



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 306
Series of 2001

Pursuant to Monetary Board Resolution No. 1631 dated 11 October 2001, the Manual of Regulations and the Manual of Accounts for Banks and for Non-Bank Financial Institutions are hereby amended, as follows:

MANUAL OF REGULATIONS

Section 1. Sections X611 and 4109Q are hereby added to the Manual of Regulations, to read as follows:

Real and Other Properties Owned or Acquired. The property acquired in settlement of loans through foreclosure or dation in payment shall be recorded at the balance of the loan (principal plus booked accrued interest receivable for time loans, or principal less unamortized income for bills discounted) or bid/purchase price, whichever is lower: Provided, that where the booked amount of the ROPOA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up.

Non-refundable capital gains tax and documentary stamp tax paid in connection with foreclosure/purchase of the acquired real estate property may be included in the book value of the acquired real estate: *Provided*, that the total book value does not exceed the appraised value of the acquired real estate: *Provided*, further, That if the amount to be booked as ROPOA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas.

Any excess of loan balance over the amount booked shall be debited to "Miscellaneous Income/Loss" account. Claims arising from deficiency judgements rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable". While probable claims against the borrower-debtor arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".



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Properties accepted as payments for interest on loans shall be booked as Real and Other Properties Owned or Acquired; *Provided*, that the amount credited to income and/or the amount of accrued interest receivable credited shall not exceed the appraised value of said property.

Section 2. Subsections X611.1 and 4109Q.1 are hereby added to the Manual of Regulations to read as follows:

Booked Valuation Reserves while the Account is in the Non-performing Portfolio. The amount of allowance for probable losses already booked while the account is still in the non-performing portfolio shall be used to cover required valuation reserves for other accounts, if there are any, and if there is none, it may, subject to approval by the concerned supervising and examining department of the Supervision and Examination Sector (SES), be credited to income provided that the appraised value of the acquired property is not lower than the amount booked as ROPOA.

Section 3. Subsections X611.2 and 4109Q.2 are hereby added to the Manual of Regulations, to read as follows:

Appraisal of Properties to be Forclosed or Acquired. Before foreclosing or acquiring any property in settlement of loans and other advances, it must be properly appraised to determine its true economic value. If the total amount to be booked as ROPOA exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas. An in-house appraisal of such property shall be made at least every other year: *Provided*, that immediate re-appraisal shall be conducted on ROPOAs which materially decline in value.

Section 4. Subsections X611.3 and 4109Q.3 are hereby added to the Manual of Regulations, to read as follows:

Non-Cash Payment for Interest. That banks/NBQBs which accept non-cash payments for interest on their borrowers' loans be required to defer recognition of income by virtue of such payments until such time that the property is sold. The account "Real and Other Properties Owned or Acquired" shall be debited for the non-cash payment received subject to the rules governing the booking of ROPOA. The accrued interest already booked shall be reversed but there shall be no reversal of corresponding valuation reserves, if there are any. Pending the creation of a more appropriate account in the Manual of Accounts for Banks and NBQBs, the account "Other Deferred Credits" may be credited for non-cash payment corresponding to interest not yet accrued in the books. Following are the illustrative entries for the transaction:

- a. Upon receipt of non-cash payment

	Dr	Cr
Real and Other Properties Owned or Acquired	xxx	
Accrued Interest Receivable		xxx
Other Deferred Credits		xxx
To take up non-cash payment of interests on loans		

- b. Upon sale of property received in payment of interests

	Dr	Cr
Cash/Due from BSP	xxx	
Real and Other Properties Owned or Acquired		xxx
Gain on sale of ROPOA		xxx
To take up sale of ROPOA		
Other Deferred Credits	xxx	
Interest Income		xxx
To close to interest income the amount of non-cash payment for interest originally credited to "Other Deferred Credits"		

Section 5. Item II.C.2.a of Appendix 18 and Item 2.f.(2)(a) of Appendix Q-10 of the Manual of Regulations are hereby amended to read as follows:

"Foreclosure expenses and other charges included in the book value of the property, excluding the amount of non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase which meet the criteria for inclusion in the book value of the acquired property".

Section 6. Items II.D.2.d of Appendix 18 and 2 g. (2)(d) of Appendix Q-10 of the Manual of Regulations are hereby amended to read as follows:

"Foreclosure expenses and other charges included in the book value of the property: and"

MANUAL OF ACCOUNTS

Section 7. Item 20.a of Circular No. 108 is hereby amended to read as follows:

20. REAL AND OTHER PROPERTIES OWNED OR ACQUIRED
(ROPOA) [1-4-06-00]

a. Real and Other Properties Owned or Acquired [1-4-06-02]

Real and Other Properties Owned or Acquired

This represents real and other properties, other than those used for banking purposes or held in the investment portfolio, acquired by the bank in settlement of loans and/or for other reasons. The property acquired by the bank in settlement of loans through foreclosure or dation in payment shall be recorded at the balance of the loan (principal plus booked accrued interest receivable for time loans, or principal less unamortized income for bills discounted) or bid/purchase price, whichever is lower. Non-refundable capital gains tax and documentary stamp tax paid in connection with foreclosure/purchase of the acquired real estate property may be included in the book value of the acquired real estate: *Provided*, that the total book value does not exceed the appraised value of the acquired real estate: *Provided*, further, That if the amount to be booked as ROPOA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas. However, the property acquired for other reasons shall be recorded at cost or appraised value when cost is not involved/determinable in the acquisition of the property.

Any excess of loan balance over the bid price shall be debited to "Miscellaneous Income/Loss" account. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable". While probable claims against the borrower-debtor arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".

All other expenses incurred in connection with the foreclosure/purchase, and preservation/maintenance of these properties including advances made before foreclosure/purchase shall be debited to "Litigation/Assets Acquired Expenses" account. All income realized therefrom shall be credited to "Income from Assets Acquired" account. Corresponding memorandum entries shall be made on the individual subsidiary ledgers of the accounts concerned.

Real and Other Properties Owned or Acquired – FCDU/EFCDU

This represents real and other properties of FCDUs/EFCDUs under Circular No. 1389, other than those used for banking purposes or held in settlement of loans and/or for other reasons. The property acquired by the bank in settlement of loans through foreclosure or dation in payment shall be recorded at the balance of the loan (principal plus booked accrued interest receivable for time loans, or principal less unamortized income for bills discounted) or bid/purchase price, whichever is lower. Non-refundable capital gains tax and documentary stamp tax paid in connection with foreclosure/purchase of the acquired real estate property may be included in the book value of the acquired real estate; Provided, that the total book value does not exceed the appraised value of the acquired real estate: Provided, further, that if the amount to be booked as ROPOA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas. However, the property acquired for other reasons shall be recorded at their foreign currency amounts at cost or appraised value when cost is not involved/determinable in the acquisition of the property.

Any excess of loan balance over the bid price shall be debited to "Miscellaneous Income/Loss" account. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable". While probable claims against the borrower-debtor arising from the foreclosure of mortgaged properties shall be lodged under contingent account "Deficiency Claims Receivable".

All other expenses incurred in connection with the foreclosure/purchase, and preservation/maintenance of these properties including advances made before foreclosure/purchase shall be debited to "Litigation/Assets Acquired Expenses" account. All income realized therefrom shall be credited to "Income from Assets Acquired" account. Corresponding memorandum entries shall be made on the individual subsidiary ledgers of the accounts concerned.

Real and Other Properties Owned or Acquired Abroad

This represents real and other properties, other than those used for banking purposes or held in the investment portfolio, acquired by the branches/agencies of the bank abroad in settlement of loans and/or for other reasons. The property acquired in settlement of loans shall be recorded at cost or appraised value when cost is not involved/determinable in the acquisition of the property. Any excess of loan balance over the bid price shall be debited to "Miscellaneous Income/Loss" account.

All expenses in the preservation/maintenance of these properties shall be debited to "Litigation/Assets Acquired Expenses" account. All income realized therefrom shall be credited to "Income from Assets Acquired" account. Corresponding memorandum entries shall be made on the individual subsidiary ledgers of the accounts concerned.

Section 8. Item 20.b of Circular No. 108 is hereby amended to read as follows:

b. Allowances for Probable Losses – ROPOA [2-9-06-00]

This represents the amount set up against current operations to provide for losses which may arise from the excess of book value over the appraised value of the property and/or for valuation allowance as may be required under existing rules and regulations. This account is also known as "valuation reserve" under existing rules and regulations. Sub-control accounts shall be maintained for: (a) domestic; (b) abroad; and (c) FCDU/EFCDU".

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

Nov. 9, 2001