

BEYOND DISCRETION: ESTABLISHING CREDIT DENIAL TRANSPARENCY AS A FIDUCIARY DUTY OF BANKS*

*Julius Ray E. Rentoy***

ABSTRACT

The unchecked discretion of financial institutions to deny credit applications without explanation reveals a latent but critical deficiency in Philippine financial regulation. While no statute explicitly mandates the disclosure of credit rejection reasons, this Essay asserts that such transparency is a legal necessity already imputed under existing banking statutes and jurisprudence. Anchored on the fiduciary nature of banks and the statutory framework promoting fair treatment of financial consumers, the duty to disclose credit denial reasons emerges as a natural extension of settled legal principles.

This Essay examines the doctrinal basis for recognizing credit denial transparency not merely as good practice, but as an enforceable obligation and a judicially cognizable duty. Supreme Court decisions have consistently required banks to observe transparency, diligence, and fairness in transactions that materially affect financial consumer rights. The omission of credit denial explanations violates this legal standard. Furthermore, regulatory measures under the General Banking Law, the Truth in Lending Act, and the Financial Products and Services Consumer Protection Act reinforce the transparency imperative throughout the lending process. Thus, judicial recognition of credit denial transparency would not expand the law but complete it—filling an interpretive void through the faithful application of existing norms.

* Cite as Julius Ray E. Rentoy, Essay, *Beyond Discretion: Establishing Credit Denial Transparency as a Fiduciary Duty of Banks*, 98 PHIL. L.J. 670, [page cited] (2025).

** J.D., Pamantasan ng Lungsod ng Maynila (2024). M.B.A., San Beda University (2019). B.S. Accountancy, San Beda University (2014). University Legal Counsel and Head of Group Corporate Planning, Lyceum of the Philippines University. The Author is a CPA-Lawyer and prior to his legal practice in the education sector, he worked in BSP-supervised financial institutions, including banks, where he developed a practical and regulatory understanding of the financial system.

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I. INTRODUCTION

In a financial system that significantly shapes economic mobility and access to opportunity, a bank's decision to approve or deny credit carries far-reaching consequences. Yet under current Philippine practice, financial institutions remain at liberty to reject credit applications without disclosing the rationale behind such denials. This silence is not only disempowering—it is legally incongruent with the fiduciary and regulatory duties that define the banking sector. At stake is not simply administrative fairness but the enforceability of legal principles requiring financial institutions to act in good faith, with transparency and accountability, in all dealings that affect consumer rights.

While statutes such as the General Banking Law,¹ the Truth in Lending Act (“TILA”),² and the Financial Products and Services Consumer Protection Act (“FPSCPA”)³ stop short of expressly mandating the disclosure of reasons for credit denial, they collectively impose a regulatory environment premised on fair, transparent, and accountable banking conduct. A bank that assesses a borrower’s credit application based on specific standards, and subsequently denies it, remains bound by the same duty of transparency that governs approved transactions. Thus, requiring disclosure of the reason for rejection is legally consistent with the bank’s obligations under statutory and jurisprudential mandates.

The absence of an express rule mandating disclosure should not be mistaken for a gap in consumer protection. Rather, it presents a judicial opportunity to clarify and affirm the obligations already inherent in financial relationships governed by fiduciary duty and public trust. This paper contends that credit denial transparency is not a matter for legislative innovation. It merely calls for judicial recognition of a right already rooted in doctrine, supported by statute, and essential to the framework of responsible lending in the Philippines.

This Essay argues that the duty to disclose reasons for credit denial is already embedded, though not expressly articulated, within the existing framework of Philippine banking law and jurisprudence. The Supreme Court has repeatedly held that banks are not ordinary private corporations but institutions imbued with public interest. As such, they are held to standards of conduct that demand not only legal compliance but fairness, good faith, and full disclosure in their dealings with the public. Decisions to deny credit, which directly affect the financial stability of applicants, fall squarely within the ambit of this fiduciary obligation.

II. THE SILENT REALITY: CREDIT DENIAL PRACTICES IN PHILIPPINE BANKING

Despite regulatory commitments to promote financial inclusion,⁴ the experience of borrowers across the country reveals a persistent gap in credit

¹ Rep. Act No. 8791 [hereinafter, “General Banking Law”] (2000).

² Rep. Act No. 3765 [hereinafter, “TILA”] (1963). Truth in Lending Act.

³ Rep. Act No. 11765 [hereinafter “FPSCPA”] (2022). Financial Products and Services Consumer Protection Act.

⁴ Defined as “[a] state in which everyone, especially the vulnerable sectors, has effective access to a wide range of financial services.” , BANGKO SENTRAL NG PILIPINAS

accessibility and transparency. According to the Bangko Sentral ng Pilipinas (BSP) National Strategy for Financial Inclusion (“NSFI”) Report for 2022 to 2028, more than half of borrowers in the Philippines source their credit from informal channels: 44% from family and friends and 10% from informal lenders.⁵ Notably, formal borrowing declined from 63% in 2017 to 56% in 2019, while informal borrowing rose from 39% to 54% in the same period.⁶ This shift underscores the growing difficulties Filipinos face in accessing credit through formal financial institutions, many of which continue to operate with opaque loan rejection practices.

This reality is not abstract. I have personally applied for credit cards and loans from both traditional banks and digital lenders. In every instance where the application was denied, I received only a standard letter of rejection—“*We regret to inform you that we cannot extend credit to you at this time*”—without any reason or explanation. These prompted me to seek out my credit score reports through services like the application *Lista*,⁷ which aggregates data from lending credit bureaus in the Philippines such as TransUnion and CIBI. While I had the financial capacity and awareness to access this information, many borrowers are left in the dark, unaware whether their denial was due to a simple documentation error, an outdated credit score, or incorrect data entirely.

This systemic silence carries consequences. A borrower denied credit without understanding why is stripped of the opportunity to correct deficiencies or seek alternative financing. Worse, when rejections are based on flawed credit data, and the applicant has no access to or knowledge of such records, the lack of disclosure locks them into a cycle of exclusion. In such cases, the failure to provide an explanation becomes more than a procedural omission; it becomes a barrier to economic mobility and a denial of fairness itself.

The legal framework surrounding credit transparency must recognize that access to information is a precondition to meaningful participation in the financial system. In an industry governed by fiduciary standards and public interest, silence is harmful. And in the face of growing

(BSP), NATIONAL STRATEGY FOR FINANCIAL INCLUSION 2022-2028 [hereinafter, “NSFI”] 1, BSP WEBSITE, at <https://www.bsp.gov.ph/Pages/InclusiveFinance/NSFI-2022-2028.pdf>.

⁵ *Id* at 5.

⁶ *Id.*

⁷ LISTA, at <https://www.lista.com.ph>.

reliance on opaque automated credit scoring and digital assessments, the need for disclosure becomes all the more urgent.

III. LEGAL FOUNDATIONS FOR CREDIT DENIAL TRANSPARENCY

A. Reconciling Bank Discretion with the Duty of Transparency

At the heart of credit denial transparency lies a tension between two legal foundations: the bank's contractual autonomy⁸ and the borrower's right to fair treatment. Banks are granted broad discretion to assess creditworthiness, select borrowers, and manage risks. The law does not impose a duty to approve loan applications, and until an offer is accepted, no perfected contract exists. The law on contracts dictates that a loan application is typically considered an invitation to offer, not an offer.⁹ Thus, the bank's silence or rejection of the invitation does not give rise to liability. Accordingly, the bank is under no obligation to provide reasons for refusal because no binding contractual relationship has been formed.

However, the issue of credit denial transparency cannot be resolved through contract law alone. A credit transaction is not merely a private agreement between parties—it is a process governed by fiduciary considerations and public interest obligations. The act of applying for a loan involves the voluntary disclosure of personal and financial information, submission of documentary requirements, and participation in a formal review process administered by a regulated institution. These interactions, even absent a perfected contract, create a legitimate expectation of fair and reasonable treatment.

True enough, a borrower has no vested right to the loan itself, but they do have a right to a fair and transparent process. Banks, by law and by the nature of their public function, are not ordinary private entities. A refusal to disclose the grounds for rejection—particularly after a borrower has complied in good faith with all documentary and procedural requirements—undermines the fiduciary duty imposed upon financial institutions by law.

⁸ *Bricktown Dev. Corp. v. Amor Tierra Dev. Corp.*, G.R. No. 112182, 239 SCRA 126, 132, Dec. 12, 1994.

⁹ *See, e.g., Swedish Match, AB v. Ct. of Appeals*, 483 Phil. 735, 751 (2004).

It is important to clarify that the recognition of a duty to explain denials is not a challenge to the autonomy of banks to determine creditworthiness and select their borrowers. It does not limit commercial discretion or interfere with internal financial policies. Rather, it imposes a baseline standard of transparency on institutions that act as gatekeepers to economic opportunity. This minimal duty to inform the applicant why their access has been denied is not inconsistent with discretion; it is what gives it legal and ethical legitimacy.

In this context, the borrower's expectation to be informed is not contractual but normative, grounded in both the law's treatment of banks and the policy commitment to financial inclusion. Denial of access without explanation is not simply silence; it is institutional opacity in a sector where public confidence is essential.

In the end, the distinction lies in the nature of the discretion being exercised. The bank's commercial judgment—whether to approve or deny a loan—remains intact and protected.

B. Doctrinal Basis

The Supreme Court has long held that banks are institutions imbued with public interest, subject to obligations that transcend those imposed on ordinary private entities. The fiduciary character of banking, consistently affirmed in jurisprudence, creates a heightened duty of care, fairness, and transparency in all transactions materially affecting clients. Within this framework, the failure to disclose the reason for a credit denial becomes a legal breach.

The General Banking Law of 2000 codifies this fiduciary nature of banks in Section 2:

The State recognizes the vital role of banks in providing an environment conducive to sustained economic development and the fiduciary nature of banking that requires high standards of integrity and performance. In furtherance thereof, the State shall promote and maintain a stable and efficient banking and financial system that is globally competitive, dynamic and responsive to the demands of a developing economy.¹⁰

¹⁰ General Banking Law, § 2.

This policy is the statutory basis for holding banks to the highest level of public accountability in their dealings. When a bank assesses a credit application and denies it based on internal criteria, its decision—though commercially discretionary—is nonetheless an act that must be exercised within the boundaries of fairness and transparency. The rationale for rejection, having a direct impact on an applicant’s financial access and creditworthiness, cannot be withheld without violating the bank’s fiduciary duties.

In *Westmont Bank v. Dela Rosa-Ramos*,¹¹ the Court stated that “public interest is intimately carved into the banking industry because the primordial concern here is the trust and confidence of the public.”¹² This fiduciary nature of every bank’s relationship with its clients or depositors impels it to exercise the highest degree of care, definitely more than that of the standard diligence required under the law.¹³ This declaration affirms the principle that public accountability is not suspended at the credit application stage. Rather, it is precisely at this point that the obligation to act with transparency is most critical. A decision to deny credit, if left unexplained, contradicts the Court’s directive that banks be fair and forthright in all financial dealings.

This is further reinforced in *Metropolitan Bank and Trust Company v. Cruz*,¹⁴ where the Court emphasized that the banking business is “greatly imbued with public interest,”¹⁵ reinforcing the obligation of banks to treat their clients’ accounts with utmost care and fidelity—not merely because the law demands it, but because the very nature of banking, as a public trust, requires it. The rationale is simple yet profound: banking institutions hold disproportionate power over individual financial destinies, and the exercise of that power must be subject to judicially recognizable standards of fairness. A credit denial left unexplained is thus an act of opacity in an industry that the Court has declared must operate in light.

In the recent case of *Premiere Development Bank v. Spouses Castañeda*,¹⁶ the Supreme Court then again held that “the General Banking Law of 2000 provides that the State recognizes the fiduciary nature of banking that requires high standards of integrity and performance.”¹⁷ This duty exists not

¹¹ G.R. No. 160260, 684 SCRA 429, Oct. 24, 2012.

¹² *Id.* at 437.

¹³ *Id.*

¹⁴ G.R. No. 221220, 969 SCRA 395, Jan. 19, 2021.

¹⁵ *Id.* at 407.

¹⁶ G.R. No. 185110, slip op., Aug. 19, 2024.

¹⁷ *Id.* slip op. at 18.

only with regard to deposits but also as to other business dealings and services of the bank. Here, the unreasonable refusal of PDB to apply the 2.6 million pesos check as full payment to the subject loan, was held by the Court to be an act in bad faith.¹⁸ According to the Court, creditors cannot unreasonably refuse to accept payment, especially if higher interest fees and other charges will prejudice debtors.¹⁹ This reinforces the principle that banks cannot arbitrarily deny financial transactions without justification.

The recent decision is instructive: when a bank's financial decision causes detriment to a consumer and lacks valid justification, it falls within the scope of judicial correction. While the denial of credit lies within the bank's discretion, this discretion must be exercised in accordance with its fiduciary obligations. Failing to disclose the reason for rejection risks violating the same standard of fair and reasonable conduct articulated in *Castañeda*.

As early as 1990, in *Simex International (Manila) Inc. v. Court of Appeals*,²⁰ the Court underscored the obligation of banks to treat their clients' accounts with utmost care and fidelity, reinforcing the need for fair and honest dealings.²¹ This ruling is particularly significant because it highlights that transparency has never been and never will be an optional policy—it is a fundamental requirement in financial transactions. This jurisprudential thread runs throughout modern banking law: that the legitimacy of the banking system depends on the perceived fairness and openness of its operations.

In *Ursal v. Court of Appeals*,²² the Supreme Court held that where the mortgagee is a bank, it cannot rely merely on the certificate of title offered by the mortgagor in ascertaining the status of mortgaged properties.²³ Since its business is impressed with public interest, the mortgagee-bank is duty-bound to be more cautious even in dealing with registered lands.²⁴ Although the case dealt with a mortgage transaction, the doctrinal reasoning is instructive: if heightened diligence is required in verifying the sufficiency of collateral, then the same level of care must apply to the bank's assessment of credit applications, including the decision to deny them. Prudence in lending

¹⁸ *Id.* slip op. at 11–12.

¹⁹ *Id.* slip op. at 18.

²⁰ G.R. No. 88013, 183 SCRA 360, Mar. 19, 1990.

²¹ *Id.* at 367.

²² G.R. No. 142411, 473 SCRA 52, Oct. 14, 2005.

²³ *Id.* at 63–64.

²⁴ *Id.* at 63.

does not end at the point of credit approval—it must also be observed at the point of credit evaluation, where the financial rights and opportunities of applicants are equally at stake.

Across these decisions, a clear doctrinal pattern emerges. The Supreme Court has consistently required banks to act with fairness, diligence, and transparency in all dealings that materially affect clients' financial interests. There is no principled basis to exempt credit denials from this obligation. If banks are judicially mandated to disclose and explain actions related to mortgages and deposits, then logic and doctrine demand that they likewise disclose the basis of rejections to credit applicants. To withhold such explanation is to act contrary to the transparency required by the Court's all-encompassing and uncompromising interpretation of banks' fiduciary character.

The Supreme Court has never directly ruled on whether banks are legally required to explain credit denials. However, the absence of an explicit pronouncement does not mean the absence of legal basis. On the contrary, existing jurisprudence supplies more than enough foundation for such a duty to be recognized. The Court has already affirmed the need for disclosure, fairness, and accountability in banking transactions that impact financial consumer rights. A doctrine that compels disclosure of credit rejection grounds is not an extension of these rulings—it is their natural consequence.

C. Statutory and Regulatory Foundations

The duty to disclose the reasons for credit denial, while not explicitly enumerated in a singular statutory provision, can be inferred from the Philippine legal framework governing banking conduct, financial consumer protection, and responsible lending. The prevailing legal framework—consisting of the General Banking Law of 2000, the TILA, the FPSCPA, and regulatory issuances of the BSP—establishes not only the authority of financial institutions to evaluate creditworthiness, but also imposes the corresponding duty to act with transparency, fairness, and accountability. A denial of credit, like its approval, is a material financial transaction that triggers these statutory obligations.

1. General Banking Law: Due Diligence and Public Accountability

Under Section 40 of the General Banking Law, banks are required to conduct a proper credit evaluation before granting a credit. This provision mandates the collection and assessment of financial statements, asset

declarations, and other information to determine a borrower's capacity to repay.²⁵ The law recognizes that credit decisions must be grounded in verifiable data and reasoned evaluation. If the bank is under a legal obligation to conduct a thorough assessment, it necessarily follows that the result of such assessment must be disclosed to the applicant, more so when it is adverse.

The obligation of banks to conduct due diligence in evaluating credit applications establishes that lending decisions are based on factual assessments. The legal recognition of these stringent documentation requirements establishes that once an applicant submits the necessary financial documents, they have a legitimate expectation that their application will be assessed based on their financial capability. This expectation is not a demand for credit approval but rather an assurance that the bank will conduct its credit evaluation in a fair, reasoned, and transparent manner. If a credit is denied, the borrower has the right to understand why, particularly when the bank is relying on the borrower's own financial disclosures to make its decision.

Thus, transparency in credit denials is not an additional burden on banks. It is a necessary extension of their duty to evaluate credit applications in good faith, conduct due diligence, and maintain fair lending standards. A non-transparent denial process contradicts the very principles of responsible banking and financial accountability that the General Banking Law seeks to uphold.

The rationale is inescapable: if the process leading to a credit decision is subject to regulation, then the outcome of that process cannot be shielded by opacity. The failure to disclose reasons for credit denial undermines the very objectives of Section 40 by allowing banks to obscure how they applied their evaluation criteria. Transparency in rejection decisions becomes a legal necessity to ensure that banks' exercise of discretion is not arbitrary, discriminatory, or inconsistent with their public interest role.

2. The Truth in Lending Act: Full Disclosure as a Statutory Norm

The TILA enshrines the principle of full disclosure in all credit transactions. It mandates that borrowers must be fully informed of the true cost of credit, including interest rates, finance charges, and repayment

²⁵ General Banking Law, § 40.

terms.²⁶ While the law is traditionally applied to consummated credit agreements, its broader policy objective is to prevent the uninformed use of credit and to enable borrowers to make rational financial choices.²⁷

A denial of credit, particularly those without explanation, is as impactful as the grant of credit, if not more so. An applicant who is refused credit without understanding why is deprived of the ability to adjust financial behavior or correct documentation. Thus, if transparency is mandated when credits are approved, logic and legislative intent demand that transparency likewise apply when credits are denied. The duty to disclose in rejections is the doctrinal counterpart of the duty to disclose in acceptances.

The purpose of the TILA is not fulfilled if borrowers are informed only when credit is extended, but kept in the dark when it is withheld. This incomplete application of disclosure subverts the law's consumer protection goal and leaves a gap in its implementation. Recognizing credit denial transparency as falling within the same statutory norm ensures consistency in policy.

3. Financial Products and Services Consumer Protection Act: Enshrining Fair Treatment and Transparency

The FPSCPA represents the most comprehensive expression of the State's policy on financial consumer protection.²⁸ It imposes explicit duties upon financial institutions to adhere to the principles of fair treatment,

²⁶ TILA, § 4.

²⁷ § 2. The TILA declares that the State's policy is "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."

²⁸ FPSCPA, § 2. *Declaration of Policy*. - It is the policy of the State to ensure that appropriate mechanisms are in place *to protect the interest of the consumers of financial products and services under the conditions of transparency, fair and sound market conduct, and fair, reasonable, and effective handling of financial consumer disputes, which are aligned with global best practices*. These mechanisms reinforce their confidence in the financial market and foster the stability of the Philippine financial system. Towards this end, the State shall implement measures to protect the following rights of financial consumers:

- (a) Right to equitable and fair treatment;
 - (b) Right to disclosure and transparency of financial products and services;
 - (c) Right to protection of consumer assets against fraud and misuse;
 - (d) Right to data privacy and protection; and
 - (e) Right to timely handling and redress of complaints.
- (Emphasis supplied).

disclosure and transparency, protection against unfair practices, and effective recourse mechanisms. Section 8(c) declares that financial consumers must possess a reasonable and comprehensive understanding of the financial products and services they interact with²⁹—a mandate that necessarily includes understanding the reason for a denial of access to such products.

Section 8(d) likewise prohibits discriminatory practices in financial services and compels institutions to apply consistent, fair, and non-arbitrary criteria in evaluating applications.³⁰ Yet, in the absence of credit denial transparency, there is no way for consumers—or regulators—to evaluate whether the rejection of a credit application was justifiable, discriminatory, or flawed. Thus, nondisclosure creates an accountability vacuum that contradicts both the spirit and the letter of the FPSCPA.

Moreover, the implementing rules issued by the BSP under Circular No. 1160-2022 reinforce the need for transparent and fair treatment of financial consumers. The regulation mandates that financial institutions establish consumer assistance mechanisms and engage in fair, timely, and honest communication with clients. Failing to inform a consumer why their application was denied is, by these standards, a breach of regulatory duty.³¹

The rights of financial consumers enshrined under the FPSCPA and its implementing rules are incompatible with silent rejection. True financial consumer protection demands that transparency be upheld not only when convenient for banks, but also when it serves the best interests of borrowers and the integrity of the financial system. If consumers are to make informed decisions about improving their financial status or choosing alternative financial options, they must be informed of the basis of rejection. In this way, the duty to disclose in credit denials becomes a necessary element of financial empowerment and regulatory integrity.

²⁹ § 8(c). *Transparency, Disclosure, and responsible Pricing*. – Financial service providers must ensure that they adopt disclosure principles in their communications and their contracts with financial consumers, including the use of clear and concise language to ensure that all information concerning the financial product or service is understood by the target clients. This shall also include updated and accurate disclosure of information such as pricing or any cost associated with the product or service, and should be made in a consistent manner to facilitate a comparison between similar financial products or services across the industry.

³⁰ § 8(d).

³¹ BSP Circ. No. 1160 (2022), § 1, *amending* Part Ten, § 1003 of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). The amendment provides that financial consumers “should be provided with accessible, independent, fair, accountable, timely, and efficient means for resolving concerns, inquiries and requests about their financial transactions.”

4. *Credit Information System Act: A Statutory Step Toward Transparency*

The enactment of the Credit Information System Act (“CISA”)³² in 2008 marked a critical shift toward institutionalizing transparency and fairness in credit-related transactions. The law established a centralized credit information system designed to collect, consolidate, and disseminate accurate, fair, and reliable credit data across all entities engaged in financial services. Its primary purpose is to address the systemic need for dependable credit assessments, improve risk evaluation, and strengthen overall financial stability through informed lending practices.³³

Among the rights granted to data subjects under the CISA is the right to be informed of the reasons for the refusal of credit applications, but only where such refusal is based on basic credit data sourced from the centralized credit database.³⁴ In this context, the law reflects an important recognition that the borrower’s right to explanation—specifically, to understand the basis of denial—has legal weight when credit data is involved.

However, the protective reach of this provision is limited. When the credit denial stems from grounds outside of basic credit data (e.g., internal risk criteria, subjective profiling, or undisclosed evaluation metrics), the borrower is left without any enforceable right to explanation. Moreover, the law’s implementing rules by the Credit Information Corporation (CIC) do not provide comprehensive procedures to compel disclosure in such scenarios. The CIC’s role is primarily confined to correcting inaccuracies within the credit report itself; it does not extend to adjudicating or clarifying non-credit-data-based credit denials.

³² Rep. Act No. 9510 [hereinafter, “CISA”] (2008). Credit Information System Act.

³³ CISA, § 2. *Declaration of Policy*. - The State recognizes the need to establish a comprehensive and centralized credit information system for the collection and dissemination of fair and accurate information relevant to, or arising from, credit and credit-related activities of all entities participating in the financial system. A credit information system will directly address the need for reliable credit information concerning the credit standing and track record of borrowers.

³⁴ CISA, § 4. *Establishment of the Credit Information System*. - In furtherance of the policy set forth in Section 2 of this Act, a credit information system is hereby established.

* * *

(n) The borrower has the right to know the causes of refusal of the application for credit facilities or services from a financial institution that uses basic credit data as basis or ground for such a refusal.

Despite these limitations, the inclusion of a disclosure right under the CISA is doctrinally significant. It affirms, even if in a constrained manner, the principle that borrowers have a legal interest in understanding the reasons for financial exclusion. It implicitly recognizes that credit decisions—especially adverse ones—must be justifiable, particularly when they affect a borrower’s access to the formal financial system. The challenge is that the law stops short of generalizing this right across all types of credit decisions, thereby maintaining a bifurcated framework in which some borrowers benefit from transparency while others remain in the dark.

For this reason, CISA should be seen not as a comprehensive solution, but as an early legislative acknowledgment of the need for credit denial transparency. It sets the doctrinal groundwork upon which broader obligations can be inferred and judicially articulated. A legal framework that protects only some borrowers in limited cases of data-based refusals, while allowing arbitrary denials elsewhere, is both incomplete and conceptually inconsistent. The duty to disclose must be harmonized across all forms of credit evaluation—credit data-based or otherwise—if the law is to fulfill its promise of fairness, reliability, and transparency in the financial system.

5. Regulatory Oversight by the Bangko Sentral ng Pilipinas: Implementing Fair Lending Standards

The BSP, as the principal regulator of financial institutions, is tasked with ensuring the stability, integrity, and fairness of the banking sector. Through various regulations on credit risk management, consumer protection, and financial inclusion, the BSP has consistently emphasized transparency and accountability. While current rules do not explicitly mandate the disclosure of credit denial reasons, BSP policies on fair dealing and financial literacy imply that transparency must accompany all material credit decisions.

One of the four key outcomes of the NSFI for 2022 to 2028 is the creation of financially capable and empowered consumers. Simply expanding access to financial services does not guarantee improved financial well-being. Consumers must be knowledgeable, confident, and capable of making informed financial decisions. They should be able to use financial services effectively, recognize products that best meet their needs, and seek resolution if they encounter unfair practices. An informed consumer base also fosters better market conduct, encouraging financial institutions to provide more ethical, consumer-centric services, which in turn reinforces financial inclusion as a sustainable cycle. To achieve this, one of the NSFI’s strategic

objectives is to enhance financial literacy and strengthen consumer protection mechanisms.

Financial inclusion is achieved when all individuals, particularly those in vulnerable sectors, have effective access to a broad range of financial services. This ensures that financial products and services are appropriately designed, of high quality, and responsive to the diverse needs of individuals and businesses. Whether for savings, payments, credit, investments, or insurance—financial inclusion should ultimately enhance users' financial well-being rather than merely expanding access.³⁵

However, financial inclusion extends beyond mere transparency. A key performance indicator of financial inclusion under the NSFI is the percentage of financial consumers who experience issues in financial transactions and successfully seek resolution.³⁶ The principle of Effective Recourse is central to financial consumer protection. Borrowers must not only be informed of financial decisions that affect them but must also have access to fair, independent, and efficient mechanisms to challenge or address these decisions.³⁷

As such, financial service providers are already required to establish complaint resolution mechanisms, including a Financial Consumer Protection Assistance Mechanism to handle consumer concerns. Similarly, the CISA provides mechanisms for disputing erroneous, incomplete, or misleading credit information.³⁸ Just as these laws recognize the importance of transparency in handling consumer complaints, transparency in credit denials should be recognized as a necessary financial consumer right. It is not enough that borrowers are informed only after an issue arises—they must be equipped with clear and actionable information from the outset of the lending process.

At this point, it is critical to emphasize that financial inclusion does not guarantee loan approvals. Rather, it ensures that individuals have meaningful access to fair and transparent financial services. Financial inclusion is about creating a system where borrowers are informed, empowered, and given opportunities to improve their financial standing. Without clear disclosure in credit denials, many potential borrowers are left

³⁵ NSFI, *supra* note 4, at 2.

³⁶ *Id.* at 37.

³⁷ BSP Circ. No. 1160 (2022), § 1.

³⁸ CISA, § 4(o).

excluded from financial opportunities, unable to improve their creditworthiness, and ultimately left without effective recourse.

Therefore, while transparency in credit denials is an important first step, it must be accompanied by accessible recourse mechanisms that allow borrowers to challenge or clarify the basis of their rejection. A truly inclusive financial system does not merely open doors to approved borrowers—it ensures that all financial consumers are given the tools, knowledge, and opportunities to navigate the credit system effectively and fairly.

Together, these legal instruments form a coherent framework in which the right to know why one has been denied credit is not a matter of institutional discretion but of legal compliance. The absence of an express rule does not equate to the absence of a right. In light of prevailing doctrines and policy directives, the failure to provide credit denial explanations constitutes a breach of what the law already expects.

IV. CREDIT DENIAL TRANSPARENCY AS STATE POLICY AND JUDICIAL DUTY

A. The Policy Imperative: Credit Denial Transparency as a Mechanism of Legal Accountability

The call for transparency in credit denials is not merely a policy recommendation but a demand grounded in legal necessity. A financial system governed by fiduciary duty, statutory consumer protection, and public interest cannot condone opacity in the very decisions that determine who gains or is denied access to economic opportunity. After all, denial of a credit is not a neutral, private decision, but a consequential exercise of delegated financial authority by institutions that are legally obligated to act with fairness and transparency. In this light, the institutionalization of credit denial transparency is both a policy imperative and a legal corollary.

1. Correcting the Asymmetry of Power in Credit Decision-Making

In a typical credit transaction, the borrower operates from a position of information disadvantage. Financial institutions hold exclusive access to the internal credit standards and risk metrics that govern credit approvals. When these standards are invoked to reject an application without explanation, the borrower is left with no means to understand, question, or

improve. This asymmetry is incompatible with a legal framework that imposes fiduciary obligations on banks and requires fair treatment.

The law does not prohibit discretion in credit decisions, but it does prohibit unaccountable discretion. Credit denial transparency is the legal mechanism by which that discretion is made subject to scrutiny, consistency, and fairness. Requiring banks to provide the reason for rejection restores a measure of balance to the credit relationship and reinforces the principle that financial institutions are not immune from accountability simply because there is no perfected contract yet. *The fiduciary duty of banks precedes the existence of contractual ties.*

2. Operationalizing the Principles of Financial Literacy and Inclusion

Financial inclusion is a policy priority of the Philippine government, and it finds legal expression in various national frameworks, including the FPSCPA and the BSP's NSFI for 2022 to 2028. However, inclusion cannot be reduced to statistics on account openings or credit approvals. Genuine financial inclusion requires the ability to understand, participate in, and navigate the financial system, particularly when access is denied.

Credit denial transparency thus functions as a legal expression of financial literacy. It provides borrowers with concrete, actionable information regarding their financial standing. In doing so, it transforms a rejected credit from a closed door into an opportunity for correction, learning, and future access. Without this feedback mechanism, borrowers are left to operate in the dark, undermining both their individual empowerment and the credibility of the system that excludes them without explanation.

The concept of Effective Recourse under the FPSCPA presupposes that the consumer knows what has occurred. A borrower who receives no reason for a rejection cannot contest, seek redress, or even self-correct. Transparency, therefore, is the precondition to all other rights granted under financial consumer protection laws.

3. Preserving the Integrity of Lending Standards

Another danger in nondisclosure is the erosion of fair and objective lending criteria. When financial institutions are permitted to deny credit without explanation, there is no external check on whether their assessments are applied consistently or equitably. Discretion, though recognized by law,

becomes vulnerable to arbitrariness or abuse when it is insulated from justification.

Credit denial transparency does not interfere with a bank's right to assess risk. On the contrary, it fortifies that right by ensuring that the exercise of discretion is grounded in documented, defensible, and replicable criteria. A lender who knows its decision may be subject to disclosure is incentivized to maintain internal fairness, apply credit policies consistently, and avoid discriminatory or unreasonable exclusions.

This aligns with the long-standing legal principle that public interest entities must not only act lawfully but be perceived as acting fairly. The trust reposed in banks demands not only good decisions but explainable ones. Thus, disclosure operates as a necessary ethical and legal safeguard.

4. Enabling Borrowers to Act on Legal and Financial Consequences

A credit denial affects not only the applicant's financial aspirations but also their legal standing, including future credit scores, eligibility for other forms of financing, and relationships with third-party creditors. It may even affect their status in employment, housing, or commercial transactions where credit history is material. Given this impact, the borrower is entitled to know the factual basis for such a determination.

The law recognizes this form of notice in many other contexts. In tax assessments, license revocations, and even employment terminations, the affected party is given the reason. That the same principle does not apply in one of the most consequential areas of economic decision-making is a contradiction that demands rectification.

The lack of transparency frustrates the borrower's ability to challenge erroneous or unjust decisions. It also prevents any meaningful engagement with institutions like the BSP, the CIC, or financial mediation bodies that require baseline facts to process a complaint. The right to explanation is not merely practical but should be viewed as a component of legal redress.

Credit denial transparency has often been framed as a policy innovation waiting to be legislated. This paper contends otherwise: *it is rather a legal obligation already embedded in the duties that banks owe to the public.* The statutory mandates on equitable and fair treatment, disclosure, and financial

inclusivity are incomplete without this final piece: transparency in the moment when access is denied.

From a legal standpoint, the continued practice of silent rejections represents not just a regulatory gap but a normative failure to enforce existing obligations. Institutionalizing credit denial transparency is not about imposing a new burden on banks—it is about requiring them to comply with the standards they are already sworn to uphold. It is about bringing coherence to a legal system that demands fairness in theory and must now demand it in fact.

B. Judicial Recognition, Not Judicial Legislation: Completing the Law Through Doctrinal Fidelity

A potential critique of credit denial transparency as a legally enforceable duty is that its recognition by the judiciary, in the absence of explicit statutory language, risks crossing the line into judicial legislation. While this concern deserves respect, it misunderstands the role of courts in a legal system rooted in justice, accountability, and doctrinal coherence. The judiciary does not legislate when it interprets law in ways that respond to evolving social realities—it fulfills its constitutional function.

In *Amarille v. People*,³⁹ citing Justice Bocobo’s concurring opinion in *People v. Macbul*,⁴⁰ the Court affirmed that while statutory text remains unchanged, its interpretation must evolve with time:

Considering that social conditions often unfold faster than legislation, it is a salutary function of the courts so to formulate their interpretation of old laws as to adjust them to contemporary exigencies of the public weal. This is not judicial legislation at all because the lawmakers intended that the law which they approved should govern for many years to come, and that therefore it should be interpreted by the courts in such a way as to meet new problems, provided the fundamental objectives of the law are distinctly kept in view.⁴¹

The Court has repeatedly exercised its power to construe laws beyond their literal terms when doing so preserves fairness and fulfills the

³⁹ [Hereinafter, “*Amarille*”] 945 Phil. 287 (2023).

⁴⁰ 74 Phil. 436, 442–43 (1943).

⁴¹ *Amarille*, 945 Phil. at 317–18.

law's purpose. In *Province of Camarines Sur v. COA*,⁴² citing *DENR v. United Planners*,⁴³ the Court reiterated the doctrine of necessary implication. Since legislators cannot foresee possible future events, the rules of statutory construction provide an aid:

Every statute is understood, by implication, to contain all such provisions as may be necessary to effectuate its object and purpose, or to make effective rights, powers, privileges or jurisdiction which it grants, including all such collateral and subsidiary consequences as may be fairly and logically inferred from its terms. *Ex necessitate legis*. And every statutory grant of power, right or privilege is deemed to include all incidental power, right or privilege.⁴⁴

The landmark ruling in *Oposa v. Factoran*⁴⁵ offered a similar illustration. There, the Court gave doctrinal form to intergenerational responsibility for environmental protection—despite its absence from explicit constitutional text—emphasizing that some rights “need not even be written” to be enforceable, so long as they are rooted in justice and the preservation of public good.⁴⁶

Most recently, in *Tan-Andal v. Andal*,⁴⁷ the Supreme Court, in interpreting Article 36 of the Civil Code, held that “[p]sychological incapacity is neither a mental incapacity nor a personality disorder that must be proven through expert opinion.”⁴⁸ Likewise, it need not be incurable in the medical sense, as the Court previously held, but in the legal sense, i.e., in relation to a specific partner.⁴⁹ While the legislators’ intent behind Article 36 may be unclear, the Court stated that it should nevertheless interpret the law according to the following principles under the Civil Code: that “[n]o judge or court shall decline to render judgment by reason of the silence, obscurity or insufficiency of the laws” and that “[i]n case of doubt in the interpretation or application of laws, it is presumed that the lawmaking body intended right and justice to prevail.”⁵⁰

⁴² G.R. No. 227926, 935 SCRA 126, Mar. 10, 2020.

⁴³ 754 Phil. 513, 530, *citing* *Atienza v. Villarosa*, 497 Phil. 689, 702–03 (2005).

⁴⁴ *Province of Camarines Sur v. Comm’n on Audit*, 935 SCRA 126, 149–150.

⁴⁵ G.R. No. 101083, 224 SCRA 792, July 30, 1993.

⁴⁶ *Id.* at 804–05.

⁴⁷ 902 Phil. 558 (2021).

⁴⁸ *Id.* at 597.

⁴⁹ *Id.* at 599–600.

⁵⁰ *Id.* at 640.

These rulings share a common thread: the Court does not create new duties. It unearths them where they logically and necessarily follow from existing statutes, policy objectives, and principles of justice. The same reasoning applies to credit denial transparency. Banks are already bound by fiduciary duties under the General Banking Law, disclosure obligations under the TILA, and fair treatment mandates under the FPSCPA. The duty to inform borrowers of loan rejection is not an added burden but a natural consequence of these statutory standards.

Recognizing this duty does not expand judicial power. Instead, it calls upon the Court to apply existing norms to a glaring regulatory omission. A bank's refusal to explain a credit denial, though legally permissible under contract law, may nonetheless breach its fiduciary obligation to act fairly and transparently in financial dealings.

In this space, where institutional discretion intersects with public interest, the Court not only has the power, but the responsibility, to speak where the law is silent. The judiciary does just not fill a void but gives meaning to a duty already embedded in existing banking laws.

V. CONCLUSION

The absence of a legal mandate requiring financial institutions to disclose the reasons for credit denials is not a sign of doctrinal deficiency. Rather, it reflects a failure to give full effect to the fiduciary, statutory, and regulatory obligations that banks already carry. This paper has demonstrated that credit denial transparency finds much legal basis, and is thus a right merely awaiting formal recognition. The principles that justify it have already been spoken by the legislature, reiterated by regulators, and declared in doctrine by the Supreme Court. What remains is the institutional will to give them voice in this specific and long-overlooked area of financial accountability.

The Supreme Court has repeatedly recognized that banks are not ordinary corporations but entities imbued with public interest. They are subject to the highest standards of diligence, integrity, and transparency. Yet without the obligation to explain rejections, banks are permitted to exercise a consequential form of discretion without the minimal burden of justification. This undermines the very trust that banking law seeks to protect.

This moment invites the Court to complete the doctrinal arc it has long been writing. The duty to disclose the basis of adverse financial decisions flows from the same principles that require full disclosure in credit terms and charges, mortgage contracts, credit card billing, and foreclosure procedures. The law should not abandon transparency precisely where its absence can inflict the greatest harm: at the moment of exclusion from the financial system.

The BSP, as the steward of financial stability and inclusion, has also declared transparency, fair treatment, and consumer empowerment as national policies. Yet that commitment remains incomplete unless it reaches the point where a borrower is denied access. To disclose why a credit is rejected is to uphold the very consumer rights that the BSP and Congress have pledged to protect. To remain silent is to render those financial consumer rights illusory. Indeed, a legal system committed to equity must reject the idea that borrowers can be denied access to credit—often the foundation of entrepreneurship, education, or survival—without even knowing why. Such is not just inefficient; it is unjust.

Thus, this paper’s call is not for judicial innovation, but for judicial integrity. The obligation to disclose credit denial reasons already exists in the architecture of Philippine banking law. Judicial recognition of credit denial transparency as an imputed legal duty would not expand jurisprudence; it would fulfill it. And when courts interpret these laws in light of their purpose, when they refuse to allow silence to defeat fairness, they do not legislate; they do their duty.

The right to financial transparency must not end when the credit is denied. That is where it must begin.