An International Insurance Facility Proposal for LDC Debt

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INTERNATIONAL DEBT INSURANCE PROPOSAL

Problem:

The 10 most heavily indebted developing countries owe approximately $55 billion in debt to 9 major U.S. banks, and $260 billion to major commercial banks throughout the industrial world. Their debt service burdens exceed the abilities of these developing nations to make current principal and interest payments, thus hindering new capital investment and economic growth. In turn, the failure to meet current principal and interest payments threatens the health of many of the world's banks because of the prospect of reduced bank profits and capital. The debt service burdens also cause a market perception of creditor banks as greater investment risks.

Objectives:

Create an entity, an international debt insurer, that will be the focal point for debt negotiations. The function of this entity will be to assist the world's banks to increase risk-adjusted returns, enhance capital formation, and increase investor confidence. In turn, for debtor developing countries, the entity will provide realistic and sustainable debt repayment schedules, access to new money for economic growth, and will eliminate the current stalemate in dealing with developing country debt.

Summary of Proposal:

The International Debt Insurer (IDI) would be created to provide a flexible coinsurance system of debt guarantees for commercial bank loans to heavily-indebted developing countries. It would be best to operate the IDI as an autonomous entity, although it would be possible to make it part of the IMF or the World Bank as long as administrative efficiency and policy considerations could be optimized. Creditor banks, their governments, and international organizations would be involved in the decision-making process of the IDI. The IDI would be capitalized with initial contributions from creditor banks, and callable capital from multilateral development agencies (IMF, World Bank) (and possibly from creditor government contributions). The IDI would also be funded with periodic premium assessments paid by the banks. The capital contributions and accumulated premiums would be refunded as covered debt is retired.

In return for insurance coverage, commercial banks would agree to debt reduction plans that would focus on reducing annual debt service burdens, setting the amount and timing of debt service reductions at reasonable levels given the situation in each debtor country. For example, it might be desirable for a debt reduction program to provide the greatest debt service relief in the first years of the agreement, with higher payments in later years.

Generally, debt would be restructured with lengthened maturities and reduced payments. This restructuring would provide for the full amortization of the reduced principal over that period. creditor countries would foster a regulatory and tax environment to encourage these reductions.

IDI insurance would cover only a portion of the restructured debt service payments. The remaining part would be the bank’s coinsurance share, or deductible. The level of coinsurance provided by the IDI would be directly related to the amount of debt reduction banks are willing to accept. That is, the greater the reduction in claims that banks are willing to accept, the greater the percentage of restructured payments that are insured.

Debtor countries, if they are to qualify for the insurance program, must agree to undertake economic reforms that will lead to the restoration of their creditworthiness. Coinsurance for new loans would be made available only if the debtor remains in compliance with the negotiated reform package. To minimize a potential “free-rider” problem, debt tendered under the insurance program would be made a senior obligation to uninsured debt.

PROPOSAL

Specifics:

1. Establish IDI. Create IDI owned by banks, international organizations and possibly creditor governments to insure international bank debt of developing countries. (To be managed by a multinational board appointed by capital contributors, or IMF/World Bank.)

2. Capitalization. Capitalize IDI with callable capital, on terms defined by the IDI, contributed by banks, IMF, World Bank, and possibly creditor governments. Creditor governments would provide callable capital or limited guarantees, to the extent they participate, in proportion to the insured debt held by banks incorporated in their countries.

3. Coinsurance. IDI coinsures the risks with banks. Losses would be shared between banks and IDI, perhaps with the banks taking a small initial loss (a deductible) before sharing would begin. IDI will define terms identifying when loss occurs, and insurance payable.

4. Premiums. Banks pay premiums to IDI based on country, type of loan, insured debt covered, and the amount of debt reduction negotiated by the bank. Premium levels will be set by IDI, and will be adjusted annually within limits based on past experience and potential liability of the IDI.

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5. Debt Reduction. Banks restructure debt with developing countries on a voluntary basis to meet levels required. IDI provides guidance on debt reduction levels and sets amount of reduction needed to obtain levels of insurance. IDI also sets a deadline for banks to join as insurees. Nonparticipating banks are precluded from joining IDI after deadline, encouraging participation. IDI may encourage greater debt reductions by increasing its share of coinsurance in exchange for greater levels of debt reduction.

6. Economic Reform. IDI (working with international organizations) helps negotiate with developing countries on economic reform program objectives and goals taking long-term perspective into consideration. Monitoring of the economic reform programs would be done through the IMF and the World Bank.

7. New Loans. IDI coinsures new loans only if the developing country has made certifiable economic progress entitling country to insurance coverage for the year involved. New insured loans have equal priority with loans initially part of debt reduction, coinsurance program.

Institutions can extend new loans on an insured basis only to the extent that they, their government, or international organizations contribute additional capital to the IDI according to a formula established by the IDI. Only certain types of new loans may receive insurance, such as, for example, project financing.

8. Senior Obligations. To provide a further incentive for banks to participate in IDI, insured developing country debt is made senior, through collateral pledges to the extent permitted by law, to uninsured obligations, (i.e., obligations of banks not participating in the debt reduction coinsurance program.) This is important to minimize any “free rider” problem.

9. Payments of Claims. After the bank’s initial coinsurance obligation is exhausted, to the extent such an obligation/deduction may be required, obligations of IDI are met first from premium income, then investment income, and then from capital pledges.

10. Regulatory and Tax Policy. Each country sets regulatory and tax policies to encourage bank’s voluntary participation. For example, regarding the U.S., this could include raising ICERC mandated reserve levels for loan losses to encourage all banks to participate in this program (presumably reserves would not be required for reduced/insured debt).

The tax structure would also be modified to facilitate reduction, including regarding more liberal NOL and alternative minimum tax treatment, as well as through clarification of certain types of tax treatment, especially regarding reserves and partial charge-offs for debt reduction. Insured debt would be accorded special treatment under the risk-based capital guidelines.

ADVANTAGES OF IDI APPROACH

Advantages to Debtor Developing Countries:

A. Facilitate debt repayment at realistic and sustainable levels through extended amortization periods, and significant principal and interest payment reductions.

B. Attract new sources of capital through loans from banks participating in coinsurance programs.

C. Eliminate the need for continuous short-term negotiations.

D. Enhance longer-term economic and political stability.

E. Permit continuation of case-by-case approach to developing country debt that rewards those countries that undertake necessary economic reforms.

Advantages to Banks:

A. Profitability --

* Return existing loans to performing status.
* Provide new lending to developing pountries -- a new source of insured earning assets.

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* Modify existing tax laws to reduce the earnings impact of using current reserves for loan losses to cover initial debt reduction.
* Improve risk-adjusted rates of return, thus facilitating new lower cost capital.

B. Capital Formation --

* Restore investor confidence by reducing risk exposure on developing country debt.
* Reduce future capital requirements under new risk-based capital standards to the extent of the insured debt portion.
* Increased credit ratings on funds as a result of coinsurance.

Advantages to Creditor Governments:

A. Economic growth -- restoration of debtor countries to economic health will mean improved market for exports of developed countries.

B. Financial stability -- removal of uncertainties in financial markets.

C. Increased tax revenues -- avoidance of further losses by banks will mean higher taxable income in future years.

D. Political benefits -- free market forces in debtor countries should be strengthened, and political stability should be increased.

NOTES ON THE DEBT SERVICING EXAMPLES

1. Two examples of how an International Debt Insurer (IDI) might function are included. Both examples use Mexico as the debtor country. The "Bank X" case represents the exposure of an average U.S. money-center bank; the other case uses exposure data for all banks (U.S. and foreign) reporting to the Bank for International Settlements (BIS). The latter example is the closest approximation of Mexico's total bank debt. Each case consists of a acenario for the first five years of the insurance program, and a summary of the respective schedules for amortization of the debt and capitalization of the IDI.

2. The values used in the accompanying examples for discounts, guarantees, etc, are not recommendations; they are used for illustrative purposes only. Many assumptions were aimplified in order to streamline the examples.

3. The amortization examples assume that all payments on the restructured debt are made on schedule; in practice, there may be instances where a debtor is temporarily unable to make scheduled payments, necessitating calls on banks' deductibles and possibly IDI insurance. Banks' insurance premiums would not be a fixed annual amount, but would vary according to the past year's loss experience. In addition, banks would take the first loss on any debt servicing shortfall through the deductibles, premium payments and their share of initial IDI capital contributions.

4. As insured debt is retired through compliance with the restructured debt service obligations, initial contributions to capitalize the IDI would be refunded, as would bank premium payments. An example is the Debt Amortization Schedule for all B.I.S.-reporting banks. Assuming complete compliance with the restructured debt service obligations over the first twelve years of the program, the IDI insurance fund would exceed the present discounted value of the remaining debt service guarantees by $781 million. Thus, the insurance fund would be able to cover all of the remaining debt service obligations from years thirteen through twenty (assuming no new insured loans are made) without any additional premium payments. Additions and deletions to the pool of insured loans would alter the point at which the insurance fund could cover the remaining guarantees, as would changes in the degree of compliance, or changes in the premium assessment rate. The timing of the above-mentioned rebates would be agreed upon at the beginning of the program.

5. Exposure data are as of September 30, 1988.

MEXICO EXAMPLE - EXPLANATION OF ASSUMPTIONS
(Corresponds to Attached Outline for All BIS Reporting Banks}

ELIGIBLE DEBT

Only medium- and long-term bank debt (no short-term trade financing) is eligible for restructuring, and this eligible debt represents 75 percent of Mexico's bank debt outstanding. As of September 30, 1988, Mexico's total debt to banks was approximately $69.742 billion; therefore, $52.307 billion would be eligible for restructuring.

RESTRUCTURED DEBT DISCOUNT

Current annual debt service and discounted annual debt service are estimated by treating obligations as a 20-year annuity, with full amortization of respective principal amounts. The current interest rate on the $52.3 billion of eligible debt is assumed to be 11 percent, so that current annual debt service on the eligible debt is $6.568 billion.

In this example, all eligible debt is tendered for restructuring. Creditors may choose the magnitude of discount they will offer; the greater the discount offered, the greater the share of the coinsurance that is borne by the IDI. The total debt reductions for Type "A" debt (where banks discount Mexico's debt service by 40 percent in exchange for 80 percent IDI coverage of the discounted annual debt service) and Type "B" debt (where banks discount debt service by 30 percent in exchange for 70 percent coverage of the discounted annual debt service) represent the percentage reductions in annual debt service. These reductions are achieved by reducing the principal amount and fixing the interest rate at a reduced level -- 8 percent in this example. We assume that half of the eligible debt -- $26.153 billion -- is offered as Type A debt and half as Type B debt, so that the overall debt service discount is 35 percent. Therefore, the current annual debt service -- $6.568 billion -- is discounted to $4.269 billion.

COINSURANCE

The IDI guarantees 80% of the discounted annual debt service on Type A debt, and 70 percent of the discounted annual debt service on Type B debt (the Annual Guaranteed Amount); therefore, in this example, the total annual guaranteed amount equals 75 percent of the discounted annual debt service -- $3.185 billion. The, remainder of the discounted annual debt service -- $1.084 billion -- is the creditor banks' deductible share. If all scheduled payments are made, or if any annual payments shortfalls do not exceed the banks' deductible share ($1.084 billion per year), then there will be no claims on IDI coinsurance.

PREMIUM

Banks’ premium payments are equal to their coinsurance share (20% for Type A, 30% for Type B, 25% total) of the expected annual debt service shortfall, assuming a 10 percent probability of total nonpayment on the restructured debt in any year. This greatly simplified model recognizes only two possible outcomes in any year -- either total payment of discounted annual debt service or total nonpayment.

CAPITAL CONTRIBUTION

We assume that the initial capital contribution to the IDI is equal to two years of the annual guaranteed debt service payments ($3.185 billion x 2 = $6.37 billion). In this example, the initial capital is provided by the multilateral development institutions (IMF, World Bank) and the creditor banks. The banks’ share of the initial capital contribution would be drawn upon first in the event of a debt service shortfall that exceeded their deductible and accumulated premiums.

CALLABLE CAPITAL AND GUARANTEES

The callable capital and guarantees are equal to the guaranteed portion of the discounted annual debt service payments remaining to maturity, less banks’ remaining insurance premium payments and the existing amount of the IDI fund. They represent the debt service guarantees that exceed the insurance reserve plus the remaining insurance premium payments, and are expressed in present value terms using a 9% discount rate.

TOTAL DEBT SERVICE REDUCTIONS

The total debt service reductions in this example (35 percent, or $2.299 billion per year over 20 years} equal the difference between the assumed current annual debt service ($6.568 billion) and the discounted annual debt service ($4.269 billion}. At the end of 20 years, these reductions would total $45.98 billion.

INSURANCE RESERVE

The insurance reserve is equal to the initial capitalization of the IDI ($6.37 billion), plus annual premium payments ($80 million per year). The reserve is assumed to compound annually at a rate of 9 percent.

CAVEATS

Our examples of restructured Mexican debt servicing assume that all debt service obligations are met, so that there are no drawdowns of the IDI fund. Also, for the sake of simplicity, no new insured debt is incurred in the period covered by the examples, although it is likely that the prospect of coinsurance for new loans will attract additional new financing.

BANK: BIS - Reporting Banks

COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: $69,742

ELIGIBLE DEBT: $52,307

ORIGINAL INTEREST RATE: 11%

REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)	$26,153	$3,284	$1,970	$19,342
Type B (30%)	$26,153	$3,284	$2,299	$22,572
Total (35%)	$52,307	$6,568	$4,269	$41,914

COINSURANCE

	Annual Guaranteed Amount	Banks' Deductible
Type A (80-20)	$1,576	$394
Type B (70-30)	$1,609	$690
Total	$3,185	$1,084

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $80

CAPITAL CONTRIBUTION: $6,370

IMF	$2,548	(40% of total)
World Bank	$2,548	(40% of total)
Banks	$1,274	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $21,974

TOTAL DEBT SERVICE REDUCTIONS:

$2,299 per year (35%)

$2,299 cumulative

INSURANCE RESERVE: $6,450

BANK: All B.I.S. - Reporting Banks COUNTRY: Mexico Year 2

TOTAL DEBT OUTSTANDING: ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11% REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$1,970	$18,919
Type B (30%)			$2,299	$22,079
Total (35%)			$4,269	$40,998

COINSURANCE

	Annual Guaranteed Amount	Banks' Deductible
Type A (80-20)		
Type B (70-30)		
Total	$3,185	$1,084

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $80

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Banks	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $21,420

TOTAL DEBT SERVICE REDUCTIONS:

$2,299 per year (35%)

$4,598 cumulative

INSURANCE RESERVE: $7,110

BANK: All B.I.S. - Reporting Banks COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11% REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$1,970	$18,463
Type B (30%)			$2,299	$21,545
Total (35%)			$4,269	$40,008

COINSURANCE

	Annual Guaranteed Amount	Banks' Deductible
Type A (80-20)		
Type B (70-30)		
Total	$3,185	$1,084

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $80

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Banks	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $20,156

TOTAL DEBT SERVICE REDUCTIONS:

$2,299 per year (35%)

$6,897 cumulative

INSURANCE RESERVE: $7,830

BANK: All B.I.S. - Reporting Banks

COUNTRY: Mexico

TOTAL DEBT OUTSTANDING:

ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11%

REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$1,970	$17,970
Type B (30%)			$2,299	$20,970
Total (35%)			$4,269	$38,940

COINSURANCE

	Annual Guaranteed Amount	Banks' Deductible
Type A (80-20)		
Type B (70-30)		
Total	$3,185	$1,084

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $80

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Banks	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $18,778

TOTAL DEBT SERVICE REDUCTIONS:

$2,299 per year (35%)

$9,196 cumulative

INSURANCE RESERVE: $8,615

BANK: All B.I.S. - Reporting Banks COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11% REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$1,970	$17,438
Type B (30%)			$2,299	$20,349
Total (35%)			$4,269	$37,787

COINSURANCE

	Annual Guaranteed Amount	Banks' Deductible
Type A (80-20)		
Type B (70-30)		
Total	$3,185	$1,084

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $80

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Banks	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $17,275

TOTAL DEBT SERVICE REDUCTIONS:

$2,299 per year (35%)

$11,495 cumulative

INSURANCE RESERVE: $9,470

BANK: Bank X (Average U.S. Money Center) COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: $1,366 ELIGIBLE DEBT: $1,025

ORIGINAL INTEREST RATE: 11% REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	(Beginning of year) Discounted Principal
Type A (40%)	$512.5	$64.36	$38.62	$379.18
Type B (30%)	$512.5	$64.36	$45.05	$442.31
Total (35%)	$1025	$128.72	$83.67	$821.49

COINSURANCE

	Annual Guaranteed Amount	Bank Deductible
Type A (80-20)	$30.90	$7.72
Type B (70-30)	$31.54	$13.51
Total	$62.44	$21.23

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount) = $6.244
then: Annual Premium = $1.561

CAPITAL CONTRIBUTION: $124.90

IMF	$49.96	(40% of total)
World Bank	$49.96	(40% of total)
Bank	$24.98	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $430.84 (PDV)

TOTAL DEBT SERVICE REDUCTIONS:

$25.74 per year (35%)

$25.74 cumulative

INSURANCE RESERVE: $126.46

BANK: Bank X COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11% REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$38.62	$371
Type B (30%)			$45.05	$432
Total (35%)			$83.67	$803

COINSURANCE

	Annual Guaranteed Amount	Bank Deductible
Type A (80-20)		
Type B (70-30)		
Total	$62.44	$21.23

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $1.561

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Bank	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $407.04 (PDV)

TOTAL DEBT SERVICE REDUCTIONS:

__________ per year (35%)

$51.48 cumulative

INSURANCE RESERVE: $139.40 (compounded)

BANK: Bank X | COUNTRY: Mexico

TOTAL DEBT OUTSTANDING: | ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11% | REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$38.62	$362
Type B (30%)			$45.05	$422
Total (35%)			$83.67	$784

COINSURANCE

	Annual Guaranteed Amount	Bank Deductible
Type A (80-20)		
Type B (70-30)		
Total	$62.44	$21.23

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $1.561

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Bank	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $381.08 (PDV)

TOTAL DEBT SERVICE REDUCTIONS:

__________ per year (35%)

$77.22 cumulative

INSURANCE RESERVE: $153.51 (compounded)

BANK: Bank X

COUNTRY: Mexico

TOTAL DEBT OUTSTANDING:

ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11%

REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	(Beginning of year) Discounted Principal
Type A (40%)			$38.62	$352
Type B (30%)			$45.05	$411
Total (35%)			$83.67	$763

COINSURANCE

	Annual Guaranteed Amount	Bank Deductible
ype A (80-20)		
Type B (70-30)		
Total	$62.44	$21.23

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $1.561

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Bank	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $352.80 (PDV)

TOTAL DEBT SERVICE REDUCTIONS:

__________ per year (35%)

$102.96 cumulative

INSURANCE RESERVE: $168.89 (compounded)

BANK: Bank X　　　　COUNTRY: Mexico　　Year 5

TOTAL DEBT OUTSTANDING:　　　　ELIGIBLE DEBT:

ORIGINAL INTEREST RATE: 11%　　　　REDUCED INTEREST RATE: 8%

(All dollar amounts are in the millions, unless otherwise noted)

RESTRUCTURED DEBT DISCOUNT

	Par Value of Debt	Current Annual Debt Service	Discounted Annual Debt Service	Discounted Principal
Type A (40%)			$38.62	$342
Type B (30%)			$45.05	$398
Total (35%)			$83.67	$740

COINSURANCE

	Annual Guaranteed Amount	Bank Deductible
Type A (80-20)		
Type B (70-30)		
Total	$62.44	$21.23

PREMIUM: (Equal to 25% of the expected debt service shortfall per year.)
Assumption: Prob (total failure to service debt) = 10%
then: E (Annual debt service shortfall) = (0.1) * (Total Guaranteed Amount)
then: Annual Premium = $1.561

CAPITAL CONTRIBUTION:

IMF	(40% of total)
World Bank	(40% of total)
Bank	(20% of total)

CALLABLE CAPITAL AND GUARANTEES: $321.97 (PDV)

TOTAL DEBT SERVICE REDUCTIONS:

__________ per year (35%)

$128.70 cumulative

INSURANCE RESERVE: $185.65 (compounded)

Opinions expressed in this document do not necessarily represent the views of the Federal Deposit Insurance Corporation.

EXAMPLE: MEXICO
DEBT AMORTIZATION SCHEDULE -- ALL B.I.S. - REPORTING BANKS
(AMOUNTS IN $ MILLION)

YEAR	DEBT SERVICE PAYMENTS PRINCIPAL	INTEREST	TOTAL	OUTSTANDING PRINCIPAL BALANCE*	INSURANCE RESERVE	REMAINING DEBT SERVICE GUARANTEES* (NET OF IDI RESERVE)
1	916	3,353	4,269	41,914	6,450	21,974
2	989	3,280	4,269	40,998	7,110	21,420
3	1,068	3,201	4,269	40,009	7,830	20,156
4	1,154	3,115	4,269	38,941	8,615	18,778
5	1,246	3,023	4,269	37,787	9,470	17,275
6	1,346	2,923	4,269	36,541	10,402	15,638
7	1,453	2,816	4,269	35,195	11,418	13,854
8	1,570	2,699	4,269	33,742	12,526	11,909
9	1,695	2,574	4,269	32,172	13,733	9,788
10	1,831	2,438	4,269	30,477	15,049	7,477
11	1,977	2,292	4,269	28,646	16,483	4,958
12	2,136	2,133	4,269	26,669	18,047	2,212
13	2,306	1,963	4,269	24,533	19,751	(781)
14	2,491	1,778	4,269	22,227	21,609	(4,044)
15	2,690	1,579	4,269	19,736	23,633	(7,600)
16	2,905	1,364	4,269	17,046	25,840	(11,476)
17	3,138	1,131	4,269	14,141	28,246	(15,701)
18	3,389	880	4,269	11,002	30,868	(20,306)
19	3,670	609	4,269	7,614	33,726	(25,326)
20	3,954	316	4,269	3,954	36,841	(30,797)

*Balances at beginning of year.

EXAMPLE: MEXICO
DEBT AMORTIZATION SCHEDULE -- BANK X (AVERAGE MONEY CENTER)
(AMOUNTS IN $ MILLION)

YEAR	DEBT SERVICE PAYMENTS PRINCIPAL	INTEREST	TOTAL	OUTSTANDING PRINCIPAL BALANCE*	INSURANCE RESERVE	REMAINING DEBT SERVICE GUARANTEES* (NET OF IDI RESERVE)
1	17.95	$65.72	$83.67	$821.49	$126.46	$430.84
2	$19.39	$64.28	$83.67	$803.54	$139.40	$407.04
3	$20.94	$62.73	$83.67	$784.15	$153.51	$381.08
4	$22.61	$61.06	$83.67	$763.21	$168.89	$352.80
5	$24.42	$59.25	$83.67	$740.60	$185.65	$321.97

*All balances at beginning of year.