Securities and Exchange Commission PHILIPPINES

BAGONG PILIPINAS

FINANCING AND LENDING COMPANIES DEPARTMENT

FinLend Order No. 2025-39

IN THE MATTER OF:

LHL ONLINE LENDING INC. DOING BUSINESS UNDER THE NAMES AND STYLES OF PAUTANG ONLINE, AND PAUTANG PESO
(SEC Reg. No. CS201916699 and Certificate of Authority No. 3119),

Respondent.

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FOR: VIOLATION OF R.A. 3765 OR THE TRUTH IN LENDING ACT; AND SEC MEMORANDUM CIRCULAR NO. 18, SERIES OF 2019, ON THE PROHIBITION ON UNFAIR DEBT COLLECTION PRACTICES OF FINANCING COMPANIES AND LENDING COMPANIES

ORDER

This resolves the administrative proceedings against **LHL ONLINE LENDING INC. DOING BUSINESS UNDER THE NAMES AND STYLES OF PAUTANG ONLINE, AND PAUTANG PESO** (the "*Respondent*"), a registered lending corporation with SEC Reg. No. CS201916699 and Certificate of Authority No. 3119, and registered address at Unit D, Ground Floor, Echelon Tower Condominium Building, 2100 A. Mabini St., Malate, Manila, with email addresses at aimee@fastlending.ph and roxas_vangie@yahoo.com.

STATEMENT OF FACTS

From September 2022 to March 2023, multiple complaints against the Respondent and its Online Lending Platforms ("*OLPs*") were filed before the Financing and Lending Companies Division (formerly "*FLCD*" Now "*Department*" or "*FinLenD*") of the Securities and Exchange Commission ("*SEC*" or the "*Commission*"), for alleged violations of SEC Memorandum Circular No. 18, Series of 2019 ("*SEC MC 18*") otherwise known as the Prohibition on Unfair Debt Collection Practices of Financing Companies and Lending Companies and R.A. 3765 or the Truth in Lending Act ("*TILA*").

Thereafter, Show Cause Letters ("*SCL*") and Comment Letters were sent to the Respondent.

COMPLAINT OF MS. MARGIE BALDAD (against PAUTANG PESO)

On January 13, 2023, Ms. Baldad filed a complaint against the Respondent, alleging, among others, that on December 25, 2022, she applied for a loan amounting to Eight Thousand Pesos (PhP8,000.00) with a loan term of one hundred eighty (180) days. Ms. Baldad partially paid an amount of Three Thousand Pesos on January 8, 2023; however, the Respondent was forcing her to pay the remaining balance despite the loan not being due yet. Moreover, she noticed that the loan contract agreement was changing whenever she opened it. Ms. Baldad attached a screenshot of the loan agreement and their conversation.

On 3 April 2023, FinLenD sent a Show Cause Letter to the Respondent, giving it a period of five (5) days to explain why it should not be held liable for the alleged charges.

On 13 April 2023, FinLenD called for a conference with the Respondent. The latter, through its counsel, orally moved to file Comment/Answer to the instant Complaint within fifteen (15) days or until April 28, 2023, which was granted by the Hearing Officer.

A *Comment/Answer* was filed stating that under Article 1305 of the Civil Code, a contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service[1]. Further, Article 1159 of the Civil Code provides that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith[2].

The Company also disagrees with Ms. Baldad's claims, stating that she could not have been in default since the term of the loan is 180 days, and it had been less than 180 days when the Respondent demanded payment. The Company argues that while the term of the loan is 180 days, the loan is payable in installments[3]. When an installment becomes due or matures, the Respondent has the right to collect it. While other installments that have not yet matured are not due and demandable, it is different when an installment has already become due. In such a case, the law gives the Respondent the right to collect that amount[4]. Furthermore, the loan agreement was validly entered into by Ms. Baldad and the Respondent; hence, it shall have the force and effect of law and must be complied with in good faith[5].

In sum, Ms. Baldad entered into the contract and agreed to pay in installments. When each installment matured, Ms. Baldad had the obligation to pay it. Unfortunately, in this case, Ms. Baldad failed to do so, as she admitted in her complaint that she only paid Three Thousand Pesos (PhP3,000.00) out of the Eight Thousand Pesos (PhP8,000.00) loan. Hence, the Respondent cannot be faulted for collecting due payments from Ms. Baldad. Neither does the act of the former constitute an unfair collection practice[6].

COMPLAINT OF MR. CHRISTIAN ALEJO (against PAUTANG PESO)

Mr. Alejo alleged, among others, that the loan app of the Respondent contains misleading information. He narrated that he applied for a loan amounting to Three Thousand Pesos (PhP3,000.00), payable for 150 days. It was also provided that the payment shall be made on the second due date. However, after submission and verification, the loan term was found to be only seven (7) days. Upon learning this, he requested loan cancellation, but an agent told him that it could not be cancelled. The amount was credited to his account; he tried to contact them to return the amount, but his calls went unattended. Mr. Alejo also alleges that the Respondent is employing unfair debt collection practices.

A Comment Letter was sent to the Company to answer for the alleged violation.

In an *Answer* dated April 28, 2023, the Respondent denied the Complainant's allegations, stating that it did not violate SEC MC 18, as the Respondent did not employ any of the unfair collection practices enumerated in the said MC. Even a close scrutiny of Mr. Alejo's allegations would show that there are no facts constituting a violation of SEC MC 18[7]. The Respondent further asserts that it did not violate Republic Act No. 3765, or the Truth in Lending Act, as Mr. Alejo was provided with a copy of the contract and other pertinent documents related to his loan before he proceeded with completing his loan application. The Respondent disclosed to Mr. Alejo the fees and the payment schedule of his loan. If Mr. Alejo's contention is that there is a discrepancy between the statement made by the alleged agent of the Respondent and the Loan Agreement, Mr. Alejo could have verified the same with the Company before filing this instant Complaint to avoid any inconvenience to all parties. After all, the written contract is what should govern, as it is what was agreed upon by the parties[8].

COMPLAINT OF MR. BERNARD MARAY QUIZON JR. (against PAUTANG ONLINE)

Mr. Quizon filed a complaint against the Respondent, Pautang Online, alleging that he applied for a loan. However, due to the delay in disbursing the loan amount, he decided to cancel it. On May 22, 2023, he

[1] Paragraph 4 of the Answer dated April 2023 - Baldad vs lhl.
[2] Paragraph 5 of the Answer dated April 2023 - Baldad vs lhl.
[3] Paragraph 6 of the Answer dated April 2023 - Baldad vs lhl.
[4] Paragraph 7 of the Answer dated April 2023 - Baldad vs lhl.
[5] Paragraph 8 of the Answer dated April 2023 - Baldad vs lhl.
[6] Paragraph 9 of the Answer dated April 2023 - Baldad vs lhl.
[7] Paragraph 9 of the Answer dated April 2023 - Alejo v. lhl
[8] Paragraph 10 of the Answer dated April 2023 - Alejo v. lhl

received a call from an agent forcing him to avail a loan product. Despite Mr. Quizon's denial of availing himself of their loan products, a certain amount was still credited to his account, despite his prior cancellation. The Respondent even contacted his cousin to verify Mr. Quizon's account status, as the money had already been disbursed. Mr. Quizon made efforts to cancel the loan, but to no avail. The Company started contacting his family members, including those who were not provided as his references.

On 13 July 2022, the Corporate Governance and Finance Department (CGFD) – Monitoring Division (MD) sent an email to the Respondent giving it a period of ten (10) days to comment or file its answer to the complaint of Mr. Quizon.

On April 13, 2023, a conference with the Respondent was held, at which its counsel orally moved to file the Answer/Comment to the instant Complaint within fifteen (15) days, or until April 28, 2023.

In its *Answer*, the Respondent states that under Article 1305 of the Civil Code, a contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service[9]. Further, Article 1159 of the Civil Code provides that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith[10]. The Respondent posits that there is no question that a contract was perfected between Mr. Quizon and the former. There is likewise no question that the Respondent has disbursed the loan to Mr. Quizon[11]. The Respondent got confused as to the claims of Mr. Quizon, claiming that he was forced to take a loan and that it was disbursed to his account. However, contrary to his assertion, and as appeared in his attached annexes, he submitted the necessary requirements for his loan application. If he claims that he was forced to take the loan, how come he was able to complete and submit the requirements[12]. Lastly, suppose Mr. Quizon insists that he was forced to take the loan, or to agree to the terms of the contract, his recourse is not an administrative case such as this case, but a civil case for annulment of the contract. Otherwise, the contract should be upheld and must be followed[13].

SUBMISSION OF POSITION PAPER

On May 12, 2023, all parties were directed to submit their position papers. On May 29, 2023, the Respondent filed its *Position Paper*, arguing that the attached annexes/evidence of the Complainants are neither original nor were they properly identified/authenticated. Hence, they should not be given evidentiary weight[14]. The Respondent added that it had no way to verify if the documents or evidence submitted by the Complainant were authentic or original[15]; it had no opportunity to contest such documents[16]; that the original documents were not produced, nor were there any sworn affidavits from the Complainant identifying or authenticating the evidence attached[17]. As such, the Respondent had no opportunity to question the authenticity of the documents/evidence submitted[18].

On the other hand, none of the Complainants filed their respective Position Papers; hence, in deciding this case, it will be based on the available documents on record.

ISSUE

Whether the Respondent violated R.A. 3765 or the Truth in Lending Act and SEC Memorandum No. 18, series of 2019.

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[9] Paragraph 4 of the Answer dated April 2023.
[10] Paragraph 5 of the Answer dated April 2023.
[11] Paragraph 6 of the Answer dated April 2023.
[12] Paragraph 7 of the Answer dated April 2023.
[13] Paragraph 8 of the Answer dated April 2023.
[14] Paragraph 4 of the Position Paper

[15] Paragraph 5 of the Position Paper
[16] *Id.*
[17] Paragraph 8 of the Position Paper
[18] *Id.*

HELD

While the issue of whether a contract exists between the parties was raised in this case, the submission of pleadings proves that there was a loan contract executed between the Complainants and the Respondent. Hence, the issue of violating R.A. 3765 and SEC MC 18, Series of 2019, will be discussed.

RULE ON ELECTRONIC EVIDENCE IN ADMINISTRATIVE CASES

Before dwelling with the issues presented, FinLenD would like to discuss the issues raised by the Respondent on the evidence attached by the Complainants.

The Respondent posits that the evidence submitted by the Complainants was not properly identified/authenticated, thus it has no way to verify if the documents or evidence were authentic or original; it has no opportunity to contest such documents.

We are not convinced.

As the records of the Commission reveal, copies of these complaints were furnished directly to the Company, providing it with an opportunity to contest or verify the attachments submitted by the Complainants. However, contrary to the statements of the Respondent in its *Position Paper*, nothing in the *Answer* of the Respondent questioned the attached documents of the Complainants.

Having made no objections to the attachments of the complaints during the period it was furnished with the complaints and in its Answers, the Respondent waived the right to assail the pieces of evidence. The right to object to the admissibility of evidence, as held in the case of Catuira vs. Court of Appeals[19], is a mere privilege that can be waived. The Supreme Court added, "Necessarily, the objection must be made at the earliest opportunity, lest silence when there is opportunity to speak may operate as a waiver of objections."

Furthermore, the technical rules of evidence are not strictly adhered to in administrative proceedings, as stressed in the case of Sibayan v. Alda[20]. As discussed in the same case, the rationale and purpose for their summary nature are "to achieve an expeditious and inexpensive determination of cases without regard to technical rules. As such, in proceedings before administrative or quasi-judicial bodies, xxx decisions may be reached based on position papers or other documentary evidence only. They are not bound by technical rules of procedure and evidence. To require otherwise would negate the summary nature of the proceedings, which could defeat its very purpose." Hence, it is proper for FinLend to ensure that there is substantial evidence to prove the Respondent's guilt, even if there is no strict adherence to the Rules of Electronic Evidence[21] was made.

QUANTUM OF EVIDENCE IN ADMINISTRATIVE CASES

Section 6, Rule 133 of the Rules of Court provides that the quantum of evidence required in administrative cases is substantial evidence, to wit:

> *"Section 6. Substantial evidence. - In cases filed before administrative or quasi-judicial bodies, a fact may be deemed established if it is supported by substantial evidence, or that amount of relevant evidence which a reasonable mind might accept as adequate to justify a conclusion."*

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[19] G.R. No. 105813, 12 September 1994.
[20] G.R. No. 233395, 17 January 2018.
[21] Administrative Matter No. 01-7-01-SC, 17 July 2001.

Administrative proceedings are governed by the "substantial evidence rule." This means that a finding of guilt in an administrative case would have to be sustained for as long as it is supported by substantial evidence that the respondent has committed the acts in the complaint. *(Pelaez v. Ganibo, G.R. No. 259856 (Notice), [September 5, 2022])*

In a series of cases decided by the Supreme Court, it held that in administrative cases, technicalities are frowned upon as enunciated in the case of *Palao vs Florentino International, Inc.*[22]:

> *[A]dministrative bodies are not bound by the technical niceties of law and procedure and the rules obtaining in courts of law. Administrative tribunals exercising quasi-judicial powers are unfettered by the rigidity of certain procedural requirements, subject to the observance of fundamental and essential requirements of due process in justiciable cases presented before them. In administrative proceedings, technical rules of procedure and evidence are not strictly applied and administrative due process cannot be fully equated with due process in its strict judicial sense.*

All screenshots submitted by the Complainants clearly display the names of the OLPs owned and operated by the Respondent. FinLenD holds that these constitute substantial evidence that the Respondent engaged in the alleged actions.

VIOLATION OF R.A. 3765 OR THE TRUTH IN LENDING ACT

Generally, the Respondent argues that under Article 1305 of the Civil Code, a contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service. Furthermore, Article 1159 of the Civil Code stipulates that obligations arising from contracts have the force of law between the contracting parties and must be fulfilled in good faith.

While FinLenD agrees to these provisions, the Respondent may have overlooked that through the enactment of R.A. 3765, also known as the TILA, another layer of protection was added to safeguard borrowers in the loan contracts they may execute.

In the case of the *Development Bank of the Philippines vs. Arcilla*, Jr.[23], the Supreme Court, citing the case of *Emata vs. Intermediate Appellate Court*[24], stressed that the TILA was enacted primarily "to protect its citizens from a lack of awareness of the true cost of credit to the user by using a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy."

The explanation was then reiterated in the case of *United Coconut Planters Bank vs. Spouses Beluso*[25] where the Supreme Court held that the rationale behind Section 4 of RA 3765 is "to protect users of credit from a lack of awareness of the true cost thereof, proceeding from the experience that banks can conceal such true cost by hidden charges, uncertainty of interest rates, deduction of interests from the loaned amount, and the like. The law thereby seeks to protect debtors by permitting them to fully appreciate the true cost of their loan, to enable them to give full consent to the contract, and to properly evaluate their options in arriving at business decisions."

In addition, furnishing the borrower with a Promissory Note after the execution of the contract defeats the intent of the law. As discussed in the case of *Spouses Silos v. Philippine National Bank*, G.R. No. 181045, [July 2, 2014], 738 PHIL 156-206, the Supreme Court held:

[22] G.R. No. 186967, January 18, 2017.
[23] G.R. No. 161397, 30 June 2005.
[24] G.R. No. L-72714, 29 June 1989.
[25] G.R. No. 159912, August 17, 2007.

UCPB further argues that ***since the spouses Beluso were duly given copies of the subject promissory notes after their execution, then they were duly notified of the terms thereof, in substantial compliance with the Truth in Lending Act.***

Once more, we disagree. Section 4 of the Truth in Lending Act clearly provides that the disclosure statement must be furnished prior to the consummation of the transaction:

> *SEC. 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:*
>
> *(1) the cash price or delivered price of the property or service to be acquired;*
> *(2) the amounts, if any, to be credited as down payment and/or trade-in;*
> *(3) the difference between the amounts set forth under clauses (1) and (2);*
> *(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;*
> *(5) the total amount to be financed;*
> *(6) the finance charge expressed in terms of pesos and centavos; and*
> *(7) the percentage that the finance bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.*

The rationale of this provision is to protect users of credit from a lack of awareness of the true cost thereof, proceeding from the experience that banks are able to conceal such true cost by hidden charges, uncertainty of interest rates, deduction of interests from the loaned amount, and the like. The law thereby seeks to protect debtors by permitting them to fully appreciate the true cost of their loan, to enable them to give full consent to the contract, and to properly evaluate their options in arriving at business decisions. *Upholding UCPB's claim of substantial compliance would defeat these purposes of the Truth in Lending Act.* ***The belated discovery of the true cost of credit will too often not be able to reverse the ill effects of an already consummated business decision.***

In addition, the promissory notes, the copies of which were presented to the spouses Beluso after execution, are not sufficient notification from UCPB. As earlier discussed, the interest rate provision therein does not sufficiently indicate with particularity the interest rate to be applied to the loan covered by said promissory notes.

(Emphasis suppliws)

In this case, the Respondent stated in its disclosure statement that the loan term is for 150, 180, or 210 days. However, in reality, the consumer or borrower is given a shorter period to repay, and hidden surcharges and interest for failing to settle the loan within this shorter timeframe undermine the noble intent of the law, which aims to make borrowers aware of the true cost of credit.

Additionally, Ms. Baldad's complaint includes screen captures of her application for a loan amounting to Eight Thousand Pesos (PhP8,000.00), dated 25 December 2022. The application shows a loan term of 180 days; however, the first payment was scheduled for 07 January 2023—just 18 days after the loan was taken, requiring a repayment amount of P10,055.00. The next scheduled payment due date was set for 22 June 2025, with an amount of P100.00. A careful evaluation of the loan agreement reveals that it does not specify when the first payment is due or provide a breakdown of the payments. This information only became visible after the loan agreement was finalized.

Mr. Quizon experienced a similar situation. Based on the submitted documents, his loan term appears to be 210 days, with a loan amount of Six Thousand Pesos (PhP6,000.00) taken out on 30 April 2022. However, by the end of May 2022, he was expected to repay nearly the entire loan amount. To comply with the terms, the Respondent collected the remaining amount of P100 at the conclusion of the 210-day period.

The intent of the law, which is to ensure that borrowers are well-informed about the agreements they enter into, has been undermined by the Respondent's deceptive practices. Worse still, borrowers were misled into agreements through misleading information that made them appear to be wise choices, when in fact they were not.

While contracts create obligations for both parties, it is essential that proper disclosure requirements for loan agreements are met. The Respondent has the right to collect repayments from borrowers and to impose lawful interest; however, it also has a responsibility to comply with existing laws and regulations when exercising these rights. The Complainants have reported similar experiences with the same company.

Under MC No. 7, the Commission is committed to protecting borrowers from uninformed credit usage and, in compliance with the TILA, has adopted Bangko Sentral ng Pilipinas Circular No. 730 (*"BSP Circular No. 730"*) dated 20 July 2011. BSP Circular No. 730 aims for transparency in pricing, not to limit rates, but to make those rates more understandable, comparable, and accessible to borrowers.

MC No. 7 provides for the penalty for non-compliance, to wit:

a. *First offense: Basic fine of Php20,000.00 and Php 100.00 for each day of continuing violation;*
b. *Second offense: Basic fine of Php25,000.00 and Php 100.00 for each day of continuing violation;*
c. *Third offense: Basic fine of Php30,000.00 and Php 100.00 for each day of continuing violation; and*
d. *Fourth offense: Suspension / revocation of Certificate of Authority to Operate as a Lending or Financing Company.*

Given that the Complainants have sufficiently proved by substantial evidence that the violation was committed by the Respondent, each complaint will be given credence and taken against the Respondent separately. Three complaints are tantamount to the commission of a third offense. The penalty of One Hundred Pesos (PhP100) for each day will be computed based on the loan term of each contract.

The complaint of Mr. Quizon will be considered the first offense, as this was the first contract executed with a term of 210 days; then, the contract of Mr. Alejo will be considered the second offense, with a 150-day term; and lastly, the contract of Ms. Baldad, with a 180-day loan term, will be considered the third offense. The computation will be as follows:

Complainant	Basic Penalty	Penalty each day (100 x loan term)	Total Penalty
Mr. Quizon	P20,000.00	P21,000.00	P41,000.00
Mr. Alejo	P25,000.00	P 15,000.00	P40,000.00
Ms. Baldad	P30,000.00	P18,000.00	P48,000.00
		TOTAL	**P129,000.00**

VIOLATION OF SEC MC 18, SERIES OF 2019

Complainants allege that the Company also violated SEC MC 18, in its conduct of collection activities. However, upon careful evaluation of the complaint form and attachments, these complaints cannot sufficiently prove that harassment was present in the act of collecting the loan receivables.

As discussed, in administrative proceedings, the quantum of proof necessary for a finding of guilt is only substantial evidence[26]. More than a mere scintilla of evidence, substantial evidence means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if other minds equally reasonable might conceivably opine otherwise. The requirement is satisfied where there is reasonable ground to believe that the respondent is guilty of the act or omission complained of, even if the evidence might not be overwhelming[27].

Complainants in this case failed to prove by substantial evidence that the harassment was indeed taken by the Respondent in violation of SEC MC 18.

WHEREFORE, in view of the foregoing, **LHL ONLINE LENDING INC., doing business under the names and styles of Pautang Online and Pautang Peso**, is **hereby ordered to pay the amount of One Hundred Twenty-Nine Thousand Pesos (P129,000.00) within ten (10) from the release of this Order** for its violation of R.A. 3765, or the Truth in Lending Act. The Company is hereby warned that subsequent violation of the same act shall cause the Commission to revoke its primary registration and Certificate of Authority to operate as a lending company.

Let a copy of this Order be furnished to the CRMD and the Information and Communications Technology Department for their information and appropriate action. Complainants in this case shall likewise be furnished with this Order for their information.

SO ORDERED.

17 July 2025 Makati City, Philippines.

Kenneth Joy A. Quimio

ATTY. KENNETH JOY A. QUIMIO
OIC-Director

[26] Macaventa v. Nuyda, A.C. No. 11087, October 12, 2020
[27] Diaz v. Ombudsman, G.R. No. 203217. July 02, 2018

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