



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 839

Series of 2014

Subject: Real Estate Stress Test (REST) Limit for Real Estate Exposures

The Monetary Board in its Resolution No. 832 dated 22 May 2014, approved the adoption of a prudential real estate stress test (REST) limit for universal/commercial banks (U/KBs), thrift banks (TBs) on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

Section 1. Section 1397 of the Manual of Regulations for Banks shall be amended to include a real estate stress test (REST) limit for U/KBs, as follows:

"Section 1397 Limits on Real Estate Exposures and Other Real Estate Property of UBs/KBs.

1. Real Estate Loan Limit. Total real estate loans of UB/KBs, excluding: xxx "
2. Real Estate Stress Test (REST) Limits. A prudential limit is set for real estate exposures, as defined under Memorandum No. M-2012-046 dated 21 September 2012, and other real estate property of UBs/KBs. Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For this purpose, a stress test will be undertaken on a U/KB's REEs and other real estate property under an assumed write-off rate of 25 percent.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6 percent of Common Equity Tier 1 (CET1) capital ratio and 10 percent of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate.

A UB/KB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the supervising department of the SES, shall determine whether the UB/KB has been able to render sufficient explanation, otherwise, the UB/KB shall be directed to submit an action plan, within 30 calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A UB/KB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe and unsound practice, to be

determined in accordance with Section 56 of R.A. No. 8791 as implemented by Section X149, and shall subject the UB/KB to appropriate sanctions.”

Section 2. Section 2397 shall be added to the Manual of Regulations for Banks on the real estate stress test (REST) limit for thrift banks, as follows:

“Section 2397 Limits on Real Estate Exposures and Other Real Estate Property of TBs

A prudential limit is set for real estate exposures, as defined under Memorandum No. M-2012-046 dated 21 September 2012, and other real estate property of TBs. Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For this purpose, a stress test will be undertaken on a TB’s REEs and other real estate property under an assumed write-off rate of 25 percent.

The prudential REST limits which shall be complied with at all times by TBs are:

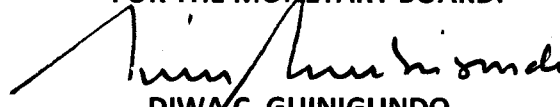
- a. 6 percent of Common Equity Tier 1 capital, for TBs that are subsidiaries of UBs/KBs,
- b. 6 percent of Tier 1 capital, for stand-alone TBs¹, and
- c. 10 percent of risk-based capital adequacy ratio for all TBs.

A TB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the supervising department of the SES, shall determine whether the TB has been able to render sufficient explanation, otherwise, the TB shall be directed to submit an action plan, within 30 calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A TB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe and unsound practice, to be determined in accordance with Section 56 of R.A. No. 8791 as implemented by Section X149, and shall subject the TB to appropriate sanctions.”

This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


DIWA C. GUINIGUNDO
Officer-in-Charge

27 June 2014

¹ TBs that are not subsidiaries of universal and commercial banks.