

## **IMPLEMENTING GUIDELINES OF THE COUNTRYSIDE FINANCIAL INSTITUTIONS ENHANCEMENT PROGRAM (CFIEP)**

### ***Appendix to Sec. 287 B/C***

**Sec. 1. Statement of Policy Objectives.** The CFIEP aims to:

- a. raise the capital base of the countryside FIs by encouraging existing and new investors to infuse fresh equity into said institutions and thereby accelerate the government's economic development efforts;
- b. reduce the debt burden of eligible countryside FIs and the corresponding financial strain on the government in continually assisting them; and
- c. improve the long-term viability of the countryside FIs and establish such institutions as an effective means to mobilize savings and credit.

**Sec. 2. Qualified Participants.** The Program shall be open to the following:

- a. All Countryside Financial Institutions (CFIs) that meet the eligibility requirement set by the Bangko Sentral except those with unrectified/unaddressed serious irregularities based on the examination findings of the Bangko Sentral;
- b. The term CFIs shall refer to all RBs, Coop banks and TBs, which have their main operations in the countryside;
- c. TBs as may be determined by the Task Force which have their main operations in the countryside; and
- d. Individuals, cooperatives and/or corporations as may be qualified to make an investment in the RB or qualified TB.

**Sec. 3. Coverage of the Program.** All past due borrowings (principal and interests) with the Bangko Sentral of the countryside FIs as of 31 December 2001 in the form of rediscounted loans, CB:IBRD loans other supervised credit program and special liquidity loans.

**Sec. 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 BSP, the President of the LBP, the President of the PDIC, shall continue coordinating all activities relating to, and oversee the implementation of the CFIEP.

**Sec. 5. Incentives under the Program.** As the Task Force may allow, participants to the Program are entitled to the following incentives:

- a. Exemption from the forty percent (40%) limitation on 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

- b. Waiver of penalties and other charges due on arrearages that may be redeemed under the Program.

**Sec. 6. Definition of Terms.** As used in these Guidelines:

- a. *Investor* – shall refer to individuals, group of individuals, cooperative and all CFIs that meet the eligibility requirements set by the Bangko Sentral except those CFIs with unrectified/uncorrected serious irregularities based on the examination findings of the Bangko Sentral.
- b. *Arrearages* – shall refer to the CFI's arrearages with Bangko Sentral as of 31 December 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.
- c. *Converted Shares* – shall refer to the arrearages converted into LBP equity in the form of common and preferred shares pursuant to BSP Circular Nos. 1143 and 1172

**Sec. 7. Components of the Program.** The components of the Program are as follows:

a. *Purchase of CFI Arrearages (Module I)*

The investor/CFI stockholders' equity infusion with the CFI 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 Bangko Sentral through the PDIC. The investor/CFI stockholders will then be issued shares of stock in the CFI 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.

b. *Land Bank Counterpart Capital (Module II)*

An eligible CFI is provided access to LBP's capital infusion program which essentially involves the matching on a one-to-one basis of CFI's fresh capital infusion. The LBP's matching equity shall be in preferred shares redeemable within a period of five (5) years for Business and Risk Recovery Modules, and ten (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 three percent (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.

*c. Merger, Consolidation or Acquisition Incentives (Module III)*

Eligible CFIs 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:

- (1) 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;
- (2) 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 (1) 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 fifty percent (50%) of the undercapitalized CFI's eligible non-performing loans and ROPA or unbooked valuation reserves as of 31 December 2001, whichever is higher, over a period of six (6) years as determined by the Bangko Sentral;
- (3) CFIs availing of the financial assistance shall submit, among others, a business plan supported by a six (6)-year financial projections; and
- (4) The term of the loan shall be for a period of at least six (6) years.

**Sec. 8. Qualification to the Program.** CFIs, except those with unrectified/uncorrected serious irregularities based on the examination findings of the Bangko Sentral, may participate in the Program.

- a. Under Module I, CFIs with arrearages as defined in Sec. 6(b) hereof may qualify.
- b. To avail of equity matching program of the LBP under Module II, the CFI must meet the following minimum requirements:
  - (1) A past due loans ratio of not more than twenty-five percent (25%); and
  - (2) A loan portfolio at least sixty percent (60%) of which is in agriculture or rural-based production activities.
- c. Under Module III, PDIC financial assistance shall be available to merging, consolidating or acquiring CFIs involving at least one (1) or more undercapitalized banks.

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

- d. Investors/CFI stockholders will be evaluated based on the “fit and proper” rule under Sec. 138 and other criteria that the Task Force may set.

CFIs investing in undercapitalized CFIs should have a minimum unimpaired capital as defined under Sec. 121 and under applicable and existing capital adequacy framework and a history of sustained profitability for a period of at least five (5) years

- e. Fresh investments should at least cover the additional capital to achieve the required minimum risk-based capital adequacy ratio of ten percent (10%) after adequate provision for losses based on the latest examination findings of the appropriate supervising department of the Bangko Sentral.

### **Sec. 9. Application Procedures<sup>1</sup>**

#### *a. Purchase of Arrearages under Module I*

- (1) Investor/CFI stockholder files application (CFIEP Form No. 1-A) with the LBP together with the following requirements:
  - (a) a proposal for financial strengthening accompanied by a three (3)-year financial projection and a subsequent two (2)-year business plan;
  - (b) 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;
  - (c) other requirements as the Task Force may deem necessary.
- (2) Simultaneously, the investor/CFI stockholder deposits cash with the LBP in an amount equivalent to fifty percent (50%) of the arrearages to be redeemed, which shall be placed in a special account pending approval of application by the Task Force.
- (3) Upon approval of the application, the CFI shall be duly notified by the Task Force directly or through the LBP Regional Office.
- (4) The LBP shall issue a Negotiable Promissory Note in favor of the CFI, with a ten (10)-year term or such period where a maturity value will be equivalent to twice the amount invested.
- (5) The CFI, through the PDIC as attorney-in-fact, shall exchange the NPN for the CFI arrearages equivalent to the amount of the NPN.

(6) 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.

(7) Applicants who do not qualify shall be reimbursed for their deposits including accrued interest earned.

*b. LBP Counterpart Capital under Module II*

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

*c. 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.

**Sec. 10. Applicability of Relevant Laws.** Nothing herein shall be construed as a waiver by the Bangko Sentral from proceeding under Section 30 of R.A. No. 7653 or other pertinent provisions in said Act, R.A. No. 7353 (Rural Banks Act of 2000), and R.A. No. 7906 (Thrift Banks Act); in the event that circumstance shall exist as would warrant action under such provisions of law.

*(As amended by Circular No. 969 dated 22 August 2017, 890 dated 02 November 2015 and 827 dated 28 February 2014)*

Footnotes

1. Application deadline 31 March 1992