

**PRUDENTIAL REGULATIONS
FOR
CONSUMER FINANCING**

(Updated on August 03, 2016)

**BANKING POLICY & REGULATIONS DEPARTMENT
STATE BANK OF PAKISTAN**

Disclaimer:

State Bank of Pakistan compiles a booklet of Prudential Regulations from time to time for convenience of users. Updated version of such a booklet containing amendments in the regulations made through circulars/Circular letters to date is being issued. Due care has been taken while incorporating amendments, however, errors and omission may be expected. In case of any ambiguity, users are advised to refer to the original circulars/circular letters on the relevant subject(s), which are available on SBP's website (www.sbp.org.pk)

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P R E F A C E

The amendments made in the Prudential Regulations for Consumer Financing during January 31, 2011 to June 30, 2016 have been incorporated in this updated version for ease of reference of the users.

The Prudential Regulations for Consumer Financing covers Risk Management (R), and Operations (O) aspects. However, in case of international operations, the Prudential Regulations of host country shall prevail.

The Prudential Regulations for Consumer Financing do not supersede other instructions issued by State Bank of Pakistan in respect of areas not covered here. Any violation or circumvention of these regulations shall render the bank/DFI/officer(s) concerned liable for penalties under the Banking Companies Ordinance, 1962.

SHAUKAT ZAMAN
Director
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PART - A
DEFINITIONS

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 personal, domestic or household purposes. The facilities categorized as Consumer Financing are given as under, unless specifically mentioned otherwise:
 - 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 / Financing** means the loans or financing facilities to purchase the vehicle for personal use.
 - iii) **Personal Loans / Financing** means the loans to individuals for the payment of goods, services and expenses and includes Running Finance/Revolving Credit to individuals.
4. **Days Past Due** means number of days consumer finance facility is over due
5. **DFI** means Development Financial Institution and includes, 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 Limited, House Building Finance Company Limited, Pak Brunei Investment Company Limited¹, PAIR Investment Company Limited², Pak-China Investment Company Limited³, and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.
6. **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.
7. **Equity of the Bank/DFI** includes paid-up capital, perpetual non-cumulative preference shares, general reserves, balance in share premium account, reserve for issue of bonus shares, statutory reserves 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

¹ Specified vide GoP Notification No.F.1(4)-BKG(R&S)/2002 dated December 21, 2006.

² Specified vide GoP Notification No.F.1 (4)-BKG(R&S)/2002 dated July 21, 2007.

³ Specified Vide GoP Notification No.F.1 (4)-BKG(R&S)/2002 dated November 29, 2007.

maintained, free of losses and provisions, under Section 13 of the Banking Companies Ordinance, 1962.

8. **Financial Institutions** mean banks, Development Financial Institutions (DFIs) and Non-Banking Finance Companies (NBFCs).
9. **Financing Facilities** include loans / advances / financing allowed to borrowers by conventional banks / Islamic banking institutions/DFIs.
10. **Free Credit Period** means number of days during which bank does not charge the mark-up / finance charges on retail transactions of their credit card customers, who make full payment of their monthly billed amount.
11. **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.
12. **Grace Period** means period during which no repayments of financing facility are scheduled.
13. **Islamic Banking Institutions** mean islamic commercial banks, Islamic banking subsidiaries and Islamic banking branches of conventional banks, licensed by State Bank of Pakistan.
14. **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, *gold ornaments, gold bullion*¹, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, Certificates of Investment (COIs) and realizable value of life insurance/investment policy (provided lien of the bank on insurance policy is legally enforceable) issued by DFIs/NBFCs/Insurance Companies 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 mutual funds 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, provided such bank meets the Minimum Capital Requirements and Capital Adequacy Ratios as per the standard regulatory definitions and is not restricted by the regulator from enhancing consumer finance portfolio; whereas, for guarantees issued by foreign banks, the issuing banks' rating, assigned either by Standard & Poors, Moody's, Fitch-Ibca or Japan Credit Rating Agency should be 'A' and above or equivalent.

¹ Inserted vide BPRD Circular Letter No. 16 of 2010 dated July 15, 2010.

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, Fitch-Ibca or Japan Credit Rating Agency. The indemnity for this purpose should be similar to a guarantee i.e. unconditional and payable on demand in nature.

15. **Negative Amortization** means minimum payment due, in credit card / revolving credit / financing products of similar nature, that is not sufficient to amortize the principal amount due and is only apportioned to mark-up or profit / service charges / fees payable.
16. **NBFC** means Non-Banking Finance Company as defined in Section 282A of Companies Ordinance 1984 (or as amended from time to time) and includes a Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company. For the purpose of these regulations Modaraba as defined in Modaraba Rules formed under the Modaraba Companies and Modaraba (floatation and Control) Ordinance, 1980 will also be considered as NBFC.
17. **Rescheduling** means where bank/DFIs, due to borrower's financial difficulty, grants concession in the form of allowing / extending the grace period of the existing financing facility, without changing the other terms & conditions of the consumer financing facility.
18. **Restructuring** means where bank/DFI, due to borrower's financial difficulty, grants concession to the borrower that the bank/DFI would not otherwise consider. Restructuring would normally involve relaxing the terms & conditions of the consumer financing facility which inter-alia include repayment tenor, mark-up/profit rate and charges/fee.
19. **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.
20. **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.
21. **Teaser Rate** means lower/concessional mark-up/profit rate which is employed only for short period at the inception of consumer financing facility.

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 on an on-going basis.

1. Banks/DFIs shall establish separate Risk Management capacity for the purpose of consumer financing that should be commensurate with the size, scope and complexity of the consumer finance business and 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 the branches of foreign banks, by Country Head and Executive/Management Committee), which shall inter alia cover credit initiation principles, loan administration including documentation, disbursement, effective monitoring and appropriate recovery mechanism. The policy shall explicitly specify the functions, responsibilities and various staff positions' powers/authority relating to approval/sanction of consumer financing facility.
3. Islamic Banking Institutions (IBIs) offering Shariah compliant consumer financing products shall have their comprehensive consumer credit policy duly approved by Shariah Board in addition of their Board of Directors. IBIs shall also have efficient Shariah review and compliance mechanism; and their Risk Management Department shall inter-alia consider shariah non-compliance risks while processing the consumer financing application.
4. For every type of consumer finance product, the bank/DFI shall develop a specific product program. The program shall include the objective/quantitative parameters for the eligibility of the borrower and determining the maximum permissible financing limit per borrower.
5. Banks/DFIs shall put in place an efficient and adequately automated computer based MIS for the purpose of consumer finance, which should be commensurate with the size, scope, complexity of the consumer finance business and be able to effectively cater to the needs of consumer financing portfolio. It 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. Depending upon the size and scope of consumer finance business and underlying risks, the delinquency reports should be interrelated in respect of 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 at least CEO/Country Manager, CFO, Head of Consumer Business and Head of Risk Management.
6. The banks/DFIs shall develop comprehensive recovery procedures for the delinquent consumer financing facilities. The recovery procedures may vary from product to product. However, distinct and objective triggers should be prescribed for taking pre-planned enforcement/recovery measures.
 7. 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.
 8. 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.
 9. The banks/DFIs shall prepare standardized set of borrowing and recourse documents (duly cleared by their legal counsels) for each type of consumer financing.
 10. Banks/DFIs carrying out consumer finance, in coordination with their association (Pakistan Banks' Association), shall develop a common glossary of important terms along with their definitions, in both English & Urdu Versions. This glossary will also be available on website of the banks and their association. While printing new documents (other than legal documents as mentioned in Para 9 above), all banks will use standard terms from this glossary.

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 interalia include, identifying source of repayment and assessing customers' ability to repay, his/her past dealings with the bank/DFI, the net worth, objectives of obtaining finance and information obtained from a Consumer Credit Information Bureau. Further, Banks/DFIs are encouraged to

also incorporate the extent of fixed & variable expenses of borrower in credit assessment for better risk management. Banks/DFIs are expected to take reasonable steps to assess and verify the income of borrowers through different modes and, depending upon the underlying risks, review and update income assessment mechanism on periodical basis. The reasonable timeline for periodical review of income assessment mechanisms shall be specified in the relevant board approved policy.

2. Before allowing any facility, the banks/DFIs ***shall obtain*** a consumer credit report(s) from the Credit Information Bureau of State Bank of Pakistan or from any consumer Credit Information Bureau(s) of which they are member¹, provided the report(s) incorporates credit data reported by all Banks/DFIs. The report(s) will be given due weightage while making credit decision.
3. At the time of granting finance facility under various modes of consumer financing, banks/DFIs shall obtain a written declaration ***on the prescribed format attached as Annexure CF-1*** from the borrower divulging details of various finance facilities already obtained from other banks/financial institutions¹. However, where this information is already part of the loan application form, requirement of obtaining undertaking as per annexure CF-1 may be waived. The banks/DFIs should study the details reported by the customer in financing facility application form/undertaking and allow fresh finance/limit only after ensuring compliance with the limits, set in these PRs, for exposure and for total monthly amortization payments of consumer financing. This should help banks/DFIs to capture information on the finance facilities availed by the customer between the latest available credit information bureau report and financing facility application date.
4. Banks/DFIs shall provide to the customer the statement of account at appropriate intervals e.g. on monthly basis to the credit card/revolving credit customers, unless there has been no transaction or no outstanding balance on the account since last statement, and at least yearly to other product customers. The statement of account of credit card customers should reflect the movement of reward points, if applicable.
5. A detailed repayment schedule, where payment is due in installments, should be provided to the borrower at the outset. Where alterations become imminent because of prepayments, change in benchmark rate or any other reason, 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 at least once.
6. 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

¹ Amended vide BPRD Circular No.4 of 2009 dated February 11, 2009

the steps taken by the management to rectify the weaknesses pointed out by them in their previous reports for reducing the level of risk.

7. Banks/DFIs are encouraged to consider the feasibility of adopting the tiered mark-up rates or risk based pricing according to the credit worthiness of individual borrowers. For instance, banks/DFIs may, inter alia, consider credit history, purchase patterns & month-on book in credit cards, payment behavior, loyalty, cost of borrowings and product profitability in assessing feasibility of tiered mark-up rates. However, banks/DFIs having regular consumer finance portfolio of more than Rs1.0 billion (outstanding amount) should prepare and present such feasibility report to Board Risk Management Committee for review and information; and update the same every year thereafter.
8. 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/profit charged on the outstanding amount is kept separate from the principal.
9. The banks/DFIs shall ensure that any repayment (full or partial) made by the borrower is accounted for, as per agreed terms and conditions, before applying mark-up/profit on the outstanding amount.
10. To bring uniformity in calculation and reporting of Days Past Due (DPDs), Banks/DFIs shall ensure that counting of DPDs for all consumer financing products starts from payment due date. For a missed payment, or payment less than minimum due amount, first DPD shall be very next day of payment due date.
11. Banks/DFIs shall not increase a borrower's aggregate credit limit, for revolving facilities (credit card/overdraft/finance facilities of similar product structure), unless the borrower has specifically requested for the limit enhancement.
12. Banks/DFIs, with last four quarters consumer finance outstanding portfolio in excess of Rs.5 billion, are encouraged to perform affordability assessment tests on (reasonably representative) sample of consumer finance portfolio with variable mark-up/profit rate. Affordability assessment test may include the shock to customer's ability to repay (e.g. DBRs) the financing facility based on plausible changes in interest rates as observed during the last business cycle. The results of affordability test will be presented to Board Risk Management Committee for review and analysis at least once a year.

DISCLOSURE/ETHICS:

1. The banks/DFIs must clearly disclose, all the important terms, conditions, fees, charges and penalties, which inter alia 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:

$$\frac{\text{Mark-up/Profit paid for the period}}{\text{Outstanding Principal Amount}} \times \frac{365}{\text{No. of Days}} \times 100$$

2. Minimum Payment Due (MPD) of the credit card or of any other product of revolving credit nature shall be sufficient, so as to avoid the negative amortization. Banks/DFIs shall also specify in their relevant approved policies, minimum percentage of principal repayment included in minimum payment due and disclose the same in Key Fact Sheet.

PART - C
REGULATIONS

REGULATION R-1

FACILITIES TO RELATED PERSONS AND PROPER UTILIZATION OF CLEAN FINANCING FACILITIES

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 arm's length basis and on normal terms and conditions applicable for other customers of the banks/DFIs¹. The banks/DFIs shall ensure that the appraisal standards are not compromised in such cases and market rates are used for these persons. This condition shall not apply to the consumer financing allowed by the banks/DFIs to their employees as part of compensation package provided the detailed terms and conditions of the benefits which the banks/DFIs want to give to their employees are specifically mentioned in the Employees Service Rules/HR Policy. These employees Service Rules/HR policy should be duly approved by the Board of Directors. Further, such consumer financing to the employees should be treated as staff financing facilities and not as general consumer financing².

Proper Utilization of Clean Financing Facilities: While the State Bank of Pakistan's intent is not to create any undue hindrance in the smooth flow of consumer financing to the borrowers, the banks /DFIs are, however, expected to institute reasonable checks, so that clean financing facilities are not mis-utilized.

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) 10% & above	2 times of the equity

¹ While allowing financing to their directors, banks/DFIs shall also ensure the compliance with the Banking Companies Ordinance, 1962

² Substituted vide BPRD Circular No.01 of 2011 dated January 06, 2011

REGULATION R-3

TOTAL FINANCING FACILITIES TO BE COMMENSURATE WITH THE INCOME

1. While extending financing facilities to their customers, the banks/DFIs should ensure that the total installment of the financing facilities extended by the financial institutions is commensurate with monthly income and repayment capacity of the borrower. In this regard, while determining the credit worthiness and repayment capacity of the prospective borrower, the banks/DFIs shall ensure that the total monthly amortization payments of consumer financing facilities should not exceed 50% of the net disposable income of the prospective borrower¹. 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.
2. Banks/DFIs may consider the income of spouse of the borrower, while calculating the DBR, provided specific consent of the spouse is obtained and he/she is reported as co-borrower in eCIB database². However, banks/DFIs should take particular care while performing the income assessment of the non-salaried couple/non salaried spouse, to avoid inflated income level through the artificial build up of their bank account statements.
3. Banks/DFIs may waive the requirement of 50% Debt Burden in case a Credit Card and Personal loan/financing limit is properly secured through liquid assets (as defined in prudential regulations) with minimum 30% margin³. Further, banks/DFIs may also set minimum margin of below 30% provided the liquid securities with prescribed margin cover principal due, mark-up/profit and all other receivables. Margin shortfall, if any, shall be recouped within one month of occurrence. In case of failure to recoup it, the bank/DFI shall create provision at quarter end, equivalent to margin shortfall amount.
4. Banks/DFIs desirous of offering Excess over Limit (EOL) facility in consumer finance products shall provide an option to customers, while marketing their financing products, to subscribe EOL facility or otherwise. EOL, after utilization, should be repayable in full in next monthly bill payment. Banks/DFIs requiring time to upgrade their systems may do so within six months of issuance of these regulations.

REGULATION R-4

GENERAL RESERVE AGAINST CONSUMER FINANCE:

The banks/DFIs shall maintain a general reserve at least equivalent to the percentages given below of both secured and un-secured consumer finance portfolio (net of cash collateral, govt. securities and gold), to protect them from the risks associated with the economic cyclical nature of this business.

¹ Amended vide BPRD Circular No. 04 of 2009 dated February 11, 2009.

² Banks/DFIs, before allowing any consumer finance facility, should utilize the co-borrower utility available in ECIB database to determine the finance facilities wherein spouse is a co-borrower.

³ Inserted vide BPRD Circular No. 01 of 2011 dated January 06, 2011.

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

Category of Financing	NPL / Gross Loans	Rate of General Provision
Un-secured portfolio	Ratio \leq 5%	4.0%
	5% < Ratio \leq 10%	5.0%
	10% < Ratio \leq 20%	6.0%
	Ratio > 20%	7.0%
Secured Portfolio	Ratio \leq 5%	1.0%
	5% < Ratio \leq 10%	1.5%
	10% < Ratio \leq 20%	2.0%
	Ratio > 20%	2.5%

Banks/DFIs are encouraged to develop appropriate models (e.g. historical experience-based loss rate models duly adjusted for current conditions, migration analysis or other relevant statistical methodologies) to estimate the amount of expected losses for consumer financing portfolio, which may serve the purpose of a collective impairment assessment.

Banks/DFIs with outstanding consumer financing portfolio (including housing finance) in excess of Rs. 5 billion are required to start maintaining the data regarding loan disbursement, defaults, recoveries there against and costs to recovery (as specified at Annexure CF-II) for consumer financing portfolio (including housing finance) for a period covering at least one business cycle.

REGULATION R-5¹

RESCHEDULING/RESTRUCTURING OF PERFORMING / NON-PERFORMING CONSUMER FINANCING FACILITIES:

1. Banks/DFIs should frame policy for rescheduling/ restructuring of consumer financing facilities including non-performing financing facilities. The Policy should inter-alia include definition and types of rescheduling/restructuring, criteria to assess the financial distress or income impairment warranting the rescheduling / restructuring, the reduced mark-up/profit rates applicable on restructured accounts and specify the limits on the amount of rescheduled / restructured performing financing facilities as percentage of total outstanding consumer financing. The policy should be approved by the Board of Directors or by the Country Head/Executive/Management Committee in case of branches of foreign banks.
2. For the purpose of rescheduling/ restructuring, banks/DFIs may:
 - i) Club or consolidate outstanding amounts on account of personal loans/financing and credit cards and create one financing facility. The new

¹ Inserted vide BPRD Circular Letter No. 43 of 2009 dated December 31, 2009.

facility so created shall be placed in the lowest category of classification amongst the classifications of the financing facilities clubbed.

- ii) Convert revolving facility into an installment based financing facility with maximum repayment tenor of 5 years.
 - iii) Change the tenure of the financing by maximum two years beyond any regulatory cap on maximum tenure.
3. Rescheduling/ restructuring, or transfer of any financing facility from one category of consumer finance to another, should not be done just to avoid classification of financing facilities and provisioning requirements. In this regard, banks /DFIs shall ensure:
- i). Consumer financing facilities of any borrower should not be rescheduled/ restructured more than once within 12 months and three times during five year period,
 - ii). The loan account has existed for at least 9 months before rescheduling/restructuring as a performing loan account,
 - iii). Islamic banking institutions shall ensure shariah compliance in rescheduling/restructuring of consumer finance facilities
4. While considering rescheduling/restructuring, banks/DFIs should, inter alia, take into account the repayment capacity of the borrower. The condition of 50% of Debt Burden Requirement (DBR) mentioned at Regulation R-3 of Prudential Regulations for Consumer Financing will not be applicable to loan rescheduled/ restructured. However, new consumer financing facility extended to a borrower who is availing any rescheduled/ restructured facility shall be subject to observance of minimum DBR prescribed in the Regulation R-3 of Prudential Regulations for Consumer Financing.
5. The status of classification of the non-performing financing facility shall not be changed because of rescheduling/restructuring unless borrower has paid at least 10% of the total rescheduled/restructured amount (i.e. principal and mark-up) or six installments (comprising principal and mark-up) as per terms & conditions of the rescheduling/restructuring. However, for internal monitoring purpose, banks/DFIs may re-set the DPDs counter of the newly created loan to "0" DPD.
6. Provisions already held against a non-performing financing facility, to be rescheduled /restructured, will only be reversed if above mentioned condition of 10% recovery or six installments is met.
7. If the borrower defaults (i.e. reaches 90 DPD) again within one year after declassification, the financing facility shall be classified as under:

Type of Consumer Financing	Classification
Unsecured	Loss
Secured	Same category in which it was prior to rescheduling/restructuring. Banks/ DFIs, however, at their discretion may further downgrade the classification based on their own internal policies.

REGULATION R-6
CLASSIFICATION & PROVISIONING OF RECEIVABLES

Receivables outstanding in other assets or any other head of balance sheet, on account of, insurance or takaful / recovery charges / or any other item (other than those amounts which are already transferred to memorandum account) against the non-performing loans/financing facilities shall also be classified with 100% provisions maintained there against.

REGULATION R-7
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 is 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 B 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.

REGULATION R-8
MAXIMUM CLEAN LIMIT FOR CREDIT CARD AND PERSONAL LOAN/FINANCING FROM ALL BANKS/DFIs

Banks/DFIs may take total clean exposure on a customer under Credit Card and Personal loan/financing up to Rs 2,000,000 in aggregate from all banks/DFIs. Further, banks/DFIs shall also ensure that overall credit card and personal loan/financing limits, both on secured as well as on unsecured basis, availed by one person from all banks/DFIs in aggregate should not exceed Rs 5,000,000, at any point in time.

Banks/DFIs may assign clean credit card and personal loan/financing limits up to Rs. 5,000,000 (aggregate from all banks/DFIs) to their prime customers subject to the condition that the aggregate clean limit assigned to one prime customer on account of personal loan/financing should not exceed Rs. 2,000,000. The banks/DFIs shall put in place comprehensive criteria defining "Prime Customer" on the basis of, inter alia, track record, credit worthiness and financial position, duly approved by

their Board of Directors. The banks/DFIs are also encouraged to set internal limits for such clean financing to prime customers keeping in view their risk appetite and other factors. However, aggregate exposure on prime customers should not exceed 20% of the total exposure of the respective portfolio i.e. 80% exposure on account of credit cards and personal loans (separately) should comply with the limits prescribed for regular customers. Further, robust mechanism for risk profiling and risk mitigation should also be adopted for this purpose¹.

The credit cards secured against liquid securities shall be exempt from the above limits. However, any personal financing facilities, in excess of above limits, secured against liquid securities and allowed to entrepreneurs for commercial purposes shall be classified under relevant Prudential Regulations for Small & Medium Enterprise Financing or Corporate/Commercial Financing etc².

The financing facilities 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. However, Banks/DFIs should take reasonable measures to ensure that these financing facilities are for personal consumption purposes.

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

¹ Inserted vide BPRD Circular Letter No. 12 of 2012 dated June 20, 2012

² Currently outstanding such personal finance facilities should either be transferred to relevant Prudential Regulations for Small & Medium Enterprise Financing or Corporate / Commercial Financing or amortized as per terms & conditions of the facility.

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 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 / takaful cover against wrongly charged amounts, frauds, etc.

The bank/DFI shall, however, not charge the borrowers' account with any amount for value added services 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-3

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 O-4

FOREIGN CURRENCY TRANSACTIONS:

Banks/DFIs shall convert the foreign currency denominated transactions, carried out by customers, based on the foreign exchange conversion rate as per their approved policy which should be consistently followed. The Banks/DFIs shall not charge any such additional fee/spread, over and above the conversion rate, which is not disclosed to customer.

Banks/DFIs shall disclose in monthly bill statement total value of transaction in foreign currency, exchange rate applied (inclusive of foreign exchange conversion fee) and total transaction amount in Pak Rupees.

Banks/DFIs shall also disclose foreign currency conversion fee in Key Fact Sheet and Account Application.

REGULATION R-9
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/profit or principal is overdue by 180 days or more from the due date.	Unrealized mark-up/interest/profit 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/FINANCING

REGULATION R-10

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 Small & Medium Enterprise Financing. These regulations shall only apply for financing vehicles for personal use including Light Commercial Vehicles (LCVs) also used for personal purposes. The LCVs may be registered as per applicable rules of respective Provincial Excise & Taxation Departments.

REGULATION R-11

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

REGULATION R-12

While allowing auto loans/financing, the banks/DFIs shall ensure that the minimum down payment does not fall below 15% of the value of vehicle. Further, banks/DFIs shall extend auto financing only for the ex-factory tax paid price fixed by the car manufacturers and the cost of ancillary item(s) e.g. (CNG kits, vehicle tracking device i.e. Global Positioning System commonly known as 'Tracker' etc.) desired by the borrower to be installed in the car/vehicle. In other words, banks/DFIs shall not finance the premium charged by the dealers and/or investors over and above the ex-factory tax paid price of cars/vehicles, fixed by the manufacturers¹.

REGULATION R-13

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-14

The banks/DFIs shall ensure that the vehicle remains properly insured at all times during the tenure of the financing facility. However, where the bank/DFI holds 100% provision against such facility, bank/DFI, if deemed appropriate, may not obtain insurance / takaful cover for the vehicle for remaining tenure of the facility².

REGULATION O-5

The clause of repossession in case of default should be clearly stated in the loan/financing agreement mentioning specific default period after which the repossession can be initiated. The repossession expenses charged to the borrower

¹ Substituted vide BPRD Circular No. 6 of 2011 dated April 27, 2011

² Substituted vide BPRD Circular Letter No. 32 of 2009 dated October 12, 2009.

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 and subsequent disposal of vehicles/ return to borrower; and shall ensure that the procedure is strictly in accordance with law.

REGULATION O-6

After repayment/adjustment/settlement of the financing facility by the borrower as per the agreed terms & conditions, Bank/DFI shall return the vehicle registration file and issue a No Objection Certificate within the shortest possible time.

REGULATION O-7

The banks/DFIs desirous of financing the purchase of used cars shall prepare uniform guidelines for determining the value of the used vehicles. In no case the bank/DFI shall finance the cars older than nine years. However, cars older than five years and up to nine year can only be financed subject to the condition that complete repayment of financing is restricted within 12 years of such car age¹.

REGULATION O-8

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-15

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/profit or principal is overdue by 90 days or more from the due date.	Unrealized mark-up/interest/profit 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/profit or principal is overdue by 180	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal

¹ Substituted vide BPRD Circular No. 7 of 2014 dated July 23, 2014.

	days or more from the due date.		less the amount of liquid assets.
3. Loss.	Where mark-up/ interest/profit 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 PERSONAL LOANS/FINANCING INCLUDING LOANS/FINANCING FOR THE PURCHASE OF CONSUMER DURABLES

REGULATION R-16

In cases, where the financing facility 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-17

The maximum tenure of the loan financing facility shall not exceed 5 years. However, this period may be extended to 7 years for loans/advances/financing 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-18

In case of Running Finance/Revolving Finance, it shall be ensured that at least 15% of the maximum utilization of the financing facility 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 financing facility 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 financing facilities where the specified minimum repayments are being made by the borrowers regularly, will not require classification under this regulation.

REGULATION R-19

In Revolving / facilities of similar nature, banks/DFIs may renew the facility annually as per international industry best practices and based on credit & behavioral score, determined on factors including but not limited to income profile, repayment behavior, living areas, credit line usage & bureau based behavior, using the loan documents obtained at loan initiation, provided:

- During every three years period cycle, once a complete assessment of the borrower will be carried out afresh and necessary documentation will be obtained.
- ECIB/bureau report(s) will be obtained at annual review date and due weightage should be given to any overdue as reported in the ECIB/bureau report(s).
- Legal opinion (Internal & External) is placed on record stating that existing legal documents secure the interest of the Bank/DFI.

- Bank/DFI's annual renewal fee for the facility should be duly adjusted to take into account the lesser requirements and costs involved in desktop annual review.

Further, considering the industry practices, banks may determine the requirement of obtaining fresh documents upon renewal of credit card facilities.

REGULATION R-20

Excess amount deposited/repaid by the customer in revolving credit account shall be adjusted towards the loan account on the date of deposit of such amount.

REGULATION R-21

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-up/ interest / profit or principal is overdue by 90 days or more from the due date.	Unrealized mark-up / interest / profit 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. Loss.	Where mark-up/ interest / profit 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

UNDERTAKING

I ----- S/O, D/O, W/O ----- holder of CNIC -----
-----, undertake that the detail of my existing exposure from the "Entire Banking Sector"
as on----- is as under:

Details of Credit Cards (Clean) limits being availed from other banks/DFIs:

Sr. #	Name of the Bank/DFI	Approved Limit

Details of Credit Cards (Secured) limits being availed from other banks/DFIs:

Sr. #	Name of the Bank/DFI	Approved Limit

Details of Personal Loan (Clean) limits being availed from other banks/DFIs:

Sr. #	Name of the Bank/DFI	Approved Limit	Amount Outstanding On Application date

Details of Personal Loan (Secured) limits being availed from other banks/DFIs:

Sr. #	Name of the Bank/DFI	Approved Limit	Amount Outstanding On Application date

Details of other facilities if any (Clean & Secured) being availed from other banks/DFIs:

Sr. #	Name of the Bank/DFI	Approved Limit	Nature (Clean/Secured)	Current Outstanding

Applied Limits (Including the application in process):

Sr. #	Name of the Bank/DFI	Facility under Process	Nature of Facility (Clean/Secured)

Signature: _____

Name of Applicant: _____

CNIC # _____

¹ Inserted vide BPRD Circular No. 4 of 2009 dated February 11, 2009.

ANNEXURE - CF-II

Data Requirement for Banks with Consumer Loan Portfolio In Excess of Rs. 5 billion

1. Product wise gross loan disbursements
2. Product wise & year wise defaults out of total disbursement
3. Product wise & year wise recoveries against the total defaults
4. Total allocated direct costs incurred in recovery of defaulted consumer loans

Example:

Loan Disbursements

Name of Product	Disbursement				
	Current Year (2016)	2017	2018	2019	2020
Product-A					
Product-B					
Product-C					

Loan Defaults

Name of Product	Defaults in 2016, out of total loans disbursed in 2016	Default in 2017 out of total loans disbursed in 2016	Default in 2018 out of total Loans disbursed in 2016	Default in 2019 out of total loans disbursed in 2016	Default in 2020 out of total loans disbursed in 2016
Product-A					
Product-B					
Product-C					

Likewise, bank/DFI shall maintain default data for loans disbursed in each subsequent year i.e. 2017, 2018 onwards.

Recoveries against Defaulted Loans

Name of Product	Recoveries in 2016 from the loans which defaulted in 2016 and were disbursed in 2016	Recoveries in 2017 from the loans which defaulted in 2016 and were disbursed in 2016	Recoveries in 2018 from the loans which defaulted in 2016 and were disbursed in 2016	Recoveries in 2019 from the loans which defaulted in 2016 and were disbursed in 2016	Recoveries in 2020 from the loans which defaulted in 2016 and were disbursed in 2016
Product-A					
Product-B					
Product-C					

Likewise, bank/DFI shall maintain recoveries data for loans defaulted in each subsequent year i.e. 2017, 2018 onwards.