CENTRAL BANK OF LIBERIA

GUIDELINE ON STANDING CREDIT FACILITY FOR COMMERCIAL BANKS
CBL/RSD/GUIDELINE/001/2016

October 31, 2016

1.0 Introduction

1.1 This guideline sets out the Central Bank of Liberia (CBL) principles on the Standing Credit Facility (SCF) in line with its policy direction which is to assist commercial banks to adequately and actively manage their liquidity.

1.2 This guideline supersedes and replaces the ***Guideline on Standing Credit Facility for Commercial Banks CBL/E-GOV/071/2005***.

1.3 The Standing Credit Facility is an overnight collateralized loan facility that provides funds to institutions at a predetermined interest rate, so as to cover end-of-day shortfalls that may arise in the daily settlement of payments.

1.4 The Central Bank reserves the rights to amend any of the provisions in the document on the basis of its monetary policy stance and/or to reflect market conditions with participants notified of any change (s) in advance.

2.0 Objective

2.1 The principal objective is to provide temporary liquidity support to banks that experience unexpected shortfalls in funds needed to ensure full and timely settlement of clearing obligations.

3.0 Eligibility Criteria

3.1 In order to be eligible for credit from the Central Bank of Liberia under the SCF, a bank shall demonstrate:

a) that it is unable to settle a clearing obligation due to unexpected shortfall in liquidity, which (1) is not attributable to insolvency, and (2) is remediable with short-term liquidity support;

b) that it has tried but was unable to borrow from the inter-bank market or from private sources other than the CBL;

c) that it is not in any state of supervisory non-compliance, or that it otherwise has a fair rating by the Regulation & Supervision Department;

d) that it has sufficient marketable assets to secure the requested credit; and

e) any other conditions that the Central Bank may deem necessary.

4.0 Access Conditions

i) The standing facilities are available to all banks which meet the conditions in Section 3.0 on a daily basis, at their request.

ii) Before the disbursement of a credit under the SCF, the CBL shall require that an appropriate Credit Agreement is executed, and that the borrowing bank provides and/or pledges such collateral adequate to ensure full and timely payment.

iii) Access will be limited to the Central Bank’s business hours, but not later than 5:00 P.M.

iv) In the event of early closing, cut-off time for access to the facilities shall be one (1) hour before the stated time of closing.

v) Requesting institutions shall be advised on the outcome of any request within two (2) hours of submission.

(vi) Transactions will be settled on the same business day the application is made and will mature the following business day.

5.0 Credit Period

5.1 All credits extended under SCF shall normally be for overnight. However, a credit may be extended for a maximum period of two (2) weeks. The CBL may extend the credit, if the CBL determines that such extended period is necessary to achieve the purpose of the credit. However, such extended period shall not exceed 30 days.

6.0 Application for the Facilities

(i) Institutions are required to send a request to the Central Bank of Liberia addressed to the Executive Governor of the Central Bank of Liberia.

(ii) The request must be signed by the Managing Director and another designated signatory whose signature specimen had been submitted to the Banking Department of the Central Bank of Liberia.

(iii) Submission may be by facsimile, email or hand delivered. Submissions must contain:

a. The amount of the SCF requested;

b. The applicable collateral as per section 8.0 below; and

c. If the SCF remains outstanding for seven (7) days, the bank shall submit a time-bound repayment plan, setting out when and how stable market funding will be restored and the CBL repaid. The plan should provide for measures to reduce funding needs, address volatility in the bank's funding profile, and improve liquidity management procedures, as needed.

(iv) In the event of submission via e-mail, the signed document should be scanned and only requests with the institutions' mail extensions will be accepted. Furthermore, requests must be confirmed by telephone by the Managing Director or the official in charge of the bank.

6.1 The Regulation and Supervision Department shall make an assessment of the requesting bank and advise the management of the CBL on the bank's request. The facility will be confirmed by crediting the commercial bank's account. Once the facility is granted, the documents relating to the security pledged shall be transferred to the Central Bank.

6.2 CBL may request any additional information just to ensure that assets tendered as collaterals are acceptable and the borrower uses the facility provided in a manner consistent with this guideline.

7.0 Applicable Rate of Interest

8.1 Each bank provided a credit under the SCF shall pay, on the amount disbursed, an interest rate of 10% p.a.

9.0 Eligible Collaterals

9.1 The SCF shall be collateralized by unencumbered assets and must be registered with the Collateral Registry. The Central Bank has the right to take collateral at its preference.

9.2 Banks' assets securing the SCF shall not be transferred or sold by the bank unless the SCF contract is terminated or the facility amount is reimbursed. The Central Bank has the right to request replacement of the collateral where due diligence reveals insufficiency in the collateral.

10.0 Haircuts

10.1 Haircuts shall be determined by the Central Bank depending on the type and kind of collateral securing the facility.

11.0 Utilization of Standing Facilities

11.1 CBL will monitor persistent reliance on the usage of the standing facilities by banking institutions. Banking institutions that demonstrate overreliance on lending facility will be subjected to greater scrutiny by the CBL. Until the CBL has been fully repaid, the bank would be subjected to heightened supervisory oversight.

12.0 Restrictions on Banks that Persistently Utilize the Standing Credit Facility

12.1 Banks that utilize the Standing Credit facility for more than two consecutive weeks shall be prohibited from:

a) Distributing dividends;

b) Distributing bonuses;

c) Expanding bank operations by opening new branches;

d) Refinancing or granting new facilities to insiders and related parties; and

e) The central Bank may determine any other prohibition on its discretion, as well as any other supervisory measures to restore the liquidity situation of the bank including requiring the bank to submit a liquidity restoration plan.

13.0 Suspension of Facility

13.1 The CBL may suspend or revise the conditions of the standing facilities if it does not meet the overall objective of the CBL's monetary policy stance.

14.0 Penalty

Banks violating these guidelines shall be subject to appropriate supervisory actions, including but not limited to a fine of L$200,000 for each day of non-compliance.

These guidelines shall take effect immediately upon issuance.

Signed: ____________________

Hon. Milton A. Weeks
Executive Governor