

[**BSP CIRCULAR NO. 210, September 09, 1999**]

GUIDELINES ON CLASSIFIED LOANS AND ADVANCED

The Monetary Board, in its Resolution No. 1214 dated August 27, 1999, approved the following amendments to the guidelines on Classified Loans and Advances under Circular 1222 dated January 19, 1990.

SECTION 1. As a general policy, in the classification of loans and advances, the provisions of Section 76 of R.A. No. 337, as amended, to wit:

"Before granting a loan, banks must exercise proper caution to ascertain that the debtor is capable of fulfilling his commitments to the bank.

xxx"

shall be observed.

SECTION 2. Classified Loans and Advances. — These are loans and advances which possess the characteristics outlined hereunder. They are subdivided into (a) Loans especially mentioned, (b) Substandard; (c) Doubtful; and (d) Loss.

A. Loans Especially Mentioned. These are loans and advances that are superior in quality to those classified substandard but have potential weaknesses which if uncorrected may expose the bank to greater credit risks, and thus, require closer management supervision. Their basic characteristics are as follows:

1. The collateral folders are unlocated or where the documents including but not limited to title of properties, mortgage instruments and promissory notes are missing;
2. The supporting deed of assignment/pledge agreement/chattel mortgage/real estate mortgage are improperly executed;
3. Absence of board resolutions authorizing the transaction;
4. There are no credit investigation reports on file;
5. Non-performing loans and advances not subject to "Substandard" classification wherein the effort to collect is not evident or is deemed inadequate;
6. Loans and advances to borrowers with any of the following weaknesses:
 - minimal networth;
 - poor earnings

- fluctuating operation;
- illiquidity; or
- increasing leverage trend in the borrower's financial statement

However, loans and advances to borrowers with any of the above weaknesses but with good repayment track record may not be classified as "Loans Especially Mentioned" but may be cited under "Miscellaneous Exceptions-Loans and Advances" depending on the examiner's judgment/assessment of the borrower's capacity to fully liquidate his obligations.

7. Loans and advances to borrowers whose properties securing the loan (previously well secured by collaterals) have declined in value materially or have been found with defects as to ownership or other adverse information;

8. Those with unsigned promissory notes or signed by unauthorized officers of the borrowing firm; and

9. Those previously cited as "Miscellaneous Exceptions" still uncorrected in the current examination.

B. Substandard. These are loans and advances or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There is a possibility of future loss to the institution unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral. No loans/advances should be classified "Substandard" if repayments/collections seem reasonably assured. Their basic characteristics are as follows:

1. Secured Loans and Advances

a) Loans and advances under litigation;

b) Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;

c) Past due for more than six (6) months;

d) Past due loans and advances to borrowers whose properties securing the same have declined in value materially or have been found with defects as to ownership or other adverse information; and

e) Current loans and advances where borrowers show impaired/negative networth except for start-up firms which should be evaluated on a case to case basis.

Loans and advances possessing any of the above characteristics shall be classified "Substandard" at the full amount except portions thereof secured by hold-outs on deposits, margin deposits, or government-supported securities. The portions so