

# **Guide for implementation of the Lending Guidelines**

**March 2022**

## Table of Contents

EXECUTIVE SUMMARY	1
I. INTRODUCTION	2
II. OBJECTIVES	2
III. SCOPE OF IMPLEMENTATION	2
1. APPLICABILITY AND COMPLIANCE	2
2. MARKET SIZE THAT IS SUBJECT TO THE GUIDELINES	2
IV. CODE OF LENDING PRACTICE	3
1. DATA UPLOAD	3
2. MULTIPLE LOAN RULE	3
3. REFINANCING RULE	3
V. MONITORING AND REPORTING	4
1. EXCEL-BASED MONITORING TOOL FOR BOTH ASSOCIATIONS	5
2. LGS MONITORING REPORT DASHBOARD FOR BFIS	6
VI. ENFORCEMENT	7

## Executive Summary

The financial sector in Cambodia is recognized as one of the potential sectors with remarkable and sustainable growth. The sector plays an important role in reducing poverty in Cambodia and improving the financial inclusion through the provision a wide range of financial products and services to meet the needs of the people across Cambodia. These achievements are accomplished under the leadership and guidance by the National Bank of Cambodia, the collaboration from relevant partners, including banks, microfinance institutions, local and international development partners and especially the Royal Government of Cambodia, which has always provided support and encouragement to the sector.

In order to prevent the risk of customer excessive borrowing and the risk of sector itself, ABC and CMA is grounded in its responsibility to maintain the sustainability and resilience of the financial sector by proactively initiating the rules contributing to healthy growth of the sector. In addition, both ABC Council and the CMABoard of Directors approved the widen healthy practice to ensure the sustainability of the financial sector through including LG as the annex of the Banking and Financial Institutions Code of Conduct.

Financial Sector in Cambodia has evolved so quickly, and the demands for small and medium enterprise (SME) loan are also arising, which Banks and Microfinance Institutions start to extend their services and products to fulfil the needs of the designated clients. It becomes clear that the guidelines shall be covered to all financial players who offer credit services to micro loan segment. Therefore, the Cambodian Microfinance Association (CMA) and the Association of Banks in Cambodia (ABC), under the auspices of the Financial Inclusion Committee of the ABC, have continued to update the "Lending Guidelines" to cover banks that are members of the ABC.

The ABC Financial Inclusion Committee agreed to define the market for Joint ABC-CMA lending guidelines to be loans up to \$20,000 in value excluding:

- Secured Credit Card
- Unsecured Credit Card
- Combined Credit Card
- Business Credit Card
- Overdraft Facility
- Revolving Loans
- Trade Finance Loans
- Any loan whose current outstanding balance is <10% of original principal amount.

This proposed condition has been agreed and approved by both ABC Council and CMA Board of Directors.

These Guidelines include the three key components below:

1. Data upload
2. Multiple loan rule
3. Refinancing rule

With support from Credit Bureau Cambodia (CBC) on data reporting, ABC and CMA are in charge of monitoring the effectiveness on the compliance with these rules among their members. Both associations will continue to monitor and to propose changes or enhancements as required.

The CMA and ABC proposed the interim implementation on the LGs from July to December in 2021. Both associations officially announced the implementation during the official launching of the Banking and Financial Institutions Code of Conduct on 4th March 2022.

## I. Introduction

Over the past two decades, the financial sector in Cambodia has developed to serve the majority of households in the country. The sector is recognized globally as a leading example of a sustainable, dynamic, and well-regulated industry that meets the needs of its clients and other stakeholders.

In order to prevent the risk of customer excessive borrowing and the risk of sector itself. In this respect, ABC and CMA is grounded in its responsibility to maintain the sustainability and resilience of the financial sector by proactively initiating the rules contributing to healthy growth of the sector. In addition, both ABC Council and the CMA board of directors approved the widen healthy practice to ensure the sustainability of the financial sector through including LG as the annex of the Banking and Financial Institutions Code of Conduct.

As an integral part of the Cambodian financial system as well as the provider of financial services to most Cambodian households, especially those who are economically and socially vulnerable, the members of ABC and CMA recognize the utmost importance of ensuring the long-term sustainability of the industry for the benefit of the clients and the entire country. ABC and CMA reiterate their commitment to growth and development strategies that balance business goals with the need to protect clients and contribute to positive outcomes in their lives.

## II. Objectives

The Lending Guidelines was designed with three main objectives:

1. The borrowing capacity of clients is thoroughly and accurately assessed
2. Sufficient data is available to monitor aggregate and institutional-level exposure to systemic risks
3. The incidence of multiple-indebtedness and rapid increases in household debt, both important causes of over-indebtedness and eventual delinquency, are reduced.

## III. Scope of Implementation

### 1. Applicability and compliance

This Lending Guidelines is applicable to all lending institutions in Cambodia licensed by National Bank of Cambodia including commercial banks, specialized banks, microfinance deposit-taking institutions, non-deposit taking microfinance institutions, rural credit institutions, and leasing companies.

### 2. Market size that is subject to the guidelines

According to the study on the development of LGs for financial sector in 2020, the results have shown that overall levels of over-indebtedness are similar for both ABC and CMA member clients, but there is significantly less incidence of over-indebtedness for clients who hold loans larger than \$20,000, including for clients with large number of multiple credit relationships (e.g. active loans with >3 lenders). The ABC Financial Inclusion Committee agreed to define the market for Joint ABC-CMA lending guidelines to be loans up to \$20,000 in value excluding:

- Secured Credit Card,
- Unsecured Credit Card,
- Combined Credit Card,



- Business Credit Card,
- Overdraft Facility,
- Revolving Loans,
- Trade Finance Loan, and
- Any loan whose current outstanding balance is <10% of original principal amount.

Since there is no common standard for calculating or verifying the income of clients in this segment, the total debt threshold (monthly installment for existing and new loan compared to income) of the client cannot be used to violate the limit of active loans from three (3) or more financial institutions.

## IV. Code of lending practice

The ABC and CMA imposed three rules Lending Guidelines including:

### 1. Data Upload

The LGs requires that all newly issued and closed loans should be reported to the CBC on a weekly basis within 5 working days and strengthen control and supervision of the data upload to the CBC with respect to the financial data (including personal identification details).

### 2. Multiple Loan Rule

*Not issue a loan to any borrower that already has group and/or individual loans from three (3) or more financial institutions. The maximum limit of multiple loan rule violation is 2%.*

### 3. Refinancing Rule

Refinancing remains an important component of the Lending Guidelines. Refinancing refers to a practice when a customer replaces an active loan with a new, larger loan. It plays an important role in the business strategies of some large and small micro-lenders. The refinancing rule uses the following methodology:

#### a) Rule applicability:

Limit of loan disbursement shall apply for the issuance of a new loan to a borrower who within 15 days before or after issuance of new loan has fully repaid (paid off) an existing loan before the older loan's official maturity date. This rule is applied whether or not the two loans (disbursed and paid off) are issued by different lenders or by the same lender.

#### b) Time indicator:

Loan terms shall be defined in trimesters (thirds) of the loan term. For example, for a 1-year (12-month) loan, each trimester is 4 months, so month 4 is in the first trimester and month 5 is in the second trimester. For a 3-year (36-month) loan, month 20 is in the second trimester and month 30 is in the third trimester.

#### c) Size indicator:

The size of the refinancing shall be calculated as the full amount of the new (disbursed) loan divided by the original amount of the old (paid off) loan. In the event that loans are consolidated, i.e. multiple loans being paid off and replaced with a single new loan, the new loan amount will be divided by the combined original loan amount of the loans being paid off.

For example, a client who had two \$500 loans and replaces both with a single \$1200 loan will show as having increased the loan size to 120%. If the combined original loan amount of the loans being paid off is >\$20,000, the refinancing limits shall be disregarded. Based on these indicators, refinancing is divided into three “zones”. “Red zone” loans refinanced existing loans early in their cycle with a much larger new loan. “Yellow zone” loans occurred later in the cycle of the older loan and/or provided a smaller increase in total debt. “Green zone” refinancing loans occurred toward the end of the old loan’s cycle and represented even smaller increases in total debt.

The LGs set a maximum limit of 5% for red zone loans and 15% for yellow zone loans. Green zone refinancing loans faced no limits. The “red zone” maximum limit of 5% sets up clear expectations that, while the 5% for these highest-risk loans is the maximum acceptable limit, BFIs should strive to reach a substantially lower level of 2%, a “red zone” limit that has also been adopted by the Smart Campaign which currently owned by SPTF and CERISE.

Figure 1: Limits for % of number of loans disbursed, by refinancing risk category

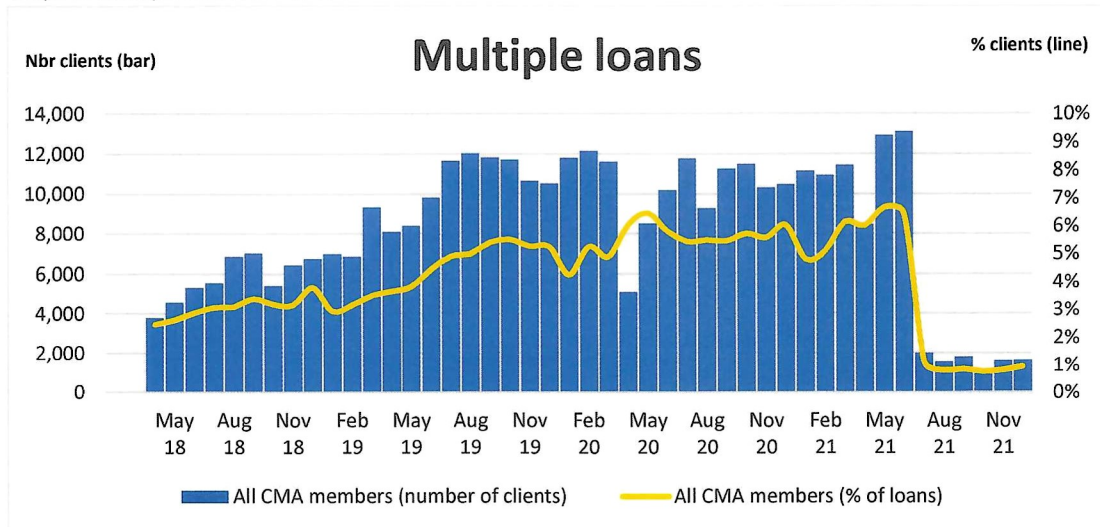
Time	Size	<110	>=110	>=120	>=140	>=160	>=180	>=200
1st trimester		Green		Yellow		Red		
2nd trimester		Green		Yellow		Red		
3rd trimester		Green		Yellow		Red		
		No limit		15%		5%		

## V. Monitoring and Reporting

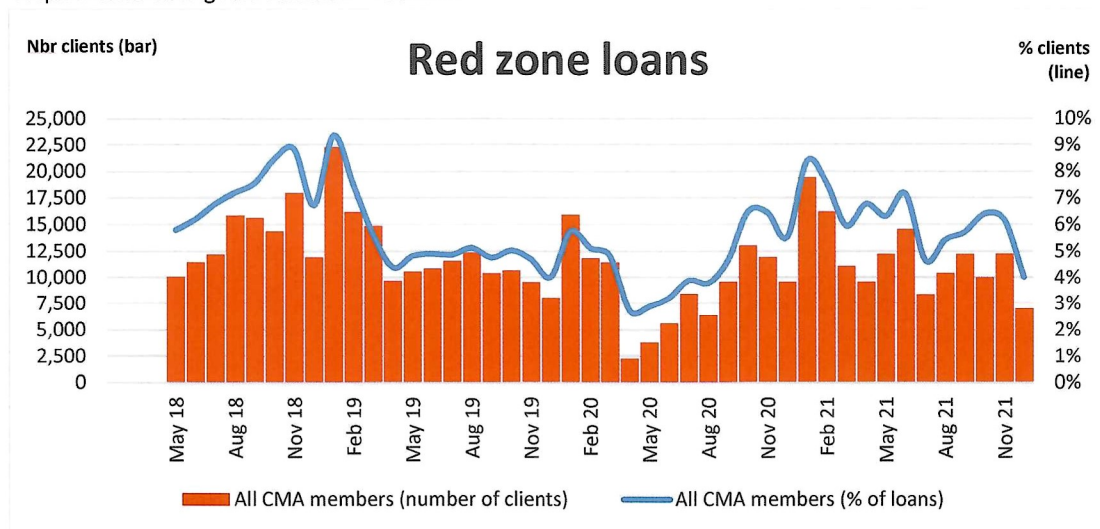
All members of ABC and CMA will receive a monthly report from the CBC with all key indicators in the LGs Dashboard, including for the two rules above. The only other recipient of this report is the LGs Team, which inputs it into an Excel-based monitoring tool. Designated members of the ABC and CMA secretariats working on the Lending Guidelines will also be granted. No one else in ABC or CMA, including board members, will have access to this data. Below are the samples of monitoring dashboard.

# 1. Excel-based Monitoring Tool for Both Associations

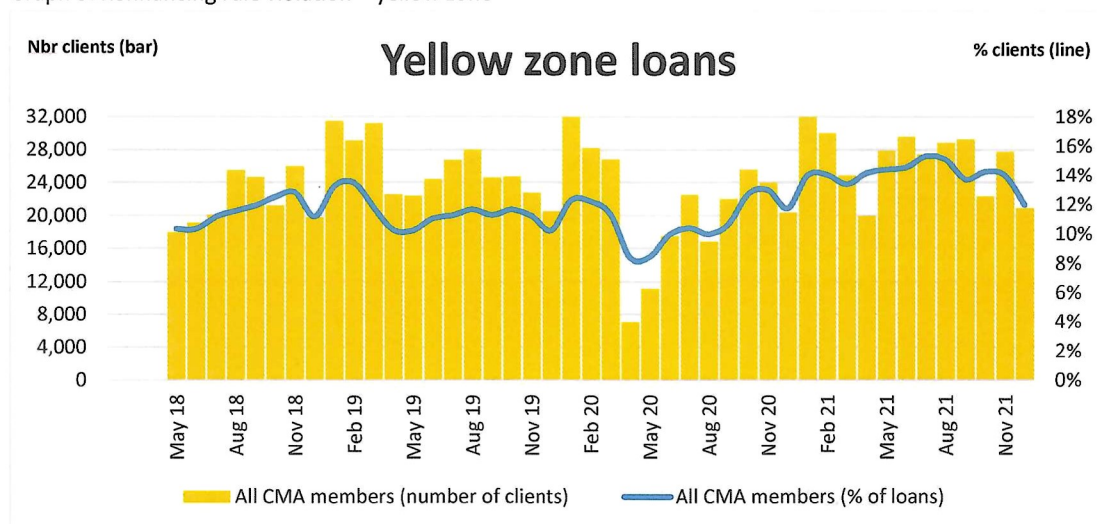
Graph 1: Multiple rule loan violation



Graph 2: Refinancing rule violation – red zone



Graph 3: Refinancing rule violation – yellow zone





## 2. LGs Monitoring Report Dashboard for BFI

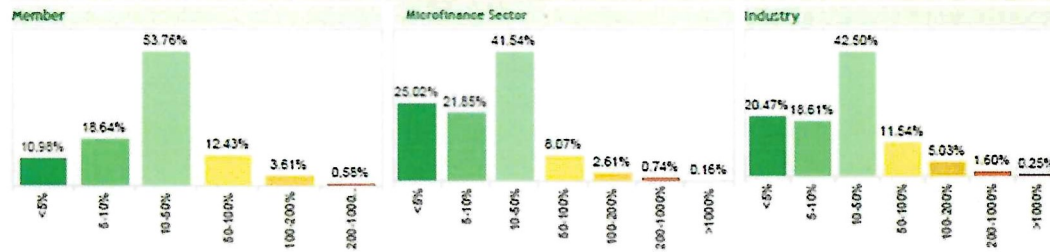


### Lending Guidelines Monitoring Report

Reporting for disbursements in May, 2021  
Members  
ABC MFI

Section 1: Multiple loan rule violation						Section 2: Data Upload Violation (later than 5 business days)					
Member		Microfinance Sector		Industry		Member		Microfinance Sector		Industry	
Borrowers	Percent	Borrowers	Percent	Borrowers	Percent	New Acc	Close Acc	New Acc	Close Acc	New Acc	Close Acc
15	1.11%	1,884	0.99%	2,202	0.84%	0%	0%	7%	18%	26%	34%

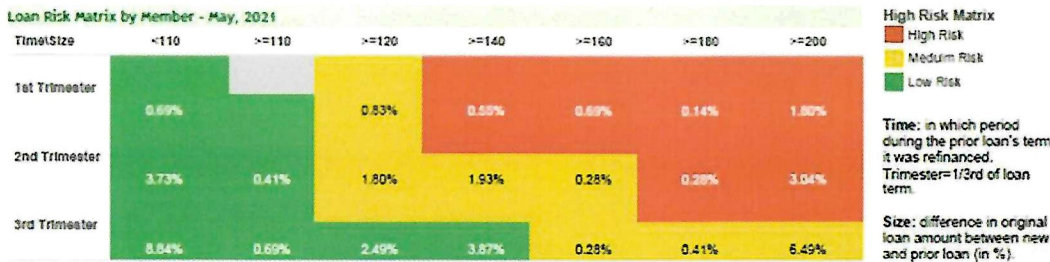
#### Section 3: Loan to Income Ratio



#### Section 4: High Risk Loan with Change in Lender



#### Section 5: Loan Risk Matrix





## VI. Enforcement

After the official launching all the lending institution licensed by National Bank of Cambodia shall comply with these guidelines from 4th March 2022 onwards. Any lending institution that are in non-compliance with, data upload, limits on the number of client relationships (multiple lending rule), engage in aggressive refinancing practices, or otherwise violate the lending guidelines will be identified through the monitoring processes. Both ABC and CMA will work with CBC to closely monitor and report on the progress of the implementation to their Council and board of director in the quarterly basis.

