

1. *What is rediscounting?*

Rediscounting is a privilege of a qualified bank to obtain loans or advances from the Bangko Sentral ng Pilipinas (BSP) using the eligible papers of its borrowers as collaterals. It is a standing credit facility provided by the BSP to help banks liquefy their position by refinancing the loans they extend to their clients.

2. *How does the rediscounting cycle go?*

A bank extends loans to end-user borrowers who execute credit instruments [i.e., promissory notes (PNs), drafts or bills of exchange] in favor of the bank. The bank rediscounts the credit instruments of its end-user borrowers with the BSP by endorsing the same in favor of the BSP. The BSP, in turn, lends the bank an amount equivalent to a certain percentage of the face amount/outstanding balance of the end-user borrower's credit instrument. The bank may use the proceeds of the BSP loan for new loans to other borrowers, or to address its liquidity needs. In effect, the rediscounting cycle helps sustain the bank's funds for relending to its borrowers and, at times, service withdrawals.

3. *What is the role of rediscounting in our monetary system?*

Section 81 of Republic Act (R.A.) No. 7653, otherwise known as the New Central Bank Act, provides that the rediscounts, discounts, loans and advances, which BSP is authorized to extend to banking institutions, shall be used to influence the volume of credit consistent with its objective of maintaining price stability. During periods of inflation, the BSP shall limit the loans it extends to banks. On the other hand, the BSP makes full use of the credit operations authorized under its Charter whenever there is a need to expand money supply in our monetary system. Thus, rediscounting is one of the monetary tools of the BSP to regulate the level of liquidity in the system.

4. *What are the types of rediscount facility?*

There are two types of rediscount facilities available to qualified banks, as follows:

- Peso Rediscount Facility
- Exporters' Dollar and Yen Rediscount Facility (EDYRF)

5. *What papers are presently eligible for rediscounting?*

The papers presently eligible for rediscounting are as follows:

- Commercial Credits – credit instruments resulting from a) the importation, exportation, purchase or sale of readily saleable goods and products, or their transportation within the Philippines; or b) the storing of non-perishable goods and products which are duly insured and deposited in authorized bonded warehouses or in other places approved

by the Monetary Board (MB); with maturities of not more than 180 days from the date of their rediscount by the BSP.

- Production Credits - credit instruments related to the production or processing of agricultural, animal, mineral, or industrial products with maturities of not more than 360 days from the date of their rediscount by the BSP.
- Other Credits – special credit instruments not otherwise rediscountable under commercial and production credits, such as but not limited to microfinance, housing loans, services, agricultural loans with long gestation period, and medium and long-term loans covered by credit instruments with maturities of more than 360 days but not more than ten years from the date of their rediscount by the BSP.

6. What are the available loan facilities and acceptable collaterals under each type of credit?

- **Commercial Credits**

- a. Export Credit – a) a packing credit to fund the working capital of exporters before the goods are shipped; facility is covered by an irrevocable letter of credit (LC) and/or confirmed purchase order (PO) and/or sales contract (SC); or b) export bill (EB) credit (post-shipment) to re-finance export shipments while awaiting final payment from the foreign drawee bank, secured by a duly notarized assignment of proceeds of export or domestic LCs, confirmed POs or SCs.
- b. Import Credit – to fund the working capital of importers covered by usance bill of exchange (BX) secured by a Trust Receipt (TR) Agreement.
- c. Trading & Transport Loan – to fund the working capital of domestic traders of readily saleable goods or their transportation within the Philippines secured by a duly registered mortgage on real estate property of which 70% of the appraised value equals or exceeds the outstanding balance of the PN, or domestic BX secured by a TR Agreement, or credit guarantees/sureties issued by Industrial Guarantee and Loan Fund (IGLF), Small Business Corporation (SBC), Credit Surety Fund (CSF) and the National Government (NG).

- **Production Credits**

- a. Agricultural Production – to finance activities of farmers for the production of food crops (rice, corn, fruits and vegetables, coffee), other crops (coconut, abaca fiber, cotton, rubber, palm oil, etc.) and fishery (fish and marine products, aquaculture). Loan is secured by a Deed of Real Estate Mortgage (REM).
- b. Animal Production – to fund the activities of farmers for poultry and livestock development (egg production, broiler production, hog raising/weaning/fattening, cattle raising/fattening, dairy, goat raising). Loan is secured by a Deed of REM.
- c. Mineral Production - to fund the activities of borrowers for the production of metallic and non-metallic ore mining/milling (bauxite, copper, gold bullions/bars,

iron ore, lead, manganese, uranium, zinc, asbestos, coal, semi-precious stones, clay, etc.). Loan is secured by a Deed of REM.

- d. Agricultural Processing – to fund the economic activities of borrowers involved in the manufacturing of processed food (meat, fruits and vegetables, fish and other sea foods, vegetable oils, starch from indigenous raw materials, spices and other processed foods). Loan is secured by a Deed of REM.
- e. Industrial Processing –
 - Indirect Exports – to fund the working capital needs of local manufacturers (cottage, small and medium scale industries) that have supply arrangements with direct exporters covered by local PO/domestic LC or Deed of REM. The commodity covered by the local PO/domestic LC should be ultimately exported or applied as inputs to the production of goods to be exported.
 - Industrial Loans – to finance industries involved in the manufacturing of wood products, paper and paper products, textile and textile products, wearing apparel, footwear, leather and leather products, basic industrial chemicals, chemical fertilizers, synthetic resins, synthetic yarns and fibers, drugs and pharmaceuticals, petroleum products, rubber products, plastic products, non-metallic mineral products, construction/housing components, basic metal products, fabricated metal products, machinery and equipment, electrical and electronic products. The loan is secured by a Deed of REM.

- **Other Credits**

- a. Microfinance – small loans granted to the basic sectors, as defined in the Social Reform and Poverty Alleviation Act of 1997, and other loans granted to the poor and low-income households for their micro enterprises and small businesses so as to enable them to raise their income levels and improve their living standards. These loans may be unsecured.
- b. Service Exporters – to fund the working capital of service exporters who are engaged in rendering technical, professional, and other services covered by a duly notarized assignment of receivables from service contracts, the value of which equals or exceeds the outstanding balance of the PN.

“Service exporters” refer to natural persons who are residents of the Philippines or juridical persons organized and licensed under Philippine laws engaged in rendering technical, professional, and other services abroad paid for in acceptable foreign currencies.
- c. Other Services – to fund the working capital of local industries engaged in rendering various services such as hospitals, schools, hotels and restaurants, transportation, postal and communications, call centers, research and development, private educational services, health and social work, computers and related activities,

sewage and sanitation, and recreational, cultural and sporting activities, etc. The loan is secured by a Deed of REM or credit guarantees/sureties issued by IGLF, SBC, CSF and the NG.

d. Medium- and long-term loans – loans covered by credit instruments with maturities of more than three hundred sixty (360) days but not more than 10 years from date of rediscount by the BSP. Eligible projects include, but are not limited to, the following:

- Housing loans for the construction or acquisition of a house, house and lot, townhouse or condominium by the homeowner-borrower and the construction of residential houses and condominiums by the property developer. Loans to property developer shall not include the purchase of raw land and development cost, i.e., construction of roads, drainage, park, water system and others. The loan is secured by a Deed of REM.
- Agricultural loans with long gestation period, secured by a Deed of REM, that become economically productive and generate revenue only after a period of three (3) years as follows:

| Project | Gestation in number of years |
|----------------|-------------------------------------|
| Abaca | 4-6 |
| Black Pepper | 3-4 |
| Cacao | 4-6 |
| Calamansi | 4-6 |
| Cashew | 5 |
| Coconut | 7-8 |
| Coffee | 3-4 |
| Durian | 5-7 |
| Jackfruit | 5-7 |
| Lanzones | 6-8 |
| Mango | 5-7 |
| Mangosteen | 6-7 |
| Pomelo | 5-7 |
| Rambutan | 4-6 |
| Rubber | 6-8 |
| Palm Oil | 5-7 |
| Pili | 7 |

- Capital assets expenditure (CAPEX) for the purchase, construction, expansion, or improvement of long term assets used in trade or business: e.g., factory, warehouse, office building, machinery and equipment, and

transportation equipment. The loan is secured by a Deed of REM or credit guarantees/sureties issued by IGLF, SBC, CSF and the NG.

- Permanent working capital which refers to the core level in trading assets (accounts receivable and inventory) brought about by long term or rapid sales growth or increased production capacity. The loan is secured by a Deed of REM or credit guarantees/sureties issued by IGLF, SBC, CSF and the NG.

Banks availing of the medium and long-term facilities shall submit quarterly report on the projects, conduct end-user verification and validate utilization of loan proceeds annually or every other year depending on the findings disclosed in the project quarterly monitoring report.

7. *What loans are considered ineligible for rediscounting?*

Under Subsection (§) X269.2 of the Manual of Regulations for Banks (MORB), the following loans are exceptions from credit instruments that may be rediscounted with the BSP:

- Interbank loans
- Past due loans
- Unsecured loans (except in cases identified below)
- Personal consumption loans
- Loans to non-bank financial institutions
- Loans funded from other borrowings, e.g., government financial institutions or multilateral agencies

Unsecured loans may be accepted for rediscounting provided they are:

- a. Microfinance loans; or
- b. Loans secured by a duly registered mortgage on real property of the bank, 70% of the appraised value of which equals or exceeds the outstanding balance of the unsecured PN and other collaterals acceptable to the BSP, e.g., government securities.

8. *Can PNs secured by Certificate of Land Ownership Award (CLOA) and Emancipation Patent (EP) be rediscounted with BSP?*

No. Under Memorandum No. M-2009-041 dated 4 November 2009, PNs secured by a mortgage on CLOA or EP are not among the eligible papers acceptable for rediscounting in view of the statutory prohibitions under Presidential Decree No. 27 and Republic Act No. 6657.

9. *Can PNs secured by Certificate of Land Title issued by virtue of Free Patent be rediscounted with BSP?*

Yes, PNs secured by Certificate of Land Title issued by virtue of Free Patent, covering residential lands, can be rediscounted with BSP. However, under Memorandum No. M-2011-036 dated 5 July 2011, an Original Certificate of Title issued by virtue of Free Patent, covering agricultural lands, may only be accepted as underlying collateral for loans offered for rediscounting with the BSP after the expiry of the prescription period of five years from the date of the approval of the order to issue the patent.

10. *Are there guidelines covering credit availments from the BSP?*

From time to time, the BSP releases credit issuances governing credit policies and procedures. The new guidelines on the BSP Rediscounting Facility are covered by Circular No. 630 dated 11 November 2008, as amended by Circular Nos. 648, 679 and 684 dated 02 March 2009, 01 February 2010 and 15 March 2010, respectively. In addition, the BSP issued the following memoranda:

- a. M-2010-005 dated 15 March 2010, which provides the guidelines on the 2% creditable withholding tax on interest payments to the BSP by banks belonging to the top 20,000 corporations as authorized withholding agent by BIR and enrolled with BSP-DLC;
- b. M-2010-031 dated 22 September 2010, which advises all banks participating in the eRediscounting to encode in the system the complete and correct addresses of their borrowers whose loans are being rediscounted with the BSP;
- c. M-2010-042 dated 06 December 2010, which provides the guidelines for thrift banks on the rediscounting of packing loans and export bills with the BSP;
- d. M-2011-017 dated 18 March 2011, which provides the guidelines on real estate properties covered by Section 7 of R.A. No. 26 offered as collateral for loans with the BSP; and
- e. M-2011-036 dated 5 July 2011, which allows an Original Certificate of Title issued by virtue of Free Patent, covering agricultural lands, to be accepted as underlying collateral for loans offered for rediscounting with the BSP after the expiry of the prescription period of five years from the date of the approval of the order to issue the patent.

11. *Who are considered eligible borrowers?*

The universal/commercial, thrift, rural or cooperative bank determines the eligibility of its borrowers. In general, these borrowers are the following:

- Those with satisfactory credit standing and good business reputation; and
- Those who are able to meet the participating bank's credit requirements.

12. *Who are qualified to participate in the BSP's rediscount window? Are there eligibility requirements?*

All banking institutions, such as universal/commercial banks, branch of foreign banks, thrift banks, rural and cooperative banks that have existing rediscounting lines with the BSP are qualified to participate in the BSP's rediscounting window.

Yes, there are eligibility requirements which are enumerated under Item Nos. 16 and 17.

13. *Where can a bank file its application for rediscounting line?*

The application for a rediscounting line shall be filed with the Department of Loans and Credit (DLC), BSP Manila.

14. *What is the term of the approved rediscounting line?*

The term of the line shall be for one year unless sooner cancelled, suspended, amended or extended by the Credit Committee. The line is renewable annually upon submission of application one month before the expiry of said line.

15. *What is the function of the Credit Committee? Who comprises it?*

The Credit Committee approves, disapproves, extends, amends, cancels, suspends and restores the rediscounting line of banks. It is composed of the Assistant Governor/Managing Director (MD) of the Monetary Operations Sub-Sector, MD of the Regional Monetary Affairs Sub-Sector, and the Director of the DLC, BSP.

16. *How much will be the rediscounting line?*

The rediscounting line ranges from 50% to 200% of adjusted net worth depending on the total credit score of the applicant bank.

17. *What are the requirements to be met to qualify for rediscounting line?*

Banks shall have complied with the following requirements:

- a. Minimum capital prescribed under § X106.1 and § X106.2 of the MORB, as amended, based on the latest available report of the Supervisory Data Center (SDC);

- b. Capital adequacy ratio as required under Sec. X116 of the MORB, based on the latest available report of the SDC;
- c. Required reserves against deposit liabilities/deposit substitutes for two consecutive weeks based on the latest available report of the SDC;
- d. NPL ratio lower or equal to the industry average adjusted upward by two percent based on the latest available report of the SDC, or the allowable NPL ratio approved by the MB;
- e. Positive demand deposit account (DDA) balance with the BSP as of date of application;
- f. No past due obligations or collateral deficiencies on account of matured notes, unremitted collections, missing collaterals or ineligible papers with the BSP as of date of application;
- g. A CAMELS Composite Rating of "3" or higher based on the latest general examination of the appropriate Examination Department of the Supervision and Examination Sector (SES); and
- h. The ratio of past due direct and indirect loans to directors, officers, stockholders, and their related interests (DOSRI) to the aggregate past due loans should not be more than five percent based on the latest available report of the SDC.

Banks applying for the microfinance facility shall also comply with the following requirements based on the latest available report of the SES:

- a. At least one year track record in microfinance;
- b. At least 500 active microfinance borrowers;
- c. A Portfolio At Risk ratio (PAR) of not more than five percent;
- d. The ratio of total collections (excluding prepayments) during the preceding 12-month period to total collectibles (past due microfinance loans, beginning plus matured loans/principal amortizations due for the period) should not be less than 95%; and
- e. Officers and staff responsible for microcredit operations shall have completed: 1) a training course on microfinance; and 2) at least one year experience in microlending activities.

18. *What are the eligibility requirements at the time of availment?*

Banks availing of the BSP Rediscounting facility must have at the time of availment with the BSP:

- a. A positive DDA balance
- b. No past due obligations

- c. No collateral deficiencies on account of matured notes, unremitted collections, missing collaterals or ineligible papers.

19. *What is eRediscounting?*

eRediscounting is an online, internet-based rediscounting facility of the BSP available to all qualified banks nationwide. This facility allows qualified banks to conduct their rediscounting transaction in their place of business on near real-time basis. It provides an online data entry facility for rediscounting transactions and inquiries with the following capabilities:

- Embedded validation rules which immediately prompt on the correctness and acceptability of PNs and other collateral documents.
- Online submission to BSP of loan applications by applicant banks.
- Electronic processing by BSP providing real-time online status of loan applications.
- Online acceptance of payments to BSP on rediscounting loans guided by the “query” window for outstanding loan balances and charges.

To facilitate online payments, banks will just have to identify the loan application or PN number. The system will automatically compute the amount due. Payments for a peso loan are automatically debited against the bank’s DDA with BSP.

- Provision of online information on available rediscounting line, rediscount rates, and existing and new regulations on rediscounting.

20. *What are the features of the system?*

- Online filing and processing of rediscounting loan applications and payments;
- Online data validation;
- Online access to historical rediscounting information on loans, PNs, borrowers, collaterals, payments, rediscount rates, and rediscounting lines;
- Online access to various rediscounting forms like PNs, User Account Registration Form, User Specimen Signature Form, User Account Change Form and Incident Report Form and Depository/Custodianship Agreement;
- Role-based and approval workflow from the client side;
- Secured data transmission and automatic generation of accounting entries at BSP; and
- Maintainable system formula, valuation rates, access rights, system options and coding scheme libraries.

21. How can a bank participate in the eRediscounting System?

Once a bank has acquired a rediscounting line from the BSP, it must execute an eRediscounting System Participation Agreement. For a rural/cooperative bank, a Depository/Custodianship Agreement with its designated custodian bank must also be submitted. Thereafter, the DLC shall grant the bank access to the eRediscounting System via the Internet.

22. What are the minimum system requirements?

- Hardware – Pentium IV Workstation, at least 128 mb SDRAM, VGA Monitor
- Software – Windows 2000, or Windows OS higher version; MS Internet Explorer Version 6.0 or higher
- Network – With internet connection
- Security – Token Card

23. What interest is charged by the BSP against the rediscounting loan?

The interest rate charged by BSP against the rediscounting loan is called the rediscount rate. Under § X269.6 of the MORB, the rediscount rates for peso, dollar and yen loans shall be as follows:

| | |
|------------------------|---|
| Peso Rediscounts | Based on the applicable BSP overnight reverse repurchase rate (RRP). |
| Dollar/Yen Rediscounts | Based on their respective London Inter-Bank Offered Rate (LIBOR) for the last working day of the immediately preceding month. |

24. Is there a ceiling in the lending rates that the banks may charge on their rediscounted papers?

None. The interest rates that the banks may charge on their rediscounted papers shall not be subject to any ceiling.

25. What is the term of BSP rediscounts?

Under § X269.5 of the MORB, the maturities of BSP rediscounts are as follows:

| Type of Rediscount | Maturity |
|---|---|
| a. Commercial Credits 1) Export Packing 2) Trading 3) Transport 4) Export Bills (EBs) i. At Sight ii. Usance EB | 180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument 15 days from purchase date Term of draft but not to exceed 60 days from shipment date |
| b. Production Credits | 360 days from date of rediscount but shall not go beyond the maturity date of the PN |
| c. Other Credits | Maximum maturity of 360 days. Upon maturity or full payment of the BSP loan on medium and long term loans, banks shall have the option to reapply the loans; provided, that the PNs of the end-user borrowers remain current and outstanding, and that no adverse findings resulted from the loan monitoring and verification conducted by the DLC. |

26. What is the loan value of eligible papers?

Under § X269.4 of the MORB, the loan value of all eligible papers shall be 80% of the outstanding balance of the borrowers' credit instrument but not higher than 70% of the appraised value of the underlying collateral.

27. What is the maximum amount of rediscount that can be availed of by a qualified bank with the BSP?

An eligible bank may avail up to 100% of its rediscounting line, provided all rediscounting loans are fully collateralized subject to prevailing rediscounting policy.

28. How will the bank know if the loan application is approved by the BSP?

The bank may view the status of its loan application online under the BSP Response module of the eRediscounting. Notice and details of the loan approval or disapproval may be viewed upon clicking the message of a specific loan bank reference. BSP's response on payment instruction submitted by the bank may likewise be viewed online.

29. How are the rediscounting loan proceeds released to the bank?

The proceeds of the rediscounting avilment shall be released as follows:

- a. Peso rediscounts – automatically credited to the borrowing bank's DDA or its depository bank's DDA with the BSP on the same day for loan application submitted to the BSP before 4:00 p.m., during banking days.
- b. Dollar/Yen rediscounts – released through the Treasury Department, BSP, for credit to the designated foreign correspondent bank of the borrowing bank as follows:
 - (1) Same banking day credit for dollar loan application submitted to the BSP before 11:00 a.m., during banking days; and
 - (2) Following banking day credit for yen loan application submitted to the BSP before 11:00 a.m., during banking days.

30. What are the required documentations upon receipt by the bank of BSP's advice of loan approval?

Upon receipt of confirmation of loan approval, the bank shall:

- a. Execute the Promissory Note with Trust Receipt Agreement and Deed of Assignment (PNTRADA) in favor of the BSP, signed by the authorized officer/s of the bank.
- b. If commercial or thrift bank, hold-in-trust, segregate and keep the rediscounted credit instruments and underlying collaterals together with the PNTRADA at a secured place within their premises; if rural or cooperative bank, deposit with their respective depository/custodian bank the credit instruments and underlying collaterals and the PNTRADA not later than the next banking day from date of loan grant, receipt of which shall be acknowledged by the depository bank in the List of Rediscounted Loans.

31. How do banks pay their rediscounting loan obligations with the BSP?

At any time, the borrowing bank may view its outstanding rediscounting obligations under the eRediscounting Loans Payment module wherein payments are also effected as follows:

a. Peso Rediscounts

The loan value of the rediscounted credit instruments or the amortization plus interest due thereon (net of 2% creditable withholding tax (CWT) for rediscounting banks belonging to the top 20,000 corporations as identified by the BIR and enrolled with BSP-DLC) shall automatically be debited against the borrower bank's DDA with the BSP at maturity/amortization due date. For microfinance loans with daily, weekly or semi-monthly amortizations, the borrower bank's DDA shall be debited on the last amortization due date of said month for the total loan value of the amortizations for the month plus interest due thereon.

b. Dollar/Yen Rediscounts

Dollar and yen loans shall be repaid in the same currency under which they were released. The bank shall submit online to BSP its payment instruction a day before the maturity date of the loan corresponding to the remittance instruction to its designated correspondent bank covering the loan value plus the interest due thereon. In case of short payment, the bank's DDA shall be debited for the peso equivalent of the shortage. If the loan is not settled on maturity date, the borrowing bank's DDA shall be automatically debited for the peso equivalent of the matured obligation plus accrued interest due thereon, using the applicable BSP selling rate for dollar and yen at the date of debit.

For prepayment of Peso/Dollar/Yen rediscounting loans, on account of collections received by the borrowing bank before the maturity date of the credit instrument, the bank shall submit to BSP within five banking days from date of receipt of collections an online payment instruction corresponding to the loan value of the principal amount collected plus interest due thereon, net of 2% CWT for payment of peso loan by banks enrolled with DLC as authorized withholding tax agent. SWIFT instruction to the correspondent bank for payment of dollar/yen rediscounting loan should coincide with the amount and value date indicated in the payment instruction submitted by the borrowing bank under the Loan Payment module. Otherwise, the borrowing bank's DDA shall be debited for the corresponding peso equivalent of the shortage.

For this purpose, the borrowing bank should maintain sufficient balance in its DDA to cover its maturing obligations and to fund any payment instruction submitted online.

32. How will the banks know that their rediscounting loan payments are received and taken up by the BSP?

The borrowing bank may view in the eRediscounting under the BSP Responses module the application of payments for the matured loans or amortizations automatically debited for the day or prepayments submitted to the BSP before 4:00 p.m. A corresponding Authority to Withdraw Collateral is issued in the BSP Response on the following day after a credit instrument is fully paid by the borrowing bank.

33. *Are the local non-working holidays to be excluded from the five banking days within which collection from rediscounted credited instruments should be remitted?*

No. Only the legal and national non-working holidays shall be excluded from the five banking days within which collection from rediscounted credit instruments should be remitted.

34. *Is there a cut-off time for the submission of rediscounting loan transactions by the bank?*

A bank may submit to BSP its loan application and loan payments from 8:00 a.m. – 4:00 p.m. during banking days; except, every first Friday of the month due to system maintenance. However, system responses will still be available during the first Friday of the month. These includes approval of dollar/yen loan application submitted on the preceding day (beyond 11:00A.M. for dollar), authority to withdraw/transfer collateral, payment instruction previously submitted and automatic debits for credit instruments maturing on the first Friday of the month. Nevertheless, the system is accessible daily for inquiry purposes.