ACTIVITIES WHICH MAY BE CONSIDERED UNSAFE OR UNSOUND BANKING

(Appendix to Secs. 181 and 420)

The following activities are considered only as guidelines and are not irrebutably presumed to be unsafe or unsound. Conversely, not all practices which might under the circumstances be termed unsafe or unsound are mentioned here. The Monetary Board may now and then consider any other acts/omissions as unsafe or unsound transactions.

a. Operating with management whose policies and practices are detrimental to the bank and jeopardize the safety of its deposits.

b. Operating with total adjusted capital and reserves that are inadequate in relation to the kind and quality of the assets of the bank.

c. Operating in a way that produces a deficit in net operating income without adequate measures to ensure a surplus in net operating income in the future.

d. Operating with a serious lack of liquidity, especially in view of the asset and deposit/liability structure of the bank.

e. Engaging in speculative and hazardous investment policies.

f. Paying excessive cash dividends in relation to the capital position, earnings capacity and asset quality of the bank.

g. Excessive reliance on large, high-cost or volatile deposits/borrowings to fund aggressive growth that may be unsustainable.

For this purpose, a bank is considered offering high-cost deposit/borrowings if the effective interest rate paid on said deposits/ borrowings and/or non-cash incentives is fifty percent (50%) over the prevailing comparable market median rate for similar bank categories, maturities and currency denomination and accompanied by other circumstance/s such as:

(1) Undue reliance on solicitation and acceptance of brokered deposits;

(2) Bank incurs large sum of deposit generation expenses in the form of commissions, referral and solicitation fees and related expenses and/or payment of advance interest on deposits;

(3) Deferral of the above deposit generation expenses incurred to delay recording of expenses

and/or inaccurate amortization of advance interest paid on deposits.

(4) Deposit packages offered include non-cash incentives disproportionate to the amount of deposits sought which give undue or unwarranted advantage or preference for the bank; and

(5) Bank markets, solicits and accepts deposits outside the bank premises including branches, unless otherwise authorized by the Bangko Sentral under Secs. 274 and 420.

h. Excessive reliance on letters of credit either issued by the bank or accepted as collateral to loans advanced.

i. Excessive amounts of loan participations sold.

j. Paying interest on participations without advising participating institution that the source of interest was not from the borrower.

k. Selling participations without disclosing to the purchasers of those participations material, non-public information known to the bank.

l. Failure to limit, control and document contingent liabilities.

m. Engaging in hazardous lending and lax collection policies and practices, as evidenced by any of the following circumstances:

(1) An excessive volume of loans subject to adverse classification;

(2) An excessive volume of loans without adequate documentation, including credit information;

(3) Excessive net loan losses;

(4) An excessive volume of loans in relation to the total assets and deposits of the bank;

(5) An excessive volume of weak and self-serving loans to persons connected with the bank, especially if a significant portion of these loans are adversely classified;

(6) Excessive concentrations of credit, especially if a substantial portion of this credit is adversely classified;

(7) Indiscriminate participation in weak and undocumented loans originated by other institutions;

(8) Failing to adopt written loan policies;

(9) An excessive volume of past due or non-performing loans;

(10) Failure to diversify the loan portfolio/asset mix of the institution;

(11) Failure to make provision for an adequate reserve for possible loan losses;

(12) High incidence of spurious and fraudulent loans due to patently inadequate risk management systems and procedures resulting in significant impairment of capital;

(13) Bank's niche mostly consists of borrowers who have impaired or limited credit history, or majority of the loans are either clean/unsecured or backed with minimum collateral values except those underwritten using microfinance technology consistent with Sec. 314 and other acceptable cash flow-based lending systems; and the bank does not have a robust risk management system in place leaving the bank vulnerable to losses;

(14) Loan rates are excessively higher than market rates to compensate the added or higher risks involved. Excessively higher rates are those characterized by effective interest rates that are fifty percent (50%) over the prevailing comparable market median rate for similar loan types, maturities and collaterals; and

(15) Assignment of loans on without recourse basis with real estate properties as payment, resulting in total investment in real estate in excess of the prescribed ceiling.

n. Permitting officers to engage in lending practices beyond the scope of their positions.

o. Operating the bank with inadequate internal controls.

p. Failure to keep accurate and updated books and records.

q. Operating the institution with excessive volume of out-of-territory loans.

r. Excessive volume of non-earning assets.

s. Failure to heed warnings and admonitions of the supervisory and regulatory authorities.

t. Continued and flagrant violation of any law, rule, regulation or written agreement between the institution and the Bangko Sentral.

u. Any other action likely to cause insolvency or substantial dissipation of assets or earnings of the institution or likely to seriously weaken its condition or otherwise seriously prejudice the interest of its depositors/ investors/clients.

v. Non-observance of the principles and the requirements for managing and monitoring large exposures and credit risk concentrations under Sec. 143.

w. Improper or non-documentation of repurchase agreements covering government securities and commercial papers and other negotiable and non-negotiable securities or instruments.

(Circular Nos. 903 dated 29 February 2016)