

Ordinance No. 6

on Extending Collateralized Lev Loans to Banks

(Issued by the Bulgarian National Bank on 19 February 1998;
published in the State Gazette, issue 28 of 11 March 1998;
amended, issue 118 of 1998, issue 110 of 2003)

Chapter One

General Provisions

Subject

Article 1. This Ordinance shall establish the general terms, collateral and procedures for extending lev loans to banks by the Bulgarian National Bank (BNB).

General Conditions of Lending to Banks

Article 2. (1) The BNB may extend loans in levs to banks through the Banking Department under the following general conditions:

1. in the event of a liquidity risk affecting the stability of the banking system, established pursuant to Chapter Two;
2. only to solvent banks experiencing acute need of liquidity that cannot be provided from other sources;
3. only against collateral of liquid assets, the type and amount of which shall be determined herein;
4. the loan repayment term shall not exceed three months.

(2) The BNB may extend loans to banks only up to the amount of available funds on the Banking Department deposit placed with the Issue Department.

Article 3. The Bulgarian National Bank shall extend loans under the conditions herein, only to banks based in this country.

Chapter Two

Liquidity Risk

Establishing the Existence of a Liquidity Risk

Article 4. (1) (amended; State Gazette, issue 110 of 2003) A liquidity risk for the banking system may exist where the amount of the payments, which have not been paid through the Real-time Interbank Gross-settlement System (RINGS) due to

insufficient funds on commercial banks' settlement accounts with the BNB, exceeds 15 percent of the total amount of initiated payments for each of the last two business days.

(2) A liquidity risk for the banking system may also exist where an individual bank delays or establishes that it is going to delay the settlement of the payment documents submitted to it for more than three days, and if the bank has at least an eight percent share of all interbank payments for each of the last five business days prior to filing a request for a loan with the BNB.

Article 5. In determining the existence of a liquidity risk, circumstances other than those under Article 4 could also be taken into account by the BNB, such as the behavior of macroeconomic indicators and financial markets, the overall current financial condition of the banking system, the level of depositors' confidence in the banks, etc.

Chapter Three

Securing the Loan

Assets Acceptable as Collateral

Article 6. (1) The Bulgarian National Bank shall extend lev loans to banks against collateral in the form of:

1. monetary gold;
2. (amended; State Gazette, issue 118 of 1998) foreign currency – Euro, US dollars, or Swiss francs;
3. paper or book-entry liquid securities issued by the Government of the Republic of Bulgaria, or guaranteed by it;
4. prime-rate liquid securities issued by foreign governments and central banks, or guaranteed by them.

(2) The total amount of the assets pledged under para. 1, and assessed at their market value, shall cover minimum 125% of the loan amount approved by the BNB at the time of its extension.

(3) The market value and liquidity of the assets under para. 1 shall be established by the BNB based on the available information.

(4) Should the collateral submitted becomes insufficient, as its market value falls below 105% of the bank's total obligation on the loan extended, and after being invited by the BNB, the bank does not supplement it within three days, nor repays part of the loan to meet the requirements under para. 1, the BNB may call the loan and proceed to its collection, including through the sale of the collateral without interference of a court of law.

Lodging a Collateral

Article 7. (1) The pledged items and securities shall be submitted to the BNB which has the right to hold them until the collateralized claim is fully repaid.

(2) Foreign currency shall be deposited on a special account with the BNB, which shall be blocked until the collateralized claim is fully repaid, and the pledgor has no right to dispose with the amount deposited.

(3) Book-entry securities shall be blocked on the register maintained until the collateralized claim is fully repaid, and the pledgor has no right to dispose with them.

(4) The commission of pledged items to a third party (pledgee), the establishment of a special pledge, or another procedure for establishing a pledge other than the one prescribed in the previous paragraphs, shall apply only as an exception with the consent of the BNB.

Chapter Four

Conditions of Extending the Loan

Repayment Term of the Loan

Article 8. (1) The BNB shall extend only short-term loans to commercial banks as temporary support with an original repayment term of up to 30 days.

(2) The term under para. 1 may be extended but no more than twice, and the overall repayment term of the loan may not exceed the term under Article 2, item 4.

Interest Rate

Article 9. (1) The bank shall pay the BNB interest on the loan amount for the period it is used at a rate higher than the average interest rate in the interbank market, and an additional penalty markup to the rate in the event of arrears.

(2) BNB Governing Council shall adopt methods for determining the interest rate on the loan, and the amount of the additional penalty markup on arrears as per para. 1.

Fees and Commissions

Article 10. (1) The bank shall pay a one-time fee of BGL 100,000 on the day when the written loan request is submitted to the BNB.

(2) The bank shall pay a commission for the service, amounting to 1 per 1,000 on the loan amount. For each agreed extension of the original term for loan repayment, the bank shall pay a commission in the amount of 0.2 per 1,000 on the loan amount.

Repayment of Obligations

Article 11. (1) The bank shall repay its obligation on the principal, the interest accrued and the commission for the service on the maturity date by providing the necessary funds on its settlement account.

(2) If on the maturity date the bank does not have the necessary funds on its settlement account to fully repay its obligation, the repayment shall be conducted in the following succession: commissions, interest, principal, and the balance shall be deemed overdue.

(3) With the bank's consent, the Bulgarian National Bank has the right to *ex officio* collect the amounts due from the bank's settlement account until the bank's obligation is fully repaid.

(4) If the loan is not repaid by the bank within the term agreed, the BNB shall proceed to foreclosure, including also through the sale of the collateral without interference of a court of law.

(5) The loan may be repaid in advance by the bank.

Chapter Five

Lending Procedures and Control Over Banks

Lending Procedures

Article 12. (1) The bank applying for a loan shall file a written application to the BNB, addressed to the Deputy Governor heading the Banking Department, signed by the persons authorized by the bank, and containing information on:

1. the circumstances that require the use of a loan;
2. amount of the loan applied for;
3. repayment term;
4. the assets provided as collateral and the manner of their provision under the BNB's control;
5. amount and source of the expected funds for redemption of the loan as of the date of maturity.

(2) Attached to the loan application shall be information on the current financial condition of the bank, and in particular the bank's liquidity, return, capital adequacy, asset/liability structure and classification of claims by group.

Article 13. (1) The application for a loan shall be considered and a decision shall be taken no later than two business days following the date of its submission.

(2) Upon receipt of the application for a loan, the Banking Department shall send a copy to the Banking Supervision Department, which has to present a written statement of opinion on the current solvency of the bank within 24 hours.

(3) The decision on the loan application shall be made by the Governing Council of the BNB on a motion by the Deputy Governor heading the Banking Department, based on all available information and the written statement of opinion of the Banking Supervision Department.

(4) The Deputy Governor heading the Banking Department is entitled to require additional information to be submitted by the bank, for considering the loan application and taking a decision on it.

(5) In the event of approval, a loan contract shall be concluded.

Control

Article 14. Any bank that uses a loan from the BNB pursuant to this Ordinance shall be subject to an immediate inspection and monitoring by BNB Banking Supervision Department.

Additional Provision

§ 1. Within the meaning of this Ordinance, ‘prime-rate liquid securities issued by foreign governments and central banks, or guaranteed by them’, are securities which are:

1. debt securities with fixed yield, assigned one of the two top ratings by two credit rating agencies of international recognition;
2. issued or guaranteed by the governments or the central banks of the following countries: Germany, France, the United Kingdom, Belgium, Switzerland, Italy, the Netherlands, the USA, Canada, and Japan;
3. denominated in the currencies of the countries under item 2;
4. with a term to maturity no longer than ten years as of the date of concluding the loan contract between the BNB and the relative bank.

Final Provisions

§ 2. This Ordinance is issued pursuant to Article 33 of the Law on the Bulgarian National Bank (State Gazette, issue 46 of 1997), and is adopted by Resolution No. 31 of 19 February 1998 of the Governing Council of the Bulgarian National Bank.

§ 3. This Ordinance shall be effective as of the date of its publication in the State Gazette, and shall repeal Ordinance No. 6 on Refinancing of Banks against a Collateral and through Rediscounting (Discounting) Commercial Paper (published in the State Gazette, issue 21 of 1992; amended, issue 80 of 1993, and issue 40 of 1995).

§ 4. The Deputy Governor heading the Banking Department shall give instructions on the enactment of this Ordinance.

Amendments

to Ordinance No. 6 on Extending Collateralized Lev Loans to Banks (State Gazzette, issue 28 of 1998)

(Published in the State Gazette, issue 118 of 13 October 1998)

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Final Provision

§ 2. These Amendments shall come into effect as of 1 January 1999.

Amendments

to Ordinance No. 6 on Extending Collateralized Lev Loans to Banks

(Published in the State Gazette, issue 110 of 19 December 2003)

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Final Provision

§ 2. These Amendments are issued on the grounds of Article 33 of the Law on the Bulgarian National Bank, and are adopted by Resolution No. 109 of the Governing Council of the Bulgarian National Bank dated 4 December 2003.