

REVISED REGULATIONS GOVERNING ESTABLISHMENT AND RELOCATION OF BRANCHES OF COMMERCIAL AND THRIFT BANKS

BSP CIRCULAR NO. 1281, April 15, 1991

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The Monetary Board, in its Resolution No. 411 dated April 12, 1991 approved the following revisions on the rules and regulations on the establishment and relocation of branches by commercial and thrift banks in order to liberalize said rules and regulations:

1. Bidding of franchise to establish branches.

a. Franchises to establish branches may be bidden out by the Central Bank. All Banks which meet prequalification requirements may be invited to participate in such bidding; provided that thrift banks with head offices outside Metro Manila shall not be allowed to bid for franchises in service areas in Metro Manila. A franchise shall be awarded to the highest bidder; however, in case a bid is submitted by a bank which does not have any branch/banking office as yet in the relevant service area and such bid is at least 90% of the highest bid submitted by a bank which already has branches/banking offices in the said service area, the franchise shall be awarded to the bank which does not have any branch/banking office yet in the area.

The following shall be minimum bids for a franchise:

Area

Amount

1. National Capital Region, Cebu City and Davao City

P4.0 million

2. 1st Class Cities and 1st Class Municipalities

P2.0 million

3. Other Areas

None

(The above area classification is based on the classification of provinces, municipalities and cities made by the National Statistics Office.)

b. Approved bids shall be paid to the Central Bank as follows:

1. 30% to be paid within seven (7) calendar days upon date of receipt of notice of award of the bid by the

appropriate supervising and examining department of the Supervision and Examination Sector; and

2. the balance of 70% to be paid within twenty (20) calendar days from date the 30% was paid.

c. Approved bids shall be considered revoked upon failure of the bank to remit the prescribed payments under item (b) above. The 30% down payment shall be forfeited in favor of the Central Bank upon non-payment of the balance of 70% within the period prescribed above.

d. A bank shall in no case sell/assign its privilege to establish branches covered by approved bids.

e. The number of awarded bids for which no branch/banking office has been opened as yet shall not exceed ten (10) for each bank at any given time. For this purpose, whenever a bank submits more than ten (10) bids, it shall indicate its priorities.

f. A bank which has three (3) existing branches in a service area or which has a branch/branches in the area the combined deposits of which constitute 20% of the combined average deposits of all bank branches in the said service area for the last 12 months prior to a bidding, shall not be allowed to bid for franchises in said service area.

2. Establishment of branch in "Other Areas"

No bidding is required to open a branch in "Other Areas" (i.e., second class cities and municipalities and lower ranked cities and municipalities). Applications to establish a branch in such areas shall be submitted to the Central Bank and shall be processed on a first come, first served basis. A bank which has three (3) existing branches in a service area or which has branch/branches the combined deposits of which constitute 20% of the combined average deposits of all bank branches in the said service area for the last 12 months prior to submission of its application to establish a branch, shall have the least priority in the establishment of branches in "other areas".

Applications for authority to establish branches/banking offices in "other areas" shall be accompanied by the following information/documents:

- Certified true copy of the resolution of the bank's board of directors authorizing the establishment of the additional branch/banking office.
- Banking facilities and services to be offered.
- Projected statement of condition at the end of the first and second semesters of operations of the proposed branch/banking offices.
- Statement of estimated earnings and expenses for the first twelve (12) months of operations.
- Organizational setup of the proposed branch/banking office showing the proposed positions.
- Bank premises and initial outlay.

3. Determination of number of branches that may be authorized to be established in a service area.

a. The number of branches that may be authorized to be established in an area shall be determined as follows:

1. total deposits in a service area divided by the break-even level of deposits in such area equals the maximum number of branches/banking offices that may be allowed to be established therein.
2. the maximum number of branches/banking offices as determined in item (1) above less the actual number of branches/banking offices in the area equals the additional number of branches/banking offices that may be bidded out.

b. The break-even deposit levels are as follows:

Area

Amount

1. National Capital Region, Cebu City and Davao City

P50.0 million

2. 1st Class Cities and 1st Class Municipalities P35.0 million

3. 2nd and 3rd Class Cities and 2nd Class Municipalities P20.0 million

4. Other Areas None

The deposits in the “Other Areas” shall be monitored to determine if a break-even deposit level is needed.

The Central Bank shall determine how many franchises may be bidded out in each service area.

4. Specific requirements in addition to the prequalification requirements, pertaining to compliance with laws and observance of sound banking practices

No bank which has any of the following violations/exceptions and unsound and unsafe banking practices noted in the latest examination of the bank shall be allowed to participate in bidding for branch licenses or shall be granted authority to establish a branch until after such exceptions/practices have been corrected:

Republic Act No. 337, as amended —

- Sec. 21-A — Investment in equities exceeds prescribed ceilings.

- Sec. 23 — Loans in excess of single borrower’s limits

- Sec. 25 — Investment in bank premises exceeds ceilings.

- Sec. 76 — Loans granted without supporting financial statements and/or credit information or loans which are not justified by financial statements and/or credit information (total amount of such loans aggregates 5% of network)

- Sec. 78 — Loans granted in excess of maximum loan value (total excess in amount is 5% of network).

Unsound and unsafe banking practices —

- Loans approved/released without authority from appropriate body/officer (aggregates to 5% of network).

- Loans released without complying with the terms of approval thereof (aggregates 5% of network).

- Loans released before full documentation of papers (PNs, mortgage contracts, pledges, assignments). Aggregates to 5% of network.

- When the aggregate of all loans under items (a) to (c) above is equal to 10% of network.

5. Incentives for establishing branches in “Other Areas”.

For every three (3) branches that a bank has established in “Other Areas” after the effectivity of this Circular, it may be allowed to establish one branch in either of the areas falling under items 1.a., 1 and 2 above (National Capital Region, Cebu City, Davao City, 1st Class Cities and 1st Class Municipalities) of its choice, without bidding, provided the area is still open for additional branches.

6. Transfer/relocation of branches.

As a general rule, transfers/relocations of branches shall be allowed only within the service area where the branch sought to be transferred/relocated is presently located. However, transfers/relocations of branches to another service area immediately adjacent to the service area where the branch is operating may be allowed.

7. Other rules on relocation

- The conversion into a branch of a head office which will be transferred to another location shall be treated as establishment of new branch subject to these regulations.
- Transfer/relocation of non-operating departments/offices of banks, i.e., the executive offices, legal administrative, personnel and general service departments/offices shall not be subject to the rules and other requirements governing transfer/relocation of banking offices nor to the requirements on the establishment of branches but shall be evaluated on the basis of the need therefor.

8. No branch/banking office shall be closed without the prior approval of the Central Bank.

9. Transitory Provision.

Complete applications for branches in categories IV and V service areas in the National Capital Region, Cebu City, Davao City, 1st Class Cities and 1st Class Municipalities received up to June 30, 1991 shall be processed on a first come, first served basis without having to participate in bidding. The number of additional branches to be allowed shall be governed by existing rules. After June 30, 1991, applications for branches in these areas shall be governed by the rules provided in this Circular and subject to bidding.

This Circular shall be effective immediately. The rules and regulations on establishment/relocation of branches shall be reviewed within two (2) years with a view to allow further relaxation thereof.

Adopted: 15 April 1991

(SGD.) JOSE L. CUISIA, JR.
Governor

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