

[BSP Circular No. 886, September 08, 2015]

**GUIDELINES ON SALARY-BASED GENERAL-PURPOSE
CONSUMPTION LOANS**

Adopted: 08 September 2015

Date Filed: 23 September 2015

The Monetary Board, in its Resolution No. 1380 dated 27 August 2015, approved the guidelines on salary-based general-purpose consumption loans, as well as the amendments of certain provisions in the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI):

Section 1. Section X321 of the MORB and Section 43375 of the MORNBFI including their respective subsections shall now read as:

"§X321/§43375 Policies on Salary-Based General-Purpose Consumption loans.

"Section X327/43375 Statement of Policy. The Bangko Sentral recognizes the helpful role of salary-based, consumer lending schemes in allowing an individual borrower to manage his/her cash flows provided these are granted under sound credit standards and fair consumer practices. The BSP likewise encourages competition and transparency to promote efficient and innovative delivery of financial services and fair dealing with customers.

Subsection X321/4337S.1

- a. Definition. Salary-Based General-Purpose Consumption Loans. Refer to unsecured loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows, either through salary deductions, debits from the borrower's deposit account, mobile payments, pay-through collections, over-the-counter payments or other type of payment arrangement agreed upon by the borrower and lender."
- b. Transactions Covered. Salary-based general-purpose consumption loans may include credit accommodations for education, hospitalization, emergency, travel, household and other personal consumption needs.
- c. Exclusions. Credit cards, motor vehicles and other personal loans which are covered by other existing applicable regulations are excluded from the coverage of this Circular.
- d. Report. For the purpose of reporting in the Financial Reporting Package, financial assistance under an approved fringe benefit program should be reported/classified according to the purpose of the financial assistance (e.g.

housing/real estate, motor vehicle, salary-based general-purpose consumption, etc.)

X321.2/4337S.2 Credit Granting

- a. Policies of financial institutions (FIs) shall be consistent with best practices and sound credit processes prescribed under BSP regulations, including a comprehensive assessment of the borrower's creditworthiness, and shall not be reliant on mere formula such as those automatically granted based on certain multiples of monthly salary or other regular compensation.
- b. Individual borrowing capacity should be prudently assessed considering reasonable estimates of total personal and household indebtedness as well as disposable income available for family and personal needs after considering debt servicing.
- c. Original loan term shall not exceed 3 years but may have longer maturity in meritorious cases provided that in no case shall maturity exceed 5 years;

No loan renewal shall be granted without re-assessing borrowing capacity and establishing continuing creditworthiness. Further, no loan renewal shall be allowed without payment of accrued interest receivable and substantial reduction in principal.

- d. In the case of loan "takeout" from another FI, the FI taking out the loan(s) should ensure that the loan from the originating FI has been fully settled. FIs are expected to institute adequate controls over loan "takeout" such as: (a) directly releasing the loan proceeds to the FIs where the loan will be taken out; and (b) obtaining a copy of the official receipt evidencing full settlement of account from the originating FI, among others.

X321.3/4337S.3 Consumer Protection – FIs are required to strictly adhere to BSP regulations on Financial Consumer Protection as prescribed under the following:

- a. Part Ten entitled Consumer Protection of the Manual of Regulations for Banks; and
- b. Part 4 of the Regulations Governing Non-Stock Savings and Loan Associations (S Regulations)

X321.4/4337S.4 Sanctions. – The Monetary Board may, at its evaluation and discretion, impose sanctions on an FI and/or its Board, directors and officers, proportionate to the gravity/seriousness of the offense in cases of persistent non-observance of the provisions contained herein.

Section 2. The Financial Reporting Package, prescribed under Subsection X191.2 of the MORB is further amended to revise the: (a) Manual of Accounts (MOA); and (b) reporting templates of specific Financial Reporting Package for Banks (FRP) and Simplified Financial Reporting Package for Rural and Cooperative Banks (SFRP) as follows: