



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 789

Series of 2013

Subject: Amendments to the Manual of Regulations for Non-Bank Financial Institutions applicable to Non-Stock Savings and Loan Associations

The Monetary Board, in its Resolution No. 165 dated 25 January 2013, approved the amendments to the Manual of Regulations for Non-Bank Financial Institutions applicable to Non-Stock Savings and Loan Associations (MORNBFI-S) and adopted additional regulations related thereto, as follows:

Section 1. New provisions of Section 4301S are hereby inserted in the MORNBFI-S Regulations, while its existing provisions on Authority, Loan Limits, Maturity of Loans are amended and transferred to the new Subsection 4301S.1, as follows:

"Sec. 4301S Lending Policies. It shall be the responsibility of the board of trustees of NSSLAs to formulate written policies on the extension of credit. Well-defined lending policies and sound credit risk management practices are essential if NSSLAs are to perform their lending function effectively and minimize the risk inherent in any extension of credit. The responsibility should be approached in a way that will provide assurance to the members, other stakeholders and the supervisory authority that timely and adequate action will be taken to maintain the quality of the loan portfolio."

"Subsec. 4301S.1 Authority; Loan Limits, Maturity of Loans. The board of trustees of NSSLAs shall be responsible for the design of appropriate loan products in accordance with the Association's business strategies and its members' requirements. The board of trustees shall ensure that they fully understand all the risks attendant to the Association's lending activities and shall adopt appropriate risk management policies and practices that are commensurate to the risks attendant to their operations, and which, at a minimum, shall comply with the regulations and standards prescribed herein. NSSLAs deemed to be engaged in hazardous lending practices shall be cited as operating in an unsafe and unsound manner.

"a. Loan Products. NSSLAs may grant loans to members to service the needs of households by providing long term financing for home building and development, for personal finance and for agricultural and entrepreneurial projects. The board of trustees of NSSLAs shall consider, among other things, the following in the definition of its loan products:

- (1) the nature or purpose of the loan;
- (2) the repayment capacity and circumstances of the member-borrower;
- (3) terms of the loan; and
- (4) normal loan collection cycles

The definitions and characterization of all loan products shall be embodied in a product manual approved by the board of trustees. The product manual shall, at a minimum, contain the term of the loan, the maturity of which shall in no case exceed the maximum provided under Item "d" of this Subsection, interest rate, net-take home pay requirement vis-à-vis the type of member-borrower, repayment terms, collection scheme, documentary requirements and applicable work-out strategies. The normal collection period, which refers to the normal period of time within which the Association is able to effect the first periodic amortization/salary deduction for amortization of a loan reckoned from loan release date, shall likewise be set by the NSSLA's board of trustees and shall be based on the recent historical experience of the NSSLA (e.g., last three years) and/or the remittance period specified in contracts entered into with private companies or department/branch/office of government employing the NSSLA's members. The NSSLA's normal collection period and the manner by which it is established shall be set forth in the NSSLA's loan policies and considered in its overall risk assets review system in order to reflect the true status of loan accounts and ensure that adequate loss reserves are provided. In no case, however, shall the normal collection period exceed six (6) months from the date of release of the loan."

"b. Loan limit to single borrower. xxx"

"c. Limitations on lending authority. xxx"

"d. Maximum loan maturity. xxx"

Section 2. Subsection 4306S.1 on accounts considered past due is hereby amended, as follows:

"Subsec. 4306S.1 Accounts considered Past Due. The following shall be considered past due:

"a. For loan or receivable payable on demand not paid upon written demand as required herein or within one (1) year from date of grant or renewal, whichever comes earlier.

"xxx xxx xxx"

"b. For loans or receivables payable on installment, the outstanding balance of the loan if a payment has fallen due and remained unpaid;

"c. In case of restructured loans as defined in Sec. 4308S, the total outstanding balance of the loan if a payment has fallen due and remained unpaid; and

"d. All items in litigation as defined in the Manual of Accounts.

"Past due accounts as defined herein are considered non-performing loans (NPL)."

Section 3. Section 4308S is hereby added to provide for the rules and regulations on restructuring of loans, which shall read as follows:

"Sec. 4308S Restructured Loans; General Policy. Restructured loans are loans the principal terms and conditions of which have been modified for it not to become a problem account, or if already past due, to allow for a better settlement plan to fully pay-off the loan. Restructured loans are supported by a restructuring agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. The modification may include, but is not limited to, change in maturity, installment amortization, interest rate, collateral or increase in the face amount of the debt resulting from the capitalization of accrued interest/accumulated charges.

"Items in litigation and loans subject of judicially-approved compromise, as well as those covered by petitions for suspension or for new plans of payment approved by the court or the SEC, shall not be classified as restructured loans.

"NSSLAs shall have the flexibility to determine the basis for and terms of the loan restructuring, considering, among other things, the paying capacity of the borrowers: *Provided*, That these shall at all times be consistent with sound credit risk management standards.

"Loan restructuring shall be subject to the approval of the board of trustees whose resolution shall embody, among other things:

1. basis of or justification for the approval;
2. basis for the determination of the borrower's capacity to pay; and
3. nature and extent of protection of the exposure.

"The restructuring of loans granted to trustees and/or officers of an NSSLA should be upon terms not less favorable to the Association than those offered to other members."

"In case of loans secured by real estate collateral, such security shall be appraised at the time of restructuring to ensure that current market values are being used."

"A second restructuring of a loan may be allowed only if there are reasonable justifications, and after the borrower has paid at least twenty percent (20%) of the principal obligation and updated the payment of all interest accruing to the loan as first restructured.

"Restructured loans shall be classified and provided with adequate allowance for probable losses in accordance with *Appendix 9*."

Section 4. Subsection 4306S.2 on Extension/renewal of loans is hereby transferred to Section 4309S and amended to read as follows:

"Sec. 4309S Renewal of loans

"Loans payable in periodic installments may be renewed for the full or beyond the amount of such loans but within the limit prescribed under Subsec. 4301S.1b or the NSSLA by-laws, as applicable: *Provided*, That at least thirty percent (30%) of the loan shall have been paid."

Section 5. Section 4392S is hereby added to provide for the rules and regulations on risk assets review system and provision of adequate allowance for probable losses, to read as follows:

"Sec. 4392S Loan portfolio and other risk assets review system

"To ensure that timely and adequate management action is taken to maintain the quality of the loan portfolio and other risk assets, and that adequate loss reserves are set-up and maintained at a level sufficient to absorb the loss inherent in the loan accounts and other risk assets, each NSSLA shall establish a system of identifying and monitoring existing or potential problem loans and other risk assets, and of evaluating credit and asset management policies vis-à-vis prevailing circumstances and emerging portfolio trends.

"The board of trustees is responsible for ensuring that the NSSLA has, at a minimum:

- a. A robust risk management system that shall include, at least, an independent and periodic review of quality of risk assets;
- b. Controls in place, and policies and procedures to determine the adequacy of booked allowance for probable losses on loans and other risk assets, consistent with the Philippine Accounting Standards and the minimum standards required in Appendix 9. The allowance for losses required in the said appendix shall likewise be set-up immediately; and

- c. A robust process to ensure that the board of trustees is informed of the results of independent and periodic reviews, and determination of adequacy of booked loss reserves, and that appropriate actions on such reports are undertaken consistent with the specific duties and responsibilities of the board of trustees as provided under Subsec. 4141S.5.a(7).

Section 6. Section 4655S on Annual Fees on NSSLAs is amended to read as follows:

"Sec. 4655S Annual Supervisory Fees

"The prescribed rate of annual supervisory fees for an NSSLA beginning assessable year 2012 shall be one-sixty-fifth of one percent (1/65 of 1%) of its *Average Assessable Assets (AAA)* of the immediately preceding year but shall not exceed the maximum amount provided below:

Total AAA of NSSLA	Maximum Amount of Annual Fees
> P1.0 billion	P 500,000.00
> P750.0 million – P1.0 billion	P 400,000.00
> P500.0 million – P750.0 million	P 200,000.00
> P250.0 million – P500.0 million	P 100,000.00
> P100.0 million – P250.0 million	P 50,000.00
Up to P100.0 million	P 10,000.00

"Provided, That the minimum amount of annual fees of NSSLAs with AAA of up to P100.0 million shall be P10,000.00."

"The annual supervisory fee shall be payable within thirty (30) days from receipt of the billing statement from the Bangko Sentral. Failure to pay the annual fee within the prescribed period shall subject the NSSLA to administrative sanctions."

"For purposes of computing the annual supervisory fees, AAA shall be the summation of end-of-quarter total assessable assets (end-of-quarter total assets per balance sheet, after deducting cash on hand and amounts due from banks) divided by the number of quarters in operation during the particular assessment period."

Section 7. The first and second paragraphs of Section 4106S on Capital are hereby amended to read as follows:

"Sec. 4106S Capital of NSSLAs

"A newly organized NSSLA shall have a minimum initial aggregate capital contribution of P1.0 million. Thereafter, an NSSLA shall maintain a minimum capital that would allow it to comply with the

capital adequacy ratio requirement as provided under Sec. 4116S.

"NSSLAs shall adopt policies to encourage their members to increase their capital contributions which shall be classified by the NSSLA as either fixed/non-withdrawable or withdrawable capital in accordance with the definition provided under Subsec. 4106S.1. Partial withdrawal from the amount paid by a member as withdrawable capital contributions, during his membership, may be allowed unless the by-laws of the NSSLA provide otherwise: *Provided*, That policies allowing the partial withdrawal by a member of his withdrawable capital contributions shall comply with the provisions of Subsec. 4106S.1."

Section 8. Subsection 4106S.1 on Revaluation Surplus is hereby renumbered as Subsection 4106S.7, Subsections 4106S.2 up to 4106S.6 are created as reserved subsections, and the new Subsection 4106S.1 shall now read as follows:

"Subsec. 4106S.1 Regulatory Treatment of Capital Contributions of Members.

"An NSSLA shall ensure that monies received representing capital contributions are duly registered in the books of the Association under the name of the member making such contributions.

"Capital contributions of members shall be classified by an NSSLA as either fixed/non-withdrawable or withdrawable as herein defined.

"a. *Fixed/non-withdrawable capital* refers to the member's capital contribution in the NSSLA which he must maintain for the duration of his membership thereon.

(1) *Minimum Amount* – Every member of an NSSLA shall be required to maintain a fixed/non-withdrawable capital contribution of at least P1,000.00 unless a higher minimum is prescribed under the NSSLA's by-laws.

(2) *Ceiling*. An NSSLA shall encourage all its members to increase their fixed/non-withdrawable capital over time beyond the minimum amount prescribed under item "(1)" hereof. However, to ensure that control over the affairs of the NSSLA remains broad-based, the total amount that a member and/or his immediate family may contribute as fixed/non-withdrawable contributions shall be subject to a ceiling which shall be determined by the board of trustees and duly confirmed by the NSSLA's general assembly. The prescribed ceiling shall be applied uniformly to all members: *Provided*, That in cases where the NSSLA is unable to comply with the capital adequacy ratio requirement as provided under Sec. 4116S, any deviation from the uniform application of or

setting-up of aforesaid ceiling may be allowed.

"b. *Withdrawable capital* refers to the amount of capital contributions which may be withdrawn by a member pursuant to the terms and conditions prescribed under the NSSLA's by-laws, or as approved by the board of trustees and duly confirmed by the NSSLA's general assembly.

(1) *Ceiling.* At no time shall the total withdrawable capital contributions of a member and that of his immediate family, as defined in Subsec. 4101S.1.b(3), exceed ten times (10X) their fixed/non-withdrawable capital contributions.

(2) *Restrictions on withdrawability.* Notwithstanding the capital contributions' withdrawability, the NSSLA shall establish and prescribe the conditions and/or circumstances when the NSSLA may limit the withdrawal of the members' withdrawable capital contributions, such as, when the NSSLA is under liquidity stress or is unable to meet the capital adequacy ratio requirement under Sec. 4116S.

"c. *Limit on total capital contributions.* NSSLAs shall prescribe a maximum amount on the total amount of fixed and withdrawable capital contributions that a family group (i.e., member and his immediate family as defined under Subsec. 4101S.1.b(3)) may hold in an NSSLA.

"Transitory provisions. An NSSLA shall have one (1) year period reckoned from (the effectivity of this Circular) within which to amend the pertinent provisions of its by-laws and written policies to comply with the foregoing requirements: *Provided,* That amounts held in excess of the prescribed ceiling under Item "b.(1)" hereof upon (effectivity of this circular) shall be allowed to continue as such but once reduced shall not thereafter be increased beyond the prescribed ceiling."

Section 9. The first paragraph of Section 4116 on Capital-to-risk- assets ratio is hereby amended to read as follows:

"Sec. 4116S Capital-to-Risk Assets Ratio. Capital-to-risk assets ratio (CAR) is an important tool to measure solvency and effectively manage the risk-taking activities of an NSSLA, determine its capacity to absorb unexpected losses, and adequately provide protection to members and creditors.

"The CAR, expressed as a percentage of total capital accounts to total risk assets shall not be less than ten percent (10%).

"For purposes of computing CAR, the aggregate amount of withdrawable capital contributions that shall be allowed to form part of an NSSLA's total capital accounts shall be capped at ten times (10X) the aggregate amount of fixed/non-withdrawable capital contributions.

"*Total risk assets* is defined as total assets minus the following assets:

- a. Cash on hand;
- b. Evidences of indebtedness of the Republic of the Philippines and any other evidences of indebtedness/obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;
- c. Loans to the extent covered by hold-out on, or assignment of deposits maintained in the lending NSSLA;
- d. Office premises, depreciated;
- e. Furniture, fixture and equipment, depreciated;
- f. Real estate mortgage loans guaranteed by the Home Guarantee Corporation to the extent covered by the guarantee; and
- g. Other non-risk items as the Monetary Board may, from time to time, authorize to be deducted from total assets.

"xxx."

"xxx."

"*Transitory provisions.* An NSSLA which failed to meet the minimum CAR as prescribed above shall have until 30 June 2013 within which to comply."

Section 10. Section 4126S is hereby amended to read as follows:

"Sec. 4126S Limitations on Distribution of Net Income

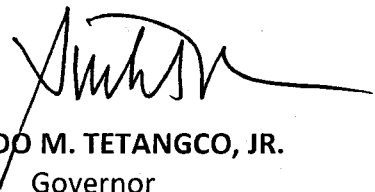
- a. *Amount available for income distribution.* An NSSLA may distribute net income to members out of its adjusted Undivided Profits and the balance of its Surplus Free account as of the calendar year-end or fiscal year-end immediately preceding the date of net income distribution: *Provided*, That in addition to the requirements as provided in this Section, in no case shall the NSSLA distribute any of its net income and/or surplus to its members if its CAR and capital contributions are below the level required under Secs. 4116S and 4106S, respectively.
- b. *Basis for participation in profits.* Member-contributors of an NSSLA may participate in the profits of the NSSLA on the basis of the balances of their capital contributions as determined by the board of trustees: *Provided*, That an NSSLA shall distribute net income to members only once in a calendar or fiscal year adopted

by such NSSLA.

- c. *Level of withdrawable share reserve.* No NSSLA shall distribute any of its net income to its members if the withdrawable share reserve required under Sec. 4117S is less than, or by such distribution would be reduced below, the amount specified in said Section. The reserve shall be adjusted first before the NSSLA shall distribute its net income for the year.
- d. *Discrepancies between the general ledger and subsidiary ledger accounts.* The surplus reserves set-up as required under Sec. 4118S shall not be reverted to Surplus Free available for distribution to members unless and until the discrepancy between the general ledger accounts and their respective subsidiary ledgers for which the surplus reserve has been set up ceases to exist.
- e. *Other unbooked capital adjustments required by BSP, whether or not allowed to be set up on a staggered basis.* The unbooked loss reserves and other unbooked capital adjustments required by the Bangko Sentral based on the latest approved Report of Examination of the NSSLA, whether or not allowed to be set up on a staggered basis, shall be deducted from the amount of net income available for distribution to members.
- f. *Interest and other income earned but not yet collected/received, net of allowance for credit losses.* Accrued interest and other income not yet received but already recorded by an NSSLA from financial assets, net of allowance for credit losses, shall be deducted from the amount of net income available for distribution to members."

Section 11. Effectivity. This Circular shall take effect fifteen (15) calendar 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

28 February 2013

**Guidelines in Classifying Loans and Other Risk Assets and
Setting Up of Allowance for Probable Losses**
(Appendix to Sections 4308S and 4392S)

NSSLAs are responsible for the regular review and assessment of the quality of their loan portfolio and other risk assets. It is the duty of the board and senior management of NSSLAs to ensure that the good quality of these assets is maintained, and that adequate loss reserves are set-up at all times.

To achieve these objectives, NSSLAs shall adopt and fully document policies and procedures for an effective internal asset review system and monitoring processes which should, at a minimum, comply with the standards prescribed herein. These policies and procedures should be clearly communicated to all relevant parties in the organization to ensure implementation thereof. Adequate measures should be adopted to see to it that asset review policies and procedures remain relevant and appropriate with due consideration of the design and characteristics of their portfolio, and that enough safeguards to ensure that changes where appropriate are adopted. Failure to conduct this regular assessment and set-up adequate loss reserves shall be considered unsafe and unsound practice.

- I. **Classification of Loans.** Loans shall be qualitatively assessed and grouped as Unclassified or Classified.
 - A. *Unclassified loans.* These are loans that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans as defined. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
 - B. *Classified loans.* Their classification and characteristics are detailed as follows:
 1. **Loans especially mentioned.** These loans have potential weaknesses which, if left uncorrected, may affect the repayment of the loan. Their characteristics include:
 - a. Loans extended to member-borrowers whose paying capacity was not appropriately determined;
 - b. Accounts with defects and deficiencies in documentation which may render the collection of the loan difficult, e.g., loans with unsigned promissory notes; and
 - c. Accounts which are 1-10 days past due based on the established and approved collection cycle indicated in the product manual of an NSSLA.
 2. **Substandard.** These loans have well-defined weakness or weaknesses that jeopardize their repayment/liquidation, including adverse trends or developments that affect willingness or capacity to pay. Basic characteristics include the following:

a. For secured loans:

- 1) There is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts

b. For unsecured loans:

- 1) Loans under litigation; and
- 2) Loans classified as "Loans Especially Mentioned" in the last examination the weaknesses of which remained uncorrected in the current examination.

In addition, loans which are 11-30 days past due based on the established and approved collection cycle indicated in the product manual of an NSSLA.

3. **Doubtful.** These are loans whose characteristics make collection or liquidation highly improbable and from which substantial loss is probable, such as:

- a. Past due loans secured by real estate mortgage, the title to which is subject to adverse claim or with defect in ownership rendering settlement of the loan through foreclosure doubtful;
- b. Past due loans secured by collaterals which have declined in value materially without the borrower offering additional collateral for the loans; and
- c. Loans which are 31-90 days past due based on the established and approved collection cycle indicated in the product manual of an NSSLA.

4. **Loss.** These are loans considered uncollectible. Their basic characteristics include the following:

- a. The member-borrower's whereabouts is unknown, or he has absconded, is dead or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guaranty is not financially supported: *Provided*, That the NSSLA may take into account the outstanding balance of deposits and/or capital contributions of the member-borrower and/or the present realizable value of security offered;
- b. Where the collaterals securing the loans are without recoverable values and the member-borrower and his co-makers are insolvent; and
- c. Loans which are past due for 91 days and beyond based on the established and approved collection cycle indicated in the product manual of an NSSLA.

C. **Restructured loans.** Upon execution of the restructuring agreement, the classification of a loan prior to restructuring, either "*Loans Especially Mentioned*", or "*Substandard*" or "*Doubtful*" shall be retained. The upgrading of the loan's classification shall only be effective after a satisfactory track record of three (3) consecutive payments of the required amortization of principal and/or interest has been established and if such loan meets the criteria of the lower loan classification.

II. Classification of Other Risk Assets

- A. Real and Other Properties Acquired (ROPA), Sales Contract Receivable (SCR) and Investments shall be subject to impairment provisions under the Philippine Accounting Standards (PAS) which were adopted by the BSP. ROPA exceeding P5.0 million in book value shall be appraised by external appraisers acceptable to the BSP. An in-house appraisal of all ROPAs shall be made every other year: *Provided*, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

While ROPA and SCR are subject to impairment provisions, their classification status shall be "*Substandard*". ROPAs are not sound assets because of their nature as non-liquid and non-productive. As such their immediate disposal is highly recommended. On the other hand, SCRs come from conversion of ROPA, hence, they shall initially carry the classification of their predecessor. SCRs which meet all the requirements/conditions enumerated below are considered performing assets and not subject to classification:

1. That there has been a down payment or installment payments on the principal of at least 20% of the agreed selling price;
2. That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
3. That any grace period in the payment of principal shall not be more than one (1) year; and
4. That there is no installment payment in arrear either on principal or interest: *Provided*, That an SCR account shall be automatically classified "*Substandard*" and considered non-performing in case of non-payment of any amortization due: *Provided further*, That an SCR which has been classified "*Substandard*" may only be upgraded to unclassified/performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

The BSP however, reserves the right to require that specific provisions on ROPA and SCR be made, if based on its assessment, the NSSLA is unable to make the necessary impairment provisioning.

- B. Accounts receivables shall be classified in accordance with age as follows, unless there is good reason for non-classification:

No. of Days Outstanding	Classification
61 – 180	Substandard
181 – 360	Doubtful
Beyond 361	Loss

The classification according to age of accounts receivable shall be used in classifying other risk assets not covered above. However, their classification should be tempered by favorable information gathered in the review.

III. Allowance for Probable Losses. The allowance for losses for classified loans and other risk assets shall be set up immediately in accordance with the following guidelines:

1. Specific allowance. Specific minimum allowance shall be immediately set-up based on the qualitative review of loans and accounts receivable, as follows:

Classification	Minimum Specific Allowance (Percent)		
	Loans		Accounts Receivables
	Clean	Fully Secured	
Unclassified	0	0	0
Loans Especially Mentioned (LEM)	10	5	N/A
Substandard	25	12.5	25
Doubtful	50	25	50
Loss	100	50	100

Provided, That prudent level of provisioning should be increased beyond the minimum prescribed depending on the estimated realizable net present value of the collateral less transaction costs of realizing its value. *Provided further*, That for purposes of comprehensive estimating the minimum required level of provisioning for the loan portfolio, the BSP reserves the right to rely on valid sampling techniques and to group loans with similar characteristics.

2. General allowance. In addition to the specific allowance for probable losses under Item "1", a general provision for loan losses shall also be set-up as follows:
 - (a) Two percent (2%) of the outstanding balance of unclassified restructured loans;
and
 - (b) One percent (1%) of the outstanding balance of unclassified loans.
3. In addition to the foregoing minimum prudential requirements, NSSLAs are also required to comply with the provisions of the Philippine Accounting Standards (PAS) on the recognition of impairment losses on its financial assets. *Provided*, That NSSLAs are required to meet the BSP minimum allowance for losses or the required provisioning under the PAS, whichever is higher.