



# Bangko Sentral ng Pilipinas

## Office of the Governor

### CIRCULAR NO. 630 Series of 2008

Pursuant to Monetary Board Resolution Nos. 1457 and 831 and 832 dated 30 November 2006 and 02 July 2008, respectively, the provisions of Sections X268 and X269 and the corresponding subsections of the Manual of Regulations for Banks (MORB), covering the guidelines on the Bangko Sentral ng Pilipinas (BSP) Rediscounting Facility are hereby amended as follows:

**Sec. X268 Rediscounting Line.** The following guidelines shall govern the operations of the BSP's rediscounting line by banking institutions.

§ **X268.1 Credit Information System (CRIS).** The rediscounting availments of all eligible banks shall be drawn against their rediscounting line which is based on their total credit score under the CRIS. The scoring system under the CRIS shall consider the following factors:

- a. Management and Risk Management System
  - (1) Management
  - (2) Risk Management System
- b. Financial Indicators
  - (1) Capital Adequacy
  - (2) Asset Quality
  - (3) Profitability
  - (4) Liquidity
- c. Credit Experience
  - (1) Compliance with the Terms and Conditions of the Loan and Other BSP Regulations.
  - (2) Credit Experience with other Financial Institutions

The CRIS guidelines shall be reviewed on a regular basis by a Credit Committee created under MB Resolution No. 832 dated 02 July 2008, to maximize its effectiveness in managing the credit risk of the BSP.

§ **X268.2 Application Procedure.** Banks applying for a rediscounting line shall submit their application in the prescribed form (RL Form No. 1) to the Department of Loans and Credit (DLC), BSP-Manila or the appropriate Regional Loans and Credit Division (RLCD), BSP Regional Offices in Cebu, Davao and La Union, together with the following documents:

- a. Board Resolution duly signed by the Board of Directors (BOD) of the applicant bank, authorizing the bank to apply for a rediscounting line with the BSP and designating the officer/s of the bank to sign and endorse documents pertaining thereto, together with their specimen signature/s;
- b. Articles of Incorporation (for new applicants only) and amendments, if any;
- c. Organizational Chart (for new applicants only);
- d. List of BOD and principal officers (top three executive officers) and their education/training and work experience;
- e. Annual Report/Audited Financial Statements for the immediately preceding year; and
- f. For banks applying for microfinance facility, a copy of the Manual of Operations pertaining to microfinance operations.

**§ X268.3 Approval/Renewal of the Line.** The approval/renewal of the Line shall be subject to the bank's full compliance 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 except those with capital build-up program approved by the Monetary Board (MB);
- 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.

The approval, disapproval, extension, amendment, cancellation, suspension and restoration of the rediscounting line shall be delegated to a Credit Committee 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.

Banks with approved rediscounting line shall, thereafter, submit the following:

- a. Rediscounting Line Agreement (RL Form No. 3)
- b. Surety Agreement executed by the controlling interest (single stockholder, natural or juridical owning more than 50% of the voting stocks) obligating himself/itself jointly and severally with the bank to pay promptly on maturity, or when due, the BSP, its successors or assigns, the bank's outstanding obligations with the BSP (RL Form No. 4).
- c. For new applicant rural/cooperative banks with designated custodian bank, a tripartite depository agreement (RL form No. 2) by and among the applicant bank, designated depository bank (duly concurred by its Head Office) and the DLC or RLCD;

**§ X268.4 Amount of Line.** The amount of rediscounting line shall be based on the total credit score obtained by the applicant bank computed under the CRIS guidelines which ranges from 50% to 200% of adjusted net worth.

**§ X268.5 Term of the 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. Should there be special circumstances or information from the SES that may adversely affect the credit worthiness of a bank in the intervening period, the rediscounting line of the bank concerned will be reviewed immediately and acted upon accordingly.

**Sec X269 Rediscounting Availments.** To avail of the rediscounting facility of the BSP, banks shall enroll in the Electronic Rediscounting System (eRS) by executing and submitting to the DLC or the RLCD a Notarized Electronic Rediscounting System Participation Agreement.

**§ X269.1 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

**§ X269.2 Eligible Papers and Collaterals.** The BSP shall accept credit instruments covering all economic activities except the following:

- a. Interbank loans
- b. Extended/Restructured loans
- c. Past due loans
- d. Unsecured loans
- e. Personal consumption loans
- f. Loans to non-bank financial institutions
- g. Loans funded from other borrowings, e.g., government financial institutions or multi-lateral agencies

Credit instruments offered as collateral shall be subject to the eligibility requirements provided under Section 82 of RA No. 7653.

a. Commercial Credits – Bills, acceptances, promissory notes (PNs) and other credit instruments with maturities of not more than 180 days from the date of their rediscount, discount or acquisition by the BSP and resulting from transaction related to:

- (1) the importation, exportation, purchase or sale of readily saleable goods and products, or their transportation within the Philippines; or
- (2) the storing of non-perishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the MB.

Credit instruments acquired under commercial credits shall be secured either by:

	<b>Type of Collateral</b>	<b>Collateral Value</b>
(1)	Duly notarized assignment of export or domestic letters of credit, confirmed purchase order, sales contract, quedans	Shall equal or exceed the outstanding balance of the credit instrument
(2)	Trust receipts	Shall equal or exceed the outstanding balance of the credit instrument
(3)	Duly registered mortgage on real property	70% of the appraised value shall equal or exceed the outstanding balance of the PN
(4)	Credit guarantees/sureties issued by the Industrial Guarantee and Loan Fund (IGLF), the Small Business Corporation (SBC) and the national government	Shall equal or exceed the outstanding balance of the PN
(5)	Credit guarantees/sureties issued by the Credit Surety Fund (CSF) jointly established by cooperatives and local government units	Shall equal or exceed 80% the outstanding balance of the PN

b. Production Credits – Bills, acceptances, PNs and other credit instruments having maturities of not more than 360 days from the date of their rediscount, discount or acquisition by the BSP and resulting from transactions related to the production or processing of agricultural, animal, mineral, industrial and other products.

Credit instruments acquired under production credits shall be secured by a duly registered mortgage on real property, 70% of the appraised value of which equals or exceeds the outstanding balance of the PN.

- c. Other Credits – Special credit instruments not otherwise rediscountable under the immediately preceding items (a) and (b) such as but not limited to microfinance, housing, services, agricultural loans with long gestation period and other eligible economic activities with maturity of not more than 10 years from date of their rediscount, discount or acquisition of the BSP.

Credit instruments acquired under other credits shall be secured by:

	Type of Collateral	Collateral Value
(1)	Duly registered mortgage on real property	70% of the appraised value shall equal or exceed the outstanding balance of the PN
(2)	Duly notarized assignment of receivables from service contracts	Shall equal or exceed the outstanding balance of the PN
(3)	Credit guarantees/sureties issued by the IGLF, the SBC and the national government	Shall equal or exceed the outstanding balance of the PN
(4)	Credit guarantees/sureties issued by the CSF jointly established by cooperatives and local government units	Shall equal or exceed 80% of the outstanding balance of the PN
(5)	Other collaterals acceptable to the BSP, e.g., government securities	Current market value shall equal or exceed the outstanding balance of the PN

For housing loans, the lien or mortgage shall cover the property being financed.

*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.

**§ X269.3 Loan Availment Procedures.** Banks availing of the rediscounting facility shall submit their loan applications electronically to the BSP using their eRS registered computers.

Upon receipt of confirmation of loan approval:

- a. Banks shall execute the Promissory Notes with Trust Receipt Agreement and Deed of Assignment (PNTRADA) in favor of the BSP [RL Form No. 7 for peso and RL Form No. 8 for dollar and yen], signed by the authorized officer/s of the bank.
- b. Banks authorized to hold-in trust the rediscounted credit instruments and underlying collaterals shall segregate and keep the same together with the PNTRADA at a secured place within their premises under the custody of an accountable officer.
- c. Banks with custodianship agreements shall deposit with their respective depository/custodian bank the rediscounted credits instruments, 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.

**§ X269.4 *Loan Value.*** The loan value of all eligible papers shall be 80% of the outstanding balance of the borrower's credit instrument.

**§ X269.5 *Maturities.*** The maturities of BSP rediscounts are as follows:

a. Commercial Credits (1) Export Packing (2) Trading (3) Transport (4) Quedan  (5) Export Bills (EBs) <ul style="list-style-type: none"> <li>▪ At Sight</li> <li>▪ Usance Export Bill</li> </ul>	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 term of 10 years but shall not go beyond the maturity date of the credit instrument

**§ X269.6 *Rediscount/Lending Rates and Liquidated Damages.*** The rediscount rates for peso, dollar and yen loans shall be as follows:

a. Peso Rediscounts	Based on the applicable Treasury Bill (TB) rates from the last auction of the preceding week as follows:	
	<b>Loan Maturity</b>	<b>Applicable TB Rates</b>
	90 days or less	91-day
	91-180 days	182-day
	181-360 days	364-day
	>360 days	364-day subject to re-pricing every year
b. Dollar/Yen Rediscounts	Based on their respective London Inter-Bank Offered Rate (LIBOR) for the last working day of the immediately preceding month.	

The lending rates of banks on their rediscounted papers shall not be subject to any ceiling but the spreads of the banks on these papers shall be closely monitored by the BSP to ensure that these are consistent with the prevailing market rates.

Past due BSP loans and unpaid matured notes shall be levied liquidated damages equivalent to five percent per annum.

**§ X269.7 Release of Proceeds.** The proceeds of the rediscounting availment 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 4:30 pm, 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 am, during banking days; and
  - (2) Following banking day credit for yen loan application submitted to the BSP before 11:00 am, during banking days.

**§ X269.8 Repayments/Remittance of Collections/Arrearages.** The following shall govern repayments, remittance of collections, and arrearages:

**a. Repayments -**

- (1) Peso Rediscounts
  - i. The loan value of the rediscounted credit instruments or the amortization plus interest due thereon shall automatically be debited against the



borrower bank's DDA with the BSP at maturity/amortization due date.

- ii. For microfinance loans, the DDA of the borrower bank shall automatically be debited on the amortization due date for the loan value of the amortization plus interest due thereon. For loans with daily, weekly or semi-monthly amortizations, the borrower bank's DDA shall automatically 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.
- iii. The loan value of unremitted collections and of the rediscounted credit instruments and/or underlying collaterals found to be missing, ineligible, or with exceptions not corrected within 15 days from receipt of notice plus interest due thereon shall automatically be debited against the borrower bank's DDA with the BSP.

**(2) Dollar/Yen Rediscounts**

Dollar and yen loans shall be repaid in the same currency under which they were released. For this purpose, the bank shall submit online to the BSP its payment instruction one day before the payment date or the maturity date of the loan corresponding to the remittance instruction to its designated correspondent bank. The payment shall cover total collections or payment of maturing loans plus interest due thereon. In case of short payment, the bank's DDA with the BSP shall automatically be debited for the peso equivalent of the shortage.

If the foreign currency denominated loans are not settled on maturity date, the borrowing bank's DDA with the BSP shall automatically be debited for the peso equivalent of the matured obligation plus accrued interest due thereon, using the applicable BSP selling rate for dollar or yen at the date of debit.

**b. Remittance of Collections –**

- (1) Total collections received by the borrowing bank before the maturity date of the rediscounted credit instruments shall be remitted not later than five banking days following the date of receipt of collections to the following:

Peso Rediscounts	BSP
Dollar Rediscounts	Federal Reserve Bank of New York for the account of BSP
Yen Rediscounts	Bank of Tokyo for the account of BSP

- i. "Total collections" shall refer to the loan value of the principal amount collected from rediscounted credit instruments plus accrued interest due on the outstanding balance of subject credit instruments.
- ii. For banks with BSP loans under past due status, total collections shall include all collections on principal, interest and penalty.
- iii. In the case of negotiated EBs, the receipt by the borrowing bank of payment from its correspondent bank either through actual remittance or credit advice; or through book entries made by the borrowing bank charging its correspondent bank before receipt of advice shall constitute receipt of collection.

(2) The bank shall ensure that adequate records are maintained in its Head Office on the collections made by the branches.

**c. Arrearages –**

The BSP shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks with past due loans.

**§ X269.9 Prohibited Transactions.** The following shall not be allowed without prior approval of the BSP:

- a. Substitution of rediscounted credit instruments and underlying collateral real properties on outstanding loans with the BSP;
- b. Renewal of rediscounted credit instrument without remitting payment while the loan released against the rediscounted credit instrument is still outstanding with the BSP; and
- c. Acceptance of properties as payment (*Dacion En Pago*).

**§ X269.10 Monitoring and Credit Examination of Borrowing Banks.**

The DLC and the RLCD shall conduct an off-site analysis of the BSP's credit exposure to borrowing banks and a risk-based on-site examination that will focus primarily on determining whether there is a high, moderate or low

probability of default on the settlement of the banks' rediscounting obligations with the BSP.

**§ X269.11 Penalties/Sanctions.** The following penalties and sanctions shall be imposed on the erring bank and/or the bank's authorized/certifying officers.

a. For Serious Offense

Aggregate Amount \ Penalty Range	P50 K or less	Above P50 K To P100 K	Above P100 K To P500 K	Above P500 K To P1 M	Above P1 M
Minimum	P83	P 250	P 1,000	P 2,500	P 5,000
Maximum	250	750	3,000	7,500	15,000

b. For Less Serious Offense

Aggregate Amount \ Penalty Range	P50 K or less	Above P50 K To P100 K	Above P100 K To P500 K	Above P500 K To P1 M	Above P1 M
Minimum	P 63	P 188	P 750	P 1,875	P 3,750
Maximum	188	563	2,250	5,625	11,250

c. Minor Offense

Aggregate Amount \ Penalty Range	P50 K or less	Above P50 K To P100 K	Above P100 K To P500 K	Above P500 K To P1 M	Above P1 M
Minimum	P 42	P 125	P 500	P 1,250	P 2,500
Maximum	125	375	1,500	3,750	7,500

The following definition of terms shall apply:

- (1) Offense shall refer to a violation that connotes infraction of the terms and conditions of the loans granted by the BSP and of the applicable laws, rules and regulations, BSP credit policies and non-compliance with the BSP/MB directives.
- (2) Serious Offense – This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe and unsound banking practices; and the misrepresentation of facts and warranties committed by the bank/individual(s) that influenced the approval and amount of the rediscounting loan/line granted, such as:

- i. Rediscounting of ineligible papers, fictitious borrowers/loans/titles or submission of spurious documents;
  - ii. Absence of or failure to execute vital loan documents;
  - iii. Failure or delay in the deposit of rediscounted loan documents with the custodian bank, except those caused by fortuitous events; and
  - iv. Failure to remit to the BSP collections on principal of the rediscounted loans within the prescribed period of five banking days from date of actual receipt of collections except collections from microfinance loans.
- (3) Less Serious Offense – This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe and unsound banking practices but not falling under the serious offense category; however, the deficiencies noted should be addressed immediately to mitigate the credit risk of the BSP.
- (4) Minor Offense – This includes acts or omissions which are procedural in nature, not intentional, may not result in any loss or damage to or any significant increase in the risk of the creditor BSP and can be resolved immediately during the normal course of business. For purposes of classifying the nature of the offense, this includes all other acts or omissions which cannot be classified under serious or less serious offenses.
- (5) Aggregate Amount - shall refer to the aggregate amount of the following under the current examination:
- i. Under Serious Offense:  
Total loan value of the following:
    - Rediscounted ineligible papers with serious offense, fictitious loans or spurious loan documents as determined by the BSP or OSI;
    - Undeposited vital loan documents and underlying collaterals as of examination date; and
    - Collections on principal of rediscounted loans which were not remitted to the BSP within the prescribed period of five banking days from date of receipt of collections.
  - ii. Under Less Serious Offense:  
Total loan value of rediscounted ineligible papers with less serious offense as determined by the BSP.

iii. Under Minor Offense:

Total loan value of rediscounted ineligible papers with minor offense as determined by the BSP.

- (6) Minimum Penalty – refers to the range of penalties to be imposed if the mitigating factor(s) outweigh the aggravating circumstances, to wit:
- i. The act or omission is not intentional or the bank acted in “good faith” when the error, deficiency, violation or the absence/lack of the required action were committed.
  - ii. The bank is willing to take immediate action or has started to rectify the deficiencies/violations noted or undertakes to correct the deficiencies within fifteen days from receipt of notice.
  - iii. The bank has voluntarily disclosed the offense/violation committed before it is discovered by the BSP or has remitted to the BSP the total amount due plus accrued interest.
- (7) Maximum Penalty – refers to the range of penalties to be imposed if the aggravating circumstances outweigh the mitigating factor(s), to wit:
- i. The act or omission carries with it the intention to commit or cover up a violation or to defraud the BSP.
  - ii. Commission or omission of a specific offense corrected in the past but found repeated in another transaction in subsequent examination.

d. Additional Interest Charges on Unpaid Penalty


An additional interest of 12% per annum shall be assessed on non-payment of the penalties, from date of demand until full settlement thereof.

The foregoing monetary penalties shall be without prejudice to the cancellation of the bank’s rediscounting line with the BSP and/or administrative and criminal sanctions that may be charged against its culpable officers.

**§ X269.12 Interlocking Directorship/Officership.** Banks owned or managed by the same owners, stockholders, directors, officers or family/business group may also be suspended from availment of the rediscounting facility by the Credit Committee once the rediscounting line of any of the banks belonging to the same group is suspended, until such time that the suspension of the erring bank is lifted.

**Effectivity.** This Circular shall take effect after 15 days from date of its publication in the Official Gazette or in a newspaper of general circulation.

**FOR THE MONETARY BOARD:**



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

11 November 2008