

## NOTICE

### To our Esteemed Clients,

The Bank of Uganda (BoU) in line with the Monetary Policy Statement of 6<sup>th</sup> April 2020 issued guidelines to operationalize credit relief and loan restructuring measures for Financial Institutions regulated by the BoU during the COVID-19 pandemic. The institutions supervised by the BoU include; Commercial Banks, Credit institutions, Forex Bureaus, Money Remitters and Microfinance Deposit-taking institutions.

These guidelines are applicable only to credit facilities not classified as Loss as at 31<sup>st</sup> March 2020 but not to credit facilities granted after 1<sup>st</sup> April 2020. The general provisions for restructuring credit facilities include the following;

- ✚ Only two restructurings will be allowed per credit facility unless an application is made to BOU for an addition.
- ✚ Payment of arrears as a pre-condition for restructuring has been temporarily suspended.
- ✚ A borrower, whose credit facility benefits from a restructuring may be liable to only Legal fees and associated stamp duty which should be reasonable.
- ✚ A restructuring shall not be treated as an adverse change in the credit risk profile of the borrower nor shall it be reported to a Credit Reference Bureau.
- ✚ Financial Institutions will be responsible for assessing the potential unlikelihood to pay by borrowers and deciding the appropriate restructuring.
- ✚ Credit relief may be requested for by the Borrowers or offered by the Institutions, but at all times the borrower must consent to any relief granted.

Financial Institutions may provide a repayment moratorium for a maximum period not exceeding 12 months for borrowers who are likely to be negatively affected by the pandemic. The principles governing such a Moratorium include;

- ✚ Accrued interest during the moratorium period shall be capitalized and amortized over the tenor of the credit facility that remains after the moratorium.
- ✚ The expected periodic payments, after the expiry of the moratorium, shall not exceed those agreed to prior the moratorium.
- ✚ Institutions may offer, although borrowers are encouraged to request for repayment moratorium(s)

The Financial Institutions (Credit Classification and Provisioning) Regulations provide for the restructuring of credit facilities in case there are weaknesses in the borrower's financial position or non-payment of the debt as earlier arranged. Where a moratorium on the loan repayment is granted, it only relates to the principal and the borrower is required to pay the monthly interest during that period.

However, the relief measures issued by the BoU seek to suspend the payment of both the principal and interest for a period of 12 months.

Whereas the procedure is that a debt must be written off within 90 days of being identified as loss, the BoU has extended the write-off date of credit facilities classified as loss as at 31<sup>st</sup> March 2020 (*only if the original write-off date falls within the 12 months from 1<sup>st</sup> April 2020*) for 180 calendar days.

Financial Institutions were also encouraged to extend new credit during this period taking into consideration the economic and operational realities brought about by the pandemic.

According to the guidelines, where no exceptions or extensions or waivers or suspensions of existing legal provisions or regulatory obligations have been offered by the BoU, the existing law, regulations and directives concerning prudential credit risk will remain in force.

**Recommendation:** We hereby recommend that persons with credit facilities should review their loan documents and status, and request for restructuring and appropriate repayment schedules if they qualify. Please note that restructuring is not automatic and loans shall be reviewed on a case by case basis.

Birungyi, Barata & Associates is committed and shall continue to serve you remotely during this period.

**Disclaimer:** Readers are informed that the views, thoughts and opinions expressed in this article belong solely to the author and not anyone else.

In case of any query or clarification, please contact;



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