



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES
GRADUATE SCHOOL
M.H. Del Pilar Campus R. Magsaysay Blvd. cor Valencia St.
Sta. Mesa, Manila, Philippines



**An Assessment of the Receivable Management
of First Provincial Financing Corporation: A Basis for Improvement**

**A Case Study Presented by Group 4
Planning and Control of the Balance Sheet**

**In Partial Fulfilment
of the Requirements for Financial Controllership
(MBA 654- Sat 2:30 – 5:30 PM)**

**Bea Aceberos
Robeanne Pia Callanta
Mary Luvie Camat
Marie Zari Gabrielle Francisco
Stephanie Gumayan
Juneliza Pandela
Renz Torres**

October 14, 2017



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

1

Table of Contents

1

Synopsis and Executive Summary.....	2-11
Findings.....	12- 21
Discussions.....	22-24
Conclusions.....	25
Recommendations and Implementation.....	26
References.....	27



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

2

I. SYNOPSIS AND EXECUTIVE SUMMARY:

Purpose of the Study:

2

The purpose of this study is to identify and assess the receivable management of FPFC. It aims to answer the following questions:

1. **Identify** current company policies and procedures of the receivable management of First Provincial Financing Corporation (FPFC)
2. **Assess** the effectiveness of current company policies and procedure
3. **Provides** basis of improvement and recommendation

Company Profile:

First Provincial Financing Corporation (FPFC) is a family-owned corporation that serves the credit needs of Bacolod City and the province of Negros Occidental. It is a part of a group of companies which includes First Provincial Realty Corporation, First Provincial Lending Corporation, and Mambukal Resort Development Corporation, to name a few.

It started in 1972 as a small financing company with an initial capitalization of approximately P750,000, focusing primarily on catering loans to purchases of brand new cars and trucks. Now, 40 years later, with a capital of more than P25,000,000, it continues to provide services to a broader range of financial needs.

The primary services the company offer include financing brand new cars and trucks, extending loans to individuals who wish to start or expand their businesses, and factoring accounts receivables of existing businesses, among others.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

3

This study provides an evaluation of the receivables management of FPFC, which is one of the main focuses of a financial institution's operations. Receivable management includes processes such as assessment of the credit terms, the credit analysis and collection policy. These are vital to a financial institution because proper management of these processes ensures the liquidity of cash flows

3

Related Theories and Literature

This study focuses on the policies and procedures in receivables management of First Provincial Finance Corporation (FPFC). This chapter will guide the readers in understanding the concepts being discussed in this study.

A financing company, such as FPFC, is a private company that issues loans. **According to Nelson (2008)**, it is an institution which generates income by lending a certain amount of cash to an entity. The policies and procedures related to the financing activities of FPFC and other non-bank financial institutions are being governed by the Monetary Board of Bangko Sentral ng Pilipinas (BSP).

FPFC is divided into four departments - treasury, marketing, credit investigation and collection, and accounting. Among these departments, one of the most important is the credit investigation and collection department because it is responsible in managing the main income-generating activity of FPFC, which is financing. This department is responsible in verifying a borrower's identity, personal background, financial capability and credit history. This department serves as a security measure that protects both the creditor and debtor from credit identity theft



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

4

and other fraudulent credit actions. The department receive payments and make sure that these are all processed correctly.

4

Financing is the main activity of institutions like FPFC. Financing is basically lending monetary resources to purchase or acquire an item, then receiving the payment of loan together with the stipulated interest within a specified time period. Financing purchases of cars, trucks, and real estate, expansion of businesses, and factoring accounts receivables are the main income-generating activities of FPFC.

Factoring accounts receivable is another means to improve the cash flow of a company, such as businesses involved in merchandising. **According to Gul, (2011)** factoring involves three parties: the seller of the product, the buyer of the product, and the factoring company which buys the invoices. The factoring company buys the accounts receivables at a discounted price. The ownership of all receivables invoices, along with all its rights and risks, is transferred to the factoring company, in this case the FPFC. This gives FPFC the right to collect payments made by the buyer. Although the risk is relatively low, FPFC must bear the loss if the buyer doesn't pay the invoice amount.

There is another type of factoring transaction which is more preferred by FPFC because it is less risky than the other transactions. It differs from the factoring other transaction because the seller retains the ownership of the invoices and makes the payment to FPFC. This entails less risk because the selling company is the one responsible to make payments and the risk of nonpayment of buyers is borne by the selling company, not FPFC.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

5

Receivables management is a significant part of a financial institution's operations. In financing companies, one of the contributing factors of profitability is receivables management. Receivables, being the most important source of a financing institution's income, should be managed in a manner that is effective and efficient.

5

Receivables management involves the all the processes from granting loans to the collection of payment. In other words, receivables management is the credit policy of a company. Credit policy is a guideline how a company evaluates potential clients who wish to avail of loan and monitors its receivables (Grove. 2002). There are three components of credit policy, namely, terms of credit, credit analysis, and collection policy.

An inference of the objectives of receivables management is the following:

- To attain not maximum possible but optimum volume of loans.
- To exercise control over the cost of credit and maintain it on a minimum possible level.
- To keep investments at an optimum level in the form of receivables.
- To plan and maintain a short average collection period.

BSP requires non-bank financial institutions to have a written credit policy which adheres to guidelines provided by the Monetary Board. Part three of BSP's Manual of Regulation for Non-Bank Financial Institutions states that:

"Quasi-banks shall have well-defined lending policies which shall ensure that lending shall be upon terms which are in the best interest of the institution and in accordance with the existing policy, rules, and regulations of the Monetary Board. Such policies shall be in writing to form part of the



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

6

institution's permanent records and shall be made available for inspection by the Bangko Sentral."

6

BSP also provides the loan limit a financing company can offer. Section 4306Q states that:

"The total liabilities of any borrower may amount to a further fifteen percent (15%) of the combined capital accounts of such quasi-bank: Provided that the additional liabilities are adequately secured by real estate mortgage, assignment or pledge of readily marketable bonds and other high-grade debt securities, except those issued by the lending entity." (p. 118)

Within the financing industry, the terms of credit are usually fairly standard.

They are usually made up of three distinct elements:

1. The credit period
2. Charges and rebate terms
3. The type of credit instrument

The credit period is the length of time from which the loan is granted until it is fully paid. Several factors influence the determination of the length of credit period.

Some of these factors are the following **(Ross, 2006.)**:

1. Credit Risk. The greater the credit risk of the debtor, the shorter the credit period is likely to be.
2. Size of the account. Large accounts usually have longer credit periods.
3. Competition. When the industry is competitive, longer credit periods may be offered as a way of attracting customers.
4. Customer Type. The credit period also according to the needs and capacities of customers.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

7

Credit terms also include the charges and rebate terms associated in obtaining a loan. Interest is the primary cost of borrowing money. Merriam-Webster defines interest as “a charge for borrowed money generally a percentage of the amount borrowed.” Other charges may include processing costs and late payment charges. Rebates, on the other hand, is an incentive offered by the creditors for early payment.

7

BSP doesn't impose a ceiling on the interest rates and other charges when extending loans. It is in the discretion of the company how much rates it will impose as long as they are stated in the company's credit policy. Section 4307Q.1 which is Rate ceilings states that:

“The rate of interest, including commissions, premiums, fees and other charges on loan transactions, regardless of maturity and whether secured or unsecured, shall not be subject to any ceiling under Section 4307Q which is interest and other charges.” (p. 119)

Furthermore, Republic **Act No. 3765, otherwise known as “The Truth in Lending Act,”** is an Act to require the disclosure of finance charges in connection with extensions of credit. Section four of the Act states that:

“Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

- 1. The cash price or delivered price of the property or service to be acquired;*
- 2. The amounts, if any, to be credited as down payment and/or trade-in;*
- 3. The difference between the amounts set forth under clauses (1) and (2);*
- 4. The charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;*
- 5. The total amount to be financed;*



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

8

6. *The finance charge expressed in terms of pesos and centavos; and*
7. *The percentage that the finance bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.”*

8

Ross (2006) defines credit instrument as the evidence of indebtedness.

These instruments are signed documents that serve as assurance of payment to creditors. Usually, credit instruments may be in the following forms:

1. Promissory Notes
2. Cheques
3. Bills of Exchange

All business activities entail risk. In the case of FPFC, the major risk involved in its revenue-generating activities is nonpayment of its debtors or the credit risk. One of the main reasons financial institutions are faced with the problem of loan defaults is their failure to accurately assess the credit risk prior to approving loans. Credit risk is most simply defined as the potential that a debtor will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize the profit by maintaining the exposure to risk within the set parameters.

Creditors obtain credit information of debtors to assess the risk associated when granting loans. Some of the sources of information commonly used to assess the credit worthiness of clients are the following:

1. Financial statements
2. Credit reports on customer's payment history with other firms
3. Banks
4. The customer's payment history with the firm



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

9

Financial institutions have developed different systems to minimize their exposure to credit risk. **Gitman (2011)** provides the set of basic factors of probability that a customer may not pay which is called the Five C's of Credit:

9

1. Character. The customer's willingness to meet credit obligations.
2. Capacity. The customer's ability to meet credit obligations out of operating cash flows.
3. Capital. The customer's financial reserves.
4. Collateral. An asset pledged in case of default.
5. Conditions. General economic conditions in the customer's line of business.

Credit limits, on the other hand, are threshold that a company (creditor) will allow its existing customers to owe at any one time without having to go back and review their credit file. Credit Limit is the maximum amount that a firm is willing to risk in an account.

Gustafson states that in credit assessment, lenders, regulatory agencies, and investors have increased their demand for credit risk exposure information to appropriately price risk and evaluate risk migration patterns that affect institution safety and soundness. The paper concludes with discussions on how financing approaches are expected to progress in the future and whether measures can be developed to a more accurate assessment of receivable management to assure that there will be effective results for the forgoing practice.(2005, p.201-217).



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

10

Collection policy is the final element in credit policy. It involves monitoring receivables to spot trouble and collection of payments (Ross. 2006).

10

Monitoring receivables includes the process of aging the receivables and provision of doubtful accounts. The aging schedule is a basic tool in monitoring receivables. Proper monitoring of the age of accounts helps the management in identifying which accounts warrant more aggressive collection efforts. The allowance for doubtful accounts is a balance sheet account that reduces the reported amount of accounts receivable. Providing an allowance for doubtful accounts presents a more realistic assumption of how much of the accounts receivable will be turning to cash. After all, a company which business is offering loans will likely have customers who will not be able to pay the full amount they owe to the company. In identifying the allowance for doubtful accounts, we already presumed the amount that the debtor will not be able to pay, instead of waiting until the time where the amount is uncollectible. (**Watts, Griffis and McQuat, 2004**).

One of the most challenging business tasks is the collection of payments. Employing a quick and efficient collection method is necessary for a financial institution to maintain a liquid cash flow. Debt collection processes should be undertaken with the objective of reducing outstanding accounts while keeping sight of the need to maintain customer goodwill, in an environment of cost restraint.

Collection effort for payments past due includes the following sequential procedures:



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

11

1. Sending a delinquency letter informing the debtor of his past-due status of the account.
2. Making a phone call to the debtor.
3. Employing a collection agency
4. Taking legal action against the debtor.

11

Executive Summary:

The study is to assess Accounts Receivable of FPFC Accounts Receivable and to help them determine if they can venture to another business using their idle funds.

The findings of the study will help the management to make decision in terms of financial performance as it's been noted that although FPFC is stable, there are still opportunities that they can make for the company growth.

The discussion focuses on the current processes in terms of collection, credit terms and credit policies involve in the process. As per conclusion, the FPFC can still strengthen the business and organization through strong policy implementation.

Recommendation in terms of loan handling and stronger organizational structure are proposed after the study.



II. FINDINGS

The result of the data gathering in First Provincial Finance Corporation is presented with the analysis of the information provided by the management. Data gathering process was done by conducting a detailed interview with regard to FPFC's receivables management with the use of an interview guide.

12

Credit Terms

**Table 1
Findings on FPFC's Credit Terms**

Credit Terms Elements	FPFC	Competitor A	Competitor B
i. Credit Policy			
a. Average approval period	<ul style="list-style-type: none"> • Short term: 2 to 5 days • Long term: 2 to 4 weeks 	<ul style="list-style-type: none"> • Short term and long term: 1 month 	<ul style="list-style-type: none"> • Short term and long term: 2 weeks to 2 months
b. Average length of credit period	<ul style="list-style-type: none"> • Short term: 6 months to 1 year • Long term: maximum of 5 years 	<ul style="list-style-type: none"> • Short term: 6 months to 1 year • Long term: maximum of 3 years 	<ul style="list-style-type: none"> • Short term: 6 months to 1 year • Long term: maximum of 5 years
c. Credit Limit	<ul style="list-style-type: none"> • Depends on collateral: usually 40% of collateral 	<ul style="list-style-type: none"> • Depends on collateral: usually 60% of collateral 	<ul style="list-style-type: none"> • Depends on collateral: usually 60% of collateral
ii. Rebates	<ul style="list-style-type: none"> • 0.5% to 1% 	<ul style="list-style-type: none"> • 0.5% 	<ul style="list-style-type: none"> • No Rebates
iii. Credit Instruments	<ul style="list-style-type: none"> • Promissory notes • Real Estate mort- 	<ul style="list-style-type: none"> • Promissory notes 	<ul style="list-style-type: none"> • Promissory notes



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

13

	<ul style="list-style-type: none">• gage Deed of assignment	<ul style="list-style-type: none">• Credit Approval Memorandum• Credit Investigation Report• Mortgage Papers	<ul style="list-style-type: none">• Mortgage Papers• Deed of Assignment• Surety Agreement
--	---	--	---

13

The average approval period of loan applications depends on the availability of client's documents pertaining to loan requirements. After the applicant has submitted and complied with the requirements, it usually takes 2 to 5 days for FPFC to approve or disapprove an application for short term loans and 2 to 4 weeks for long term loans. For self-employed applicants or those engaged in commercial or industrial businesses, they should present their registration document from the Department of Trade and Industry or the Securities and Exchange Commission, business permit from the Mayor's Office, or any document that proves the applicant's engagement in business. If the applicant has a real estate property that can be used as collateral, then the FPFC will require the client to present the land title. For borrowers applying for personal loan, aside from personal information usually in form of a bio data, the applicant should also submit any information regarding his past credit with banks or other financing institutions. References for verification should also be provided by the applicant.

The credit period usually depends on the nature of the loan and the needs and the capacity of the borrower to pay. For real estate loans, the usual and maximum credit period is for 5 years. For personal loans, it is 6 months. On the other hand, the credit limit or the maximum amount of loan depends on the



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

14

appraised value of collateral. FPFC usually allows up to 40% of the collateral's value. Normally, FPFC accepts collateral in the form of real estate, to personal assets like cars, equipment, tractors, and trucks.

14

The interest rates vary from 14% to 21% per annum. According to the FPFC, their rate is very flexible and it is dependent on the nature of the loan. Other financing charges include the cost of documentary stamps, registration of deeds on real estate mortgage, and documents that are needed to be notarized.

FPFC encourages early payments by offering rebates and giving incentives to borrowers who pays on time. Its rebate rates ranges from 0.5% to 1% of the total amount of the loan.

In any financing company, when borrowing money, the client must give an instrument that proves that he will pay the loan and meet the terms that the company has given. FPFC requires a promissory note from the borrower and deed of assignment or factoring from the business.

Compared to the two competitors of FPFC, the researchers could say that when it comes to approval of loans, FPFC is much faster in serving the financial needs of its clients. Also, it gives a longer span of time on its credit period. FPFC offers rebates to its valued clients while one competitor does not offer at all. On the other hand, the two competitors decide on its credit limit based on the 60% of the collateral, while FPFC, only 40% of the appraised value. And on credit instrument, all three financing institutions have the same requirements excluding surety agreement and credit approval memorandum which FPFC does not require their clients to pass.



Credit Analysis

15

Table 2

Credit analysis elements	FPFC	Competitor A	Competitor B
i. Credit Information	<ul style="list-style-type: none"> • Credit Association • Reference • Client Interview and Investigation • Financial Statements 	<ul style="list-style-type: none"> • Credit Association • Client Interview and Investigation 	<ul style="list-style-type: none"> • Client Interview and Investigation • 3rd party sources
ii. Credit Evaluation	<ul style="list-style-type: none"> • Uses Five C's of Credit 	<ul style="list-style-type: none"> • Uses Five C's of Credit 	<ul style="list-style-type: none"> • Uses 5 C's of Credit • Credit Scoring

Findings on FPFC's Credit Analysis

FPFC employs different ways of obtaining a borrower's credit information. FPFC is a member of Credit Association which is composed of financing institution and banks, where the members exchange information such as about the clients. FPFC also gathers information through client interview, from the documents submitted by the borrower, and from references which are usually persons who can verify the information provided by the borrower. The practice of FPFC in terms of credit investigation is very much similar with the industry.

FPFC uses the Five C's of credit to assess the credit-worthiness of a borrower. The borrower's character, his capacity to pay, and capital is considered when conducting the evaluation.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

16

According to the head of FPFC's credit and collection department, the attitude of the borrower particularly during the whole length of the application and approval period is a strong indicator of his credit-worthiness. The patience of the client when submitting the requirements and how the client approaches the firm is considered. If a borrower has an existing loan and wishes to extend the loan, they consider his paying habits.

16

In order for FPFC to determine the capital and the capacity to pay the loan, the borrower is asked to provide financial reports like the income tax return and audited financial reports for the past three years, in case the borrower is a business entity such as corporation, a partnership, or a proprietorship. For individual debtors, FPFC asks for the borrower's compensation and other sources of income, or his income tax return. There are also instances when FPFC does not require collateral, especially when the borrower is a small businesses and the loan is short term. FPFC may only require post-dated checks equal to the amount due for each period.

FPFC also considers the economic environment when extending loan. Sometimes, the collaterals may be good but the economy is bad, so FPFC determines how well the business does and makes a forecast if it will do better or not in the future, and then adjusts the loan accordingly.

Table 3- Collection Policy



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

17

			checks
b. Past-due accounts	<ul style="list-style-type: none">• More aggressive collection effort• Foreclosure of asset	<ul style="list-style-type: none">• More aggressive collection effort• Foreclosure of asset	<ul style="list-style-type: none">• More aggressive collection effort• Foreclosure of asset

17



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

18

FPFC monitors its receivables by keeping a computerized record of their clients and by aging the accounts. Once the receivable falls beyond the credit limit, then FPFC starts to get more aggressive with the collection. Usually, in the case of instalment, once it is overdue by 30 days, the payment is already considered past due.

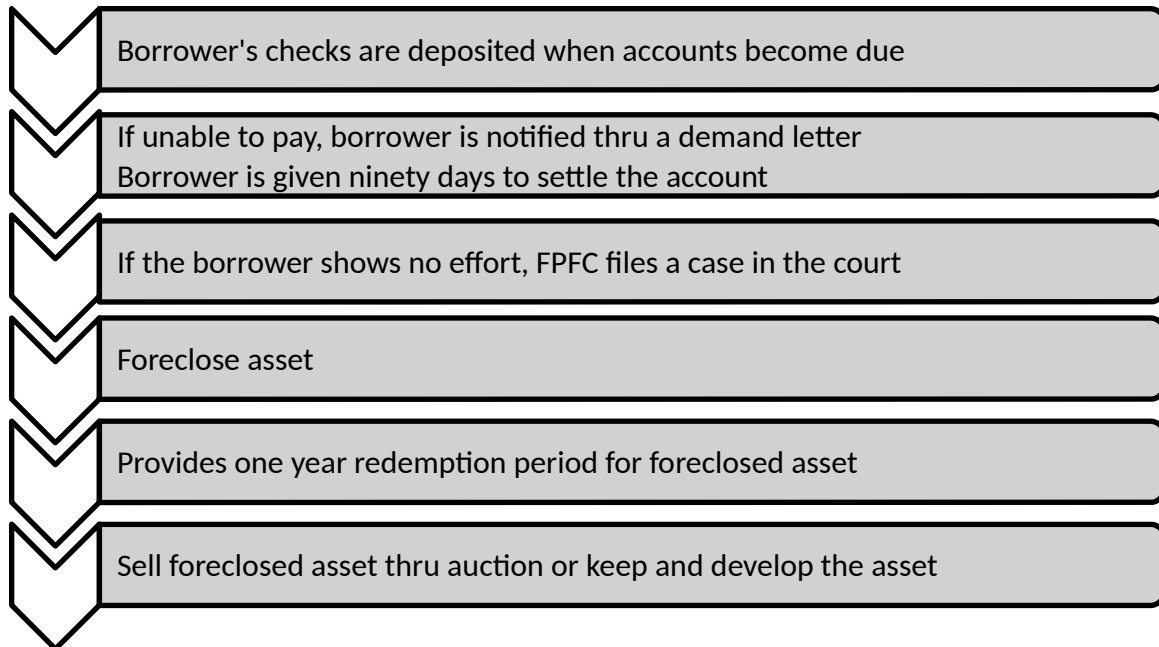
18

As a guarantee of timely payments, borrowers are required to give post-dated checks. In other words, if the account is for 12 months, the borrower is required to give 12-month post-dated checks. On the accounts that are currently due, FPFC deposits the client's account once they become due. The company doesn't leave the collectors to collect. If the borrower has 3 bounced checks, the borrower is notified of a possible foreclosure of assets or the mortgage.

FPFC's control on the receivables allows only 3% of total receivables as a reserve for allowance for bad debts. Very seldom does FPFC write off accounts that have long been inactive. It is because the receivables are collateralized mostly, except those small business loans. So far, FPFC doesn't have experience with small business loans failing to pay. In case the borrower fails, FPFC will allow 90 days for them to pay.



Figure 2
The Collection and Foreclosure Process



In case the borrower shows no effort in meeting his obligation, FPFC takes the following necessary steps to protect the interest of the company.

FPFC makes a demand according to law informing the borrower that the account has become due and that the client is given number of days to settle.

If at the set date, the borrower is still unable to pay, he is given another chance. FPFC gives them the last warning thru a letter of foreclosure of asset. The letter becomes evidence when FPFC goes to court and file a motion for the foreclosure of the asset.

Once the asset is foreclosed, in the case of real estate, the letter gives the borrower a year to redeem the asset.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

20

If the borrower cannot redeem it within the year, then FPFC sells it on auction or it will be kept and will be developed, in the case of a real estate for example.

20

Table 4

Problems	Solutions
<ul style="list-style-type: none">• Incomplete requirements submitted by the client.	<ul style="list-style-type: none">• FPFC provides checklist of requirements to be submitted.
<ul style="list-style-type: none">• High percentage of bad debts.	<ul style="list-style-type: none">• FPFC limits their client.• More cautious on credit investigation.
<ul style="list-style-type: none">• Slow paying habits of clients.	<ul style="list-style-type: none">• FPFC contacts the client and informs them of possible outcomes if failed to pay.

Problems and solutions encountered by FPFC

Table 4 shows the problems encountered and solutions implemented by FPFC in its receivables management. To ensure client of faster approval of their loan, the client must completely submit the requirements as soon as possible. FPFC provides a checklist of requirements so that clients would be guided accordingly. The company had already experienced a high percentage of bad debts; in order to lessen the number of clients having slow-paying habits, FPFC had been more cautious in its credit investigation. When a client could not able to pay on the due date of its loan,

Table 5- Findings on practice of FPFC to improve receivable management



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

21

Findings on practice of FPFC to improve receivable management

- The executive officers and the staff of FPFC conduct a monthly meeting.
- FPFC offer rebates to prompt paying clients.
- FPFC collects Post-dated checks before approving the loan.

21

In order to improve the receivables management of FPFC, the executive officer together with the staff conduct a monthly meeting. The main agenda of the meeting is the problems encountered by the staff and that they will be able to propose policies and solutions. FPFC prefers that the solutions will be suggested by the people at the bottom because it's a bottom-up management. It is always good to get suggestions from the people like the bottom because they are more familiar with the problem. That is the way to improve practices of any company and the best way of course is to have a competent management.

In order that clients would be motivated to pay on time, FPFC offers rebates to prompt paying clients. FPFC requires clients to submit post-dated checks before the loan could be approved. These checks are secured by the PDIC. In this way, FPFC is secured that the client would pay on time.



III. DISCUSSIONS

- The researchers have collected data from First Provincial Financial Corporation regarding its credit terms, credit analysis, and collection policy when handling clients.
- The researchers have found out that in order to apply for a credit loan in FPFC;
 - ✓ The first thing that FPFC does is to check the availability of the loan requirements for businesses and individuals.
 - ✓ Next is that clients must pass requirements such as their registration document from the Securities and Exchange Commission or their Business Permit from the Mayor's Office, or any document that could prove that such client is in business.
 - ✓ In case of real estates, land title is required.
 - ✓ For a personal loan, the client should submit his bio data, or any information regarding his past credit with banks or other financing institutions.
 - ✓ In determining the credit period of the loan, it will depend on the nature of the loan if it is short term or long term.
 - ✓ The credit period may range from 6 months to 5 years still depending on the nature of the loan.
 - ✓ Determining the credit limit depends on the collateral of the client.
 - ✓ The interest rate is also dependent on the nature of loan and it ranges from 14% to 21%, discounts are also given which ranges from 0.5% to 1% of the total amount of the loan.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

23

✓ The most prominently used credit instrument of FPFC is the promissory note.

23

- FPFC requires the client to pass Income Tax Returns, Business permits, Financial Statements, Taxpayer Identification Number, SSS Number, Tax Declaration, and other similar documents in order to have an assurance and verification of the information that the client has given.
- The corporation also inquires with the Banker's Association regarding the payment history of the client.
- FPFC uses intuition and past transactions in order to know the credibility of the client.
- In most cases, FPFC approves non-collateral short term loans to clients whom the firm personally know and clients who have good payment history with the firm.
- And in its collection policy, once the receivable falls beyond the credit limit, FPFC then starts to get more aggressive with the collection.
- In terms of FPFC's control on the receivables, it allows only 3% of the total receivables as a reserve for the allowance for bad debts.
- If the client is unable to pay when the account is already due then they are given a 90-day extension.
- In case the borrower shows no effort in meeting its obligation, FPFC takes the following necessary steps to protect the interest of the corporation.



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

24

- FPFC makes a demand according to law informing the borrower that the account has become due and that the client is given number of days to settle.
- If at the set date, the borrower is still unable to pay, that client is given another chance. FPFC gives them the last warning thru a letter of foreclosure of the asset.
- The asset is foreclosed if, until the last warning, the client is unable to pay.
- If the borrower cannot redeem the asset within a year, then FPFC sells it on an auction or it will be kept for future development.

24



IV. CONCLUSIONS

The research conducted has yielded some conclusions based on the findings that were summarized in the previous section. It is now possible to derive several conclusions based on the objectives presented in the first chapter.

The researchers concluded that FPFC is efficient in terms of processing loan applications, which results to customers' contentment. FPFC also values their clients by providing rebates which is an effective tool for clients' prompt payments. Their being conservative is an edge to them because they are assuring the credibility of their clients.

FPFC only assesses the clients based on intuition and this might put the company at risk. The company does not have a written standard on how they will assess their clients, thus making the reliability of the loans to be suspicious. The control is insufficient with regards to credit investigation and collection of accounts because in the office scenario, there is only one person who is in charge in the said divisions. It might cause delay on the processes of investigation and collection of the clients' accounts. It could create overlapping of duties between the two departments. FPFC's conservatism is also a hindrance in terms of expansion of the business since it only focuses on clients who already have prior transactions with the



POLYTECHNIC UNIVERSITY OF THE PHILIPPINES

26

company. It would limit the company's growth potential and it would increase the percentage of the idle funds, which is not good for a financing company.

26

V. RECOMMENDATIONS AND IMPLEMENTATION

Although FPFC is efficient in terms of processing loan applications, the company should still find ways to improve the efficiency. It is not questionable that conservatism assures credibility of FPFC's client but the company should still **undergo some less conservative approaches to increase the number of its clients**, thus making the idle funds useful.

Assessing clients through intuition is a big risk to the company. It is **advantageous to the company to have a written standard** on how it will assess its clients to be able to compare the clients' information and to secure the reliability of the loans and payments. **FPFC should have separate personnel in two different departments, namely the credit investigation and the collection department.** It is appropriate to avoid overlapping of duties between the two departments and to minimize delays on the process of investigation and collection of clients' account, especially when the company undergoes a less conservative approach of assessing clients.

The researchers believe that FPFC could go through some more research to greatly improve the efficiency and effectiveness of its receivable management. However, further studies could focus more on the statistical analysis of the issue, perhaps using a combination of quantitative and qualitative research approaches.



VI. REFERENCES

Bird, Graham (2004), *International Finance and the Developing Economies* , Palgrave Macmillan.

Bell, Crive (2003), *Development Policy as Public Finance* , Oxford University Press

Gale, Douglas (1994), "The Efficient Design of Public Debt," in Franklin Allen and D. Gale, *Financial Innovation and Risk Sharing* , The MIT Press.

Gibson, Heather D. (1996), *International Finance: Exchange Rates and Financial Flaws in the International System* , Longman.

Krugman, Paul (1988), "Financing vs. Forgiving a Debt Overhang," *Journal of Development Economics* , No. 29, pp. 253-268, North Holland.

Sachs, Jeffrey (1989), "The Debt Overhang of Developing Countries," in Guillermo Calvo, Ronald Findlay, Pentti Kouri and Jorge Braga de Macedo (eds.), *Debt, Stabilization and Development: Essays in Memory of Carlos Diaz-Alejandro* , Blackwell.

Boldo, Michael D. and Christopher M. Meissner (2005), "The Role of Foreign Currency Debt in Financial Crises: 1880-1913 vs. 1972-1997," NBER Working Paper Series No. 11897, National Bureau of Economic Research, Cambridge: MA.

