

[CIRCULAR NO. 306, S. 2002, January 09, 2002]

PROPERTIES OWNED OR ACQUIRED

Pursuant to Monetary Board Resolution No. 1631 dated 11 October 2001, the Manual of Regulations and the Manual of Accounts for Banks and for Non-Bank Financial Institutions are hereby amended, as follows:

MANUAL OF REGULATIONS

SECTION 1. Sections X611 and 4109Q are hereby added to the Manual of Regulations, to read as follows:

Real and Other Properties Owned or Acquired. The property acquired in settlement of loans through foreclosure or dation in payment shall be recorded at the balance of the loan (principal plus booked accrued interest receivable for time loans, or principal less unamortized income for bills discounted) or bid/purchase price, whichever is lower: Provided, that where the booked amount of the ROPOA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up.

Non-refundable capital gains tax and documentary stamp tax paid in connection with foreclosure/purchase of the acquired real estate property may be included in the book value of the acquired real estate: Provided, that the total book value does not exceed the appraised value of the acquired real estate: Provided, further, That if the amount to be booked as ROPOA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas.

Any excess of loan balance over the amount booked shall be debited to "Miscellaneous Income/Loss" account. Claims arising from deficiency judgements rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable". While probable claims against the borrower-debtor arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".

SECTION 2. Subsections X611.1 and 4109Q.1 are hereby added to the Manual of Regulations to read as follows:

Booked Valuation Reserves while the Account is in the Non-performing Portfolio. The amount of allowance for probable losses already booked while the account is still in the non-performing portfolio shall be used to cover required valuation reserves for other accounts, if there are any, and if there is none, it may, subject to approval by the concerned supervising and examining department of the Supervision and

Examination Sector (SES), be credited to income provided that the appraised value of the acquired property is not lower than the amount booked as ROPOA.

SECTION 3. Subsections X611.2 and 4109Q.2 are hereby added to the Manual of Regulations, to read as follows:

Appraisal of Properties to be Foreclosed or Acquired. Before foreclosing or acquiring any property in settlement of loans and other advances, it must be properly appraised to determine its true economic value. If the total amount to be booked as ROPOA exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas. An in-house appraisal of such property shall be made at least every other year: Provided, that immediate re-appraisal shall be conducted on ROPOAs which materially decline in value.

SECTION 4. Subsections X611.3 and 4109Q.3 are hereby added to the Manual of Regulations, to read as follows:

Non-Cash Payment for Interest. Banks/NBQBs which accept non-cash payments for interest on their borrowers' loans be required to defer recognition of income by virtue of such payments until such time that the property is sold. The account "Real and Other Properties Owned or Acquired" shall be debited for the non-cash payment received subject to the rules governing the booking of ROPOA. The accrued interest already booked shall be reversed but there shall be no reversal of corresponding valuation reserves, if there are any. Pending the creation of a more appropriate account in the Manual of Accounts for Banks and NBQBs, the account "Other Deferred Credits" may be credited for non-cash payment corresponding to interest not yet accrued in the books. Following are the illustrative entries for the transaction:

a. Upon receipt of non-cash payment

Dr

Cr

Real and Other Properties Owned or Acquired

xxx

Accrued Interest Receivable

xxx

Other Deferred Credits

xxx

To take up non-cash payment of interests on loans

b. Upon sale of property received in payment of interests

Dr

Cr

Cash/Due from BSP

xxx

Real and Other Properties Owned or Acquired

xxx

Gain on sale of ROPOA

xxx

To take up sale of ROPOA

Other Deferred Credits

xxx

Interest Income

xxx

To close to interest income the amount of non-cash payment for interest originally credited to "Other Deferred Credits" SECTION 5. Item II.C.2.a of Appendix 18 and Item 2.f.(2)(a) of Appendix Q-10 of the Manual of Regulations are hereby amended to read as follows:

"Foreclosure expenses and other charges included in the book value of the property, excluding the amount of non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/ purchase which meet the criteria for inclusion in the book value of the acquired property".

SECTION 6. Items II.D.2.d of Appendix 18 and 2 g. (2)(d) of Appendix Q-10 of the Manual of Regulations are hereby amended to read as follows:

"Foreclosure expenses and other charges included in the book value of the property: and"

MANUAL OF ACCOUNTS

SECTION 7. Item 20.a of Circular No. 108 is hereby amended to read as follows:

20. REAL AND OTHER PROPERTIES OWNED OR ACQUIRED (ROPOA) [1-4-06-00]

a. Real and Other Properties Owned or Acquired [1-4-06-02]