PRUDENTIAL REGULATIONS FOR CONSUMER FINANCING

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BANKING POLICY & REGULATIONS DEPARTMENT
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THE TEAM

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<u>**C O N T E N T S**</u>

PART – A
D E F I N I T I O N S

1. **Bank** means a banking company as defined in the Banking Companies Ordinance, 1962.

2. **Borrower** means an individual to whom a bank / DFI has allowed any consumer financing during the course of business.

3. **Consumer Financing** means any financing allowed to individuals for meeting their personal, family or household needs. The facilities categorized as Consumer Financing are given as under:

   (i) **Credit Cards** mean cards which allow a customer to make payments on credit. Supplementary credit cards shall be considered part of the principal borrower for the purposes of these regulations. Corporate Cards will not fall under this category and shall be regulated by Prudential Regulations for Corporate / Commercial Banking or Prudential Regulations for SMEs Financing as the case may be. The regulations for credit cards shall also be applicable on charge cards, debit cards, stored value cards and BTF (Balance Transfer Facility).

   (ii) **Auto Loans** mean the loans to purchase the vehicle for personal use.

   (iii) **Housing Finance** means loan provided to individuals for the purchase of residential house / apartment / land. The loans availed for the purpose of making improvements in house / apartment / land shall also fall under this category.

   (iv) **Personal Loans** mean the loans to individuals for the payment of goods, services and expenses and include Running Finance / Revolving Credit to individuals.

4. **DFI** means Development Financial Institution and includes the Pakistan Industrial Credit and Investment Corporation (PICIC), the Saudi Pak Industrial and Agricultural Investment Company Limited, the Pak Kuwait Investment Company Limited, the Pak Libya Holding Company Limited, the Pak Oman Investment Company (Pvt.) Limited, Investment Corporation of Pakistan, House Building Finance Corporation and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.

5. **Documents** include vouchers, cheques, bills, pay-orders, promissory notes, securities for leases / advances and claims by or against the bank / DFI or other papers supporting entries in the books of a bank / DFI.

6. **Equity of the Bank / DFI** means Tier-I Capital or Core Capital and includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings / accumulated losses as disclosed in latest annual audited financial statements. In case of branches of foreign banks operating in Pakistan, equity will mean capital maintained, free of losses and provisions, under Section 13 of the Banking Companies Ordinance, 1962.

7. **Financial Institutions** mean banks, Development Financial Institutions (DFIs) and Non-Banking Finance Companies (NBFCs).

8. **Government Securities** shall include such types of Pak. Rupee obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

9. **Liquid Assets** are the assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs / NBFCs rated at least ‘A’ by a credit rating agency on the approved panel

of State Bank of Pakistan, listed TFCs rated at least ‘A’ by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks / DFIs with perfected lien.

Guarantees issued by domestic banks / DFIs when received as collateral by banks / DFIs will be treated at par with liquid assets whereas, for guarantees issued by foreign banks, the issuing banks’ rating, assigned either by Standard & Poors, Moody’s or Fitch-Ibca, should be ‘A’ and above or equivalent.

The inter-branch indemnity / guarantee issued by the bank’s overseas branch in favor of its sister branch in Pakistan, would also be treated at par with liquid assets, provided the bank is rated ‘A’ and above or equivalent either by Standard & Poors, Moody’s or Fitch-Ibca. The indemnity for this purpose should be similar to a guarantee i.e. unconditional and demand in nature.

10. **NBFC** means Non-Banking Finance Company and includes a Modaraba, Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company.

11. **Secured** means exposure backed by tangible security with appropriate margins (in cases where margin has been prescribed by State Bank of Pakistan, appropriate margin shall at least be equal to the prescribed margin). Exposure without any tangible security is defined as clean.

12. **Tangible Security** means liquid assets (as defined in these Prudential Regulations), mortgage of land and building, hypothecation or charge on vehicle, but does not include hypothecation of household goods, etc.

PART – B

MINIMUM REQUIREMENTS FOR CONSUMER FINANCING

Apart from the specific regulations given under each mode of financing separately, general requirements laid down here should also be followed by the banks / DFIs while undertaking consumer financing. It may be noted that these are the minimum requirements and should not in any way be construed to restrict the role of the management of the banks / DFIs to further strengthen the risk management processes through establishing comprehensive credit risk management systems appropriate to their type, scope, sophistication and scale of operations. The Board of Directors of the banks / DFIs are required to establish policies, procedures and practices to define risks, stipulate responsibilities, specify security requirements, design internal controls and then ensure strict compliance with them.

PRE-OPERATIONS:

Before embarking upon or undertaking consumer financing, the banks / DFIs shall implement / follow the guidelines given below. The banks / DFIs already involved in the consumer financing will ensure compliance with these guidelines within six months of the date of issuance of Prudential Regulations for Consumer Financing.

1. Banks / DFIs shall establish separate Risk Management capacity for the purpose of consumer financing**,** which will be suitably staffed by personnel having sufficient expertise and experience in the field of consumer finance / business.
2. The banks / DFIs shall prepare comprehensive consumer credit policy duly approved by their Board of Directors (in case of foreign banks, by Country Head and Executive / Management Committee), which shall interalia cover loan administration, including documentation, disbursement and appropriate monitoring mechanism. The policy shall explicitly specify the functions, responsibilities and various staff positions' powers / authority relating to approval / sanction of consumer financing facility.
3. For every type of consumer finance activity, the bank / DFI shall develop a specific program. The program shall include the objective / quantitative parameters for the eligibility of the borrower and determining the maximum permissible limit per borrower.
4. Banks / DFIs shall put in place an efficient computer based MIS for the purpose of consumer finance, which should be able to effectively cater to the needs of consumer financing portfolio and should be flexible enough to generate necessary information reports used by the management for effective monitoring of the bank's / DFI's exposure in the area. The MIS is expected to generate the following periodical reports:

    - Delinquency reports (for 30, 60, 90, 180 & 360 days and above) on monthly basis.
    - Reports interrelating delinquencies with various types of customers or various attributes of the customers to enable the management to take important policy decisions and make appropriate modifications in the lending program.
    - Quarterly product wise profit and loss account duly adjusted with the provisions on account of classified accounts. These profit and loss statements should be placed before the Board of Directors in the immediate next Board Meeting. The branches of foreign banks in order to comply with this condition shall place the reports before a committee comprising of CEO / Country Manager, CFO and Head of Consumer Business.

5. The banks / DFIs shall develop comprehensive recovery procedures for the delinquent consumer loans. The recovery procedures may vary from product to product. However, distinct and objective triggers should be prescribed for taking pre-planned enforcement / recovery measures.
6. The banks / DFIs desirous of undertaking consumer finance will become a member of at least one Consumer Credit Information Bureau. Moreover, the banks / DFIs may share information / data among themselves or subscribe to other databases as they deem fit and appropriate.
7. The financial institutions starting consumer financing are encouraged to impart sufficient training on an ongoing basis to their staff to raise their capability regarding various aspects of consumer finance.

8. The banks / DFIs shall prepare standardized set of borrowing and recourse documents (duly cleared by their legal counsels) for each type of consumer financing.

OPERATIONS:

1. Consumer financing, like other credit facilities, must be subject to the bank's / DFI's risk management process setup for this particular business. The process may include, identifying source of repayment and assessing customers' ability to repay, his **/** her past dealings with the bank / DFI, the net worth and information obtained from a Consumer Credit Information Bureau.

2. At the time of granting facility under various modes of consumer financing, banks / DFIs shall obtain a written declaration from the borrower divulging details of various facilities already obtained from other financial institutions. The banks / DFIs should carefully study the details given in the statement and allow fresh finance / limit only after ensuring that the total exposure in relation to the repayment capacity of the customer does not exceed the reasonable limits as laid down in the approved policies of the banks / DFIs. The declaration will also help banks / DFIs to avoid exposure against a person having multiple facilities from different financial institutions on the strength of an individual source of repayment.

3. Before allowing any facility, the banks / DFIs shall preferably obtain credit report from the Consumer Credit Information Bureau of which they are a member. The report will be given due weightage while making credit decision.

4. Internal audit and control function of the bank / DFI, apart from other things, should be designed and strengthened so that it can efficiently undertake an objective review of the consumer finance portfolio from time to time to assess various risks and possible weaknesses. The internal audit should also assess the adequacy of the internal controls and ensure that the required policies and standards are developed and practiced. Internal audit should also comment on the steps taken by the management to rectify the weaknesses pointed out by them in their previous reports for reducing the level of risk.

5. The banks / DFIs shall ensure that their accounting and computer systems are well equipped to avoid charging of mark-up on mark-up. For this purpose, it should be ensured that the mark-up charged on the outstanding amount is kept separate from the principal.

6. The banks / DFIs shall ensure that any repayment made by the borrower is accounted for before applying mark-up on the outstanding amount.

DISCLOSURE / ETHICS:

The banks / DFIs must clearly disclose, all the important terms, conditions, fees, charges and penalties, which interalia include Annualized Percentage Rate, pre-payment penalties and the conditions under which they apply. For ease of reference and guidance of their customers, banks / DFIs are encouraged to publish brochures regarding frequently asked questions.

For the purposes of this regulation, Annualized Percentage Rate means as follows:

$$\frac{\text{Mark-up paid for the period}}{\text{Outstanding Principal Amount}} \times \frac{360}{\text{No. of Days}} \times 100$$

PART – C
REGULATIONS

REGULATION R-1

FACILITIES TO RELATED PERSONS AND UTILIZATION OF CLEAN LOANS FOR INITIAL PUBLIC OFFERINGS (IPOs)

Facilities to Related Persons: The consumer finance facilities extended by banks / DFIs to their directors, major shareholders, employees and family members of these persons shall be at arms length basis and on normal terms and conditions applicable for other customers of the banks / DFIs. The banks / DFIs shall ensure that the appraisal standards are not compromised in such cases and market rates are used for these persons. The facilities extended to the employees of the banks / DFIs as a part of their compensation package under Employees Service Rules shall not fall in this category.

Utilization of Clean Loans for Initial Public Offerings IPOs: While the State Bank's intent is not to create any undue hindrance in the smooth flow of consumer financing to the borrowers, the banks /DFIs are, however, advised to institute necessary checks, so that clean loans are not used for subscription in Initial Public Offerings (IPOs). In this connection, State Bank of Pakistan suggests the following two minimum requirements:

(a) At the time of sanction of a clean consumer loan / credit line, the banks / DFIs should obtain an undertaking from the client, that the drawings from the loan account will not be used for subscription in an IPO.

(b) The banks / DFIs should introduce an internal system, whereby, no cheques, drafts and / or payment instructions will be made for an IPO subscription account from a clean personal loan / credit line account.

REGULATION R-2

LIMIT ON EXPOSURE AGAINST TOTAL CONSUMER FINANCING

Banks / DFIs shall ensure that the aggregate exposure under all consumer financing facilities at the end of first year and second year of the start of their consumer financing does not exceed 2 times and 4 times of their equity respectively. For subsequent years, following limits are placed on the total consumer financing facilities:

PERCENTAGE OF CLASSIFIED CONSUMER FINANCING TO TOTAL CONSUMER FINANCING	MAXIMUM LIMIT
a) Below 3%	10 times of the equity
b) Below 5%	6 times of the equity
c) Below 10%	4 times of the equity
d) Upto and above 10%	2 times of the equity

REGULATION R-3

TOTAL FINANCING FACILITIES TO BE COMMENSURATE WITH THE INCOME

While extending financing facilities to their customers, the banks / DFIs should ensure that the total installment of the loans extended by the financial institutions is commensurate with monthly income and repayment capacity of the borrower. This measure would be in addition to banks' / DFIs' usual evaluations of each proposal concerning credit worthiness of the borrowers, to ensure that the banks' / DFIs' portfolio under consumer finance fulfills the prudential norms and instructions issued by the State Bank of Pakistan and does not impair the soundness and safety of the bank / DFI itself.

<u>REGULATION R-4</u>

GENERAL RESERVE AGAINST CONSUMER FINANCE:

The banks / DFIs shall maintain a general reserve at least equivalent to 1.5% of the consumer portfolio which is fully secured and 5% of the consumer portfolio which is unsecured, to protect them from the risks associated with the economic cyclical nature of this business.

The above reserve requirement will, however, be maintained for the performing portion only of consumer portfolio.

<u>REGULATION R-5</u>

BAR ON TRANSFER OF FACILITIES FROM ONE CATEGORY TO ANOTHER TO AVOID CLASSIFICATION:

The banks / DFIs shall not transfer any loan or facility to be classified, from one category of consumer finance to another, to avoid classification.

<u>REGULATION R-6</u>

MARGIN REQUIREMENTS:

Banks / DFIs are free to determine the margin requirements on consumer facilities provided by them to their clients taking into account the risk profile of the borrower(s) in order to secure their interests. However, this relaxation shall not apply in case of items, import of which are banned by the Government.

Banks / DFIs will continue to observe margin restrictions on shares / TFCs as per existing instructions under Prudential Regulations for Corporate / Commercial Banking (R-6). Further, the restrictions prescribed under paragraph 1.A of Regulation R-6 of the Prudential Regulations for Corporate / Commercial Banking will also be applicable in case of Consumer Financing.

State Bank of Pakistan shall continue to exercise its powers for fixation / reinstatement of margin requirements on consumer facilities being provided by banks/DFIs for various purposes, as and when required.

REGULATIONS FOR CREDIT CARDS

REGULATION O-1

The banks / DFIs should take reasonable steps to satisfy themselves that cardholders have received the cards, whether personally or by mail. The banks / DFIs should advise the card holders of the need to take reasonable steps to keep the card safe and the PIN secret so that frauds are avoided.

REGULATION O-2

Banks / DFIs shall provide to the credit card holders, the statement of account at monthly intervals, unless there has been no transaction or no outstanding balance on the account since last statement.

REGULATION O-3

Banks / DFIs shall be liable for all transactions not authorized by the credit card holders after they have been properly served with a notice that the card has been lost / stolen. However, the bank's / DFI's liability shall be limited to those amounts wrongly charged to the credit card holder's account. In order to mitigate the risks in this respect, the banks / DFIs are encouraged to take insurance cover against wrongly charged amounts, frauds, etc.

The bank/DFI shall, however, not charge the borrowers' account with any amount under the head of "insurance premium" (by what so ever name called) without obtaining consent of each existing & prospective customer in writing. In addition to obtaining consent in writing, the banks/DFIs may also use the following modes for obtaining prior consent of their customers provided proper record is maintained by banks/DFIs:-

i) Customer's consent on recorded lines via out bound/in bound call center (after due verification)
ii) ATM screens – screen pop up before conducting transaction and after inputting pin code
iii) Signed consent acquired with credit card application or as separate form
iv) IVR (Integrated Voice Recording)

REGULATION O-4

In case the cardholders make partial payment, the banks / DFIs should take into account the partial payment before charging service fee / mark-up amount on the outstanding / billed amount so that the possibility of charging excess amount of mark-up could be avoided.

REGULATION O-5

Due date for payment must be specifically mentioned on the accounts statement. If fine / penalty is agreed to be charged in case the payment is not made by the due date, it should be clearly mentioned in the agreement.

REGULATION R-7

MAXIMUM CARD LIMIT

Maximum unsecured limit under credit card to a borrower (supplementary cards shall be considered part of the principal borrower) shall generally not exceed Rs 500,000/.

Banks / DFIs may, however, assign a clean limit beyond Rs 500,000 but not in excess of Rs 2 million to their prime customers who have extraordinary strong repayment capacity, moderate debt burden and a clean track record. But the aggregate limits in this respect should not exceed 10% of the total credit card portfolio at any point in time. However, while availing benefit of this provision, banks / DFIs would place on record well defined criteria for terms "Prime Customers" and "Moderate Debt Burden" approved by their Board of Directors / Chief Executive.

Banks / DFIs may also allow financing under the credit card scheme in excess of Rs 500,000/- (up to Rs 2 million) to other customers as well, provided the excess amount is appropriately secured according to the definition given in Part A of these regulations.

The loan secured against liquid securities shall, however, be exempted from the above limit.

The loans against the securities issued by Central Directorate of National Savings (CDNS) shall be subject to such limits as are prescribed by CDNS / Federal Government / State Bank of Pakistan from time to time.

For Charge Cards, pre-set spending limits generated by the standardized systems, as is the global practice, shall be allowed.

<u>REGULATION R-8</u>

CLASSIFICATION AND PROVISIONING

The credit card advances shall be classified and provided for in the following manner:

CLASSIFICATION	**DETERMINANT**	**TREATMENT OF INCOME**	**PROVISION TO BE MADE***
(1)	**(2)**	**(3)**	**(4)**
Loss.	Where mark-up / interest or principal is overdue by 180 days or more from the due date.	Unrealized mark-up / interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid securities with the bank / DFI.

It is clarified that the lenders are allowed to follow more conservative policies. Further, provisioning may be created and maintained by the bank / DFI on a portfolio basis provided that the provision maintained by the bank / DFI shall not be less than the level required under this Regulation.

REGULATIONS FOR AUTO LOANS

REGULATION R-9

The vehicles to be utilized for commercial purposes shall not be covered under the Prudential Regulations for Consumer Financing. Any such financing shall ensure compliance with Prudential Regulations for Corporate / Commercial Banking or Prudential Regulations for SMEs Financing. These regulations shall only apply for financing vehicles for personal use including light commercial vehicles also used for personal purposes.

REGULATION R-10

The maximum tenure of the auto loan finance shall not exceed seven years.

REGULATION R-11

While allowing auto loans, the banks / DFIs shall ensure that the minimum down payment does not fall below 10% of the value of vehicle. Further, banks / DFIs shall extend auto loans only for the ex-factory tax paid price fixed by the car manufacturers. In other words, banks / DFIs cannot finance the premium charged by the dealers and / or investors over and above the ex-factory tax paid price of cars, fixed by the manufacturers.

REGULATION R-12

In addition to any other security arrangement on the discretion of the banks/ DFIs, the vehicles financed by the banks / DFIs shall be properly secured by way of hypothecation. Payments against the sale orders issued by the manufacturers are allowed till the time of delivery of the vehicle subject to the condition that payment will directly be made to the manufacturer / authorized dealer by the bank/ DFI and upon delivery, the vehicle will immediately be hypothecated to the bank/ DFI.

REGULATION R-13

The banks / DFIs shall ensure that the vehicle remains properly insured at all times during the tenure of the loan.

REGULATION O-6

The clause of repossession in case of default should be clearly stated in the loan agreement mentioning specific default period after which the repossession can be initiated. The repossession expenses charged to the borrower shall not be more than actual incurred by the bank / DFI. However, the maximum amount of repossession charges shall be listed in the schedule of charges provided to customers. The banks / DFIs shall develop an appropriate procedure for repossession of the vehicles and shall ensure that the procedure is strictly in accordance with law.

REGULATION O-7

A detailed repayment schedule should be provided to the borrower at the outset. Where alterations become imminent because of late payments or prepayments and the installment amount or period changes significantly, the revised schedule should be provided to the borrower at the earliest convenience of the bank / DFI but not later than 15 days of the change. Further, even in case of insignificant changes, upon the request of the customer, the bank / DFI shall provide him revised repayment schedule free of cost.

REGULATION O-8

The banks / DFIs desirous of financing the purchase of used cars shall prepare uniform guidelines for determining the value of the used vehicles. However, in no case the bank / DFI shall finance the cars older than five years.

REGULATION O-9

The banks / DFIs should ensure that a good number of authorized auto dealers are placed at their panel to eliminate the chances of collusion or other unethical practices.

REGULATION R-14

The auto loans shall be classified and provided for in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE*
(1)	(2)	(3)	(4)
1. Substandard.	Where mark-up/ interest or principal is overdue by 90 days or more from the due date.	Unrealized mark-up/interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark up/interest already taken to income account to be reversed and kept in Memorandum Account.	Provision of 25% of the difference resulting from the outstanding balance of principal less the amount of liquid assets.
2. Doubtful.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets.
3. Loss.	Where mark-up/ interest or principal is overdue by one year or more from the due date	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets.

REGULATIONS FOR HOUSING FINANCE

REGULATION R-15

Banks / DFIs shall determine the housing finance limit, both in urban and rural areas, in accordance with their internal credit policy, credit worthiness and loan repayment capacity of the borrowers. At the same time, while determining the credit worthiness and repayment capacity of the prospective borrower, banks / DFIs shall ensure that the total monthly amortization payments of consumer loans, inclusive of housing loan, should not exceed 50% of the net disposable income of the prospective borrower.

Banks / DFIs will not allow housing finance purely for the purchase of land / plots; rather, such financing would be extended for the purchase of land / plot and construction on it. Accordingly, the sanctioned loan limit, assessed on the basis of repayment capacity of the borrower, value of land / plot and cost of construction on it etc., should be disbursed in tranches, i.e. up to a maximum of 50% of the loan limit can be disbursed for the purchase of land/ plot, and the remaining amount be disbursed for construction there-upon. Further, the lending bank / DFI will take a realistic construction schedule from the borrower before allowing disbursement of the initial loan limit for the purchase of land / plot.

Banks / DFIs may allow housing finance facility for construction of houses against the security of land / plot already owned by their customers. However, the lending bank / DFI will ensure that the loan amount is utilized strictly for the construction purpose and loan is disbursed in tranches as per construction schedule.

Loans against the security of existing land / plot, or for the purchase of new piece of land / plot, for commercial and industrial purposes may be allowed. But such loans will be treated as Commercial Loans, which will be covered either under Prudential Regulations for Corporate / Commercial Banking or Prudential Regulations for SMEs Financing.

Banks / DFIs may allow Housing Loans in the rural areas provided all relevant guidelines/regulations on the subject are complied with by them.

REGULATION R-16

The housing finance facility shall be provided at a maximum debt-equity ratio of 85:15.

REGULATION R-17

Banks / DFIs are free to extend mortgage loans for housing, for a period not exceeding twenty years. Banks / DFIs should be mindful of adequate asset liability matching.

REGULATION R-18

The house financed by the bank / DFI shall be mortgaged in bank's / DFI's favour by way of equitable or registered mortgage.

REGULATION R-19

Banks / DFIs shall either engage professional expertise or arrange sufficient training for their concerned officials to evaluate the property, assess the genuineness and integrity of the title documents, etc.

It may, however, be noted that the requirement of full-scope and desk-top evaluation, as required under R-8 and R-11 of Prudential Regulations for Corporate / Commercial Banking and SMEs Financing respectively, will not be applicable on housing finance.

REGULATION R-20

The bank's / DFI's management should put in place a mechanism to monitor conditions in the real estate market (or other product market) at least on quarterly basis to ensure that its policies are aligned to current market conditions.

REGULATION R-21

Banks / DFIs are encouraged to develop floating rate products for extending housing finance, thereby managing interest rate risk to avoid its adverse effects. Banks / DFIs are also encouraged to develop in-house system to stress test their housing portfolio against adverse movements in interest rates as also maturity mismatches.

REGULATION R-22

The mortgage loans shall be classified and provided for in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE*
(1)	(2)	(3)	(4)
1. Substandard.	Where mark-up/ interest or principal is overdue by 90 days or more from the due date.	Unrealized mark-up/interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark up/interest already taken to income account to be reversed and kept in Memorandum Account.	Provision of 25% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and Forced Sale Value (FSV) of mortgaged properties to the extent of 50% of such FSV.
2. Doubtful.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and Forced Sale Value (FSV) of mortgaged properties to the extent of 50% of such FSV.

3. Loss.	Where mark-up/ interest or principal is overdue by one year or more from the due date	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and Forced Sale Value (FSV) of mortgaged properties to the extent of 50% of such FSV for first and second year and 30% of FSV for third year from the date of classification. Benefit of FSV against NPLs shall not be available after 3 years from the date of classification of loan.

** These specific provisions will be in addition to general reserve maintained under Regulation R-4*

REGULATIONS FOR PERSONAL LOANS INCLUDING
LOANS FOR THE PURCHASE OF CONSUMER DURABLES

REGULATION R-23

The clean limit per person for personal loans will generally not exceed Rs 500,000/-.

Banks / DFIs may assign a clean limit beyond Rs 500,000 but not in excess of Rs 2 million to their prime customers who have extraordinary strong repayment capacity, moderate debt burden and a clean track record. But aggregate outstanding in this respect should not exceed 10% of the total outstanding personal loans at any point in time. However, while availing benefit of this provision, banks / DFIs would place on record well defined criteria for terms "Prime Customers" and "Moderate Debt Burden" approved by their Board of Directors / Chief Executive.

Banks / DFIs may also allow financing under Personal Loans in excess of Rs 500,000 (up to Rs 1,000,000) to other customers as well, provided the loan is appropriately secured according to the definition given in Part A of these regulations.

The loan secured against liquid securities shall, however, be exempted from this limit.

The loans against the securities issued by Central Directorate of National Savings (CDNS) shall be subject to such limits as are prescribed by CDNS / Federal Government / State Bank of Pakistan from time to time.

REGULATION R-24

In cases, where the loan has been extended to purchase some durable goods / items, including personal computers and accessories thereof, the same will be hypothecated with the bank / DFI besides other securities, which the bank / DFI may require on its own.

REGULATION R-25

The maximum tenure of the loan shall not exceed 5 years. However, this period may be extended to 7 years for loans / advances given for educational purposes, provided that disbursement of such loans shall directly be made by the bank / DFI to the educational institution and the borrower shall not be allowed to utilize / withdraw cash directly from the bank / DFI under this head for any other purpose.

REGULATION R-26

In case of Running Finance / Revolving Finance, it shall be ensured that at least 15% of the maximum utilization of the loan during the year is cleaned up by the borrower for a minimum period of one week. In case the clean up is not made by the borrower, the loan will be appropriately classified. However, banks / DFIs who require their customers to repay a minimum amount each month, will be considered compliant with this regulation subject to the condition that the aggregate cumulative monthly installments exceed the 15% clean up requirement and accordingly the loans where the specified minimum repayments are being made by the borrowers regularly, will not require classification under this regulation.

REGULATION R-27

The personal loans shall be classified and provided for in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE*
(1)	(2)	(3)	(4)
1. Substandard.	Where mark-	Unrealized mark-	Provision of 25% of

	up/ interest or principal is overdue by 90 days or more from the due date.	up/interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark up/interest already taken to income account to be reversed and kept in Memorandum Account.	the difference resulting from the outstanding balance of principal less the amount of liquid assets.
2. Loss.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets.

* These specific provisions will be in addition to general reserves maintained under Regulation R-4