



# Bangko Sentral ng Pilipinas

## OFFICE OF THE GOVERNOR

### Circular No. 398 Series of 2003

Pursuant to Monetary Board Resolution No. 1138 dated 07 August 2003, prescribing the rules and regulations that shall govern the credit card operations of banks and subsidiary credit card companies, the Manual of Regulations for Banks, the Manual of Regulations for Non-Bank Financial Institutions, the Manual of Accounts for Universal Banks and Commercial Banks and the Manual of Accounts for Thrift Banks are hereby amended, as follows:

**Section 1.** Sections X320 and 4301N and Subsecs. X320.1 to X320.14 and Subsecs. 4301N.1 to 4301N.14 are hereby added to the Manual of Regulations for Banks and Manual of Regulations for Non-Bank Financial Institutions, respectively, to read as follows:

**Sections X320 and 4301N Credit Card Operations; General Policy.** The Bangko Sentral ng Pilipinas (BSP) shall foster the development of consumer credit through innovative products such as credit cards under conditions of fair and sound consumer credit practices. The BSP likewise encourages competition and transparency to ensure more efficient delivery of services and fair dealings with customers.

Towards this end, the rules and regulations that shall govern the credit card operations of banks and bank subsidiary credit card companies, aligned with global best practices, are hereby issued, as follows:

#### Subsecs. X320.1 and 4301N.1 **Definition of Terms.**

- a) "*Credit Card*" means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor or services on credit.
- b) "*Credit Card Receivables*" represents the total outstanding balance of credit cardholders arising from purchases of goods and services, cash advances, annual membership/renewal fees as well as interest, penalties, insurance fees, processing/service fees and other charges.

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- c) "*Minimum Amount Due*" or "*Minimum Payment Required*" means the minimum amount that the credit cardholder needs to pay on or before the payment due date for a particular billing period/cycle as defined under the terms and conditions or reminders stated in the statement of account/billing statement which may include: (a) total outstanding balance multiplied by the required payment percentage or a fixed amount whichever is higher; (b) any amount which is part of any fixed monthly installment that is charged to the card; (c) any amount in excess of the credit line; and (d) all past due amounts, if any.
- d) "*Default*" or "*Delinquency*" shall mean non-payment of, or payment of any amount less than, the "Minimum Amount Due" or "Minimum Payment Required" within two (2) cycle dates, in which case, the Total Amount Due for the particular billing period as reflected in the monthly statement of account may be considered in default or delinquent.
- e) "*Acceleration Clause*" shall mean any provision in the contract between the bank and the cardholder that gives the bank the right to demand the obligation in full in case of default or non-payment of any amount due or for whatever valid reason.

Subsecs. X320.2 and 4301N.2 **Risk Management System.** To safeguard their interests, banks and subsidiary credit card companies are required to establish an appropriate system for managing risk exposures from credit card operations which shall be documented in a complete and concise manner. The risk management system shall cover the organizational set-up, records and reports, accounting, policies and procedures and internal control.

Written policies, procedures and internal control guidelines shall be established on the following aspects of credit card operations:

- a) Requirements for application;
- b) Solicitation and application processing;
- c) Determination and approval of credit limits;
- d) Pre-approved cards;
- e) Issuance, distribution and activation of cards;
- f) Supplementary or extension cards;
- g) Cash advances;
- h) Billing and payments;
- i) Deferred Payment Program or Special Installment Plans;
- j) Collection of past due accounts;
- k) Handling of accounts for write-off;
- l) Suspension, cancellation and withdrawal or termination of card;

- m) Renewal of cards, upgrade or downgrade of credit limit;
- n) Lost or stolen cards and their replacement;
- o) Accounts of directors, officers, stockholders and related interests (DOSRI) and employees;
- p) Disposition of errors and/or questions about the billing statement/ statement of account and other customers' complaints; and
- q) Dealings with marketing agents/collection agents

Subsecs. X320.3 and 4301N.3 **Minimum requirements.** Before issuing credit cards, banks and/or their subsidiary credit card companies must exercise proper diligence by ascertaining that applicants possess good credit standing and are financially capable of fulfilling their credit commitments. The net take home pay of applicants who are employed, the net monthly receipts of those engaged in trade or business, or the net worth or cash flow inferred from deposits of those who are neither employed nor engaged in trade or business or the credit behavior exhibited by the applicant from his other existing credit cards, or other lifestyle indicators such as but not limited to club memberships, ownership and location of residence and motor vehicle ownership shall be determined and used as basis for setting credit limits. The gross monthly income may also be used provided reasonable deductions are estimated for income taxes, premium contributions, loan amortizations and other deductions.

All credit card applications, especially those solicited by third party representatives/agents, shall undergo a strict credit risk assessment process and the information stated thereon validated and verified by persons other than those handling marketing.

Subsecs. X320.4 and 4301N.4 **Information to be disclosed.** Banks or their subsidiary credit card companies shall disclose to each person to whom the credit card privilege is extended in the agreement, contract or any equivalent document governing the issuance or use of the credit card or any amendment thereto or in such other statement furnished the cardholder from time to time, prior to the imposition of the charges and to the extent applicable, the following information:

- a) non-finance charges, individually itemized, which are paid or to be paid by the cardholder in connection with the transaction but which are not incident to the extension of credit;
- b) the percentage that the interest bears to the total amount to be financed expressed as a simple monthly or annual rate, as the case may be, on the outstanding balance of the obligation;

- c) the effective interest rate per annum;
- d) for installment loans, the number of installments, amount and due dates or periods of payment schedules to repay the indebtedness;
- e) the default, late payment/penalty fees or similar delinquency-related charges payable in the event of late payments;
- f) the conditions under which interest may be imposed, including the time period, within which any credit extended may be repaid without interest;
- g) the method of determining the balance upon which interest and/or delinquency charges may be imposed;
- h) the method of determining the amount of interest and/or delinquency charges, including any minimum or fixed amount imposed as interest and/or delinquency charge;
- i) where one or more periodic rates may be used to compute interest, each such rate, the range of balances to which it is applicable, and the corresponding simple annual rate; and
- j) Other fees, such as membership/renewal fees, processing fees, collection fees, credit investigation fees and attorney's fees.

Subsecs. X320.5 and 4301N.5 **Accrual of interest earned.** Interest accrued and/or booked shall be reversed and no accrual of interest shall be allowed ninety (90) days after the credit card receivable has become past due as defined in Subsec. X 306.1 of the Manual of Regulations for Banks.

Subsecs. X320.6 and 4301N.6 **Finance charges.** The amount of finance charges in connection with any credit card transaction shall refer to interest charged to the cardholder.

Subsecs. X320.7 and 4301N.7 **Deferral charges.** The bank and the cardholder may, prior to the consummation of the transaction, agree in writing to a deferral of all or part of one or more unpaid installments and the bank may collect a deferral charge which shall not exceed the rate previously disclosed pursuant to the provisions on disclosure.

Subsecs. X320.8 and 4301N.8 **Late Payment/Penalty Fees.** No late payment or penalty fee shall be collected from cardholders unless the collection thereof is fully disclosed in the contract between the issuer and the cardholder.

Provided, That late payment or penalty fees shall be based on the unpaid minimum amount due or a prescribed minimum fixed amount: Provided, further, That said late payment or penalty fees may be based on the total outstanding balance of the credit card obligation, including amounts payable under installment terms or deferred payment schemes, if the contract between the issuer and the cardholder contains "acceleration clause" and the total outstanding balance of the credit card is classified and reported as past due.

Subsecs. X320.9 and 4301N.9 **Confidentiality of Information.** Banks and subsidiary credit card companies shall keep strictly confidential the data on the cardholder or consumer, except under the following circumstances:

- a) disclosure of information is with the consent of the cardholder or consumer;
- b) release, submission or exchange of customer information with other financial institutions, credit information bureaus, credit card issuers, their subsidiaries and affiliates;
- c) upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board;
- d) disclosure to collection agencies, counsels and other agents of the bank or card company to enforce its rights against the cardholder;
- e) disclosure to third party service providers solely for the purpose of assisting or rendering services to the bank or card company in the administration of its credit card business; and
- f) disclosure to third parties such as insurance companies, solely for the purpose of insuring the bank from cardholder default or other credit loss, and the cardholder from fraud or unauthorized charges.

Subsecs. X320.10 and 4301N.10 **Suspension, termination of effectivity and reactivation.** Banks or their subsidiary credit card companies shall formulate criteria or parameters for suspension, revocation and reactivation of the right to use the card and shall include in their contract with cardholders a provision authorizing the issuer to suspend or terminate its effectivity, if circumstances warrant.

Subsecs. X320.11 and 4301N.11 **Inspection of records covering credit card transactions.** Banks or their subsidiary credit card companies shall make available for inspection or examination by the appropriate supervising and examining department of the Bangko Sentral ng Pilipinas complete and accurate files on card applicant/cardholder to support the consideration for approval of the application and determination of the credit limit which shall be in accordance with the verified debt repayment ability and/or net worth of the card applicant/cardholder.

Subsecs. X320.12 and 4301N.12 **Offsets.** For purposes of transparency and adequate disclosure, the credit card issuer shall inform/notify the credit cardholder in the agreement, contract or any equivalent document governing the issuance or use of the credit card that, pursuant to the provisions of Articles 1278 to 1290 of the New Civil Code of the Philippines, as amended, the use of his credit card will subject his deposit/s with the bank to offset against any amount/s due and payable on his credit card which have not been paid in accordance with the terms of the agreement/contract.

Subsecs. X320.13 and 4301N.13 **Handling of complaints.** Banks or subsidiary credit card companies shall give cardholders at least twenty (20) calendar days from statement date to examine charges posted in his/her statement of account and inform the bank/subsidiary credit card companies in writing of any billing error or discrepancy. Within ten (10) calendar days from receipt of such written notice, the bank/subsidiary credit card company shall send a written acknowledgement to the cardholder unless the action required is taken within such ten-day period.

Not later than two (2) billing cycles or two months which in no case shall exceed ninety (90) days after receipt of the notice and prior to taking any action to collect the contested amount, or any part thereof, banks/subsidiary credit card companies shall make appropriate corrections in their records and/or send a written explanation or clarification to the cardholder after conducting an investigation. Nothing in this Subsection shall be construed to prohibit any action by the bank/subsidiary credit card company to collect any amount which has not been indicated by the cardholder to contain a billing error or apply against the credit limit of the cardholder the amount indicated to be in error.

Subsecs. X320.14 and 4301N.14 **Sanctions.** Violations of the provisions of this Section shall be subject to any or all of the following sanctions depending upon their severity:

- a) Disqualification of the bank concerned from the credit facilities of the BSP except as may be allowed under Section 84 of R.A. No. 7653;

- b) Prohibition of the bank concerned from the extension of additional credit accommodation against personal security; and
- c) Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

**Section 2.** Subsec X306.1f. of the Manual of Regulations for Banks is hereby amended to read as follows:

Subsec. X306.1 ***Accounts considered past due***

The following shall be considered as past due:

x x x

f. *Credit card receivables* – If the minimum amount due or minimum payment required is not paid within two (2) cycle dates, the total amount due stated in the monthly billing statement: Provided, however, that the total outstanding balance which includes amortization/s of any fixed monthly installment plan or deferred payment scheme shall be considered and reported past due when the number of monthly installments in arrears is three (3) or more: Provided further, that the bank shall have the right to demand the obligation in full in case of default in any installment thereon if the contract between the bank and the cardholder contains an "acceleration clause".

**Section 3.** Appendix 18 - Guidelines in Identifying and Monitoring Problem Loans and Other Risk Assets and Setting up of Allowance for Probable Losses ( Appendix to Sec. X302) of the Manual of Regulations for Banks is hereby amended by adding Item C. after Item I.B.4 Loss, to read as follows:

C. *Credit Card Receivables*

Credit card receivables shall be classified in accordance with age as follows:

No. of days past due	Classification
91 - 120	Substandard
121 - 180	Doubtful
181 or more	Loss

The foregoing is the minimum classification requirement. Management may therefore formulate additional specific guidelines.

**Section 4.** The following General Ledger accounts shall be added to the Manual of Accounts for Universal Banks and Commercial Banks as well as the Manual of Accounts for Thrift Banks:

Credit Card Receivables (GL ACCT CODE)

This represents total outstanding credit balance of credit cardholders arising from purchases of goods and services, cash advances, annual membership/renewal fees as well as interest, penalties, insurance fees, processing/service fees and other charges.

Past Due Credit Card Receivables (GL ACCT CODE)

This represents credit card receivables which are considered past due under existing rules and regulations. The loan shall remain in this account until fully paid; arrangements are formalized for its reactivation/renewal/restructuring or collection case has been filed in court.

Items in Litigation - Credit Card Receivables (GL ACCT CODE)

This represents credit card receivables for which collection cases have been filed in court. The loan shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, or such other disposition is made as would cause such proceedings to cease. All expenses incurred incidental to the litigation shall be charged to operations and lodged under "Litigation/Assets Acquired Expenses" account. Corresponding memorandum entries for the expenses shall be made on the individual subsidiary ledger of the account concerned.

Allowance for Probable Losses - Credit Card Receivables (GL ACCT CODE)

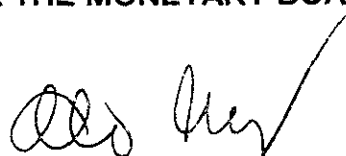
This represents the amount set up against current operations to provide for losses which may arise from non-collection of credit card receivables. Under existing regulation, this account is also known as "valuation reserve".

**Section 5. Repealing Clause.** This Circular repeals Circular No. 349 dated 27 August 2002.



**Section 6.** Effectivity. This Circular shall take effect after *ninety (90)* days from date of its publication in a newspaper of general circulation.

**FOR THE MONETARY BOARD:**

A handwritten signature in black ink, appearing to read 'Armando L. Suratos', written over a horizontal line.

**ARMANDO L. SURATOS**  
Officer-in-Charge

August 21. 2003