



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 622
Series of 2008

Subject: Amendment to the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBI), as amended by Circular No. 549 dated 9 October 2006

Pursuant to Monetary Board Resolution No. 1087 dated 21 August 2008, the provisions of Section X304, its subsections and Appendix 18 of the Manual of Regulations for Banks (MORB), and Sections 4312Q, 4312S, 4312N and their subsections, and Appendix Q-10 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBI), as amended by Circular No. 549 dated 9 October 2006, are hereby further amended as follows:

Section 1. Subsection X304.1 of the MORB and Subsections 4312Q.1 and 4312N.1 of the MORNBI, as amended by Circular No. 549 dated 9 October 2006, on the general guidelines for the grant by banks, quasi-banks (QBs) and other non-bank financial institutions (NBFIs) of loans and other credit accommodations, are hereby further amended to read as follows:

“§ X304.1/4312Q.1/4312N.1 General Guidelines. Consistent with safe and sound banking/business practices, a bank/QB/NBFI shall grant loans or other credit accommodations only in amounts and for the periods of time essential for the effective completion of the operation to be financed.

“Before granting loans or other credit accommodations, a bank/QB/NBFI must ascertain that the borrower, co-maker, endorser, surety and/or guarantor, if applicable, is/are financially capable of fulfilling his/their commitments to the bank/QB/NBFI. For this purpose, a bank/QB/NBFI shall obtain adequate information on his/their credit standing and financial capacities.

“In addition to the usual information sheet about the borrower, a bank/QB/NBFI shall require from the credit applicant the following:

1. A copy of the latest Income Tax Return (ITR) of the borrower and his co-maker, if applicable, duly stamped as received by the Bureau of Internal Revenue (BIR);

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2. Except as otherwise provided by law and in other regulations, if the borrower is engaged in business, a copy of the borrower's latest financial statements as submitted for taxation purposes to the BIR; and
3. A waiver of confidentiality of client information and/or an authority of the bank/QB/NBFI to conduct random verification with the BIR in order to establish authenticity of the ITR and accompanying financial statements submitted by the client.

"THE DOCUMENTS UNDER ITEM NOS. "1" AND "2" ABOVE shall be required to be submitted annually for as long as the loan and/or credit accommodation is outstanding. The consistency of the data/figures in said ITRs and FINANCIAL statements shall also be checked and considered in the evaluation of the financial capacity and creditworthiness of credit applicants. THE WAIVER OF CONFIDENTIALITY OF CLIENT INFORMATION AND/OR AN AUTHORITY OF THE BANK/QB/NBFI TO CONDUCT RANDOM VERIFICATION WITH THE BIR NEED NOT BE SUBMITTED ANNUALLY SINCE ONCE SUBMITTED THESE DOCUMENTS REMAIN VALID UNLESS REVOKED.

"Should the document(s) submitted prove to be spurious or incorrect in any material detail, the bank/QB/NBFI may terminate any loan or other credit accommodation granted on the basis of said document(s) and shall have the right to demand immediate repayment or liquidation of the obligation. Moreover, the bank/QB/NBFI may seek redress from the court for any harm done by the borrower's submission of spurious documents.

"The required submission of additional documents shall cover loans, other credit accommodations, and credit lines granted, renewed restructured or extended after 2 November 2006, including any availment and/or re-availment against existing credit lines, except:

1. Microfinance loans. This represents small loans granted to the basic sectors such as farmer-peasant, artisanal fisherfolk, workers in the formal and informal sector, migrant workers, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, and urban poor, as defined in the Social Reform and Poverty Alleviation Act of 1997 (R.A. No. 8425), and other loans granted to poor and low-income households for their microenterprises and small businesses. The maximum principal amount of microfinance loans shall not exceed ₱150,000 and may be amortized on a daily, weekly, semi-monthly or monthly basis, depending on the cash flow

conditions of the borrowers. Said loans are usually unsecured, for relatively short periods of time (180 days) and often featuring joint and several guarantees of one or more persons;

2. Loans to registered Barangay Micro Business Enterprises (BMBEs);
3. Interbank loans;
4. Loans secured by hold-outs on or assignment of deposits or other assets considered non-risk by the Monetary Board;
5. Loans to individuals who are not required to file ITRs under BIR regulations, as follows:
 - a. Individuals whose gross compensation income does not exceed their total personal and additional exemptions, or whose compensation income derived from one employer does not exceed ₱60,000 and the income tax on which has been correctly withheld;
 - b. Those whose income has been subjected to final withholding tax;
 - c. Senior citizens not required to file a return pursuant to R.A. No. 7432, as amended by R.A. No. 9257, in relation to the provisions of the National Internal Revenue Code (NIRC) or the Tax Reform Act of 1997; and
 - d. An individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special; and
6. Loans to borrowers, whose only source of income is compensation and the corresponding taxes on which have been withheld at source: **PROVIDED, THAT THE BORROWERS** submitted, in lieu of the ITR, a copy of their employer's Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) **OR THEIR PAYSLIPS FOR AT LEAST THREE (3) MONTHS IMMEDIATELY PRECEDING THE DATE OF LOAN APPLICATION.**

"Loans to micro and small enterprises which are not specifically exempted from the additional documentary requirements **SPECIFIED UNDER THE THIRD PARAGRAPH OF THIS SUBSECTION SHALL BE EXEMPTED FROM SAID ADDITIONAL DOCUMENTARY REQUIREMENT UP TO 31 DECEMBER 2011.**

"Consumer loans, with original amounts not exceeding ₱2 million, are exempted from updating requirements or the required annual submission of the same requirements forwarded during the initial submission under this Subsection but not in their restructuring, renewal, or extensions or availment/re-availment against existing credit lines: **PROVIDED**, That these loans are supported by ITRs **OR BY BIR Form 2316 OR PAYSLIPS FOR AT LEAST THREE (3) MONTHS IMMEDIATELY PRECEDING THE DATE OF LOAN APPLICATION, AND FINANCIAL STATEMENTS SUBMITTED FOR TAXATION PURPOSES TO THE BIR, AS MAY BE APPLICABLE**, at the time the loans were granted, renewed, restructured, or extended.

"For purposes of this Section, the **FOLLOWING DEFINITIONS SHALL APPLY**:

1. *Micro and small enterprises* shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have a value of up to ₱3 million and ₱15 million, respectively, or as may be defined by the SMED Council or other competent government agency.
2. *Consumer loans* is defined to include housing loans, loans for purchase of car, household appliance(s), furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans."

Section 2. The provisions of Subsections X304.2 and X304.3 of the MORB requiring that loan proceeds be used for the purpose for which loans and other credit accommodations were obtained, and prohibiting banks from requiring that loan proceeds be used to acquire shares of stocks of the lending bank, respectively, are hereby made applicable to QBs and other NBFIs, and accordingly incorporated as Subsections 4312Q.2 and 4312Q.3, and 4312N.2 and 4312N.3 of the MORNBFi, respectively.

Section 3. The provisions of Subsection X304.4 of the MORB and Subsections 4312Q.4 and 4312N.4 of the MORNBFi on the required signatories to loan agreements, are hereby amended to read as follows:

"§ X304.4/4312Q.4/4312N.4 Signatories. Banks/QBs/NBFIs shall require that loans and other credit accommodations be made under the signature of the principal borrower, and in the case of unsecured loans and other credit accommodations to an individual

borrower, at least one (1) co-maker, except when the principal borrower has the financial capacity and a good track record of paying his obligations."

Section 4. The provisions of Section X319 of the MORB and Section 4336Q of the MORNBFi on the guidelines for the grant of unsecured loans or loans against personal security are hereby amended, and are also made applicable to NBFIs and incorporated as Section 4314N of the MORNBFi, to read as follows:

"Sec. X319/4336Q/4314N Loans Against Personal Security. THE GRANT, RENEWAL, RESTRUCTURING OR EXTENSION OF UNSECURED LOANS SHALL, IN ADDITION TO THE REQUIREMENTS OF SECTION X304/4312Q/4312N, BE MADE UNDER THE SIGNATURE OF THE PRINCIPAL BORROWER AND, EXCEPT WHEN THE PRINCIPAL BORROWER HAS THE FINANCIAL CAPACITY AND A GOOD TRACK RECORD OF PAYING HIS OBLIGATIONS, AT LEAST ONE (1) CO-MAKER."

Section 5. The following subsections of the MORB and MORNBFi are hereby deleted:

1. X319.1 *(General guidelines)*
2. X319.2 *(Proof of financial capacity)*
3. X319.3 *(Signatories)*
4. 4336Q.1 *(General guidelines)*
5. 4336Q.2 *(Proof of financial capacity)*
6. 4336Q.3 *(Signatories)*
7. 4336Q.4 *(Sanctions)*

Section 6. Non-stock savings and loan associations (NSSLAs) are hereby excluded from the coverage of Circular No. 472, as amended by Circular No. 549 and this amendatory Circular. Consequently, Section 4312S of the MORNBFi and its Subsections are hereby deleted.

Section 7. Item "I.B.1.d" of the Guidelines in Identifying and Monitoring Problem Loans and Other Risk Assets and Setting-up of Allowance for Probable Losses under Appendix 18 and Appendix Q-10 of the MORB and MORNBFi, respectively, are hereby amended to read as follows:

"B. Classified loans. These are loans which possess the characteristics outlined hereunder. Classified loans are subdivided into (1) *loans especially mentioned*; (2) *substandard*; (3) *doubtful*; and (4) *loss*.

"1. *Loans especially mentioned.* These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the bank/QB. Their basic characteristics are as follows:

x x x

d. Loans **NOT SUPPORTED BY THE DOCUMENTS REQUIRED UNDER SUBSECS. X304.1/4312Q.1** except –

- (1) Consumer loans, with original amounts not exceeding ₱2 million: *Provided*, That these loans are current, and are supported by latest ITR or **BY BIR Form 2316 OR PAYSLIPS FOR AT LEAST THREE (3) MONTHS IMMEDIATELY PRECEDING THE DATE OF LOAN APPLICATION, AND FINANCIAL STATEMENTS SUBMITTED FOR TAXATION PURPOSES TO THE BIR, AS MAY BE APPLICABLE**, at the time they were granted, renewed, restructured or extended. For this purpose, *consumer loans* is defined to include housing loans, loans for purchase of car, household appliance(s), furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans.

x x x"

Section 8. Effectivity. This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

16 September 2008