

[BSP CIRCULAR NO. 789, February 28, 2013]

AMENDMENTS TO THE MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS APPLICABLE TO NON-STOCK SAVINGS AND LOAN ASSOCIATIONS

The Monetary Board, in its Resolution No. 165 dated 25 January 2013, approved the amendments to the Manual of Regulations for Non-Bank Financial Institutions applicable to Non-Stock Savings and Loan Associations (MORNBFI-S) and adopted additional regulations related thereto, as follows:

Section 1. New provisions of Section 4301S are hereby inserted in the MORNBFI-S Regulations, while its existing provisions on Authority, Loan Limits, Maturity of Loans are amended and transferred to the new Subsection 4301S.1, as follows:

"Sec. 4301S Lending Policies. It shall be the responsibility of the board of trustees of NSSLAs to formulate written policies on the extension of credit. Well-defined lending policies and sound credit risk management practices are essential if NSSLAs are to perform their lending function effectively and minimize the risk inherent in any extension of credit. The responsibility should be approached in a way that will provide assurance to the members, other stakeholders and the supervisory authority that timely and adequate action will be taken to maintain the quality of the loan portfolio."

"Subsec. 4301S.1 Authority; Loan Limits, Maturity of Loans. The board of trustees of NSSLAs shall be responsible for the design of appropriate loan products in accordance with the Association's business strategies and its members' requirements. The board of trustees shall ensure that they fully understand all the risks attendant to the Association's lending activities and shall adopt appropriate risk management policies and practices that are commensurate to the risks attendant to their operations, and which, at a minimum, shall comply with the regulations and standards prescribed herein. NSSLAs deemed to be engaged in hazardous lending practices shall be cited as operating in an unsafe and unsound manner.

"a. Loan Products. NSSLAs may grant loans to members to service the needs of households by providing long term financing for home building and development, for personal finance and for agricultural and entrepreneurial projects. The board of trustees of NSSLAs shall consider, among other things, the following in the definition of its loan products:

- (1) the nature or purpose of the loan;
- (2) the repayment capacity and circumstances of the member-borrower;

- (3) terms of the loan; and
- (4) normal loan collection cycles

The definitions and characterization of all loan products shall be embodied in a product manual approved by the board of trustees. The product manual shall, at a minimum, contain the term of the loan, the maturity of which shall in no case exceed the maximum provided under Item "d" of this Subsection, interest rate, net-take home pay requirement vis-à-vis the type of member-borrower, repayment terms, collection scheme, documentary requirements and applicable work-out strategies. The normal collection period, which refers to the normal period of time within which the Association is able to effect the first periodic amortization/salary deduction for amortization of a loan reckoned from loan release date, shall likewise be set by the NSSLA's board of trustees and shall be based on the recent historical experience of the NSSLA (e.g., last three years) and/or the remittance period specified in contracts entered into with private companies or department/branch/office of government employing the NSSLA's members. The NSSLA's normal collection period and the manner by which it is established shall be set forth in the NSSLA's loan policies and considered in its overall risk assets review system in order to reflect the true status of loan accounts and ensure that adequate loss reserves are provided. In no case, however, shall the normal collection period exceed six (6) months from the date of release of the loan."

"b. Loan limit to single borrower. xxx"

"c. Limitations on lending authority. xxx"

"d. Maximum loan maturity. xxx"

Section 2. Subsection 4306S.1 on accounts considered past due is hereby amended, as follows:

"Subsec. 4306S.1 Accounts considered Past Due. The following shall be considered past due:

"a. For loan or receivable payable on demand not paid upon written demand as required herein or within one (1) year from date of grant or renewal, whichever comes earlier. "xxx xxx xxx"

"b. For loans or receivables payable on installment, the outstanding balance of the loan if a payment has fallen due and remained unpaid;

"c. In case of restructured loans as defined in Sec. 4308S, the total outstanding balance of the loan if a payment has fallen due and remained unpaid; and

"d. All items in litigation as defined in the Manual of Accounts.

"Past due accounts as defined herein are considered non-performing loans (NPL)."

Section 3. Section 4308S is hereby added to provide for the rules and regulations on restructuring of loans, which shall read as follows:

"Sec. 4308S Restructured Loans; General Policy. Restructured loans are loans the principal terms and conditions of which have been modified for it not to become a problem account, or if already past due, to allow for a better settlement plan to fully pay-off the loan. Restructured loans are supported by a restructuring agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. The modification may include, but is not limited to, change in maturity, installment amortization, interest rate, collateral or increase in the face amount of the debt resulting from the capitalization of accrued interest/accumulated charges.

"Items in litigation and loans subject of judicially-approved compromise, as well as those covered by petitions for suspension or for new plans of payment approved by the court or the SEC, shall not be classified as restructured loans.

"NSSLAs shall have the flexibility to determine the basis for and terms of the loan restructuring, considering, among other things, the paying capacity of the borrowers: Provided, That these shall at all times be consistent with sound credit risk management standards.

"Loan restructuring shall be subject to the approval of the board of trustees whose resolution shall embody, among other things:

1. basis of or justification for the approval;
2. basis for the determination of the borrower's capacity to pay; and
3. nature and extent of protection of the exposure.

"The restructuring of loans granted to trustees and/or officers of an NSSLA should be upon terms not less favorable to the Association than those offered to other members."

"In case of loans secured by real estate collateral, such security shall be appraised at the time of restructuring to ensure that current market values are being used."

"A second restructuring of a loan may be allowed only if there are reasonable justifications, and after the borrower has paid at least twenty percent (20%) of the principal obligation and updated the payment of all interest accruing to the loan as first restructured.

"Restructured loans shall be classified and provided with adequate allowance for probable losses in accordance with Appendix 9."

Section 4. Subsection 4306S.2 on Extension/renewal of loans is hereby transferred to Section 4309S and amended to read as follows:

"Sec. 4309S Renewal of loans

"Loans payable in periodic installments may be renewed for the full or beyond the amount of such loans but within the limit prescribed under Subsec. 4301S.1b or the NSSLA by-laws, as applicable: Provided, That at least thirty percent (30%) of the loan shall have been paid."

Section 5. Section 4392S is hereby added to provide for the rules and regulations on risk assets review system and provision of adequate allowance for probable losses, to read as follows:

“Sec. 4392S Loan portfolio and other risk assets review system

“To ensure that timely and adequate management action is taken to maintain the quality of the loan portfolio and other risk assets, and that adequate loss reserves are set-up and maintained at a level sufficient to absorb the loss inherent in the loan accounts and other risk assets, each NSSLA shall establish a system of identifying and monitoring existing or potential problem loans and other risk assets, and of evaluating credit and asset management policies vis-à-vis prevailing circumstances and emerging portfolio trends.

“The board of trustees is responsible for ensuring that the NSSLA has, at a minimum:

- a. A robust risk management system that shall include, at least, an independent and periodic review of quality of risk assets;
- b. Controls in place, and policies and procedures to determine the adequacy of booked allowance for probable losses on loans and other risk assets, consistent with the Philippine Accounting Standards and the minimum standards required in Appendix 9. The allowance for losses required in the said appendix shall likewise be set-up immediately; and
- c. A robust process to ensure that the board of trustees is informed of the results of independent and periodic reviews, and determination of adequacy of booked loss reserves, and that appropriate actions on such reports are undertaken consistent with the specific duties and responsibilities of the board of trustees as provided under Subsec. 4141S.5.a(7).

Section 6. Section 4655S on Annual Fees on NSSLAs is amended to read as follows:

“Sec. 4655S Annual Supervisory Fees

“The prescribed rate of annual supervisory fees for an NSSLA beginning assessable year 2012 shall be one-sixty-fifth of one percent (1/65 of 1%) of its *Average Assessable Assets* (AAA) of the immediately preceding year but shall not exceed the maximum amount provided below:

TOTAL AAA OF NSSLA	MAXIMUM AMOUNT OF ANNUAL FEES
> P1.0 BILLION	P500,000.00
> P750.0 MILLION – P1.0 BILLION	P400,000.00
> P500.0 MILLION – P750.0 MILLION	P200,000.00
> P250.0 MILLION – P500.0 MILLION	P100,000.00