



Bangko Sentral ng Pilipinas
MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 678
Series of 2010

**Subject: Rules and Regulations for the Approval and Provision
of Housing Microfinance**

Section 1. Statement of Policy. The Bangko Sentral ng Pilipinas adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance has been confined to mean financing for microenterprises or small livelihood activities. It has been proven, however, that clients of microfinance also need a wide range of financial services including housing finance. Further, it is typical that some microfinance clients also use their access to credit for their homes.

Housing microfinance involves the application of microfinance principles and methodologies to the provision of housing finance and consists mainly of loans to existing clients of microfinance institutions and other poor and low-income households. With adequate and appropriate risk management measures, the product will enable institutions to appropriately service the housing needs of those who are unable to access traditional housing finance. The provision of housing microfinance is also seen as a way to improve the living conditions of the enterprising poor and the low-income households which will contribute to better health, productivity and quality of life.

Housing as a shelter is a necessity. As a sector, it spurs economic activity and creates employment through the multiplier effects generated in the downstream industries by the procurement of construction materials. It is therefore important to support this sector.

Toward this end, the following rules and regulations that shall govern the approval of banks' housing microfinance products are hereby prescribed. Memo to All Banks – 2008 – 15 issued last 19 March 2008 is hereby amended.

PANANALAPING MATATAG, BANSANG PANATAG

Section 2. Minimum Criteria to Determine Banks' Capacity to Offer Housing Microfinance. The BSP will review the application based on the following basic principles:

1. To ensure that the banks have the capacity and technical capability to offer housing microfinance
2. To ensure that the provision of housing microfinance uphold adequate and appropriate risk management systems and procedures as well as the microfinance best methodologies and technologies

Based on the above principles, the BSP may approve the banks' housing microfinance product upon satisfaction of the following requirements:

1. The bank must have a track record of at least two years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing BSP standards.
2. The bank must have an appropriate housing microfinance product manual where the product will be included in the bank's microfinance manual as one of the types of services or products offered to prospective clients. Loan/ account officers must be trained about the housing microfinance product and that the details of the program can be communicated clearly to the clients.
3. Appropriate verification of the following:
 - a. latest CAMELS rating of at least 3 and a management score of at least 3
 - b. capital adequacy ratio (CAR) of not lower than 12
 - c. no major supervisory concerns as to warrant initiation of Prompt Corrective Action (PCA) under existing regulations
 - d. no arrearages in microfinance borrowings
4. Appropriate certification of the banks' commitment to implement the housing microfinance product following the guidelines set forth in the submitted manual.

Section 3. Basic Product Characteristics. The housing microfinance product shall have the following basic characteristics:

Subject	Particulars
Purpose	✓ House construction ✓ House and/or lot acquisition. Lot acquisitions

	should be for housing/business ✓ Home improvement/repairs
Eligibility	✓ Existing microfinance clients ✓ New clients who will normally be eligible for microfinance loans based on banks' policies ✓ Borrowers who have qualified for the Credit Surety Fund credit enhancement program provided they qualify with the banks' policies.
Loan Amount	✓ Up to P300,000 for house construction and/or lot acquisition (must show tenure security) ✓ Up to P150,000 for home improvement/repairs ✓ Incremental loan amounts to support incremental building
Loan Value	✓ Up to 90% of the appraised value in case of REM ✓ Acceptable valuation in cases of usufruct, leases, etc. ✓ Capacity to pay based on household cash flow analysis
Payment	✓ Frequent amortization ✓ With savings component ✓ Loan payments should not exceed a reasonable percentage of clients' income as determined by cash flow analysis and to determine capacity to pay as well determined through a clear credit process
Terms	✓ Up to 15 years for house construction and house and/or lot acquisition, subject to banks' credit policies ✓ Up to 5 years for home improvement/repairs

The product must share the characteristics of the microfinance loans, as found in Circular 272, Series of 2001, except for the following:

1. The maximum loan amount may be PhP 300,000.
2. The loans have longer terms with a maximum of five years for home improvement/repairs and fifteen years for house construction and house/lot acquisition.
3. For House construction and house/lot acquisition loans, secure tenure instruments will be used as collateral. **(See attached Secure Tenure Instruments and Valuations, Annex A)**

Section 4. Appropriate Risk Management. Due to a risk profile that may be different from the typical microfinance loan, the following risk management elements must be highlighted and embedded in the product:

1. Clients' ability to repay based on cash flow analysis and affordability, especially the new clients.
2. Opening of a savings account shall be required for clients with no existing savings account
3. Secure Tenure instruments as collateral/ collateral substitutes for loans over PhP 150,000
4. Adequate loan monitoring, collection, control, provisioning which is to also be included in the banks' housing microfinance manual.
5. Additional risk cover may be availed from government guarantee programs
6. A lien or mortgage covering the house and/or lot financed by the loan shall be executed by the borrower in favor of the lending bank
7. Mortgage redemption insurance shall be required to cover against death or permanent disability

Section 5. Application Procedure

1. The bank shall apply for specific product approval of its housing microfinance lending program with the BSP.
2. The bank may submit a housing microfinance lending program as a participant in a broader housing microfinance lending program based on a common business model and organized by a group of banks or industry association.

Section 6. Regulatory Treatment. The approved housing microfinance product will be considered as a microfinance loan and will have the following incentives in addition to existing incentives applicable to microfinance loans:

1. Housing microfinance loans shall be eligible as alternative compliance to mandatory credit allocation to agrarian reform and other agricultural credit. These are also eligible for rediscounting with the BSP subject to existing rules and regulations governing rediscounting.
2. The loans shall have an assigned risk-weight of 50% risk when not guaranteed and as low as 0% when guaranteed by duly recognized government guarantee programs.
3. For housing microfinance loans secured by REM, a 90% loan valuation may be allowed for loans with a government guarantee component.

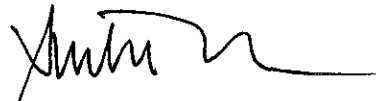
4. Secure tenure instruments such as freehold, usufruct, leasehold and right to occupy and/or build shall be recognized as collateral/ collateral substitute subject to approved loan valuations. **(Annex A)**

Banks that will offer housing microfinance shall also comply with the following:

1. The bank must maintain a sub-control ledger for the housing microfinance product
2. The housing microfinance loans shall not exceed 30% of the total loan portfolio
3. Recording of portfolio at risk (PAR) and the provisioning requirements shall be strictly in accordance with applicable BSP regulations

Section 7. Effectivity. This Circular shall take effect fifteen 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

6 January 2010

ANNEX A

Form of Secure Tenure or Property Right	Nature and Description of Acceptable Instrument	Terms and Conditions	Appraisal Methodology	Loan Valuation
Usufruct	<i>Usufruct agreement or contract</i> – Duly executed contract executed by the owner of the property granting the usufructuary/ beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> – Duly executed contract granting the lessee the right to use and possess the real property for a fixed long-term period in consideration of rental payments	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Freehold	<i>OCT/TCT</i> – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property <i>Interim Title, Contract to Sell or Conditional Sale</i> – Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach Market Data Approach	90% of the appraised value of the collateral 90% of the appraised value of the collateral

ANNEX A

Form of Secure Tenure or Property Right	Nature and Description of Acceptable Instrument	Terms and Conditions	Appraisal Methodology	Loan Valuation
	property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions			
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/ client has the right to occupy, build and/or acquire the property he/she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/ client has the owner's consent and permission to occupy and build on such property (Includes CELA or Certificate of Lot Assignment which is issued by NHA, SHFC, relevant government agencies)	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral