



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 409
Series of 2003

Pursuant to Monetary Board Resolution No. 1393 dated 22 September 2003, prescribing the rules, regulations and standards that shall govern microfinancing operations of banks, the Manual of Regulations for Banks, the Manual of Accounts for Universal Banks and Commercial Banks, the Manual of Accounts for Thrift Banks and the Manual of Accounts for Rural Banks are hereby amended as follows:

Section 1. Portfolio-at-Risk (PAR). PAR is the outstanding principal amount of all loans that have at least one installment past due for one or more days. The amount includes the unpaid principal balance but excludes accrued interest. Under PAR, loans are considered past due if a payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid.

Section 2. Accrual of interest earned. Interest accrued and/or booked shall be reversed and no accrual of interest shall be allowed after the microfinance loan has become past due as defined in Subsec. X 306.1.g of the Manual of Regulations for Banks.

Section 3. Restructured loans; Refinanced loans. *Restructured loans* are loans that have been renegotiated or modified to either lengthen or postpone the original scheduled installment payments or substantially alter the original terms of the loans. Any increase in the face amount of the debt resulting from accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans shall be recorded in the unearned income/deferred credit account "Capitalized Interest and Other Charges – Restructured Loans". Upon receipt of payment, the realized portion shall be amortized/credited to income.

Refinanced loans are loans that have been disbursed to enable repayment of prior loans that would not have been paid in accordance with the original installment schedule. Loans granted within a week or less from the date an original loan with more than 30% of the original principal still outstanding had been paid in advance shall be considered as refinanced loans. Refinanced loans shall be classified and reported as restructured loans.

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Section 4. Subsec. X306.1.g of the Manual of Regulations for Banks is hereby added to read as follows:

Subsec. X306.1 ***Accounts considered past due***

The following shall be considered as past due:

x x x

g. Microfinance Loans – if a payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of lateness/delinquency is based on the due date of the earliest loan installment that has not been fully paid.

Section 5. Writing off microfinance loans as bad debts. Microfinance loans that have been past due for 91 days or more and are fully provisioned may be written off in accordance with Subsection X306.5(b) and (c) of the Manual of Regulations for Banks.

Section 6. Appendix 18 - Guidelines in Identifying and Monitoring Problem Loans and Other Risk Assets and Setting up of Allowance for Probable Losses (Appendix to Sec. X302) of the Manual of Regulations for Banks is hereby amended by adding Item C. after Item III.B General allowance, to read as follows:

C. *Allowance for probable losses - Microfinance Loans*

Specific allowance for probable losses on Microfinance Loans shall be set up immediately in accordance with the PAR number of days of missed payment, as follows:

No. of days missed payment		Allowance for Probable Losses (%)
PAR	1 - 30	2
	31 - 60 and/or	
	loans restructured once	20
	61 - 90	50
	91 or more and/or	
	loans restructured twice	100

Provided, that a general provision for losses for microfinance loans equivalent to one percent (1%) of the outstanding balance of microfinance loans not subject to the foregoing provisioning less microfinance loans which are considered non-risk under existing laws/rules/regulations, if any, shall also be set up.

Section 7. The following General Ledger accounts shall be added to the Manual of Accounts for Universal Banks and Commercial Banks, the Manual of Accounts for Thrift Banks, as well as the Manual of Accounts for Rural Banks:

1. Microfinance Loans (GL ACCT CODE)

This represents small loans granted to the basic sectors such as farmer-peasant, artisanal fisherfolk, workers in the formal and informal sector, and 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. Restructured Loans – Microfinance Loans (GL ACCT CODE)

This represents microfinance loans that have been renegotiated or modified to either lengthen or postpone the original scheduled instalment payments, or substantially alter the original terms of the loans. Restructured loans which shall include refinanced loans, shall be treated as non-performing and no interest income shall be accrued thereon.

Sub-control account:

3. Past Due Restructured Loans – Microfinance Loans (GL ACCT CODE)

This represents restructured microfinance loans which are considered past due under existing rules and regulations. The loan shall remain in this account until fully paid; arrangements are formalized for its renewal/ restructuring or collection case has been filed in court.

Sub-control account4. Items in Litigation – Restructured Microfinance Loans (GL ACCT CODE)

This represents restructured microfinance loans for which collection cases have been filed in court. The loan shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, or such other disposition is made as would cause such proceedings to cease. All expenses incurred incidental to the litigation shall be charged to operations and lodged under "Litigation/Assets Acquired Expenses" account. Corresponding memorandum entries for the expenses shall be made on the individual subsidiary ledger of the account concerned.

5. Past Due Microfinance Loans (GL ACCT CODE)

This represents microfinance loans which are considered past due under existing rules and regulations. The loan shall remain in this account until fully paid; arrangements are formalized for its reactivation/renewal/restructuring or collection case has been filed in court.

6. Items in Litigation - Microfinance Loans (GL ACCT CODE)

This represents microfinance loans for which collection cases have been filed in court. The loan shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, or such other disposition is made as would cause such proceedings to cease. All expenses incurred incidental to the litigation shall be charged to operations and lodged under "Litigation/Assets Acquired Expenses" account. Corresponding memorandum entries for the expenses shall be made on the individual subsidiary ledger of the account concerned.

7. Allowance for Probable Losses – Microfinance Loans (GL ACCT CODE)

This represents the amount set up against current operations to provide for losses which may arise from non-collection of microfinance loans. Under existing regulation, this account is also known as "valuation reserve".

Section 8. Sanctions. Violations of the provisions of this Section shall be subject to any or all of the following sanctions:

- a) Disqualification of the bank concerned from the credit facilities of the BSP except as may be allowed under Section 84 of R.A. No. 7653;
- b) Prohibition of the bank concerned from the extension of additional microfinance loans; and
- c) Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

This Circular shall take effect on **January 1, 2004**.

FOR THE MONETARY BOARD:


ALBERTO V. REYES
Officer-in-Charge

16 October 2003