



# Credit Relief Measures to Safeguard Financial Stability and Cushion against Economic Impact of COVID-19

**KAMPALA:** On April 06, 2020, Bank of Uganda (BoU) announced Credit Relief Measures to mitigate the Economic Impact of COVID-19 and safeguard Financial Stability. On April 14, 2020, BoU issued Guidelines to Supervised Financial Institutions (SFIs) on how to implement the measures.

During implementation, several questions have arisen, which the BoU has compiled into Frequently Asked Questions (FAQs) that have been addressed by the Deputy Governor's Office. These FAQs are intended to address and provide clarity of the abovementioned credit relief measures, and their implementation during this period.

## 1. What does Credit Relief mean?

It is a re-organisation of a debt obligation through concessions or accommodations that provide borrowers with some form of relief in how and/or when they meet their debt obligation(s) to lenders.

## 2. What is the key Objective of the Credit Relief Measures issued by Bank of Uganda?

The objective is twofold: (i) To enable borrowers cope with the adverse impact of the COVID-19 pandemic on their ability to repay loans; and (ii) To mitigate the risks faced by lenders that may arise from exposure to borrowers that are affected by the COVID-19 pandemic.

## 3. Does credit relief mean that the obligation of the borrower to pay their loan to the lender has been removed?

It is important to note, that credit relief DOES NOT take away or extinguish the obligation of a borrower to repay the lender. All borrowers are expected to continue servicing their loan obligations, and are encouraged to contact their lenders and apply for credit relief if they face any COVID-19 related challenges that may impact their ability to pay their loans.

## 4. When will the credit relief and loan restructuring program take effect, and how long will it be in force?

The granting of these credit relief measures by a Supervised Financial



DEPUTY GOVERNOR

**Dr. Adam Mugume, Acting Deputy Governor, Bank of Uganda**



*However, this decision is at the discretion of the SFI, and only after assessing the impact of COVID-19 on the borrower's cash flows during and post the pandemic period. However, the period for any granted repayment moratorium cannot exceed 12 months. The maximum permissible 12 months are counted from date that the moratorium is granted, where the said date is before March 31, 2021.*

Institution (SFI) to its customers MUST be done within 12 months, effective April 01, 2020.

## 5. What type of loans are eligible for credit relief?

All loans and/or credit facilities in all sectors affected or that will be affected by the COVID-19 pandemic are eligible. The credit relief applies ONLY to loans granted before March 31, 2020. "Loans granted" refers to the period when the loan agreement was signed and executed by the borrower and lender. It is NOT about the date of funds disbursement. All loans or credit facilities classified as "loss" as at March 31, 2020 are not eligible. In addition, the credit relief measures DO NOT apply to credit facilities approved and or granted after April 01, 2020.

## 6. Who is eligible to benefit from the credit relief measures?

All borrowers (corporate entities, individuals, and households) that have been or will be adversely affected by COVID-19 pandemic can approach their lender and apply for any of the allowable exceptional credit relief measures, during the 12 months from April 01, 2020.

## 7. Is this a blanket relief for all borrowers?

No. This is not a blanket relief for all borrowers. SFIs will extend debt relief to their borrowers on a case-by-case basis, at their discretion, based on an assessment of the economic and financial conditions of individual

borrowers. The decision to grant any restructuring of credit facilities during the pandemic lies with the respective SFI.

## 8. Did BOU order SFIs to restructure loans?

No. However, BoU provided guidelines that SFIs will follow to restructure loans and provide credit relief to customers affected by the COVID-19 pandemic.

## 9. Is it only commercial banks that are offering credit relief to their borrowers?

All SFIs that are supervised by Bank of Uganda, that is; Commercial Banks, Microfinance Deposit-taking Institutions (MDIs), and Credit Institutions, shall offer these credit relief measures to their borrowers as they deem fit. A full list of financial institutions supervised by the BoU can be found at;

[https://www.bou.or.ug/bou/bouw\\_ebsite/Supervision/supervisedinstitutions.html](https://www.bou.or.ug/bou/bouw_ebsite/Supervision/supervisedinstitutions.html)

## 10. What are the credit relief and loan restructuring options being offered to borrowers over the next twelve months?

The Credit relief options that can be granted individually or in combination, at any point during the 12 months from April 01, 2020 include:-

- A moratorium (suspension, postponement or reduction) on the repayment of principal and/or interest, applicable to the outstanding principal loan amount, for a period not exceeding 12 months.
- Extension of the loan repayment period.
- Reduction of interest rate on the loan.
- Other forms of restructuring provided for under the requisite regulations.

## 11. Does a qualifying borrower have to first clear arrears, as condition for restructuring?

No. Payment of arrears as a precondition for restructuring is temporarily suspended in this 12 month period from April 01, 2020. However, SFIs are allowed to capitalise and recover these arrears less any associated penal interest and fees as part of the restructuring.

## 12. Can both (i) deferment of principal /interest, and (ii) rescheduling of loans be given during the period in the credit relief?

Yes they can. However, this decision is at the discretion of the SFI, and only after assessing the impact of COVID-19 on the borrower's cash flows during and post the pandemic period. However, the period for any granted repayment moratorium cannot exceed 12 months. The maximum permissible 12 months are counted from date that the moratorium is granted, where the said date is before March 31, 2021.

## 13. If the credit facility is restructured such that the said restructuring (e.g. moratorium) ends after the 12 months from April 01, 2020, how is this treated?

The provisions in the credit relief guidelines shall apply to any facility restructured between April 01, 2020 and before March 31, 2021, and remain in force for that facility until the date that the credit relief ends, or as advised by Bank of Uganda.

## 14. What if an SFI does not accept the request of the borrower for credit relief such as deferring payment of principal or interest or other types restructuring during the 12 months?

In such a case, the SFI shall explain in writing or some other acceptable format to the borrower, the reasons for the said refusal. The records of denials shall be kept by the SFI in a format that BoU can access at a later date.

## 15. How many times can a credit facility be restructured during this period?

In the 12 month period with effect from April 01, 2020, a maximum of two (2) restructurings are allowed for any credit facility that is affected or will be affected by the COVID-19 pandemic without further reference to BOU. This is irrespective of the number of times it has been restructured in the past. However, any additional restructure beyond the allowable two (2), must be applied for by the SFI, and approved by BOU.

## 16. Are the SFIs allowed to provide

## credit relief, such as deferring payment or other forms of restructuring, for less than twelve months?

Yes. Credit relief and loan restructuring can be processed for any period from one day up to and including 12 months, as long as the credit relief is granted between April 01, 2020 and March 31, 2021.

## 17. How will interest be treated if borrowers are granted credit relief e.g. deferred principal loan payments, extension of loan tenor or other forms of restructuring?

Interest may be capitalised and amortised over the revised tenor (e.g. the remaining period after the moratorium, or additional loan extension period) of the credit facility, on condition that the expected periodic payments during and after the restructuring do not exceed those the borrower had contracted to make, prior to the restructuring. The SFI can achieve this by extending the loan tenor, reducing the interest rate applicable, forfeiting accrued interest or arrears etc.

For example, if a term loan was being amortised with a monthly repayment of UGX 1.5million before a moratorium, the monthly loan repayments after the moratorium CANNOT exceed UGX 1.5million, inclusive of the accrued interest and or arrears if applicable. The exception is where the borrower(s) offers to pay higher instalments and there is documented consent to this effect.

## 18. Will borrowers have heavier repayment burdens after the expiry of the credit relief?

No. Under no circumstances shall a customer benefiting from the credit relief be

**“ For borrowers unable to be physically present at the time the credit relief measures or restructuring is done, their consent can be in the form of; A recorded telephone conversation wherein explicit consent is provided; An acceptance by email; or some other digital or electronic format. The SFIs must then store these consents in electronic or digital format, and update the necessary paperwork/documentation once the borrower can physically be available. ”**

compelled, coerced, tricked or induced to make periodical repayment instalments on their credit facility after its restructuring, than what was being paid prior to the credit relief. Unless the customer offers to pay higher instalments or decides to settle the credit facility earlier and there must be documented evidence to this effect.

## 19. Will the borrower be responsible for covering the costs and fees of obtaining credit relief from an SFI?

Borrowers, whose facilities are restructured during the 12 month period, shall only be liable for stamp duty and any legal fees thereof. SFIs must and shall ensure and demonstrate that the said legal fees are reasonable. All other costs and fees associated with this credit relief program during the 12-month period shall not and cannot be passed onto borrowers.

## 20. Will the borrowers whose facilities, whether restructured or not, be liable for penal interest or fees in the next 12 months from April 01, 2020?

No penalty interest or fees shall be charged, accrued and/or earned on any credit facility restructured in the next 12 months from April 01, 2020. However, Credit facilities not restructured in this 12 month period, may, at the discretion of the SFI, be liable to the application of penal interest. However, BOU advises SFIs to reconsider the application of penal interest or fees to any credit facility during the abovementioned 12 month period.

## 21. Will the granting of credit relief affect the credit classification and provisioning of that facility?

No. Any credit relief measure or restructuring event granted in the 12 months from April 01, 2020 shall not affect the credit classification status and loan loss provisioning amount or percentage for the credit facility/borrower. In addition, the period of a repayment moratorium shall be excluded by SFIs, when counting the days past due for a credit facility that benefits from the said moratorium.

## 22. What if the borrower fails to meet the periodic loan instalments after the facility is restructured?

If the borrower fails to meet the revised periodic repayments after restructuring, then the credit facility will be subject to the normal classification and provisioning regulations. In other words, the loan performance with respect to its restructured or rescheduled repayments shall be subject to the normal credit classification and provisioning regulations.

## 23. Do these measures have any implications for loans due for write-off?

Bank of Uganda extended the period for write-off of credit facilities classified as "loss" as at March 31, 2020, by 180 days, as long as the original write-off date was due to fall within the 12 month period from April 01, 2020.

## 24. Will the credit relief measures affect the Credit risk status of the borrower and reporting to the Credit Reference Bureau (CRB)?

The event of granting a loan restructuring under these guidelines, and during this 12 month period from 1st April 2020, is not an adverse change in the risk profile of the borrower, and therefore has no effect to the credit risk status of the said borrower. The event of granting of a credit relief measure to a borrower under these guidelines and during the aforementioned 12 month period shall not be reported as an adverse or negative event to the CRB.

## 25. Will the credit relief measures apply to financing schemes such as the Agricultural Credit Facility (ACF)?

The applicability of these credit relief measures to financing schemes such as ACF depends on the terms of the scheme. However, any credit relief to a borrower under the ACF shall be within its terms and conditions, where possible.

## 26. How will rescheduling/or deferment of payment happen in a syndicated loan?

For a syndicated loan, the borrower will submit their request for credit relief to the syndicate lead Bank. The lead Bank will then coordinate with other lenders to make an appropriate joint decision. However, subject to the terms of the syndication agreement, and if so allowed, an SFI therein can make an individual decision with respect to its exposure within the syndicated loan.

## 27. Are borrowers required to consent to any proposed restructuring?

All borrowers MUST explicitly consent to any credit relief provided to them, whatever the form or nature of this relief. Borrowers that are affected or maybe affected by the COVID-19 pandemic are encouraged to approach their Banks and request for loan restructuring. However, SFIs are also allowed to make unsolicited offers for restructuring credit facilities that in their assessment might be subject to default risk as a result of the "COVID 19" pandemic.

## 28. Do borrowers have to sign revised documents to implement the credit relief

## measures?

For any credit relief to take effect, sign off by the borrower is not a pre-condition, but consent, in whatever form or format is.

For borrowers unable to be physically present at the time the credit relief measures or restructuring is done, their consent can be in the form of; A recorded telephone conversation wherein explicit consent is provided; An acceptance by email; or some other digital or electronic format. The SFIs must then store these consents in electronic or digital format, and update the necessary paperwork/documentation once the borrower can physically be available.

In the event that the borrower or their representative neglects or refrains from physically presenting him or herself to sign off the necessary documentation, when circumstances allow him or her to do so, the SFI can proceed to compel him or her to appear in person for the sign off. It should be noted that failure to regularize a restructuring that has been consented to electronically or digitally by a borrower, does not extinguish the debt, but certainly introduces doubt as to its recoverability.

Nevertheless, to the extent possible, SFI must demonstrate best effort to get borrowers to sign off on offered repayment moratoriums and or credit facility restructurings, to minimize the legal risk and or associated financial liability. It is the fiduciary and prudential responsibility of SFIs to ensure full disclosure with respect to charges and financial implications of any requested or proposed restructuring, and to act at all times in the interest of their customers.

## 29. Can SFIs extend new credit facilities during the COVID-19 period?

Supervised Financial Institutions (SFIs) are encouraged to extend new credit to eligible borrowers but must take into consideration the economic conditions and operational realities brought about by the COVID-19 pandemic, and those that might be reasonably expected to hold in the post lock down and post-pandemic period. All regulations and prudential guidelines with respect to risk management, except those suspended by BoU in the Guidelines for Credit Relief measures, remain in force.

The COVID-19 pandemic and its likely impact on the economy remains dynamic. Bank of Uganda remains committed to monitoring the evolution of the economic impact of COVID-19 and designing appropriate and prudent measures to support the economy. As a consequence, the FAQs may be updated to reflect such measures.