

Guidelines on overdue and rescheduled assets

1. This paper sets out the criteria which are to be applied in determining overdue and rescheduled assets for the purposes of classification under the loan classification framework and for reporting in the Quarterly Analysis of Loans and Advances and Provisions (MA(BS)2A).

Overdue assets

2. The overdue status of the following assets are to be determined as follows:-
 - a) 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 is overdue and remains unpaid as at the reporting date. (For multiple loans to a single borrower, e.g. where there are more than one trust receipt loans, report only the one overdue according to its overdue period.)
 - b) Consumer 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 reporting date.
 - c) 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:
 - i) a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; or
 - ii) 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).
 - d) Bankers acceptances are to be treated as overdue where either the principal or interest of the instruments are still in arrears after the due dates or maturity dates.
 - e) A bill payable at a determinable date (i.e. usance bill) should be treated as overdue if it remains in arrears after the maturity date. Sight bills/drafts in respect of goods exported from Hong Kong should normally be paid within

one week from the date of presentation (or the arrival of carrying vessel if the buyer is not obliged to pay before the arrival of goods). However, to allow for unforeseeable delays in processing the documents or effecting payments, a grace period of one month will be allowed. These bills should therefore be regarded as overdue if payment is not made within one month after presentation or the arrival of carrying vessel, as the case may be.

3. The period of overdue of a loan which has a determinable due date should commence from the date following such due date. The whole amount of a loan is regarded as overdue even if part of it is not yet due and assessment should be made by reference to 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 six months as at the reporting date, the entire amount of the loan should be considered as overdue for six months.
4. Where partial repayment of an overdue loan repayable by monthly instalments 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 should be offset against the earliest instalments due. In the previous example, if the borrower makes a partial repayment reducing the longest overdue instalment to five months, the entire loan may be considered as overdue for five months.
5. 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, i.e. the outstanding balance should continue to be treated as overdue with reference to the original due date.
6. 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 a new loan extended by the institution, the overdue status of the initial loan should be considered as unchanged, i.e. as if the new loan and partial repayment had never been made.
7. It is recognised that institutions may decide to increase overdraft limits (or limits of similar facilities) to accommodate the increased financing needs of sound customers. In such cases, the loan would not be regarded as overdue under paragraph 2(c)(ii) above. However, this should only be done on the basis of a well-documented credit evaluation and after the appropriate internal approval have been obtained. An increase in the overdraft limit should not be sanctioned simply to avoid classifying the loan as overdue.

Rescheduled assets

8. Rescheduled assets refer to loans and other assets that have been restructured and renegotiated between the reporting institution and the borrower 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 bank. A rescheduled asset will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).
9. The following assets are not regarded as rescheduled even if their repayment terms have been revised:
 - a) Assets rescheduled in response to the changes in market conditions provided that at the time of rescheduling, the assets have been serviced normally, the ability of borrowers to service the assets according to the revised repayment terms is not in doubt and the rescheduled assets are priced at interest rates equal to the current market interest rates for new assets with similar risks.
 - b) Rescheduled assets whose revised repayment terms are, or become, commercial to the institution and where there is reasonable assurance that the borrowers will be able to service all future principal and interest payments on the assets in accordance with the revised repayment terms and the borrowers have serviced all principal and interest payments on the assets in accordance with the revised repayment terms continuously for a reasonable period. The reasonable period of continuing repayments for rescheduled assets with monthly payments (including both interest and principal) is 6 months. For other rescheduled assets, a period of continuing repayment of 12 months would be considered as reasonable.
10. If a rescheduled asset is taken up by a new obligor, the reporting institution may regard it as a new asset (i.e. no longer a rescheduled asset) and classify it according to the creditworthiness of the new obligor provided that :
 - a) it is restructured with the new obligor on commercial terms;
 - b) the agreed haircut, if any, has been fully written off upon completion of restructuring; and
 - c) it is a genuine restructuring and not merely a transfer of an overdue loan among the borrower's group companies. The reporting institution must be satisfied with the creditworthiness and repayment ability of the new obligor (e.g. the new obligor must have sufficient assets that can generate adequate funds to repay the outstanding debt) before entering into the restructuring.

11. A rescheduled asset may be upgraded to “special mention” if : i) the agreed haircut has been fully written off and all the potential losses have been fully provided upon completion of restructuring; and ii) the reporting institution is satisfied that the borrower will be able to service all future principal and interest payments in accordance with the revised repayment terms. Such asset will however continue to be regarded as rescheduled until the borrowers have serviced all principal and interest payments on the assets in accordance with the revised repayment terms continuously for a reasonable period (see paragraph 9 above).

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September 2006