

AMENDED DIRECTIVE BARRING COMMERCIAL BANKS AND OTHER REGULATED FINANCIAL INSTITUTIONS FROM PROVIDING FINANCIAL SERVICES TO DELINQUENT BORROWERS THAT FAILED TO RESOLVE THEIR DELINQUENT STATUS

1.0 Introduction

1.01 The Central Bank of Liberia (CBL) has over the years made significant efforts to improve the general credit environment and strengthen the internal risk management practices of commercial banks. However, it has been observed that some delinquent borrowers, corporates as well as individuals, continue to renege on servicing their obligations to the banks. Such individuals and entities cannot continue to enjoy the benefits of the banking system, on the one hand, while undermining its viability through their actions, on the other hand.

1.02 In view of the foregoing and pursuant to Section 39 (1) of the new Financial Institutions Act (new FIA) of 1999, which gives the CBL the authority to issue regulations and directives, and Section 39 (2), which gives the CBL the authority to govern and regulate activities and relationship between financial institutions, their customers, creditors and debtors, the CBL hereby issues this amended directive to all commercial banks and other regulated financial institutions, reflecting the addition of Sections 3.0, 3.1, 3.2 and 3.3 to Directive No. CBL/RSD/DIR/001/2013 issued on April 16, 2013.

2.0 General Restriction on Access to Financial Services by Non-Compliant Delinquent Debtors

2.01 Effective April 16, 2013, all commercial banks as well as all other financial institutions regulated by the CBL, are hereby directed to desist from doing business in any form or manner in the course of their operations, including making payments, maintaining existing accounts or operating new accounts, on behalf of or with individuals or institutions who failed to take advantage of the dispensation granted by the CBL to come to understanding on new debt-servicing arrangements of their obligations to their respective banks.

2.02 Going forward, this directive shall be applicable to all borrowers of banks, as well as other financial institutions, their shareholders/principals and related companies, that meet the below described characteristics:

- i. an individual or institution whose obligation (s) to one or more commercial banks are adversely classified (i.e. either principal or interest payment is overdue for at least 180 days);
- ii. the individual or institution has previously received at least three (3) notifications from the bank(s) on their delinquent status and advised of the steps he/she needs to take to come to a new debt-servicing arrangements; and
- iii. the individual or institution, after receipt of the above-mentioned number of notifications, has deliberately failed to take adequate steps to resolve their obligation to the bank (s).

3.0 Lifting/Removal of General Restriction

3.01 This general restriction shall remain in force until such delinquent borrowers can resolve their delinquent status with the banks that they are indebted to, at which time they shall be subject to either of the requirements of section 3.1 or 3.2, depending on the particular circumstance.

3.02 For purpose of this section, non-compliant delinquent borrowers are classified into the following categories:

1. Microfinance: from US\$1.00 – US\$7,000.00;
2. SMEs : from US\$7,001 – US\$100,000.00; and
3. Corporate: US\$100,001 and above.

3.1 Specific Restriction on Non-compliant Delinquent Borrowers that pay off their obligations

3.11 Non-compliant delinquent borrowers who **fully** pay off their obligations should be allowed full access to payment and transfer services, but limited access to new credit, subject to the conditions stated in 3.12 to 3.16 below;

- 3.12 New loans to a non-compliant delinquent borrowers who pay off their obligation (s) shall be limited to 50% of the maximum amount of the category in which the borrower falls, as defined above in Section 3.02, for a "restricted" period specified in 3.15 below;
- 3.13 If the borrowers fall in the corporate category and the delinquent facility for which they were blacklisted is in excess of US\$100,000, said borrowers shall be limited to only 50% of their outstanding amount at the time of being blacklisted. (For example, if a borrower outstanding balance at the time of being blacklisted was US\$150,000, he/she shall be allowed to borrow only up to 50% of US\$150,000 during the "restricted" period);
- 3.14 In order to manage the exposure such non-compliant delinquent borrowers (i.e. those who have fully liquidated their obligations), they should be further restricted to borrow from only one bank within the "restricted" period;
- 3.15 The "restricted" period shall mean a period of six months for monthly installment payments, or one year for quarterly installment payments; and
- 3.16 Based on satisfactory repayment record during the "restricted" period, borrowers in this category (i.e. those who have fully liquidated their obligations) shall be allowed full access to credit services.

3.2 Specific Restriction on Non-compliant Delinquent Borrowers that make partial payments or only conclude restructuring arrangements

- 3.21 Non-compliant delinquent borrowers that have either made partial payment or have not made any payment on their delinquent obligations, but have reached a reasonable restructuring agreement with the bank(s) that they are indebted to, shall be allowed access to limited banking services, specifically, transfer and payment services, only for the purpose of servicing their delinquent obligations;
- 3.22 Such borrowers shall be further subjected to Section 3.15 of the Prudential Regulation for Asset Classification, which

states that: **“Once loans and advances are classified as substandard, doubtful or loss, they shall not be reclassified or upgraded merely on the ground of rescheduling or roll-over of payment of interest and principal. The loans and advances shall only be renewed, rolled over or returned to accrual status if the borrower repays all the delinquent interest from his own funds prior to the roll-over, or renewal. Such loans must remain substandard until borrowers perform under the new repayment schedule for at least a six-month period for quarterly loan repayment schedule and three-month period for monthly or less repayment period”**; and

3.23 When condition 3.22 above has been satisfied, such borrower will then qualify to access loans subject to conditions 3.11 to 3.16 above.

3.3 Each bank shall be required to submit to the CBL on a monthly basis a full report regarding any paid-off or restructured facility, in keeping with this directive.

4.0 Penalty for Non-Compliance

Any financial institution found in violation of this directive shall be subject to a fine of not less than L\$200,000 for each day of violation and/or other supervisory sanctions as may be determined by the CBL.

5.0 Effective Date

This directive takes effect as at the date of its issuance and shall remain in force until otherwise advised by the CBL.

Signed: _____
Central Bank of Liberia