



Corrected Copy

OFFICE OF THE GOVERNOR

Circular No. 472
Series of 2005

Pursuant to Monetary Board Resolution No. 74 dated 20 January 2005, the following regulations governing banks and all financial institutions under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP) are hereby issued, as follows:

Section 1. Subsection X304.1 of the Manual of Regulations For Banks (MORB) is hereby amended to read as follows:

"General Guidelines. Consistent with safe and sound banking practices, a bank 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 must ascertain that the borrower, co-maker, endorser, surety and/or guarantor, if applicable, is financially capable of fulfilling his/their commitments to the bank. For this purpose, a bank shall obtain adequate information on his/their credit standing and financial capacities.

In addition to the usual information sheet about the borrower, a bank shall require from the credit applicant a statement of his assets and liabilities and of his income and expenses together with 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); and
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.
3. A waiver of confidentiality of client information and/or an authority of the bank to conduct random verification with the BIR in order to establish authenticity of the ITR and accompanying financial statements submitted by the client.

The consistency of the data/figures in said ITR and statements shall also be checked and considered in the evaluation of the financial capacity and creditworthiness of credit applicants.

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Should the document(s) submitted prove to be spurious or incorrect in any material detail, the bank 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 may seek redress from the court for any harm done by the borrower's submission of spurious documents."

Section 2. Subsection X304.4 is hereby added to the MORB the provisions of which shall read as follows:

"Signatories. A bank 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 co-maker, except when the principal borrower has the financial capacity and a good track record of paying his obligations."

Section 3. Coverage. The provisions of Sections 1 and 2 of this Circular shall cover loans, other credit accommodations, and credit lines granted, renewed or extended after the effectivity of this Circular, including any availment and/or re-availment against existing credit line, except, consumer loans, as defined herein, which are supported by the documents enumerated in Section 1 of this Circular at the time they were granted.

Section 4. 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 of the MORB is hereby amended to delete the exemption of small and medium enterprises (SMEs) loans with no latest ITR and/or AFS from "Loans Especially Mentioned" classification and shall read as follows:

"d. Loans with no latest Income Tax Return (ITR) and/or latest Audited Financial Statements (AFS), except consumer loans with original amount not exceeding ₱2 million which are current, have not been restructured and are supported by latest ITR and/or AFS at the time they were granted and loans not required to be supported by ITR and AFS pursuant to existing law and regulations such as loans granted to duly registered Barangay Micro Business Enterprises and other microfinance loans.

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.

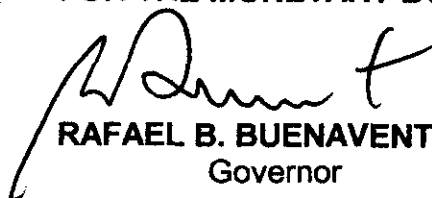
Section 5. Subsection X304.5 is hereby added to the MORB the provisions of which shall read as follows:

"Sanctions. Any violation of the provisions of this Section shall be subject to the sanctions provided under Sections 36 and 37 of R.A. no. 7653 (The New Central Bank Act)."

Section 6. The provisions of this Circular shall also be applicable to all non-bank financial institutions under the regulation and supervision of the Bangko Sentral ng Pilipinas.

This Circular shall take effect fifteen (15) days after publication in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

February 1, 2005