The Impact of Mandated Credit Programs on Financial Institutions

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Introduction

Those who follow the theory and practice of financial markets generally view mandated credit programs (MCPs), which are programs imposed by legislation on financial institutions, as inefficient ways of allocating scarce financial resources to specifically targeted sectors. Standard principles of taxation are normally invoked in this type of framework to show that a loan quota is an implicit form of taxation on financial intermediation. The banking community, for its part, has repeatedly expressed the view that MCPs have been ineffective in practice because they have so many built-in incentive problems resulting in high monitoring cost or mere perfunctory compliance with legal requirements (e.g., complying with the "letter" but not the "spirit" of the laws).

There are those, nonetheless, who maintain the view that credit must be "directed" to sectors that are deemed critical from a social standpoint. According to those who advocate this position, a trade-off must be recognized and addressed squarely because the scarce funding resources would otherwise be channelled almost exclusively by financial institutions into projects that generate superior private, but not necessarily social, returns. This view then argues that (1) it is the unavailability of credit that impedes the pursuit of some social objective and (2) the potential social benefits that can be derived from MCPs would outweigh the strictly private cost of redirecting scarce funding away from private undertakings into more socially-relevant concerns.

In view of these opposing contentions, this research attempts to offer an empirical handle on the impact of MCPs. To the extent that social welfare considerations are not directly quantifiable, we delimit our focus on the effect of MCPs on the pricing and availability of credit. Although MCPs are imposed on various types of banking institutions, the focus of the paper will be on the commercial banking industry. Commercial banks represent over 89% of the banking market and is, therefore, the dominant player.

This report contains the following:

1. Discussion of pertinent provisions in existing and proposed laws that mandate banks to set aside a defined proportion of their loan portfolios for [a] agricultural loans, [b] agrarian reform loans and [c] loans to small & medium enterprises;
2. Examination of data on financial institutions' compliance with the laws;
3. Brief report on how the BSP monitors and enforces compliance;
4. A simple model of how lending operations of financial institutions are affected by mandated credit allocation;
5. Analysis of the effects on cost of mandated credit on cost of funds;
6. Assessment of the implications of stricter monitoring and enforcement of the laws that mandate credit allocation;
7. Discussion of possible measures that may have to be seriously considered, either to strengthen the framework for MCPs or to provide alternatives to MCPs.

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Laws Mandating Credit Allocation

There are two legislated provisions that specifically mandate banks to set aside a portion of their loan portfolio to target sectors. The Agri-Agra Law targets the agriculture and agrarian reform sectors while the Magna Carta for Small Enterprises directs credit to small and medium scale enterprises.

1. Agri-Agra Law

Agricultural credit allocation was first introduced under Central Bank Circular No. 408 (May 1974). Two decades later, Presidential Decree No. 717 (May 1995), also known as the Agri-Agra Law, provided bank credit to agrarian reform beneficiaries and to the agriculture sector in general. Under the law, banks were required to allocate at least 25% of their net incremental loanable funds for agricultural credit, at least 10% of which was for agrarian reform beneficiaries and 15% for agriculture-related loans[1].

Because it is perceived to promote growth in the countryside, the agrarian reform program has always been one of the priority programs implemented under several government dispensations to alleviate poverty and address the imbalance in development. The Marcos administration enacted the Agri-Agra Law to gain

1 *Loanable funds are funds generated from May 29, 1975 onwards. Agricultural credit is defined as loans and advances granted to borrowers, whether beneficiaries of agrarian reform or not, to finance activities relating to (a) agricultural production and (b) processing, marketing, storage and distribution of agricultural products.*

mass support and to encourage urban-oriented institutions to mobilize resources of urban-based institutions for rural lending and, hence, agricultural development. As specified in the law, agrarian reform beneficiaries include tillers, tenant-farmers, settlers, agricultural lessees, amortizing owners, owner-cultivators, farmers' cooperatives and compact farms. Eligible credit encompasses a broad spectrum of agrarian reform activities, such as: production; acquisition of work animals, farm equipment and machinery, seeds, fertilizers, poultry, livestock, feeds and other similar items; acquisition of lands authorized under the Agrarian Reform Program; construction and/or acquisition of feeds for production, processing, storage and marketing; and efficient and effective merchandising of agricultural commodities stored and/or processed by these facilities.

In terms of loan evaluation, the law does not require preferential treatment for agri-agra loans. It stipulates that extension of credit will be based on the feasibility of the projects, the borrowers' paying capacity, the estimated output size and/or securities offered, as well as such assets as the borrowers may acquire from the proceeds of the loan. But in subsequent guidelines issued by the Central Bank, the interest rate was limited to 12% per annum while service fees and other charges were prescribed not to exceed 2% of the loan or P150 per annum.

Although the law provides that the National Economic and Development Authority may increase or decrease the percentage allocation based on the recommendations of the Department of Agrarian Reform and the Central Bank, no such change has ever been made.

In the absence of qualified borrowers, the law allows banks to invest temporarily any portion of the credit allocation not loaned out in government securities declared eligible by the Central Bank.[2] The law also allows banks to rediscount with the Central Bank (at preferential rates and loan values) eligible papers covering agrarian reform credits. In 1994, loans to other sectors (such as educational institutions, cooperatives, hospitals and other medical services, socialized or low-cost housing, and local government units) were included for purposes of determining compliance to the Agri-Agra Law.

The Central Bank imposed administrative sanctions for violations of the rules only until 1988. In 1988, penalties were removed pending the resolution of the proposed amendments to the law.

2. Congressional Initiatives to Amend the Agri-Agra Law

A number of legislative bills have been drafted to amend the salient provisions of the Agri-Agra Law. The amendments sought to address banks' under-compliance with the prescribed percentage allocation and concerns about credit not reaching the target recipients. Among changes being proposed under House Bill No. 5544 entitled, *"An Act Broadening the Scope of Compliance and Expanding the Conduit Network for Agri-Agra Credits"* are the following:

1. Redefining eligible borrowers to include only (a) small farmers with capital not exceeding P1.5 million and (b) agricultural cooperatives (regardless of capitalization).
2. Removing the 10%-15% distinction between agrarian reform and agricultural credit to maximize loans to the agricultural sector as a whole and not be burdened by under- compliance in the agrarian reform component.

2 *The Central Bank had not issued such government securities in recent years.*

3. Proposing other forms of alternative compliance to direct lending which include:
   a. investing in bonds issued by the DBP or the LBP or depositing funds in thrift banks located outside the National Capital Region, cooperative banks or rural banks for relending to agricultural and agrarian reform sectors;
   b. financing construction and upgrading infrastructure, under Build-Operate-Transfer (BOT) schemes, that will benefit the agricultural sector and agrarian reform beneficiaries;
   c. financing post-harvest facilities under BOT schemes;
   d. extending development loans (e.g., to finance educational institutions, medical services, socialized or low-cost housing and LGUs without national government guarantees); and,
   e. lending to farmers, farmers' associations or cooperatives for the production, marketing and distribution of high value crops.
4. Providing administrative sanctions for non-compliance to be imposed by the BSP. Punitive sanctions include imprisonment of and monetary fines on the President and Board of Directors[3] and disqualification of erring bank officers from occupying positions in any banking institution.

HB No. 5544 is due for its second hearing at the House of Representatives.

In the Senate, two bills that aim to maximize full extension of and access to rural credit are pending with the Committee on Banks. An unnumbered substitute bill that merges the two bills has been drafted but has not yet been formally filed. Major features of the first senate bill (No. 246, filed in 1995) include the following proposed amendments to PD No. 717:

3 *Imprisonment of not less than 6 months and a fine of not more than P500,000 each*

1. Redirecting the 25% loan allocation to small farmers, fishermen, cooperatives and enterprises capitalized at not more than P500,000 (since it has been observed that banks just divert the 10% agrarian reform share to government securities and lend a substantial portion of the 15% share for agricultural production to large agri-related multinational corporations).
2. Defining small farmers and fishermen as those earning not more than P3,000 per month (based on 1989 prices).
3. Setting aside at least 18.75% of loanable funds (or 75% of the 25% of the Agri-Agra Fund) for rural credit, leaving allocation of the remaining 6.25% to the discretion of the banks.
4. Removing investments in government securities as an alternative form of compliance.
5. Designating LBP, PNB, and DBP as lead lending and collection conduits of financial institutions (especially commercial banks) and authorizing them and interested commercial banks to create a special investment instrument giving a certain rate of return.
6. Allowing rural banks to accredit existing informal lenders, who will charge the same lending rate as the rural banks. These informal lenders will get such incentives as easy access to credit supply and entitlement to commissions. Moreover, the banks will shoulder part of the lenders' collection losses.
7. Allowing the gradual drawdown of the Agri-Agra Fund to five years.
8. Imposing penalties on the abusive use of the Fund (such as imprisonment of bank officials, cooperative heads and money lenders and a fine of not less than P300,000).

In the same spirit, Senate Bill No. 997 provides for similar amendments to PD No. 717. To wit:

1. Expanding the list of qualified creditors under SB 246 to include (a) fisherfolk and small farmers whose exchange of

agricultural products does not exceed P5,000 per month (based on 1992 prices), and (b) farmers' cooperatives and compact farms whose paid-up capitalization do not exceed P150,000.
2. Removing the distinction between agri and agra loans.
3. Creating a special investment instrument where participating banks can place their funds as compliance with the law.
4. Designating lead lending and collection conduits for financial institutions and integrating informal money lenders into the formal banking system giving the former certain incentives.

3. Credit to Small and Medium Enterprises (SMEs)

Credit allocation to SMEs is embodied in Republic Act No. 6977 otherwise known as the Magna Carta for Small Enterprises. The law, which took effect on January 24, 1991, aims to spur the growth and development of SMEs throughout the country in order to attain countryside industrialization. To achieve this, one of the measures enumerated is the facilitation of SMEs' access to sources of funds. An SME is defined as any business activity or enterprise engaged in industry, agribusiness, and/or services, with total assets (including loans but excluding land) not exceeding P20 million (later increased to P60 million). Moreover, the enterprise:

1. Must be duly registered with the appropriate agencies;
2. In the case of single proprietorship or partnership, must be 100%-owned by Filipino citizens; .
3. In the case of corporations, at least 60% must be owned by Filipino citizens; and
4. Must not be a branch, subsidiary or division of a large scale enterprise.

The law mandates all lending institutions to set aside a portion of their total loan portfolio, based on their balance sheets as of the end of the previous quarter, for credit to small enterprises. The prescribed percentage allocation is as follows: at least 5% of the loan portfolio by the end of 1991 (which marks the first year of the law's effectivity); 10% by the end of 1992 through 1995; 5% by the end of the sixth year; and zero by the end of the seventh year (1997). RA No. 8289, passed last May 1997, extended the life of the original law until the year 2007. The new law included medium enterprises in the loan allocation.[4] Thus, it increased the percentage allocation to 8%, broken down into 6% for small enterprises and 2% for medium enterprises. R.A. 8289 also amended the definition of SMEs based on asset sizes:

Asset Values Plus Loans Less Land

Category	**RA No. 6977 (old)**	**RA No. 8289 (new)**
Micro	less than ₱50,000	less than ₱1,500,000
Cottage	₱50,001 - ₱500,000	
Small	₱500,001 - ₱5,000,000	₱1,500,001 - ₱15,000,000
Medium	₱5,000,001 - P20,000,000	₱15,000,001 - ₱60,000,000

The Central Bank was tasked to formulate the Implementing Rules and Regulations (IRR) . Based on these rules, the funds set aside may also be used for the following alternative modes of compliance (likewise included in the original (June 4, 1991) IRR):

1. Investment in instruments offered by the Small Business Guarantee and Finance Corporation (limited to include only those instruments that do not pay market rates);
2. Cash holdings and placements in "due from" (the Central Bank or local banks) accounts - provided these are free, unencumbered and not utilized or earmarked for other purposes.

4 *Under the original law and its implementing rules, loans to medium enterprises were only "encouraged" and not mandated to form part of the loan allocation.*

The CB subsequently issued circulars amending certain provisions of the IRR. These are:

- in December 1992:
  Redefining small enterprises as those with assets less than P10 million – Allowing the purchase of small enterprises' promissory notes and equity investments and loans to the BAP Credit Guaranty Corporation (BCGC) as additional modes of compliance
- in February 1994:
  Allowing compliance on a group wide basis (i.e., based on the consolidated reports of banks and subsidiaries)
- in September 1994:
  Allowing compliance through equity investments in, and loans to BCGC only to the extent of member banks' proportionate share in the total outstanding loans granted by BCGC to small enterprises
- in July 1996:
  -Including the unavailed portion of committed credit lines to SMEs as among the alternative modes of compliance
- in October 1997 (under the new law):
  Further expanding the alternative modes of compliance to include: loans granted to export traders including those not guaranteed by SBGFC; loans to domestic traders; and equity investments in venture capital corporations

Under the new law, the Bangko Sentral ng Pilipinas (BSP) will establish an incentive program for lending institutions to encourage lending beyond the mandatory credit allocation. Moreover, the law empowers the BSP to impose administrative sanctions on non-compliant banks, in addition to a fine of not less than P500,000. The BSP's administrative sanctions include: the suspension of rediscounting privileges or access to BSP facilities; suspension of the privilege to establish branches; suspension of lending to foreign exchange operations or authority to accept new deposits for investment; suspension of interbank clearing privileges; and/or, revocation of quasi-banking license. Under the old law, the president, the members of the board of directors, and other officers of erring banks are also individually liable for imprisonment of not less than six months, aside from a monetary fine.

4. Compliance to the Mandatory Credit Allocation

4.1 Agri-Agra Law

Data on compliance are available on a quarterly basis since 1975 except for the period 1988 to 1994, when sanctions on under-compliance were removed. As a result, the Supervisory Reports and Studies Office of the BSP discontinued the consolidation of reports submitted by banks.

As of March 1997, banks provided a total of P117 billion in credit to the entire agriculture sector (Table 1). Commercial banks provided P104 billion or 89% of the total agriculture loans of the banking system, thrift banks contributed P7.3 billion or 6.3%, and rural banks lent out P5.6 billion or 4.8% of the total agriculture loans. However, these were P55.2 billion below the amount of loans mandated to the sector. Hence, the compliance ratio (or the ratio of loans granted under the program to total loanable funds generated), was only 17% instead of the 25% mandated under the law.

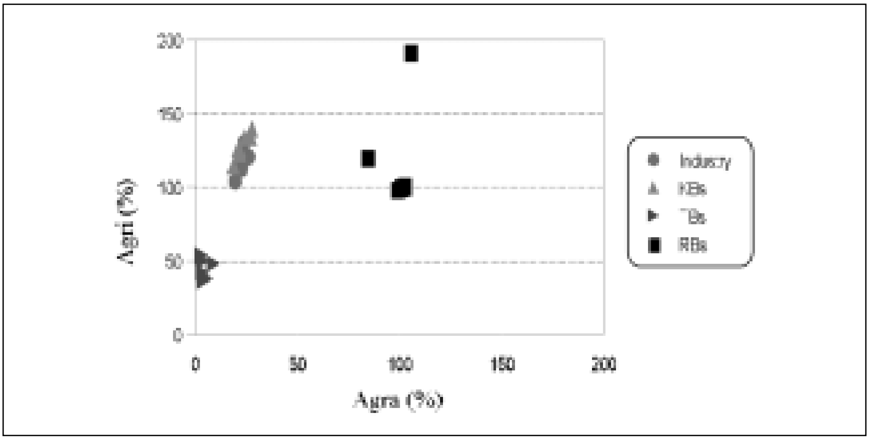
As may be expected, rural banks have the highest compliance ratio for the 10% agrarian reform credit allocation. In most periods, these banks met the minimum 10% compliance ratio. However, because of the relatively small size of the sector (accounting for only 3.3% of total loanable funds), their compliance only had a minimal effect on the compliance ratio of the whole banking system. In fact, the compliance ratio for the entire banking system was only 1.9%. Thrift banks have the lowest compliance ratios (0.5%) followed by commercial banks (1.8%). Among commercial banks, foreign banks have the lowest compliance ratio. This is to be expected since foreign banks cater to large institutions or accounts. Moreover, due to limits on the number of branches that they can set up, foreign banks cannot access the agrarian reform market.

Segregating loans granted by specialized government banks (DBP, LBP and Al Amanah) from those extended by other commercial banks[5], the latter accounted for only about 25% of the agrarian reform loans of the entire commercial banking system. A large portion of the loans granted by specialized government banks is due to the Land Bank of the Philippines, which is the primary financing arm of the agrarian reform program.

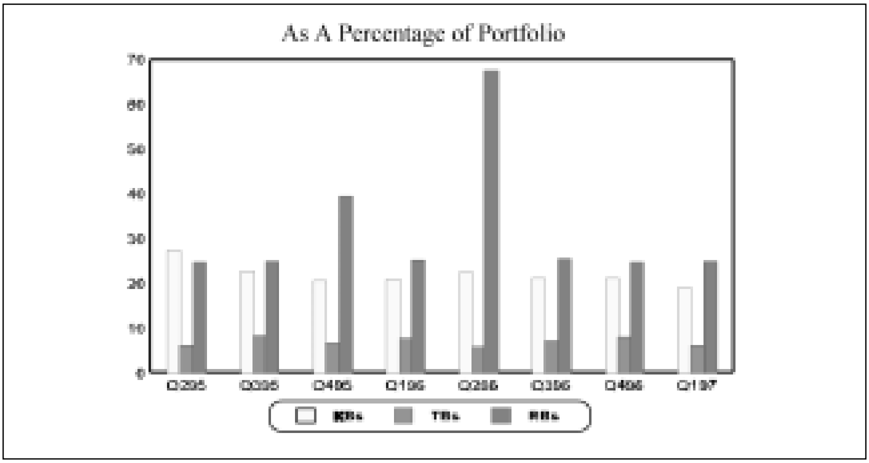
Both the commercial banks and the rural banks were able to comply with the minimum 15% credit allocation for the agricultural sector in general. Their compliance ratios are 17.2% and 15%, respectively. Again, it is the thrift banks that cannot comply with the minimum credit allocation.

Examining compliance over a longer period, the data show declining compliance ratios from 1975 to 1988, for both the agriculture and the agrarian reform components. The use of government securities as an alternative mode of compliance has contributed largely to overcompliance in the agrarian reform component during this period. But since the BSP has ceased issuing special series Treasury bills over 10 years ago, the decline in the compliance ratios in the 90s has become apparent. This seemingly relative indifference to the sector can be shown by comparing the growth rate in agri-agra loan compliance with that of loanable funds. Total loanable funds generated grew at a compounded annual rate of 18.7% during the period 1975 to 1996, while agri-agra loan compliance grew by only 15.5%. The latter can be broken down into a 7.9% annual growth rate for agrarian reform loans and 15.4% growth for agricultural loans.

Agri-Agra Compliance Matrix



Agri-Agra Compliance Ratios



5 *Specialized government banks were reported separately until March 1996.*

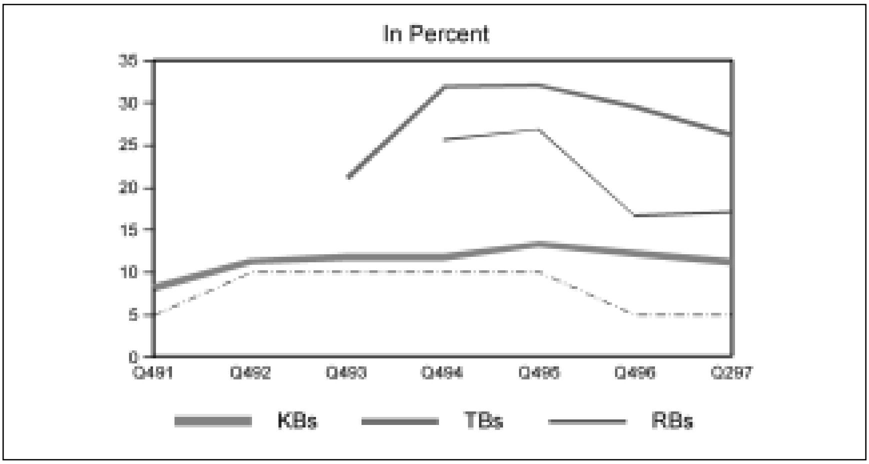
On the whole, rural banks appear to be best suited among the different types of banks to provide funds to the agri-agra sector. But since they generate the least volume of loanable funds, they do not have that much of an impact on the total loans extended to the target sector. In contrast, the thrift banks are the least able to provide funding support (as seen from their low compliance ratios). These seeming contrasts reflect the types of funds sourced by the different banks[6]. which do not match the requirements of agricultural loans. Commercial and thrift banks source a considerable amount of their deposits from short-term, high-turnover funds (i.e., savings and demand deposits)[7]. Rural banks on the other hand, rely more heavily on funds from the BSP's rediscounting window and from special lending programs[8]. Thus, short-term sources of funds such as deposits are not as significant to them as these are to commercial and thrift banks. In contrast, the funds required for compliance with the Agri-Agra Law are not the short-term funds typically generated by banks. Agricultural loans require longer-term financing than say, trade loans, because they have longer gestation periods.

4.2 Credit to SMEs

Ever since the Magna Carta for SMEs was implemented, the banking system had more than complied with the minimum credit allocation required for the sector (**Table 3**). Out of the several types of banks, it was only the foreign banks (FXBs that have not consistently complied with the requirement. Latest data (as of June 1997) show that around 86% of their compliance or utilization was in "due from the BSP", which are not actual funds lent out but only funds set aside for future loans.

There are fears that the funds supposedly channelled to SMEs have not really reached the intended beneficiaries since they are not actual investments. Rather, it has been argued that banks

SME Compliance Ratios



have found alternative ways of complying with the law given the expansion of the list of allowable funds that can be considered as compliance[9]. But actually, the bulk of bank investments in small enterprises has been "net eligible loans" or actual funds lent out. "Funds set aside" which includes cash on hand, due from BSP and local banks, (and which are not really lent out) are relatively smaller. If these are netted out of total compliance (or if only actual investments are considered), the banking system as a whole, still complies with the law. Note that "funds set aside" has been relatively stable since 1992 and that its share to the total loan portfolio has been declining. This gives an assurance that the "compliance" figures are primarily actual loans.

6 *Heidee Parra, "The Agri-Agra Law", InfoNotes, BAP-Policy Research Group, Vol.2, No.1, October 1996.*

7 *The exceptions being DBP and LBP. The former sources long-term funds for its role as a development bank while the latter has access to government funds to carry out its agrarian reform functions.*

8 *T. Untalan and C. Cuevas, "Transaction Cost and the Viability of Rural Financial Intermediaries", PIDS Working Paper Series No. 88-18, October 1988.*

9 *Through the years, the definition of actual investments has been expanded to include loans not directly lent by banks to small enterprises but also loans granted through conduits such as the BAP Credit Guaranty Corporation and the Small Business and Guarantee Finance Corporation.*

Moreover, loans to small enterprises have been increasing faster than total loans. Banks' total loan portfolio increased at a compounded annual growth rate of 33% from 1991 to, while their loans to SMEs expanded 51%. This implies that relative to other sectors, activities of small enterprises have grown tremendously and/or small enterprises have become more attractive bank clients.

5. BSP's Monitoring of Compliance with Mandated Credit

The BSP monitors banks' compliance to the laws on mandated credit. Banks submit their compliance reports to the BSP's operating departments under the Supervisory Reports and Examination Sector (SRSO). The reports on agri-agra credit include information (in addition to total compliance and loanable funds) on the breakdown of agrarian reform loans by use (production, processing or storage) and by loan maturity (short, medium, long term). Report forms for small enterprise loans include a breakdown of the loans by economic activity (e.g., manufacturing, construction). However, only the data on total compliance are collated and consolidated. Detailed bank data on loans by economic activity are kept for future reference.

Based on an interview with a BSP employee, the BSP takes the bank report at face value and keeps all documents on file. There are times when it does spot-checking and further examines certain loans. But the BSP does not have a separate unit for auditing banks' compliance with MCPs. Banks audit is done only once a year when all the loans are examined irrespective of whether they are agri-agra or SME loans. Because of its limited manpower, the BSP does not examine every MCP loan to determine whether it is really qualified. For instance, it does not check whether each and every borrower is a small enterprise or not.

At present, the BSP does not even receive compliance reports from all banks. For instance, data on small enterprise credit as of June 30, 1997, show that only 741 or 76% of the 979 operating banks, submitted their reports. Most of the non-reporting banks are rural banks (222) and thrift banks (16). Moreover, out of the 741 reporting banks, 140 or 19% were not able to comply with the law. A BSP source said that the BSP imposes the administrative sanctions as stipulated in the laws that mandate credit. However, with the large number of non-reporting banks, it is doubtful whether the BSP imposes anything more than minimum penalties, if at all. (The banks may even find it cheaper to pay fines than to comply).

In an interview with a high-ranking officer of a commercial bank, it was pointed out that the general perception is that government enforcement is weak ("benign neglect") with regard to the agri-agra law. This is not surprising since the government itself has a backlog in the implementation of the agrarian reform law[10]. Meanwhile, banks comply with mandated lending to agriculture, by lending to big corporations engaged in agriculture. On the other hand, meeting the requirements for lending to SMEs is less of a problem since most borrowers tend to under-declare the value of their assets for tax reasons. Of course, banks look beyond the financial statements when doing loan evaluations(which partially explains why they are willing to lend to firms with seemingly low asset value). But they have neither the incentive nor the clout to require borrowers to declare asset values more truthfully. Indeed, it was pointed out that the BSP itself may not have a very strong incentive to improve compliance or to enforce the laws since it already has its hands full just doing its normal prudential supervision. Moreover, it was thought that the BSP is probably aware that strict enforcement

10 Government, in fact, has a hard time utilizing public funds already set aside for agrarian reform.

may reduce the quality of banks' portfolios, and this may conflict with the BSP's principal duty of making sure that banks have sound financial positions.

3

Bank Response to Mandated Credit: A Simple Model

Suppose that bank profits are a function of how much it lends to two sectors -the free sector and the mandated sector.[11] Assume further that the bank's principal costs are cost of funds, default costs and information and screening costs.[12] Default costs, in turn, are a function of both sector specific and non-sector specific information and screening costs. Finally, assume that banks must pay a penalty for deviating from mandated credit requirements. The penalty is a function of enforcement parameters, monitoring, and deviations of actual lending from what the law mandates.

The cost of funds to banks may be affected by mandated credit in two ways: (a) demand for funds may fall, which may reduce the interest rate that banks pay their depositors, and (b) the riskiness of bank porfolio may rise, which may increase the interest rate that banks pay to depositors (since bank deposits must compete with other assets such as government securities). As in any tax incidence question, it is never clear who will bear the cost of MCPs. It may fall on depositors (lower interest rates paid to depositors), banks (reduced profits), or borrowers who do not benefit from the MCPs. Since the cost of funds to banks are treated as an exogenous variable in this section, we are in effect temporarily

11 *Since this is a descriptive model, the number of mandated sectors can be increased without changing the basic conclusion.*

12 *In this simple model, cost of funds is taken as exogenous. In the succeeding section, we also show an alternative model where we unbundle cost of funds to be a function of deposit rates, taxes, reserve requirements, and MCP parameters.*

assuming that the cost of MCPs will be borne by either banks or borrowers who would have obtained loans in the absence of MCPs. However, not having an explicit linkage between MCPs and interest rates paid to depositors allows us to focus on the lending side of bank operations. Moreover, given limited data and knowledge about the full workings of the economy, it would not be possible to get any conclusive finding regarding how the cost of MCPs are distributed between depositors on the one hand and borrowers and financial intermediaries, on the other.

Bank profits p can thus be written as:

$$\pi = R(L_1, L_2) - D^1(L_1, I_1, I) - D^2(L_2, I_2, I) - I - I_1 - I_2 - P(L_1, L_2, e) - r(L_1 + L_2) \quad (1)$$

where R is interest income

L_1 is loans to the non-mandated sector

L_2 is loans to the mandated sector

D^1 is default costs on loans to the non-mandated sector

D^2 is default costs on loans to the mandated sector

I is cost of information and screening that is not sector specific

I_1 is cost of information that is specific to loans to the free sector

I_2 is cost of information that is specific to loans to the mandated sector

P is penalty

e is enforcement parameter

r is cost of funds to the bank

If P is always zero (or is some low number that is not sensitive to changes in L_1 and L_2) and r is not sensitive to changes in L_1 and L_2, then the optimum loan allocations will satisfy the following:

$$R_1 - D^1{}_1 - r \leq 0 \text{ , where } L_1 = 0 \text{ if the strict inequality holds} \quad (2a)$$

$$R_2 - D^2{}_1 - r \leq 0 \text{ , where } L_2 = 0 \text{ if the strict inequality holds} \quad (2b)$$

R_1 and R_2 are the marginal revenues from loans to the free and mandated sections, respectively, and $D^1{}_1$ and $D^2{}_1$ are the marginal default costs. Equations (2a) and (2b) simply mean that the revenue from every additional loan must be able to cover the marginal cost of funds and the default costs. Introduction of a positive penalty function P, means that the bank must earn an extra margin on loans that increase penalties but would then be willing to take negative margins on loans that reduce penalties. The size of these margins will depend on the magnitude of the penalties.

The derivatives with respect to I_1 and I_2 are:

$$D^1{}_2 - 1 \leq 0 \text{ , where } I_1 \text{ is zero if the strict inequality holds.} \quad (3a)$$

$$D^2{}_2 - 1 \leq 0 \text{ , where } I_2 \text{ is zero if the strict inequality holds} \quad (3b)$$

Investment in an information system may be rather lumpy. This means that the values of $D^1{}_2$ and $D^2{}_2$ would be low for low values of I_1 and I_2 , respectively (and the strict inequality will hold for at least one sector). Hence, a small bank will have to choose which sector it will enter. If the market for the second sector is thinner or more information-intensive, then it will be optimal to have $I_2 = 0$. But D^2 will be relatively high (e.g., at the extreme case equal to L_2) unless loans to the mandated sector are kept low. The bank will then choose to become a "niche" or "boutique" bank, catering only to a narrow spectrum of borrowers.

This seems to be the case with thrift banks. While there are no great scale economies for gathering deposits, risk-pooling and information cost on the lending side will force the banks to either become large or to specialize.[13] The foreign banks on the other hand, are restricted to operating a few branches in the country and therefore cannot develop an effective information and screening system. It is thus quite ironic that laws tell them to lend to hard-to-reach sectors but at the same time, prohibit them from developing the capacity to do so.

At any rate, it seems that the specialized and small banks will either have to have uneconomic operating costs or higher than usual default costs if they are to strictly satisfy the MCPs. That we do not see much higher operating costs and default costs is perhaps due to the fact that MCPs are not strictly enforced.

So far, we have assumed that r, the cost of funds, is unaffected by MCPs. In the succeeding section, it will be shown that the cost of funds may in fact be affected by mandated credit. The conclusions in this section are reinforced if it is assumed that mandated credit raises banks' cost of funds. This is so because banks must worry not only about the effect of MCPs on their default and operating costs, but also about whether depositors and owners of funds may associate the expansion of loans to the target sectors with increased riskiness of bank portfolio, thereby exerting upward pressure on the cost of funds (and raising the marginal cost of lending to the targeted sector).

13 Becoming large, unfortunately, is not an option open to many.

4
Approaching MCPs Through the Cost Side

MCPs can alternatively be seen as representing pre-set fund allocations. To explore this view, reconsider our stylized banking institution whose primary source of funding comes from deposits. Portions of these deposit funds are encumbered, specifically for (a) reserve requirements with the BSP and (b) MCPs. Adjusting for gross receipts and corporate income taxes, expected bank revenues can be represented as:

$$E(R) = (1 - t_1)(1 - t_2)D[r_L - (r_L - r_1)Q_1 - (r_L - r_2)Q_2 - (r_L - r_3)Q_3(1 - Q_1 - Q_2) - (r_L - r_4)Q_4(1 - Q_1 - Q_2) - (r_L - r_5)Q_5(1 - Q_1 - Q_2)] \quad (4)$$

where t_1 = gross receipts tax rate;
t_2 = corporate income tax rate;
D = deposits;
r = effective (net-of-default) rate of return on pre-allocated funds;
Q = actual proportion of deposits in reserves and MCPs (i.e., the product of mandated proportion and actual compliance rate);
r_L = effective (net-of-default) rate of return on unencumbered loans

and the subscripts 1 to 5 respectively refer to (1) primary reserves, (2) secondary reserves, (3) 15% agricultural loan requirement, (4) 10% agrarian reform MCP and (5) the MCP for SMEs.

The rates r_3, r_4, r_5 and r_L become known to the bank only after it realizes the respective default rates on encumbered and unencumbered loans. Consistent with both theory and available empirical findings, the respective default rates (ρ_3, ρ_4, ρ_5 and ρ_L) can be assumed to be affected directly by their corresponding loan rates ($\acute{r}_3$, $\acute{r}_4$, $\acute{r}_5$ and $\acute{r}_L$) and inversely by both expected macroeconomic performance (η) and information cost (I_1, I_2):

$$\rho_k(\acute{r}_k, \eta, I_h) \quad where \; \frac{\partial \rho_k}{\partial \acute{r}_k} > 0; \; \frac{\partial \rho_k}{\partial \eta_k} < 0; \; \frac{\partial \rho_k}{\partial I_k} < 0 \qquad (5)$$

The impact of MCPs on expected revenues can then be easily derived as:

$$\frac{\partial E(R)}{\partial Q_k} = -(1 - t_1)(1 - t_2)D(r_L - r_k)Q_k(1 - Q_1 - Q_2) \qquad (6)$$

If MCPs generate a rate of return that outperforms the effective return on unencumbered loans, the above expression suggests that the revenue stream of banks will be improved with either an increase in the proportion required by the MCPs and/or an improvement in the banks' compliance rate. On the other hand, the more realistic presumption is that banks generate inferior cost-adjusted returns on MCPs, $r_L > r_k$. In this context then, MCPs serve to erode the expected revenue stream of banks and the terms ($r_L - r_k$), k=1...5, in equation (6) reflect the respective opportunity costs to the banks of these pre-identified allocations.

To compensate for the erosion in expected revenues, banks would then have no other recourse but to raise any of the loan rates, $\acute{r}_3$, $\acute{r}_4$, $\acute{r}_5$ and $\acute{r}_L$.[14] This increase in the loan rate is exactly the same result generated in the previous section and shows that either intended MCP recipients (if r'_3, r'_4, r'_5 rise) and/or borrowers not under an MCP (if it is r'_L which is increased) bear the cost of legislated lending through higher-than-otherwise lending rates.[15] In the marketplace, this burden is not evident since there is no counterfactual information on how much r'_3, r'_4, r'_5 and r'_L would be without the MCPs.

The increase in any or all of the loan rates do not, however, guarantee that expected revenues will increase. Banks are more than aware that at higher loan rates, the probability of default also rises. Recognizing this trade-off, the impact of higher loan rates on expected revenues can then be expressed as:

$$\frac{\partial E(R)}{\partial r'_k} = (1 - t_1)(1 - t_2)DQ_k Q_{RES} \left(r'_k \frac{\partial \rho_k(r'_k,\eta,I_1,I_2)}{\partial r'_k} + \rho_k(r'_k,\eta,I_1,I_2)\right) \quad (7a)$$

$$\frac{\partial E(R)}{\partial r'_L} = (1 - t_1)(1 - t_2)DQ_L Q_{RES} Q_{MCP} \left(r'_L \frac{\partial \rho_L(r'_L,\eta,I_1,I_2)}{\partial r'_L} + \rho_L(r'_L,\eta,I_1,I_2)\right) \quad (7b)$$

where $Q_{RES} = (1-Q_1-Q_2)$ and $Q_{MCP} = (1-Q_3-Q_4-Q_5)$ for brevity. Both of these expressions will be positive if and only if:

$$r'_k \frac{\partial \rho_k(r'_k,\eta,I_1,I_2)}{\partial r'_k} + \rho_k(r'_k,\eta,I_1,I_2) > 0 \quad (8a)$$

$$r'_L \frac{\partial \rho_L(r'_L,\eta,I_1,I_2)}{\partial r'_L} + \rho_L(r'_L,\eta,I_1,I_2) > 0 \quad (8b)$$

14 *The only other "trigger" available to banks is a decrease in deposit rates.*

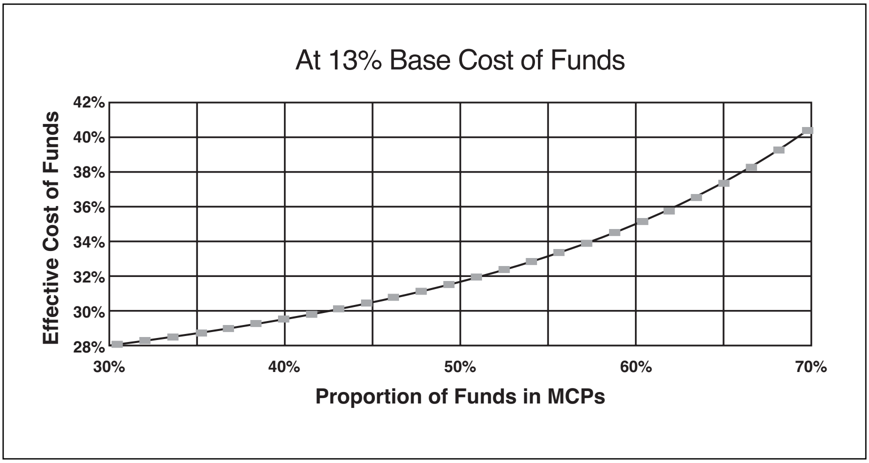
15 *If banks resort to lowering their deposit rates, then depositors also bear part of the cost of legislated fund allocations.*

The last two expressions show that higher loan rates lead to higher expected revenues for as long as the rates are at levels that do not provide borrowers a larger incentive to default than to repay. These suggest that loan rates cannot be increased indefinitely by banks to compensate for the negative impact of MCPs on expected revenues. At some point, interest rates become "too high" to be viable for borrowers to cover, resulting in more defaults and loan losses than repayments. This is just a restatement of the intuitive result that defaults do occur but are not likely to be significant when interest rates are low but can certainly dominate when rates are high.

From the point of view of the bank, the cost of sourcing and deploying deposits now includes the erosion of expected revenues by MCPs. This is tantamount to stating that MCPs increase the bank's effective cost of fund (ECF). The increase in loan rates due to MCPs reflects a fundamental increase in the riskiness of the bank's portfolio. The increased risk stems from the expectation that MCPs generate inferior cost-adjusted returns –via default, operating and information costs – than returns on unencumbered credit. However, banks may opt not to increase $\acute{r}_3$, $\acute{r}_4$, $\acute{r}_5$ and $\acute{r}_L$ simultaneously – or at least disproportionately – if defaults in agri-agra type loans and/or in SMEs are relatively more sensitive to loan rate movements.[16] It is reasonable to assume that banks would rather calibrate their loan rate on unencumbered funds so that the effective cost is at least recovered. It is in this context that the ECF becomes the minimum loan rate on unencumbered funds that banks must effectively hurdle.

Simulations easily confirm that MCPs adversely affect banks' ECF.[17] For given loan rates on agri-agra and SME loans, higher percentages of funds set aside for MCPs will effectively increase the loan rate on unencumbered loans. The same result will of course be generated if the present MCP proportions are maintained but the compliance rate of banks increased. The exact magnitude of the rise in the loan rate on "free" funds depends on the parameters of the model and can increase or decrease further depending on both the magnitude and direction of potential changes in r'_3, r'_4, r'_5.[18]

Impact of MCPs on ECP



Isolating the impact of defaults, it is fully expected that exogenously higher default rates[19] on MCPs necessarily increases the bank's effective cost of funds. Larger investments in information would reduce the subsequent probability of default but would increase the bank's cost of operations. If loan rates are used as a trigger, the trade-off between higher loan rates and higher default

16 *Defaults are of course influenced in part by the bank's ability to continuously monitor and process relevant information about the client. These are fully subsumed in information cost, I.*

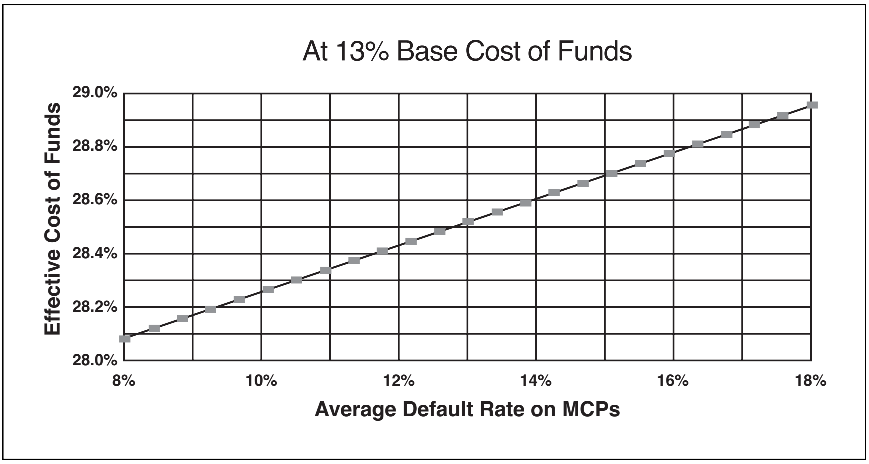
17 *It is not possible to run causation (i.e., regression) tests since time-series data for many of the variables are not available.*

18 *The "parameters" include among others tax rates, 91-day Treasury Bill rate, rate on deposit instruments, insurance premia and other regulatory fees.*

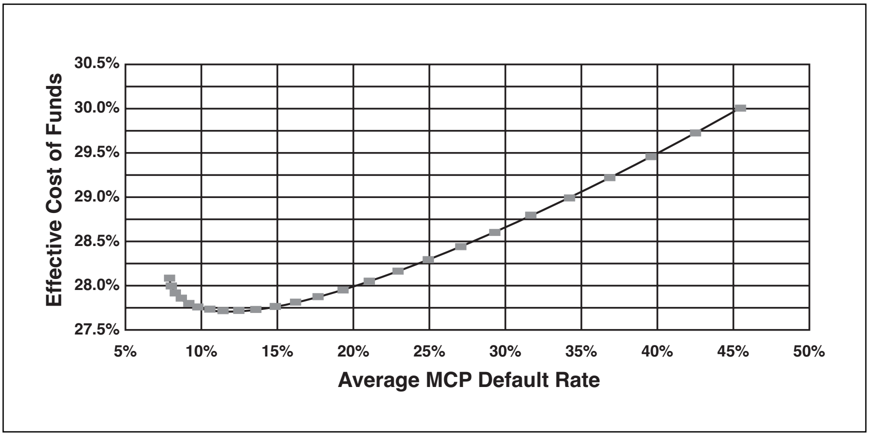
19 *This may occur when the bank does not have the necessary information base that is crucial initially to screen potential clients and then subsequently to monitor existing clients under these MCPs*

rates may lead to a "J-curve" phenomenon(which our simulation shows) derived on the premise that default rates geometrically increase as loan rates rise.

Impact of Default Costs



Combined Effect of Higher Loan Rate And Higher Default Rate



5 Policy Implications

The study found that compliance with MCPs are lower in thrift banks and foreign banks than in other types of banks. Also it was observed that enforcement has not been tight and binding penalties have not been imposed. Ironically, it is probably a good thing that banks have not been forced to strictly follow the mandated allocations. Otherwise, there would have been higher default and operating costs, which are likely to become deadweight losses or costs that would have to be borne by banks (lower profits), depositors (lower interest rates) and borrowers (higher lending rates) who would have access to credit in the absence of MCPs.

It is worth noting that even the SMEs and agricultural borrowers, which could have had access to loans in the absence of MCPs, will also be negatively affected. The only beneficiaries are the marginal borrowers, who would have been denied credit in the absence of MCPs, but were given credit because the banks chose to expand lending rather than pay the penalty for failing to meet the mandated loan allocation.

One point of view is that MCPs are a nuisance, both to banks and their auditors and to the supervisors from the BSP. Accordingly, they should be expunged. This view, however, neglects the possibility that legislation to help “deserving” borrowers is not really meant to help them but are really meant to show that legislators are doing something to help them. In short, trying to convince Congress that the laws should be changed may result in laws that are more binding, but which theory shows, are much more costly for society.

An alternative is to develop a market-based system of compliance. There are no obvious reasons to impede, for example, the development of a market for instruments that serve as compliance to MCPs. At one level, financial institutions that exceed the mandated percentages should be able to market their excess to institutions that fall short on the compliance requirement. For the system as a whole, this is an improvement because it plays on the comparative advantage of the institutions who can and do intermediate in the target markets while minimizing the repercussions of forcing other institutions to take on credit risks in markets where they have relatively little expertise. This is where it becomes necessary to view financial institutions predominantly as risk managers rather than as mere intermediaries. Financial institutions are, by their very nature, not risk-averse per se but are averse to risks that they cannot effectively manage.

At another level, several institutions may be in a position to directly float instruments in the primary market and use the proceeds on loans to the target markets. These institutions will directly take on the credit risk but given their comparative advantage in the agriculture, agrarian reform and SME markets, they may be expected to have the best chance of efficiently intermediating the funds. Financial institutions that do not see themselves as competitive in these markets can then opt to purchase the instruments as a mode of compliance. To ensure viability, it is essential that the instruments themselves reflect market conditions. This means that a secondary market-where trading of the instruments between financial institutions will take place- must also be in place to reflect the proper market price of the instrument and to generate sufficient liquidity.

Caution must be exercised in putting in place a penalty system for under-compliance. Aside from its adverse impact on loan rates, penalties that are too stringent give the banks every incentive to fudge the re-classification of their accounts to satisfy the legislated provision. This puts the burden on the BSP auditor, and given the number of banks in the system and the number of transactions handled by each bank and at each branch, this audit system is certainly untenable. If the penalties are reasonable, they can at least be carried out and there is a better chance that the institutions will manifest a better accounting of the pertinent transactions.

From the administrative aspect, it may be worthwhile to consider a consultative group composed of key agencies of the government.[20] The group can be tasked with deciding in advance the amount of credit needed for overall rural development. This has the advantage of setting credit targets consistent with the objectives of the government and in full recognition of both the sectors' anticipated needs and its absorptive capacity for these funds. In contrast, the current practice of setting fixed percentages suggests that the credit to be made available is tied to the aggregate stock of deposits in the financial system but may have little to do with the needs and requirements of the sectors involved.

One further advantage of a consultative group is that we can shift the focus of MCPs from direct lending to activity financing. If information asymmetry is already an issue, forcing financial institutions to address the needs of individual borrowers only complicates matters further. Since one of the objectives of MCPs is to stimulate rural development, this may be served well by financing a rural support system. By putting in place such things as farm-to-market roads, post-harvest & storage facilities and

20 *In the case of MCPs, this group may, for example, include DA, DAR, SMED Council, NEDA, BSP, DOF & DTI.*

irrigation systems, individuals would have the needed infrastructure that would allow "produce" to be generated then delivered or stored for eventual sale. Direct lending to intended MCP-recipients would not amount to much if the products do not generate their fair value because the items cannot be brought to the market or stored for future sale.

Putting all of these together, it should be recognized that one of the key reasons why banks' transaction costs in handling MCPs are high is that there is information asymmetry. Assymetric information directly impacts on the credit decision and the credit risk between borrower and lender. By their very nature, the larger financial institutions have the larger funding base. But they are not structured to be able to process the information required of MCP target markets and their intended micro beneficiaries. At the other end, those in the MCP target markets are not able to provide the type of information that the larger financial institutions require.

This is not to suggest, however, that MCP target markets are not viable per se. To the extent that selected institutions and specific types of banks continue to service the needs of these markets, there is reason to expect that they are viable. This point has never been challenged. But to suggest that it is viable for all types of institutions to service this market is a difficult proposition. This is where the introduction of market-based compliance mechanisms becomes critical because these effectively lower the transaction costs for institutions that have a substantial information gap with the MCP market. At the same time, these market mechanisms maximize the position of other institutions who have a relative advantage in closing this information gap.

In the end, the difficulty with the present system is that the requirements are absolute for all types of banks. This aggravates rather than alleviates the existing information gap. MCPs then turn out to be costly to both the banks and their clients because a unilateral credit decision was made for all types of financial institutions. The point has less to do with intermediation than with managing the risks for different types of banks across different markets. As it is, there is already a recognized critical disparity in the information market between borrowers and lenders. By not recognizing differences among financial institutions, MCPs only exacerbate this disparity by imposing systemic risks that, in principle, are avoidable.

Operational Schematic

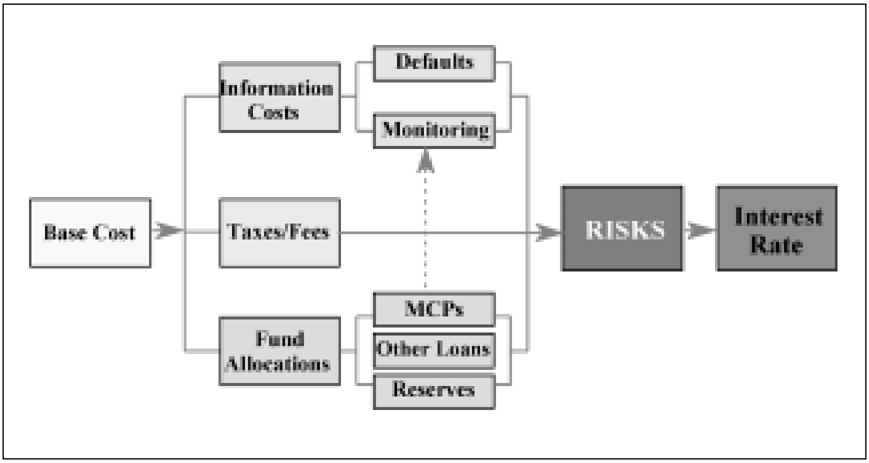


Table 1
Banks' Compliance with PD 717
as of March 31, 1997, in Million Pesos

	TOTAL BANKING SYSTEM	Commercial Banks		
		Total	EKBs*	NEKBs
Total Loanable Funds Generated	**689,296**	**547,882**	**471,331**	**57,806**
Minimum Requirements				
10% Agra Reform	68,930	54,788	47,133	5,781
15% Agri	103,394	82,182	70,700	8,671
25% Total	172,324	136,971	117,833	14,452
Compliance/Utilization				
10% Agra Reform	12,990	10,138	9,121	936
15% Agri	104,119	93,988	81,190	9,344
25% Total	117,109	104,126	90,311	10,280
Excess/Deficiency				
10% Agra Reform	-55,940	-44,650	-38,012	-4,845
15% Agri	725	11,806	10,490	673
25% Total	-55,215	-32,845	-27,522	-4,172
Compliance Ratio				
10% Agra Reform	1.88%	1.85%	1.94%	1.62%
15% Agri	15.11%	17.15%	17.23%	16.16%
25% Total	16.99%	19.01%	19.16%	17.78%

* *Includes SGBs*
Source: Bangko Sentral ng Pilipinas

	Thrift Banks				Rural Banks
FXBs	Total	SMBs	PDBs	SSLAs	
18,745	**118,798**	**71,545**	**35,158**	**12,095**	**22,616**
1,875	11,880	7,155	3,516	1,210	2,262
2,812	17,820	10,732	5,274	1,814	3,392
4,686	29,700	17,886	8,790	3,024	5,654
81	594	16	313	265	2,258
3,454	6,749	624	3,891	2,234	3,382
3,535	7,343	640	4,204	2,499	5,640
-1,794	-11,286	-7,139	-3,203	-945	-4
642	-11,071	-10,108	-1,383	420	-10
-1,151	-22,357	-17,246	-4,586	-525	-14
0.43%	0.50%	0.02%	0.89%	2.19%	9.98%
18.43%	5.68%	0.87%	11.07%	18.47%	14.95%
18.86%	6.18%	0.89%	11.96%	20.66%	24.94%

Table 2
Banks' Compliance with PD 717
as of End of Periods Indicated, in Million Pesos

	1975	1976	1977	1978	1979	1980
Total Loanable Funds Generated	**16,288**	**25,857**	**32,726**	**37,166**	**53,331**	**63,502**
Minimum Requirements:						
10% Agra Reform	1,629	2,586	3,273	3,717	5,333	6,350
15% Agri	2,443	3,879	4,909	5,575	8,000	9,525
25% Total	4,072	6,464	8,182	9,292	13,333	15,876
Compliance/ Utilization:						
10% Agra Reform	2,671	2,612	3,936	5,910	6,676	8,465
Direct Loans	450	862	1,475	2,609	3,671	3,828
Govt Securities	2,221	1,750	2,461	3,301	3,005	4,637
15% Agri	4,941	8,578	10,092	12,104	17,523	22,215
25% Total	7,612	11,190	14,028	18,014	24,199	30,680
Excess/Deficiency:						
10% Agra Reform	1,042	26	663	2,193	1,343	2,115
15% Agri	2,498	4,699	5,183	6,529	9,523	12,690
25% Total	3,540	4,726	5,847	8,723	10,866	14,805
Compliance Ratio:						
10% Agra Reform	16.40%	10.10%	12.03%	15.90%	12.52%	13.33%
15% Agri	30.34%	33.17%	30.84%	32.57%	32.86%	34.98%
25% Total	46.73%	43.28%	42.87%	48.47%	45.38%	48.31%

1981	1982	1983	1984	1985	1986	1987	June 1988
66,770	**98,968**	**94,750**	**83,101**	**58,625**	**62,772**	**72,943**	**90,245**
6,677	9,897	9,475	8,310	5,863	6,277	7,294	9,025
10,016	14,845	14,213	12,465	8,794	9,416	10,941	13,537
16,693	24,742	23,688	20,775	14,656	15,693	18,236	22,561
9,142	11,799	10,431	10,732	8,473	7,847	5,071	5,512
4,152	5,634	5,419	5,672	3,656	4,932	4,539	5,098
4,990	6,165	5,012	5,060	4,817	2,915	532	414
20,901	23,700	26,971	26,137	19,628	18,752	19,927	26,991
30,043	35,499	37,402	36,869	28,101	26,599 2	4,998	32,503
2,465	1,902	956	2,422	2,611	1,570	(2,223)	(3,513)
10,886	8,855	12,759	13,672	10,834	9,336	8,986	13,454
13,351	10,757	13,715	16,094	13,445	10,906	6,762	9,942
13.69%	11.92%	11.01%	12.91%	14.45%	12.50%	6.95%	6.11%
31.30%	23.95%	28.47%	31.45%	33.48%	29.87%	27.32%	29.91%
44.99%	35.87%	39.47%	44.37%	47.93%	42.37%	34.27%	36.02%

Table 2 cont.

	1995				
	TOTAL BANKING SYSTEM	Commer-cial Banks	Thrift Banks	Rural Banks	TOTAL BANKING SYSTEM
Total Loanable Funds Generated	**520,425**	**445,030**	**58,420**	**16,975**	**596,551**
Minimum Requirements:					
10% Agra Reform	52,043	44,503	5,842	1,698	59,655
15% Agri	78,064	66,755	8,763	2,546	89,483
25% Total	130,106	111,258	14,605	4,244	149,138
Compliance/ Utilization:					
10% Agra Reform	11,534	9,562	190	1,782	13,213
15% Agri	90,601	82,105	3,617	4,879	100,340
25% Tota	l 102,135	91,667	3,807	6,661	155,743
Excess/Deficiency:					
10% Agra Reform	(40,509)	(34,941)	(5,652)	85	(46,442)
15% Agri	12,537	15,351	(5,146)	2,333	10,857
25% Total	(27,971)	(19,591)	(10,798)	2,417	(35,585)
Compliance Ratio:					
10% Agra Reform	2.22%	2.15%	0.33%	10.50%	2.21%
15% Agri	17.41%	18.45%	6.19%	28.74%	16.82%
25% Total	19.63%	20.60%	6.52%	39.24%	19.03%

Source: Bangko Sentral ng Pilipinas

1996			March 31, 1997			
Commercial Banks	Thrift Banks	Rural Banks	TOTAL BANKING SYSTEM	Commercial Banks	Thrift Banks	Rural Banks
475,992	**96,816**	**23,743**	**689,296**	**547,882**	**118,798**	**22,616**
47,599	9,682	2,374	68,930	54,788	11,880	2,262
71,399	14,522	3,561	103,394	82,182	17,820	3,392
118,998	24,204	5,936	172,324	136,971	29,700	5,654
10,035	845	2,333	12,990	10,138	594	2,258
89,872	6,955	3,513	104,119	93,988	6,749	3,382
99,907	7,800	48,036	117,109	104,126	7,343	5,640
(37,564)	(8,837)	(41)	(55,940)	(44,650)	(11,286)	(4)
18,473	(7,567)	(48)	725	11,806	(11,071)	(10)
(19,091)	(16,404)	(90)	(55,215)	(32,845)	(22,357)	(14)
2.11%	0.87%	9.83%	1.88%	1.85%	0.50%	9.98%
18.88%	7.18%	14.80%	15.11%	17.15%	5.68%	14.95%
20.99%	8.06%	24.62%	16.99%	19.01%	6.18%	24.94%

Table 3

Banks' Compliance with Small Enterprises Credit under RA 6977

as of End of Periods Indicated, in Million Pesos

	1991	1992 *	1993 **	1994	1995	1996	June '97
	TOTAL BANKING SYSTEM						
No. of Operating Banks				920	937	961	979
No. of Reporting Banks				291	487	657	741
No. of Non-Reporting Banks				629	450	304	238
No. of Non-Complying Bks				no data	60	134	140
Actual Investment	13,882	15,089	27,266	52,469	83,224	109,771	114,04
Net Eligible Loans	13,882	15,089	27,048	51,674	80,535	109,014	113,256
SBGFC Instruments	0	0	25	780	2,393	457	283
Pns Purchased from SMEs	0	0	116	0	193	12	40
Equity Invest. in BGCG	0	0	77	15	103	192	367
Allocation on BCGC's O/S Portfolio	0	0	0	0	0	0	87
Excess/(Deficit) Compliance in Subsid.Bks	0	0	0	0	0	96	0
Committed Credit Lines	0	0	0	0	0	0	8
Funds Set Aside	2,694	5,721	3,091	4,553	4,817	4,113	4,516
Cash on Hand	201	40	235	432	769	1,173	1,110
Due From BSP	1,313	876	2,856	3,641	2,938	2,940	3,406
Due From Local Banks	1,180	4,805	0	480	1,110		
Loan Portfolio	190,241	187,594	276,462	395,706	560,213	791,568	913,032
Total Funds Set Aside	17,061	20,809	34,218	57,022	88,041	113,884	118,557
Min. Amount Required	9,512	18,759	25,814	39,571	56,021	39,578	45,652
Excess/(Deficit)	7,064	2,050	4,543	17,451	32,020	74,306	72,905
Rate of Compliance	8.97%	11.09%	12.38%	14.41%	15.72%	14.39%	12.98%
Rate of Compliance ont Actual Investment	7.30%	8.04%	9.86%	13.26%	14.86%	13.87%	12.49%

** Does not include thrift and rural banks*
*** Does not include rural banks*
Source: Bangko Sentral ng Pilipinas

	June 1997								
	Commercial Banks				Thrift Banks				RBs
	Total	EKBs	NEKBs	FXBs	Total	SMBs	PDBs	SSLAs	
	52	21	18	13	113	24	40	49	814
	52	21	18	13	97	20	33	44	592
	0	0	0	0	16	4	7	5	222
	1	0	0	1	0	0	0	0	139
	85,692	74,450	10,838	404	25,000	14,951	8,528	1,521	3,349
	85,001	74,032	10,739	230	24,942	14,896	8,527	1,519	3,313
	197	68	69	60	50	47	1	2	36
	40	0	0	40	0	0	0	0	0
	367	263	30	74	0	0	0	0	0
	87	87	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0
	0	0	0	0	8	8	0	0	0
	2,687	96	182	2,409	506	64	292	150	1,323
	0	178	39	24	115	932			
	2,687	96	182	2,409	328	25	268	35	391
	787,970	672,472	69,389	46,109	97,617	56,321	31,100	10,196	27,445
	88,379	74,546	11,020	2,813	25,506	15,015	8,820	1,671	4,672
	39,399	33,624	3,469	2,305	4,881	2,816	1,555	510	1,372
	48,981	40,922	7,551	508	20,625	12,199	7,265	1,161	3,300
	11.22%	11.09%	15.88%	6.10%	26.13%	26.66%	28.36%	16.39%	17.02%
	10.88%	11.07%	15.62%	0.88%	25.61%	26.55%	27.42%	14.92%	12.20%

About the Author

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