



CENTRAL BANK
of BELIZE

DOMESTIC BANKS AND FINANCIAL INSTITUTIONS ACT

DBFIA Practice Direction No. 4

Treatment of Interest on Loans & Other Interest-Bearing Assets

Authority

This Practice Direction is made in exercise of the authority conferred on the Central Bank of Belize (CBB) by Section 9 of the Domestic Banks and Financial Institutions Act (DBFIA), 2012 and replaces Banks and Financial Institutions Act Circular #4/2011.

Summary

This DBFIA Practice Direction prescribes requirements for the accounting and reporting of interest on loans and other interest-bearing assets held by licensees and for the capitalization of interest thereon.

Definitions

1. Capitalization of interest is the process whereby uncollected interest is added to principal balance of a loan or advance. Capitalization of interest also includes unpaid interest which is refinanced or rolled-over into a new bank credit.
2. Non-accrual means that a loan or other interest-bearing asset has been placed on a cash basis for accounting and reporting purposes. Interest is no longer accrued on the books of the licensee and is recorded as earned income only when payments are collected from the borrower. All non-performing loans and other interest-bearing assets shall be placed on a non-accrual basis and all previously accrued but uncollected interest reversed from income.

Although a loan or an interest-bearing asset is placed on a non-accrual basis, the licensee may continue to record the interest due from the borrower as a memoranda item.

REQUIREMENTS

A. Requirements for Accrual and Non-Accrual of Interest Income

1. Loans and other interest-bearing assets on which payment of principal and interest are being made according to the scheduled terms may be reported on an accrual basis in the absence of facts and circumstances suggesting that the reporting of such interest on a non-accrual basis would be more appropriate.
2. Loans and other interest-bearing assets on which payments of principal and/or interest are ninety days or more in arrears shall be placed on non-accrual status.
3. Whenever a loan or other interest-bearing asset is placed on non-accrual status, all accrued and unpaid interest is to be reversed from income. Subsequent payments or collections received by the licensee shall be applied first to principal and then to loan interest due.
4. A loan or other interest-bearing asset may be restored to accrual status only if all due and unpaid principal and interest is brought current. Payments of interest made shall be recorded as interest income in the quarter during which the loan or other asset is restored to accrual status.

B. Capitalization of Interest

1. Capitalization of interest shall be permitted only when the borrower has the ability to repay the loan or other obligation in the normal course of business. A decision to capitalize interest on a particular loan or other interest-bearing asset for accounting purposes must be based primarily upon the credit-worthiness of the borrower, including an evaluation of a variety of credit-related factors.

For overdrafts and other credit facilities without pre-established repayment terms where interest is typically capitalized to the account, deposits to the account during the interest period shall be sufficient to cover interest for that period.

2. The capitalization of interest on loans or other adversely classified assets is not permitted.
3. Interest which has been inappropriately capitalized shall be reversed immediately.
4. Loans shall not be granted solely for the purpose of paying outstanding interest.

C. Documentation Requirements

Every licensee shall adopt and implement appropriate written policies and procedures governing the treatment and reporting of interest, the non-accrual of interest income, and capitalization of interest.

D. Relationship to other DBFIA Practice Directions

This DBFIA Practice Direction should be read in conjunction with the companion DBFIA Practice Directions on **Loan Loss Reserves** and **Classification of Loans and Other Assets**.

1 January 2013