



Directives on the Financial Institution's Employee Incentive Loan

2021

These directives are issued as per the power granted to the Authority in pursuant to Section 210 of the Financial Services Act of Bhutan, 2011 to formulate and issue the directives from time to time in order to effectively implement the FSA 2011.

1. Rationale

Considering the issues and challenges related to the employee incentive loans of the Financial Institutions (FIs), the Authority has issued these directives to promote prudent and sound practices within the FIs and to instill desired discipline and professionalism in extending credit to the employees of FIs.

As per the relevant provisions of the laws and by-laws in vogue, the Authority shall, during the annual on-site inspection strictly monitor the effective implementation of employee incentive loans sanctioned by FIs.

2. Requirements for Employee Incentive Loans

The FIs shall strictly comply with the following requirements in addition to the existing prudent requirements:

- i. The FIs shall put in place a proper and comprehensive credit appraisal and monitoring system for the employee incentive loans.
- ii. The employee incentive loans shall be sanctioned only for the following specific purposes:
 - a. Home loan (construction of house, purchase of flat or purchase of land for construction of dwelling home);
 - b. Vehicle loan (purchase of personal vehicle); and
 - c. Education loan (employees self-education or education of their spouse/children).

- d. Personal Loan to Staff (PLST) subject to following conditions;
- Loan amount – Nu.500,000.00 (Ngultrum Five Hundred Thousand Only)
 - Loan tenure – 5 years
 - Personal Loan to Staff shall be availed by employees in lieu of the commercial “personal loan”. In other words, an employee shall not be eligible to avail personal loan at commercial rate if he/she has availed PLST
- iii. There shall be zero tolerance on Non-Performing Loans (NPL) under the incentive loan scheme and no new incentive loans shall be sanctioned by the FIs if the existing incentive loans have become NPL.
- iv. In the event there is NPL under the employee incentive loans because of unavoidable circumstances, the Management of FIs shall take timely appropriate action and accordingly report to their respective Boards and furnish the Action Taken Report to RMA.
- v. If an employee of the FIs resigns/ superannuates from the services before the liquidation of the loan, such outstanding balance shall be adjusted with the post service benefits payable to him/her or shall be immediately converted to commercial loan at the applicable interest rate.
- vi. However, for those employees who are superannuating/resigning after having served for more than 25 years in the same institution shall have the privilege to continue their home loan at the incentive rate for another 5 years. However, the additional 5 years should be within the maximum home loan tenure limit prescribed by RMA.
- vii. Employee incentive loans repayment shall be based on the monthly salary. The maximum aggregate Loan to Income (LTI) ratio for employee incentive loans shall not exceed 50 % of the net pay.
- viii. The Loan to Value (LTV) limits for the employee incentive loans shall be as per the applicable LTV limits prescribed by the Authority.
- ix. The maximum loan amount permissible under the employee incentive loan shall be as follows:
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| a. Home loan | - | Nu. 10 million; |
| b. Vehicle loan | - | Nu. 1 million; |
| c. Personal loan | - | Nu. 0.5 million; and |
| d. Education loan | - | Based on the tuition fees and LTI limit. |



- x. Maximum tenure permissible under the employee incentive loans shall be as follows:
 - a. Home loan - 20 years
 - b. Vehicle loan - 5 years
 - c. Education loan - 7 years
- xi. An employee can avail new vehicle loans:
 - a. Upon liquidation of the loan as per the specified term; or
 - b. In case of liquidation before maturity the minimum, a cooling period of three months shall be applicable.
- xii. FIs shall sanction home loans to its employees only once during their entire service.
- xiii. FIs shall adopt an internal policy on employee incentive loans in line with this directive, which shall be duly approved by their respective Boards.
- xiv. No new commercial loans to employee and their related parties shall be sanctioned from their respective FIs with effect from 1st January 2020. This provision shall not apply to loans against term deposits and credit card facilities availed by the employees.
- xv. Further, employees of the FIs shall not guarantee any loans within the same institution.
- xvi. Existing commercial loans of employees and their related parties shall continue for the remaining tenure of the loan, but without any NPL.

3. Effective Date

- xvii. This directive shall come into effect from 16th June 2021.

