

282 REDISCOUNTING AVAILMENTS

Banks may avail of the rediscounting facility under a unified rediscounting window. They shall enroll in the Electronic Rediscounting System (eRS) by executing and submitting to the DLC a notarized Electronic Rediscounting System Participation Agreement before availing of the rediscounting facility of the Bangko Sentral.

Eligibility requirements at the time of availment. Banks availing of the Bangko Sentral rediscounting facility must have at the time of availment:

- 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; and
- d. No chronic reserve deficiency in deposit/deposit substitute liabilities immediately preceding the loan drawdown/availment.

For purposes of determining compliance with the reserve requirement, a bank will be considered non-compliant with the reserve requirement for the reference week when its actual net reserve position for said reference week cannot be determined due to delayed submission or non-submission of the relevant reserve report.

Eligible papers and collaterals. The Bangko Sentral 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 NBFIs; and
- g. Loans funded from other borrowings, e.g., government FIs or multi-lateral agencies.

Credit instruments offered as collateral shall be subject to the eligibility requirements provided under Section 82 of R.A. 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 Bangko Sentral and resulting from transactions 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 Monetary Board.

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

Type of Collateral	Collateral Value
(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 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% of the outstanding balance of the PN
(6) Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs	Current market value shall equal or exceed the outstanding balance of the PN

The outstanding National Food Authority papers that a bank can rediscount shall not exceed the rediscounting bank's SBL [twenty-five percent (25%) of its net worth].

Dollar-denominated trust receipts covering importation of goods and raw materials are also considered eligible papers for rediscounting under the Exporters' Dollar and Yen Rediscount Facility (EDYRF)

- 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 Bangko Sentral 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, seventy percent (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 ten (10) years from date of their rediscount, discount or acquisition of the Bangko Sentral. Dollar-term loans to finance capital expenditures (plant expansion/modernization) by exporters are also considered eligible papers for rediscounting under the EDYRF provided they are booked in the regular banking units.

Credit instruments acquired under other credit shall be secured by:

Type of Collateral	Collateral Value
a. registered mortgage on real property	70% of the appraised value shall equal or exceed the outstanding balance of the PN
b. Duly notarized assignment of receivables from service contract	Shall equal or exceed the outstanding balance of the PN
c. Credit guarantees/sureties issued by the IGLF, the SBC and the national government	Shall equal or exceed the outstanding balance of the PN
d. Credit guarantees sureties issued by the CSF jointly established by cooperatives and LGUs	Shall equal or exceed 80% of the outstanding balance of the PN
e. Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs	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.

An Original Certificate of Title issued by virtue of Free Patent, covering agricultural lands, may be accepted as underlying collateral for loans offered for rediscounting with the Bangko Sentral after the expiry of the prescription period of five (5) years from date of the approval of the order to issue the patent. The five (5)-year restriction is not applicable for residential lands acquired under free patent as provided under Section 9 of R.A No. 10023.

A Land Title, with P.D. No. 1271¹ annotation, may be accepted as underlying collateral for loans offered for rediscounting with the Bangko Sentral subject to the following conditions:

- (1) The land titles submitted specify that the original registration date was on or before 31 July 1973; and
- (2) The lands covered by titles are not within any government, public or quasi-public reservation, forest, military or otherwise, as certified by appropriate government 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, seventy percent (70%) of the appraised value of which equals or exceeds the outstanding balance of the unsecured PN and other collaterals acceptable to the Bangko Sentral, e.g., marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs.

For real estate properties covered by Section 7 of R.A. No. 26 offered as collateral, the following conditions must be met:

- (1) The two (2) year period from date of entry of the notation has already expired;
- (2) The bank has already filed the petition with the court for the cancellation thereof; and
- (3) The bank shall submit prior to the release of the loan a surety bond issued by an insurance/surety company which is acceptable to the Bangko Sentral and is not affiliated with the bank or its subsidiaries, or their stockholder, directors or officers, equivalent to the loan value of the property plus interest and other charges that may fall due, to answer for the payment of the obligations in the event that the petition for cancellation is denied or the notation is not cancelled on or before the maturity of the loan.

Syndicated loans may be accepted for rediscounting, subject to the following minimum requirements:

- (1) The promissory note (PN) is negotiable;
- (2) The master loan agreement allows the endorsement of the PN; and
- (3) The opinion from the borrowing bank's counsel(s) that the master loan agreement allows the endorsement of the PN; that the PN is negotiable; and that no other act or approval is necessary to perfect the endorsement.

Loans with underlying real estate collateral(s) under Mortgage Trust Indentures (MTI) may likewise be accepted, subject to the following minimum eligibility requirements:

- (1) The trustee must be a bank or quasi-bank authorized by the Monetary Board to engage in trust and other fiduciary business;
- (2) The borrowing bank must notify the trustee that it is assigning its participation to the Bangko Sentral by way of collateral;

(3) The borrowing bank must provide a certification specifying the following: current participations in the MTI; that there is no senior claim to that of the prospective claim of Bangko Sentral; and that it does not violate any existing loan agreement with other creditors; and

(4) The trustee must provide Bangko Sentral with a certified copy of the relevant collateral(s).

Loan availment procedures. Banks availing of the rediscounting facility shall submit their loan applications electronically to the Bangko Sentral using their eRS registered computers.

Upon receipt of the confirmation of loan approval:

- a. Banks shall execute the PNs with Trust Receipt Agreement and Deed of Assignment (PNTRADA) in favor of the Bangko Sentral (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 the accountable officer.
- c. Banks with custodianship agreements shall deposit with their respective depository/custodian bank the rediscounted credit 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.

Loan value. The loan value of all eligible papers shall be eighty percent (80%) of the outstanding balance of the borrower's credit instrument but not higher than seventy percent (70%) of the appraised value of the underlying collateral.

Maturities. The maturities of Bangko Sentral discounts are, as follows:

Type of Credit	Maturity Date
a. Commercial Credits	180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument
(1) Export Packing	
(2) Trading	
(3) Transport	
(4) Quedan	
(5) Export Bills (EBs)	

At Sight	Fifteen (15) days from date of Purchase
Usance EB	Term of draft but not to exceed sixty (60) days from shipment date
b. Production Credits	180 days from date of rediscount but shall not go beyond the maturity date of the promissory note (PN). Renewable, not to exceed 180 days.
c. Other Credits	180 days from date of rediscount but shall not go beyond the maturity date of the PN (renewable depending on the type of credit).

Rediscount/Lending rates and liquidated damages. The rediscount rates for peso, dollar and yen loans shall be, as follows:

a. Peso Rediscounts

Rediscount Maturities	Rediscount Rates
	Bangko Sentral overnight (O/N) lending rate plus term premium:
1-90 days	Bangko Sentral O/N lending rate + 0.0625
91-180 days	Bangko Sentral O/N lending rate + 0.1250

b. Dollar/Yen Rediscounts – Based on the 90-day London Inter-bank Offered Rate (LIBOR) plus 200 bps plus term premia for longer maturities, as follows:

Term	Premium
1-90 days	90-day LIBOR + 200 bps
91-180 days	90-day LIBOR + 200 bps + 6.25 bps
181-360 days	90-day LIBOR + 200 bps + 12.50 bps

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 Bangko Sentral to ensure that these are consistent with the prevailing market rates.

Past due Bangko Sentral loans and unpaid matured notes shall be levied liquidated damages equivalent to five percent (5%) per annum².

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 Bangko Sentral on the same day for loan application submitted to the Bangko Sentral before 4:30 pm during banking days.

b. *Dollar/Yen rediscounts* – released through the Treasury Department, Bangko Sentral, 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 Bangko Sentral before 11:00 am, during banking days; and
- (2) Following banking day credit for yen loan application submitted to the Bangko Sentral before 11:00 am, during banking days.

Repayments/Remittance of collections/arrearages³. The following shall govern repayments, remittance of collections, and arrearages:

a. Repayments

(1) Peso rediscounts

- (a) 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 Bangko Sentral at maturity/amortization due date.
- (b) 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.
- (c) 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 fifteen (15) days from receipt of notice plus interest due thereon shall automatically be debited against the borrowers bank's DDA with the Bangko Sentral.

(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 Bangko Sentral its payment instruction one (1) 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 Bangko Sentral 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 Bangko Sentral shall be debited automatically for the peso equivalent of the matured obligation plus accrued interest due thereon. The foreign exchange (FX) rate at the time of the loan repayment shall not be lower than the FX rate at the time of loan availment and any FX loss arising from default or repayment shall be for the account of the borrower and not for the Bangko Sentral.

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 (5) banking days following the date of receipt of collections to the following:

Peso Rediscounts	-	Bangko Sentral
Dollar Rediscounts	-	Federal Reserve Bank of New York for the account of Bangko Sentral
Yen Rediscounts	-	Bank of Tokyo for the account of Bangko Sentral

(a) *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.

(b) For banks with Bangko Sentral loans under past due status, total collections shall include all collections on principal, interest and penalty.

(c) 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 Bangko Sentral shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks with past due loans.

Prohibited transactions. The following shall not be allowed without prior approval of the Bangko Sentral:

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

Monitoring and credit examination of borrowing banks. The DLC shall conduct an off-site analysis of the Bangko Sentral's credit exposure to borrowing banks and a risk-based on-site credit 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 Bangko Sentral.

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	Minimum	Maximum
P50K or less	P83	P250
Above P50K to 100K	250	750
Above P100K to P500K	1,000	3,000
Above P500K to 1M	2,500	7,500
Above P1M	5,000	15,000

- b. For less serious offense.

Aggregate Amount/Penalty Range	Minimum	Maximum
P50K or less	P63	P188
Above P50K to 100K	188	563
Above P100K to P500K	750	2,250
Above P500K to 1M	1,875	5,625
Above P1M	3,750	11,250

- c. Minor offense

Aggregate Amount/Penalty Range	Minimum	Maximum
P50K or less	P42	P125

Above P50K to 100K	125	375
Above P100K to P500K	500	1,500
Above P500K to 1M	1,250	3,750
Above P1M	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 Bangko Sentral and of the applicable laws, rules and regulations, Bangko Sentral credit policies and non-compliance with the Bangko Sentral/Monetary Board 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 or unsound banking; 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:
 - (a) Rediscounting of ineligible papers, fictitious borrowers/loans/titles or submission of spurious documents;
 - (b) Absence of or failure to execute vital loan documents;
 - (c) Failure or delay in the deposit of rediscounted loan documents with the custodian bank, except those caused by fortuitous events; and
 - (d) Failure to remit to the Bangko Sentral collections on principal of the rediscounted loans within the prescribed period of five (5) 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 or unsound banking but not falling under the serious offense category; however, the deficiencies noted should be addressed immediately to mitigate the credit risk of the Bangko Sentral.
- (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

Bangko Sentral 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:

(a) *Under serious offense*: Total loan value of the following:

- (i) Rediscounted ineligible papers with serious offense, fictitious loans or spurious loan documents as determined by the Bangko Sentral or Office of Special Investigation;
- (ii) Undeposited vital loan documents and underlying collaterals as of examination date; and
- (iii) Collections on principal of rediscounted loans which were not remitted to the Bangko Sentral within the prescribed period of five (5) banking days from date of receipt of collections.

(b) *Under less serious offense*: Total loan value of rediscounted ineligible papers with less serious offense as determined by the Bangko Sentral.

(c) *Under minor offense*: Total loan value of rediscounted ineligible papers with minor offense as determined by the Bangko Sentral.

(6) *Minimum penalty* – refers to the range of penalties to be imposed if the mitigating factor(s) outweighs the aggravating circumstances, to wit:

- (a) 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.
- (b) 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 (15) days from receipt of notice.
- (c) The bank has voluntarily disclosed the offense/violation committed before it is discovered by the Bangko Sentral or has remitted to the Bangko Sentral 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:

- (a) The act or omission carries with it the intention to commit or cover up a violation or to defraud the Bangko Sentral.

- (b) Commission or omission of a specific offense corrected in the past but found repeated in another transaction in subsequent examination.
- (c) Additional interest charges on unpaid penalty.

An additional interest of twelve percent (12%) per annum shall be assessed on nonpayment 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 Bangko Sentral and/or administrative and criminal sanctions that may be charged against its culpable officers.

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.

(Circular Nos. 1008 dated 14 June 2018, 964 dated 27 June 2017, 948 dated 01 March 2017, 916 dated 08 July 2016, and 903 dated 29 February 2016, M-2015-039 dated 04 November 2015, Circular No. 890 dated 02 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M-2015-005 dated 20 January 2015, Circular No. 861 dated 01 December 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, and M-2014-006 dated 12 February 2014)

Footnotes

1. An act nullifying decrees of registration and certificates of title covering lands within the Baguio Townsite Reservation issued in Civil Reservation Case No. 1, GLRO Record No. 211 pursuant to R.A. No. 931, as amended, but considering as valid certain titles of such lands that are alienable and disposable under certain conditions and for other purposes.
2. See Appendix 92 on Regulatory Relief for Banks Affected by Calamities.
3. See Appendix 100 on Regulatory Relief for Banks Affected by Calamities.