

Information Session on

TRUTH AND TRANSPARENCY IN LENDING

**Promoting Financial Inclusion & Consumer Protection
at the 8th General Membership Meeting of BMAP**

24 October 2012



BANGKO SENTRAL NG PILIPINAS

True and Transparent ?

NEED FAST CASH????
SALARY STRETCH!!! BORROW UP
TO 1 MILLION STARTING AT 1.3%
PER MONTH !!!

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MILLION STARTING AT 1.3% PER MONTH!!!

Terms	12 MONTH S	18 MONTH S	24 MONTH S	36 MONTH S
AMOUNT				
30,000	2,917.00	2,113.67	1,727.00	1,310.33
40,000	3,889.33	2,818.22	2,302.67	1,747.11
50,000	4,861.67	3,522.78	2,878.33	2,183.89
60,000	5,834.00	4,227.33	3,454.00	2,620.67
70,000	6,806.33	4,931.89	4,029.67	3,057.44
80,000	7,778.67	5,636.44	4,605.33	3,494.22
90,000	8,751.00	6,341.00	5,181.00	3,931.00
100,000	9,723.33	7,045.56	5,756.67	4,367.78
110,000	10,695.67	7,750.11	6,332.33	4,804.56
120,000	11,668.00	8,454.67	6,908.00	5,241.33
130,000	12,640.33	9,159.22	7,483.67	5,678.11
140,000	13,612.67	9,863.78	8,059.33	6,114.89
150,000	14,585.00	10,568.33	8,635.00	6,551.67
200,000	19,446.67	14,091.11	11,513.33	8,735.56
300,000	29,170.00	21,136.67	17,270.00	13,103.33
400,000	38,893.33	28,182.22	23,026.67	17,471.11
500,000	48,616.67	35,227.78	28,783.33	21,838.89
600,000	58,340.00	42,273.33	34,540.00	26,206.67
700,000	68,063.33	49,318.89	40,296.67	30,574.44
800,000	77,786.67	56,364.44	46,053.33	39,942.22
900,000	87,510.00	63,410.00	51,810.00	39,310.00

AVAIL OF LOW INTEREST
CASH LOAN
NO COLLATERAL / NO CO
- MAKER
LOAN AMOUNT: PHP 30K
TO 1 MILLION

TO QUALIFY:

- > Regular employee
- > Minimum gross salary of P15,000.00 per month
- > 23- 60 years of age

DOCUMENTS TO SUBMIT:

- Photocopy of latest ITR or BIR form 2316(year 2011)
- Photocopy of company ID with photo and 3 signatures
- Photocopy of latest 1 month Pay slip
- coe latest

Processing time 1 day upon submission of complete requirements.

TO APPLY: jp
SIMPLY FAX OR EMAIL THE DOCS. NEEDED AT FAX#:

1,000,000 97,233.33 70,455.56 57,566.67 43,677.78

These are indicative figures. Actual amount may vary

TRUTH AND TRANSPARENCY IN LENDING

- What is it?
 - Clients know the real price, terms, and conditions of financial products/services
- Why is it important?
 - Informed clients make informed decisions



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Truth in Lending Act (TILA) [6/22/1963]

- Aims to protect citizens from a lack of awareness of the **true cost of credit** by assuring a **full disclosure of such cost** with a view of preventing the uninformed use of credit to the detriment of the national economy
- Borrowers shall be provided a **clear statement** of the 1) cash price or delivered price, 2) amount of down payment, if any, 3) individually itemized charges, 4) total amount to be financed, 5) finance charge, and 6) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.



How were loans priced and disclosed before the issuance of updated rules implementing TILA?

- Straight line method
- Non-disclosure or separate disclosure of other fees and charges
- Quoting of nominal rates only
- Quoting of different rates in various types of loan documents (i.e. contract, flyers and marketing materials)



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How are these addressed?



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Issuances

- BSP Circular No. 730 (20 July 2011); effective 01 July 2012
- SEC Memorandum Circular 07 (September 2011)
- IC Circular Letter No. 31-2011 (5 October 2011)
- CDA Memo Circular No. 2012-05 (14 March 2012)
- BSP Circular Nos. 754 (17 April 2012) and 755 (20 April 2012)
- BSP Memorandum Nos. M2011-040 (28 July 2011), M2012-018 (19 April 2012), M2012-020 (25 April 2012) and M2012-030 (03 July 2012)

Basic Features

- Interest charged on outstanding balance at the start of each interest period
- Disclosure of ALL charges incident to the loan
- Effective Interest Rate (EIR) in all loan documents

General Messages

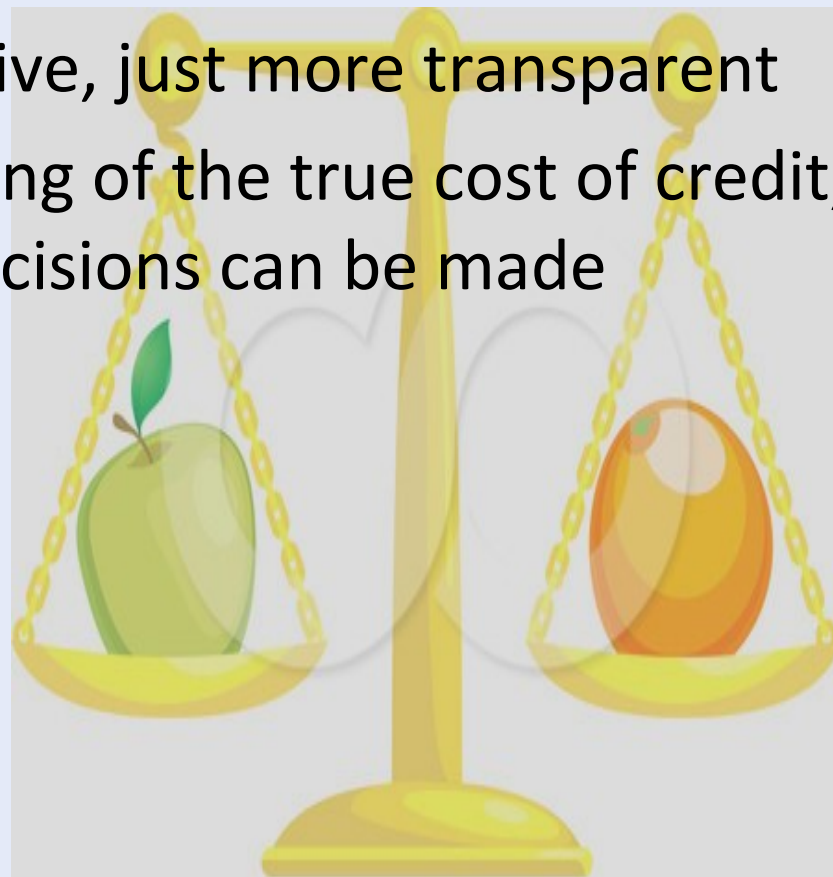
- Not a new regulation, only an enhancement of implementation
- Meaningful implementation is necessary
- Applies to all
- Not an interest rate cap but fosters greater comparison and competition that may eventually lower interest rates



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For Clients:

- Loan is not more expensive, just more transparent
- With a clear understanding of the true cost of credit, informed choices and decisions can be made



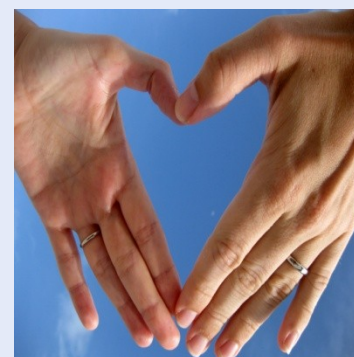
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For Credit Granting Institutions:

- Compliance with this basic responsibility of a Financial Institution (FI) can be a seal of good housekeeping
- Can be a competitive advantage that distinguishes the FI from others especially informal lenders
- Harnesses good relationship with clients; True cost of credit leads to better client understanding
- Opportunity to rethink pricing



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Interest Rate Computation

- Interest must be based on the outstanding balance of a loan at the beginning of an interest/installment period
- Effective Interest Rate
 - Rate that exactly discounts future cash flows through the life of a loan to the net amount of loan proceeds.
 - Includes interest, fees, service charges, discounts, and such others incident to the extension of credit.



Comparison of Old Method versus Enhanced Method

Principal Loan Amount = P120,000.00

Contractual Rate (Monthly) = 1.50%

Other Charges = 3.00%

No. of Monthly Installments = 12

Fixed equal monthly amortization= P11,001.60

Old Method:

- 1) Annual Interest Rate (18%)
- 2) Straight line method based on loan principal

Enhanced Method:

- 1) Effective Annual Interest Rate** should be disclosed (26.71%)
- 2) Diminishing Balance Method** whereby interests are computed based on Outstanding Balance



Disclosure

- Total amount to be financed
- The finance charges (includes fees, interest, service charges, discounts and such other charges incident to the extension of credit)
- Net proceeds of the loan; and
- The percentage the finance charge bears to the total amount to be financed expressed as simple annual rate or an effective annual interest rate (EIR). EIR may also be quoted as a monthly rate in parallel with the quoted contractual rate



Disclosure Statement, Loan Scenarios

- [Disclosure Statement.xls](#)
- [EIR Calculation Models.xls](#)



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Roles and Responsibilities (R and R) of Clients

WHEN BORROWING:

- Analyze your need for a loan
- Assess your capacity to pay
- Understand loan terms and conditions, especially “fine prints”
- Keep a signed copy of loan documents
- Use the loan proceeds as intended
- Prioritize the payment of loan



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“R” and “R” of Clients

- In the event of delinquency, keep communication line with the lender!
- Do not pay loans with another loan
- Do not borrow more than you can afford to pay
- Be a responsible borrower



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“R” and “R” of Credit Granting Institutions

- **Explain** to clients the loan terms and conditions, content of loan documents, features of loan products in clear, simple language
- **Encourage** clients to ask questions
- **Advise** clients on what to do or who to approach in case of concerns about their transactions
- Why?
 - Corporate social responsibility = loyal clients
 - Loyal, disciplined clients = successful banking business



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BSP Consumer Assistance

Financial Consumer Affairs Group

Central Supervisory Support Subsector

Supervision and Examination Sector

5th Floor, Multi-Storey Building

BANGKO SENTRAL NG PILIPINAS

Mabini, Manila

(02) 7087701

consumeraffairs@bsp.gov.ph



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For any further questions:

http://www.bsp.gov.ph/downloads/Regulations/FAQ_TNT.pdf

THANK YOU.

www.bsp.gov.ph



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