



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 202
Series of 1999

The Monetary Board, in its Resolution No. 656 dated May 19, 1999, approved the following policies on the non-performing loans and restructured loans of banks:

SECTION 1. Non-performing loans – Definition.

Non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears.

Restructured loans which do not meet the requirements to be treated as a performing loan under Section 2 of this Circular shall be considered non-performing.

All items in litigation as defined in the Manual of Accounts for Banks shall be considered non-performing loans.

SECTION 2. Additional Regulations for Restructured Loans. The following additional regulations on restructured loans are hereby issued:

- a. In the restructuring of loans, 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 BSP and reappraised every year thereafter.

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Manager, Administrative Services Department



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b. The following restructured loans shall be considered current and taken out of non-performing loan status:

- Loans with updated principal and/or interest payments as of restructuring date; and
- Loans with capitalized interest as of restructuring date: *Provided*, these are in current status and 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, and such other first class collaterals as maybe deemed appropriate by the Monetary Board;

Provided further that, a restructured loan, with or without capitalized interest, must be yielding a rate of interest equal to or greater than the bank's average cost of funds at the date of restructuring, otherwise, it shall be considered non-performing.

- c. A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided*, it shall be treated a non-performing loan and classified, at least, "Substandard" with the required valuation reserves set up accordingly. For such loan to be restored to a performing loan status, a track record of at least six (6) consecutive payments of the required amortizations of principal and/or interest shall be established.
- d. A restructured loan shall be immediately classified past due and non-performing in case of default of any principal or interest payment.
- e. Restructured loans with capitalized interest shall be classified "Loans Especially Mentioned" and the required valuation reserves shall be set up accordingly: *Provided*, that a more adverse classification may be given; i.e., "Substandard", "Doubtful" or "Loss", if the circumstances warrant it as provided under Appendix 18 of the new MOR.
- f. Upgrading of loan classification, e.g., from "Substandard" to "Loans Especially Mentioned" or from "Loans Especially Mentioned" to Not Classified, if circumstances warrant an upgrading in accordance with the criteria under Appendix 18 of the new MOR, shall only be effective after a satisfactory track record of payments of principal and/or interest has been established which, for this purpose, shall mean at least (3) consecutive payments of the required amortizations of principal and/or interest are made.

SECTION 3: Reporting Requirement.

SECTION 3. Reporting Requirement. Banks shall report the following data at the end of each month as an additional information in the monthly

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Consolidated Statement of Condition starting with their report as of May 31, 1999:

Total Non-performing Loans	xxx
Non-performing Regular Loans	xxx
Non-performing Restructured Loans	xxx

SECTION 4. Accrual of Interest Earned on Loans. No accrual of interest income is allowed if a loan has become non-performing as defined under this Circular. Interest on non-performing loans shall be taken up as income only when actual payments thereon are received.

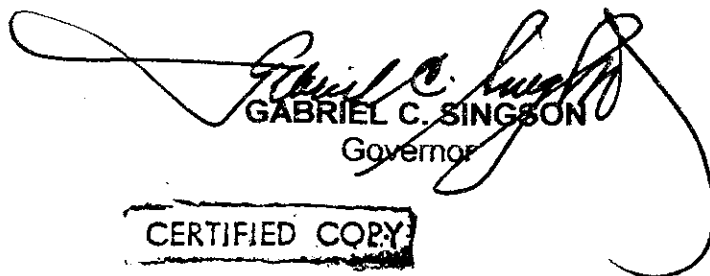
SECTION 5. Allowance for Uncollected Interest on Loans. A contra account to be designated *Allowance for Uncollected Interest on Loans* shall be set up if accrued interest receivable on loans and loan installments is still uncollected after three (3) months from the date such loans have become non-performing.

SECTION 6. Loans or Receivables Payable on Demand. A loan or receivable payable on demand shall be considered past due if not paid on the date indicated on the demand letter, or within three (3) months from date of grant, whichever comes earlier.

SECTION 7. Items in Litigation. Items in litigation (item g of Subsec. X306.1 of the new MOR) as defined in the *Manual of Accounts for Banks* is hereby deleted from "Accounts Considered Past Due" in the *Manual of Regulations for Banks*.

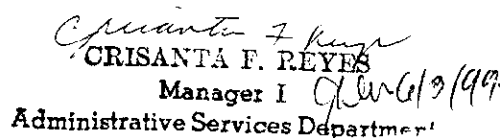
This Circular shall supersede any other BSP rules inconsistent herewith and shall take effect immediately.

FOR THE MONETARY BOARD:


GABRIEL C. SINGSON
Governor

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27 May 1999


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