

[BSP CIRCULAR NO. 426, S. 2004, April 01, 2004]

**AMENDMENT TO APPENDIX 16 OF THE MANUAL OF
REGULATIONS FOR BANKS**

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:

"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 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 CFI's 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 1)

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 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 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: