

311 SALARY-BASED GENERAL-PURPOSE CONSUMPTION LOANS

Policy statement. The Bangko Sentral recognizes the helpful role of salary-based, consumer lending schemes in allowing an individual borrower to manage his/her cash flows provided these are granted under sound credit standards and fair consumer practices. The Bangko Sentral likewise encourages competition and transparency to promote efficient and innovative delivery of financial services and fair dealing with customers.

Definition; Transactions covered; Exclusions; Report.

- a. *Definition.* Salary-based general-purpose consumption loans refer to unsecured loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows, either through salary deductions, debits from the borrower's deposit account, mobile payments, pay-through collections, over-the-counter payments or other type of payment arrangement agreed upon by the borrower and lender.
- b. *Transactions covered.* Salary-based general-purpose consumption loans may include credit accommodations for education, hospitalization, emergency, travel, household and other personal consumption needs.
- c. *Exclusions.* Credit cards, motor vehicles and other personal loans which are covered by other existing applicable regulations are excluded from the coverage of this Section.
- d. *Report.* For the purpose of reporting in the Financial Reporting Package, financial assistance under an approved fringe benefit program should be reported/classified according to the purpose of the financial assistance (e.g., housing/real estate, motor vehicle, salary-based general-purpose consumption, etc.)

Credit granting.

- a. Policies of financial institutions (FIs) shall be consistent with best practices and sound credit processes prescribed under Bangko Sentral regulations, including a comprehensive assessment of the borrower's creditworthiness, and shall not be reliant on mere formula such as those automatically granted based on certain multiples of monthly salary or other regular compensation.
- b. Individual borrowing capacity should be prudently assessed considering reasonable estimates of total personal and household indebtedness as well as disposable income available for family and

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personal needs after considering debt servicing.

- c. Original loan term shall not exceed three (3) years but may have longer maturity in meritorious cases provided that in no case shall maturity exceed five (5) years;

No loan renewal shall be granted without re-assessing borrowing capacity and establishing continuing creditworthiness. Further, no loan renewal shall be allowed without payment of accrued interest receivable and substantial reduction in principal.

- d. In the case of loan “takeout” from another FI, the FI taking out the loan(s) should ensure that the loan from the originating FI has been fully settled. FIs are expected to institute adequate controls over loan “takeout” such as: (a) directly releasing the loan proceeds to the FIs where the loan will be taken out; and (b) obtaining a copy of the official receipt evidencing full settlement of account from the originating FI, among others.

Consumer protection. FIs are required to strictly adhere to Bangko Sentral regulations on Financial Consumer Protection as prescribed under Part Ten.

Sanctions. The Monetary Board may, at its evaluation and discretion, impose sanctions on an FI and/or its Board, directors and officers, proportionate to the gravity/seriousness of the offense in cases of persistent non-observance of the provisions contained herein.

(Circular Nos. 903 dated 29 February 2016, 886 dated 08 September 2015 and 837 dated 18 June 2014)