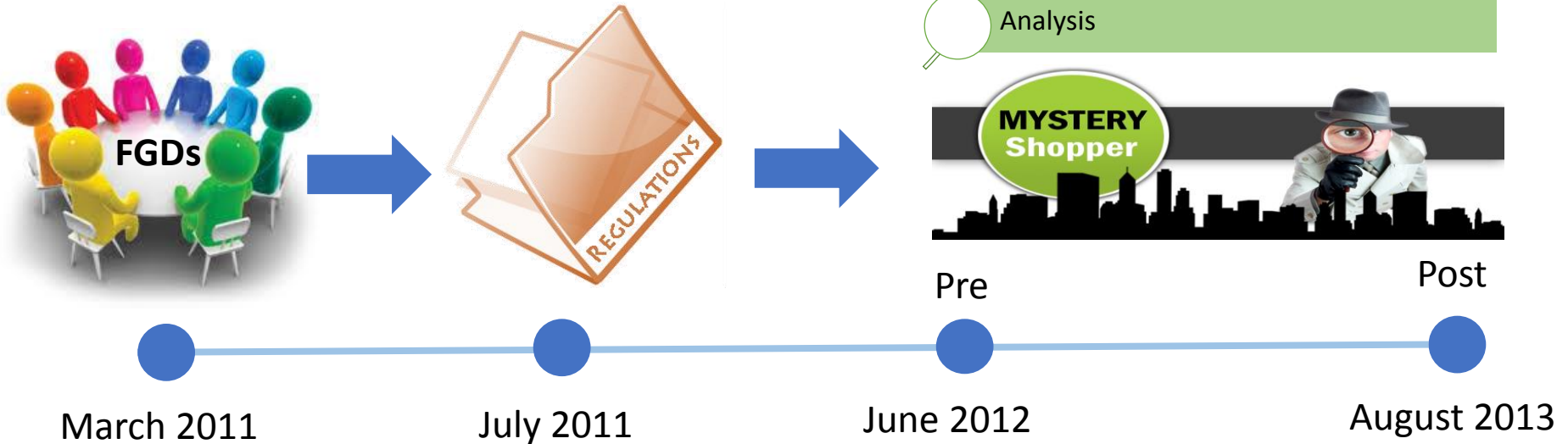
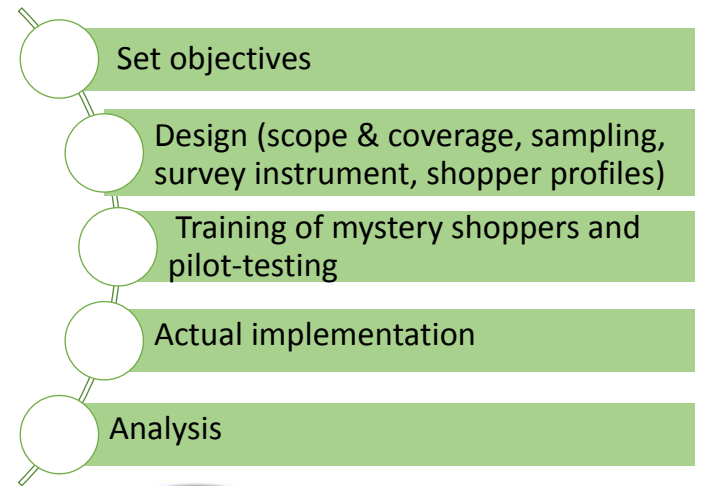


Enhanced Implementation of the Truth in Lending Act (TILA): From formulation to evaluation

Stages in Implementing Mystery Shopping



What was the situation before?

What role did the 'disclosure research' play?

BSP Circulars 730, 754, 755
Parallel regulations issued by SEC, IC, CDA

- Objectives
- Salient features
- Potential benefits

What information were collected?

What are the main findings?

What are the policy lessons?

**ABSTRACT OF "TRUTH IN LENDING ACT"
(Republic Act No. 3765)**

Section 1. This Act shall be known as the "Truth in Lending Act."

Sec. 2. Declaration of Policy. It is hereby declared to be the policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

xxx xxx xxx

Sec. 3. As used in this Act, the term

xxx xxx xxx

(3) "Finance charge" includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit as the Board may by regulation prescribe.

xxx xxx xxx

Sec. 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing stating forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

(1) the cash price or delivered price of the property or service to be acquired;

(2) the amounts, if any, to be credited as down payment and/or trade-in;

(3) the difference between the amounts set forth under clauses (1) and (2);

(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;

(5) the total amount to be financed;

(6) the finance charge expressed in terms of pesos and centavos; and

(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

xxx xxx xxx

Sec. 6. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued there under shall be liable to such person in the amount of P100 or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is greater, except that such liability shall not exceed P2,000 on any credit transaction.

xxx xxx xxx

(c) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined by not less than P1,000 nor more than P5,000 or imprisonment for not less than 6 months, nor more than one year or both.

xxx xxx xxx

(e) Any final judgment hereafter rendered in any criminal proceeding under this Act to the effect that a defendant has willfully violated this Act shall be *prima facie* evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act as to all matters respecting which said judgment would be an estoppel as between the parties thereto.

Sec. 7. This Act shall become effective upon approval.

Approved, 22 June 1963.

BEFORE

TRUTH AND TRANSPARENCY IN LENDING

Enhanced Implementation of the Truth in Lending Act (Republic Act 3765)

The State protects its citizens from a lack of awareness of the true cost of credit to the customer by assuring a full disclosure of such cost and other terms and conditions with a view of preventing the uninformed use of credit.

As such, a disclosure statement is a required attachment to the loan contract. It shall include, at a minimum, the following information:

- 1) Total amount to be financed
- 2) Finance Charges and all other charges incident to the loan
- 3) Net proceeds of the loan
- 4) Schedule of Payments
- 5) The percentage that the finance charge bears to the total amount to be financed expressed as an Effective Interest Rate (EIR)

IMPORTANT NOTICE

The borrower has a right to demand a copy
of the disclosure statement

AFTER

**FORMAT OF DISCLOSURE STATEMENT ON
SMALL BUSINESS/RETAIL/CONSUMER CREDIT**

(Business Name of Creditor)

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As Required under R.A. 3765, Truth in Lending Act)

NAME OF BORROWER : _____
ADDRESS : _____

1. **LOAN AMOUNT** ₱ XXX

2. **OTHER BANK CHARGES/DEDUCTIONS COLLECTED¹** ₱ XXX

- a. Documentary/Science Stamps ₱ _____
- b. Mandatory Credit Insurance _____
- c. Others (Specify) _____
- _____ _____

3. **NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3)** ₱ XXX

4. **SCHEDULE OF PAYMENTS**

- a. Single payment due on (date) ₱ XXX
- b. Installment Payments (Please see attached amortization schedule)

5. **EFFECTIVE INTEREST RATE (Interest and Other Charges)** XXX %

Explanation: The effective interest rate is higher than the contractual interest rate of ___% because of Item 2 deductions above.

6. **CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable).** Please specify manner of imposition:

- a. Late Charge _____
- b. Prepayment (penalty/refund) _____
- c. Others (Specify) _____
- _____ _____

CERTIFIED CORRECT:

(Signature of Creditor/Authorized Representative Over Printed Name)

Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

(Signature of Borrower over Printed Name)

Date

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	XXX				XXX
1		XXX	XXX	XXX	XXX
2		XXX	XXX	XXX	XXX
3		XXX	XXX	XXX	XXX
4		XXX	XXX	XXX	XXX
5		XXX	XXX	XXX	XXX
6		XXX	XXX	XXX	XXX
7		XXX	XXX	XXX	XXX
8		XXX	XXX	XXX	XXX
9		XXX	XXX	XXX	XXX
10		XXX	XXX	XXX	XXX
11		XXX	XXX	XXX	XXX
12		XXX	XXX	XXX	XXX
	Total	XXX	XXX	XXX	

Straight line versus declining balance method

FLAT BALANCE INTEREST

# of pay-ments	Amount of loan with borrower	Principal repaid	Amount of Principal Used to calculate i	i paid
1	6,000	1,000	6,000	120
2	5,000	1,000	6,000	120
3	4,000	1,000	6,000	120
4	3,000	1,000	6,000	120
5	2,000	1,000	6,000	120
6	1,000	1,000	6,000	120
Total		6,000		720

DECLINING BALANCE INTEREST

# of pay-ments	Amount of loan with borrower	Principal repaid	Amount of Principal Used to calculate i	i paid
1	6,000	1,000	6,000	120
2	5,000	1,000	5,000	100
3	4,000	1,000	4,000	80
4	3,000	1,000	3,000	60
5	2,000	1,000	2,000	40
6	1,000	1,000	1,000	20
Total		6,000		420

TERM	4 monthly payments			4 monthly payments		
Loan Amt	Php 5,000			Php 5,000		
Interest Rate	2% /month			3.2% / month		
Month	Outstanding Balance	Interest Rate	Interest	Outstanding Balance	Interest Rate	Interest
0	Php 5,000	2%	Php 100	Php 5,000	X 3.2% =	Php 160
1	Php 3,750		Php 100	Php 3,750	X 3.2% =	Php 120
2	Php 2,500		Php 100	Php 2,500	X 3.2% =	Php 80
3	Php 1,250		Php 100	Php 1,250	X 3.2% =	Php 40
4	0			0		
			Php 400			Php 400