



GUIDELINES ON SEGREGATION OF NON- PERFORMING LOANS INTO VIABLE AND NON-VIABLE LOANS 2021

Part A: Background

The widespread of COVID-19 pandemic has caused disruption in supply chain and tourism leading to reduced or complete loss of income, thereby posing difficulties on individuals and businesses in meeting their loan repayment obligations. As of 30 June, 2020, the total loans sanctioned by the FIs stood at Nu.162.927 billion. The non-performing loans (NPLs) i.e. loans with re-payments overdue by more than 90 days is 16 % at Nu. 26.616 billion.

As an immediate response, the Royal Government of Bhutan and Royal Monetary Authority of Bhutan with interest payment support as KIDU from His Majesty The Druk Gyalpo, issued two Phases of Monetary and Fiscal Measures. The Press Release from the Prime Minister's Office on **Comprehensive National Response to the Challenges of the COVID-19 Pandemic Phase II (Part V)** issued on 26 June 2020 states that '*the Government and the RMA will conduct an in-depth assessment of NPLs from July 2020 to facilitate rehabilitation and/or foreclosure of non-performing loans.*'

Therefore, this guideline is being issued as part of the NPL resolution framework to revive/rehabilitate NPL borrowers and support FSPs with the following objectives:

1. To guide Financial Service Providers (hereafter 'FSPs') to segregate NPLs into viable and non-viable borrowers for revival and rehabilitation.
2. Revive NPL borrowers who are not able to meet their loan repayment obligations due to reduced/loss of income from problems temporary in nature whereby the FSPs foresee possibility of future repayment.

Part B: Title and Commencement

- a) These guidelines are formulated in line with Section 210 of the FSA 2011.
- b) These guidelines will be known as Guidelines on Segregation of Non-Performing Loans into Viable and Non-viable loans 2021.
- c) These guidelines will come into force from 04th May 2021.
- d) If any issue arises in the interpretation of the provisions of these guidelines, the matter shall be referred to the RMA, and the decision of the RMA shall be final and binding on the stakeholders concerned.

Part C: Segregation of Non-performing loans into Viable and Non-viable Loans

- e) Viable loans are those non-performing loans for which the financial institution foresees a repayment in future after planning a revised loan repayment schedule with the borrower.
- f) For determining viable loans, the following principles shall be followed by the FSPs:

Sl.no	Business	Personal
1	Business may be under-performing but is still in operations	Borrower may have lost the source of income but remains in the capacity to be employed for new source of loan repayment
2	Facing temporary cash flow problem from reduction or loss of income	Facing temporary cash flow problem from reduction or loss of income
3	FSPs foresee future business prospect of the borrower	FSPs foresee repayment of loan in future

- g) Non-viable loans are the type of loans where the FSP does not foresee any loan repayment even if the loan is revived or rehabilitated. The non-viable loan can be either from **willful defaulter** or **non-willful defaulter**.

Part D: Segregation of Non-viable loans between willful and non-willful defaulters

- h) Willful defaulters are those borrowers who have defaulted on their loan repayment obligations owing to the following reasons/events:
 - 1. The borrower has defaulted in meeting its loan repayment obligation even when it has the **capacity to honor the said obligation**. The capacity of the borrower to honor the obligation shall be assessed by the respective FSPs.
 - 2. The borrower has not utilized the loan sanctioned for the intended purposes for which loan was availed but has **diverted/siphoned the funds**.
 - 3. The borrower has disposed of or removed the movable or immovable property given for the purpose of securing the loan without the knowledge of the financial institution or sold/closed the business against whose income the loan was sanctioned, without the knowledge of the financial institution.
 - 4. The borrower has **changed contact address and mobile number** without informing the financial institution and refuses to cooperate with Financial Institution when being followed up on loan overdues or updating of loan documents.
- i) Non-willful defaulters are those borrowers who are unable to meet their loan repayment obligation due to the occurrence of any of the following events:
 - 1. Complete loss of income from closure of business or not in position to earn any more income

2. For events/ situation beyond the borrower's control.

Part E: Process for Segregation of NPL Loans

- j) The process of segregation of NPLs into viable and non-viable loans and then into willful and non-willful defaulter should be first carried out by the FSPs under the supervision of the Inter-Financial Institution Committee (IFIC).
- k) The IFIC shall review the list of viable and non-viable loans submitted based on the case facts and actions taken by the FSPs, for on-ward submission to CEO Level Committee for further course of action.
- l) The treatment of viable loans shall be as per the procedures laid in this guideline.
- m) The treatment of Non-viable loans shall be in line with the Guidelines on the Transfer of Non-performing Loan Asset 2020 and Foreclosure Guidelines issued by the Authority.
- n) As per Section G) of Guidelines on the Transfer of Non-performing Loans Asset 2020, only NPLs that are non-viable loan of a non-willful defaulter and have been in loss category more than 2 years as of March 2020 are eligible for temporary parking under Asset Pending Foreclosures for 3 years unless, the Guideline specifies otherwise.

Part F: Revival and Rehabilitation of Viable Loans

- o) The NPL borrowers who meet the criteria of Viable Loans under this guideline shall be eligible for Loan Revival and Rehabilitation.
- p) A debt relief/workout programme shall be agreed between the borrower and the FSP under the rehabilitation programme.
- q) The debt relief/work out plan shall be termed as '**Corrective Action Plan**' (CAP).
- r) The respective FSP and the borrower shall draw a CAP aimed at improving the cash flow and profitability of the borrower for meeting the loan repayment obligation as per the revised repayment schedule.
- s) The FSP shall undertake re-assessment of the borrower's credit worthiness as per Institution's credit policies, manual and board directives.
- t) The FSP shall form a centralized unit led by Credit head/chiefs for credit re-assessment of the borrower for revival and rehabilitation.
- u) The FSP shall seek approval from respective Institution's board of director for revival and rehabilitation of the viable borrowers.
- v) In case of consortium loan, the lead institution shall conduct the credit re-assessment and the final decision to revive and rehabilitate shall be unanimous among the participating FSPs.
- w) The facilities available under the CAP shall include:
 1. **Restructured credit facility:** The original terms and conditions have been modified principally. This may include a change in the type or structure of facility, or changes to the existing terms and conditions to

assist the borrower overcome its genuine shorter-term financial difficulties

2. **Rescheduled credit facility:** The repayment terms have been modified, but the principal terms and conditions of the contract have not changed significantly.
3. **Renewal of credit facility:** Renewal of overdraft and working capital duration to enable the borrower to carry forward overdraft and working capital loans.
4. **Enhancement of loan** (additional loan): sanctioning additional loans to improve the liquidity of the borrower for carrying out the business activity.

Part G: Prudent requirement for Revived and Rehabilitated Non-performing Loans.

- x) To enable the FSPs to address/manage the NPL issues through this guideline, the RMA will consider temporary exemption on Section 4.5.5 and 4.6.1- S4.6.5 of Prudential Regulations 2017 in granting the facilities mentioned under Part G of this guideline.
- y) The asset classification of revived and rehabilitated accounts shall remain same as before since the accounts has to be in '**Probation of 6 months**' under the new repayment schedule.
- z) The accounts can be classified as performing 'Standard' only when the repayments term under the new repayment reschedule have been in-compliance during the probation of 6 months.
- aa) The provisioning requirement shall be as per S.4.7 of Prudential Regulation 2017 or amendment thereof.

Part H: Disclosure and other Requirements

- bb) To ensure equity and transparency, FSPs shall exercise due diligence, maintain objectivity and avoid conflict-of-interest in process of reviving and rehabilitating the viable loans.
- cc) Financial Institution shall develop Standard Operating Procedures for the Centralized unit for reviving and rehabilitating the viable borrowers.
- dd) With the implementation of said measures, the performance and other details of all restructured loans shall be submitted to RMA on a monthly basis in the prescribed format.
- ee) FSPs shall disclose the details on the **Revived and Rehabilitated Loans** including the total number of accounts, amount as part of the notes to its financial statement.

Definitions

1. **Borrower:** An individual **either** natural or a juridical person, who has entered into a contract with the financial institution to borrow or guarantee an agreed amount at an agreed terms and conditions for repayment of the borrowed amount as per the agreed repayment schedule. In case of borrower with multiple accounts, each NPL accounts shall be assessed independently for the segregation purpose.
2. **Viable Loans:** Non-performing loans for which the financial institution foresees a repayment in future after planning a revised loan repayment schedule with the borrower.
3. **Non-Viable Loans:** Non-performing loans where the financial institution does not foresee any repayments in future.
4. **Underperforming Business:** Business which are facing **temporary problems** in their operation due to either mismanagement or policy impact or economic situation.
5. **Personal loan:** Loans which have been availed for personal consumption (loans which are not tied to any specific purpose) and shall also include home loans and non-commercial transport loans.
6. **Business:** Licensed commercial establishment for which the borrower has availed the loan and the repayment is tied with.
7. **Revival:** Improving the financial condition of the borrower for loan repayment obligation.
8. **Rehabilitation:** Process of restoring the borrower's financial condition for loan repayment obligation.
9. **Non-performing loan:** The loan repayment obligation is overdue by more than 90 days, as defined under S 4.4 of Prudential Regulation 2017 or amendment thereof.
10. **Diversion of fund:** Deploying/ utilizing the borrowed funds for purpose/activities or creation of assets other than those for which the loan was sanctioned.
11. **Siphoning of fund:** Utilizing the borrowed funds for purpose/activities for other than for which the loan was sanctioned whereby there are no traces/account of how the borrowed fund has been utilized.
