

**[ BSP CIRCULAR NO. 730, S. 2011, July 20, 2011 ]**

**UPDATED RULES IMPLEMENTING THE TRUTH IN LENDING ACT  
TO ENHANCE LOAN TRANSACTION TRANSPARENCY**

Pursuant to Monetary Board Resolution No. 1018 dated 07 July 2011, Sections X305 and X307, and Appendix 19 of the Manual of Regulations for Banks (MORB) are hereby amended to read, as follows:

**Section 1. Method of computing interest.** A new Subsection X305.5 is hereby added to Section X305, MORB to read, as follows:

**"§X305.5. Method of computing interest.** Banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision."

**Section 2. Definition of Terms.** Items g and h of Subsections X307.1, MORB are hereby amended to read as follows:

"x x x

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 year with single payment upon maturity and there are no up-front deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest (EIR) rate 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.