304 PAST DUE ACCOUNTS AND NON-PERFORMING LOANS[1]

The following regulations shall guide BSFIs in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease.

Accounts considered past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: *Provided, further,* That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Accounts considered non-performing. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards[2], classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

Updating of information provided to credit information bureaus. Banks which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) banking days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting banks to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers/clients concerned.

(Circular Nos. 941 dated 20 January 2017, 903 dated 29 February 2016, M-2015-039 dated 04 November 2015, 890 dated 02 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M-2015-005 dated 20 January 2015, 855 dated 29 October 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, and M-2014-006 dated 12 February 2014)

Footnotes

1. Effective from 10 February 2017 up to 31 December 2017, BSFIs shall make the necessary revisions in their management information and reporting systems relating to past due and non-performing loans (NPLs). Effective 01 January 2018, past due and NPLs shall be mandatorily reported in accordance with the requirements of this Section.
2. Applicable accounting standard is PAS 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 01 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.