Guidance Notice to Banks and Credit Unions

COVID-19 Exit Strategy

Restructuring and Classification of Forborne Credit Facilities

This Guidance Notice prescribes the methodology to evaluate, restructure, and classify forborne credit facilities that institutions identified in their Diagnostic Reports.

DEFINITIONS

COVID-19 Forborne Credit Facilities are facilities which received some form of forbearance measure during the period 27 March 2020 to 31 December 2021 as per *Guidance Notice to all Banks and Credit Unions on Forbearance Measures for Customers Affected by the COVID-19 Pandemic*, issued on 16 June 2020.

These forborne credit facilities should be categorized as follows:

1. **Viable -** capacity to resume and sustain the agreed principal and interest repayments after receiving some form of restructuring.

2. **Unviable -** not performing as expected after receiving some form of forbearance and assessed as being unable to resume and sustain repayment of principal and interest.

3. **Viable with Further Restructuring -** not performing as expected after receiving some form of forbearance and assessed as being able to resume and sustain repayment of principal and interest after further restructuring.

REQUIREMENTS

A. Restructuring Criteria

Financial institutions are required to assess each forborne credit facility requiring further restructuring to remain viable. The assessment should identify the risks that borrowers are facing (or will face) and should be adequately reflected in the institution's internal risk measurements and management processes, financial statements, and regulatory reporting to the Central Bank.

When restructuring a credit facility, institutions are excluded from:

a. Delaying impairment of unviable facilities through restructuring;
b. Restructuring a facility more than once within a two-year period;
c. Including balloon payments, as repayment terms should reflect the full loan amortization of the credit facility for the duration of the revised repayment schedule;
d. Extending:
    i. interest moratoriums; and
    ii. principal moratoriums in excess of 12 months;

e. Capitalizing interest in excess of 3 months on the outstanding principal balance of the credit facility; and
f. If a loan is being serviced from an overdraft, it needs to be monitored to ensure that a hardcore balance is not maintained.

Institutions are to ensure that there is effective segregation of duties across the loan origination, risk monitoring, and restructuring processes to promote a true and accurate assessment of each credit exposure. Also, credit facilities which are restructured must be labeled as "restructured forborne loans" in the system.

More importantly, any forborne credit facility that fits the above criteria for restructuring should be processed by **31 July 2022**. At minimum an analysis of the following should be completed:

a. Updated financial statements and financial projections as per the institution's credit policy;
b. Proof of current source of income and repayment capacity; and
c. Updated collateral listing[1] and valuations[2].

B. Classification Requirements

Financial institutions shall ensure that adequate procedures and processes are implemented to guarantee the timely identification of deterioration in a borrower's repayment capacity. Institutions are expected to apply the appropriate prudential and accounting treatment in the recognition of any impairment identified[3]. Institutions are also required to immediately classify as non-performing all credit facilities that fail to resume payments as per the restructured terms. A facility should not be categorized as performing if its repayment is dependent on the sale of collateral. In addition, provisions or allowances are to be made in accordance with IFRS 9 (for banks that have adopted), or the CUA Requirements (for credit unions).

C. Frequency and Reporting of Classification

Commencing **31 May 2022**, institutions are required to submit a listing of all forborne credit facilities reported as viable with further restructuring, which were restructured after December 2021. This listing is to be updated monthly and submitted to the Central Bank's VPN within 15 calendar days of the end of the month, until otherwise specified.

18 May 2022

[1] Additional collateral should be obtained, where necessary, to compensate for the higher risk exposures and as part of the restructuring process.
[2] This is necessary only if the appraisal is more than three years old.
[3] For those institutions that have not adopted IFRS 9, provisions are to be allocated in accordance with the Central Bank's requirements on provisioning and allowances.