Implementation of the Credit Policy

Last modified Friday the 26th of April, 2024 Reserve requirements
Traditionally, the reserve requirement for credit institutions is defined as a minimum percentage of the liabilities they must maintain in cash on hand or deposited at *Banco de la República* (the Central Bank of Colombia). This requirement allows institutions to have an adequate liquidity reserve to meet their obligations to savers, facilitates the proper functioning of the payment systems, and contributes to regulate the economy's liquidity and credit.

Currently, the reserve requirement corresponds to 8.0% for a list of short-term liabilities and 3.5% for a list of medium-term liabilities. The Board of Directors of *Banco de la República* (BDBR) (through the Financial Stability Department) establishes both these percentages and the list of liabilities to which they apply.

To facilitate compliance with the requirement, reserve requirements in Colombia have been implemented on a bi-weekly basis: that is, an institution has a reserve requirement shortfall when the daily average of cash availabilities in each period between Wednesday of week 0 and Tuesday of week 1 (both days included) is less than the daily average of the reserve requirements in each period between Wednesday of week -2 and Tuesday of week -1 (both days included).

Cap Interest Rates for housing loans (TMR in Spanish)
The Board of Directors of *Banco de la República* reviews every December whether it is necessary to modify the Cap Interest Rate for housing loans (TMR) based on a methodology to identify structural changes in the economy's interest rates. If the result of this review is that the TMR should not be modified, it should wait until the following December. If the result of the analysis is that the Board should change the TMR, the staff performs the corresponding calculations and presents them to the Board of Directors with a proposal for modification in the following April.

To determine the level of the TMR, the Board of Directors follows the criteria established by Constitutional Court Ruling C-955 of 2000. Specifically, it establishes that "the [TMR] shall not include the value of inflation. It shall always be lower than the lowest real rate being charged in other credit operations in the financial market, as certified by the Office of the Financial Superintendent". Likewise, the [Board of Directors] must consider "the administrative and operating expenses of financial institutions, including the cost of deposits minus inflation, plus the proportional and adequate profitability of credit institutions for the services they provide".

Currently, the TMR in real terms is set at 12.4% for loans financing mortgages different from low-income housing and 10.7% for those financing low-income housing.

Agricultural Development Bonds (TDA in Spanish)
To establish the amount of mandatory investment in Agricultural Development Bonds (*Títulos de desarrollo agropecuario* - TDA in Spanish) that credit institutions must constitute, the Board of Directors of Banco de la República stipulates a maximum ceiling for investment in these securities, defined as Gross Investment Requirement (RBI in Spanish), which corresponds to the weighted sum of the Liabilities Subject to Reserve Requirement (PSE in Spanish) net of the reserve requirement. The weights applied to the PSE net of the reserve requirement are 5.61% for short-term liabilities and 4.25% for medium-term liabilities. In addition, this same regulation establishes the distribution of the RBI between TDA class A and B (50% in each case).

Second, it is established that disbursements made by institutions with their own resources in the agricultural sector may be used to reduce their investment in TDA, if and only if loans granted to this sector comply with the conditions established by the National Commission of Agricultural Credit for Finagro's rediscount loans. These loans are usually called "substitutive" and are classified among those granted to Small Producers (SP), Rural Microcredit (Micro), Medium Producers (MP), and Large Producers (LP). This distinction is made because each group is granted a different validation percentage when accounting for its reduction of the maximum mandatory investment and because the substitution of each category is assigned to a specific TDA class.

In particular, the substitutive loans to SP weight 150%; that is, for each COP 100 of the substitutive loan portfolio, the mandatory investment is reduced by COP 150, and the loans granted to LP weigh 25%, causing that for each COP 100 granted to these producers, the investment is reduced by COP 25. Substitutive loans granted to SP are the only ones that can reduce the investment in class A TDA, while the rest of the substitutive loans reduce the investment in class B TDA. The difference between the RBI and the weighted substitutive portfolio is called the Net Investment Requirement (NIR).

Third, to adjust the amount of the mandatory investment to FINAGRO's funding needs, the amount of Resources Required by FINAGRO (RRF) is defined as the difference between 125% of its loan portfolio and its equity. Finally, the overall amount of mandatory investment is defined as the minimum value between the RRF and the aggregate NIR. In this sense, the method for calculating the mandatory investment seeks to guarantee a flow of resources for rediscount in accordance with the dynamics of Finagro's loan granting, thus avoiding credit institutions to make mandatory investments that are not reflected in loans to the agricultural sector but in excess of liquidity for FINAGRO. In the scenario in which RRFs are lower than the NIR, the amount of the mandatory investment per institution is allocated according to the participation that each institution has in the overall amount of the NIR.

Fuente: https://www.banrep.gov.co/en/financial-stability/implementation-credit-policy