

**Loan Provisions Regulations for Mortgage Finance Companies
(No. 9/T/R/Ain) of 2007**

Issued by the Board of Directors (BOD) of the Palestinian Capital Markets Authority
In accordance with Articles (3) and (26) of the Capital Markets Authority Law no. (13) of
2004

Scope of Application of the Regulations

Article (1)

These regulations shall apply on mortgage finance companies.

Definitions

Article (2)

The terms and statements contained in these regulations shall have the meanings ascribed to them in the Regulations for Licensing the Mortgage Finance Companies and Real Estate Business Owners no. (7/ T R Ain) of 2007, issued on October 8, 2007.

Classification of Mortgage Loans

Article (3)

For the purposes of categorizing mortgage loans, loans shall either be regular or irregular, according to their credit worthiness when granted, increased, or renewed.

Regular Mortgage Loans

(Article 4)

Regular mortgage loans shall consist of:

- 1- Good loans: loans where the principal, interest and related commissions are repaid as per the agreed upon terms, absent any negative developments on the status of the borrower and his or her ability to repay.
- 2- Classified loans: loans where one or more installment and/or interest and commission are less than 90 days past due. These loans require special care and caution; however, they do not require the creation of special provisions. Interest and commissions payable shall be recognized in the income statement within the period specified supra (less than 90 days).

Irregular Mortgage Loans

Article (5)

Loans that are not repaid in accordance with the agreement; due to financial difficulties on the side of the borrower and economic challenges that may affect his or her ability to serve and pay the principal and/or interest and/or commission, or both thereof. This category shall include loans where one or more installment thereof is more than 90 days past due.

Article (6)

Irregular mortgage loans shall be divided into three main categories as follows:

- 1- Watch List Loans: are loans were one or more installments of the principal debt and/or of the interest or commission related thereto are between 91 to 180 days past due.
- 2- Doubtful Loans: are loans were one or more installments of the principal debt and/or of the interest or commission related thereto are between 181 to 360 days past due.
- 3- Bad Loans: are loans were one or more installments of the principal debt and/or of the interest or commission related thereto are more than 360 days past due. This category shall include any loans that are not expected to be repaid within a reasonable period of time.

Article (7)

The company may reclassify the mortgage loans into lower categories if it became apparent that the financial capability of the borrower is deteriorating, regardless of the past-due period of the installments and/or the interest and the commissions.

Loans Provisions

Article (8)

- 1- For the purposes of these regulations, loans provisions shall be the provisions deducted by companies to face risks—loan portfolios related to the payment of the principal debt, as well as the interest and commission related thereto, in accordance with its classification.
- 2- Loans provisions shall consist of general and specific provisions as indicated in the attached table (A).

Article (9)

The companies shall review their loan portfolios in accordance with their internal credit policies at least once every 3 months.

General Provisions

Article (10)

Are amounts provisioned to meet potential and unspecified losses in loans granted to borrowers, net of any collateral in accordance with article (12).

Specific Provisions

Article (11)

Are amounts provisioned to meet specified potential losses in loans granted to borrowers net of any collateral in accordance with article (12).

Acceptable Collaterals for Loans Provisions

Article (12)

- 1- Companies are allowed to deduct acceptable collaterals to calculate loans provisions. The value of provisions is indicated after deducting the allowable collaterals from the loans' principal in accordance with the attached table (B).
- 2- Financial Securities shall be valuated at cost or market value, whichever is lower.

- 3- Real estate should be first class mortgaged and valued on their market value. Mortgage collaterals shall not be accepted when calculating loan provisions, if loans are more than two years past due.
- 4- Movable properties shall be valued on their cost or market value, whichever is lower. They must be first class mortgaged.
- 5- Personal guarantees, cheques and commercial papers, shall not be accepted as allowed collaterals when calculating provisions, for loans exceeding USD25k
- 6- Acceptance of local banks guarantees is subject to meeting the Palestinian Monetary Authority minimum Capital Adequacy ratio.
- 7- Acceptance of foreign banks guarantees is subject to meeting their Monetary Authority minimum Capital Adequacy ratio for provision calculation purposes.

Rescheduled Irregular Loans

Article (13)

- 1- Irregular loans may be rescheduled only upon cash settlement of no less than 10% of the outstanding principal.
- 2- Provisions shall not be reversed after rescheduling. However, should any installment, of a rescheduled loan, becomes more than 90 days past due, a full 100% provision of the outstanding loan amount is required, regardless of the value of the accepted collateral.

Revenues

Article (14)

- 1- Companies shall book the interest and commission, on loans that are less than 90 days past due, as revenues in the income statement.
- 2- For loans that are more than 90 days past due; Interest & commission receivable shall be reversed from the income statement to the respective interest and commission accounts.
- 3- Once collected, suspended interest and commission will be reversed to the income statement as revenues.

Article (15)

All operating companies are obligated to regularize their status in compliance with these regulations within a period not exceeding (6) six months of the effective date thereof. Otherwise, the companies' exercise of its current functions shall be in violation of the laws, bylaws, and regulations issued thereunder.

Article (16)

All relevant parties, each within its jurisdiction, shall enforce these regulations as of the date specified thereunder. These regulations shall be published in the Official Gazette.

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Maher Masri
Chairperson of the Board of Directors

