



DEPARTMENT OF FINANCE  
**BUREAU OF LOCAL GOVERNMENT FINANCE**

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# **Net Debt Service Ceiling and Borrowing Capacity of Local Government Units**

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# The Bureau of Local Government Finance

- Attached agency of the DOF
- Supports the DOF in its mandate to ***“supervise the revenue operations of all local government units”***
- Central Office in Manila, with 15 Regional Offices
- Mandated to ***“develop and promote plans and programs for the improvement of resource management systems, collection enforcement mechanisms and credit utilization schemes at the local levels”***
- Issues **Certificate of Net Debt Service Ceiling (NDSC) and Borrowing Capacity (BC)** to LGUs



# Legal Basis of Certification

- **Sec. 296 of LGC:** Basic policy that LGUs may create indebtedness and avail of credit facilities
- **Art. 403 of LGC IRR:** DOF is mandated to render technical assistance to any LGU in the availment of credit facilities, flotation of bonds, contracting of loans and issue guidelines for the purpose
- **Sec. 324 of LGC:** Appropriations of 20% of the LGU's regular income for debt servicing
- Government regulates through *ex ante* controls:
  1. *Securing the Certificate of Net Debt Service Ceiling and Net Borrowing Capacity from the BLGF*
  2. *Favorable Monetary Board opinion from the BSP*



# Legal Basis of Certification

- **Department Order No. 054-2016:** DOF order prescribes the updated and streamlined guidelines governing the issuance of Certificate of NDSC and BC (“Certificate”) to all LGUs.

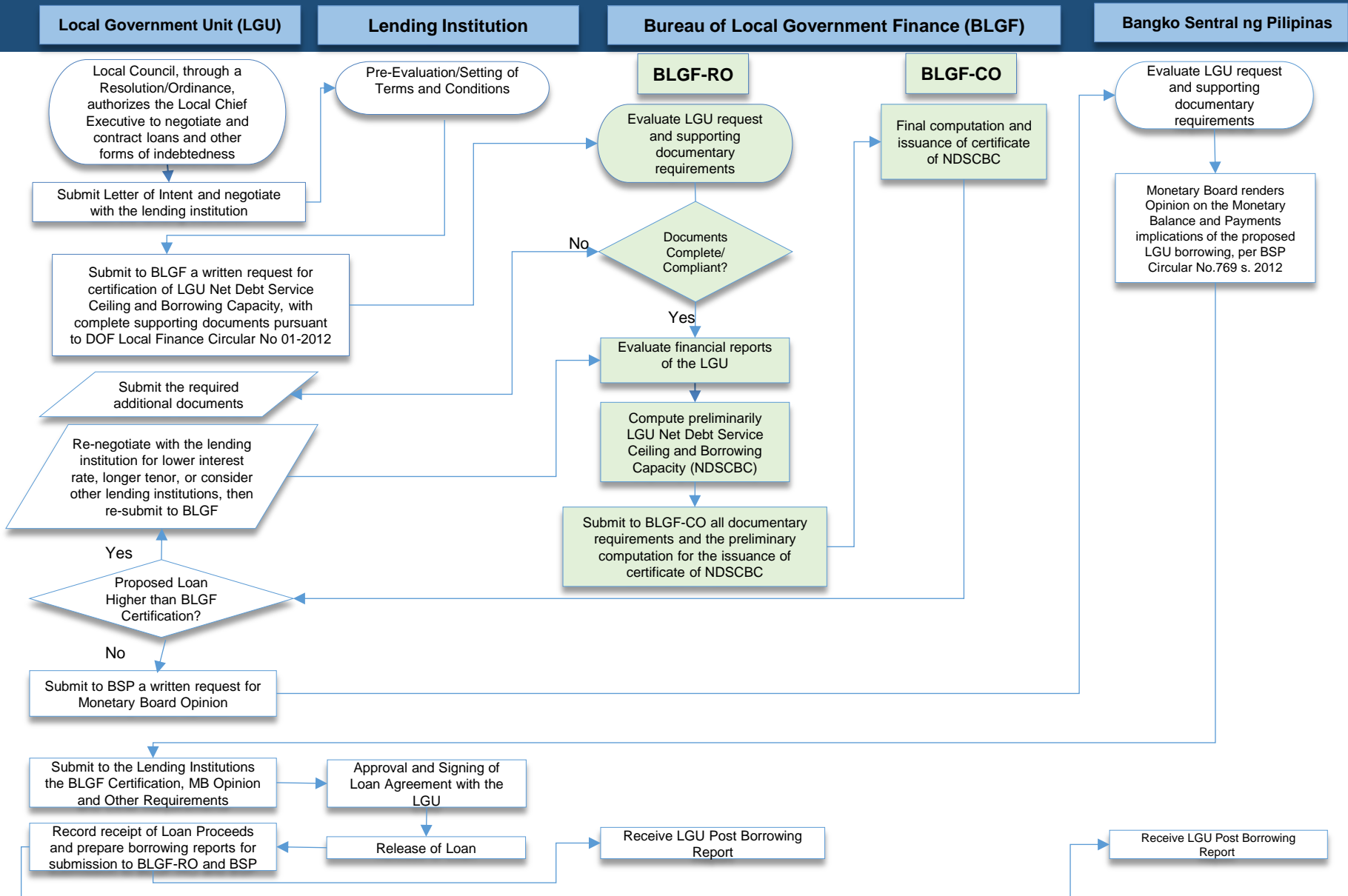


# DOF Policies on LGU Loan Certification

- **Local Finance Circular (LFC) No. 1-2000, dated 19 January 2000:** issued to enhance the access of all LGUs to credits and other forms of indebtedness.
- **LFC No. 01-2012:** Amended the previous LFC, and released on **16 April 2012**, to ensure a more accurate and appropriate evaluation of the maximum borrowing and debt servicing capacities of all LGUs.
- **LFC No. 01-2014:** Issued on April 22, 2014 for 171 LGUs affected by Typhoon Yolanda, from 12 to 4 requirements, and extending the validity by 1 year



# LGU Loan Application Process



# Streamlined Documentary Requirements for Certification

## 1. Letter request from the Local Chief Executive indicating:

- The lending institution where to apply for a loan;
- Terms and condition of the proposed loan; and
- The purpose of the loan.

## 2. Certification of existing of loan/s duly certified by the Local Treasurer with the following details:

- Types of loans & other obligations contracted;
- Purpose of the loans & other obligations contracted;
- Name of the lending institutions;
- Date of approval & maturity;
- Terms & conditions (interest rate & number of years to pay);
- Remaining balances of loans and other obligations; and
- Annual amortization schedules (segregating the principal from the interest) issued by the lending institution.



# Streamlined Documentary Requirements for Certification

**3. COA Annual Audit Certificate for the past 3 fiscal years** showing no adverse finding against the LGU, which is supported by the following year-end financial reports:

- Pre-closing trial balance (general fund);
- Detailed Statement of Financial Performance

**4. Certification issued by the lending institution stating that it shall not require LGU deposits as compensating balance for the loan** if such lending institution is not (1) not an authorized government depository bank or (2) an authorized government bank required to obtain the prior approval of the Department of Finance as provided under the DOF Department Order No. 27-05 (Banks other than LBP and DBP);





# Streamlined Documentary Requirements for Certification

## - LGUs affected by Natural and/or Man Made Disaster

### 1. **Letter request from the Local Chief Executive** indicating:

- The lending institution where to apply for a loan;
- Terms and condition of the proposed loan; and
- The purpose of the loan.

### 2. **Certification of existing of loan/s duly certified by the Local Treasurer** with the following details:

- Types of loans & other obligations contracted;
- Purpose of the loans & other obligations contracted;
- Name of the lending institutions;
- Date of approval & maturity;
- Terms & conditions (interest rate & number of years to pay);
- Remaining balances of loans and other obligations; and
- Annual amortization schedules (segregating the principal from the interest) issued by the lending institution.

Certified true copy of declaration.



# Features of the Certificate

- Certifies the amounts pertaining to:
  - *Net Debt Service Ceiling (NDSC)*
  - *Borrowing Capacity (BC)*
- Terms of the loan (period, interest, grace period, etc.)
- Name of lending institution
- Purpose of the loan
- Certificate number and date issued
- Notes on the certificate



# Computing the NDSC and BC

- **Debt Service Ceiling (DSC)**

- 20% x Annual Regular Income (ARI)
  - Where ARI is the average previous 3-year locally sourced income + other shares from national taxes based on COA data, + actual annual IRA based on DBM data



- **Net DSC (NDSC)**

- DSC – All amortizations payable during the year

- **Borrowing Capacity (BC)**

- NDSC x Annuity Factor





**THANK YOU**

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