

AUGUST 2012

Staying Connected

For the Alumni of the ECCB's
Savings and Investments Course

YOUR FINANCES ...YOUR FUTURE

YOUR FINANCIAL
NEWS



Innovation Contest
for High School Students



Small Business Workshops

EXPERIENCE IT!
Financial Information Month
October 2012

MEDIA PROGRAMMES
ON BUSINESS AND FINANCIAL ISSUES

FINANCIAL AND BUSINESS
PRESENTATIONS
to schools, churches
and businesses

Business
SYMPOSIUM
AND INNOVATION FORUM
for CEOs, entrepreneurs,
managers and supervisors
17 October



BUSINESS
SYMPOSIUM

for High School
Students
11 October



UNDERWRITING WORKSHOP
for credit officers

Train the Trainers Workshop
in Business and Money Management

for Teachers
26 September

October is Financial Information Month



Financial Information Month
October 2012



Challenge Yourself
Innovate-Compete-Succeed!



**Business
SYMPOSIUM**

AND INNOVATION FORUM
— 2012 —

Wednesday, 17 October
4:00 - 7:30 p.m.

at the
Sir Cecil Jacobs Auditorium
ECCB Headquarters, St Kitts with
video conference connections to the
other ECCB member countries.

CONFIRMED SPEAKERS:

**Re-defining and Re-tooling
the Business Sector
Through Technology**
Mr Julian Hall

Consultant, Entrepreneur and
Author, "Entrepreneur to
Ultrapreneur - 100 Ways To
Up Your Game", U.K.

**Commercialising
Innovation**
Mr Andre Harding

Managing Director, Vanguard
Trading Ltd Inc., Barbados

**Entrepreneurship,
Business Models and
Financing Innovation**
Mr Claudius Francis

Consultant, Empowerment
Group Companies, Saint
Lucia

For registration information
email
info@eccb-centralbank.org

P We have the
Power

For Financial Information Month - October 2012, the theme, **Challenge Yourself Innovate-Compete-Succeed**, reminds us that we have the power to keep going...to keep moving forward...to achieve success even in an economic 'storm'. **That power resides in our mind.** All we have to do is use it to its fullest.

In his book, "A Whole New Mind", Author Daniel Pink reminds us that, "The future belongs to a very different kind of person with a very different kind of mind...creators, and empathizers, pattern recognizers, and meaning makers...artists, inventors, designers, storytellers, caregivers, consolers, big picture thinkers. We are moving from the Information Age to the Conceptual Age."



Financial Information Month, October 2012, dedicates itself to

inspiring and teaching us how to accomplish the goals we set in our business and our finances by tapping into our extraordinary mind power. The wide range of

activities that comprise the itinerary are literally food for the mind.

On 26 September, teachers from across the eight member countries of the Eastern Caribbean Currency Union will explore creative training techniques in teaching business and money management subjects. This **Train the Trainers Workshop for Teachers** is designed to create maximum learning effectiveness in the classroom.

Our youth will be inspired to take up the month's mantra through a regional **Business Symposium** and an **Innovation Contest**. For the adults, an array of **Media Programmes** focused on financial and business issues as well as a regional **Business Symposium and Innovation Forum** and **Small Business Workshops** will bring together insights, strategies and important lessons on how to accomplish our goals.

Remember, the economic downturn has not sapped our power; rather, it has directed us to tap a whole new source from within. **SLW**

Getting Started on Your Credit and Managing Your Mortgage Obligations (Part II)

How does one go about securing credit for building or buying a home?

By Dennis Cornwall, Manager, Research and Marketing, Eastern Caribbean Home Mortgage Bank

This article's objective is to give perspective borrowers an idea of the review process for a mortgage loan application. This article may also serve as a useful guide to persons employed in credit departments of mortgage lending institutions.

1.0 Underwriting Practices

It is generally accepted internationally that there are four (4) major steps that lending institutions utilise in their mortgage underwriting practices. They are:-

1. Assessment of the borrower;
2. Assessment of the property or the security for the mortgage loan;
3. Assessment of the housing market in the context of the overall economy;
4. Risk Synthesis Analysis – taking into account a combination of the three (3) assessments above and making a decision on whether or not to lend the money to the borrower and what are the safeguards that must be in place to secure the lending.

As indicated in Part I of this article, published in the July publication of this newsletter,

Step I involves the assessment of the borrower to determine if the perspective borrower is a good or bad risk. The assessment is intended to derive the following:-

- Can the customer repay the loan?
- Will the customer repay the loan? and
- What remedies/recourse the lender has if the customer does not pay or refuses to pay?

This is one of the main reasons why a lending institution conducts a thorough assessment of the borrower. This is also one of the first steps in analyzing an applicant. It is generally accepted internationally that there are four (4) major steps that lending institutions utilise in their mortgage underwriting practices. Let us now briefly explain the remaining steps.

1.1 Assessment of the property or the security for the mortgage loan

Before the Mortgagee (lender) accepts a mortgage from the perspective borrower, it must satisfy itself of the following:-

- Can a mortgage on the property (land and/or land and building) be sufficient to cover the amount of the loan requested;

- Will the property follow the market? In other words, is the property easy to be sold or is the property marketable? What is the property location in relation to other amenities such as water main, electricity, telephone, schools, churches, hospitals or other medical facilities, highways or major roads ways? Is the property likely to appreciate in the future? Is the property located in a depressed community with little prospect for growth.

- The whole idea is to evaluate the property to be offered up as security, identifying the strengths, weaknesses, stigmas, red flags and taking adequate measures (safeguards) to mitigate the property losing its value after the loan is granted.

- The lender also needs to satisfy itself that the perspective borrower owns the property. This is the reason why the lender would request a copy of the "Title Deed" or "Certificate of Title" of the property. The lender also conducts a "Title Search" to ensure that it can get "Good Root of Title", in

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order word, a Title that is free from any other incumbencies or court judgments.

Once the lender has determined that there are no issues related to the property, and the borrower can provide a First Legal Mortgage as security, he can move on to evaluate the housing market and the overall economy.

1.2 Assessment of the housing market in the context of the overall economy

Generally speaking, lenders rely on Economic Reports issued by the Central Bank, Ministry of Finance, the International Monetary Fund, the Caribbean Development Bank and other reputable financial institutions that provide information on the general economy and how this may impact on the various sectors.

Issues such as employment and unemployment, growth in housing sector and other major sectors are often reported on. For instance, if the borrower is employed in a sector that is expected to be impacted negatively, that may influence whether the lender approves the loan or not.

1.3 Risk Analysis

The lender will take into account a combination of the three (3) assessments mentioned above (borrower, property and the market) and make a decision on whether or not to lend the money to the borrower. The lender will try to address the potential risks, identify all the known red flags and proposed necessary safeguards to mitigate future problems.

The future potential earning of the borrower, his/her creditworthiness and ability to adapt to changing circumstances is also taken into consideration. In the Eastern Caribbean Currency Union (ECCU) Credit Bureaus are not yet operational. Such institutions would be able to provide additional information to the lender on the borrower's finances. Currently, customers are required to sign disclosure agreements which allow lenders to seek information from other lenders on the customers.

Generally, if the lender approves the loan, it will make an offer to the borrower with certain terms and conditions such as:-

- Take a first legal mortgage over the property offered up as security;

Synthesis

- Require the borrower to take out insurance during construction and fire and peril insurance over the property over the life of the loan;
- Some lenders may advise their customer to take out life insurance (whole life or term life) to protect their family in the event of sickness or death of the major bread winner of the family. However, for some institutions this may be optional;
- The lender may also hold other real property if necessary as additional security for the loan;
- Some lenders may require taking a salary assignment from the borrower.

2.0 What will be the Obligations of the Mortgagor and the Mortgagee under the Contract for a Mortgage Loan?

The Mortgagor (borrower) as well the Mortgagee (lender) has obligations under the Contract for the Mortgage Loan. The borrower is obligated to do the following:-

- Make timely payment (weekly, fortnightly, monthly, or annually) as may be agreed upon;
- Maintain the property in good condition as prescribe under the contract.
- Report any changes that may likely to affect his/her ability to pay, due to changing circumstances.

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On the other hand, the lender is obligated to do the following:

- Make timely disbursements, once borrower has met all conditions precedent to disbursements;
- Bill the customer;
- Account for customer's payments made and provide statements to the borrower;
- Notify the borrower in the event of late payment or missed payments;
- Inspect the property after notifying the borrower;
- Sue the borrower for any outstanding payment in arrears;
- Sell or foreclose on the property in the event of a default on the part of the borrower.

It should be noted that mortgage lenders are not in the business of foreclosing on customers home. They will explore all available avenues/options before such a decision is taken.

Notwithstanding the above mentioned, the borrower is expected at all times to maintain his or her mortgage in good standing to avoid any embarrassment from the lender.

It is also important that the Mortgagor keeps in touch with the Mortgagee at all times, especially when problems arise or are likely to arise based on changing circumstances that may affect the payment on the loan.

3.0 Insurance Coverage **Why life insurance is important? Why Fire and Peril Insurance and General Liability Insurance are important?**

Most lenders will require the borrower to have the property under construction insured during construction. Generally, the contractor is expected to insure the property under construction to mitigate accidents, and disasters until the building is completed and handed over to the customer. This is referred to as General Liability Insurance.

3.1 General Liability Insurance

As the name implies, General Liability Insurance protects a contractor by providing a wide range of liability issues that could occur during a project. Examples include: **property damage coverage**, which pays out in the event of damages caused to another party's property; **personal injury insurance**, which provides coverage for injuries sustained by a third party; and **product liability**, which covers you in the event that a product you manufacture causes damage to another person or property;

For a contractor, the threat of litigation is a real possibility. One of his employees could unintentionally cause injury or

damage to another person or property at any time. Since a lawsuit could potentially wipe out the business, the contractor needs to be prepared for the worst-case scenario by having adequate liability insurance.

3.2 Fire and Peril Insurance

Going forward, the borrower is required to provide Fire and Peril Insurance on the property for the duration of the mortgage or until maturity of the loan.

3.3 What is a Covered Property?

Generally, covered properties are divided into four separate categories. The definitions of the property and the extent of coverage vary by country/island, company and product. So it is important for the consumer to understand the definitions of the covered property. The four separate categories for your home, as defined by insurance companies, are:

- i. **Dwelling** – The structure of the house is considered a covered property.
- ii. **Other Structures** – These are structures that are separate from the house, or connected to the house by a fence, wire or other forms of connections, but not otherwise attached to the dwelling, such as a tool shed

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or detached garage, cisterns, swimming pools etc.

- iii. **Personal Property** – The contents of your home are your personal property. This includes furniture, appliances and clothing. Not all personal property is covered. Items more appropriately covered under different forms of insurance may have limitations or no coverage for loss. These items include, but are not limited to food, money, jewelry and firearms.
- iv. **Loss of Use** – When a loss occurs due to a covered peril and the dwelling becomes uninhabitable, the cost of additional living expenses is covered. Reimbursement of additional living expenses covers the cost to the insured for maintaining a normal standard of living.

3.4 Life Insurance (Whole Life, Term Life)

As indicated earlier some lending institutions encourage borrowers to take out life insurance to protect their family in the event of death or sickness of a major bread winner in the family. However, some lenders treat this type of insurance as optional in some jurisdictions outside of the ECCU.

3.5 Whole Life Insurance

Whole Life is most commonly used to describe "Permanent Life Insurance" that is designed

to keep the premium level over your entire lifetime. Permanent life insurance is used when you want to make sure it is in force at the time of your death regardless of whether or not it's a pre-mature death. It's commonly used for Estate Planning, Business Buyout Agreements and as a means of Forced Savings. The younger you are when you purchase whole life insurance, the lower your premiums will be since there are more years for the funds to accumulate within your policy.

3.6 Term Life Insurance

Term Life Insurance is useful for providing short term protection and is always the least expensive option because you are simply paying to insure against death occurring in the next year. At the end of the term (year) if you choose to renew the policy, it will be at a higher rate. If you have an upcoming expense that you would like to insure against such as putting your kids through college, then you have a short time horizon and it makes sense to use term insurance.

Again, this is one of the reasons why lenders do not allow for Gross Debt Service to be above forty (40%) per cent. It is important that borrowers have sufficient

income to pay for insurance, taxes, and maintenance.

In the ECCU, there are many insurance companies providing insurance products. It is advisable to shop around for the insurance company that best protects your interest and at the same time meets your needs.

Over the years, we have heard of horror stories concerning insurances. Being cheaper does not imply the best deal.

Underinsurance is another burning issue encountered. It is assumed that when a homeowner underinsures his/her property; it implies that he accepts the risk for the uninsured portion. For instance:

- **Property A has a replacement value of \$1,000,000.**
- **However, homeowner insures property A for \$600,000.**
- **The Property is underinsured by \$400,000.**
- **It is assumed that the \$400,000 risk is covered by the homeowner. If the Property is totally destroyed, the Insurance Company will pay up to \$600,000 minus the insurers' excess.**
- **If the building is partially damaged, then the homeowner will only get a portion of the \$600,000 after the adjustments are made.**

It is therefore very important to ensure that your property carries adequate insurance coverage.



S superior service ells

Making sure that your customers come back to do more business is not just a nice touch to add to a business, **it is the business.** Just imagine what would happen if a business were to have no repeat customers just because past customers have been turned off by bad service. Well, you don't have to think very hard; sooner, rather than later, that business would have no customers and be out of business.

It is said that good service attracts three customers and bad service costs a business seven customers. (*Bad news travel faster*). Do the math! It is profitable not to give bad service.

When everyone in the business adopts a mantra, *'to provide superior service to all customers, at all times,'*

more business is generated; more money is available to pay salaries and bonuses, and sustain and grow the business.



It is foolhardy to be optimistic about a business profitability and growth prospects where the business owner/CEO or employees fail to take the time to ensure that customers are totally satisfied by: (i.) providing a superior product or service and (ii.) making after-sales follow-up part and parcel of the business offerings. Businesses that demonstrate long-term sustained success, focus on developing and nurturing customer relationships, not one-time customer transactions.

It would be equally naive to think that an employee who sees nothing wrong in presenting himself as grumpy or detached

because he is tired, will stimulate demand for the business products or services. Consider that many customers who enter the doors to do business may have missed a few nights sleep but still find the energy to visit the business with the intention of parting with their hard earned dollars.

So, as we talk about how to increase sales in an economy that is still undergoing recovery, superior service has to be at the center of the conversation. It is for this reason that for Financial Information Month, October 2012, topics revolving around superior service are key to the discourse on how to succeed in business.

Let us be clear. The customer who never comes back, is the customer who will adversely affect the business bottom line. slw

The Nice Customer Who Never Comes Back
P.O. Box 1,000,000,000+
Everywhere

I'm a nice customer. You all know me. I'm the one who never complains no matter what kind of service I get.

I'll go into a restaurant and remain calm while the waitress gossips, on her phone, with her girlfriend and never bothers to look and see if my hamburger is ready to go. Sometimes, someone who came in after I did gets my hamburger, but I don't complain when the waitress tells me, "Oh, I am sorry; I'll order another one for you." I just smile.

It's the same when I go to a store to buy something. I don't throw my weight around. I try to be thoughtful of the other person. If I get a rude sales person who gets annoyed because I want to look at several items before I make up my mind, I'm as polite as can be. I don't believe that rudeness in return is the answer.

A few months ago, I hired a technician to fix my machine. He came, disabled the appliance and indicated that I would need to provide him with the money to order the part needed to fix the machine. I gave him the money and did not hear from him for two months. Every week I would go through the same ritual. I would call, he would indicate that the part was expected any day now. After four months I stopped calling.

When I enter a business place and the receptionist is grumpy or rude I smile sweetly and leave. I never kick, I never nag, I never criticise, and I wouldn't dream of making a scene as I've seen people doing in public places. I think that's awful. No, I'm the nice customer. And I'll tell you what else I am. **I'M THE NICE CUSTOMER WHO NEVER COMES BACK.**

That's my little revenge for getting pushed around and ignored. That's why I take whatever you hand out, because I know I'm not coming back. It's true that this way doesn't relieve my feelings right off, as telling you what I think of you, but in the long run, it is far more deadly revenge than blowing my top would be.

In fact, a nice customer like me, multiplied by others of my kind can just about ruin a business. And there are a lot of nice people around just like me. When we get pushed far enough, we go on down the street to another store where there are smart people who appreciate customers.

He laughs best, they say who laughs last. I laugh when I see you frantically spending your money on expensive advertising to get me back, when you could have had me in the first place for a few kind words, a smile and good service.

I don't care what business you're in. Maybe I don't even know you. But if you are going broke or your business is bad, maybe there are enough people like me who do know you. **I'M YOUR CUSTOMER WHO NEVER COMES BACK.** (adapted from the WWW)