



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 426
Series of 2004

Pursuant to Monetary Board Resolution No. 63 dated January 22, 2004 approving the extension of the Countryside Financial Institutions Enhancement Program (CFIEP), the following provisions of Appendix 16 of the Manual of Regulations for Banks pertaining to Subsec. 2274 and 3274 are amended as follows:

1. Section 2 of Appendix 16 of the Manual is hereby amended to read as follows:

"Section 2. Qualified Participants

The Program shall be open to the following:

2.1 *All Countryside Financial Institutions (CFIs) that meet the eligibility requirement set by the Bangko Sentral ng Pilipinas (BSP) except those with unrectified/unaddressed serious irregularities based on the examination findings of the Bangko Sentral ng Pilipinas (BSP).*

The term Countryside Financial Institutions shall refer to all rural banks, cooperative banks and thrift banks, which have their main operations in the countryside."

2. Section 3 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 3. Coverage of the Program

All past due borrowings (principal and interests) with the BSP of the countryside financial institutions as of December 31, 2001 in the form of rediscounted loans, CB:IBRD loans other supervised credit program and special liquidity loans."

3. Section 4 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

MAG-IMPOK SA BANGKO



"Section 4. CFIEP Task Force

To effectively attain the objectives hereinabove cited, the Task Force constituted under CBP Circular 1315 composed of the Governor of the Bangko Sentral ng Pilipinas, the President of the Land Bank of the Philippines, the President of the Philippine Deposit Insurance Corporation, shall continue coordinating all activities relating to, and oversee the implementation of the CFIEP."

4. Section 5 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 5. Incentives under the Program

As the Task Force may allow, participants to the Program are entitled to the following incentives:

- 5.1 Exemption from the 40% limitation of voting stockholdings of any person or persons related to each other within the third degree of consanguinity or affinity, cooperatives, or corporations participating in the program, from the application of prescribed equity ceiling, as may be warranted, and for a period not to exceed twenty (20) years; and*
- 5.2 Waiver of penalties and other charges due on arrearages that may be redeemed under the Program."*

5. Section 6 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 6. Definition of Terms

As used in these Guidelines:

- 6.1 Investor – shall refer to individuals, group of individuals, cooperative and all countryside financial institutions (CFI's) that meet the eligibility requirements set by the Bangko Sentral ng Pilipinas (BSP) except those CFIs with unrectified/uncorrected serious irregularities based on the examination findings of the BSP.*
- 6.2 Arrearages – shall refer to the CFIs' arrearages with BSP as of December 31, 2001 which are eligible for buy-back such as past due rediscounted loans, special liquidity loans, CBP-IBRD loans and other supervised credit programs, including those other arrearages as the Task Force may determine."*

6. Section 7 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 7. Components of the Program

The components of the program are as follows:

7.1 Purchase of CFI Arrearages (Module I)

The investor/CFI stockholders' equity infusion with the countryside financial institution shall be used to purchase negotiable promissory notes (NPNs) with the LBP valued at twice the amount actually infused by the investor. The NPNs, in turn, will be used to redeem arrearages with the BSP through the PDIC. The investor/CFI stockholders will then be issued shares of stock in the countryside financial institution equivalent to the actual amount invested and the difference between the amount actually infused and the value of the NPN issued by the LBP shall be credited to the investors which actually infused the capital.

7.2 Land Bank Counterpart Capital (Module II)

An eligible countryside financial institution is provided access to LBP's capital infusion program which essentially involves the matching on a one-to-one basis of countryside financial institution's fresh capital infusion. The LBP's matching equity shall be in preferred shares redeemable within a period of 5 years for Business and Risk Recovery Modules, and 10 years for the Developmental Module. The cumulative dividend shall be equal to the average 364-day T-Bill rate for the Developmental and Risk Recovery Modules, and 364-day T-bill plus 3% for the Business Module. Other terms of LBP's investment will be determined by its Board and operational details will be announced to the CFIs accordingly.

7.3 Merger, Consolidation or Acquisition Incentives (Module III)

Eligible countryside financial institutions can avail of incentives aimed at promoting mergers, consolidations or acquisitions among CFIs as a means to develop larger and stronger CFIs which may include the following:

- a. Counterpart capital infusion by the LBP by a ratio of more than one-to-one of the merged, consolidated or acquired CFI's total fresh equity;*
- b. PDIC financial assistance to qualified merger, consolidation or acquisition applicants to augment the capital infusion required in absorbing the adverse impact of asset write-downs and*

other costs as part of restructuring. The merger, consolidation or acquisition must involve a lead bank (with strong capital position and good track record) acquiring a majority stock of one or more undercapitalized CFI. The amount of financial assistance shall be an amount that would generate income spread to the surviving or consolidated CFI equivalent to 50% of the undercapitalized CFI's eligible non-performing loans and ROPOA or unbooked valuation reserves as of December 31, 2001, whichever is higher, over a period of six years as determined by the BSP;

- c. CFIs availing of the financial assistance shall submit, among others, a business plan supported by a six-year financial projections; and*
- d. The term of the loan shall be for a period of at least six (6) years."*

7. Section 8 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 8. Qualification to the Program

CFIs, except those with unrectified/ uncorrected serious irregularities based on the examination findings of the BSP, may participate in the Program.

8.1 Under Module I, countryside financial institutions with arrearages as defined in Section 6.2 hereof may qualify.

8.2 To avail of equity matching program of the LBP under Module II, the Countryside Financial Institution must meet the following minimum requirements:

- a. A past due loan ratio of not more than 25%; and*
- b. A loan portfolio at least 60% of which is in agriculture or rural-based production activities*

8.3 Under Module III, PDIC financial assistance shall be available to merging, consolidating or acquiring CFIs involving at least one or more undercapitalized banks.

A separate memorandum shall be issued on the guidelines for the LBP equity matching program and PDIC financial assistance.

- 8.4 *Investors/CFI stockholders will be evaluated based on the "fit and proper" rule under BSP Circular 296 dated September 17, 2001 and other criteria that the Task Force may set.*

CFIs investing in undercapitalized CFIs should have a minimum unimpaired capital as defined under Sections X106 and X116 of MORB as amended by Circular 280 dated March 29, 2001 and a history of sustained profitability for a period of at least five (5) years.

- 8.5 *Fresh investments should at least cover the additional capital to achieve the required minimum Risk-Based Capital Adequacy ratio of 10% after adequate provision for losses based on the latest examination findings of the SES department concerned."*

8. Section 9 of Appendix 16 of the Manual of Regulations is hereby amended to read as follows:

"Section 9. Application Procedures

9.1 Purchase of Arrearages Under Module I

- a. *Investor/CFI stockholder files application (CFIEP Form No. 1-A) with the LBP together with the following requirements:*
 - (1) *a proposal for financial strengthening accompanied by a three-year financial projection and a subsequent two-year business plan.*
 - (2) *the designation of PDIC by the CFI as the attorney-in-fact to receive the NPN from LBP and to exchange the NPN for arrearages of the CFI.*
 - (3) *other requirements as the Task Force may deem necessary.*
- b. *Simultaneously, the investor/CFI stockholders deposits cash with the LBP in an amount equivalent to 50% of the arrearages to be redeemed, which shall be placed in a special account pending approval of application by the Task Force.*
- c. *Upon approval of the application, the CFI shall be duly notified by the Task Force directly or through the LBP Regional Office.*
- d. *The LBP shall issue a Negotiable Promissory Note in favor of the CFI, with a ten-year term or such period where a maturity value will be equivalent to twice the amount invested.*

- e. *The CFI, through the PDIC as attorney-in-fact, shall exchange the NPN for the CFI arrearages equivalent to the amount of the NPN.*
- f. *The CFI shall issue stock certificates in favor of the investor/s equivalent to the total fresh capital infusion. The difference between the amount actually infused and the value of the NPN issued by the LBP shall be credited as equity of the investor who actually infused the capital.*
- g. *Applicants who do not qualify shall be reimbursed for their deposits including accrued interest earned.*

9.2 LBP Counterpart Capital under Module II

Interested CFIs shall submit the requirements listed in CFIEP Form No. 2-B to the LBP.

9.3 Merger and Consolidation under Module III

The merging/consolidating/acquiring CFIs shall formulate a merger/ consolidation/acquisition plan which shall be an integral component of the CFIEP application documents to be submitted to the LBP regional office."

9. Section 10 of Appendix 16 of the Manual is hereby deleted.

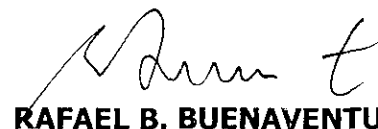
10. Section 11 of Appendix 16 of the Manual is hereby renumbered and amended to read as follows:

"Section 10. Applicability of Relevant Laws

Nothing herein shall be construed as a waiver by the BSP from proceeding under Section 30 of R.A. 7653 (The New Central Bank Act), or other pertinent provisions in said Act, R.A. 7353 (Rural Banks Act of 2000), and R.A. 7906 (Thrift Banks Act) in the event that circumstance shall exist as would warrant action under such provisions of law."

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

April 1, 2004