



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 282

SERIES OF 2001

Pursuant to Monetary Board Resolution Nos. 127 and 443, dated January 25 and March 15, 2001 respectively, the following guidelines shall govern the Rediscounting Facility available to rural banks and cooperative banks for the purpose of providing liquidity assistance to support and promote microfinance programs.

Section 1. Eligibility Requirements

1.1 Eligible Borrowers

Rural and cooperative banks with at least one (1) year track record in microfinance and at least five hundred (500) active borrowers, ratio of past due microfinance loans to total outstanding microfinance loans of not more than 5% as of end of the month preceding loan application and collection ratio of not less than 95% based on ratio of total collections (excluding prepayments) during the preceding twelve (12) month period to the sum of past due microfinance loans at the beginning of said period and amount of matured loans including principal amortizations during the same twelve month period.

1.2 Eligible Papers

Promissory Note (PN) of the rural and cooperative bank executed in favor of the Bangko Sentral ng Pilipinas (BSP) and secured by duly endorsed promissory notes of microcredit borrowers.

1.3 Manual of Operations

Written policies on microfinance operations must be set forth and documented in a policy manual duly approved by the bank's Board of Directors. The manual should include the following minimum features:

1. Scope of microfinance activities and the types of services or products offered to clients
2. Authorities and responsibilities of:
 - a. Board of Directors
 - b. Management

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- c. Chief Executive Officer or its equivalent
 - d. Credit Officers
 - e. Other officers involved in the microfinance operations
3. Policies and procedure covering microfinance program/project
 4. Client evaluation process which should involve at least: client orientation, pre-application, credit investigation, and loan application process
 5. Loan processing, documentation and release of proceeds
 6. Accounts monitoring system
 7. Accounts delinquency management
 8. Management Information System
 9. Accounting policies, systems and procedures
 10. Internal controls and audit policies, systems and procedures
- 1.4 A Copy of " System of Reviewing Asset Accounts and Setting Up of Adequate Valuation Reserves" submitted to DRB (Memorandum Circular dated May 25, 1987)
- 1.5 Staff Training and Experience

Key officers and staff responsible for microcredit operations must have a minimum experience of one year and have completed a training course in microlending activities.

1.6 Prescribed Financial Ratios and Regulations

Applicant bank must comply with the following financial ratios and regulations:

- a. Minimum capital prescribed under existing regulations;
- b. Capital to risk assets ratio of not less than 10% ;
- c. Reserve against deposit liabilities prescribed under existing regulations;
- d. Ratio of past due of direct and indirect loans to DOSRI to the bank's aggregate past due loans of not more than 10%;
- e. Loans to deposit ratio of at least 75%;
- f. Reports required to be submitted to the various departments and/or offices of the BSP;
- g. CAMELS rating of "3" or better;
- h. Ratio of past due loans to total loan portfolio of not more than the industry average for rural banks as of the preceding quarter

Section 2. Microcredit (MCR) Line

- 2.1 Application for MCR Line shall be filed with the Department of Loans and Credit (DLC) of the BSP at its head office in Manila or the appropriate BSP Regional Loans and Credit unit (BSPLCU). The term of the MCR line shall not exceed one year from the date it is granted. The line may be renewed for another year upon submission of an application at least two (2) months before expiry, subject to full compliance with the prescribed eligibility requirements and the credit review by the DLC.
- 2.2 Total availments against the facility, which shall be charged against the approved MCR line, shall form part of the total authorized rediscount ceiling of the borrowing bank. The rediscount ceiling for microfinance shall be equivalent to 100% of the bank's networth, net of valuation reserves and other capital adjustments as recommended by the Department of Rural Banks as of the last regular examination of the bank.
- 2.3 The proceeds of availment or drawdown against the approved MCR line shall be credited to the account of the rural or cooperative bank maintained with the depository bank or with BSP. The rural or cooperative bank shall be notified in writing/electronically of the credit of such account on the same banking day that the proceeds are released.

Section 3. Terms and Conditions

- 3.1 The loan value shall be equivalent to 80% of the outstanding balance of the microfinance borrower's PN.
- 3.2 The rural or cooperative bank's loan from the BSP shall have a term of not more than 360 days. The maturity date of the microfinance borrower's PN shall in no case be beyond the maturity date of the rural or cooperative bank's PN.
- 3.3 The loan shall be assessed an annual interest rate equivalent to the 91-day Treasury Bill rate for the last auction date of the preceding month.
- 3.4 The demand deposit account of the rural or cooperative bank will be automatically debited at the maturity date of the BSP loan for the full amount due excluding collections from microfinance borrowers which were credited to the Special Savings Account of the BSP with the borrowing bank.
- 3.5 Any responsible officer who is holding a position that is not lower than manager or equivalent rank must, upon approval by the bank's Board,

endorse the rediscounted PNs and certify that the same are still outstanding as of the time of application.

- 3.6 Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by Head Office/branches located within Metro Manila and not later than four (4) banking days following the date of receipt of collections by Head Office/branches located outside Metro Manila as provided under Section 5 of this Circular.
- 3.7 A penalty of 5% per annum shall be imposed on matured and unpaid bank PNs in favor of the BSP.
- 3.8 Full compliance at all times with the eligibility requirements as prescribed under Section 1 of this Circular.

Section 4. Documentary Requirements

Rural and cooperative banks applying for an MCR line shall submit a letter of application to DLC or the appropriate BSPRLCU accompanied by the following documents:

- a. Certificate of the Secretary (Original) and Copy of the Resolution duly signed by the Board of Directors of the applicant bank, authorizing the bank to apply for an MCR line with the BSP and designating the officer authorized under Section 3.5 of this Circular to endorse the PNs and sign all papers pertaining to the rediscounting line in the prescribed format.
- b. Certification of the applicant bank that it has complied with the financial and regulatory ratios, conditions, and reportorial requirements prescribed under the eligibility requirements for rediscounting as provided under Section 1 of this Circular.
- c. Consolidated Financial Statements – Statement of Condition as of the end of the month immediately preceding the date of application together with the corresponding Statement of Income and Expenses covering the results of operations for the last three (3) years.
- d. Report on Required and Available Reserves covering the past two (2) consecutive weeks immediately preceding the date of application.
- e. Rediscounting Line Agreement executed by the CEO of the rural or cooperative bank.

Section 7. Accounts Verification

The microcredit accounts rediscounted shall be subject to verification and confirmation by authorized DLC or the appropriate BSPRLCU representatives to determine their eligibility and acceptability for rediscounting.

Section 8. Sanctions

Any misrepresentation and/or violation of the provisions of this Circular shall subject the rural or cooperative bank and/or the erring officers to any of the following sanctions:

Erring rural/cooperative bank

- a. Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed Thirty thousand pesos (P30,000.00) a day for each violation;
- b. Suspension of rediscounting privileges or access to BSP credit facilities; and/or
- c. Reduction of rediscounting line

Erring Directors/Officers

For violation of any of the provisions of this circular the following shall be imposed against the officers and directors of the bank:

- i 1st Offense – a warning that a repetition of the same or similar offense shall subject the erring director/officer to monetary penalties and/or sanctions;
- ii 2nd Offense – a fine of P500.00 per day for each violation from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties;
- iii 3rd and Subsequent Offenses – a fine of P5,000.00 per day from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties.

If any of the documentary requirements submitted by the bank as required under Section 4 of this circular is found to be false, a fine of P5,000.00 per day, from the time the certification was made up to the time the certification was found to be false, shall be imposed against the certifying officer.

- f. Notarized custodian agreement executed among the CEO of the rural or cooperative bank, the third party custodian and the BSP.

For availment of MCR line, the rural or cooperative bank shall submit the following documents:

- a. Application for MCR Line Availment – Original and one copy in prescribed form duly accomplished and signed by the CEO of the applicant bank
- b. Rediscount Schedule (RS)
- c. Notarized PNs in favor of the BSP–Original and two (2) copies

Section 5. Remittance of Collection / Payment / Repayments

Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by Head Office/branches located within Metro Manila and not later than four (4) banking days following the date of receipt of collections by Head Office/branches located outside Metro Manila. As an alternative, collections may be deposited in a Special Savings Deposit Account (SSDA) which shall be maintained by the BSP with the borrower-bank and remitted to DLC or the appropriate BSPRLCU on the last banking day of every month. The SSDA shall earn interest of 1% lower than the 91-day Treasury Bill rate for the last auction date of the preceding month.

On due date of the PN, the rural or cooperative bank shall remit to the BSP the unpaid balance of such PN provided that any amount credited to the SSDA shall be applied as payment of the PN in favor of BSP. The remittance shall be reported under DLC Form No. 5. The remittance to BSP shall be in the form of cash, demand draft, manager's check or based on authority issued by the bank to debit its demand deposit account with BSP. Check payments and Demand Drafts shall be given value when cleared.

Section 6. Reports Required

A monthly report on microfinance transactions shall be submitted to DLC or the appropriate BSPRLCU in the prescribed format, within five (5) banking days after the end of every reference month. This shall be considered as a major report for purposes of the provisions of Section X162.1 of the BSP Manual of Regulations for Banks.

Section 9. Repealing Clause.

This Circular supersedes / amends / modifies provisions of existing Circulars, memoranda and / or regulations that are inconsistent herewith.

Section 10. Effectivity

, This Circular shall take effect immediately.



RAFAEL B. BUENAVENTURA
Governor

April 19, 2001