



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

**Circular No. 755
Series of 2012**

Subject : Implementing Guidelines of Republic Act No. 3765, the Truth in Lending Act, to Entities with Credit-Granting Facilities Not Covered by Existing Issuances on the Truth in Lending Act by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Insurance Commission (IC) and Cooperative Development Authority (CDA)

Section 1. Statement of Policy. In line with upholding a sound and stable financial system as well as maintaining public trust, the BSP takes a proactive stance in embarking on various initiatives to enhance consumer protection, fair practices, and in establishing mechanisms to provide for redress and recourse. Foremost of these initiatives are (i) updating the rules implementing Republic Act No. 3765, the Truth in Lending Act (hereinafter referred to as "the Act"), to enhance loan transaction transparency and consumer protection, and (ii) launching a nationwide financial education and information campaign.

Section 5 of the Act grants the Monetary Board (MB) the power to prescribe such rules and regulations which are necessary or proper in carrying out the provisions of the Act. Any rule or regulation prescribed may contain such classifications and differentiations as in the judgment of the MB are necessary or proper to effectuate the purposes of the Act or to prevent circumvention or evasion, or to facilitate the enforcement of the Act, or any rule or regulation issued pursuant thereto.

Section 2 of the Act stipulates that it is the declared policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

The transparency initiative led to the issuance of BSP Circular No. 730 dated 17 July 2011 updating the rules implementing the Act to enhance loan transaction transparency directed to all Banks. A parallel regulation for Non-Bank Financial Institutions (NBFIs) under the BSP supervision is also underway.

Relative to this, the following regulatory agencies issued implementing guidelines on the Act to cover certain institutions under their respective jurisdictions, to wit:

Regulatory Agency	Issuance	Covered Entity
Securities and Exchange Commission ("SEC")	SEC Memorandum Circular No. 7 Series of 2011 (September 15, 2011)	All Lending and Financing Companies
Insurance Commission ("IC")	Circular Letter No.: 31-2011 (October 5, 2011)	All Insurance/Reinsurance Companies and Mutual Benefit Associations
Cooperative Development Authority ("CDA")	Memorandum Circular No. 2012-05 Series of 2012 (March 14, 2012)	Credit and Multi-Purpose Cooperatives with savings and loan services

The objective of transparent pricing is not to set limits on rates, but rather to make such rates more understandable, comparable and known to the client. Transparent pricing will facilitate healthy competition among credit providers as clients are better able to compare products and services.

In view of the limited coverage of the issuances, the BSP provides opportunity to every entity with a credit-granting facility to enhance loan transparency pricing and exercise its social responsibility towards protecting its clients thereby creating a more transparent and competitive financial services industry.

For this purpose and pursuant to Monetary Board Resolution No. 587 dated 12 April 2012, the following implementing guidelines of the Act are issued to enhance loan transaction transparency for all other entities with credit-granting facilities not presently covered by the afore-mentioned issuances.

Section 2. Coverage. All entities with credit-granting facilities not presently covered by issuances of the BSP, SEC, IC and CDA implementing the Act are enjoined to comply with and avail of the incentives of this Circular.

For this purpose:

- a. An "entity with credit-granting facilities" (hereinafter referred to as "CGEs") shall include, corporations, organizations, partnerships and single proprietorships registered with the SEC and the Department of Trade and Industry (DTI).

It includes those who, in the course of their business, extend credit through installment or deferred payment sale, such as but not limited to real estate dealers or property developers, car and other vehicle dealers, or appliance stores shall be deemed as CGEs for purposes of this Circular.

- b. "Credit" shall mean any loan, mortgage, deed of trust, advance or discount; any conditional sales contract; any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any contract or arrangement for the hire, bailment, or leasing of property; any option, demand, lien or pledge, or other claim against, or for the delivery of, property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

Section 3. Registration. A CGE may register its lending or financing activity with the BSP for the purpose of ensuring compliance with the requirements of the Act. Through BSP-registration, a CGE demonstrates its commitment to corporate social responsibilities and adherence to the law. Registration will allow a CGE to gain a greater advantage in promoting and declaring its competitive edge. Further, registration will build long-term brand value, accountability and transparency, making the registered CGE more valued by its clients and other stakeholders.

To register, they shall submit the following minimum information to the BSP:

- a. Business Name;
- b. Directors, Key Officers¹ and Substantial Stockholders²;
- c. Principal Place of Business (street number, street name, barangay and city or municipality of the head office) and Contact Details (telephone and fax number/s and email address);
- d. Notarized Deed of Undertaking (Annex A) to strictly and continuously comply with the requirements of all relevant laws, rules and regulations, signed either by the owner, partner, president or officer of equivalent rank; and

¹ For purposes of this Circular, key officer is an officer (as defined in the entity's By-Laws) who has been elected or appointed to perform the duties and functions of an office, that is a duty or charge, a position of trust, or a right to exercise a public or private employment

² For purposes of this Circular, substantial shareholder is a shareholder whose stockholding enables him to elect at least one seat in the Board

- e. Such other information or documents that may be required by the BSP.

Registration fee shall be waived on existing CGEs that will avail of the BSP registration facility within six (6) months from the effectivity of this Circular. To cover the BSP's costs of administration, a nominal registration fee shall be collected starting 1 January 2013.

CGEs established after the effectivity of this Circular may register with the BSP 30 days from commencement of their business operations.

For purposes of this Circular, an entity is deemed to commence business operations upon the issuance of its business license by the concerned local government unit. Registration with the BSP may be through an on-line facility provided for the purpose.

After due registration and payment of registration fee, an electronically generated serially numbered Acknowledgement of Registration (AOR) shall be issued to the registrant. The AOR shall be valid for a period of three (3) years from the date of issuance and renewable thereafter on the anniversary month when it was originally registered.

The entity shall be allowed to post the BSP-issued AOR and certified true copies thereof in its place of business and branches, if any.

The list of registered CGEs shall be published in the BSP website in order to enable the public, its clients/consumers to determine if their counterparty is registered with the BSP, for purposes of determining compliance with the Act and its implementing rules and regulations.

Section 4. Manner of Computing Interest. All registered CGEs shall 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.

Section 5. Information to be Disclosed. The following minimum information shall be disclosed by registered CGEs in a written statement to their borrowers:

- a. The total amount to be financed;

- b. The finance charges³ 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 rate⁴ or an effective annual interest rate⁵ (EIR). EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

All registered CGEs shall furnish each borrower with a copy of the disclosure statement, prior to the consummation of the transaction.

The disclosure statement shall be a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure.

Section 6. Loan Documents and Marketing Materials. All loan-related documents shall show repayment schedules in a manner consistent with the provisions of the circular. Marketing materials and presentations shall likewise be consistent with this circular.

Section 7. Format of Disclosure Statement. Format of Disclosure Statement on Credit Transaction (sample form attached as Annex B) shall be consistent with the Act.

Section 8. Treatment of Violations. Violation of the provisions under Sections 4 and 6 of this Circular, as determined by BSP through spot checking of registered CGEs or whenever a complaint brought to the attention of BSP is found to be with factual basis, shall be ground for the revocation of the BSP-issued AOR and a delisting from the BSP list of registrants. Said revocation and delisting shall be done after due notice and evaluation of the registrant's written explanation.

³ *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit

⁴ *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.

⁵ 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.

Registered or non-registered CGEs that post or display unauthorized, falsified, fraudulent or fake AORs in their business premises may be subjected to criminal actions under Section 36 of the Republic Act No. 7653 (New Central Bank Act).

Moreover, registered CGEs are reminded that any violation of the disclosure requirements pursuant to this Circular may be criminally sanctioned under Section 6 of the Act which provides the following:

- (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of the Act or any regulation issued thereunder shall be liable to such person in the amount of P100 or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is greater, except that such liability shall not exceed P2,000 on any credit transaction.
- (b) Any person who willfully violates any provision of the Act or any regulation issued thereunder shall be fined by not less than P1,000 nor more than P5,000 or imprisonment for not less than 6 months, nor more than one year or both.

This Circular shall take effect on 1 July 2012.

FOR THE MONETARY BOARD:



AMANDO M. TETANGCO, JR.
Governor

20 April 2012

Name of Entity

Address

Telephone No./Fax No./TIN

DEED OF UNDERTAKING

I, _____ (name and designation) _____, of legal age and under oath, declare the following:

1. That I have been duly authorized by _____ (name of entity) _____ and its Board of Directors/Partners/Owners to bind _____ (name of entity) _____ to comply with all the requirements, rules and regulations of the Bangko Sentral ng Pilipinas regarding the registration, loan transparency and disclosure of the true cost of credit to each borrower relative to the credit-granting operations as well as the provisions of the Truth in Lending Act (R.A. No. 3765) and its implementing rules and regulations;
2. That I certify that _____ (name of entity) _____ undertakes to continuously comply with all the requirements, rules and regulations of the Bangko Sentral ng Pilipinas regarding the registration, loan transparency and disclosure of the true cost of credit to each borrower as well as with the provisions of the Truth in Lending Act (R.A. No. 3765) and its implementing rules and regulations;
3. That I certify that _____ (name of entity) _____, through and with full knowledge and agreement of its Board of Directors/Partners/Owners, understands and accepts that in case of violation/s of any of the aforementioned laws, rules and regulations, _____ (name of entity) _____ and its Board of Directors/Partners/Owners/Stockholders/Officers/employees responsible for such violation/s may be subject to the administrative and/or monetary and/or criminal sanctions prescribed under Section 36 of the New Central Bank Act (R.A. No. 7653) and Section 6 of the Truth in Lending Act (R.A. No. 3765).

(Signature over printed name)

Designation

SUBSCRIBED AND SWORN TO before me this _____ of _____, 2012, affiant exhibiting to me his/her Community Tax Certificate No. _____ issued at _____ on _____.

NOTARY PUBLIC

**SAMPLE FORMAT OF DISCLOSURE STATEMENT ON
SMALL BUSINESS/RETAIL/CONSUMER CREDIT AND IN-HOUSE FINANCING**

(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 P XXX

2. OTHER CHARGES/DEDUCTIONS COLLECTED ¹ P XXX

- a. _____ P _____
b. (Please specify) _____
c. _____

3. NET PROCEEDS OF LOAN (Item 1 less Item 2) P XXX

4. SCHEDULE OF PAYMENTS

- a. Single payment due on (date) P 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 and In-house Financing includes microfinance, salary, personal, medical, educational, auto/motorcycle and property installment loans, and other types 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*