



PRESS RELEASE

Madrid, 30 April 2013

Criteria for the application of Circular 4/2004 in respect of loan refinancing and restructuring

At its sitting today the Banco de España Executive Commission has approved a letter to be sent to banks setting out guidelines on the application of the provisions of Circular 4/2004 on loan refinancing and restructuring in respect of definition, documentation, monitoring and revision.

Loan refinancing policy is a necessary instrument for the management of risk with those customers undergoing difficulties, provided such difficulties are transitory. The information obtained as from the publication of Circular 6/2012 denotes possible differences in policy application which, while in some cases may be the outcome of different business and risk-management models, may also be the result of differences in banks' accounting policies.

The criteria approved today by the Banco de España are premised on the fact that loan refinancing, restructuring, rollover or renegotiation must be used prudently, without distorting the recognition of impairment due to default risk. Accordingly, the following broad criteria are laid down:

- Decisions shall be underpinned by an itemised analysis of the borrower's ability to pay on the basis of a recurrent, sufficient and demonstrable generation of income.
- Conditions shall be based on realistic payment arrangements, preferably through regular instalments consistent with the borrower's generation of income.
- Banks shall have sufficiently updated estimates of the value of the existing collateral, adapted to market conditions.
- Decisions adopted shall be periodically reviewed, so as to substantiate their effectiveness and the possible existence of incidents.

Regarding the classification of loan refinancing or restructuring in the financial statements, loans shall be considered as a "substandard" risk unless there are objective circumstances warranting their classification as a "standard" or "doubtful" risk.

Specifically, loans in which there is objective and verifiable evidence making the recovery of all the amounts due highly probable shall be classified as a "standard" risk. Here, factors such as the absence of a lengthy grace period, monthly instalments that do not exceed a significant percentage of recurrent income in the case of individuals and the addition of new guarantors of unquestionable solvency or of new effective collateral shall be taken into consideration. In any event, loans classified

as a “standard” risk shall be subject to a half-yearly and itemised review programme.

Consideration as a "doubtful" risk shall be given to those loans in which, bearing in mind factors such as the existence of effective collateral, the granting of lengthy grace periods in respect of principal repayment and the source of prior refinancing or restructuring, there is evidence of marked weakness in the borrower's ability to pay.

The Banco de España has informed banks that it intends to accord due attention to this matter in its supervisory actions envisaged for 2013 or in actions especially scheduled to this end.

The text of the letters to be sent by the Directors General for Banking Regulation and Banking Supervision to the associations representing the credit institutions sector and of the document approved by the Executive Commission can be viewed clicking [here](#).

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