

306 "TRUTH IN LENDING ACT" DISCLOSURE REQUIREMENT

Banks are required to strictly adhere to the provisions of R.A. No. 3765, otherwise known as the "Truth in Lending Act", and shall make the true and effective cost of borrowing an integral part of every loan contract.

The following regulations shall apply to all banks engaged in the following types of credit transactions:

- a. Any loan, mortgage, deed of trust, advance and discount;
- b. Any conditional sales contract, any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract;
- c. Any rental-purchase contract;
- d. Any contract or arrangement for the hire, bailment, or leasing of property;
- e. Any option, demand, lien, pledge, or other claim against, or for delivery of, property or money;
- f. Any purchase, or other acquisition of, or any credit upon security of any obligation or claim arising out of any of the foregoing; and
- g. Any transaction or series of transactions having a similar purpose or effect.

The following categories of credit transactions are outside the scope of these regulations:

- (1) Credit transactions which do not involve the payment of any finance charge by the debtor; and
- (2) Credit transactions in which the debtor is the one specifying a definite and fixed set of credit terms such as bank deposits, insurance contracts, sale of bonds, etc.

Definition of terms.

- a. *Person* means any individual, partnership, corporation, association or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Philippine Government or any agency thereof or any other government, or any of its political subdivisions, or any agency of the foregoing.
- b. *Cash price or delivered price*, in case of trade transactions, is the amount of money which would constitute full payment upon delivery of property (except money) or service purchased at the bank's place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit transaction, net of finance charges collected at the time the credit is extended (if any).

- c. *Down Payment* represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.
- d. *Trade-in* represents the value of an asset agreed upon by the bank and debtor, given at the time of the transaction in partial payment for the property or service purchased.
- e. *Non-finance charges* correspond to the amounts advanced by the bank for items normally associated with the ownership of the property or of the avilment of the service purchased which are not incident to the extension of credit. For example, in the case of the purchase of an automobile on credit, the creditor may advance the insurance premium as well as the registration fee for the account of the debtor.
- f. *Amounts to be financed* consist of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.
- g. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.
- h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the EIR shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, EIR is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of the loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

Information to be disclosed. As a general rule, loan terms shall be disclosed to all types of borrower. For small business/retail/consumer credit, the following are the minimum information to be disclosed (sample form in *Appendix 16*):

- a. The total amount to be financed;

- b. The finance charges expressed in terms of pesos and centavos;
- c. The net proceeds of the loan; and
- d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an EIR as described in Item "h" of Definition of terms in this Section. EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

Banks are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction.

Inspection of contracts covering credit transactions. Banks shall keep in their offices or places of business copies of contracts which involve the extension of credit by the bank and the payment of finance charges therefor. Such copies shall be available for inspection or examination by the appropriate supervising department of the Bangko Sentral.

Posters. Banks shall post in conspicuous places in their principal place of business and branches, the information as contained in the revised format of disclosure statement in *Appendix 16*. The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure.

Sanctions and penal provisions. Non-compliance with any of the provisions of this Section may be subject to appropriate monetary penalties under Sec. 1102, depending on the severity of non-disclosure, number of loans and amount involved in the violation. In addition to sanctions under R.A. No. 3765, the following sanctions may be imposed:

- a. *First offense.* Reprimand on the erring officer/s;
- b. *Second offense.* Reprimand on the entire board of directors; and
- c. *Subsequent offense/s:*
 - (1) Suspension of the erring officer/s and/ or entire board of directors; and
 - (2) Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular No. 988 dated 20 December 2017)