



CREDIT UNIONS ACT
CUA Requirement No. 2

Allowance for Loan Losses and Impaired Assets

Title and Commencement

This Requirement shall be called Credit Unions Act (CUA) Requirement No. 2/2013 and shall come into effect on 28 March 2013.

Authority

This Requirement is made in exercise of the authority conferred on the Registrar of Credit Unions (the Governor of the Central Bank of Belize) by Section 51 (7) of the CUA.

Summary

This Requirement prescribes the procedures for the establishment and maintenance of allowance for loan losses and impaired assets for credit unions.

Definitions

- 1. Allowance for Loan Losses** is an account funded through charges to income as a provision expense for charging off loans and other assets or portions of such loans and other assets which have been adversely classified. For reporting purposes, this contra account shall be separately reported on the balance sheet as a deduction from loans.
- 2. Other Assets** are overdrafts and other credit facilities, or any other asset that does not have a pre-established repayment term.

REQUIREMENTS

A. Calculation of Allowance for Loan Losses and Impaired Assets

Allowance for Loan Losses

- i. For all loans classified as “doubtful”, allowance for loan losses equivalent to thirty-five percent (35%) of such loans shall be maintained.
- ii. For all loans classified as “loss”, which are fully unsecured, allowance for loan losses equivalent to one hundred percent (100%) of such loans shall be maintained.
- iii. For all loans and other assets classified “loss” which are fully collateralized by mortgages, allowance equivalent to fifty percent (50%) of the outstanding loan balances shall be maintained.

B. Frequency and Reporting of Allowance for Loan Losses

Allowance for loan losses must be evaluated at least on a quarterly basis concurrent with the quarterly loan classification review and reported to the Central Bank on the prescribed Credit Union Return.

C. Write off of Loans and Other Assets

1. Loans and other assets which are uncollectible and of such little value that their continued reporting as valuable assets is no longer warranted shall be written off immediately.
2. Unsecured loans classified "loss" shall be written off within twelve months of the loan being classified as "loss". Credit Unions may be allowed to defer write off of uncollectible loans over a longer period but this longer period shall not normally exceed twenty-four months.

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- 3.** Loans classified as “loss” which are collateralized by mortgages shall be written off within four years of the loan being classified as “loss”.
- 4.** Charge-offs shall be made against the Allowance for Loan Losses account. If the amount of the loan to be charged off exceeds the balance of the Allowance for Loan Losses account, additional allowance shall be established to cover the shortfall through charges to income.
- 5.** Recoveries on loans and other assets previously written off shall be recorded in the financial period during which such recovery occurs.

D. Relationship to Other Requirements

This Requirement should be read in conjunction with the companion Requirement on Classification of Loans & Other Assets, 2013.

28 March 2013