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INVESTMENT PROPOSAL
FOR
REVOLVING FUND

US$9,000,000 UMBRELLA LOAN GUARANTEE FACILITY

ON BEHALF OF

BANK OF THE PHILIPPINE ISLANDS
METROPOLITAN BANK & TRUST CO.
PHILIPPINE COMMERCIAL INTERNATIONAL BANK

OFFICE OF INVESTMENT
BUREAU FOR PRIVATE ENTERPRISE

AUGUST 1986

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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UMBRELLA LOAN GUARANTEE FACILITY
PHILIPPINE BANKS

Table of Contents

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PHILIPPINE BANKS

I. EXECUTIVE SUMMARY

The Project

1.01 In view of PRE/I's successful experience with a loan guarantee facility for the Far East Bank and Trust, we are recommending an expansion of this credit delivery approach through the Revolving Fund. We are proposing an umbrella loan guarantee facility of US$9 million on behalf of three pre-selected Philippine private commercial banks:

- o Bank of the Philippine Islands
- o Metropolitan Bank & Trust Co.
- o Philippine Commercial International Bank

Individual loan agreements will be concluded in Fiscal Year 1986 with each bank, with a maximum credit extension of US$2.4 million per bank, but essentially the facilities will follow the Far East Bank & Trust Co. (FEBTC) model whereby short/medium-term credit risk is shared 50%, thus mobilizing local currency Peso funds for the equivalent of US$18 million. The balance remaining will be considered for utilization in Fiscal Year 1987 with other pre-selected, qualifying institutions or, perhaps, in a co-financing with the USAID Mission.

The FEBTC facility was directed toward small-to-medium scale exporting firms which were heretofore not beneficiaries of the Bank's lending activities. Under the umbrella loan guarantee facility presently being recommended, each bank's focus will vary somewhat but in general falls under one or more of the following parameters:

- rural enterprise development.
- crop diversification programs.
- specialized financing for qualified, professionally managed rural cooperatives to reach small farmers who have no access to institutional credit.
- lease-purchase arrangements for land acquisition.

- partially collateralized (higher risk) agricultural credit.

- processing industry on-lending to small farmers/raw material supplies.

In general, the umbrella loan guarantee facilities will generate Peso financing for market segments which have not been the traditional targets of the Philippine private commercial banks.

Project Agreements

1.02 Terms and conditions and documentation will be modeled after the FEBTC transaction. A Loan Set-off Agreement will be signed with a U.S. bank supporting Standby Letters of Credit to the participating banks for 50% of the risk of their developmentally oriented lending. Project agreements will essentially entail the same terms and conditions, i.e., a two-year revolver tranche with a single maturity for US$1.0 million and a US$1.4 million 5-year, 2-year grace term loan tranche with seven equal, semiannual payments of principal beginning at the 24th month. Facility fees of 1/2% flat, guarantee fees of 1 percent p.a., and Standby L/C charges for account of the client have been negotiated. In the case of the Metrobank, only "out-of-pocket" expenses are going to be collected up-front, and their guarantee fee will be increased to 1-1/2% p.a. A 12-month drawdown period is contemplated.

Capitalization

1.03 Project capitalization entails the mobilization of up to US$18 million equivalent in Philippine Pesos from the participating banks' own funding resources. PRE/I's leverage in this project is 2:1 at the loan guarantee facility level.

Participating Banks

1.04 The BPI, Metrobank and the PCIB enjoy excellent reputations as creditworthy financial institutions with a history of successful operations and highly respected management. In meetings with the banks' senior

executives, their response was uniformally positive to undertaking the developmentally desirable type of loans that our loan guarantee facility is designed to support.

Developmental Benefits

1.05 As mentioned above, the target group for this facility is consistent with USAID's efforts directed at rural development and improving the flow of rural credit. Both quantitatively and qualitatively, the facility being recommended represents another step up the developmental ladder from the FEBTC transaction, and builds on the latter's example. It is intended that this approach demonstrate the viability of using the private commercial banking system as a credit delivery mechanism supporting rural development. As described in more detail in Section IV., the needs in this regard are readily identifiable. USAID/Philippines is fully conversant with the project and supports the application of Revolving Fund resources as described herein.

Project Timetable

1.06

Investment Opportunity Proposal	6/17
Investment Proposal	6/30
Loan Agreement Negotiation	7/18
Loan Agreement Signing	8/31
First Disbursement	10/31

Risk

1.07 We are working with the top tier of Philippine private commercial banks on a risk-sharing (50%) basis. Nevertheless, by definition the targeted borrowers - rural/agricultural related - are considered to be of higher risk. Also, the problematical political and economic environment in the Philippines adds to commercial risk and is beyond the control of the lenders. However, the banks are confident that they can extend the kind of credit contemplated by applying a greater supervisory component and/or through the involvement of commercial/trade intermediaries. The

appropriate procedures will be established to cover claims, which apply only to principal, and to account for any recoveries. There is no foreign currency risk for either the borrower or the lender under the loan guarantee facility.

II. THE PARTICIPATING BANKS

A. Overview

2.01 The Philippine financial system consists of banking institutions and nonbank financial intermediaries. The banking institutions are all subject to supervision and examination by the Central Bank of the Philippines. The nonbank financial intermediaries fall under the supervision of the Philippine Securities and Exchange Security Commission and/or the Central Bank depending on their operations. As of year-end 1985, the institutional composition of the financial system was as follows:

	# Institutions	Assets (% of Total)
Commercial Banks	31	56%
Thrift Banks	118	3%
Specialized Govt. Banks	3	18%
Rural Banks	904	2%
Nonbank Institutions	1,847	21%
Total	2,904	100%

As indicated above, the 31 commercial banks dominate the financial system. A further distinction is made within the commercial banks between "universal" and "nonuniversal banks." While both function essentially like commercial banks in the USA, the former can also engage in equity financing, underwrite securities, and enter into nonbank undertakings. It should also be noted that of the total assets of the commercial bank grouping, approximately 32% pertain to government owned/controlled banks, with the large Philippine National Bank (PNB) alone accounting for the biggest share (almost 27%).

Herein lies a problem for the economy in 1986 -- for the third year in a row, the government banks, in general, and specifically the PNB, are not expected to be able to extend new loans because of serious funding restraints and the burden of a disportionate amount of nonperforming assets in their loan portfolios. It is obvious that the private banking system is faced with the challenge of making contributions to the reconstruction of the economy far beyond their traditional banking practices. In our discussions with private bankers there was a common theme expressed that the times called for "a special effort" on their part to help rebuild a healthy business environment. It is within this context that the banks we have targeted have all expressed a genuine interest in participating with us in using the Revolving Fund resources to extend their lending activities into developmentally desirable sectors.

2.02 Summary Evaluation

Each of the participating banks has an established record of successful operations, they enjoy excellent reputations within the business community in the Philippines, and all are considered as prime banks. These characteristics reflect high quality management and solid ownership interests. This positive evaluation was confirmed in discussion with a variety of independent bankers, accountants, Central Bank officials, and general business contracts in the Philippines. In summary, it is felt that each of the participating banks is the kind of institution which would exercise a high degree of competence in carrying out its lending responsibilities under a loan guarantee facility.

In the following sections brief background data and financial summaries are provided on each participant bank. Full risk analyses on the three banks are found in Attachments A, B, C, D and E:

2.03 Bank of the Philippine Islands (BPI)

Established:	1851
Head Office:	Manila, Philippines
Branches:	136 domestic, 1 foreign
Personnel:	3,485
Services:	Commercial and investment banking
Correspondents (USA):	Citibank, Bank of America, Chase Bank, Morgan Guaranty, Bankers Trust, Chemical, Irving, Manufacturers Hanover Trust, Bank of California, Wells Fargo, Continental Illnois

Subsidiaries/Affiliates: BPI International Finance, Ltd., (Hong Kong), AF Capital Sendivan Berhad (Kuala Lumpur) and P.T. Indo-Ayala Leasing Corporation (Jakarta) are off-shore operations. BPI Family Savings Bank (consumer real estate, car and appliance financing), BPI Investment Corporation (merchant banking), BPI Leasing Corporation (leasing), BPI Credit Corporation (consumer credit), BPI Agricultural Development Bank (agribusiness development), and AF Merchants, Inc. (capital markets) operate in the Philippines.

Ownership: Private shareholders

Board of Directors: Jaime Zobel de Ayala, Chairman, Xavier P. Loinaz, President. Directors: Aristar Estrada, Michael Stephen, Robert Wynn, Revato L. de la Fuente, Teodoro Padilla, Sabino Padilla, Alberto F. de Villa-Abrille, Renato Bulain, Thomas Ketchum, Carlos Almeso, Bernardo Villegas, Benito Araneta and Pedro Roxas.

Key Management: Jaime Zobel de Ayala, Chairman, Xaiver P. Loinaz, President, Manuel Bengson, EVP.

Key Rankings (as of 12/31/85 among 31 commercial banks):

Loans	6th
Total Assets	5th
Deposits	2nd
Capital Funds	4th

Net Income: n.a.
Market Share:
Loans 4.7%
Deposits 8.5%

Summary Financial Statements (Dec. 31st/Millions of Pesos):

	1983	1984	1985
Primary Assets	3,426	8,375	9,953
Loans	6,316	9,682	7,956
Other	1,518	3,009	2,419
Total Assets	11,260	21,066	20,328
Total Deposits	7,261	15,9112	15,988
Other	3,170	4,115	3,121
Total Liabilities	10,431	20,027	19,109
Capital Funds	806	975	1,186
Tot. Liab. & Cap. Funds	11,260	21,066	20,328
Net Income	155	217	262
"Ref" FX Rate:(P/US$)	11/1	17/1	20/1

2.04 Metropolitan Bank and Trust Company (Metrobank)

Established: 1962
Head Office: Manila, Philippines
Branches: 135 domestic, 9 foreign
Personnel: 2,562
Services: Commercial and investment banking
Correspondents (USA): Citibank, Chase Bank, Security Pacific, Wells Fargo, Bankers Trust, Chemical, Irving, Bank of New York, Continental Illinois, Manufacturers Hanover Trust

Subsidiaries/Affiliates: Philippine Savings Bank (consumer/real estate loans), First Metro Investment Corporation (investment banking), Pan Philippines Life/General Insurance Companies (life/general casualty insurance), The Charter Insurance Company (general insurance), MBTC Venture Capital Corporation (equity/loan finance), First Metro Leasing & Finance Corp. (leasing), Banker's Express Travel Agency (travel services, MBTC Management Consultancy, Inc. (management services, and Unibancard Corporation (credit card).

Ownership: Private shareholders

Board of Directors: George S. K. Ty, Chairman, Andres V. Castillo, Vice Chairman, Edgardo B. Espiritu, President,

Carlos A. Pedrosa, EVP. Directors: Querube C. Makalintal, Lereto L. de Mapa, Gabriel Chua, Soledad L. Dolor, Ephraim G. Gochango, James Go.

Key Management: Edgardo B. Espiritu, President, James Go, EVP, and Antonio H. Nonato, EVP.

Key Rankings (as of 12/31/85 among 31 commercial banks):

Loans	3rd	Net Income: n.a.
Total Assets	4th	Market Share:
Deposits	4th	Loans 5.4%
Capital Funds	5th	Deposits 8.0%

Summary Financial Statements (Dec. 31st/Millions of Pesos):

	1983	1984	1985
Primary Assets	3,185	7,230	7,399
Loans	6,811	7,009	6,568
Other	1,551	1,507	2,474
Total Assets	11,547	15,746	16,441
Total Deposits	8,548	11,955	13,007
Other	2,335	3,011	2,565
Total Liabilities	10,883	14,966	15,572
Capital Funds	664	780	869
Tot. Liab. & Cap. Funds	11,547	15,746	16,441
Net Income	116	150	136
"Ref" FX Rate (P/US$):	11/1	17/1	20/1

2.05 Philippine Commercial International Bank (PCIB)

Established:	1938
Head Office:	Manila, Philippines
Branches:	222 domestic, 6 foreign
Personnel:	3,337
Services:	Commercial and investment banking
Correspondents (USA):	Citibank, Manufacturers Hanover Trust, Bank of America, Mellon Bank, Bankers Trust, Chase Bank, Security Pacific, Chemical, Continental Illinois, Irving, Bank of New York

Subsidiaries/Affiliates: PCI Automation Center, Inc. (data processing), PCI Capital Corporation (merchant banking), PCI Capital Asia Ltd., Hong Kong (financial services), PCI Insurance Brokers, Inc. (insurance), Bankard (credit card), PCI Travel Corporation (travel services), PCI Leasing & Finance, Inc. (leasing), PCI Realty Corporation (real estate development), and PCI Management Consultants, Inc. (human resource management).

Ownership: Private Shareholders

Board of Directors: Cesar Zalamea, Chairman, Antonio Ozaeta, Vice Chairman and President, Oscar Ongsiabo, Vice Chairman. Directors: Jose Bengzon, Mario Comacho, Florentino Feliciano, Benjamin Lagdameo, Enrique Luy, Jose III, and Cesar Sevilla.

Key Management: Antonio H. Ozaeta, Vice Chairman/ President (CEO), Jose R. Perez, EVP.

Key Rankings (as of 12/31/85 among 31 commercial banks):

Loans	5th
Total Assets	3rd
Deposits	5th
Capital Funds	5th

Net Income: n.a.
Market Share:
Loans 5.1%
Deposits 7.5%

Summary Financial Statements (Dec. 31st/Millions of Pesos):

	1983	1984	1985
Primary Assets	1,878	4,168	7,851
Loans	5,586	4,852	6,620
Other	1,082	1,268	1,935
Total Assets	8,546	10,288	16,406
Deposits	5,282	6,554	11,552
Other	2,443	2,853	3,874
Total Liabilities	7,725	9,407	15,426
Capital Funds	819	881	980
Tot. Liab. & Cap. Funds	8,546	10,288	16,406
Net Income	60	102	120
"Ref" FX Rate (P/US$):	11/1	17/1	20/1

III. TRANSACTION SUMMARY

Amount	US$9,000,000
Facility	An umbrella loan guarantee facility covering loan risk-sharing agreements with three pre-qualified Philippine banks for amounts of US$2.4 million for each institution. Loans will be effected with Mellon Bank (US$4.8MM) and Rainier Bank (US$2.4MM) who will issue Standby Letters of Credit to the participating Philippine banks, guaranteeing 50 percent of the principal value of segregated portfolios (up to a maximum US$4.8 million each) of Peso loans, funded from its own resources, to qualifying sub-borrowers.
Term	The participating Philippine banks will be granted a US$1.0 million tranche for two years and a US$1.4 million tranche for five years, with a two year grace and seven equal, semiannual payments beginning at the 24th month. The loans to the U.S. banks supporting the Standby L/Cs will have terms sufficient to provide margin for the availability period and a nominal clean-up period.
Documentation	(1) Loan agreements with Mellon Bank and Rainier Bank (2) project agreements with each participating Philippine bank, and (3) Sub-Borrower Information Reports from each participating Philippine bank.
Fees	(1) A facility fee of 1/2% flat for PCIB and BPI and US$3,000 for Metrobank, payable at loan execution, (2) a guarantee fee of 1 percent p.a. for PCIB and BPI and 1-1/2% p.a. for Metrobank,

payable quarterly in arrears on all amounts outstanding under the Standby L/Cs supporting the loan guarantee facility, and (3) charges connected with the Standby L/C arrangements with the issuing U.S. bank are for the account of each participating Philippine bank.

Availability Period	Up to twelve (12) months after project agreement signing.
Qualifying Sub-Borrowers	Each participating Philippine bank will provide Peso financing, from its own resources, to small-and-medium-scale borrowers within a set of predetermined parameters established by PRE/I which direct these loans to developmentally desirable sectors. Generally these include new-client, small-and medium-scale borrowers engaged in agriculture, agribusiness or providing services/products originating in rural areas. Women in the Philippine are particularly active in small-scale enterprises, and preliminary discussions with the banks indicate a high component of women as borrowers and/or beneficiaries of the credit contemplated. Increased risk-taking (partial collateral), expansion into new areas, and longer payment terms will qualify existing bank clients. The definition for small- and medium-scale firms will be a level of total assets not to exceed the Peso equivalent of US$500 thousand, and emphasis will be given to borrowers located outside the metropolitan Manila area.
Reporting Requirements	(1) Sub-Borrower Information Reports will be provided to PRE/I as loans are granted and (2) the participating Philippine banks will provide Annual Reports and interim financial information as deemed appropriate by PRE/I.

Interest on Loans to U.S. Banks	Mellon Bank - 90-day Treasury Bill rate plus .60 percent p.a., adjustable quarterly;
	Rainier Bank - 90-day Treasury Bill rate plus .375% p.a., adjustable quarterly.

IV. CURRENT PROBLEMS AND CREDIT NEED

4.01 It has been amply documented that serious problems continue to obstruct the flow of much needed credit to the Philippine agricultural sector, hampering agricultural production and general rural development. The problem is particularly acute in the case of the small farmer and rural enterprise. Basically, the problem has three aspects: (1) the inadequacy of agricultural loan funds, (2) the problematical credit delivery system, and (3) the perceived high risk of agricultural lending.

The Minister of Agriculture, Ramon Mitra, in recent statements to the press, has recognized that institutional credit for the agriculture sector "...has virtually dried up." Agriculture's share of total bank credit has dropped from 18% in the 1970s to only 8% in 1985. Mitra has pointed out that the contraction of institutional credit is partly due to the sharp drop in agricultural rediscount funds with the virtual closure of the Central Bank facilities for this purpose. The weakened state of public finances in the Philippines is reflected in the dramatic 73% decrease in rediscounts from 1983 to 1985, from Pesos 8.5 billion to Pesos 2.3 billion, respectively. Aggravating this relative scarcity is the inefficiency, inherent in more than thirty separate government credit programs. Also the banks have been allowed to satisfy the regulatory requirement to allocate 25% of their loan portfolios to agricultural lending by investing in Central Bank certificates of indebtedness or treasury bills.

In addition to the limited credit resources available to the agriculture sector, the problem of credit delivery is clearly manifested by the slow utilization rate of credit funds from foreign sources, including the World Bank/AID-supported Agricultural Loan Fund (ALF). It appears that the mechanics are cumbersome and both the banks and potential borrower-beneficiaries are reluctant to utilize such facilities. Another major problem in credit delivery is the crippling of more than 900 government/quasi-government rural banks which are dependent on Central Bank funding. Imprudent lending practices and the aforementioned paralysis of the rediscount window at the Central Bank have caused serious problems for the small farmers, especially in remote areas.

Lastly, the perceived high risk and cost of agricultural lending have negatively influenced many banks. It is not surprising that due to the normal risks in agriculture and the greater level of management supervision required for the small farmer or enterprise borrower, many institutions are unwilling to engage heavily in agricultural lending.

In spite of these difficulties, there are elements within the Philippine private commercial banking system who feel that "something must be done." Motivated to one degree or another to "help" in the transition to a democratic government and recognizing the failures of many public sector schemes, the prospective participating banks have evidenced a strong interest in allocating resources to agricultural/rural lending programs. Needless to say, the banks are, at present, in a relatively high state of liquidity, which prompts them to be receptive to using their resources as proposed herein. The risk-sharing aspect of the loan guarantee facility we are proposing appears to genuinely motivate them to undertake lending programs on a basis consonant with PRE's developmental criteria. The previous loan guarantee facility transaction with the Far East Bank and Trust set a good example. The banks contacted were aware of the mechanics and purpose of this credit delivery mechanism and were impressed with the relative ease of its implementation and market-rate orientation.

V. CONTRIBUTION TO DEVELOPMENT

A. Impact of PRE Participation on USAID Policy Areas

5.01 PRE participation in this proposal will provide a positive impact in six key USAID policy areas: private sector development, institution building, basic human needs, policy dialogue, increased agricultural production, and rural development.

Private sector development would be promoted through the use of market rates on the participating banks' loans to small and medium-size enterprise and additional availability of credit to agricultural/rural development in accord with the objectives of the GOP.

Development of institutional financing will be supported by expanding the participating banks' lending activities to small and medium-size enterprises in the agricultural/rural sector.

Basic human needs will be advanced by additional employment which should accrue as the smaller enterprises receive the needed capital for supporting their activities.

Policy dialogue fits well with the USAID private enterprise promotion and small and medium size enterprise development objectives.

Increased agricultural production would be promoted by providing additional credit resources, heretofore not available to farmers and processors, on a commercially viable basis.

Rural development objectives will be assisted by directing the flow of credit to areas outside the metropolitan Manila lending market.

This proposal will be the catalyst to bring the participating banks into the financing of new clients involved in agriculture and/or rural oriented development. By this device USAID's objective of "development efforts of nongovernmental, private groups" will be enhanced.

B. Relationship to the CDSS

5.02 This project conforms with the priorities of the USAID CDSS particularly as it concerns agricultural and rural development through nongovernment entities.

C. Relationship to PRE Objectives and Policies

5.03 PRE's objective is to meet the Basic Human Needs mandate of the Foreign Assistance Act of 1961, as amended, using self-sustaining private sector vehicles. In addition, PRE utilizes a variety of operating policies for its Revolving Fund investments to ensure high development and secure financial returns. The loan guarantee facility with the participating Philippine banks satisfies both. The proposed investment is responsive to the Basic Human Needs mandate by targeting its resources toward the smaller enterprise in the agricultural/rural sector. This sector is typically the most disadvantaged, especially in the area of credit. This umbrella loan guarantee facility will mobilize US$18 million equivalent in credit on a self-sustaining basis. This credit will be a net addition to the investment resources presently available.

The project also meets PRE guidelines for management of Revolving Fund investments. These are as follows:

- Has a Demonstration Effect by: (a) introducing private financial institutions to lending activities with a developmental impact, and (b) mobilizing alternatives to public sector, subsidized credit.

- Exhibits Financial Viability based on a backdrop of effect demand, proven management, and market pricing.

- Targets Development Impacts Appropriate to the Philippines by responding to identified constraints on agricultural/rural credit delivery and capacity utilization in the private sector.

- Makes Resources Available to the Small and Medium-size Enterprise Sector by leveraging the PRE/AID facility to create a pool of credit.

In addition the facility meets project-specific financial constraints, namely: (a) the facility cannot exceed US$9,000,000 (the proposed amount is US$9,000,000); (b) the facility cannot be more than 50 percent of project capitalization (the proposed facility would amount to no more than 50 percent of the capital inflow);

and (c) the facility must be near market interest rates (the local currency borrowings will be at market). The facility will be financed under Section 106 as legislatively permitted.

In general, once we have this "second round" operative with the banks in question, consideration could be given to expanding the scope of the loan guarantee facility to include another tier of banks -- small- to medium-sized institutions. Also, if the banks' experience is favorable, we may be able to encourage them to take more risk with less guarantee thereby leveraging our present guarantee capacity. Longer lending terms and/or more developmental content may result from positive experience. It is also concievable that private foreign banks with a stake in the Philippines could be persuaded to provide facilities to local banks on a basis similar to our R.F. guarantee facility. Once again, the ultimate payoff in this whole experiment would be the justification for incorporating the R.F. approach into the Mission's bilateral assistance at a level of magnitude representative of a major program effort.

D. Economic Impacts on the SMSE Agricultural/Rural Sector

5.04 The proposed PRE/AID facility specifically targets the smaller-scale enterprise sector with a pool of Peso funds totaling US$18 million equivalent. This amount will be made available to provide short and medium-term financing to enterprises with less than US$500,000 in total sales/ revenues. This source of capital represents additive credit and, as such, will stimulate incremental investment and sales. The incremental impact will be essentially in increased agricultural production and rural development so sorely needed in the present economic environment in the Philippines.

In addition to the direct impacts mentioned above, a number of secondary economic benefits are also expected from the financing made available under this facility. While it is difficult to quantify because of the variety of potential sub-borrowers, increased direct and indirect employment opportunities will be created. As a consequence, a large percentage of this employment should translate into improving farm family income. Also, it appears likely that a number of rural based agribusinesses will experience expansion as a result of this infusion of capital into their market areas.

IV. EVALUATION

6.01 The first evaluation of this demonstration project will be conducted in the Philippines by AID/PRE one to two years following initial disbursement of the loan funds. The evaluation is intended to provide guidance to PRE and the borrower as to adjustments in project implementation which would improve financial and developmental results. Additionally, the evaluation will form conclusions as to the project's replicability in the Philippines and other AID-assisted countries. Though the duration of the project is three years, PRE judges that findings at the end of the first year would not vary significantly were the evaluation to be conducted at a later date.

6.02 The reporting requirements imposed on the participating banks, as described in Chapter VII, will provide baseline data for the evaluation. Since the loan terms are nonconcessional, PRE intends to rely on this data as opposed to proposing additional data compilation activities to be undertaken by the borrower as part of the evaluation.

6.03 The following topics will be of particular interest to PRE and will be addressed in the evaluation reports:

1. Brief inquiry into the regulatory environment incumbent on the participating banks and constraints, if any, which inhibit the delivery of nonconcessional credit to SMSE in the agricultural/rural sector.

   Data for economic overview will be gathered from secondary sources and from selected interviews with USAID and GOP officials and, to a limited extent with participating bank management.

2. A summary of the bank's management system for delivering credit to the sub-borrowers and how management indicates that this has changed over the life to date of the guarantee loan facility; and conclusions as to the bank's institutional capability (and appetite) to service the agricultural/rural sector. The findings will have an important bearing on project replicability;

3. Profitability of this lending program as calculated from statistics reported the participating banks on lending terms, collateral rates, spreads, and losses. Terms, rates, and loss data will be reported semi-annually to AID/PRE. Conclusions as to profitability will be the only compelling argument for replicability of this type of project.

4. The institutionalization of this lending program as indicated by the portion of the branch portfolios

made up of such credit, the number and type of staff involved and plans to continue and/or expand this type of lending. Data for forming conclusions in these areas will come from discussions with bank management.

5. Costs and performance of the loan guarantee structure for sharing risk loss. The cost of the standby letter of credit and the timeliness with which this mechanism responded to claims against the guarantee is of interest, particularly in light of PRE's use of such structures in other countries involving other private institutions. This information will largely be available from data submitted by the borrower and issuing bank.

6. A study of the compiled data describing the portfolio to determine the profile of beneficiaries and the developmental impacts of credit availability, including gender differentiations in impact for which correction in this or replicated facilities may be appropriate.

Elaboration of these topics as part of the evaluation will result in conclusions as to: (a) project success in achieving its objectives; and (b) generic approach for replication of the project. AID/PRE will provide grant funding for evaluation, a portion of which may be used by the participating banks to defray any extraordinary costs they sustain in cooperating.

VII. MONITORING

7.01 Project monitoring will consist of:

1. annual reviews of the participating banks overall financial condition and performance;

2. interim contacts either by correspondence and/or direct visitation to maintain a current perspective on their respective lending activities;

3. periodic certifications by the participating banks regarding the number and amount of Sub-Borrower obligations incurred; and

4. review of the Sub-Borrower Information Reports submitted by the participating banks.

Primary responsibility for project monitoring will reside with AID/PRE/W but could also include outside consultants and/or USAID/Manila personnel as is deemed most appropriate.

VIII. PROPOSED TIMETABLE

Investment Opportunity Proposal	:	June 17, 1986
Loan Committee Review	:	June 17, 1986
Loan Agreement Negotiations	:	July 18, 1986
Investment Proposal	:	August 22, 1986
Loan Agreement Signing	:	August 31, 1986
First Disbursement	:	October 1986

IX. LOAN GUARANTEE FACILITY PROCEDURES

A. Project Methodology

9.01 Once we approved the Investment Opportunity Proposal, PRE/I contacted a number of prime U.S. banks to obtain offers from them regarding the establishment of the Standby Letters of Credit which will support our risk-sharing commitment under the Project Agreements (loan guarantee facilities) PRE/I will conclude with the participating Philippine banks. The offers received were competitively judged as to pricing, service considerations, and suitability as a guarantee for Philippine banks.

9.02 Loan Agreements will be concluded with Mellon Bank and Rainier Bank which provide the latter with loan setoff agreements supporting the U.S. bank's risk in issuing the respective Standby L/Cs for the participating Philippine banks. PRE/I and the banks have agreed on a rates for the loans of .60% p.a. and .375% p.a. over the 90-day Treasury Bill rate for Mellon and Rainier, respectively. Earnings will be assigned to the Revolving Fund.

9.03 PRE/I concludes Project Agreements with each participating Philippine bank which establish the terms and conditions of the respective loan guarantee facilities.

9.04 The participating Philippine banks proceed to qualify sub-borrowers according to their own practices and procedures, applying market rates/fees, and concurrently notify the U.S. bank to make available a U.S. dollar equivalent guarantee for 50 percent of the Peso financing they are granting under the Standby L/C in their favor.

9.05 Under the proposed US$9 million umbrella loan guarantee facility, the participating Phillipine banks would create a potential pool of Peso funds from their own resources equivalent to US$18 million (2/1 leverage). There is no foreign exchange risk for any of the parties involved under this risk-sharing mechanism. The participating Philippine banks price their loans according to their own criteria. PRE/I earns a flat fee of 1/2 percent of the principal amount of the Project Agreement (loan guarantee facility) with the participating bank and also receives a guarantee fee of 1 percent per annum on the utilized portion of the guarantee provided under the Standby L/C. (Metrobank is paying 1-1/2 percent p.a. guarantee fee in lieu of the flat). Claim procedures are part of the Project Agreement and permit the participating Philippine banks to offset 50 percent of any loss against the Standby L/C/ guarantee provided by the U.S. bank.

9.06 The procedures described above are modeled after the transaction with the Far East Bank & Trust concluded a year ago. The mechanics have worked well, administration requirements have been minimal, and the implementation was relatively easy.

PHILIPPINE BANKS
COMPARATIVE FINANCIAL STATEMENT DATA & RATIO ANALYSIS
(As of December 31/Amounts Expressed in Millions of Pesos)

	BANK OF THE PHILIPPINE ISLANDS			METROPOLITAN BANK & TRUST CO.			PHILIPPINE COMMERCIAL INTERNATIONAL BANK		
	1983	1984	1985	1983	1984	1985	1983	1984	1986
Loans	6,316	9,682	7,956	6,811	7,009	6,568	5,586	4,852	6,620
Total Assets	11,260	21,066	20,328	11,547	15,746	16,441	8,546	10,266	16,406
Total Deposits	7,261	15,912	15,988	8,548	11,955	13,007	5,282	6,554	11,552
Capital Funds	806	975	1,186	664	780	869	819	881	980
Net Income	155	217	262	116	150	136	60	102	120
Primary Assets/ Total Deposits	.47	.53	.62	.37	.60	.57	.36	.64	.68
Primary Assets/ Tot. Fund. Liab.	.35	.47	.56	.31	.51	.50	.26	.49	.58
Loans/Total Dep.	.87	.61	.50	.80	.59	.50	1.06	.74	.57
Loan Loss Reserve/ Loans	.02	.05	.08	.01	.03	.03	.01	.01	.02
Capital Funds/ Total Deposits	.11	.06	.07	.08	.07	.07	.16	.13	.08
Capital Funds/Total Liabilities	.08	.05	.06	.06	.05	.06	.11	.09	.06
Capital Funds/ Risk Assets (a)	.11	.08	.12	.08	.10	.10	.13	.16	.12
Capital Funds/ Contingent Liab.	---	---	---	---	---	---	.86	.78	1.44
Net Income/Average Total Assets	---	.013	.013	.012	.011	.008	.008	.011	.009
Net Income/ Average Cap. Funds	---	.24	.24	.18	.18	.17	.09	.12	.13
Net Int. Income/ Average Earning Assets (b)	---	.051	.043	.034	.022	.012	.033	.030	.039
Total Revenues/ Average Earning Assets (b)	---	.24	.31	.19	.23	.23	.18	.24	.20

NOTES: (a) For this ratio Risk Assets include Loans, Investments, and other Assets
(b) For these ratios Earning Assets include Trading Account Securities, Loans, and Investments

ATTACHMENT B

BANK OF THE PHILIPPINE ISLANDS
Consolidated Balance Sheet Statements
(Millions of Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
ASSETS									
Cash & Due from Banks	/	1,383	/	/	3,939	/	/	3,514	/
Central Bank	/	366	/	/	1,945	/	/	2,385	/
Trading Account Securities	/	1,677	/	/	2,491	/	/	4,054	/
PRIMARY ASSETS	/	3,426	.30	+145%	8,375	.40	+19%	9,953	.49
Loans	/	6,316	.56	+ 53%	9,682	.46	-18%	7,956	.39
Investments	/	65	.01	+ 45%	94	.01	-45%	52	-
Premises	/	355	.03	+ 79%	635	.03	+25%	792	.04
Other Assets	/	1,098	.10	+108%	2,280	.10	-31%	1,575	.08
TOTAL ASSETS	/	11,260	1.00	+ 87%	21,066	1.00	- 4%	20,328	1.00
LIABILITIES									
Sight Deposits & Obligations	/	1,084	.10	+ 20%	1,304	.06	+ 2%	1,335	.07
Savings & Time Deposits	/	5,928	.53	+135%	13,953	.66	+ 3%	14,442	.71
Due to Banks	/	226	.02	+144%	551	.03	-71%	162	.01
Marginal Deposits	/	23	-	+352%	104	.01	-53%	49	-
TOTAL DEPOSITS	/	7,261	.65	+119%	15,912	.76	-	15,988	.79
Borrowed Funds	/	2,598	.23	- 20%	2,091	.10	-13%	1,825	.09
TOTAL FUNDING LIABILITIES	/	9,859	.88	+ 83%	18,003	.86	- 1%	17,813	.88
Other Liabilities	/	572	.05	+254%	2,024	.09	-36%	1,296	.06
TOTAL LIABILITIES	/	10,431	.93	+ 92%	20,027	.95	- 5%	19,109	.94
Minority Interests	/	23	/	/	64	/		33	/
CAPITAL FUNDS									
Paid Capital	/	500	/	/	599	/	/	597	/
Reserves & Surplus	/	151	/	/	158	/	/	328	/
Retained Earnings	/	155	/	/	218	/	/	261	/
TOTAL CAPITAL FUNDS	/	806	.07	+ 21%	975	.05	+22%	1,186	.06
TOTAL LIABILITIES & CAPITAL FUNDS	/	11,260	1.00	+ 87%	21,066	1.00	- 4%	20,328	1.00
Contingent Liabilities	-	-	-	-	-	-	-	-	-
Loan Loss Reserve	/	148	/	/	437	/	/	671	/

BANK OF THE PHILIPPINE ISLANDS
Consolidated Income Sheet Statements
(Millions of Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
REVENUES									
Financial	/	1,203	.78	+.64%	1,976	.80	+ 34%	2,647	.71
Other Income	/	336	.22	+.44%	433	.20	+129%	1,107	.29
TOTAL REVENUES	/	1,539	1.00	+.58%	2,459	1.00	+ 53%	3,754	1.00
EXPENSES									
Financial	/	(837)	.54	+41%	(1,476)	.60	+ 44%	(2,123)	.57
Personnel	/	(225)	.15	+28%	(289)	.12	+ 76%	(508)	.13
Other Expenses	/	(318)	.21	+49%	(473)	.19	+ 76%	(835)	.22
TOTAL EXPENSES	/	(1,380)	.90	+62%	(2,238)	.91	+ 55%	(3,466)	.92
Operating Profit	/	159	.10	+39%	221	.09	+ 30%	288	.08
Provisions & Other (Net)	/	(-)	-	-	(-)	-	-	2	-
Before Tax Profit	/	159	.10	+39%	221	.09	+ 31%	290	.08
Taxes	/	(4)	-	-	(4)	-	+600%	(28)	.01
Net Income	/	155	.10	+40%	217	.09	+ 21%	262	.07
Net Interest Income	/	366	.24	+37%	500	.20	+ 5%	524	.14

ATTACHMENT C

METROPOLITAN BANK & TRUST
Consolidated Balance Sheet Statements
(Millions of Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
ASSETS									
Cash & Due from Banks	/	2,232	/	/	2,862	/	/	4,211	/
Central Bank	/	-	/	/	2,290	/	/	2,203	/
Trading Account Securities	/	953	/	/	2,078	/	/	985	/
PRIMARY ASSETS	/	3,185	.28	+127%	7,230	.46	+ 2%	7,399	.45
Loans	/	6,811	.59	+ 3%	7,009	.45	- 6%	6,568	.40
Investments	/	256	.02	+ 4%	267	.02	+21%	322	.02
Premises & Installations	/	276	.02	+ 18%	327	.02	+ 2%	335	.02
Other Assets	/	1,019	.09	- 10%	913	.05	+99%	1,817	.11
TOTAL ASSETS	/	11,547	1.00	+ 36%	15,746	1.00	+ 4%	16,441	1.00
LIABILITIES									
Sight Deposits & Obligations	/	942	.08	+ 50%	1,412	.09	-32%	958	.06
Savings & Time Deposits	/	6,583	.57	+ 41%	9,305	.59	+13%	10,531	.64
Due to Banks	/	673	.06	+ 1%	681	.04	+27%	866	.05
Marginal Deposits	/	350	.03	+ 59%	557	.03	+17%	652	.04
TOTAL DEPOSITS	/	8,548	.74	+ 40%	11,955	.76	+ 9%	13,007	.79
Borrowed Funds	/	1,865	.16	+ 17%	2,189	.14	-12%	1,919	.12
TOTAL FUNDING LIABILITIES	/	10,413	.90	+ 36%	14,144	.90	+ 6%	14,926	.91
Other Liabilities	/	470	.04	+ 75%	822	.05	-21%	646	.04
TOTAL LIABILITIES	/	10,883	.94	+ 38%	14,966	.95	+ 4%	15,572	.95
CAPITAL FUNDS									
Paid Capital	/	468	/	/	468	/	/	558	/
Reserves & Surplus	/	53	/	/	54	/	/	55	/
Retained Earnings	/	143	/	/	258	/	/	256	/
TOTAL CAPITAL FUNDS	/	664	.06	+ 18%	730	.05	+11%	869	.05
TOTAL LIABILITIES & CAPITAL FUNDS	/	11,547	1.00	+ 36%	15,746	1.00	+ 4%	15,572	.95
Contingent Liabilities	/	-	/	/	-	/	/	-	/
Loan Loss Reserve	/	78	/	/	174	/	/	217	/

METROPOLITAN BANK & TRUST
Consolidated Balance Sheet Statements
(Millions in Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
REVENUES									
Financial	/	1,079	.81	+ 40%	1,509	.75	- 3%	1,457	.73
Other Income	/	257	.19	+ 95%	502	.25	+ 8%	543	.27
TOTAL REVENUES	/	1,336	1.00	+ 50%	2,011	1.00	- 1%	2,000	1.00
EXPENSES									
Financial	/	(839)	.63	+ 57%	(1,318)	.66	+ 3%	(1,358)	.68
Personnel	/	(152)	.11	+ 15%	(175)	.09	- 3%	(170)	.09
Other Expenses	/	(215)	.16	+ 71%	(368)	.18	- 16%	(308)	.15
TOTAL EXPENSES	/	(1,206)	.90	+ 54%	1,861	.93	- 1%	1,836	.92
Operating Profit	/	130	.10	+ 15%	150	.07	+ 9%	164	.08
Provisions & Other (Net)	/	-	-	-	-	-	-	-	-
Taxes	/	(14)	.01	-	(-)	-	-	(28)	.01
Net Income	/	116	.09	+ 29%	150	.07	- 9%	136	.07
Net Interest Income	/	240	.18	- 20%	191	.09	- 48%	99	.05

PHILIPPINE COMMERCIAL INTERNATIONAL BANK
Consolidated Balance Sheet Statements
(Millions of Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
ASSETS									
Cash & Due from Banks	/	809	/	/	1,584	/	+ 79%	2,841	/
Central Bank	/	265	/	/	1,497	/	+ 79%	2,687	/
Trading Account Securities	/	804	/	/	1,087	/	+114%	2,323	/
PRIMARY ASSETS	/	1,878	.22	+122%	4,168	.40	+ 88%	7,851	.48
Loans	/	5,586	.65	- 13%	4,852	.47	+ 36%	6,620	.40
Investments	/	128	.01	+ 26%	161	.02	+ 12%	180	.01
Premises & Installations	/	391	.05	+ 10%	430	.04	+ 56%	670	.04
Other Assets	/	563	.07	+ 20%	677	.07	+ 60%	1,085	.07
TOTAL ASSETS	/	8,546	1.00	+ 20%	10,288	1.00	+ 60%	16,406	1.00
LIABILITIES									
Sight Deposits & Obligations	/	763	.09	-	764	.07	+ 47%	1,122	.07
Savings & Time Deposits	/	4,356	.51	+ 28%	5,560	.54	+ 78%	9,918	.60
Due to Banks	/	-	-	-	-	-	-	-	-
Marginal Deposits	/	163	.02	+ 41%	230	.03	+123%	512	.03
TOTAL DEPOSITS	/	5,282	.62	+ 24%	6,554	.64	+ 76%	11,552	.70
Borrowed Funds	/	1,900	.22	+ 1%	1,922	.18	+ 9%	2,099	.13
TOTAL FUNDING LIABILITIES	/	7,182	.84	+ 18%	8,476	.82	+ 61%	13,651	.83
Other Liabilities	/	543	.06	+ 71%	931	.09	+ 91%	1,775	.11
TOTAL LIABILITIES	/	7,725	.90	+ 22%	9,407	.91	+ 64%	15,426	.94
CAPITAL FUNDS									
Paid Capital	/	602	/	/	613	/	/	628	/
Reserves & Surplus	/	3	/	/	3	/	/	3	/
Retained Earnings	/	214	/	/	265	/	/	349	/
TOTAL CAPITAL FUNDS	/	819	.10	+ 8%	881	.09	+ 11%	980	.06
TOTAL LIABILITIES & CAPITAL FUNDS	/	8,564	1.00	+20%	10,288	1.00	+ 60%	16,406	1.00
Contingent Liabilities	/	707	/	/	686	/	/	1,410	/
Loan Loss Reserve	/	36	/	/	35	/	/	145	/

PHILIPPINE COMMERCIAL INTERNATIONAL BANK
Consolidated Balance Sheet Statements
(Millions in Pesos)

	DECEMBER 31, 1983			DECEMBER 31, 1984			DECEMBER 31, 1985		
	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.	Horiz.	Amount	Vert.
REVENUES									
Financial	/	1,763	.78	+ 40%	1,066	.72	+ 2%	1,083	.72
Other Income	/	220	.22	+ 92%	422	.28	- 1%	419	.28
TOTAL REVENUES	/	983	1.00	+ 51%	1,488	1.00	+ 1%	1,502	1.00
EXPENSES									
Financial	/	(578)	.59	+ 52%	(877)	.60	-10%	(789)	.52
Personnel	/	(158)	.16	+ 3%	(162)	.11	+ 2%	(178)	.12
Other Expense	/	(148)	.15	+ 88%	(278)	.18	+29%	(359)	.24
TOTAL EXPENSES	/	(884)	.90	+ 49%	(1,317)	.89	+ 1%	(1,326)	.88
Operating Profit	/	99	.10	+ 73%	171	.11	+ 3%	176	.12
Provisions & Other (Net)	/	-	-	-	-	-	-	-	-
Before Tax Profit	/	99	.10	+ 73%	171	.11	+ 3%	176	.12
Taxes	/	(39)	.04	+ 77%	(69)	.05	-19%	(56)	.04
Net Income	/	60	.06	+103%	102	.06	+18%	120	.08
Net Interest Income	/	189	.19	/	189	.13	/	294	.20

ATTACHMENT E

SUB-BORROWER INFORMATION REPORT

1. Name of Borrower :
2. Contact Person(s):
3. Business Address :

4. Location and/or Geographic Scope of Enterprise:
   * Community of
   * Region of
   * Province of
   * National

5. Nature of enterprise/Business Activity:

6. Loan Amount (Pesos):
7. Date Granted:
8. Term:
9. Repayment Schedule:
10. Purpose of Loan:

11. Collateral/Security Provided:

12. Size of Enterprise (As of / /):
    * Employees - Men _____ Women _____
    * Annual Sales/Revenues -
    * Total Assets -
    * If Individual, Size of Family Unit - (include the number of women)

13. New Customer : _____

    Previous Customer: _____

    Existing Customer: _____

    What is New Aspect of Borrowing Relationship? _____