

MITSUKOSHI MOTORS PHILS., INC.		
POLICY AND PROCEDURES		
POLICY TITLE :	INCOME AND EXPENSE ADJUDICATION	Ref. No. 2015-11-015
DEPARTMENT :	OPERATIONS SUPPORT DEPARTMENT	
TO :	BRANCH MANAGER / CREDIT SUPERVISOR / ACCOUNT COUNSELOR	November 5, 2015

## OBJECTIVE

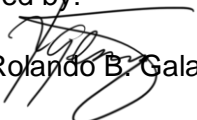

1. To guide the field personnel in establishing expense and income adjudication of the applicant.
2. To quantify and measure the capacity to pay of the applicant.

## POLICIES

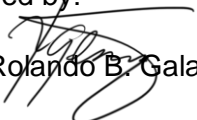
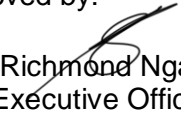
1. It is the responsibility of the field personnel conducting the credit investigation proceeding to compute for the Net Disposable Income (NDI) of the applicant to establish the capacity to pay of the applicant.
2. The Branch Manager (BM) must ensure the mathematical accuracy of the NDI and the veracity of the items therein.
3. The field personnel must carefully check under principle of GRAB (Genuineness, Reliability, Authenticity and Bona Fide) the documents presented by the applicant. Any discrepancy in the name, including spelling of applicant's name and figures indicated in the documents shall be indicated in the Credit Investigation Report.

## PROCEDURES

1. Expense Adjudication
  - 1.1. Conduct personal interview with the applicant to determine the latter's expenditure, such as transportation, food and clothing, light and water and others, which is important in determining his Net Disposable Income.
    - 1.1.1. Determine the variable expenses of the applicant. These are expenses usually incur every month but in different amounts, such as food, transportation, telephone, electric and water bills.
      - 1.1.1.1. Obtain utility bills from the applicant.
      - 1.1.1.2. Determine the average monthly billing for light and water expenses in order to arrive at the acceptable amount for adjudication purposes. As a matter of policy, the average of the three (3) latest billings should be used by the AC in determining these types of expenses.

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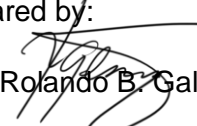

- 1.1.1.3. Interview the applicant for his and his family members on their regular fare from work and school.
- 1.1.1.4. Establish reasonable amount of transportation expenses of the applicant and determining factors shall be;
  - 1.1.1.4.1. Number of persons in the applicant's household;
  - 1.1.1.4.2. Number of children going to school;
  - 1.1.1.4.3. Proximity or distance of applicant's residence to school, market place, downtown area, workplace, etc.
  - 1.1.1.4.4. Types of transportation commonly used by the members of applicant's household and the current rate fare.
  - 1.1.1.4.5. If the applicant admits a bigger amount of the monthly transportation expenses than that which has been determined, then such admitted amount shall be used for adjudication purposes.
- 1.1.2. Determine the applicant fixed expenses. These are expenses that require the same amount to be paid every month, such as; rent payment, cable bill and monthly amortization for car or real estate loan.
  - 1.1.2.1. Conduct interview with lessor, if applicant is renting to determine monthly rental and paying habit of the latter.
  - 1.1.2.2. Obtain latest official receipt actually issued by the lessor to the applicant.
  - 1.1.2.2. Request for copy of the following from the applicant, if any;
    - 1.1.2.2.1. Cable bill
    - 1.1.2.2.2. Monthly amortization billing; appliances, motor vehicle or real estate loan.
- 1.1.2. Determine the applicant annual expenses such as insurance premium, tuition fees, car registration, taxes and licenses and may include clothing.
  - 1.1.2.1. Convert annual expenses to monthly amount for adjudication purposes.
- 1.2. Interview neighbors to establish applicant's spending habit, is the customer extravagant or living beyond his means.

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- 1.3. Maintain records of current tuition fees in the locality, college, high school, elementary or pre-school as reference.
  - 1.3.1. If the applicant admits higher tuition fee due to fact that his children is studying or enrolled in a more expensive school outside of the locality, in which case such admitted amount shall be used as the basis for adjudication purposes.
  - 1.3.2. Schooling expenses includes tuition fees, room and board or rent of utilities, books and other class supplies, school activity fees and other miscellaneous charges in the school where the dependent of the applicant is enrolled. Expenses for lunch and bus fares shall be included in foods and transportation, respectively.
  - 1.3.3. Update the tuition fee records in the locality from time to time for reference of the branch.
- 1.4. Determine other substantial expenditures which are not declared by the applicant and include them in the adjudication.
2. Compute for the gross disposable income of the applicant.
  - 2.1. Obtain latest pay slip of the applicant to determine the latter's net take home pay from his payroll.
  - 2.2. Consolidate all expenses gathered and deduct to applicant's take home pay to arrive at gross disposable income.
3. Determine the net disposable income of the applicant.
  - 3.1. Deduct the allowance for periodic expenses such as expenses for recreations, house maintenance and medicines which is pegged at 10% of the gross disposable income of the applicant.
4. Compute for the excess of net disposable income of the applicant to determine the latter's capacity to pay the monthly amortization of the motorcycle unit being purchased on installment.
  - 4.1. The excess of net disposable income over monthly amortization should not be less than P 500.00 in order for a loan to be approved.

5. Sample Computation:

Gross Salaries	P 12,000.00
Less: Deductions	<u>2,000.00</u>
Net Take Home Pay	P 10,000.00
Less: Total Monthly Expenses	<u>4,000.00</u>
Gross Disposable Income	P 6,000.00
Less: Allowance (P 6,000.00 x 10%)	<u>600.00</u>
Net Disposable Income	P 5,400.00
Less: Monthly Amortization	<u>4,665.00</u>
Excess	<u>P 735.00</u>

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6. If the deficiency in the net disposable income against the monthly amortization is not material, determine additional down payment or term to save the sale.

6.1. Given:

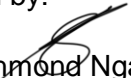
Unit	Bonus 110
LCP	P 46,200.00
Down Payment	P 3,000.00
Term	12 Months
MI	P 4,665.00
Net Disposable Income (NDI)	P 4,500.00

- 6.2. In the abovementioned sample, the deficit of the NDI of P 4,500.00 and the MI of P 4,665.00 is P 165.00; recommend the following to the applicant;

6.2.1. Higher Down Payment

NDI	4,500.00	
Less: Excess Limit	<u>500.00</u>	4,000.00
Less: PPD		<u>200.00</u>
Net Allowable MI		3,800.00
÷ MI Factor for 12 Months		<u>0.098133</u>
Adjusted AF		38,723.00
Less: LCP		<u>46,200.00</u>
Net Down Payment		7,477.00
Add: LTO		<u>2,300.00</u>
Recommended Down Payment		<u>9,777.00</u>

- 6.2.2. Longer Term, for 18 Months, the MI will be P 3,401.00 with an excess of P 1,099.00.

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