



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

Supervision and Examination Sector OFFICE OF THE DEPUTY GOVERNOR

MEMORANDUM TO ALL RURAL/COOPERATIVE BANKS

Subject: Complete Disclosure of Restructured Loans

Pursuant to Circular No. 249 dated 26 June 2000 and Memorandum to All Rural/Cooperative Banks dated 5 October 2000, requiring adoption of the Updated Manual of Accounts and Revised Reportorial Requirements, all rural banks are requested to fully disclose the restructured loans in the Consolidated Statement of Condition (CSOC) and in Schedule 2 page 3 of the CSOC.

To ensure proper compliance with the reportorial requirements and for consistency with the definition of restructured loans in the Manual of Accounts for Rural/Cooperative Banks, please be guided by the following:

1. ***Restructured Loans*** represent loans, the principal terms and conditions of which have been modified in accordance with a restructuring agreement setting forth a new plan of payment or a schedule of payment on a periodic basis.

- a. ***Restructured Loans – Fully Secured*** represent restructured loans including capitalized interest thereon, which are in current status and are fully secured by real estate with loan value of up to 60% of the appraised value of the real estate security and insured improvements and by other first class collaterals as may be deemed appropriate by the Monetary Board. Restructured loans lodged to this account shall be treated as performing loans where interest income can be accrued.
- b. ***Restructured Loans – Unsecured or Partially Secured*** represent restructured loans including capitalized interest thereon, which are in current status and are either unsecured or are not fully secured by real estate with loan value of up to 60% of the appraised value of the real estate security and insured improvements, and by other first class collaterals as may be deemed appropriate by the Monetary Board. Restructured loans lodged to this account shall be treated as non-performing loans where no interest income can be accrued.



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2. **Past Due Restructured Loans** represent restructured loans which are considered past due under existing rules and regulations. The loan shall remain in this account until fully paid or collection/foreclosure case has been filed in court/sheriff's office, as the case may be.

3. **Items in Litigation - Restructured Loans** represent all restructured loans for which collection/foreclosure cases have been filed in court or sheriff's office, as the case may be. The loan shall remain in this account during the pendency of the proceedings or until full payment or such other disposition is made as would cause such proceedings to cease. All expenses incurred incidental to the litigation shall be charged to operations and debited to "Litigation/Assets Acquired Expenses" account. Corresponding memorandum entries for the expenses shall be made on the individual subsidiary ledgers of the account concerned.

4. **Allowance for Probable Losses - Restructured Loans** represent the amount set up against current operations to provide for losses which may arise from non-collection of the restructured loans. Under existing regulation, this account is also known as "valuation reserve".

5. **Additional Regulations on Restructured Loans**

- a. In the restructuring process, the bank shall encourage the borrower to improve the quality of the loan either by strengthening financial capacity or providing additional collateral.
- b. The real estate security and/or other first class collaterals offered shall be appraised at the time of restructuring to ensure that current market values are being used. Real estate security shall be appraised by an independent appraisal company acceptable to the BSP and shall be reappraised every year thereafter.

For rural banks, the benchmark is set at P500 thousand such that loans beyond this amount will require an independent appraisal company: Provided, that the appraisal company contracted to do the appraisal is not a subsidiary or an affiliate of the rural bank.

A rural bank may be allowed to use a commercial bank or a thrift bank acceptable to the BSP to do the appraisal for it: Provided, the rural bank requesting the appraisal is not a subsidiary or affiliate of the commercial bank/thrift bank contracted to do the appraisal.

- c. A loan which is restructured shall be considered non-performing except when the loan is current and performing (i.e., with updated principal and interest payments) on the date of restructuring, in which case, the loan shall retain its performing status.

The classification of a loan prior to restructuring, e.g., "Loans Especially Mentioned", "Substandard" or "Doubtful", shall be retained: Provided, that a loan that is not classified but which is non-performing prior to restructuring shall be

classified, at least, "Loans Especially Mentioned": Provided further, that restructured loans with capitalized interest shall be classified, at least, "Substandard".

- d. The restoration to a performing loan status and/or the upgrading of loan classification, e.g., from "Substandard" to "Loans Especially Mentioned", if circumstances warrant an upgrading in accordance with the criteria under Appendix 18 of the Manual of Regulations for Banks (MOR), shall only be effective after a satisfactory track record of payments of the required amortization of principal and/or interest has been established.

For this purpose, a satisfactory track record of payments of principal and/or interest shall mean three (3) consecutive payments of the required amortization of principal and/or interest have been made. However, in the case of a restructured loan with capitalized interest but not fully secured by real estate with loan value of up to 60% of the appraised value of the real estate security and the insured improvements thereon or other first class collaterals, six (6) consecutive payments of the required amortization of principal and/or interest must have been made.

- e. A restructured loan which has been restored to a performing loan status shall be immediately considered non-performing in case of default of any principal or interest payment; however, it shall be considered past due in accordance with existing rules and regulations [Section X306 of the MOR, as amended by Circulars No. 143 dated October 1, 1997 and No. 202 dated May 27, 1999]
- f. A second restructuring of a loan shall be allowed only if there are reasonable justifications: Provided, it shall be considered a non-performing loan and classified, at least, "Substandard". The restoration to a performing loan status and/or the upgrading of loan classification, e.g., from "Substandard" to "Loans Especially Mentioned", if circumstances warrant an upgrading in accordance with the criteria under Appendix 18 of the MOR, shall only be effective after a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and/or interest has been established.

For strict compliance.


ALBERTO V. REYES
Deputy Governor

19 September 2001