



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 693
Series of 2010

Subject: **Bangko Sentral ng Pilipinas (BSP) Guidelines on the Grant of Regulatory Relief under the Strengthening Program for Rural Banks (SPRB)**

The Monetary Board, under Resolution No. 980 dated 16 July 2010, approved the attached BSP Guidelines on the Grant of Regulatory Relief under the Strengthening Program for Rural Banks (SPRB) including the Documentary Requirements in applying for the regulatory relief (attached as Annex A of the Guidelines). Said Guidelines contain the merger or consolidation incentives which recipient rural banks (RBs) under the SRPB may avail in accordance with the provisions of the Guidelines.

The SPRB is a joint undertaking of the BSP and the Philippine Deposit Insurance Corporation (PDIC) aimed at promoting mergers and consolidations as a means to further strengthen the rural banking system through the grant of financial assistance (FA) by the PDIC and regulatory relief by the BSP to eligible strategic third party investors (STPIs), which shall be RBs, desiring to enter into mergers and consolidations with eligible distressed RBs that may be considered under the SPRB.

This Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD

AMANDO M. TETANGCO, JR.
Governor

9 August 2010

Att.: A/S

PANANALAPING MATATAG, BANSANG PANATAG

**BSP GUIDELINES ON THE GRANT OF REGULATORY RELIEF
UNDER THE STRENGTHENING PROGRAM FOR RURAL BANKS
(SPRB)**

In pursuance of the policy to promote mergers and consolidations as a means to develop bigger and stronger rural banks (RBs), and to further strengthen the rural banking system, constituent RBs may, subject to prior BSP approval, avail themselves of any or all of the following merger or consolidation incentives under the SPRB:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating RBs into head office, branches or extension offices of the merged/consolidated RB;
2. Relocation/opening of existing/approved but unopened branches, extension offices and/or other banking offices of the merged/consolidated RB within two (2) years from date of merger or consolidation subject to applicable requirements on relocation of branches, extension offices and/or other banking offices;
3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency loans of the eligible RBs as of the end of the month immediately preceding the date of request for loan restructuring;
4. Restructuring of past due rediscounting/emergency loans of the eligible RBs with the BSP, subject to compliance with the following guidelines:

a) Amount to be Restructured

The amount to be restructured shall consist of the following:

- *Principal* – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring
- *Accrued Interest* – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

b) Interest Rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day Treasury Bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

c) Terms of Repayment

The amount to be restructured shall be paid by the merged/consolidated RB in monthly amortizations over a period not exceeding ten (10) years.

d) Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the merged/consolidated RB.

e) Default Clause

- i. *Event of Default* – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.
- ii. *Consequence of default* – the amount of liquidated damages on past due rediscounting/emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of BSP issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting merged/consolidated RB.
- iii. *Legal Action* – the BSP may institute appropriate legal action without further need for demand or notice to the defaulting merged/consolidated RB.

f) Documentary Requirement

The merged/consolidated RB shall execute a Letter of Understanding with the BSP covering the terms and conditions of the approved restructured loan/s together with the authority for the BSP to debit the surviving/consolidated RB's demand deposit account with the BSP for the amortizations due.

5. Preferred Shares for Staggered Redemption

The shares for staggered redemption shall be the LBP preferred shares of stock of the eligible RBs, representing the rediscounting arrearages with BSP converted into LBP equity. Repayment arrangement should be made by the merged or consolidated RB directly with the LBP.

a) Dividend Rate

The dividend rate shall be four percent (4%)

b) Redemption Term

The staggered redemption shall be effected by the merged/consolidated RB in monthly installments over a period not exceeding term (10) years.

c) Waiver of Dividends

Dividends due on the LBP preferred shares of stock of the eligible RBs as of date of merger or consolidation shall be waived.

d) Documentary Requirement

Upon approval, the merged/consolidated RB shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the eligible RBs, copy furnished the BSP.

6. Rediscount ceiling of at least one hundred fifty percent (150%) of the adjusted capital accounts of the merged/consolidated RB for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of the BSP as provided under Subsec. X268.3 of the Manual of Regulations for Banks, as amended by Circular Nos. 648 dated 02 March 2009..
7. Waiver of monetary penalties imposed on the eligible RBs for violations of existing laws and BSP rules and regulations, except penalties accruing to the other parties, e.g. Micro, Small and Medium Enterprises Development (MSMED) Council Fund as provided under Section 19 of R. A. No. 6977 (Magna Carta for Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Crop Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.

STRENGTHENING PROGRAM FOR RURAL BANKS
Documentary Requirements

1. Articles of Merger or Consolidation duly signed by the President or Vice President and certified by the corporate secretary or assistant corporate secretary of each of the Eligible STPI and Eligible RB (constituent institutions) setting forth the following as required in Section 78 of the Corporation Code:
 - ❖ The Plan of Merger or Consolidation;
 - ❖ The number of shares outstanding; and
 - ❖ The number of shares voting for and against the Plan, respectively.
2. Plan of Merger or Consolidation setting forth the following:
 - ❖ The names of the constituent institutions;
 - ❖ The terms of the merger or consolidation and the mode of carrying the same into effect;
 - ❖ A statement of the changes, if any, in the Articles of Incorporation of the surviving institution in the case of merger; and in the case of consolidation, all the statements required to be set forth in the Articles of Incorporation; and
 - ❖ Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.
3. Resolution of the Board of Directors of the respective constituent institution approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;
4. Resolution of the meeting of the stockholders in which at least two-thirds (2/3) of the outstanding capital stock of each constituent institution have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;
5. Financial Statements:
 - ❖ Latest financial statements as of month immediately preceding the date of application and latest 3-year audited financial statements of the constituent institutions; and
 - ❖ 10-year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.
6. List of regulatory relief the constituent institutions will avail from BSP;
7. Letter to BSP requesting restructuring of past due rediscounting/emergency loan; and letter to LBP requesting staggered redemption of matured LBP preferred shares;
8. List of stockholdings of each of the constituent institutions before and after the merger;

9. List of directors and officers of each of the constituent institutions;
10. List of proposed officers and directors of the merged or consolidated institution and the summary of their qualifications;
11. Organizational chart of the merged or consolidated institution including the number of offices and locations thereof;
12. Inter-company transactions relative to the submitted Financial Statements;
13. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;
14. Schedule of unbooked valuation reserves based on latest BSP-ROE;
15. Viable Operational Plan with the following components:
 - Marketing Strategies
 - Proposed Target Market
 - Proposed Loan Portfolio Diversification
 - Deposit Generation
 - Proposed Improvements in Accounting System
 - Operations Control
 - Computerization Plan
 - Communication System
16. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;
17. Proposed Increase of Capital Stock of surviving bank;
18. Proposed Amendments in the Articles of Incorporation of surviving bank;
19. Director's Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;
20. Copy of due diligence report on the Eligible RB, if any; and
21. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.