

314 MICROFINANCE LOANS

Pursuant to Sections 40, 43 and 44 of R.A. No. 8791 the following rules, regulations and standards shall govern microfinancing operations of banks.

In the implementation of this Section, banks should be guided by the Notes on Microfinance in *Appendix 41*.

Definition.

- a. Microfinance loans refer to the amortized cost of loans granted under the bank's microfinance loan products that meet the general features provided under *Appendix 41*, Item "e".
- b. *Refinanced loans* are loans that have been disbursed to enable repayment of prior loans that would not have been paid in accordance with the original installment schedule. Loans granted within a week or less from the date an original loan with more than thirty percent (30%) of the original principal still outstanding had been paid in advance shall be considered as refinanced loans. Refinanced loans shall be classified and reported as restructured loans.

Loan limit; amortization; interest.

- a. The maximum principal amount of microfinance loans shall not exceed P150,000. This is equivalent to the maximum capitalization of a microenterprise under R.A. No. 8425.
- b. The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers which is adopted into the terms and conditions formulated. Hence, microfinance loans may be amortized on a daily, weekly, bi-monthly or monthly basis, depending on the cash flow conditions of the borrowers.
- c. Interest on such microfinancing loans shall be reasonable and just as may be determined by management to be consistent with its credit policies. The interest rate shall not be lower than the prevailing market rates to enable the lending institution to recover the financial and operational costs incidental to this type of microfinance lending.
- d. Interest accrued and/or booked shall be reversed and no accrual of interest shall be allowed after the microfinance loan has become past due as defined in Sec. 304.

Credit information exemption. In cases of microfinancing loans which meet the criteria in this Section on Loan limit; amortization; interest, a bank may not require from its credit applicants, a

statement of assets and liabilities, and of their income and expenditures and such information as may be prescribed by law or by rules and regulations of the Monetary Board to enable the bank to properly evaluate the credit application which includes the corresponding financial statements submitted for taxation purposes to the BIR, as prescribed under Section 40 of R.A. No. 8791.

Exemptions from rules on unsecured loans. In view of the unique characteristics of microfinance loans, i.e., small unsecured and based on cash flow of borrowers, these loans may be exempted from rules and regulations which may be issued by the Monetary Board with respect to unsecured loans under Section 41 of the General Banking Law of 2000: *Provided*, That the bank has:

- a. well-defined standards, credit policies and procedures for microfinance loans which are in conformity with microfinance international best practices;
- b. specific measures to be undertaken to ensure collection such as close supervision of borrowers' projects and operations; and
- c. Loan Portfolio and Other Risk Assets Review System required under Sec. 143 (*Credit review process*) which would serve as:
 - (1) An adequate loan tracking system that allows daily monitoring of the status of loan releases, collection and arrearages, any restructuring or refinancing; and
 - (2) A regular monitoring of past due loans and portfolio at risk.

Housing microfinance loan. The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance has been confined to mean financing for microenterprises or small livelihood activities. It has been proven, however, that clients of microfinance also need a wide range of financial services including housing finance. Further, it is typical that some microfinance clients also use their access to credit for their homes.

Housing microfinance involves the application of microfinance principles and methodologies to the provision of housing finance and consists mainly of loans to existing clients of microfinance institutions and other poor and low-income households. With adequate and appropriate risk management measures, the product will enable institutions to appropriately service the housing needs of those who are unable to access traditional housing finance. The provision of housing microfinance is also seen as a way to improve the living conditions of the enterprising poor and the low-income households which will contribute to better health, productivity and quality of life.

Housing as a shelter is a necessity. As a sector, it spurs economic activity and creates employment through the multiplier effects generated in the downstream industries by the procurement of construction materials. It is therefore important to support this sector.

The following rules and regulations shall govern the granting of housing microfinance products:

a. *Minimum criteria to determine bank's capacity to grant housing microfinance* – Banks planning to grant housing microfinance loans shall ensure that the following requirements are complied with:

(1) The bank must have a track record of at least two (2) years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards.

(2) The bank must have an appropriate housing microfinance product manual where the product will be included in the bank's microfinance manual as one of the types of services or products offered to prospective clients. Loan/account officers must be trained about the housing microfinance product and that the details of the program can be communicated clearly to the clients.

(3) Appropriate verification of the following prudential requirements:

(a) latest CAMELS rating of at least "3" and a management score of at least "3";

(b) CAR of not lower than twelve percent (12%);

(c) no major supervisory concerns as to warrant initiation of Prompt Corrective Action (PCA) under existing regulations;

(d) no arrearages in microfinance borrowings; and

(4) Appropriate certification of the bank's commitment to implement the housing microfinance product following the guidelines set forth in the submitted manual.

b. *Basic product characteristics.* The housing microfinance product shall have the following basic characteristics:

Subject	Particulars
Purpose	<ul style="list-style-type: none"> • House construction • House and/or lot acquisition • Lot acquisition should be for housing/business • Home improvement/repairs
Eligibility	<ul style="list-style-type: none"> • Existing microfinance clients • New clients who will normally be eligible for microfinance loans based on banks' policies • Borrowers who have qualified for the Credit Surety Fund credit enhancement program provided they qualify with the banks policies

Loan Amount	<ul style="list-style-type: none"> • Up to P300,000 for house construction and/or lot acquisition (must show tenure security) • Up to P150,000 for home improvement/repairs • Incremental loan amounts to support incremental building
Loan Value	<ul style="list-style-type: none"> • Up to ninety percent (90%) of the appraised value in case of REM • Acceptable valuation in cases of usufruct, leases, etc. • Capacity to pay based on household cash flow analysis
Payment	<ul style="list-style-type: none"> • Frequent amortization • With savings component • Loan payments should not exceed a reasonable percentage of clients income as determined by cash flow analysis and capacity to pay determined through a clear credit process
Terms	<ul style="list-style-type: none"> • Up to fifteen (15) years for house construction and house and/or lot acquisition subject to banks' credit policies • Up to 5 years for home improvement/repairs

The product must share the characteristics of the microfinance loan as described under this Section and *Appendix 41* except for the following:

- (1) The maximum loan amount shall be P300,000.
- (2) The loans have longer terms with a maximum of five (5) years for home improvement/repairs and fifteen (15) years for house construction and house/lot acquisition.
- (3) For house construction and house/ lot acquisition loans, secure tenure instruments will be used as collateral. (See *Appendix 85*)

c. *Appropriate risk management.* Due to a risk profile that may be different from the typical microfinance loan, the following risk management elements must be highlighted and embedded in the product:

- (1) Clients ability to repay based on cash flow analysis and affordability especially the new clients;
- (2) Opening of a savings account shall be required for clients with no existing savings account;
- (3) Secure tenure instruments as collateral/collateral substitutes for loans over P150,000;
- (4) Adequate loan monitoring, collection, control, provisioning which is also to be included in the banks' housing microfinance manual;
- (5) Additional risk cover may be availed from government guarantee program;
- (6) A lien or mortgage covering the house and/or lot financed by the loan shall be executed by the borrower in favor of the lending bank; and
- (7) Mortgage redemption insurance shall be required to cover against death or permanent disability.

d. *Regulatory treatment.* The housing microfinance product will be considered as a microfinance loan

and will have the following incentives in addition to existing incentives available for microfinance loans:

- (1) The loans shall have an assigned risk-weight of fifty percent (50%) when not guaranteed and zero percent (0%) when guaranteed by the HGC.
- (2) For housing microfinance loans secured by REM, a ninety percent (90%) loan valuation may be allowed for loans with a government guarantee component.
- (3) Secure tenure instruments such as freehold, usufruct, leasehold and right to occupy and/or build shall be recognized as collateral/collateral substitute subject to approved loan valuations (*Appendix 85*).

Banks that will offer housing microfinance shall also comply with the following:

- (1) The bank must maintain a subcontrol ledger for the housing microfinance product.
 - (2) The housing microfinance loans shall not exceed thirty percent (30%) of the total loan portfolio.
 - (3) Recording of PAR and the provisioning requirements shall be strictly in accordance with applicable Bangko Sentral regulations.
- e. *Notarized certificate of compliance.* The bank president or officer or equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the housing microfinance loan complies with the prescribed product characteristics/features. (*Appendix 105*)

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the housing microfinance loan product.

f. *Sanctions.*

- (1) In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for willful making of a false or misleading statement.
- (2) In addition to the above-mentioned penalty, subject bank is not allowed to grant any new housing microfinance loan and its transaction shall be limited only to the collection of outstanding microfinance housing loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations is verified to be in order by the appropriate supervising department of the Bangko Sentral.

- (3) Banks, with certificates of compliance found to be in order, shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination-cycle to correct any deficiency. If the bank remains non-compliant after the lapse of one examination-cycle, the granting of housing microfinance loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding housing microfinance loan receivables.

For the purpose of this provision, one (1) examination-cycle is defined as the period commencing from the date the bank is formally informed of the findings/ exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

- (4) Other sanctions. The imposition of the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

Micro-agri loans; Policy statement. The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance utilizes an innovative technology and methodology that has proven successful in providing the appropriate financing for microentrepreneurs who were previously underserved by the formal financial system. Through the years, it has been evident that the microfinance technology and methodology can be appropriately utilized to deliver other types of financial services in a sound, prudent and sustainable manner, including credit for small farming activities.

- a. *Minimum criteria to determine bank's capacity to grant micro-agri loans.* Banks planning to grant micro-agri loans shall ensure that the following requirements are complied:

- (1) To ensure that the banks have the financial capacity, managerial and technical capabilities to offer micro-agri loans; the following prudential requirements must be complied at all times:
- (a) CAMELS rating of at least "3" and a 'Management' score of at least "3";
 - (b) CAR of not lower than twelve percent (12%);
 - (c) no major supervisory concerns as to warrant initiation of prompt corrective action under existing regulations; and
 - (d) no arrearages on microfinance borrowings (bills payable) from Bangko Sentral or other creditors.

Banks authorized to offer a micro-agri loan product shall continually comply with the above-mentioned prudential requirements. Banks found to be non-compliant with any or all

of the requirements shall be given one (1) examination cycle to correct non-compliance with any or all of the prudential requirements, provided the bank submits a viable plan to rectify pertinent non-compliance. If the bank remains non-compliant after the lapse of one (1) examination cycle, its authority to offer micro-agri loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, bank's micro-agri loan transactions shall be limited to collections of outstanding receivables.

For the purpose of this Section, *one (1) examination-cycle* is defined as the period commencing from the date of the exit conference of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

- (2) The bank must have a track record of at least two (2) years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards; and
- (3) The bank must have well-defined policies covering the micro-agri loan product to be included in the bank's microfinance manual as one of the types of services or products to be granted to prospective clients. Loan/account officers must be trained about the micro-agri loan product and that the details of the program can be communicated clearly to the clients.

b. *Basic product characteristics.* The micro-agri loan product shall have the criteria/characteristics of a microfinance loan as provided in existing regulations in addition to the following product characteristics:

Subject	Particulars
Purpose/Term	- Short term purposes only (up to 12 months) whether it is for farm activities, agri-business, agri-related fixed assets, among others
Eligibility	Multiple income generation activities (farm and off-farm) Farm activities at least 2 years in operation Existing borrowers with good track record based on banks' policies
Loan Amount	- Up to P150,000 - Loans to start small and increase incrementally based on banks' policies
Loan Value	- Capacity to pay based on household cash flow analysis
Payment	Frequent amortization (weekly, semi-monthly, monthly) Lump sum payment may be considered an option of up to forty percent (40%) of loan amount

Security	- Like microfinance loans, collateral substitutes may be required
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c. *Appropriate risk management.* Micro-agri loans shall be subject to the same risk management mechanisms required for microfinance loans including, but not limited to the following:

- (1) Clients' ability to repay based on cash flow analysis and affordability especially for new clients. The prospective client must have other sources of income sufficient for the periodic payment of the loan while the loan project is not yet generating income, evaluated through household cash flow analysis;
- (2) Adequate management information and loan tracking systems, loan monitoring, collection, control, provisioning consistent with existing Bangko Sentral regulations;
- (3) The loan product is included in the banks' microfinance manual as one (1) of the types of services or products offered to prospective clients; and
- (4) The micro-agri loans must have a subcontrol ledger.

d. *Other micro-agri products.* No provision in the micro-agri product inconsistent with Micro-agri loans in this Section shall be allowed except upon prior Bangko Sentral approval. The Bangko Sentral shall allow deviation from the provisions of Micro-agri loans in this Section provided appropriate risk management system compensates for the additional risks involved.

e. *Regulatory treatment.* The micro-agri loan product will be considered as microfinance loan and will have the same regulatory treatment as provided by existing microfinance regulations.

f. *Reportorial requirement.* Notarized certificate of compliance. The bank president or officer of equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the micro-agri loan complies with the prescribed product characteristics/ features. (*Appendix 105*)

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the micro-agri loan product.

g. *Sanctions.* In case of non-compliance, the bank shall be subject to the following:

- (1) In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for

willful making of a false or misleading statement.

- (2) In addition to the above-mentioned penalty, subject bank shall not be allowed to grant any new micro-agri loan and its transaction shall be limited only to the collection of outstanding micro-agri loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations is verified to be in order by the appropriate supervising department of the Bangko Sentral.
- (3) Banks, with certificates of compliance, found to be in order shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination cycle to correct any deficiency. If the bank remains non-compliant after the lapse of one (1) examination cycle, the granting of micro-agri loan shall be deemed suspended effective on the day after the exit conference, during which the management shall be informed of its failure to make proper corrective actions within the prescribed period. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding micro-agri loan receivables.

For the purpose of this provision, one examination-cycle is defined as the period commencing from the date the bank is formally informed of the findings/exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

- (4) *Other sanctions.* The imposition of the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

Marketing, sale and servicing of microinsurance products by thrift banks. A TB including its authorized branch/es and branch-lite unit/s shall comply with Sec. 113-B for the presentation, marketing and sale of microinsurance products.

Marketing, sale and servicing of microinsurance products by rural and cooperative banks. An RB/Coop bank including its authorized branch/es and branch-lite unit/s shall comply with Sec. 113-C for the presentation, marketing and sale of microinsurance products.

Required reports. Banks, with retail microfinance operations, shall be required to submit the "Report on Microfinance Products" on a monthly basis, and the "Income Statement on Retail Microfinance Operations" on a quarterly basis. Both reports shall be submitted within fifteen (15) banking days after the end of the reference month and quarter, respectively.

Banks with no microfinance operations, either retail or wholesale, are expected to fill up only Item

“3.1.B”, “Other Microenterprises Loans”, under “Additional Information” of the “ Report on Microfinance Products”. On the other hand, banks engaged solely in wholesale microfinance operations are expected to fill up only Item “2”, “Wholesale Microfinance Operations”, and its related sub-accounts under “Additional Information” of the ‘Report on Microfinance Products’. These banks, however, are required to submit the quarterly “Income Statement on Retail Microfinance Operations”, indicating that the required data are not applicable, otherwise, these banks will be sanctioned for incomplete submission of reports.

Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports shall be subject to penalties prescribed for *Category A-2* report under Sec. 171 (*Non-compliance with the Bangko Sentral reporting standards*).

Sanctions. Violations of the provisions of this Section shall be subject to any or all of the following sanctions:

- a. Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R.A. No. 7653;
- b. Prohibition of the bank concerned from the extension of additional microfinance loans; and
- c. Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular Nos. 987 dated 28 December 2017, 963 dated 27 June 2017, 945 dated 06 February 2017, 941 dated 20 January 2017, 890 dated 02 November 2015, 841 dated 04 July 2014, 836 dated 13 June 2014, and 825 dated 07 February 2014)