

SUPERVISOR'S MEMO

Q. How should a loan granted under the Special Finance Scheme for Small and Medium Enterprises be reported in the Capital Adequacy Return?

- A. A loan granted under the above scheme would be guaranteed by the Government up to 50% of the loan amount or \$2 million, whichever is the lesser. These guarantees are fully covered by cash deposits placed by the Treasury with the lending authorized institutions, if so required by the lending institutions.

The portion of a loan which is supported by such a guarantee should be reported as "loans guaranteed by the central government" with a risk weight of 0%. The remaining portion of the loan should be reported as "claims on non-bank private sector" and weighted at 100%.

Q. How should an authorized institution report an overdue loan for which partial repayment has been made? Under what conditions can such loans be reported as rescheduled loans?

- A. Where partial repayment of an overdue loan repayable by monthly instalment is made, to the extent that it is not financed by a new loan extended by the reporting institution for the purpose of repaying the overdue loan, the repayment may be offset against the earliest instalments due. For example, if the longest overdue instalment of a loan repayable by monthly instalments has been overdue for more than 6 months as at the reporting day, the entire amount of the loan should be reported as overdue for more than 6 months. Should the borrower make a partial repayment, the repayment should be offset against the earliest instalments due and, in this example, if the effect was to reduce the longest overdue instalment to 5 months, the loan may be reported as overdue for less than 6 months.

If an overdue loan is scheduled to be repaid by a lump sum payment, a partial repayment will not change the overdue status of the remaining loan balance, that is, the outstanding balance should continue to be reported as overdue with reference to its original due date.

An institution should not extend a new loan to a borrower solely for the purpose of repaying an existing overdue loan with the institution. Where the repayment (whether partial or whole) is financed by such a loan, the overdue status of the initial loan should be considered unchanged, that is, as if the new loan and the partial repayment had never been made.

It is recognised that a loan may be rolled over or extended to a new repayment date by an institution because the borrower does not have the financial resources to repay the loan on the original due date. Such a loan may be reported as a rescheduled asset provided that the following conditions are met:

- the overdue loan is rolled over or extended as a result of an agreement between the institution and the borrower;
- the borrower can demonstrate to the satisfaction of the institution that he will be able to service the loan according to the revised terms and conditions over the remaining life of the loan; and
- the justifications for the institution's decision to rollover or extend the loan are adequately documented.