

STANDING COMMITTEE REPORT NO. 16-65

RE: C.B. NO. 16-73/R&D

SUBJECT: FSMDB \$5 MILLION LINE OF CREDIT

FEBRUARY 9, 2010

The Honorable Isaac V. Figir  
Speaker, Sixteenth Congress<sup>0</sup>  
Federated States of Micronesia  
Third Regular Session, 2010

Dear Mr. Speaker:

Your Committee on Resources and Development (R&D), to which was jointly assigned and referred as C.B. No. 16-73, entitled:

"A BILL FOR AN ACT TO AUTHORIZE THE PRESIDENT OF THE FEDERATED STATES OF MICRONESIA, OR HIS DESIGNEE, TO EXECUTIVE[sic] A GUARANTY AGREEMENT, TO SECURE THE LINE OF CREDIT AGREEMENT BETWEEN THE FSM DEVELOPMENT BANK AND EUROPEAN INVESTMENT BANK, SETTING FORTH THE MECHANICS FOR THE IMPLEMENTATION OF THE GUARANTY, TO AUTHORIZE THE APPROPRIATION OF THE SUM OF NOT MORE THAN USD 5 MILLION DOLLARS TO GUARANTEE THE LINE OF CREDIT EXTENDED BY THE EUROPEAN INVESTMENT BANK TO THE FSM DEVELOPMENT BANK UPON DEFAULT OF THE LATTER, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The purpose of C.B. No. 16-73 is summarized in Section 1 of the said bill. In a nutshell, the FSM Development Bank ("FSMDB") has negotiated with the European Investment Bank ("EIB") to obtain a line of credit in the maximum amount of \$5 million dollars for a maximum term of ten years for relending by the FSMDB. In this offer, if there is no guaranty on the loan from the FSM National Government there will be a prevailing market interest rate of 1.3% interest for "risk spread". If the FSMDB secures a guaranty on the loan from the FSM National Government, there will be a lower interest rate, which would be applied to the amounts which are relent to the borrowers of FSMDB. Therefore, the intent of C.B. No. 16-73 is to secure a guaranty on the \$5 million line of credit from the FSM National Government.

Your Committee held a series of public hearings on this subject matter (FSMDB \$5 million line of credit). One of the hearings was held on December 04, 2009. During this hearing, the President of the FSMDB Anna Mendiola stated that the FSMDB has been negotiating with the EIB on the \$5 million loan for nearly

STANDING COMMITTEE REPORT NO. 16-65

RE: C.B. NO. 16-73/R&D

SUBJECT: FSMDB \$5 MILLION LINE OF CREDIT

FEBRUARY 9, 2010

three years. She indicated that the EIB has given the same kind of loan to the Republic of Palau, Western Samoa, Tuvalu and Kiribati, and each respective government agrees to provide a guaranty on such loans. Therefore, the FSMDB is requesting the FSM National Government to guaranty the loan.

Your Committee on Resources and Development and the Committee on Ways and Means held a joint hearing with the witnesses from the FSMDB on the same subject matter. At this joint hearing, the Chairman of Ways and Means commented that if the FSMDB can assure Congress that it cannot default on this loan, then Congress can guaranty the loan. Ms. Mendiola stated that the FSMDB probability of default on the loan is very low. In addition, the FSMDB has enough assets (in the neighborhood of \$38 million per year) to service the EIB loan. She stated that of the FSMDB's \$35 million assets, \$18 million in assets for cash and investment, but \$1 million is available for lending.

Furthermore, Ms. Mendiola explained that the \$5 million will be loaned out for development projects. The EIB will review the development projects submitted. If the EIB approves of the submitted projects, the EIB will then loan to the FSMDB 50% of the specific project costs. Then, the FSMDB will re-lend the funding to its customers for the project. She further explained that the FSMDB will pass on the interest rate savings that it earns from the government guarantee to its clients. The FSMDB will charge a 4% interest rate to whatever money they borrow when re-lending it to a customer. Ms. Mendiola stated that the current FSMDB's interest rate ranges from 6% to 15%. And, on this loan the conditions of the loan include a two and half year grace period with annual or semi-annual payments. In addition, there is no amortization because the amount of payments actually depends on the amount borrowed.

On February 03, 2010, your Committee on Resources and Development held a public hearing on C.B. No. 16-73. In attendance were Chairman Roger Mori, Senators Tony Otto, Joseph J. Urusemal, Paliknoa Welly and Joe N. Suka, along with staff Alik Jackson and Marsha Kennedy. Witnesses from the FSMDB include: President Anna Mendiola, Senior Vice President Stevenson Joseph, CFO for the FSMDB Sihna Lawrence, staff Peter Aldis. Witnesses from the Executive included: Acting Secretary of the Department of Resources and Development Marion Henry, two Assistant Attorney Generals Johnson Asher and Jun Bacalando and Assistant to the President Pelsesar Petrus.

Your Committee requested a clarification of Section 4(d) of C.B.

STANDING COMMITTEE REPORT NO. 16-65

RE: C.B. NO. 16-73/R&D

SUBJECT: FSMDB \$5 MILLION LINE OF CREDIT

FEBRUARY 9, 2010

No. 16-73. Mr. Bacalando explained that the rationale for Section 4 (entitled "Terms of Guaranty") of the bill is that the national government would not be liable to the FSMDB in the event that the FSMDB defaulted on the loan.

In addition, Mr. Bacalando explained that Section 5 (entitled "Duties of the Secretary of Finance") of the bill is there so that Congress can appropriate funding to pay off the loan, instead of liquidating the FSMDB's assets to pay off the loan.

Your Committee wishes to offer minor amendments and also to clarify Sections 4 and 5 of the bill. Therefore, the Committee recommends new amendments to the bill to read as follows:

1. Title, line 2, delete "executive", and insert "execute" in lieu thereof.
2. Page 2, line 3, delete "executive", and insert "execute" in lieu thereof.
3. Page 2, line 24, delete "letter", and insert "line" in lieu thereof.
4. Page 2, line 25, after "of" insert "an".
5. Page 3, line 3, delete "provides full indemnity to", and insert "indemnifies" in lieu thereof.
6. Page 3, line 4, delete "to indemnify FSM National Government".
7. Page 3, line 5, delete "becomes obligated to pay under the guaranty", and insert "makes payment as guarantor" in lieu thereof.
8. Page 3, line 9, delete "this" and insert "its" in lieu thereof.
9. Page 3, line 11, insert "the" before "Congress".
10. Page 3, lines 12 and 13, delete "liquate FSMDB's indebtedness created pursuant to the line of credit", and insert "pay off the amount due under the guarantee" in lieu thereof.
11. Page 3, line 20, insert "Effective Date.", before "this".

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 16-73 and, subject to concurrence by your Committee on Ways and Means, recommends its passage on First Reading, and that it be placed on the calendar for Second and Final reading in the form attached hereto as C.B. No. 16-73, C.D.1.

