



# *Bangko Sentral ng Pilipinas*

MAYNILA, PILIPINAS

## Office of the Governor

**CIRCULAR NO. 354**  
**Series of 2002**

The Monetary Board in its Resolution No. 1337, dated September 12, 2002, approved the following guidelines on the Bangko Sentral ng Pilipinas (BSP) Rediscounting Facility pursuant to Section 82 (a), (b), and (c) of Republic Act No. 7653, The New Central Bank Act. The guidelines shall replace the existing provisions of Sections X268 and X269 and their corresponding subsections of the Manual of Regulations for Banks, which are hereby revised as follows:

**Sec. X268 Eligibility Requirements for Availment of the BSP Rediscounting Facility by Banks.** The following are the eligibility requirements for availment of the BSP rediscounting facility.

**§ X268.1 Eligibility Requirements for Applicant Banks.** Banks applying for availment of the BSP rediscounting facility must meet the following eligibility requirements at all times:

- a. Minimum capital prescribed under Subsections X106.1 and X106.2, as amended based on the latest available report submitted to Supervisory Reports and Studies Office (SRSO).
- b. Capital-to-risk assets ratio as required under Sec. X116 continuously for a period of thirty (30) days immediately preceding date of application based on latest available report submitted to SRSO.
- c. Required loan-loss provision and/or valuation reserves as determined in the last examination of the appropriate supervising and examining department.
- d. Required reserves against deposit liabilities/deposit substitutes for two (2) consecutive weeks immediately preceding the date of application based on latest available report submitted to SRSO.
- e. Past due direct and indirect loans to directors, officers, stockholders, and their related interests (DOSRI) to the aggregate past due loans of not more than five percent (5%) based on latest available report submitted to SRSO.
- f. Past due ratio not exceeding the industry average plus two percent (2%) as of the latest quarterly report released by the SRSO.
- g. Compliance with the loans-to-deposit ratio based on latest available report submitted to SRSO.
- h. Investment in bank premises not exceeding fifty percent (50%) of networth based on the latest available report submitted to SRSO.
- i. Required liquidity floor for government deposits based on latest available report submitted to SRSO.



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- j. Compliance with the mandatory allocation of credit to small and medium enterprises based on the latest available report submitted to SRSO.
- k. No overdrawings in its demand deposit accounts with the BSP.
- l. No past due obligations or collateral deficiencies on account of matured notes/unremitted collections/missing collaterals.
- m. A CAMELS Composite Rating of three (3) or higher based on the latest general examination of the appropriate supervising and examining department.
- n. Submission of required reports on time to the departments and/or offices of the BSP.
- o. Compliance with other applicable laws, rules and regulations, and/or directives of the Monetary Board.

**§ X268.2 Eligible Papers and Collaterals.** The BSP shall accept loan papers covering *all* economic activities *except* the following: (1) Interbank loans; (2) DOSRI loans; (3) Extended/Restructured loans; (4) Past due loans; (5) Unsecured loans, other than microfinance loans; (6) Personal consumption loans; and (7) Loans for capital assets acquisition.

Credit instruments offered as collateral shall be subject to the eligibility requirements provided under Section 82 of R.A. No. 7653.

- (a) Commercial Credits – Bills, acceptances, promissory notes and other credit instruments with maturities of not more than one hundred eighty (180) days from the date of their rediscount, discount or acquisition by the BSP and resulting from transactions related to:
  - (1) the importation, exportation, purchase or sale of readily saleable goods and products, or their transportation within the Philippines; or
  - (2) the storing of nonperishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the Monetary Board (MB).
- (b) Production Credits – Bills, acceptances, promissory notes and other credit instruments having maturities of not more than three hundred sixty (360) days from the date of their rediscount, discount or acquisition by the BSP and resulting from transactions related to the production or processing of agricultural, animal, mineral, or industrial products.
- (c) Other Credits – Special credit instruments not otherwise rediscountable under the immediately preceding subsections (a) and (b) such as agricultural loans for projects with long gestation period may be eligible for rediscounting in accordance with rules and regulations which the BSP shall prescribe.

The promissory notes (PNs)/export bills (EBs) shall be endorsed in favor of the BSP and certified that the same are still outstanding as of the time of application, by at least two responsible officers holding positions not lower than a manager or equivalent rank, authorized by the borrowing bank's Board of Directors.

**Sec. X269 Terms and Conditions of the BSP loan.** The following are the terms and conditions which shall govern the grant of the BSP loan.

**§ X269.1 Rediscount Ceiling.** The rediscount ceiling of banks shall be 100% of their networth; for branches of foreign banks, the rediscount ceiling shall be twenty five percent (25%) of "Net Due to Head Office" plus "Assigned Capital". Networth shall be net of any unbooked valuation reserves and other capital adjustments recommended by the concerned BSP supervising and examining department.

**§ X269.2 Rediscounting Line.** The rediscounting availments of all eligible banks shall be drawn against a rediscounting line. The application for availment shall be submitted to the Department of Loans and Credit (DLC) or to the Regional Loans and Credit Unit (RLCU), which will provide the borrowing bank with a checklist of the documents required. The term of the line shall be for one (1) year renewable annually upon submission of application at least one (1) quarter before expiry of said line. The approval of the line/renewal of the same shall be subject to the banks' full compliance with the prescribed eligibility requirements provided in Subsection X268.1. The Director of the DLC shall approve the line. With prior approval of the MB, the rediscounting line may be increased beyond the rediscount ceiling on a case-to-case basis depending on the credit rating of the bank concerned.

**(a) Basis.** The DLC or the appropriate RLCU shall conduct a credit rating of all banks applying for a rediscounting line. The amount of the line shall be based on the credit rating of the bank, which shall be in accordance with the New Credit Rating Guidelines.

**(b) Application Procedure.** Banks applying for a rediscounting line shall submit their application in the prescribed form to the DLC or the appropriate RLCU, together with the following documents:

1. Board Resolution duly signed by the Board of Directors of the applicant bank, authorizing the bank to apply for a rediscounting line with the BSP and designating at least two (2) officers authorized to endorse PNs/EBs and sign all papers pertaining to rediscounting in the prescribed BSP Forms.
2. Consolidated Statement of Condition as of the end of month immediately preceding the date of application together with the related Statement of Income and Expenses.
3. Consolidated Daily Report of Condition (CDRC) covering the past two (2) consecutive weeks immediately preceding the date of application.
4. For rural and cooperative (coop) banks, a tripartite depository agreement by and among the applicant rural/coop bank,

designated depository bank (duly concurred by its Head Office) and the DLC/RLCU.

5. Rediscounting Line Agreement duly signed and executed by the designated authorized officers of the applicant bank.

**§ X269.3 Loan Value.** The loan value of all eligible papers shall be eighty percent (80%) of the outstanding balance of borrower's PN/EB.

**§ X269.4 Maturities.** The maturity of BSP loans/advances/rediscounts are as follows:

- a) Commercial credits - Not to exceed 180 days from the date the proceeds of such loans/advances/rediscounts are released to the applicant bank
- b) Production credits - Not to exceed 360 days from the date the proceeds for such loans/advances/rediscounts are released to the applicant bank.
- c) Other credits - Not to exceed 360 days, including loans for agricultural purposes with long gestation periods.

The maturity date of the bank's rediscounting loan from the BSP, as indicated in its promissory note, shall not be longer than the latest maturity date indicated in the borrower's collateral paper submitted by the bank to support its rediscounting availments.

**§ X269.5 Rediscount / Lending Rates and Liquidated Damages.** The rediscount rates for peso loans shall be based on the applicable Treasury Bill (TB) rates for the preceding week as follows:

| Loan Maturity   | Applicable TB Rate |
|-----------------|--------------------|
| 90 days or less | 91-day             |
| 91 - 180 days   | 182-day            |
| 181 - 360 days  | 364-day            |

The lending rates that the banks may charge on their rediscounted papers shall not be subject to any ceiling. However, the spreads made by banks shall be closely monitored by the BSP to ensure that these are consistent with prevailing market rates.

Past Due BSP loans and unpaid matured notes shall be levied liquidated damages equivalent to five percent (5%) per annum.

**§ X269.6 Release of Proceeds -** The proceeds of the rediscounting availment shall be credited to the borrower bank's demand deposit account or its depository bank's demand deposit account with BSP.

**§ X269.7 Remittance of Collections/Repayments/Arrearages.** The following shall govern remittance of collections, repayments and arrearages:

- a. Total collections received by the borrowing bank before maturity of the rediscounted promissory note shall be remitted to the DLC or

RLCU, not later than five (5) banking days following the date of receipt of collections.

In the case of negotiated export bills, when the bank receives the corresponding payment from its correspondent bank either through actual remittance or credit advice or through entry(ies), charging its correspondent bank before receipt of advice, the amount rediscounted plus interest and other charges due shall be remitted to the DLC not later than five (5) banking days following the date of receipt of payment and/or entry(ies) by Head Office/branches.

The bank shall ensure that adequate records are maintained in its Head Office on the collections made by the branches.

- b. If the borrower's promissory note matures before the maturity date of the bank's rediscounting loans from the BSP, the loan value of the borrower's rediscounted promissory note, including the accrued interest thereon, shall be debited against the bank's demand deposit account with the BSP.
- c. The loan value of the unaccounted rediscounted promissory notes and/or underlying collaterals discovered during the credit examination, including the accrued interest thereon shall be debited against the bank's demand deposit account with the BSP.
- d. The BSP may execute all necessary collection measures allowed by law, such as foreclosure proceedings against banks with past due loans.

**§ X269.8 Prohibited Transactions.** The following shall not be allowed:

- a. Substitution of rediscounted promissory notes or underlying collaterals on outstanding loans with BSP.
- b. Renewal of rediscounted promissory note without remitting payment while the loan released against the rediscounted promissory note is still outstanding with the BSP.
- c. Acceptance of properties as payment (Dacion En Pago) without prior approval of BSP.

**§ X269.9 Credit Examination of Borrowing Banks.** The DLC or the appropriate RLCU shall undertake periodic credit examination of borrowing banks for the purpose of: a) determining the extent of their compliance with the terms and conditions of the loans granted to them and adherence to applicable laws, rules and regulations and credit policies of the BSP; and b) evaluating the effectiveness of their credit and collection system. DLC/RLCU shall obtain documents from other lending institutions and other departments of BSP to validate information.

**§ X269.10 Penalties/Sanctions.** The following penalties and sanctions shall be imposed on the erring bank and/or the bank's authorized/certifying officers.

a. **Unremitted Collections/Delayed Remittances.** A penalty of 1/10 of 1% per day of delay on unremitted collections/delayed remittance of collections, commencing from the day following the deadline prescribed in Subsection X269.7.a, shall be imposed on the erring bank. Penalties imposed shall not, however, exceed P30,000.00 per day. In addition, the following non-monetary sanctions shall be imposed:

1<sup>st</sup> Offense - Warning

2<sup>nd</sup> Offense - If remittance is delayed, suspension of rediscounting privilege for 15 calendar days from date of discovery. If not remitted, suspension shall start on the date of DLC/RLCU discovery and end 15 calendar days after date of payment.

3<sup>rd</sup> Offense - If remittance is delayed, suspension of rediscounting privilege for 30 calendar days from date of DLC/RLCU discovery. If not remitted, suspension shall start on the date of DLC/RLCU discovery and shall end 30 calendar days after date of payment.

4<sup>th</sup> Offense - Cancellation of rediscounting privilege unless restored in the next review but in no case shall the period of suspension be less than 90 calendar days.

b. **Non-Negotiation of Assigned LC/PO/SC.** A penalty of 1/10 of 1% per day of delay based on the face value/outstanding balance of the rediscounted promissory notes but not exceeding P30,000.00 per day shall be imposed on banks for non-negotiation of assigned Letters of Credit/Purchase Orders/Sales Contracts reckoned from the date of the BSP grant to date of payment, unless the BSP has earlier received a written notice of extension of the expiry date/validity period of LC/PO/SC from the bank concerned.

c. **Collaterals with technical deficiency.** A penalty of 1/10 of 1% per day for collaterals with technical deficiency (which will increase the credit risk, such as: expired insurance, unendorsed promissory note, etc.) but not exceeding P30,000.00 per day shall be charged to banks, if the deficiency is not corrected within fifteen (15) days from date of DLC examination.

d. **Other Violations.** In addition to the penalties prescribed herein, any misrepresentation, violation of the terms and conditions of the bank's promissory note and/or the rediscounting line agreement, and unauthorized withdrawal of collaterals from the depository bank, shall subject the borrowing bank to the following sanctions:

- 1<sup>st</sup> Offense - Warning
- 2<sup>nd</sup> Offense - Suspension of rediscounting privilege for 15 calendar days from date of discovery
- 3<sup>rd</sup> Offense - Suspension of rediscounting privilege for 30 calendar days from date of discovery
- 4<sup>th</sup> Offense - Cancellation of the rediscounting privilege unless restored in the next review but in no case shall the period of suspension be less than 90 calendar days.

For this purpose, failure to account for missing rediscounted promissory note and/or underlying collateral shall constitute unauthorized withdrawals of rediscounted promissory notes and/or underlying collaterals.

If any of the required documents submitted by the bank is discovered to be false/fake/spurious, a fine of P5,000.00 per day from the date of the release of the loan, up to the date of payment, shall be imposed separately on the bank and on the authorized/certifying responsible officers.

**§ X269.11 Interlocking Directorship/Officership.** All banks owned or managed by the same owners, stockholders, directors, officers or family / business group shall be automatically suspended from availment of the rediscounting facility once the rediscounting privilege of any of the banks belonging to the same group is suspended, until such time that the suspension of the erring bank has been lifted.

**§ X269.12 TRANSITORY PROVISIONS.** This applies only to those banks which cannot comply with the required rediscount ceiling and past due ratio from the effectivity of this Circular:

- a. **Rediscount Ceiling.** Banks which have outstanding rediscounting loan to networth ratio exceeding 100 percent, as required under Subsection X269.1 shall be given 5 years from the effectivity of this Circular to reduce their outstanding rediscounting loans and/or increase their networth in order to attain the 100 percent required ratio of rediscounting loans to networth, in accordance with the following schedule:

25% yearly reduction in the ratio of rediscount loans to networth, starting end October 2004 and the succeeding years thereafter until a 100% rediscounting to networth ratio is reached by year 2007.

- b. **Past Due Ratio.** Banks with past due ratio exceeding the industry average ratio plus 2% as required under Subsection X268.1.f shall comply with the requirement by June 30, 2007.

**EFFECTIVITY**

This Circular shall take effect immediately.

**For the Monetary Board:**



**ARMANDO L. SURATOS**  
Officer-In-Charge

October 4, 2002

# **An Overview of the Changes in the BSP Rediscounting Facility**

Bangko Sentral ng Pilipinas

## **TOPICS FOR DISCUSSION**

- Policy review (2002)
- Changes in the Guidelines on the Rediscounting Facility

## **Policy Review**

- Coverage and Objectives
- Theoretical and Other Policy Considerations
- Rediscounting in Other Countries
- Rediscounting in the Philippines
- Assessment
- Conclusions

## **Coverage**

- Section 82 of R.A. No. 7653 provides that the BSP may normally and regularly carry on credit operations ( i.e., commercial, production and other types of credits) with banking institutions operating in the Philippines.

## **Objectives**

- Assess the consistency of the current policy relative to:
  - The BSP's price stability objective
  - The prohibition against development banking or financing
- Recommend changes to make the rediscount facility relevant to current and future demands on monetary management

## **Definition**

**Rediscounting - is a standing facility provided by a central bank to help banks meet their temporary liquidity needs**

### Functions of rediscounting

- Allows banks to make more orderly portfolio adjustments
- Acts as a safety valve to meet banks unexpected liquidity needs
- Provides monetary authorities with an additional instrument for liquidity management
- Signals the monetary authorities' policy stance

### Issues related to rediscounting

- Gives rise to subsidies since rediscounting rates are lower than market rates
- Results in distortions in resource allocation because of preferential treatment given to priority sectors

### Experience of Other Countries

- Reliance on the rediscounting facility as a monetary policy tool has diminished in favor of open market operations (OMO)
- With the adoption of price stability as the dominant objective of monetary policy, the selective credit policies, including the rediscounting facility, have been scaled down

### Experience of Other Countries

- Among the ASEAN 5 economies, only the Philippines and Thailand use the rediscounting facility for allocating credit selectively; Thailand, however, has announced that it will shift such loans from the Bank of Thailand to development financing institutions.
- In the US, the thrust shifted from its being used as a tool of credit allocation to one that is used to support OMO and to implement lender of last resort functions

### Rediscounting in the Philippines

Prior to July 3, 1993 (BSP Reorganization)

- Used mainly as a credit allocation device for selected sectors
- Supported the development of the countryside by allowing rural banks to have access to the facility at more liberal terms

### Rediscounting in the Philippines

R.A. No. 7653 effective 3 July 1993

- Should be used as a monetary policy tool to influence the volume of credit consistent with the objective of price stability ( Sections 81 & 82)
- BSP should not engage in development banking or development financing (Section 128)

## Development banking or financing

Refers to activities undertaken to affect the allocation of resources directly; involves long-term programs that generally require significant financing. Examples of development banking activities are:

- Participation in the management and capitalization of development institutions
- Lending to priority sectors
- Provision of differential interest rates and facility
- Setting of target credit/deposit ratios for rural branches of banking institutions

## Trends in Rediscounting

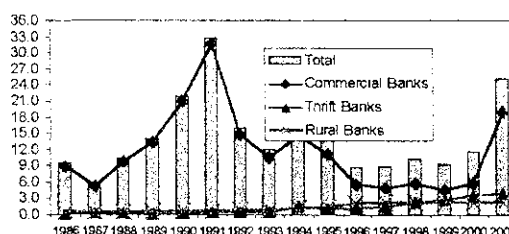
### Rediscount Loans Granted

|                 |                   |
|-----------------|-------------------|
| 1986-2001       | P12.3 B (average) |
| 2001            | P25 B             |
| Jan to Jun 2002 | P7.8 B            |

## Trends in Rediscounting

The pattern of commercial bank availments determined largely the pattern of growth for total loans granted as the bulk of rediscounting loans have been granted to commercial banks.

### Rediscount Loans Granted (In million pesos)



## Trends in Rediscounting

In terms of loans outstanding, however, rural banks recorded the highest share to total rediscounting loans due to their high past due ratios.

### Rediscounting Loans Outstanding of the Banking System (as of end-June 2002)

|                                           | Banking System | KBs  | TBs  | RBs  |
|-------------------------------------------|----------------|------|------|------|
| Rediscounting Loans<br>(in Billion Pesos) | 5.9            | 1.6  | 1.8  | 2.5  |
| Rediscounting<br>(in % Share)             | 100            | 26.9 | 30.7 | 42.4 |

## Trends in Rediscounting

Outstanding rediscounting loans of the banking system amounted to 3/10 of 1% of total outstanding loans, with rediscounting loans to agriculture accounting for 1/10 of 1%.

## Trends in Rediscounting

The low deposit-mobilization capability of rural banks with rediscounting loans led to heavier reliance by rural banks on the rediscounting facility relative to the other types of banks.

## Deposit Mobilization Capability of Banks

As of End-June 2002

|                             | KBs    | TBs    | RBs with<br>Rediscounting<br>Loans | RBs without<br>Rediscounting<br>Loans |
|-----------------------------|--------|--------|------------------------------------|---------------------------------------|
| Deposit<br>to Loan<br>Ratio | 1.34:1 | 1.22:1 | 0.81:1                             | 1.17:1                                |

## Determinants of Rediscounting Availments

|                                            | KBs | TBs | RBs |
|--------------------------------------------|-----|-----|-----|
| Deposits                                   | ✓   |     | ✓   |
| EDYRF                                      | ✓   |     |     |
| 91-day T-bill                              | ✓   |     |     |
| Dummy Variable for<br>the financial crisis |     | ✓   |     |

## Findings: Commercial Banks (KBs)

- Rediscounting availments tended to fall as deposit generation increased
- Rediscounting availments shifted from the peso rediscounting facility to the EDYRF, depending on which facility was more favorable in terms of pricing
- KBs could have used the facility to take advantage of arbitrage opportunities
- No statistically significant link between export growth and rediscounting availments by KBs

## Findings: Thrift Banks (TBs)

- TBs tended to increase their availments during crisis periods

### Findings: Rural Banks (RBs)

- Rural bank availments declined as deposit generation improved
- No statistically significant link between agricultural output and rediscount availments by rural banks
- Rural banks availments do not appear to be related to changes in the rediscounting rate

### Assessment

- The rediscounting facility is consistent with the BSP's price stability objective since the rediscounting budget has been set consistent with the monetary program formulated based on the country's growth and inflation objectives.
- It conforms with the prohibition against development financing with respect to short-term maturity (1 year or less) of loans granted.

However, by operating as a selective credit instrument for lending to priority sectors, the BSP rediscounting facility has retained some characteristics of development financing.

Directed credits or interest rate subsidy schemes assume that the government agency implementing such a scheme (in this case, the BSP) is better placed to anticipate specific market prospects and can, through special incentives, direct resources toward these preferred activities.

Empirical evidence, however, does not support the view that the central bank has such an informational advantage over market-based mechanisms.

Instead, such directed credit policies carry the risks of distorting resource allocation, resulting in economic inefficiencies that can hamper the country's growth potentials.

### Conclusions

- Rediscounting should focus on performing its role as a monetary policy instrument to complement OMO in liquidity management. It could act as safety valve when liquidity is tight to provide a *limited adjustment mechanism for individual banks*.
- OMO's role would be to influence system-wide liquidity and credit conditions in general.

**Changes in the Rediscounting Guidelines Under BSP Circular No. 354, dated 4 October 2002**

|                   | Existing                                                                                                                                  | Revisions Under Circular No. 354                                                                            |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Sectors qualified | <ul style="list-style-type: none"> <li>&gt; Agriculture</li> <li>&gt; Exports</li> <li>&gt; Housing</li> <li>&gt; Microfinance</li> </ul> | Expansion of the current rediscounting facility to a more general type of facility available to all sectors |

## Eligible Papers and Collaterals

The BSP shall accept loan papers covering ALL ECONOMIC ACTIVITIES except -

- > Interbank Loans
- > DOSRI Loans
- > Extended/Restructured Loans
- > Past Due Loans
- > Unsecured Loans, except Microfinance loans
- > Personal consumption loans
- > Loans for capital acquisition

|                         | Existing                         | Revisions Under Circular No. 354                                                              |
|-------------------------|----------------------------------|-----------------------------------------------------------------------------------------------|
| Eligibility requirement |                                  | Standardization of eligibility requirements and rediscount ceilings across all types of banks |
| Past due ratio          | 5% for EKBs; 25% for TBs and RBs | Based on industry average past due ratio plus 2%                                              |

## Rediscount ceiling

Standardization of the rediscount ceiling to 100% of the net worth across all types of banks

| Rediscount Ceiling        |                                      |                                      |
|---------------------------|--------------------------------------|--------------------------------------|
| Bank                      | Existing                             | Circular No. 354                     |
| EKB/KB                    | 100% of NW                           | 100% of NW                           |
| Thrift Banks              | 100% of NW                           | 100% of NW                           |
| Rural Banks               | 500% of NW + 300% of Deposits        | 100% of NW                           |
| Branches of Foreign Banks | 25% of Net Due to HO + Assigned Cap. | 25% of Net Due to HO + Assigned Cap. |

## Rediscounting line

- > A rediscounting line will be set up to determine the maximum amount of credits that could be extended to the borrower banks. The rediscounting line will be based on the new credit rating system that will incorporate the following criteria:
  - ✓ Latest CAMELS rating by the BSP-SES
  - ✓ Banks' repayment record with the BSP and other financial institutions
  - ✓ Quality of the banks' loan portfolio
  - ✓ Compliance with BSP rules and regulations

## Rediscount rate

Adjustment of the rediscount rate to the relevant T-bill rate of the previous auction week to reflect actual market rates on comparable maturities

## Rediscounting Rate

| Loan Maturity   | Existing                                                                                      | Revisions under Circular No. 354                      |
|-----------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------|
| 90 days or Less | 91 day T-bill rate less 1 percentage point during the last auction week of the previous month | 91-day T-bill rate of the immediately preceding week  |
| 91 to 180 days  | Same                                                                                          | 182-day T-bill rate of the immediately preceding week |
| 181 to 360 days | Same                                                                                          | 364-day T-bill rate of the immediately preceding week |

|                                  | Existing                                                                                                                                                | Revisions Under Circular No. 354 |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Spread on the rediscounting rate | Certain rediscounted loans subject to maximum spread limit as follows:<br>6% for agricultural loans, 3% for peso packing credits and for housing loans. | No limit on banks' spread        |

## Liquidated damages

- The standardization of liquidated damages for past due loans to 5% for all types of banks.
- Matured underlying collateral (promissory notes of borrowers) for loans with the BSP which are still current are now subject to liquidated damages of 5%

## Liquidated Damages

|                 | Existing                          | Circular No. 354                  |
|-----------------|-----------------------------------|-----------------------------------|
| Thrift Banks    | 7% on past due BSP loans          | 5% on past due BSP loans          |
| All Other Banks | 5% on past due with the BSP loans | 5% on past due with the BSP loans |

\* / New

|            | Existing                                                                                                      | Revisions Under Circular No. 354               |
|------------|---------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| Loan value | Export loans: 100% of outstanding balance of borrower's PN/EB; All other types of loans: 80% of borrower's PN | 80% of outstanding balance of borrower's PN/EB |
| Maturities | 90 days for export loans (Commercial Credits)                                                                 | 180 days for export loans (Commercial Credits) |

### **Documentary requirements**

Simplification of documentary procedures such that the banks may be allowed to keep some required documents. BSP shall require only documents necessary for processing of loan applications

### **Sanctions and penalties**

Imposition of monetary and non-monetary penalties for violations of rediscounting rules for erring banks or authorized certifying officers

### **Penalties for the following offenses**

- Unremitted/delayed remittance
  - ✓ Monetary and non-monetary
- Non-negotiation of assigned LC/PO/SC
- Collateral with technical deficiencies

### **Other offenses subject to non-monetary penalty**

- Misrepresentation
- Violation of terms & conditions of the bank's PN, rediscounting line agreement
- Unauthorized withdrawal of collateral

### **Other offenses subject to monetary penalty**

Submission of FALSE, FAKE and SPURIOUS DOCUMENTS

FINE -> P5,000/day from date of release of loan up to date of payment shall be imposed SEPARATELY against BANKS and authorized/certifying officers.

### **Interlocking Directorship**

Banks managed by the same owners, stockholders, directors, officers, or family/business groups shall be AUTOMATICALLY SUSPENDED from rediscounting once the rediscounting privilege of any of the banks belonging to the same group is suspended.

### **Transitory Provisions**

- Banks with a PAST DUE RATIO exceeding the required ratio (industry average plus 2%) shall be given up to June 30, 2007 to comply
- Banks with outstanding rediscounting loan to network ratio exceeding 100% shall be given 5 years from the effectivity of this Circular (or by year 2007) to reduce its outstanding rediscounting loans and/or increase its network in order to attain the 100% required ratio of rediscounting loans to network

 **Banko Sentral ng Pilipinas**



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