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YAMAN Coach™

EMPOWERING YOU

Fee to Fee Loan Bus

by PFA

According to Republic Act 3765 otherwise known as the Truth in Lending Act, a creditor must disclose the following prior to the consummation of any loan it extends:

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 in items 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 bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

In addition, the Bangko Sentral ng Pilipinas (BSP) Memorandum M-2008-020 stipulated, among others, that creditors should place in conspicuous places in their businesses the following:

1. an abstract of the provisions of R.A. No. 3765; and
2. information regarding interest and other charges on loans such as:
   - type of loan;
   - simple annual rate of interest;
   - manner of interest payment whether collected in advance or otherwise; and
   - other fees and charges imposed by the bank in connection with the loan.

Finally, BSP Circular 730 clarifies that simple annual rate is the uniform percentage, which represents the ratio between the finance charge and the amount to be financed assuming the loan is payable in one year in one payment upon loan maturity and that there are no upfront deductions to the loan principal. Furthermore, for loans that are not fully settled in one payment in a year, the effective annual interest rate shall be calculated and disclosed to the borrower as the true cost of the loan. That effective interest rate according to Philippine Accounting Standards is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds.

The most important part of these regulations is the effective interest rate, the true cost of the loan. PFA has an **EnRich**™ GOOD (i.e. Getting Out of Debt) client who borrowed against her pension. Her loan not only had upfront loan processing and collection fees but also offset the first three monthly loan amortizations against the loan proceeds. When we computed her effective loan interest rate, it amounted to 81% p.a. How can a pensioner possibly afford such a high interest rate? In fact, how can anyone afford such a prohibitive rate of interest. Yet, the material information was never disclosed to her prior to or even after her getting the loan.

And this is the worst part. When our client wanted to prepay her loan, the creditor said that she will still need to pay her remaining amortizations. This practice is in direct contradiction of Article 137 of the Consumer Act of the Philippines, which states that, "The person to whom credit is extended may prepay in full or in part, at any time without penalty, the unpaid balance of any consumer credit transaction."

In addition, Article 138 of the same Act states that, "Upon prepayment in full of the unpaid balance of a precomputed consumer credit transaction, refinancing or consolidation, an amount not less than the unearned portion of the finance charge calculated according to this Article shall be rebated to the person to whom credit is extended."

Do not be afraid to ask your creditor about these provisions before you sign on the dotted line.

A water tank will fill via the inflow pipe alone for 57 minutes and empty by outflow pipe alone for 75 minutes. How long will it take to fill tank if both inflow and outflow pipes are fully opened?

In / Out Urger

by Efren Ll. Cruz, RFP®

I hated those math problems. Why even bother solving them? Just close the outflow pipe and fill up the tank.

Yet, if we look closer, many of life's problems can be simplified by looking at it as an inflow and outflow problem.

I recently renewed my goal for the nth time of taking 10,000 steps a day because in a recent picture, I looked like I was ready to pop out twins. Why 10,000 steps? Well, I realized that with the pandemic confining me to work in front of a computer for most of the day, the most exercise I was getting was finger calisthenics.

The Good Lord had perfectly designed our body to be highly active while we are young and still capable of gorging on a 25-course buffet. But as we get older and become less active (for a myriad of reasons), our appetite was also designed to diminish.

Yet, being the imperfect humans that we are, even as we get older, we tend to tip the scale towards adding more calories than we can burn. In other words, it is the inflow versus outflow problem once more.

A former co-worker once told me that he could not figure out why when he was younger, he was not only able to save but that he was even able to invest. Now that he is much older, he claims he is faced with the occasional budget shortfalls. I simply told him that when he was younger, he did not have mouths to feed. Now he has a lot. Again, the inflow versus outflow problem.

Many of life's challenges seem daunting. And we only need to translate them into simple terms for us to get a better handle on them. As a kid, Elon Musk was so afraid of the dark. But being the science genius that he is, he came to understand that darkness was just the absence of photons. Then he thought that it would be silly being afraid of a lack of photons. After that, he was not afraid of the dark anymore.

Saving is the same thing. You just need to let more money in and less money out. When you see it as that simple, saving will be much easier. And to be better motivated, approach the problem not as saving a small percentage of your income but living off a larger percentage of your income. Saving will be all the more pleasing to you.

By the way, if you were wondering about the solution to our earlier math problem, it is 237.5 minutes.

Stay safe and healthy.

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Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

A Product is not a Plan

Many are led to believe that by buying a financial product or instrument, they are buying a plan.

To set the record straight, financial products and instruments are mere tools to execute a financial plan. A financial plan, on the other hand, deals with quantifying a person's goals, comparing these to what the person has to start with and what he can periodically add, and then deriving what net investment return the person needs to earn on his funds as tempered by the investment risk he is willing to stake.

Such a meticulous plan will then dictate the appropriate tools to be used to execute the plan. So, strictly speaking, no financial product or instrument is an education plan, retirement plan, pension plan or even an estate plan.