



DOMESTIC BANKS AND FINANCIAL INSTITUTIONS ACT
DBFIA Practice Direction No. 2

Classification of Loans & Other Assets

Authority

This Practice Direction is made in exercise of the authority conferred on the Central Bank of Belize (Central Bank) by Section 9 of the Domestic Banks and Financial Institutions Act (DBFIA), 2012 and replaces the previously issued DBFIA Practice Direction No. 2 of 1 November 2018, and comes into effect 30 September 2019.

Summary

This DBFIA Practice Direction prescribes the methodology for the evaluation and classification of loans and other assets held by licensees, and the procedures for applying this methodology.

Definitions

1. Non-performing Loans and Other Interest-bearing Assets are those whose:
 - a. principal and/or interest are due and unpaid for ninety (90) days or more based on pre-established repayment terms; or
 - b. interest payments equal to ninety (90) days interest or more have been capitalized.
2. Overdrafts and other credit facilities without pre-established repayment terms are considered non-performing when deposits are insufficient to cover the interest capitalized for ninety days or more. The principal balance outstanding and not the amount of delinquent payments is used in calculating the aggregate amount of non-performing loans.
3. Restructured Loans and Advances are credit facilities which have been refinanced, rescheduled, rolled-over, or otherwise modified under more favorable terms and conditions for the borrower because of weaknesses in the borrower's financial condition and/or repayment ability.
4. Other Assets are overdrafts and other credit facilities or any other asset that does not have a pre-established repayment term.

REQUIREMENTS

A. Classification System

1. Non-performing Loans and Other Assets:

Loans and other assets are to be classified when there are well defined credit weaknesses, such as: when the borrower's cash flow is insufficient to service the debt as arranged; when there are several renewals with capitalization of interest; or when the primary source of repayment is insufficient to service the debt and the bank has to look to secondary sources such as collateral or refinancing for repayment; provided that where full security is in place in the form of cash held with the lending institution or in readily marketable government securities, loans and other assets may be excluded from being impaired.

Additionally, insolvency or bankruptcy of a borrower should immediately trigger a non-performing classification.

Non-performing Loans and Other Assets are to be placed in the following categories according to the specific weaknesses outlined below:

- a) Loans and Other Assets are to be classified as **SUBSTANDARD** when any one or more of the following conditions exist:
 - (i) loans are three (3) and up to six (6) months in arrears; or
 - (ii) interest charges on overdraft facilities have not been covered by deposits for three (3) and up to six (6) months; or
 - (iii) the approved limit on overdraft facilities has been exceeded for six (6) and up to twelve (12) months; or
 - (iv) loans and other assets fully secured by government guarantees are three (3) and up to six (6) months in arrears and the said government guarantees are ruled invalid by a court; or
 - (v) contractual arrangements on other assets are not being met.

- b) Loans and Other Assets are to be classified as **DOUBTFUL** when any one or of more of the following conditions exist:
 - (i) loans are over six (6) and up to twelve (12) months in arrears; or
 - (ii) interest charges on overdraft facilities have not been covered by deposits for six (6) and up to twelve (12) months; or
 - (iii) the approved limit on overdraft facilities has been exceeded for twelve (12) and up to eighteen (18) months; or

- (iv) loans and other assets fully secured by government guarantees are over six (6) and up to twelve (12) months in arrears and the said government guarantees are ruled invalid by a court; or
 - (v) collection of other assets under contractual arrangements is highly unlikely.
- c) Loans and Other Assets are to be classified as **LOSS** when any one or more of the following conditions exist:
- (i) loans are over twelve (12) months in arrears; or
 - (ii) interest charges on overdraft facilities have not been covered by deposits for over twelve (12) months; or
 - (iii) the approved limit on overdraft facilities has been exceeded for over eighteen (18) months; or
 - (iv) loans and other assets fully secured by government guarantees are more than twelve (12) months in arrears and the said government guarantees are ruled invalid by a court; or
 - (v) where other assets under contractual arrangements are considered uncollectible.

d) **Exception Sectors**

1. Loans and Other Assets granted to the agriculture and marine sectors are to be classified as:
 - i) **Substandard** - loans are six (6) and up to nine (9) months in arrears;
 - ii) **Doubtful** - loans are over nine (9) and up to fifteen (15) months in arrears and the approved limit on overdrafts has been exceeded for over eighteen(18) months; and
 - iii) **Loss** - loans are over fifteen (15) months in arrears.

These exceptions apply only to loans and other assets classified on or after the implementation of the DBFIA Practice Direction No. 2 of 1 November 2018.

2. Loans and Other Assets granted to the agriculture sector which were affected by the drought are to be classified as:
 - i) **Substandard** – loans are eighteen (18) and up to twenty-one (21) months in arrears;
 - ii) **Doubtful** – loans are over twenty-one (21) and up to twenty-seven (27) months in arrears; and

- iii) **Loss** – loans are over twenty-seven (27) months in arrears.

Banks are required to report to the Central Bank the specific loans that meet the above criteria. These exceptions shall remain in effect until 31 March 2020.

2. Performing Loans and Other Assets:

Loans and other assets which are performing may, at the discretion of the licensee, be categorized in the manner outlined below:

a) Loans and Other Assets may be classified as SPECIAL MENTION when:

- (i) They are in arrears for a period of less than three (3) months; or
- (ii) They are current but the bank is aware of factors which may affect the borrower's ability to service the loan as agreed, such as when the financial condition of the borrower deteriorates or when market conditions affecting the borrower decline significantly;

All loans and other assets which do not fit any of the above-mentioned categories may be classified as PASS.

B. Restructured Non-performing Loans

Restructured non-performing loans should not be classified as performing for a minimum of three months following modification of the credit agreement. The provisions that were established for the restructured non-performing loan should remain in place for three months.

C. Frequency and Reporting of Classification

1. Loan classification reviews should be conducted by licensees at least quarterly based on the licensee's financial year; and
2. A list of all classified facilities shall be reported by each licensee to the Central Bank on a quarterly basis on Bank Return BR8, based on the licensee's financial year. In addition, on a monthly basis, each licensee shall report an aggregate of classified loans to the Central Bank on Bank Return BR8a.

D. Relationship to Other DBFIA Practice Directions

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

30 September 2019