

# FINSAC LIMITED

“Financial Sector Adjustment Co. Ltd.”  
1 SHALIMAR AVENUE, KINGSTON 3, JAMAICA W.I.  
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November 18, 2009

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**

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We refer to your letter of November 6, 2009 and as requested now submit the following responses to your queries:

**A Restructuring and Sale of Institutions**

1. The gross amount disbursed by Finsac/FIS to failed institutions was \$94,494,849,000 as at March 31, 2002.
2. A breakdown of the amounts disbursed by Finsac/FIS to failed institutions is shown in the attached spreadsheet.
3. The gross amounts received by Finsac from sale of these institutions are as stated in the attached spreadsheet.
4. The names of some of the valuers for these assets are included in the spreadsheet mentioned above. The names of the others are not readily available.
5. The valuers are licensed to undertake valuations.
6. This information is not available from the files.
7. This information is not available from the files.

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8. This information is not available from the files.
9. This information is not available from the files.
10. Submissions concerning the sale price and negotiated sale terms are usually made to the Finsac/FIS Board for consideration/approval and thereafter to Cabinet for final approval.
11. Attorneys are engaged to prepare appropriately worded contract based on the price and terms already agreed.

**B Debts and securities transferred from Institutions**

12. The gross amount of debts transferred from the various institutions to Finsac was \$36,002,607,605. This excludes accrued interest for some entities, notably National Commercial Bank. Attached is a list of these amounts.
13. Some account balances were challenged by debtors, in some cases because of the high interest balances resulting from compounding over the years and purported deposits they claim were not reflected on their accounts.
14. My understanding is that there were varying kinds of challenges from debtors and thus they were addressed differently based on the circumstances. For example, compromises were agreed in some cases where there were questions about the balances transferred.
15. As a result of the challenges by some debtors, there were counter claims in some court actions brought by Finsac/FIS/Workers Bank.
16. I am not aware that a comprehensive list of these matters exists but the example in 14 above could also be applied here.
17. To validate accuracy of debtor's account balance, the Finsac officers reviewed each file and statements, where available, recalculated the account, in some cases, and discussed findings with the debtor. In some instances, contact was also made with the intervened entity.

18. I am not aware that a comprehensive list exists for the gross value of securities transferred from failed institutions but it should be noted that some debts were unsecured.
19. The gross amount collected up to the point of sale to the Jamaican Redevelopment Foundation (JRF) was \$5,929,914,468.
20. I am not aware that there exists a comprehensive list of the debts forgiven.
21. Please see attached the Finsac Standard Policies for Non-Performing Loan Workouts, as contained in the Financial Statements of March 2000, which addresses the matter of loan forgiveness.
22. I am not aware that there exists a comprehensive list of the debtors whose debts were forgiven.
23. A comprehensive list was not maintained for all securities sold prior to the sale of the residual loan portfolio to JRF but please see attached a list with some of these sales with gross figures.
24. The names of the valuers for these assets are not readily available and although it was not requested, attached is spreadsheet with the gross sale values for the sales.
25. This information is not available from the files.
26. This information is not available from the files.
27. This information is not available from the files.
28. This information is not available from the files.
29. Submissions concerning the sale price and negotiated sale terms are usually made to the Finsac/FIS Board for consideration/approval and for the major assets, are thereafter submitted to Cabinet for final approval.

30. Finsac had a list of approved brokers throughout the island, from which valuers are selected to undertake valuations. Please see attached a copy of this list, along with a list of the properties sold and gross values obtained for each sale, although this information was not requested.
31. This information is not available from the files.
32. This information is not available from the files.
33. This information is not available from the files.
34. This information is not available from the files.
35. Submissions concerning the sale price and negotiated sale terms are usually made to the Finsac/FIS Board for consideration/approval and for the major assets, are thereafter submitted to Cabinet for final approval.

**C. Transfer of debts and securities to JRF and Others**

36. Debts were sold by Finsac to the JRF, Jamaica National Building Society, Victoria Mutual Building Society and National Investment Bank of Jamaica. Please see attached a spreadsheet with the gross amounts sold to each institution and the (initial) sale price.
37. A valuation of the non-performing loans sold to JRF was done by an American consulting firm. A valuation was not done for the other debts sold.
38. OCWEN valued the non-performing loans sold to JRF.
39. I am not aware that a comprehensive list exists for the gross value of securities pledged for debts sold to the various institutions.
40. An independent valuation was undertaken on some of the real estate securing debts sold to JRF.

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41. These valuations were undertaken by valuers from the Finsac approved list of brokers but I am not aware that a comprehensive list exists of all these values obtained.
42. The initial payment of US\$23M made by JRF represents 5.87% of the principal balances of debts transferred to JRF.
43. This was one of the terms of the Agreement and a Debenture was taken by Finsac to secure the unpaid balance. (Exhibit I of the Sale and Purchase Agreement)
44. There are many reasons for entering into a sale agreement with JRF and these include:
  - a) there was a "moral hazard" factor which had to be removed, i.e. Government's continued management of the portfolio would possibly create problems in the economy because compromises would be offered to debtors to achieve payment and Finsac's operations were being financed by tax payers.
  - b) The multi-national lending agencies made the sale of the loan (and other major assets) a condition of further assistance to the Government of Jamaica.
  - c) Finsac had collected on the easier loans and it would become more difficult to achieve further sustained collections;
45. It was estimated that US\$215,000,000 would be collected from the debts sold to JRF.
46. It was estimated that the Government of Jamaica/Finsac would recover US\$90,500,000 from the debts sold to JRF.

I will endeavour to submit further responses sometime next week to complete to responses.

Yours sincerely  
**FINSAC Limited**

  
Errol Campbell  
General Manager

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November 26, 2009

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**

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We refer to your letter of November 6, 2009 and as requested now submit the following responses to your queries:

**D Treatment accorded to debtors, depositors and shareholders in each failed financial institution**

47. I am not aware of the precise position with regards to all these categories of creditors to the various institutions.
48. Other than as stated in question 50 below, I am not aware of the treatment of depositors of other institutions.
49. I am not aware of the precise position with regards to all these categories of creditors to the various institutions.
50. I am aware that with the sanction of the Supreme Court, approval was received for depositors and creditors of the Century Financial Entities to be paid 100% of their deposits plus interest up to point of the intervention. These amounts were to be paid in two installments over six months. Depositors of the Blaise Financial Institutions were paid 90% of their deposits plus interest up to point of intervention in four installments over 18 months.

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51. I am not aware of the treatment of the credit balances for debtors of the various institutions.
52. I am not aware of the treatment of the shareholders of the various institutions.
53. I am not aware whether shareholders of some institutions were treated differently from others.
54. I am not aware of the existence of an agency arrangement between Finsac and the Government of Jamaica.
55. Not applicable.
56. I am not in a position to answer this question.
57. I am not in a position to answer this question.
58. Please see attached copy of an extract from the Budget Presentation by the Ministry of Finance & Planning in March 1997 that addresses the purpose for which Finsac was incorporated.
59. I am not in a position to answer this question.
60. I am not in a position to answer this question.
61. A number of the failed institutions were rehabilitated, namely, National Commercial Bank Jamaica Limited , Citizens Bank Limited /Union Bank of Jamaica Limited, Life of Jamaica Limited, Island Life Insurance Company Limited, Dyoll Group Limited, Jamaica Mutual Life Assurance Society (JMLAS), Crown Eagle Life Insurance Company Limited (CEL), Dyoll Life Limited (DLL) and Horizon Life Limited (HLL).
62. These entities were rehabilitated as follows:
  - a) NCBJ – Initially, Finsac acquired ordinary and preference shares and non-performing loans in the NCBJ. The preference shares were converted to ordinary shares in NCB Group Limited, giving Finsac a majority shareholding in the Group.

Thereafter, a scheme of arrangement was approved for Finsac to acquire the Group with its significant non-core real estate, leaving NCBJ to continue its core business. NCB was thereafter sold to AIC.

- b) CBL/UBJ – Initially, Finsac acquired ordinary and preference shares and non-performing loans (including LOJ's ordinary shareholding) in CBL. Following its acquisition of other banks, a decision was made to merge six entities into CBL, whose name was later changed to UBJ. UBJ was thereafter sold to RBTT.
- c) LOJ – Initially, Finsac acquired ordinary and preference shares in LOJ, along with its shareholding in CBL and CIBC Jamaica Ltd. The preference shares were later converted to ordinary shares, giving Finsac a majority position, which was thereafter sold to Barbados Mutual Life Assurance Society (BMLAS).
- d) IsLife – Initially, Finsac acquired ordinary and preference shares in Island Life. Further assistance was granted two years later when in conjunction with majority shareholder, BMLAS, IsLife was re-organized to improve its financial condition and continue to operate as an insurance company. The operations of IsLife were thereafter merged with LOJ as both were majority owned by the same entity. Finsac's IsLife shares were converted to LOJ shares and thereafter sold on the Jamaica Stock Exchange.
- e) Dyoll Group – Initially, Finsac acquired ordinary shares in Dyoll Group Limited (DGL) and preference shares in Dyoll Life Limited (DLL) and granted a loan to Dyoll Insurance Company Limited (DIC). DIC repaid its loan and the individual life policies of DLL were sold with others to Guardian Life Limited. In 2003, DGL repurchased its shares from Finsac.
- f) JMLAS/CEL/DLL/HLL – The combined individual life and group pension policies of these three entities were sold to Guardian Life Limited.

63. Finsac/FIS injected cash into a number of failed institutions. The details of these entities are shown in the spreadsheet supplied with answer to question 1.

64. Finsac acquired ordinary and preference shares in a number of the failed institutions. The details of these entities are shown in the spreadsheet supplied with answer to question 1.




65. A breakdown of the total amounts disbursed by Finsac/FIS to failed institutions is shown in the attached spreadsheet. This figure includes Interest Bonds issued by Finsac.
66. I am not aware whether all depositors were paid 100% of their deposits but my understanding is that any interest payment made to depositors was to the date of intervention **not** date of repayment.
67. I am not sure the source of funds for these payments.
68. I am not aware of the precise policy with regards to all these categories of creditors to the various institutions.
69. I am not in a position to answer this question.
70. The applicable interest rates charged by the various institutions were not provided in all cases to Finsac but a decision was taken to charge 30% p.a. and 15% p.a. on JAD and USD loans, respectively.
71. The gross amount collected from delinquent loans between 1997 and 2002 was \$5,929,914,468.
72. The total administrative and operational expenses incurred for the period 1997 to March 2002 by Finsac and ITS related entities were \$3,798,213,000.
73. The principal balances of the aggregate debt sold to JRF was J\$17,851,340,927, including local equivalent of some USD loans.
74. I am not aware that a comprehensive list of interest rates was maintained by Finsac in order to calculate average rates but for the most part, Finsac applied a rate of 30% p.a. and 15% p.a. to JAD and USD loans, respectively. In cases where lower contracted / agreed rates existed, these rates were applied.
75. The amount received by Finsac from JRF for the period since sale of the delinquent loan portfolio to December 2008 is US\$34,678,850.

76. Finsac is not in a position to advise the administrative, operational and legal charges incurred by JRF. However, we mention that Direct Costs (which are allowable costs incurred in preserving, realizing and protecting the loans, including valuations, real estate costs, legal fees, etc) incurred by JRF for the period to December 2008 was US\$8,238,913, of which Finsac has paid US\$2,582,198, in line with the Purchase/Sale Agreement with JRF.
77. Finsac is not aware of the interest rates charged/being charged by JRF.
78. Finsac does not have a list of the total debts still outstanding to JRF. We would recommend that this information be obtained from JRF.
79. My understanding is that valuations are always obtained prior to sale of collateral.
80. My understanding is that sales of delinquent debtors' properties are first attempted by public auction but if the reserve price is not obtained, private treaty sale is then pursued. I am not aware that a comprehensive list of the number of public/private sales was maintained.
81. I am not aware that a comprehensive list of secured creditors was maintained.
82. I am not aware that a comprehensive list of unsecured creditors was maintained.
83. Some law suits were brought by Finsac to attempt to recover debts but I am not aware that a comprehensive list exists for the amounts collected as a result of these legal actions.
84. My understanding is that Finsac provided accounts to debtors upon request, where the information is available and in some cases, recalculation of the accounts was done.

November 26, 2009

85. We have provided a list of the debts sold to JRF, with principal balances only, Exhibit A, on CD. Unfortunately the interest balances were not captured.

Yours sincerely  
**FINSAC Limited**

  
Errol Campbell  
General Manager

Atthmts.