ROYAL MONETARY AUTHORITY OF BHUTAN

Standard Operating Procedures for the implementation of Phase III Monetary Measures

30th June, 2021

In line with the Press Release issued by the Prime Minister's Office on 30th June 2021, the RMA hereby issues this Standard Operating Procedures (SOP) for the smooth implementation of Phase III Monetary Measures.

All Financial Service Providers (FSPs) under the purview of Royal Monetary Authority shall implement the Phase III Monetary Measures. FSPs include the following:

- Financial Institutions (Banks, Insurance/Reinsurance Companies & NPPF);
- National CSI Development Bank; and
- Microfinance Institutions.

Part A: Deferment of Loan Repayments

(i) All loans sanctioned as of 30th June 2020 shall be eligible for the deferment of loan repayment for another one year until June, 2022.

(ii) Notwithstanding clause (i) of Part A, the FSPs may negotiate with the borrowers for revival/rehabilitation/out-of-court settlement or initiate foreclosure of non-performing loans.

(iii) The FSPs shall extend the tenure of the loans by the deferred period and continue with the original repayment schedule (which were in effect before the deferment) for the repayment of loans after the completion of the deferred period.

(iv) Notwithstanding clause (iii) of Part A, the FSPs may extend the tenure for the term loans up to 5 years (including the deferred period) if a borrower face difficulty in continuing with the original repayment schedule and wishes to reschedule the loan tenure beyond the deferred period.

(v) The FSPs shall not charge late fees/penal Interests on all loans including new loans sanctioned after 30th June 2020 during the deferment period.

Part B: Incentive for Regular Repayments during the Deferment Period

(i) The FSPs shall continue to provide one percent interest rate reduction (rebate) on **term loans** for another one year from July 2021 to June 2022 to the borrowers who service their loan installments regularly and fully as per the agreed repayment schedule (after adjustment of 50 percent interest payment support) during the deferment period.

(ii) For loans currently under gestation, FSPs shall provide one percent interest rate rebate if the borrowers service interest regularly and fully (after adjustment of 50 percent interest payment support) during the deferment period.

(iii) The rebate of one percent interest rate shall be calculated on the principal outstanding for the deferment period based on the simple daily product method.

(iv) For the period from July 2020 to June 2021, the FSPs shall calculate one percent interest rate rebate and credit the respective borrower's loan account by the end of July 2021. In case of liquidated loans which are eligible for rebate, FSPs shall compute the interest rebate up to the date of liquidation and refund the amount to the borrowers.

(v) FSPs shall ensure that their respective borrowers are aware of the incentive of one percent interest rate rebate and the need to make regular repayment to be eligible for the incentive.

Part C: Treatment of interest accrued during the deferment period

(i) The FSPs shall not capitalize the interest accrued during the deferment period. At the end of the deferment period, the total accumulated interest from April 2020 to June 2022 (after the adjustment of 50 percent interest payment support) shall be converted into 'Fixed Equated Installment Facility (FEIF)' payable in equal installments within a period up to five years.

(ii) Notwithstanding clause (i) of Part C, if a loan account is currently under gestation and the borrower wishes to commence the repayment during the deferment period, the borrower shall be given either of the following option:

a) convert the accumulated interest during the deferment period (after the adjustment of 50 percent interest payment support) into FEIF and amortize it over a period up to five years, (OR)

b) capitalize the total interest outstanding (after the adjustment of 50 percent interest payment support) and draw the loan repayment schedule after obtaining the consent letter from the borrower.

(iii) Since FEIF is created out of the accumulated interest during the deferment period, FSPs shall not charge interest on this facility.

(iv) The FSPs shall maintain a proper documentation with respect to the FEIF for future record and references.

Part D: Treatment of Bridging Loans/ Soft Term loans

(i) The FSPs shall provide gestation for another one year until June 2022 for the Bridging Loans/ Soft Term Loans granted to the business entities under the Phase II Monetary Measures. These loans shall also include those concessional loans granted under Phase I Monetary Measures and are still being continued under Phase II Monetary Measures.

(ii) The FSPs shall not capitalize the interest accrued during the gestation period. At the end of the gestation period, the total accumulated interest from April 2020 to June 2022 shall be converted into a Fixed Equated Installment Facility (FEIF) payable in equal installments within a period up to four years.

(iii) Notwithstanding clause no. (ii) of Part D, if a borrower wishes to start repayment during the gestation period, the borrower shall be given either of the following option:

a) convert the accumulated interest during the gestation period into FEIF and amortize it over a period up to four years, (OR)

b) capitalize the total interest outstanding and draw the loan repayment schedule after obtaining the consent letter from the borrower.

(iv) Since FEIF is created out of the accumulated interest during the gestation period, FSPs shall not charge interest on this facility.

(v) The FSPs shall maintain a proper documentation with respect to the FEIF for future record and references.

(vi) The FSPs shall amortize the total principal outstanding (total disbursed amount) of the soft term loans after the end of the gestation period over a period of four years at a concessional interest rate as follows:

a) 5 percent per annum in case of Bridging Loans offered by Financial Institutions;

b) 4 percent per annum in case of Soft Term Loans to CSIs offered by NCSIDBL; and

c) 2 percent per annum in case of Soft Term Micro Loans offered by NCSIDBL.

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Part E: Loan-to-Value (LTV) Limits and Land Valuation

(i) In case of project financing/ business loans, the FSPs may provide loans up to the LTV limit of 100 percent of the collateral value. However, the maximum financing limit of three-fourth of the project costs shall continue to apply. The LTV limits for housing loans and vehicle loans shall remain unchanged.

(ii) As proposed by Financial Institutions Association of Bhutan (FIAB), the FSPs may adopt uniform land rates for the valuation purposes as per the agreed modality among the FSPs.

Part F: Any Other Matter

(i) In case of any inconsistencies of the above provisions with any of the provisions of the SOPs for Phase I and Phase II Monetary Measures, the provisions under this SOP for Phase III Monetary Measures shall prevail.

Thank You