



MICROFINANCE NGO REGULATORY COUNCIL

Memorandum Circular No. 1
Series of 2019

COMPLIANCE OF MICROFINANCE NGOS WITH REPUBLIC ACT NO. 3765 OR THE TRUTH IN LENDING ACT

Whereas, Microfinance NGOs ("MF-NGOs") are considered creditors under the Truth in Lending Act ("TILA"), hence, are required to comply with the provisions thereof;

Whereas, to foster consumer protection, enhance loan information transparency and promote the adoption of fair lending practices, the Bangko Sentral ng Pilipinas ("BSP") issued Circular No. 730, Series of 2011 dated 20 July 2011, which provides updated implementing rules and regulations ("IRR") of the TILA;

Whereas, for compliance with the provisions of the TILA and to protect the borrowers from the uninformed use of credit, the Securities and Exchange Commission ("SEC") issued Memorandum Circular No. 7, Series of 2011, which adopted BSP Circular No. 730, s. 2011 for lending and financing companies, and provided penalties for noncompliance therewith;

Whereas, Rule 5, Section 7 of the IRR of Republic Act No. 10693 or the Microfinance NGOs Act requires MF-NGOs to comply with the TILA;

Whereas, the social and governance performance standards for MF-NGOs issued by the Microfinance NGO Regulatory Council ("MNRC") under MNRC Memorandum Circular No. 1, Series of 2018 requires MF-NGOs to abide by the provisions of the TILA;

Whereas, on 06 June 2019, the SEC issued a Notice on the Computation of Interest Rates relative to lending and financing companies ("SEC Notice");

NOW THEREFORE, the following are hereby promulgated:

1. Prior to the consummation of the transaction, a MF-NGO shall furnish each debtor-client a disclosure statement signed by the borrower and attached with the loan documents, setting forth, to the extent applicable, the following information:
 - (a) The principal loan;
 - (b) Rate of loan interest including the effective interest rates ("EIRs") being applied;
 - (c) Service or processing fee, if any;
 - (d) Amortization schedule;
 - (e) Any penalty charge for late amortization payment;
 - (f) Collection fee, if any;
 - (g) Notarial fee, if any;
 - (h) All other fees in connection with the loan transaction;
 - (i) Description of the collection and lien enforcement procedures; and
 - (j) Illustration of the method of calculating the total amount of obligation in case of default.

Published:

Manila Bulletin; September 13, 2019
Manila Standard; September 13, 2019

Without prejudice to the foregoing, the following minimum information, as required under BSP Circular No. 730, s. 2011, shall be disclosed by MF-NGOs to all borrowers:

- I. The total amount to be financed;
- II. The finance charges expressed in terms of pesos and centavos;
- III. The net proceeds of the loan; and
- IV. The percentage that the finance charge bears to the total amount to be financed (expressed as a simple annual rate ("SAR") or an EIR which shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of the SAR. The EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.)

2. Computation of Interest Rate

The MNRC adopts BSP Circular No. 730, s. 2011 and SEC Notice, which clarifies the computation of interest in relation to the information required to be disclosed in BSP Circular No. 730, s. 2011.

The computation of interest rates by MF-NGOs and the disclosure statements hereinabove required shall be in accordance with BSP Circular No. 730, s. 2011¹ and the SEC Notice².

3. Posters

MF-NGOs shall post in conspicuous places in their principal places of business and branches the information contained in the disclosure statement. The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and that the customer has a right to demand a copy of such disclosure.


4. Penalties

Noncompliance with the provisions of the TILA and this circular shall subject the MF-NGO to the following penalties:

- | | | |
|-------------------|---|---|
| a. First Offense | : | Basic fine of P20,000.00 and P100.00 for each day of continuing violation |
| b. Second Offense | : | Basic fine of P25,000.00 and P100.00 for each day of continuing violation |
| c. Third Offense | : | Basic fine of P30,000.00 and P100.00 for each day of continuing violation |
| d. Fourth Offense | : | Suspension/revocation of the Certificate of Accreditation from the MNRC |

This circular shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation in the Philippines.

Issued this 30 August 2019, Pasay City.


EMILIO B. AQUINO
Chairperson

¹ Annex "A"

² Annex "B"

Annex "A"

Disclosure Form

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As Required under R.A. 3765, Truth in Lending Act)

NAME OF BORROWER : _____
ADDRESS : _____

1. LOAN AMOUNT

P XXX

2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED¹

P XXX

- a. Documentary/Science Stamps
- b. Mandatory Credit Insurance
- c. Others (Specify) _____

P _____

3. NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3)

P XXX

4. SCHEDULE OF PAYMENTS

- a. Single payment due on
- b. Installment Payments

(date) P XXX
(Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges)

XXX %

Explanation: The effective interest rate is higher than the contractual interest rate of ___% because of item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

- a. Late Charge
- b. Prepayment (penalty/refund)
- c. Others (Specify) _____

CERTIFIED CORRECT:

(Signature of Creditor/Authorized Representative Over Printed Name)

Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

(Signature of Borrower over Printed Name)

Date

Notes:

- Itemize all charges including advance deductions
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature
- This document contains the minimum information required to be disclosed to the borrower and maybe enhanced to improve client information

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				xxx
1		xxx	xxx	xxx	xxx
2		xxx	xxx	xxx	xxx
3		xxx	xxx	xxx	xxx
4		xxx	xxx	xxx	xxx
5		xxx	xxx	xxx	xxx
6		xxx	xxx	xxx	xxx
7		xxx	xxx	xxx	xxx
8		xxx	xxx	xxx	xxx
9		xxx	xxx	xxx	xxx
10		xxx	xxx	xxx	xxx
11		xxx	xxx	xxx	xxx
12		xxx	xxx	xxx	xxx
	Total	xxx	xxx	xxx	

Legends:

- A - *Number of installment periods based on loan term*
- B - *Gross amount of loan*
- C - *Installment payment on the principal*
- D - *Installment payment on the interest*
- E - *Total amortization payment for the installment period*
- F - *Outstanding principal balance of the loan*



Annex "B"

NOTICE ON THE COMPUTATION OF INTEREST RATES

The **Securities and Exchange Commission ("SEC")**, in its commitment to foster consumer protection, enhance loan information transparency and promote the adoption of fair lending practices, advises the public to observe the updated rules in implementing the **Truth in Lending Act (Republic Act No. 3765)**, particularly the **Bangko Sentral ng Pilipinas ("BSP") Circular No. 730 dated 20 July 2011** and the **SEC Memorandum Circular No. 7, Series of 2011**. This Notice is issued in view of the numerous queries entertained by the operating department/s of the SEC with regard to the correct computation of the interest rates imposed by Lending Companies ("LCs") and Financing Companies ("FCs").

Adopting **BSP Memorandum No. M-2011-040** in the case of LCs and FCs, an effective interest rate ("EIR") calculation model for a loan, founded on established principles of discounted cash flow analysis, should be based on the actual features thereof. Attached herein are some illustrations/models of common loan features, which are also present as annexes in the BSP memorandum. Moreover, LCs and FCs shall be solely responsible for the propriety and accuracy of its EIR calculation model. However, for purposes of determining compliance with the afore-stated circular, the BSP's determination of the reasonableness and accuracy of an EIR calculation model shall prevail.

Should you have any questions regarding the computation of interest rates imposable by LCs and FCs, please contact the Corporate Governance and Finance Department-Monitoring Division of the SEC at telephone numbers 818-5476 or 818-9227, or email imessagemo@sec.gov.ph.

Pasay City

06 June 2019

ILLUSTRATION 1**EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION SCHEDULE**

	Period	%	Amount
Loan Amount			P100,000.00
Monthly Installment Payments			9,455.96
Contractual/Interest Rate (Monthly)		2.00%	(See Annex A)
Penalty Charges in case of default/late payment on outstanding balance		3.00%	(See Annex B)
Other Charges (i.e. service charge, processing fee that will be deducted to the loan proceeds)		3.00%	3,000.00
No. of Monthly Installment	12		
Loan Proceeds (Loan amount less Other charges)			97,000.00

ANNEX A: Scenario where No Default/Late Payment

Computation based on the Contractual/Interest Rate:

Installment Period	Gross Loan	Principal (A) = C - B	Contractual Interest (is 2.00%) (B) = Prior period D * 1	Monthly Installment (C)	Outstanding Balance (D) = Prior Period D - A
	P100,000.00				100,000.00
1		7,455.96	2,000.00	9,455.96	92,544.04
2		8,067.80	1,388.16	9,455.96	84,476.24
3		8,188.82	1,267.14	9,455.96	76,287.43
4		8,311.65	1,144.31	9,455.96	67,975.78
5		8,436.32	1,019.64	9,455.96	59,539.45
6		8,562.87	893.09	9,455.96	50,976.59
7		8,691.31	764.65	9,455.96	42,285.28
8		8,821.68	634.28	9,455.96	33,463.59
9		8,954.01	501.95	9,455.96	24,509.59
10		9,088.32	367.64	9,455.96	15,421.27
11		9,224.64	231.32	9,455.96	6,196.63
12		9,363.01	92.95	9,455.96	-
TOTAL		103,166.38	10,305.14	113,471.52	

Computation based on the Effective Interest Rate:

Installment Period	Gross Loan	Cash Flows (A)	Principal (B) = A - C	Effective Interest 2.499% (C) = Prior period D * 2.499%	Outstanding Balance (D) = (Prior Period D - B)
	P100,000.00				P100,000.00
0		97,000.00	3,000.00		97,000.00
1		-9,455.96	7,031.45	2,424.51	89,968.55
2		-9,455.96	7,307.20	2,248.76	82,761.34
3		-9,455.96	7,387.35	2,068.61	75,373.99
4		-9,455.96	7,571.99	1,883.97	67,802.00
5		-9,455.96	7,761.26	1,694.70	60,040.75
6		-9,455.96	7,955.25	1,500.71	52,085.50
7		-9,455.96	8,154.09	1,301.87	43,931.41
8		-9,455.96	8,357.90	1,098.06	35,573.51
9		-9,455.96	8,566.80	889.16	27,006.71
10		-9,455.96	8,780.93	675.03	18,225.78
11		-9,455.96	9,000.41	455.55	9,225.37
12		-9,455.96	9,225.37	230.59	-
Total			100,000.00	16,471.52	

Total Payments to be made by the borrower: 3,000.00 (Other charges deducted to the loan proceeds)
113,471.52 (12 Monthly payments of P9,455.96)
116,471.52

Monthly Installment (C)	=	Principal	+	$\frac{((1+i)^n - 1)}{i(1+i)^n}$
	=	100,000.00	+	$\frac{((1+0.025)^{12} - 1)}{0.025(1+0.025)^{12}}$
	=	100,000.00	+	10.58
	=	<u>9,455.96</u>		

Where:
 i = Contractual interest
 n = Period
 principal = Loan amount

Effective Monthly Interest Rate (MIR) = IRR(F10:F22) = 2.499%
 (using Excel IRR Function)

ANNEX B: Scenario where there is Default/Late Payment

Computation based on the Contractual/Interest Rate: (Default on the 5th Installment)

Installment Period	Gross Loan	Principal (A) = C - B	Contractual Interest (B) = Prior period D + I	Monthly Installment (C)	Penalty Charges, in case of default on outstanding balance	Outstanding Balance (D) = Prior Period D - A
	P100,000.00					100,000.00
1		7,455.96	2,000.00	9,455.96		92,544.04
2		8,067.80	1,388.16	9,455.96		84,476.24
3		8,188.82	1,267.14	9,455.96		76,287.43
4		8,311.65	1,144.21	9,455.96		67,975.78
5 (defaulted)		8,436.32	1,019.64	9,455.96	2,039.27	61,578.73
6		8,532.28	923.68	9,455.96		53,046.45
7		8,660.26	795.70	9,455.96		44,386.19
8		8,790.17	665.79	9,455.96		35,596.02
9		8,922.02	533.94	9,455.96		26,674.00
10		9,055.85	400.11	9,455.96		17,618.15
11		9,191.69	264.27	9,455.96		8,426.46
12		9,329.56	126.40	9,455.96		-
TOTAL		102,942.37	10,529.14	113,471.52	2,039.27	

Computation based on the Effective Interest Rate (Default on the 5th Installment)

Installment Period	Gross Loan	Cash Flows (A)	Principal (B) = A - C	Effective Interest 2.81% (C) = Prior period D * 2.81%	Outstanding Balance (D) = (Prior Period D - B)
	P100,000.00				P100,000.00
0		97,000.00	3,000.00		97,000.00
1		-9,455.96	6,734.17	2,721.79	90,265.83
2		-9,455.96	6,923.13	2,532.83	83,342.70
3		-9,455.96	7,117.39	2,338.57	76,225.31
4		-9,455.96	7,317.10	2,138.86	68,908.21
5 (defaulted)		-11,495.23	9,561.69	1,933.54	59,346.52
6		-9,455.96	7,790.71	1,665.25	51,555.81
7		-9,455.96	8,009.32	1,446.64	43,546.49
8		-9,455.96	8,234.06	1,221.90	35,312.43
9		-9,455.96	8,465.10	990.86	26,847.33
10		-9,455.96	8,702.63	753.33	18,144.70
11		-9,455.96	8,946.83	509.13	9,197.87
12		-9,455.96	9,197.87	258.09	0.00
Total			100,000.00	18,510.79	

Total Payments to be made by the borrower:	3,000.00 (Other charges deducted to the loan proceeds)
	113,471.52 (12 Monthly payments of P9,455.96)
	2,039.27 (Penalty charge on the default/late payment)
	<u>118,510.79</u>

Effective Monthly Interest Rate (MIR) (using Excel IRR Function) = IRR(F10:F22) = 2.81%

2.80596937%