

Non-performing loans

The AEG agreed with the definition proposed¹. The AEG considered that it should be used as an indicative guideline rather than being prescriptive.

The AEG agreed that the valuation basis for NPLs should be a market equivalent valuation. If a fair value figure is not available, an acceptable alternative is nominal value less expected loan losses.

The AEG agreed that it would be desirable to have an explanatory presentation in the SNA showing how the memorandum item for stocks of loans and that for flows of interest are connected, even if in practice the memorandum items were shown without the linking information.

A term such as “standard item” should be used in the SNA text rather than a more didactic term such as “mandatory” or “compulsory”.

The discussion on the treatment of FISIM concluded that there are potential alternative methods that could be used and each of these needs to be documented. Anne Harrison with the help of others volunteered to put together an example for each of the following three scenarios and present them to the AEG for an e-discussion:

- (a) continue to estimate FISIM on NPLs and allocate to the corresponding borrowers, but consider how unpaid FISIM is recorded in the accounts in such a way as to increment principal outstanding
- (b) estimate FISIM on interest received (rather than receivable) and on interest payable so that FISIM is not attributed to NPLs
- (c) estimate FISIM on a basis including NPLs but allocate the whole amount of FISIM only to those borrowers currently servicing their loans.

The AEG would like further consideration of how long interest accrues and for how long FISIM is calculated on an NPL.

The decision made at the December 2004 AEG meeting to show as standard items NPLs for financial institutions and government as creditors was reconfirmed. They may be shown for other sectors as supplementary items.

An extension of the treatment of non-performance on other instruments was considered to be conceptually correct and can be shown as supplementary items.

¹ Essentially that a loan is non-performing when payments of interest and /or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalised, refinanced or delayed by agreement, or payments are less than 90 days overdue but there are other good reasons to doubt that payments will be made in full. For greater elaboration, please refer to the issues paper.