



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 730
Series of 2011

Subject : **Updated Rules Implementing the Truth in Lending Act to Enhance Loan Transaction Transparency**

Pursuant to Monetary Board Resolution No. 1018 dated 07 July 2011, Sections X305 and X307, and Appendix 19 of the Manual of Regulations for Banks (MORB) are hereby amended to read, as follows:

Section 1. Method of computing interest

A new Subsection X305.5 is hereby added to Section X305, MORB to read, as follows:

"§ X305.5. Method of computing interest. Banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision."

Section 2. Definition of Terms

Items g and h of Subsections X307.1, MORB are hereby amended to read as follows:

"x x x

g. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one year with single payment upon maturity and there are no up-front deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest (EIR) rate shall be calculated and

disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, *effective interest rate* is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose."

Section 3. Information to be disclosed

Subsection X307.2, MORB is hereby amended to read as follows:

"§ X307.2 Information to be disclosed. As a general rule, loan terms shall be disclosed to all types of borrower. For small business/retail/consumer credit, the following are the minimum information to be disclosed (*sample form in Appendix 19*):

- a. The total amount to be financed;
- b. The finance charges expressed in terms of pesos and centavos;
- c. The net proceeds of the loan; and
- d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an effective annual interest rate (EIR) as described in item h of Subsection X307.1. EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

Banks are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction."

Section 4. Posters

Subsection X307.4, MORB is hereby amended to read as follows:

"§ X307.4 Posters. Banks shall post in conspicuous places in their principal place of business and branches, the information as contained in the revised format of disclosure statement (Appendix 19), with further enhancement through the Memorandum to All Banks to be issued for the purpose. The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure."

Section 5. Appendix 19, MORB, Format of Disclosure Statement on Loan/Credit Transaction, is hereby revised to reflect the present industry practices, specifically targeted towards the small business, retail and consumer loans, but still consistent with R.A. No. 3765.

This Circular shall take effect on 1 July 2012.

FOR THE MONETARY BOARD:



AMANDO M. TETANGCO, JR.
Governor

20 July 2011

APPENDIX 19
FORMAT OF DISCLOSURE STATEMENT ON
SMALL BUSINESS/RETAIL/CONSUMER CREDIT

 (Business Name of Creditor)

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
 (As Required under R.A. 3765, Truth in Lending Act)

NAME OF BORROWER : _____
 ADDRESS : _____

1. LOAN AMOUNT ₱ XXX

2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED ¹ ₱ XXX

- a. Documentary/Science Stamps ₱ _____
 b. Mandatory Credit Insurance _____
 c. Others (Specify) _____

3. NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3) ₱ XXX

4. SCHEDULE OF PAYMENTS

- a. Single payment due on (date) ₱ XXX
 b. Installment Payments (Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) XXX %

Explanation: The effective interest rate is higher than the contractual interest rate of ___% because of item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

- a. Late Charge _____
 b. Prepayment (penalty/refund) _____
 c. Others (Specify) _____

CERTIFIED CORRECT:

 (Signature of Creditor/Authorized Representative Over Printed Name)

 Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

 (Signature of Borrower over Printed Name)

 Date

Notes:

- ¹ Itemize all charges including advance deductions
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature
 - This document contains the minimum information required to be disclosed to the borrower and maybe enhanced to improve client information

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				xxx
1		xxx	xxx	xxx	xxx
2		xxx	xxx	xxx	xxx
3		xxx	xxx	xxx	xxx
4		xxx	xxx	xxx	xxx
5		xxx	xxx	xxx	xxx
6		xxx	xxx	xxx	xxx
7		xxx	xxx	xxx	xxx
8		xxx	xxx	xxx	xxx
9		xxx	xxx	xxx	xxx
10		xxx	xxx	xxx	xxx
11		xxx	xxx	xxx	xxx
12		xxx	xxx	xxx	xxx
	Total	xxx	xxx	xxx	

Legends:

- A - *Number of installment periods based on loan term*
- B - *Gross amount of loan*
- C - *Installment payment on the principal*
- D - *Installment payment on the interest*
- E - *Total amortization payment for the installment period*
- F - *Outstanding principal balance of the loan*