



# CENTRAL BANK OF LIBERIA

CBL/SD/01/2005

## **CBL DIRECTIVE ON LENDING TO DELINQUENT BORROWERS**

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In its on-going supervision of financial institutions in Liberia, the Central Bank of Liberia (CBL) has observed that credit risk is the dominant problem affecting the viability of our operating banks. There exists a high incidence of non-performing loans, which constrain banks' earnings and subsequently erode their capital. Although the current state of internal controls and management resources in each bank heighten the individual level of the risk, its principal causes include:

- a. poor macroeconomic environment,
- b. inadequate credit reference system, and
- c. weaknesses in the legal system in respect of enforcement of financial contracts.

The cause and the nature of the problem require the shared efforts of operating banks, the regulators and other stakeholders to identify and implement appropriate solutions.

Hence, consistent with the role of the CBL to assist banks manage the risks inherent in their lending activities, and pursuant to the Bank Restructuring and Resolution Policy adopted by the Board of Governors on January 19, 2005, the Central Bank of Liberia hereby promulgates and issues the following directives regarding the management of banks' credit risks:

1. Each and every operating commercial bank is prohibited from extending further credits to any delinquent private or public borrower, until such time when the delinquent borrower's obligation is paid in full or a realistic formal repayment plan is proposed by the bank and approved by the CBL. For the purpose of this directive, delinquency is considered as any debt obligation past due for 90 days or more.
2. A database of known delinquent and/or common borrowers in the system is hereby established and presently maintained at the Supervision Department of the Central Bank of Liberia. All commercial banks are required to utilize the information contained in the database in the evaluation of every application for a credit not less than L\$50,000.00 or its equivalence in United States Dollars. For ease of verification, each approved credit file must have a notation that the application was checked against the database, with indication of date and other particulars of the reference. Banks

will be provided updated copies of the database on an ongoing basis by the Supervision Department of the CBL.

3. All commercial banks are required to adhere strictly to all credit-related regulations issued by the CBL, including Regulation #s CBL/SD/02/2000, CBL/SD/04/2000, and CBL/SD/05/2000 failing which the CBL shall apply the necessary penalties as prescribed in Section 20(6) of the New FIA of 1999.
4. **This directive takes immediate effect.** Any bank found to be in violation of this directive shall be fined an amount not less than L\$100,000.00 for each infraction and/or subject to other supervisory sanction(s).

Issued this 15<sup>th</sup> day of February 2005.

Signed: \_\_\_\_\_

**Charles A. Greene**  
**Charles A. Greene**  
**Executive Governor**