LAWS OF BARBADOS

FINANCIAL INSTITUTIONS ACT

CHAPTER 324A

(SUBSIDIARY LEGISLATION)

THE LAWS OF BARBADOS
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SUBSIDIARY LEGISLATION INDEX

Financial Institutions

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Cap. 324A.

FINANCIAL INSTITUTIONS (ASSET CLASSIFICATION AND PROVISIONING) REGULATIONS, 1998

1998/107.

Authority: These Regulations were made on 12th August, 1998 by the Minister under section 115 of the *Financial Institutions Act.*

Commencement: 27th August, 1998.

1. These Regulations may be cited as the *Financial Institutions (Asset Classification and Provisioning) Regulations, 1998.*

2. The

(a) classification of loans and other assets as referred to in section 115*(b)* of the Act is that set out in Part I of the *Schedule*; and Schedule.

(b) provision for doubtful loans and other assets and the writing off of such loans and other assets as referred to in section 115*(b)* of the Act is that set out in Part II of the *Schedule*. Schedule.

SCHEDULE

PART I

(Regulation 2)

Asset Classification Criteria

1. *Loan Portfolio Review*

Financial institutions licensed under the *Financial Institutions Act* shall conduct annual reviews of their loan portfolios and other assets. All large credit and significant asset items are to be reviewed, including large off-balance sheet credit commitments. All past due loans, non-performing loans and other loans identified as problem loans are also to be reviewed. A sample of the remaining portfolio should also be selected for review. The loan portfolio review should cover at least 70 per cent of the total amount of outstanding loans and advances. The information reviewed would include

(a) the original amount of the loan or advance, the terms, the interest rate, the current balance and status and the purpose of the loan or advance;

(b) the business of the borrower, balance sheets, cash flows and other financial data both on the business and the guarantors;

(c) an evaluation of the project financed;

(d) the security taken, including up-to-date appraisals, legal assignments, and insurances;

(e) the track record of the borrower including the service of previous borrowings;

(f) the performance of loans or advances to members within the group where the borrower is part of a group.

Following the annual review of the portfolio, the loans or advances should be classified by the financial institution based on the following criteria, and the required provision made.

2. *Loan Classifications*

Following the review of the loan portfolio and other significant assets, loans and assets shall be classified into the following 5 categories

(a) Pass

(b) Special Mention (Potential Problem Credits)

(c) Substandard

(d) Doubtful; and

(e) Loss.

The criteria for each classification are as follows

Pass

This category shall include all of the following information

(a) the financial condition of the borrower must be sound;

(b) there is adequate credit documentation to support the proposed borrowing e.g. current financial statements, cash flows, credit checks;

(c) the collateral taken for the loan must be unimpaired and must represent tangible security to cover the financial institution's exposure,

and shall be assigned to

(d) up-to-date loans (both principal and interest) which are fully secured by cash or government securities;

(e) loans with repayments in arrears of up to one month;

(f) unsecured credits which are up-to-date;

(g) overdrafts operating within the approved limits and showing good fluctuations.

Special Mention (Potential Problem Credits)

This category shall include one or more of the following

(a) the credit is currently up-to-date but evidence suggests that certain factors could in the future affect the borrower's ability to service the loan properly or impair the collateral;

(b) there is inadequate credit documentation to support borrowings, or other deviations exist which would prevent prudent lending practices from existing;

(c) collateral to be taken if not fully in place;

(d) loans which could deteriorate because of the market conditions affecting the sector;

(e) renegotiated loans which are up-to-date and adequately secured for a minimum of one year after rescheduling, during which period there would have been no inherent credit weaknesses;

(f) loans with repayments in arrears for 1 - 3 months or in non-compliance with other terms of the loan;

(g) overdrafts which exceed the approved limits for short periods without the prior approval of the financial institution.

Substandard

This category shall include any one or more of the following

(a) well-defined credit weaknesses – the borrower's cash flow is insufficient to service the debt as arranged, and consequently there are several renewals with capitalization of interest;

(b) the primary source of repayment is insufficient to service the debt and the financial institution will have to look at secondary sources, such as collateral or refinancing, for repayment;

(c) the adequately secured portions of loans and advances which would otherwise have been classified as doubtful;

(d) loans with repayments which are in arrears for at least 3 months;

(e) non-performing loans for which both principal and accumulated interest are fully secured by cash or Government securities or guarantee;

(f) adequately secured *overdrafts which are continuously in excess of the approved limits or with hardcores and fluctuations which do not conform to the business cycle.

Doubtful

This category shall include all the weaknesses of substandard, plus any one or more of the following

(a) collection of the debt in full is highly questionable or improbable;

(b) there is the possibility of a loss, but some factors exist which could improve the situation;

(c) the unsecured portion of loans 6 months or more in arrears;

(d) the unsecured portion of overdrafts continuously in excess of their limits, and minimum activity in the accounts.

Loss

This category shall include any one or more of the following

(a) loans considered uncollectible;

(b) the unsecured portion of loans 12 months or more in arrears;

(c) loans which may have some recovery value but of which it is not considered practical nor desirable to defer write-off.

*"adequately secured" means that the security is sufficient to protect the financial institution from loss of principal and interest following disposal under a forced liquidation program.

PART II

Provisioning for Doubtful Loans and other Assets and the Writing off of such Loans

1. *Provisioning Guidelines*

The following minimum levels of provisions shall be assigned to each of the loan classification categories above, following the annual review of the loan portfolio

Classification	*Level of Provision*
Pass	0%
Special Mention	0%
Substandard loans and advances fully secured by cash or Government securities or guarantees*	0%
Substandard residential mortgage loans up to a maximum of six months past due	0%
Substandard (Other)	10%
Doubtful	50%
Loss	100%

Licensed financial institutions are required to make a provision of at least 1% for the balance of the loan portfolio (not reviewed during the past 12 months).

Licensed financial institutions may also be required to make larger provision for loan losses, if this is considered warranted by the Central Bank. Factors which could influence the Central Bank include its own review of the financial institution's loan portfolio, economic trends, changes in lending practices, the loss experience of the particular institution and the quality of its management.

* This category would include non-performing loans to Government entities which are fully guaranteed (principal and interest) by the Government (not including Letters of Comfort).

2. *Renegotiated Loans*

Renegotiated loans and advances are credits which have been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the borrower's financial position or the non-repayment of the debt as arranged. Loans should only be renegotiated under the following conditions

(a) the existing financial position of the borrower can service the debt under the new conditions;

(b) loans classified doubtful or loss should not be renegotiated unless an up-front cash payment is made or there is an improvement in the security taken;

(c) commercial loans should not be renegotiated more than twice over the life of the original loan, and mortgage and personal loans not more than twice in a five-year period;

(d) renegotiated loans should not be reclassified upward for a minimum of one year following the new arrangements;

(e) the security for renegotiated loans, inclusive of capitalized interest, should cover the full amount of the renegotiated loan.

3. *Suspension of Interest*

Interest shall not be accrued on loans classified as non-performing (i.e. where principal and interest have not been paid for ninety days or more, except in the case of residential mortgage loans where the period shall be extended to one hundred and twenty days), unless such loans are adequately secured and full collection is expected within three months. Neither shall interest be accrued on overdrafts when the approved limit has been reached or when credits to the account are insufficient to cover interest accruals for at least a three-month period.

Interest on loans to Government and loans guaranteed by Government would continue to accrue up to the limit of the guarantee.

A non-accrual loan may be restored to accrual status when all arrears of principal and interest have been paid or when it otherwise becomes well secured and in the process of collection. In the case of overdrafts, accrual status is restored when the account is operating within the limit and all interest arrears have been cleared or when it otherwise becomes well secured and in the process of collection.

Accrued, uncollected interest should be reflected in an "interest in suspense" account on the balance sheet.

4. *Write-Off Procedures*

Loans must be written off to a memorandum account 3 months after being classified as a loss.