



COOPERATIVE DEVELOPMENT AUTHORITY

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MEMORANDUM CIRCULAR 2020-____ Series of 2021.

SUBJECT: GUIDELINES GOVERNING THE OPERATIONS OF COOPERATIVES ENGAGED IN CREDIT SERVICES

Pursuant to Section 4(a) and (f) of Republic Act No. 11364, otherwise known as the Cooperative Development Authority Charter of 2019, the Authority hereby adopts and promulgates the following rules:

Article I Title, Objectives and Coverage

Section 1. Title. – This Circular shall be known as Guidelines Governing the Operation of Cooperatives Engaged in Credit Services.

Section 2. Objectives. – This Circular aims to achieve sustainable, safe and sound operations of cooperative to protect the members' interests, specifically to :

- a. Ensure that practices prejudicial to the members of cooperative are prevented;
- b. Prevent possible over-indebtedness of a member;
- c. Prevent undue or unsound credit risk exposure of cooperative on a particular member; and
- d. Ensure adherence, uniform and consistent application of determination of loan limit to every member

Section 3. Coverage. All registered cooperatives engaged in credit operations except cooperative banks.



Article II Credit Operations

Section 1. Credit Policies

The Board of Directors shall be responsible for setting written loan policies. Credit policies should clearly reflect:

1. Limits on loan amounts, loan maturities and repayment terms, acceptable collateral, and interest rates that are reasonably designed to meet the objectives;
2. Credit Evaluation which shall include the basis in granting loan and credit investigation;
3. Effective loan collection and monitoring policies designed with the following characteristics:
 - a. Monthly and accurate reporting of delinquent loan to the board;
 - b. Timely and consistent follow-up actions;
 - c. Utilization of outside collection sources when internal efforts fail to produce results; and
 - d. Maintenance of collection records.; and
4. Loans of Directors, Officers, Staff and their Related Interests (DOSRI).

Section 2. Truth in Lending Act Disclosure Requirements. Cooperative shall comply with the provisions of CDA MC 2012-05, otherwise known as the “Rules Implementing the Truth in Lending Act” **or any amendments thereto**, and shall make the true and effective cost of borrowing an integral part of every loan contract.

Section 3. Basis in the Grant of Loans. The granting of loans by the credit committee and loan officers shall be based on the four "C's" of credit: *Character, Capacity to pay, Circumstances, and Collateral.*

- a. Character.** A determination of *character* involves the development of information relating to the applicant's credit history.

This may be obtained from the community, Credit Information Corporation (CIC), and other private and government institutions.

b. Capacity to Pay. In determining an applicant's *capacity to pay*, the credit committee or loan officer should carefully examine the applicant's income, debts, debt payments, and living expenses. After debt payments and living expenses are taken into account, the applicant's income should be adequate to repay the loan in accordance with the agreed upon terms.

c. Collateral. A cooperative may grant unsecured and secured loans. Unsecured loans are consumer-type loans, usually relatively small, traditionally offered for various purposes incidental to the members' needs. Secured loans are extended credit with a security interest in personal or real property of tangible value. The security may also be an endorsement by another person who agrees to repay if the borrower fails to do so. Co-maker loans, deposit hold-outs, and automobile loans are common types of secured loans. Other types of secured loans are home equity loans and real estate loans.

d. Circumstances. These refer to the type of activity to be financed, the market for such activity, and the viability of the project to be financed among other things.

Section 4. Lending Procedures

4.1 Application. A member-borrower applying for a loan must submit an application stating the purpose of the loan and such other information as may be required by the cooperative. The loan application and other required documents should form part of the credit information file of the member-borrower.

4.2 Credit evaluation. Cooperatives shall prescribe credit evaluation policy to determine the credit standing and creditworthiness of the applicant and/or the fair market value of the property offered as security and the report thereon shall be made part of the loan application. No loan shall be approved unless prior investigation has been made.

4.3 Credit information file/collateral file. Cooperative shall maintain a credit information file, which shall contain, among other things, the member-borrower's application, financial record, the collateral, and other information relative to the member-borrower.

4.4 Loan Approvals. Loans shall be approved in accordance with the Codified Approving and Signing Authority (CASA) as approved by the General Assembly.

4.5 Loan Agreements. For each loan granted by a cooperative, a promissory note shall be executed by the member-borrower in favor of the cooperative stating the amount of the loan, date granted, due date, interest rate, and other information.

4.6 Inscription of Lien. In case of mortgage loans, no release against an approved loan shall be made before the inscription of the mortgage.

Section 5. Loan Monitoring. The board has the responsibility of exercising close control and monitoring over the cooperative's lending program.

Section 6. Loan Retention Saving Scheme. The cooperative may require member-borrowers to deposit a portion of the loan proceeds, if applicable based on their credit policy, whether in the form of savings or time deposits. Where, subsequent to the release of the loan proceeds, member-borrowers open deposit accounts or make additional deposits to their existing accounts, no part of such new deposits shall be covered by a stipulation prohibiting or limiting withdrawal while a portion of their loans are outstanding: *Provided*, That this prohibition shall not apply in cases of loans secured by a hold-out on deposits to the extent of the unencumbered amount of the deposit existing at the time of the above-mentioned loan application.

Section 7. Interest and Other Charges. The following shall govern the rates of interest and other charges on loans granted by the cooperative:

7.1 Interest Rate. The rate of interest including commissions, premiums, fees and other charges on loans, and forbearance of money, regardless of maturity and whether secured or unsecured, shall be reasonably set to at least fully cover the operational and financial costs of the cooperative.

7.2 Interest Payment - Interest shall be based on diminishing balance in accordance with the provisions of the Truth in Lending Act.

7.3 Payment of loan before maturity. Should a member-borrower opt to pay the outstanding balance of his loan before maturity, the cooperative may charge a premium on the portion of the loan to be prepaid, subject to prior agreement between the cooperative and its member-borrowers.

7.4 Interest rate in the absence of contract. The rate of interest for the loan or forbearance of any money, goods or credit, and the rate

allowed in judgments, in the absence of express contract as to such rate of interest, shall be six percent (6%) per annum.

7.5 Accrual of interest earned on loans. The cooperative shall not accrue interest income on loans that are already past due or on loan installments that are in arrears, regardless of whether the loans are secured or unsecured. Interest on past due loans or loan installments in arrears shall be taken up as income only when actual payments thereon are received.

Section 8. Secured Loans

8.1 Loans Secured by Real Estate Mortgages. Loans against real estate security shall not exceed seventy percent (70%) of the appraised value of the real estate security including insured improvements, if any, and such loans shall not be made unless title to the real estate is in the name of the mortgagor and properly annotated with the appropriate regulatory body.

8.2 Real Estate Security Without Torrens Title. Loans may also be granted on the security of lands without Torrens Title where:

8.2.1 The owner of the private property can show 5 years or more of peaceful, continuous, and uninterrupted possession in the concept of an owner;

8.2.2 Portions of friar land estates or other lands administered by the Bureau of Lands are covered by sales contracts, and the purchasers have paid at least five (5) years installment thereon, without the necessity of prior approval and consent by the Director of the Bureau of Lands;

8.2.3 Portions of other estates under the administration of the Department of Agrarian Reform (DAR) or other governmental agency are likewise covered by sales contracts, and the purchaser has paid at least five (5) years installments thereon, with the prior approval and consent of the DAR or corresponding governmental agency;

8.2.4 Homesteads or free patent lands have approved titles that are yet to be issued, the provisions of any law or regulations to the contrary notwithstanding: *Provided, That:*

- a. When the corresponding titles are issued, the same shall be delivered to the Register of Deeds of the province where such lands are situated for the annotation of the encumbrance;
- b. Copies of notices for the presentation of the final proof shall also be furnished to the cooperative, and if the borrower applicants fail to present the final proof within thirty (30) days from date of notice, the cooperative may do so for them at their expense;
- c. The applicant for homestead or free patent has already made improvements on the land, and the loan applied for is to be used for further development of the same or for other productive economic activities; and
- d. The appraisal and verification of the status of a land is a full responsibility of the cooperative, and any loan granted on any land which shall be found later to be within the forest zones shall be for the sole account of the cooperative.

8.3 **Loans Secured by Chattels.** Loans secured by chattels shall not exceed fifty percent (50%) of the fair market value of the security, and such loans shall not be made unless title to the chattels shall be in the name of the mortgagor.

8.4 **Loans Secured by Personal Properties.** Loans may be secured by unencumbered personal property, subject to RA11057, otherwise known as Personal Property Security Act, which may consist of:

8.4.1 Bonds and securities issued by the Government. Such bonds and securities may be accepted at their face value;

8.4.2 Quedans or warehouse receipts issued by bonded warehouses covering stock deposited in said warehouses up to eighty percent (80%) of the calculated market value of the stock; and

8.4.3 Any other personal property up to fifty percent (50%) of the fair market value. If the property is newly purchased and the purchase price thereof appears in a bill of sale, then the above percentage shall be based on the price of the said bill of sale.

8.5 Loans Secured by Certificates of Time Deposits (CTDs). The following rules shall govern the grant of loans secured by hold-out on and/or assignment of CTDs issued by the lending cooperative or any other financial institution:

8.5.1 The original copy of the CTDs subject to hold-out or assignment shall be surrendered to the lending cooperative;

8.5.2 If the terms of the CTDs subject to hold-out or assignment is shorter than the term of the loan, there shall be an agreement in writing that renewal of the time deposit upon maturity shall be made at least co-terminus with the term of the loan;

8.5.3 The member-borrower shall furnish the depository bank a copy of the Deed of Assignment or hold-out agreement on the deposit used as collateral. A proof of receipt shall be submitted to the cooperative prior to the release of loan;

8.5.4 There shall be no pre-termination of the time deposit without the consent of the lending cooperative and unless an acceptable substitute collateral for the loan has been made;

8.5.5 The cooperative shall keep a complete record of all pertinent loan documents, such as, but not limited to, the original copy of the CTDs subject to assignment or hold-out agreement; deed of assignment or hold-out agreement; and written waiver of the depositor required in 8.5.6 below, which shall be made available for inspection and/or examination by the Authority; and

8.5.6 The loan documents shall include a waiver on the part of the depositor of his/her rights under existing law to the confidentiality of his/her deposits.

8.6 Insurance on Real Estate Improvements. The required insurance on improvements used as collateral for loan shall be sufficient to secure seventy percent (70%) of the appraised value of such improvements or if inadequately insured, the loan value shall correspond to the extent of insurance taken on such improvements.

8.7 Foreclosure and Redemption of Mortgages. The foreclosure and redemption of mortgages shall be in accordance with existing laws.

Section 9. Unsecured Loans. Before granting unsecured loans, the cooperative must also exercise proper caution by ascertaining that the borrowers, co-makers, endorsers, sureties and/or guarantors possess good credit standing and are financially capable of fulfilling their commitment. The cooperative may opt to insure the loans to a reputable entity.

The cooperative shall require:

9.1 Proof of Financial Capacity of Borrower. In addition to the usual personal information sheet about the borrower, the cooperative shall require that an application for a credit accommodation against personal security be accompanied by:

- a. A copy of the latest income tax returns of the borrower and his co-maker duly stamped as received by the BIR, if applicable, or a statement showing the household income and expenses of the borrower as verified by the cooperative; or
- b. If the borrower is engaged in business, a copy of the borrower's financial statements, if applicable, and if the borrower will engage in business, a feasibility study or project proposal of the project to be financed.

9.2 Loan Signatories. Loan documents of credit accommodations shall be signed by the principal borrower and at least one (1) co-maker in case of unsecured loans except the spouse of the borrower. The co-maker shall, at all times, be a member of the cooperative.

9.3 Policy on Co-makers, Endorsers, Sureties and Guarantors. The cooperative shall have clear-cut guidelines in assessing the capacity and limitation as co-maker, endorsers, sureties and guarantors

Article III.

Loan Limits/Maturity of Loans.

Section 1. Loan limit to a single borrower. A cooperative may grant to its member, whether officer or ordinary member, loan the amount of which shall not exceed the limit as stipulated in the policy set by the cooperative on the following:

- a) Member's deposits and/or
- b) Paid-in share capital; and/or
- c) Member's salary, if employed, and/or
- d) Seventy percent (70%) of the appraised value of secured real property or fifty percent (50%) of the fair market value in case of loans secured by chattel or other personal properties.

Provided it shall at no time exceed the following percentages of the net worth of the Cooperative:

1. Ten percent (10%) for individual member-borrower; and
2. Fifteen percent (15%) for member-borrower and his/her immediate family member up to the first degree of consanguinity or affinity.

Section 2. Loan Maturity. Loans granted by a cooperative shall have a maximum term of not more than five (5) years except loans which are adequately secured. *Provided,* That extensions or renewals of loan shall be in accordance with the provisions of Section 3 and 4 of Article V, respectively.

Article IV

Loans/Credit Accommodations to Directors, Officers, Staff and their Related Interests (DOSRI)

Section 1. Guidelines on DOSRI Loans. The following guidelines shall govern the DOSRI Loans:

- 1.1. Dealings of cooperative with any of its directors, officers, staff, and their related interests shall be in regular course of business, and upon terms and conditions not more favorable than those offered to other member-borrowers.
- 1.2. Cooperative shall not indirectly make any loan to any director or officer of such cooperative, either for himself or as agent or as partner of another person or entity.

- 1.3. In all cases of accommodation granted to directors and officers, the written approval of the majority of the directors of the cooperative, excluding the director concerned, shall be entered upon the records of the cooperative. A monthly aging report of DOSRI accounts (individual and aggregate) shall be regularly reported to the Board of Directors. These reports and records shall be made available for inspection to the Authority.

Section 2. Restriction on Directors, Officers and Committee Members. No director or committee member shall vote on a loan requested by a member of his/her family, by consanguinity or by affinity to the second degree, or can he/she become a co-maker, surety or endorser on any loan contracted by a member with the cooperative. The application for a loan by a member of the Credit Committee shall be subject to the approval of the Board of Directors.

Article V. Past Due Accounts

Section 1. Past Due Accounts. Any amortization/installment not collected on due date shall be booked as past due and shall remain in this account until paid.

1.1 Loans Receivable-Past Due. These are total collectibles from past due loans of member-borrowers. Aging of loans receivables should be prepared to determine status and risk of non-collection of the past due loans. A loan shall remain in this account until fully collected or until arrangements are formalized for its renewal/extension /restructuring or foreclosure of collateral.

1.2 Loans Receivable – Restructured. The restructuring of loans may be allowed only upon full payment of interest due or under exceptional conditions as may be defined in the cooperative’s loan policies. Loans can be restructured only once. The restructuring of loans to directors or officers should be upon terms not more favorable than those offered to other member-borrowers.

1.2.1. Procedural Requirements. Subject to the restructuring guidelines approved by the Board of Directors, a loan may be restructured, the condition of which shall be contained in a resolution stating, among others, the following:

- a. The basis for the approval;
- b. Determination of the borrower's capacity to pay, such as viability of the business; and
- c. Nature and extent of protection of the cooperative's exposure.

1.2.2 **Approval Requirements.** The approval/disapproval of restructured loans may be delegated by the Board of Directors to a credit committee or other committee created for such purpose under existing restructuring guidelines set by the Board of Directors.

- 1.3. **Loans Receivable – Loans in Litigation.** Loans in Litigation shall remain in this account during the pendency of the legal proceedings until fully paid/ restructured/ foreclosed. All expenses incurred in litigation shall be charged to operations and lodged under Litigation Expense. The corresponding memorandum entries shall be made on the individual ledger account for reimbursement by the borrower during redemption of foreclosed properties.

Section 2. Loan Portfolio and Other Risk Assets Review System. The cooperative shall take timely and adequate management action to maintain the quality of loan portfolio and other risk assets. To ensure this, the management shall:

- 2.1 Set up and maintain adequate loan reserves at a level sufficient to absorb the loss inherent in the loan portfolio;
- 2.2 Establish a system of identifying, monitoring and controlling the existing or potential problem on loans and other risk assets; and
- 2.3 Evaluate credit policies vis-à-vis prevailing circumstances and emerging portfolio trends.

Section 3. Loan loss Provisioning. The allowance for probable losses on loans (APLL) shall be booked based on the Portfolio At Risk (PAR) with a 30-day grace period. PAR is the amount of the loan portfolio with one day missed payment. The APLL shall be computed in accordance with the prescribed formula and allocation percentage by the Authority. The amount of allowance for probable losses on loans already booked for one account may be used to cover required APLL for other non-performing accounts.

Section 4. Extension of Loans. Except for home building and home development loans, extension of the period of payment of loans shall not exceed

one-half (1/2) of the original period: *Provided*, That thirty percent (30%) of the loan shall have been paid. A second extension may be further granted but not to exceed one-half (1/2) of the period of the first extension. No further extension shall be granted after the second extension.

Section 5. Renewal of Loans. Except for home building and home development loans, renewal of loans may be allowed. *Provided*, that at least fifty percent (50%) of the loan has been paid.

Section 6. Write-off of loans/other credit accommodations. The writing off of loans/other credit accommodations by cooperative shall be governed by the following regulations:

- 6.1 Writing off of loans by the cooperative shall be made in accordance with the write-off policy approved by the Board of Directors and shall be charged against the Allowance for Probable Losses on Loans (APLL).
- 6.2 No loans shall be written off unless the same can be justified by the cooperative as uncollectible.
- 6.3 A loan may be declared uncollectible under any of the following conditions: (a) the death of a borrower; or (b) insolvency with judicial decree of the borrower; or (c) unknown whereabouts of the borrower despite extra-diligent efforts to find the same. *Provided*, that all administrative and legal remedies have been exhausted to collect the receivable. Other documentary requirements may vary depending on the nature, purpose and recipient of the loans.
- 6.4 Notice for write-off of loans shall be submitted, in the prescribed form (Appendix A), to the Authority at least thirty (30) days prior to the intended date of write-off. In the case of loans to incumbent directors and officers of the cooperative, prior approval of the General Assembly is required.

Section 7. Treatment of Assets Acquired in Settlement of Loans

- 7.1 The property acquired in settlement of loans through foreclosure or *dacion en pago* ("payment in kind") shall be booked or recorded in the amount equivalent to the balance of the loan (principal for time loans) or bid (in the case of foreclosure)/agreed purchase price (in the case of *dacion en pago*), whichever is lower.
- 7.2 When the booked amount of the asset acquired in settlement of loans exceeds the appraised value of the acquired property, an

allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set-up.

- 7.3 Non-refundable capital gains tax and documentary stamp tax paid in connection with foreclosure/purchase of the acquired real estate property may be included in the book value of the acquired real estate: *Provided*, That the total book value does not exceed the appraised value of the acquired real estate: *Provided Further*, That if the amount to be booked as Real Properties Acquired (RPA) exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent licensed appraiser.
- 7.4 Any excess in loan balance over the amount booked shall be charged to “Allowance for Probable Losses on Loans”, if previously provided. Otherwise, such amount shall be charged to Miscellaneous Expense Account.
- 7.5 Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be booked when collected as Miscellaneous Income.

Section 8. Appraisal of Properties to be foreclosed or acquired. Before foreclosing or acquiring any property in settlement of loans and other advances, it must properly be appraised to determine its true economic value. If the total amount to be booked as Assets Acquired in Settlement of Loans/Accounts exceeds P5 million, an independent licensed appraiser must conduct the appraisal. An in-house appraisal of such property shall be made at least every other year: *Provided*, That immediate re-appraisal shall be conducted on Assets Acquired in Settlement of Loans/Accounts which materially decline in value. Disposal of the foreclosed property shall be the responsibility of the Board of Directors.

Article VI FINANCIAL PERFORMANCE

In measuring the financial performance of cooperatives, the following shall be used as indicators: Stability, Turn-Over Ratio, Efficiency, Profitability and Structure of Assets (STEPS).

The STEPS is computed based on the formulas or ratios, data/ values/figures sourced from the Audited Financial Statements and Cooperative Annual Progress Report, as shown in Appendix B.

Article VII
Miscellaneous Provisions

Section 1. Codified Approving and Signing Authority (CASA). The cooperative shall develop a Codified Approving and Signing Authority to serve as guide in identifying the accountabilities of officers and staff. Model CASA is shown as Appendix C.

Section 2. Sanctions. Any violations of the provisions of this guidelines shall subject the accountable officers as determined by the Authority to the following sanctions, after due notice and hearing:

- a. First offense - Suspension
- b. Second offense - Removal and disqualification to be elected or appointed as officer

Further, any violation of the loan ceilings prescribed in Section 1 of Article III and/or the provisions of Article IV above shall be subject to the imposition of a fine of one tenth of one percent ($1/10$ of 1%) of the excess over the loan ceiling or the amount of the DOSRI account per day but not to exceed P500 per day on each of the directors and officers voting for the approval of the loan or credit accommodation. The penalty for exceeding the ceiling shall be computed on the average amount of loans in excess of said ceiling during the same week.

Section 3. Submission of Credit Information to a Credit Information Corporation (CIC). Cooperative shall regularly submit information on the credit transactions of a member-borrower to CIC pursuant to RA 9510 and CDA MC 2019-01.

Article VIII.
TRANSITORY PROVISIONS

Section 1. Transitory Provisions. All cooperatives engage in credit services shall, from the effective date of this Guidelines, amend its By-Laws and Articles of Cooperation to conform with the pertinent provisions of this Guidelines within two (2) years from the effectivity of this Guidelines and that this shall be presented and discussed to the General Assembly provision by provision.

**ARTICLE IX.
SEPARABILITY CLAUSE**

Whenever part of this Manual is declared unconstitutional or inconsistent with existing laws by a competent court, the remaining provisions of this Manual not affected thereby shall remain in full force and effect, unless deemed otherwise.

**ARTICLE X.
REPEALING CLAUSE**

All CDA issuances, rules and regulations applicable to the cooperative that are inconsistent with the provisions of this Manual are hereby repealed or modified accordingly.

**ARTICLE XI.
EFFECTIVITY**

This Circular shall take effect upon approval by the CDA Board and fifteen (15) days after filing with the Office of National Administrative Registry (ONAR).

Approved by the Board of Directors pursuant to Res. No. _____

For the CDA Board:

By:

ORLANDO R. RAVANERA

Chairman

