

**Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka**

BRPD Circular No. 15

September 23, 2012
Date: -----
Ashwin 08 , 1419

**Chief Executives
All Scheduled Banks in Bangladesh**

Dear Sir,

Master Circular on Loan Rescheduling

Please refer to the BRPD Circular No.08 dated June 14, 2012 on the captioned subject. Considering difficulties reported by banks and the business community, certain instructions of the circular have been reviewed; revised circular with the modifications is issued hereunder:

Bangladesh Bank recognizes that in some cases, a legitimate banking practice may allow for the renewal of a continuous loan or line of credit. Occasionally, even a term loan is renewed or extended under unfortunate circumstances that are beyond the control of the borrower and do not signify that the borrower's willingness or ability to repay has deteriorated the loan. However, Bangladesh Bank is concerned that rescheduling (also known as "prolongation" or "evergreening") may sometimes result in an overstatement of capital, when loans that have a low probability of repayment are carried at full value on banks' balance sheets. Bangladesh Bank is hereby issuing this circular in order to communicate its policy stance that rescheduling should be done only in limited circumstances and under restrictions.

01. GUIDELINES FOR CONSIDERING APPLICATION FOR LOAN RESCHEDULING:

Banks shall comply with the following instructions while considering application for loan rescheduling of non-performing loan (loans classified as Sub-standard, Doubtful and Bad/Loss):

a) The bank must have a policy approved by its Board of Directors in place that defines the circumstances and conditions under which a loan may be rescheduled, consistent with this circular. These conditions may be stricter than those contained in this circular and cannot be

lenient in any case. The policy must include controls to avoid the routine rescheduling and repeat rescheduling of loans in those cases where borrowers are experiencing financial difficulty or there is doubt that the full amount of the loan will be recovered. In particular, the policy should place strict limits, or even prohibit, rescheduling of loans to business enterprises in unproductive sectors, or unprofitable business enterprises in productive sectors. If exceptions are made for certain sectors/business enterprises that do not meet the above guidelines, those sectors/business enterprises should be identified in the policy and a justification for rescheduling should be given.

b) When a borrower asks for rescheduling of loan, the bank shall meticulously examine the causes as to why the loan has become non-performing. If it is detected from such review that the borrower has diverted funds elsewhere or the borrower is a habitual loan defaulter, the bank shall not consider the application for loan rescheduling and shall take/continue all legal steps for recovery of the loans.

c) If a borrower while applying for rescheduling, pays the required down payment in cash at a time, the bank must address the application within 03 (three) months upon receipt. If the borrower gives any cheque, pay order or any other instrument against down payment, the bank must ensure encashment of such instrument before processing of the rescheduling case. Any previous payment from time to time shall not be treated as a down payment.

d) Banks while considering loan rescheduling, must consider overall repayment capability of the borrower taking into account the borrower's liability position with other banks and financial institutions.

e) Banks shall review the borrower's cash flow statement, audited balance sheet, income statement and other financial statements in order to ensure whether the borrower would be able to repay the rescheduled installments/existing liability or not.

f) If required, bank officers shall conduct spot inspections of the borrower's company/business place to ensure that the concerned company/business enterprise would be able to generate a surplus to repay the liability of rescheduling. Banks shall preserve such reports in their branches for Bangladesh Bank's inspection.

g) If a bank is satisfied after due diligence as mentioned above that the borrower will be able to repay, the loan may be rescheduled. Otherwise, bank shall take all legal steps to realize the loan and make necessary provision.

h) Rescheduling of any loan must be justified in written statement by the bank's Credit Committee. The statement must give reasons why the rescheduling is beneficial to the long-run profitability and capital adequacy of the bank, including the factors that cause the Credit Committee to believe that the loan will ultimately be repaid in full. The statement must also explain the impact of this rescheduling on the bank's liquidity position and the needs of other customers.

02. TIME LIMIT FOR RESCHEDULING:

The rescheduling shall be for a minimum reasonable period of time. Time limit for rescheduling of different categories of loans will be as follows:

(Note: These time limits are absolute maximums only, and banks are encouraged to establish shorter time limits in their internal policies. Each loan that is being considered for rescheduling should be evaluated on its own merits and not automatically rescheduled for the maximum time period or rescheduled for the maximum number of three (03) times.)

a) Time limit for rescheduling Continuous Loan:

The loan account in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Loan:

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 18 (eighteen) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling
Second Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling
Third Rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in monthly installments. If the amount of defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.

b) Time limit for rescheduling Demand Loan:

The loan which becomes repayable on demand by the bank is treated as Demand Loan. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular loan) those too will be treated as Demand Loans

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling
Second Rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling
Third Rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in monthly installments. If the amount of

defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.

c) Time limit for rescheduling Fixed Term Loan:

The loan which is repayable within a specified time period under a prescribed repayment schedule is treated as Term Loan.

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 24 (twenty four) months from the date of rescheduling	Maximum 18 (eighteen) months from the date of rescheduling	Maximum 18 (eighteen) months from the date of rescheduling
Second Rescheduling	Maximum 18 (eighteen) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling
Third Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in monthly/quarterly installments. If the amount of defaulted installments is equal to the amount of 6 monthly or 2 quarterly installments, the loan will be classified as Bad/Loss.

d) Time limit for rescheduling for Short-term Agricultural and Micro-Credit

First Rescheduling	Repayment time limit for rescheduling should not exceed 2 (two) years from the date of rescheduling.
Second Rescheduling	Maximum 1(one) year from the date of rescheduling.
Third Rescheduling	Maximum 6(six) months from the date of rescheduling.

- e) If the loan becomes default after third rescheduling, the borrower will be treated as a habitual loan defaulter and the bank shall not consider for further loan rescheduling.
- f) Approval of loan rescheduling cannot be made below the level at which it was originally sanctioned. A detailed appraisal report including implications of such loan rescheduling on the income and other areas of the bank must be placed to the approving authority at the time of placing the rescheduling proposal.

03. DOWN PAYMENT OF TERM LOANS:

- a) Application for first time rescheduling will be taken into consideration upon receiving cash payment of at least 15% of the overdue installments or 10% of the total outstanding amount of loan, whichever is less;

b) Application for second time rescheduling will be considered upon receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less.

c) Application for rescheduling third time will be considered upon receiving cash payment of minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less.

d) The rate of down payments for Short-term Agricultural and Micro-Credit will be same as above.

Explanation: If any loan is rescheduled for one time before issuance of this circular, the conditions set forth in this circular for second time rescheduling of such loans shall be applicable. Likewise, the terms for third time rescheduling as per this circular for rescheduling of any loan, which has already been rescheduled twice or more shall be applicable.

04. DOWN PAYMENT OF DEMAND AND CONTINUOUS LOAN:

a) If a Demand or Continuous Loan is converted into a Term loan, first rescheduling may take place against down payment on the basis of loan amount in the following manner.

Amount of Overdue Loan	Rate of Down payment
Up to Tk.1.00 (one) crore	15%
Above Tk.1.00(one) crore and up to Tk.5.00(five) crore	10% (but not less than Tk.15.00 lac)
Above Tk. 5.00(five) crore	5% (but not less than Tk.50.00 lac)

Application for rescheduling will be taken into consideration only after the amount for the down payment is paid in cash as narrated in 01(c).

b) If any Continuous or Demand Loan is rescheduled for the second time (first time after being converted partly or wholly into Term Loan) and the repayment installments are fixed, the application for rescheduling of such loans shall be considered upon receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less. Similarly, for third rescheduling (second time after being converted partly or wholly into Term Loan) minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less, shall have to be repaid in cash.

05. CLASSIFICATION AND INTEREST SUSPENSE OF RESCHEDULED LOANS:

Rescheduled loans may be put into any category of classification by the bank considering the existing financial soundness and repayment capacity of the borrower, subject to the accumulated amount in interest suspense account not being taken into income account, unless actually realized. Upon classification, applicable provisions have to be maintained, according to the Master Circular: Loan Classification and Provisioning (BRPD Circular No. 14/2012). These classifications will be reviewed by Bangladesh Bank inspectors. However, regardless of the classification category into which the loan is placed by the bank, a rescheduled loan will not be considered a "defaulted loan," and the borrower will not be considered a "defaulted borrower" as these terms are understood in the context of section 27KaKa(3) [read with section 5(GaGa)] of the Banking Companies Act, 1991, unless such loan has not been repaid after reaching the maximum number of allowable reschedulings. Interest accrued on rescheduled loans will be subject to the accounting treatment that is appropriate for the classification category of the loan, in line with the Master Circular: Loan Classification and Provisioning (BRPD Circular No. 14/2012) just as if the loan had not been rescheduled.

06. NEW LOAN FACILITY AFTER RESCHEDULING:

- a) The borrower whose credit facility has been rescheduled may avail a new loan facility or enhance existing credit facility subject to fulfillment of the following conditions:-
 - i. The borrower must pay at least 15% of the "Outstanding Balance" (outstanding amount after excluding the down payment on rescheduling) to avail any further credit facility from the rescheduling bank.
 - ii. In case of borrowing from other banks, the same rule will be applicable, i.e. the borrower must pay at least 15% of the "Outstanding Balance" (outstanding amount after excluding the down payment on rescheduling), then, will be allowed to take regular facility from other banks subject to the submission of No Objection Certificate (NOC) from the rescheduling bank or financial institution.
- b) Exporters may be granted further credit facility (after being identified as not-a-willful defaulter), if required, subject to settling at least 7.5% of the "Outstanding Balance" (outstanding amount after excluding the down payment on rescheduling). They will be allowed to take the regular facility from other Banks subject to the submission of a NOC from the rescheduling bank or financial institution.
- c) Prior approval of Bangladesh Bank shall have to be obtained if the loan is related to the director of any bank.
- d) Information on such rescheduled loan accounts shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

e) While reporting to the CIB, the rescheduled loans/advances should be shown as RS-1 for first time rescheduling, RS-2 for second time rescheduling and RS-3 for third time rescheduling. If rescheduling facility is availed through interest waiver, reporting should be RSIW-1 for first time rescheduling, RSIW-2 for second time rescheduling and RSIW-3 for third time rescheduling.

f) Number of rescheduling should be mentioned in the sanction letter as well as in the date column of sanction/last renewal/rescheduling in the basic CL form as RS-1/RS-2/RS-3 or RSIW-1/RSIW-2/RSIW-3.

07. SPECIAL CONDITIONS FOR LOAN RESCHEDULING

a) If a loan account of an export-oriented garments industry or knit garments factory becomes adversely classified due to stock lot, the loan may be rescheduled without the required down payment. However, the sales/export proceeds from the stock lot must be used to repay the loan. If any such loan account remains unadjusted even after repaying the loan with sales/export proceeds of the stock lot, the loan may be rescheduled without the required down payment based on recovery probability and banker-customer relationship.

The above mentioned facilities will not be applicable to forced loan, project loan or term loan in this sector. Only such forced loans, which are backed up with stock lot may avail such facilities.

After rescheduling, new loan facility or loan expansion application will be considered only after paying at least 7.5% of the “Outstanding Balance”. New loan facility from other banks is subject to the obtaining of NOC from the rescheduling bank.

b) If a loan account of fertilizer importers becomes adversely classified due to delay in government subsidy receipts and payment of subsidy bill, the loan may be rescheduled without the required down payment. However, the receivable government subsidy must be used to repay the loan. If any such loan account remained unadjusted even after repaying the loan with a government subsidy, the loan may be rescheduled without the required down payment on the basis of recovery probability and banker-customer relationship.

c) For rescheduling as above no prior approval of Bangladesh Bank will be required; unless there is a requirement from Bangladesh Bank in the context of large loan or related to the director of the bank.

08. RESTRICTION ON EXTENDING THE TERM TO MATURITY OF A TERM LOAN:

The term to maturity of a term loan may be extended subject to the following conditions and restrictions:

- a) The loan must be performing (Unclassified: Standard or SMA)
- b) The decision should be made at the level where the loan was originally sanctioned
- c) The maturity date may be extended by a period of time not exceeding 25% of the current remaining time to maturity

This policy shall come into force with immediate effect and instructions of BRPD Circular No.08 dated June 14, 2012 hereby stand superseded by this circular.

Please acknowledge receipt.

Yours sincerely,



(Md. Anwarul Islam)
Deputy General Manager
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