

ALLOWANCE FOR PROBABLE LOSSES ON LOAN ACCOUNTS CLASSIFIED SUBSTANDARD-SECURED

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For uniformity in the implementation of the 6% to 25% allowance for probable losses on loan accounts classified "Substandard-secured" prescribed under Section 3 of Circular No. 247 dated June 2, 2000, the following guidelines shall be observed:

A. The following loans classified "Substandard-Secured" shall be subject to 12.5% provisioning:

1. Loans secured by real estate property, if the following conditions are met:
 - a. Not a restructured loan;
 - b. Fully secured by real estate property with loan value of up to 70% of the appraised value of the property;
 - c. Appraisal of real estate property securing the loan was conducted not more than one (1) year ago; and
 - d. Appraisal of real estate property securing the loan was conducted by an independent appraiser if the loans exceed the following benchmarks:
 - i. For commercial banks, the loan benchmark is set at P5 million such that real estate properties securing loans beyond this amount should be appraised by an independent appraiser;
 - ii. For thrift banks, the loan benchmark is set at P1 million such that real estate properties securing loans beyond this amount should be appraised by an independent appraiser;
 - iii. For rural banks, the loan benchmark is set at P500 thousand such that real estate properties securing loans beyond this amount should be appraised by an independent appraiser.
2. Loans secured by first class shares of stocks as defined in Circular No. 228 dated February 29, 2000 with loan value of 50% of prevailing market value as of the date of review.
3. Loans secured by standby letters of credit issued by banks with satisfactory financial condition.

B. Loans classified "Substandard-Secured" regardless of collateral, not supported by latest Audited Financial Statements (AFS)/income tax returns (ITRs) shall be provided with 25% allowance for probable losses.

C. All other loans classified "Substandard-Secured" shall be provided with 25% allowance for probable losses.

D. Loans classified "Substandard-Secured" to be provided with 6% allowance for probable losses shall be justified and submitted to Bangko Sentral for approval.

This Circular Letter shall take effect immediately.

Adopted: 30 April 2001

(SGD.) ALBERTO V. REYES
Deputy Governor

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