



# Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

## OFFICE OF THE GOVERNOR

Circular No. 210  
Series of 1999

The Monetary Board, in its Resolution No. 1214 dated August 27, 1999, approved the following amendments to the guidelines on Classified Loans and Advances under Circular 1222 dated January 19, 1990.

**SECTION 1.** As a general policy, in the classification of loans and advances, the provisions of Section 76 of R.A. No. 337, as amended, to wit:

“Before granting a loan, banks must exercise proper caution to ascertain that the debtor is capable of fulfilling his commitments to the bank.

xxx.”

shall be observed.

**SECTION 2. CLASSIFIED LOANS AND ADVANCES.** These are loans and advances which possess the characteristics outlined hereunder. They are subdivided into (a) Loans especially mentioned; (b) Substandard; (c) Doubtful; and (d) Loss.

**A. Loans Especially Mentioned.** These are loans and advances that are superior in quality to those classified substandard but have potential weaknesses which if uncorrected may expose the bank to greater credit risks, and thus, require closer management supervision. Their basic characteristics are as follows:

1. The collateral folders are unlocated or where the documents including but not limited to title of properties, mortgage instruments and promissory notes are missing;
2. The supporting deed of assignment/pledge agreement/chattel mortgage/real estate mortgage are improperly executed;
3. Absence of board resolutions authorizing the transaction;
4. There are no credit investigation reports on file;
5. Non-performing loans and advances not subject to “Substandard” classification wherein the effort to collect is not evident or is deemed inadequate;

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6. Loans and advances to borrowers with any of the following weaknesses:

- minimal networth;
- poor earnings
- fluctuating operation;
- illiquidity; or
- increasing leverage trend in the borrower's financial statement

However, loans and advances to borrowers with any of the above weaknesses but with good repayment track record may not be classified as "Loans Especially Mentioned" but may be cited under "Miscellaneous Exceptions-Loans and Advances" depending on the examiner's judgment/assessment of the borrower's capacity to fully liquidate his obligations.

7. Loans and advances to borrowers whose properties securing the loan (previously well secured by collaterals) have declined in value materially or have been found with defects as to ownership or other adverse information;
8. Those with unsigned promissory notes or signed by unauthorized officers of the borrowing firm; and
9. Those previously cited as "Miscellaneous Exceptions" still uncorrected in the current examination.

**B. Substandard.** These are loans and advances or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There is a possibility of future loss to the institution unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral. No loans/advances should be classified "Substandard" if repayments/collections seem reasonably assured. Their basic characteristics are as follows:

1. Secured Loans and Advances
- a) Loans and advances under litigation;
  - b) Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;

- c) Past due for more than six (6) months;
- d) Past due loans and advances to borrowers whose properties securing the same have declined in value materially or have been found with defects as to ownership or other adverse information; and
- e) Current loans and advances where borrowers show impaired/negative networth except for start-up firms which should be evaluated on a case to case basis.

Loans and advances possessing any of the above characteristics shall be classified "Substandard" at the full amount except portions thereof secured by hold-outs on deposits, margin deposits, or government-supported securities. The portions so secured are not subject to classification.

2. Unsecured Loans and Advances

- a) Loans and advances under litigation;
- b) Past due for more than ninety (90) days;
- c) Loans and advances/credit lines of borrowers with adverse financial condition renewed/extended twice without at least twenty percent (20%) repayment of the principal before renewal or extension; and
- d) Current loans and advances the repayment of which is uncertain due to unfavorable results of operations for two (2) consecutive years or with impaired/negative networth except for start-up firms which should be evaluated on a case to case basis.

3. Loans and advances granted/availed of without requiring submission of the latest audited financial statements (AFS)/ income tax returns and/or statements of assets and liabilities to determine paying capacity of the borrower; and

4. Loans and advances classified as "Loans Especially Mentioned" in the last Bangko Sentral examination which remain uncorrected during the succeeding twelve (12) months.

- C. **Doubtful.** These are loans and advances or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Their basic characteristics are as follows:
1. Past due clean loans and advances classified as "Substandard" in the last Bangko Sentral examination without at least twenty percent (20%) repayment of principal during the succeeding twelve months or with current unfavorable credit information;
  2. Past due loans and advances secured by collaterals which have declined in value materially such as, inventories, receivables, equipment, and other chattels without the borrower offering additional collateral for the loans and advances coupled by the weakened financial condition of the borrower;
  3. Past due loans and advances secured by real estate mortgage title to which is subject to an adverse claim rendering settlement of the loan through foreclosure doubtful coupled by the weakened financial condition of the borrower; and
  4. Loans and advances wherein the possibility of loss is extremely high but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status may be determined.
- D. **Loss.** These are loans and advances or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future. Their basic characteristics are as follows:
1. Past due clean loans and advances the interest of which is unpaid for a period of six (6) months;
  2. Those payable in installments where amortization applicable to interest is past due for a period of six (6) months, unless well secured;

3. When the borrower's whereabouts is unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guaranty is not financially supported;
4. Where the collaterals securing the loans and advances are considered worthless and the borrower and/or his co-makers are insolvent;
5. Those considered as absolutely uncollectible; and
6. Those classified as "Doubtful" in the last Bangko Sentral examination and without any payment of interest or substantial reduction of principal during the succeeding twelve (12) months, or have current unfavorable credit information which renders collection of the loan highly improbable.

**SECTION 3. MISCELLANEOUS EXCEPTIONS-LOANS AND ADVANCES.** These are loans and advances with technical defects, deficiencies in documentation/collaterals and without up-to-date credit information/audited financial statements, income tax returns. These exceptions should be brought to management's attention for corrective action during the examination.

This category may include the following:

1. Unregistered mortgage instruments in violation of the requirement in the loan approval;
2. Unnotarized mortgage instruments/agreements;
3. Collaterals not covered by appraisal reports or appraisal reports not updated;
4. Availments against expired credit line; availments in excess of credit line; availments against credit line without prior approval by appropriate authority;
5. Those without updated audited financial statements (AFS)/income tax returns (ITR) and/or statements of assets and liabilities/credit information;
6. Collaterals not insured or with inadequate/expired insurance policies;
7. Insurance policy not endorsed in favor of the bank;

8. Waiver of right on the confidentiality of deposit assigned as loan collateral not executed by borrower;
9. Those granted beyond the limits of approving authority;
10. Those granted without compliance with conditions set forth in the approval; and
11. Those secured by property the title to which bears an uncanceled annotation or lien or encumbrance.

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:



RAFAEL B. BUENAVENTURA  
Governor

September 9, 1999