Appendix C

Guidance note on overdue and rescheduled loans

Overdue advances can be broadly classified into the following types –

i. Loans with a specific expiry date e.g. a term loan, inward bill loan, advance against trust receipt, packing loan and other loans of similar nature - these loans should be treated as overdue where the principal or interest on it is overdue and remains unpaid as at the end of the financial period.
ii. Loans repayable by regular instalments e.g. residential mortgage loans, hire purchase loans and personal loans - these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the end of the financial period.
iii. Loans repayable on demand e.g. demand loans and overdrafts - these loans should be treated as overdue where one or both of the following conditions are met:

- a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction*; or*
- the loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).

The period of overdue of a loan which has a determinable due date should be counted from the date following such due date.[*] The whole amount of a loan should be classified as overdue even if part of it is not yet due and the date used to determine whether it is overdue should be the earliest due date of such a loan. For example, if the longest overdue instalment of a loan repayable by monthly instalments has been overdue for more than six months as at the end of the financial period, the entire amount of the loan should be reported as overdue for more than six months.

Rescheduled advances refer to those that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are 'non-commercial' to the institution. Rescheduled advances do not include the following:

– Loans rescheduled in response to the changes in market conditions provided that at the time of rescheduling, the loans have been serviced normally, the ability of the borrowers to service the loans according to the revised repayment terms is not in doubt and the rescheduled loans are priced at interest rates equal to the current market interest rates for new loans with similar risks.

– Rescheduled loans where there is reasonable assurance that the borrowers will be able to service all future principal and interest payments on the loans in accordance with the revised repayment terms <u>and</u> the borrowers have serviced all principal and interest payments on the loans in accordance with the revised repayment terms continuously for a reasonable period. The reasonable period of continuing repayments for rescheduled loans with monthly payments (including both interest and principal) is 6 months. For other rescheduled loans, a period of continuing repayments of 12 months would be considered as reasonable.

[*] In the case of a loan repayable on demand, the period of overdue should be counted from the date following either the repayment date specified in the demand for repayment served on the borrower or the date on which the loan first exceeded, and thereafter remained continuously outside, the approved limit notified to the borrower, whichever is earlier.

Rescheduled advances which have been overdue for more than three months under the revised repayment terms should be included under overdue advances and not in rescheduled advances.