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FINSAC LIMITED

"Financial Sector Adjustment Co. Ltd."
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January 29, 2010

The Commission of Enquiry
Into the Collapse of the Financial Sector
In Jamaica in the 1990s
c/o The Jamaica Pegasus
81 Knutsford Boulevard
Kingston 5
Attention: Mr. Fernando DePeralto

Dear Sirs

RE: Commission of Enquiry into the Collapse of the Financial Sector in Jamaica in the 1990s

We refer to your letter of December 21, 2009 and as requested now submit the following responses to your queries:

1. What was the aggregate due from the failed Financial Institutions to depositors as principal at the time of intervention?

   Please see attached a schedule of principal amounts due to depositors in the failed Financial Institution at the time of intervention.

2. What was the aggregate amount due to depositors as principal and interest at the time of intervention?

   Please see attached a schedule of principal and interest amounts due to depositors in the failed Financial Institutions at the time of intervention.

3. What was the aggregate amount paid to depositors of the failed Financial Institutions?

   Please see attached a schedule of the amounts paid to depositors in the failed Financial Institutions.

4. What was the aggregate of the amount due to the failed institutions by delinquent borrowers at the time of intervention?

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Please see attached a schedule of amounts due from delinquent borrowers to the failed institutions at the time of intervention.

5. When Finsac sold loans of delinquent borrowers to other institutions at a discount, were such institutions entitled to charge interest on the loans acquired, and at what rate or whether simple or compound interest?

   These loans would all have been charged interest as they were loans originally granted by financial institutions in the normal course of business. When these loans are sold to other institutions, they would be bound by the terms of the existing agreements between debtors and the former institutions. These institutions can however negotiate new terms with each debtor as they see fit but adverse changes cannot be done unilaterally.

   When Finsac acquired the non-performing loans from the various institutions, a decision as taken to reduce the interest rates to 30% p.a. and 15% p.a. for JAD and USD loans, respectively, unless more favourable rates existed. That was done to facilitate debtors and if they wished they could take advantage of this reduced rate and repay their debt. In fact, it was a "gift" to all debtors but only a few accepted it! These rates could not therefore be imposed on other institutions to which Finsac sold loans.

6. Was there verification by Finsac with respective failed institutions to determine the accuracy of the amounts due by the delinquent borrowers to that institution? If so, what was the procedure?

   There was no whole scale verification by Finsac of balances received from the various institutions but in cases where there were challenges, the officers reviewed each file and statements, where available, recalculated the account and discussed findings with the debtor. In some instances, contact was also made with the intervened entity. Legal advice would thereafter be sought, if necessary, as to whether to pursue the debt or offer compromise.

7. Were all the loans that were sold or sold at a discount verified with the failed institutions prior to same?

When loans were acquired by Finsac from various institutions, they provided a listing of the balances and the credit and security files for each, where available. Finsac accepted the balances as accurate, but as previously advised, if a debtor challenged the accuracy of a balance, the files would be reviewed based on information on the file and sometimes recalculated.

In any event, verification of the balances in circumstances where an institution was merged or dismantled or staff are displaced or laid off, would have been difficult, if not impossible. Finsac therefore relied on the balances provided.

8. What was the procedure for the sale?

Finsac sold debts to three institutions viz: *a) mortgages to two building societies, b) select loans to NIBJ and c) remaining loans, overdrafts, credit cards and non-performing mortgages to JRF.*

a) Sale to Buildings Societies
Finsac acquired the mortgage portfolios of four institutions, namely, Citizens' Building Society (CBS), Eagle Permanent Building Society (EPBS), Capital Assurance Building Society (CABS - formerly part of Workers Bank group) and Jamaica Mutual Life Assurance Society (Mutual Life). These were mostly performing mortgages on which debtors were making regular monthly payments. Finsac therefore decided at an early stage that it would off-load these mortgages as soon as possible to facilitate continued payments by mortgagors.

Jamaica National Building Society (JNBS) and Victoria Mutual Building Society (VMBS), two well-established building societies, were identified as prospective purchasers and so were invited to submit proposals to purchase the portfolio.

Following due diligence exercises conducted by both building societies, they submitted proposals and it was agreed that the Mutual Life and some of EPBS portfolios would be sold to JNBS while the CABS, CBS and some of EPBS portfolios would be sold to VMBS. A sale price in the region of 97 cents in the dollar was agreed with both entities.

b) *Sale to NIBJ*
Among the debts acquired by Finsac from the failed institutions were loans for seven (7) companies in which National Investment Bank of Jamaica (NIBJ) had investments. Following a meeting between Finsac and NIBJ representatives to discuss these matters, NIBJ submitted a proposal to purchase these loans from Finsac. These companies were in the productive sector and if Finsac were to sell the assets to recover its debt, NIBJ faced the prospect of a potential loss of over $170M.

These companies selected, while facing severe financial difficulties, are productive companies which it was felt could be rehabilitated with radical restructuring. This could be achieved if a concession was granted by Finsac with respect to the debt and thus facilitate the restoration of the companies to viability.

The offer was based on NIBJ's assessment of each company's projected cash flow and realizable values for security held.

Further, it was felt that if Finsac sold these loans to another entity which subsequently sold the productive assets at a profit, both Finsac and NIBJ would have lost value. The offer was made at a time when Finsac advertised its loan portfolio for sale.

Taking all these factors into account, the Finsac board approved the sale of these seven loans to NIBJ at a price of about 18% of the total debt (principal and interest).

c) *In March 2000, Cabinet authorized Finsac to offer the non-performing loan portfolio (comprising loans, overdrafts, credit cards and mortgages) for sale and as a result, Finsac retained the services of an American consulting firm (OCWEN) to prepare the portfolio for sale. A database with details of loan name, account number, principal and interest balances, collateral and payment history was created. The loans were segmented and packaged into Pools, e.g. over $15M, $5M to $15M and under $5M. This was to facilitate sale of each Pool to different purchasers if sale of the entire portfolio to one purchaser could not be achieved. In this process the real estate securing loans were valued by Finsac approved valuators.*

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Securities for government-related loans such as Sugar Company of Jamaica and Ciboney were excluded from this exercise, as they were exempted from the loan sale. The values obtained were used by the valuer in conjunction with Finsac to arrive at an indicative value for the loan portfolio.

The consultant assisted with marketing of the portfolio in the local and overseas media, by:

- *advertising in six business and trade periodicals including the Wall Street Journal and the Gleaner in March and April 2001;*
- *sending notices to potential investors;*
- *promoting transactions at various trade conferences; and*
- *conducting targeted telephone campaign to established players.*

This yielded over 20 registered and qualified bidders (including Goldman Sachs, Merrill Lynch, Loan Star US Acquisitions, Cargill Financial, First City Financial, Beal Bank, Lehman Brothers, Dennis Joslin Company, KPMG and George & Branday). In May 2001, the consultant sent a bid package to all qualified bidders. The package contained a summary of the portfolio and a complete explanation of the bidding process, which was split into two bidding phases i.e. the indicative bid and the final bid.

Bidders were requested to submit a non-binding indicative bid along with a refundable deposit. Only two responded with bids, i.e. Beal Bank and a partnership comprising Cargill and First City.

Following careful analysis of these bids, Beal Bank's bid was rejected and Cargill/First City was invited to submit a binding bid. This was done and in July 2001, the parties signed an agreement indicating conditions and timing for the final due diligence phase, after which Finsac was expected to receive a final bid. In late July 2001, violence erupted in west Kingston and as a result, Cargill / First City withdrew from the transaction.

Given the damaging blow to Jamaica's reputation and the limited number of bids received during the competitive process, Finsac decided to offer the portfolio to select bidders on an exclusive basis.

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OCWEN contacted Goldman Sachs, a well-established buyer that had previously expressed considerable interest in acquiring the portfolio. The firm submitted a proposal that was later rejected because of very onerous conditions.

OCWEN then contacted Merrill Lynch, Lehman Brothers and Lone Star, all of which are also very well-known buyers of distressed international loan portfolios. Only Lone Star expressed an interest in bidding and in early September 2001 signed an agreement with Finsac which indicated the conditions and the timing of the transaction. With the terror attack in New York/Washington on September 11, 2001, Lone Star decided to pull, citing concerns with the stability of the global markets.

OCWEN then contacted Dennis Joslin Company of Texas, a lesser-known distressed loan buyer. This company had previously expressed an interest in the portfolio and welcomed the opportunity to participate on an exclusive basis. In October 2001, the company submitted its proposal to purchase the portfolio. Representatives were subsequently invited to Jamaica to conduct due diligence.

Following negotiations and agreement of terms with Dennis Joslin, he advised that Beal Bank is providing the finance and it would be preferable for the Bank to purchase the debts and his company will act as servicer. Beal Bank then formed Jamaican Redevelopment Foundation (JRF) to acquire the portfolio.

Following due diligence of Beal Bank/Andrew Beal and the Dennis Joslin-related individuals/companies, approval was granted by the Board and Cabinet of the terms and conditions of sale to JRF as at January 30, 2002. An initial payment equivalent to 5.87% of the principal balances was made and Finsac benefits on a tiered basis from all future collections.

9. When loans were sold, were securities also sold and what was the mechanism for sale with securities?

When the loans were sold, the securities had to be transferred with the loan balances. It could not have been done any other way.

January 29, 2010

10. Was it a policy of Finsac that where directors/shareholders had deposits in failed institutions, they were not entitled to repayment of these deposits although other depositors were refunded? If so, what was the reason for the difference?

    My understanding is that where directors/shareholders of failed institutions had deposits in the said institutions and were also involved in the management of the institutions, it was felt that these individuals should not be refunded from the public purse as it was perceived that they could not be absolved from responsibility for the failure of the said institutions.

11. What are the annual operational expenses of Finsac, FIS, Refin Trust and Recon Trust?

    Please see attached a spreadsheet with this information to March 2006. The financial statements for Finsac and FIS for the last three years have not yet been finalized and hence are not included in this document. You will note that expenses for Recon and Refin ceased after 2001 and 2002, respectively, as the loans were sold in January 2002 and thus no further costs were incurred by these two entities.

12. What was the extent of advertisement seeking to sell the delinquent loans locally and internationally? In what papers were same advertised and for how long?

    Please see response to question 8 c) above.

13. What were the terms and conditions of the institution which was selected but withdrew because of conditions then prevailing?

    As mentioned under 8 c) above, there were two entities that were selected for negotiation and possible sale of the loan portfolio and both subsequently withdrew; one because of a local action in the case of the former and the other because of a US event in the case of the latter. A copy of the offer from Lone Star accepted by Finsac and its subsequent withdrawal are attached.

14. What were the exchange rates of the JAD to USD between 1985 and 2007?

    Please see attached a spreadsheet printed from the Bank of Jamaica website which provides details of the exchange rates for the relevant period.

15. Was it intended that at the expiration of 5 to 7 years that Finsac would have completed its mission?

    Yes. The work was largely completed within that time frame, with only residual work now being carried out since July 2002.

16. Was it intended that Finsac would recover from the delinquent borrowers sufficient to repay the debt that had been incurred by issue of Finsac Papers and/or Bonds?

    No. It was never anticipated that Finsac would recover the full amount from delinquent borrowers to repay Finsac Notes. It was recognized that the majority of the loans were impaired so that full recovery was improbable.

    The intention was to maximize recovery by firstly assessing each loan and the circumstances of each debtor to determine the amount that could be reasonably recovered.

We trust this adequately addresses these questions.

Yours sincerely
FINSAC Limited

Errol Campbell
General Manager

Copy: Mr. Lackston Robinson
Attorney General's Chambers

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