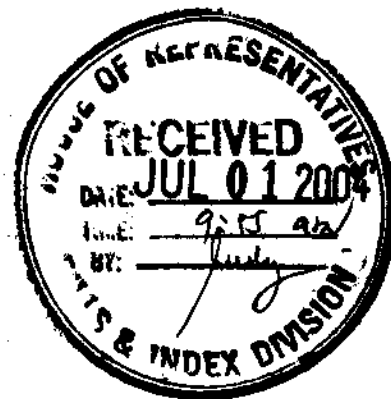


Republic of the Philippines
House of Representatives
Quezon City

Thirteenth Congress

First Regular Session

HOUSE BILL NO. 120



Introduced by **Representative JOEY SARTE SALCEDA**

EXPLANATORY NOTE

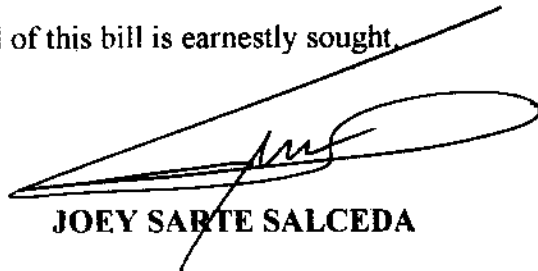
The micro financing has taken a big leap after banking institutions are giving priority to big business in terms of availment of credit facilities and loan portfolio of the said banks.

The surge of lending companies (LC), about 3,156, listed with the Central Bank, with estimated total resources of P6B, loan portfolio of P4B and capital accounts of 2.5B, is a welcome alternative of the banks. However, no specific law has been passed protecting the interests of the LC and its credit beneficiaries.

So far, RA 3765, otherwise known as the "Truth in Lending Act", finds application to the LC activity, but it is not mandatory for LC to observe the provisions therein because they do not engage in deposits or exercise quasi-banking activities. Somehow, RA 5980, otherwise known as the "Financing Company Act", may be applicable as the short title connotes, but LC are not allowed to undertake financing activities under the terms set forth in the said law. By parallel application, PD No. 114 or the Pawnshop Regulation Law may find similarly to the activity of the LC but the same is not appropriate because LC are not into pawnshop business.

In view of the significant impact of the LCs in the financial sector, including their unregulated lending rates, terms, non-disclosure of other charges, double charging, unconscionable interest, surmounting penalties, finance and other charges, there is an overriding necessity that a law should be passed regulating the activities of the LC and necessary consumer protection be made for the interest of the consumers.

From the foregoing reasons, immediate approval of this bill is earnestly sought.


JOEY SARTE SALCEDA

Republic of the Philippines
House of Representatives
Quezon City

Thirteenth Congress

First Regular Session

House Bill No. 120

Introduced by Representative JOEY SARTE SALCEDA

AN ACT
GOVERNING THE ESTABLISHMENT, OPERATION AND REGULATION
OF LENDING COMPANIES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Title.* - This Act shall be known as "The Lending Company Regulation Act of 2004."

SEC. 2. *Declaration of Policy* - It is hereby declared the policy of the State to regulate the establishment and activities of lending companies, placing their operations on a sound, efficient and stable basis to derive the optimum advantages from them as an additional source of credit; to prevent and mitigate, as far as practicable, practices prejudicial to public interest; and to lay down the minimum requirements and standards under which they may be established and do business.

SEC. 3. *Definition of Terms* -

- (a) Lending Company (LC) shall refer to an entity primarily engaged in the business of granting direct loans to the public. LCs shall not be deemed to include (1) banks, (2) quasi-banks, (3) subsidiaries and affiliates of banks and quasi-banks engaged in allied functions, (4) investment houses, (5) savings and loan associations, (6) financing companies (7) pawnshops, (8) insurance companies, (9) cooperatives, and (10) other financial credit institutions already regulated by law.
- (b) SEC shall refer to the Securities and Exchange Commission.
- (c) DTI shall refer to the Department of Trade and Industry.

(d) DILG shall refer to the Department of Interior and Local Government

(e) BSP shall refer to the Bangko Sentral ng Pilipinas.

(f) BIR shall refer to the Bureau of Internal Revenue.

SEC. 4. *Form of Organization* – An LC shall be established as a corporation. Existing LCs organized as single proprietorships or partnerships shall cease from engaging in the business of granting loans to the public, unless these existing LCs convert into corporations within one (1) year after the date of effectivity of this Act.

No LC shall conduct business unless granted a license to operate by the DTI.

SEC. 5. *Citizenship Requirements* – At least majority of the subscribed and outstanding capital stock of an LC shall be owned by citizens of the Philippines.

SEC. 6. *Paid-Up Capital Requirements* – All LC shall have a paid-up capital in an amount as may be fixed by the DTI, provided it is not less than one million pesos (P1,000,000.00).

SEC. 7. *Maintenance of Books of Accounts and Records* – Every LC shall maintain books of accounts and records as may be prescribed by the DTI.

The Manual of Accounts prescribed by the Bangko Sentral for LCs shall continue to be adopted by LC for uniform recording and accounting of their operations, until the DTI shall have prescribed a new Manual of Accounts.

SEC. 8. *Registration of Securities* – All securities, such as but not limited to bonds, debentures, notes, investment contracts, evidence of indebtedness issued by an LC to more than nineteen (19) non-institutional persons, shall be registered with the SEC, pursuant to Sections 8 and 12 of the Securities and Regulation Code.

An LC shall file with the DTI a disclosure statement for the issuance of securities to not more than nineteen (19) persons.

SEC. 9. *Amount and Charges on Loans* – An LC shall grant loans in such amounts and reasonable interest rates and charges as may be agreed upon between the LC and the borrower or debtor. *Provided, however,* that the agreement shall be in compliance with the provisions of Republic

Act No. 3765, otherwise known as the "Truth in Lending Act," Republic Act No. 7394 or the "Consumer Act of the Philippines".

SEC. 10. *Delineation of Authority between SEC & DTI* – The incorporation of LC shall be administered by the SEC following pertinent laws, rules and regulations being implemented by said Commission. The DTI, on the other hand, shall have supervision and regulation over the operations of these LC.

SEC. 11. *Periodic Reportorial Requirements* - Every LC shall file with the DTI a Schedule of Liabilities, identifying the debtors and indicating the maturity pattern of transactions, as well as other reports as DTI may further provide.

The reports shall be signed under oath by the company's principal executive officer and principal financial officer.

SEC. 12. *Inspection Powers of the DTI* – Having jurisdiction and supervision over LCs after their incorporation, the DTI shall be allowed under this law to make the necessary inspection of records and books of accounts, as well as inspection and/ or entry into the premises of the LCs' principal places of business during working hours or upon reasonable grounds warranting the necessity to make such inspection and/or entry, as the case may be. The DTI shall promulgate in its rules and regulations what reasonable grounds may warrant said inspection and/ or entry.

SEC. 13. *Unauthorized Advertisement or Business Representation*. – No person, association or corporation unless duly authorized to engage in the business of a lending company shall advertise or hold itself out as being engaged in the business of a lending company or use the words "lending company" or "lending investor" or words of similar import.

SEC. 14. *Penalty* – A fine of not less than Ten Thousand Philippine Pesos (Php 10,000.00) or imprisonment of not less than SIX (6) months but not more than TEN (10) years or both at the discretion of the court, shall be imposed upon any person who shall violate any provision of this Act.

SEC. 15. *Supplementary Application of Other Laws* – The provisions of Republic Act No. 3765, otherwise known as the "Truth in Lending Act," Republic Act No. 7394 or the "Consumer Act of the

Philippines" and other existing laws, insofar as they are not in conflict with any provision of this Act, shall apply in matters not otherwise specifically provided for in this Act.

SEC. 16. *Entities Excluded by this Act* – All entities, whether stock or non-stock corporations, that do not declare any dividends to its stockholders or profits to its members, receiving donations, grants, aid or contributions from local or foreign entities for the purpose of giving assistance or support in the form of small loans to help alleviate the poor and low-income households, cooperatives duly registered with the pertinent government agency charged with the supervision of cooperatives, associations and partnerships, which may be engaged in direct lending shall be excluded from the coverage of this Act.

SEC. 17. *Promulgation of Implementing Rules and Regulations* - Within forty-five (45) days from the effectivity of this Act, the Department of Trade and Industry, Securities and Exchange Commission, in consultation with the Bangko Sentral ng Pilipinas, the Bureau of Internal Revenue and other key government and non-government institutions, shall promulgate the necessary implementing rules and regulations of this Act.

SEC. 18. *Separability Clause* – If any provision of this Act or the application thereof to any person or circumstances is held invalid, the other provisions of this Act and the application of such provisions to other persons or circumstances shall not be affected thereby.

SEC. 19. *Effectivity* – This Act shall take effect fifteen (15) days following the completion of its publication in the Official Gazette or in two (2) national newspapers of general circulation.

Approved,