

SOP: Loans^{*}

Customer: Company Inc.

Assigned to: Dept./Position

Aims

- To set up and maintain the basic parameters required to process loans
- To use available tools to create various scenarios before taking a loan from the bank
- To record and maintain actual loans.

Setups

- Define bank accounts (including the days the bank is open)
- Define statuses for loans (in the [Statuses for Loans/Leasing](#) form)
- Define loan purposes (see below)
- Define types of interest (see below)
- **Dual-currency users:** Record the consumer price index in the system (see below).

Defining Loan Purposes

By defining purposes for loans, you can group together all loans that serve the same purpose and define default GL accounts required to open loans for each purpose.

1. Enter the [Purposes of Loans](#) form.
2. Record each **Purpose of Loan**.
3. Record the default GL accounts for all loans that are assigned this purpose: **Loan Account, Interest Expense Account, PrincipalLinkage Acct** and **Interest Linkage Acct** (the last two for dual-currency users).

Defining Types of Variable Interest

Interest rates for loans with variable interest are defined according to their base rate.

1. Enter the [Currencies](#) form.
2. Record the interest code in the **Curr** column (e.g., "P" for prime).
3. Flag the **Interest** column.

^{*} Standard Operating Procedures should be used as guidelines for customers (and their consultants) to develop their own operating procedures. As you will note, the following procedures are very specific and customers are strongly advised not to use them without prior testing to make sure that they fit their own requirements and work practices.

4. To record the interest rate, select **Exchange Rates** from the list of Direct Activations.
5. Record the **Date** the rate goes into effect.
6. Enter the **Itemized Rates** sub-level form and, in the appropriate interest line, fill in the **Exchange Rate**.

Dual-Currency Users: Recording the Consumer Price Index

To record the index for a given month (usually released on the 15th of the following month), you need to record the index on two dates: the first day and the last day of the month.

1. Enter the [Currencies](#) form and make sure that a "currency" has been defined for the Price Index.
2. Select **Exchange Rates** from the list of Direct Activations.
3. Record the first date of the month.
4. Enter the **Itemized Rates** sub-level form and fill in the **Exchange Rate** for the Price Index line.
5. Do the same for the last day of the month.

Procedure

Stage I: Recording a Trial Loan

Before taking a loan, you can create test scenarios in the system. There are two tools with which you can plan loans: the **Loan Calculator** and the **Bank Loans** form.

The Loan Calculator

The **Loan Calculator** is useful for planning loans that include monthly payments at a fixed rate of interest – whose percentage of principal and interest are identical in each payment – or equal-principal payments). This is more accurate than using the **Bank Loans** form.

1. Run the [Loan Calculator](#) report.
2. In the first input screen, choose the desired **Amortization Type (Equal Payments or Equal Principal)**.
3. In the second input screen, record **either** the **Interest Rate** or **Monthly Payment** amount.

The Bank Loans Form

In the **Bank Loans** form, you can plan loans with more frequent payments or with variable interest. The basic parameters that can be revised are: interest rate, number of payments and payment amounts.

1. Enter the [Bank Loans](#) form and fill in all the mandatory columns (e.g., **Date of Loan, Loan Number**).
2. Click the **Interest Data** tab and fill in either the **Fixed Interest** or the **Variable Interest** (select a value from the Choose list), as well as the **Margin**.
3. Click the **Payment Data** tab and fill in the **Amortization Sched.** (see the **F1** help to understand the different types), the **No. of Payments** and the **Amt of Each Paymt.**

4. Revise the **Pay Freq-Principal** and **Pay Freq-Interest** columns, as needed.
5. If the payments are debited at the end of the month, flag the **Paymt at Month End** column.
6. Select one of the following programs from the list of Direct Activations: **Calculate Payment Amount**, **Calculate Interest Rate**, or **Calculate Number of Payments**.
7. Select **Prepare Amortization Schedule** from the list of Direct Activations.
8. To view the amortization schedule, enter the **Amortization Schedule** sub-level form or select **Amortization Schedule** from the list of Direct Activations.
9. You can make any desired revisions and rerun the **Prepare Amortization Schedule** until you achieve the desired results.

Stage II: Recording a New Loan

1. Enter the [Bank Loans](#) form and fill in all the mandatory columns (e.g., **Date of Loan**, **Loan Number**).
2. In the **Loan** tab, record the **Account Number** (the account from which the loan will be repaid) and **Contract Number**.
3. **Dual-currency users:** Click the **Linkage** tab and fill in the following details:
 - If the loan is linked to the consumer price index, select the index in the **Linked Currency** column.
 - Specify the **Linked Rate Date** and **Base Rate**.
 - To allow negative linkage, flag the **Negative Price Adj** column.
 - If the principal and/or interest are partially linked, record the linked percentages in the **Principal Linkage %** and **Interest Linkage %** columns.
4. Click the **Interest Data** tab and fill in either the **Fixed Interest** or the **Variable Interest** (select a value from the Choose list), as well as the **Margin**.
5. If there are guarantors for the loan, enter the **Loan Guarantors** sub-level form.

Preparing the Amortization Schedule

1. Click the **Payment Data** tab and fill in the **Amortization Sched.** column (see the **F1** help to understand the different types).
Note: If you chose a custom schedule, fill in the relevant details for the entire payment period in the **Custom Amortization Schedule** sub-level form.
2. Fill in the **No. of Payments** and **Amt of Each Paymt**, frequency of payments and first pay dates, and the **Calc. Interest as of** column. If the payments are debited at the end of the month, flag the **Paymt at Month End** column.
3. If a fee is collected for each payment, specify the fee in the **Fixed Fee/Paymt** column.
4. For a loan with fixed interest, you can calculate the interest per number of days and flag the **Int by Month Length** column (in the **Interest Data** tab).
5. For a loan with variable interest you can take all interest changes into account by flagging the **Incl All Rate Chngs** column.
6. To create an amortization table manually, enter the **Amortization Schedule** sub-level form and record the details of each payment in a separate line.

Calculating and Checking the Loan

1. Select **Prepare Amortization Schedule** from the list of Direct Activations.
2. To view the amortization schedule, enter the **Amortization Schedule** sub-level form or select **Amortization Schedule** from the list of Direct Activations.
3. In the **Loan** tab, change the **Loan Status** to **Active**.

Stage III: Making Loan Payments

Before each payment is actually debited, it may be necessary to adjust the amortization schedule (e.g., in the case of variable interest). After the payment is debited, a journal entry needs to be recorded for the payment.

1. Run the [Update Interest Amounts](#) program.
2. Enter the [Bank Loans](#) form and retrieve the desired loan.
3. Make sure the **Loan Status** is **Active**.
4. To view the updated amortization schedule, enter the **Amortization Schedule** sub-level form.
5. Run the [Loan Payments - Posting Preview](#) report and check the results.
6. Run the [Record Loan Payments in Journal](#) program.
Note: When the entry is recorded, the payment line in the **Amortization Schedule** sub-level of the **Bank Loans** form is flagged as **Paid**.
7. If this is the last payment, change the **Loan Status** to **Closed**.

Stage IV: Making Early Loan Payments

Before each payment is actually debited, it may be necessary to adjust the amortization schedule (e.g., in the case of variable interest). After the payment is debited, a journal entry needs to be recorded for the payment.

1. Run the [Update Interest Amounts](#) program.
2. Run the [Redo Schedule for Early Repaymt](#) program.
3. Enter the [Bank Loans](#) form and retrieve the desired loan.
4. Make sure the **Loan Status** is **Active**.
5. To view the updated amortization schedule, enter the **Amortization Schedule** sub-level form.
6. Run the [Loan Payments - Posting Preview](#) report and check the results.
7. Run the [Record Loan Payments in Journal](#) program.
Note: When the entry is recorded, the payment line in the **Amortization Schedule** sub-level of the **Bank Loans** form is flagged as **Paid**.
8. If this is the last payment, change the **Loan Status** to **Closed**.

Stage V: Postponing Loan Payments

If the bank agrees to freeze some of the payments, you need to update the amortization schedule accordingly.

1. Enter the [Bank Loans](#) form.
2. Enter the **Postponement of Payment Dates** sub-level form.

3. Specify the **Payment Number** of the postponed payment and record the new payment date in the **Payment Due on** column.
4. If the bank charges compounded interest, flag the **Compounded Interest** column.
5. Return to the upper-level form and select **Prepare Amortization Schedule** from the list of Direct Activations.
6. Change the **Loan Status** to **Frozen**.
7. When you are ready to make the postponed payment, change the **Loan Status** back to **Active**.