



BANGKO SENTRAL NG PILIPINAS

**UPDATED RULES IMPLEMENTING
THE TRUTH IN LENDING ACT
TO ENHANCE LOAN
TRANSACTION TRANSPARENCY**

09 December 2011



PRESENTATION OUTLINE

- Rationale
- Monetary Board Actions
 - Amendments to Regulations
 - Others
- Other Regulatory Agencies Actions
- BSP Action Plans



RATIONALE

- Promote financial inclusion goals
- Intensify consumer protection
- Focus on transparency rather than interest cap
- Facilitate healthy competition among financial institutions



Monetary Board Actions – Amendments to MORB

1. § X305.5 *Method of computing interest*
 - Interest based on the outstanding balance of a loan at the beginning of an interest period
 - Interest per installment period calculated based on the outstanding balance of the loan at the beginning of each installment period
 - Loan-related documents include repayment schedules
 - Marketing materials consistent with this provision



Monetary Board Actions – Amendments to MORB

2. § X307.1 *Definition of Terms*

- ***Finance charge*** includes interest, fees, service charges, discounts, and other charges incident to the extension of credit
- ***Simple annual rate*** is the uniform percentage which represents the ratio between the finance charge and the amount to be financed
- ***Effective interest rate*** is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds



Monetary Board Actions – Amendments to MORB

3. § X307.2 *Information to be disclosed*
 - a. Total amount to be financed;
 - b. Finance charges;
 - c. Net proceeds of the loan; and
 - d. Percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an EIR.



MB Actions – Amendments to MORB

4. § X307.4 Posters

- Required information to be posted in conspicuous places of the bank's principal place of business and branches
- Posters to include explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure



MB Actions – Amendments to MORB

5. Appendix 19, MORB

Simpler format of Disclosure Statement on Loan/Credit Transaction to reflect industry practices, specifically targeted towards the small business, retail and consumer loans



MB Actions – Others

- ✓ Issuance of Circular No. 730 on updated rules in implementing the Truth in Lending Act to enhance loan transaction transparency
- ✓ Issuance of Memorandum to All Banks on the effective interest rate calculation models



MB Actions – Others

- ❖ Further study on potential amendments to the MORNBF1 in the manner of computing interest and disclosure requirements
- ❖ Delegation of authority to the Deputy Governor – SES to issue Memorandum to All Banks for guidance (e.g. EIR, posters)



SEC and IC Actions

- ❖ Issuance of Memorandum Circulars parallel to BSP Circular No. 730 for the implementation of institutions under their jurisdictions.



BSP Action Plans

- ✓ Issuance of parallel regulations directed towards credit card companies, non-bank financial institutions and NGOs
- ✓ Simultaneous implementation of all regulations on 1 July 2012
- ✓ Nationwide financial literacy campaign



THANK YOU