Decision within 90 days from its effect date, except in Articles 10 and 11 hereof, under which MCOs must act immediately following the effectiveness of this Decision.
- (3) This Decision shall enter into force the next day after its publishing in the "Official Gazette of the Federation of B&H".

**No. U.O.-56-9/14
Sarajevo, 18.03.2014.**

**CHAIRMAN OF
THE MANAGEMENT BOARD**

Rajka Topčić, B.Sc. (Econ.)