



ASSOCIATION OF
CYPRUS BANKS

New loan origination processes and processes of reviewing existing loans

- *For natural persons*
- *For legal entities*

INTRODUCTION

In December 2013 the Central Bank of Cyprus (CBC) issued the Directive on “Loan Origination Processes and Processes of Reviewing Existing Loans” (Directive) to Authorised Credit Institutions (ACI). The Directive prescribes the minimum practices that the ACIs have to follow and specify the minimum documentation they are obliged to obtain in the process of assessing and/or reviewing credit facilities.

SCOPE AND PURPOSE

The scope and purpose of the new Directive is that when assessing and/or reviewing a credit facility, the basic principle is the borrowers’ ability to repay the loan.

NATURAL PERSONS

Application for Credit Facility

The applicant is obliged to submit the following documents:

Private or Public Sector Employees

1. Declaration of current employment stating among other the current salary amount, the date of employment and probable duration of employment (if applicable).
2. Original salary slips for the last three (3) months.
3. Original bank statement for the last six (6) months (if salary is deposited in a bank account).
4. Copy of income tax return submitted for the last two (2) years.
5. Original income tax assessment of the last two years (2) available.
6. Original latest annual social insurance statement.
7. Documents supporting any other type of income (alimony income, interest income, income from immovable property, income from welfare benefits).



Self-employed and Freelancers

1. Confirmation of income by the Borrower's accountant if available.
2. History of income or 3rd party verification of borrower's income or evidence of seasonal or irregular sources of income.
3. Proof of payment to income tax.
4. Copy of social insurance statement for the last two (2) years.
5. Copy of income tax return submitted for the last two (2) years.
6. Original income tax assessment of the last two (2) years available.
7. Copy of Value Added Tax (VAT) statements submitted since last balance sheet date.
8. VAT return form (in case they are registered with VAT department).
9. Documents supporting any other type of income (alimony income, interest income, income from immovable property, income from welfare benefits).

Credit Assessment of Borrowers and Guarantors

For the purpose of assessing the credit ability of the borrower and/or Guarantor (where applicable) the ACI shall collect the following:

1. Personal Financial Statement
2. In case the borrower/guarantor has any credit facility or has guaranteed credit facilities with any other ACI, then he shall provide a written statement issued by the ACI that granted the existing credit facilities providing the following information:
 - Original amount or limit.
 - Current balance.
 - Duration and maturity.
 - Interest rate.
 - Installment amount and installment payment frequency.
 - Amount in arrears.
 - Days in arrears.



3. Statement of deposits with other ACIs.
4. Statement of immovable property from the Land Registry.
5. The purchase contract of property registered with the Land Registry, in case a separate title deed does not exist.
6. Certificates/Statements of any other assets (shares/other investments).

Apart from the above the ACI, depending on the type of credit facility, shall collect the following:

Personal Loans/Overdraft accounts/Credit Cards

Fully completed and signed credit application.

Consumer Loans

1. Fully completed and signed loan application.
2. Documents substantiating the loan purpose (written offer to purchase a product/service).

Housing Loans

1. Fully completed and signed loan application.
2. Purchase agreement contract (if applicable).
3. Evidence of the advance payment (if applicable).
4. For the property to be financed and the property to be mortgaged: (i) title deed of current owner, (ii) building permit, (iii) planning permit, (iv) topographical charts, (v) building plans.
5. In case of construction/renovation/completion of immovable property, a detailed budget and detailed cost analysis signed by a professional quantity surveyor.



Assessment of Repayment Ability of Borrower

For the assessment of the borrower's repayment ability the ACI considers the following:

1. The borrower's recurring/steady "Total Monthly Income" (according to the Personal Financial Statement-PFS).

For self-employed/freelancers who have no monthly salary the borrower's annual income divided by twelve (12).

Income emanating from overtime, bonuses and any other exceptional income are taken into account if the ACI confirms they are steady and recurring.

Income emanating from overtime, bonuses and any other exceptional income is not considered as recurring income and as such shall not be taken into account.

2. Debt servicing amount is defined as the installment amount of the credit facility to be granted plus all other installments of existing credit facilities of the borrower with other ACIs.

Debt servicing amount shall be limited to the lower of:
(a) 35% of total monthly income of the borrower, or
(b) difference between the "Total Monthly Income" and the "Total Monthly Expenditure" as this is computed in the PFS.

LEGAL ENTITIES

Application for Credit Facility

The applicant is obliged to submit the



following documents:

1. Audited financial accounts for the last three (3) financial years. In case audited financial accounts are not available for the latest financial year, submit unaudited financial accounts for that year.
2. Quarterly financial accounts for the current year for listed legal entities.
3. Management accounts since last financial accounts for non-listed legal entities.
4. Copy of income tax returns submitted for the last three (3) years.
5. Original of income tax clearance for the last three years (3) available.
6. Copy of Value Added Tax (VAT) statements

submitted since last balance sheet date.

7. Budgeted cash flows at least for the next two (2) years.
8. Details of projected income to be generated by the use of the requested loan, supporting that this loan will add to the profitability and enhance the cash flow of the business.

Credit Assessment of the Legal Entity

For the purpose of assessing the credit ability of the borrower the ACI shall, where applicable, collect the following:

1. Loan application, fully completed and signed.
2. Documents substantiating the loan purpose, for example written offer to purchase a product/service, private contract for purchasing a product/service, pro-forma invoices, bills of lading.
3. Evidence of advance payment and/or purchase agreement contract.
4. In case of purchasing/construction/renovation/completion of



immovable property: (i) title deed of current owner, (ii) building permit, (iii) planning permit, (iv) topographical charts, (v) building plans, (vi) detailed budget and detailed cost analysis signed by a professional quantity surveyor.

5. Statement of immovable property from the Land Registry (and for the Guarantor where applicable).
6. The purchase contract of property registered with the Land Registry, in case a separate title deed does not exist (and for the Guarantor where applicable).

Assessment of Repayment Ability

For the assessment of the borrower's repayment ability the ACI considers the following:

The ACIs reserve their right to prescribe their own practices for the purpose of complying with the Directive and/or to prescribe their own documentation to be obtained in the process of assessing and/or reviewing credit facilities, over and above the minimum described in this Document.

1. The sources of repayment based on the income/future cash flows of the borrower.
2. The debt servicing amount of the borrower which is defined as the installment amount of the credit facility to be granted plus all other installments (loans, overdrafts, credit cards) with other ACIs.





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