

LGU BENCHMARK

ISSUE # 2

FEBRUARY 2006

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Internal LGU Credit Screening and Rating System

Incorporated on March 2, 1998, LGU Guarantee Corporation (LGUGC) is a private financial credit guarantee institution owned by the Bankers Association of the Philippines (38 percent), Development Bank of the Philippines (37 percent) and Asian Development Bank (25 percent).

Its primary goal is to make private financial resources available to creditworthy local government units (LGUs) through its credit enhancement system.

In the absence of a formal credit rating agency that specializes in credit and management evaluation of LGUs, LGUGC developed an internal credit screening and rating system (LCSRS) for LGUs.

Since 1999, the system has continued to guide creditors and investors in making informed deci-

sions on whether or not to invest in bonds issued by LGUs.

With the LCSRS, LGUGC fulfills its developmental mission of providing the public with affordable means of determining the creditworthiness profile of LGUs. Moreover, LGUGC itself uses the LCSRS in evaluating the LGU risk before it accepts LGU guarantee applications.

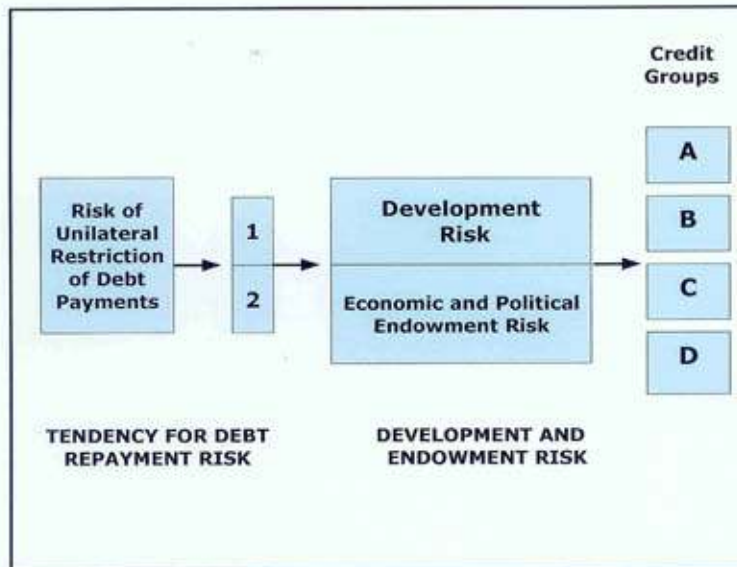
From the 120 LGUs initially screened, the LCSRS currently has a database of 506 LGUs, and contains both quantitative and qualitative information from 1996 to 2005.

The LCSRS has two phases: credit screening and rating.

Phase 1: Credit Screening

Credit Screening

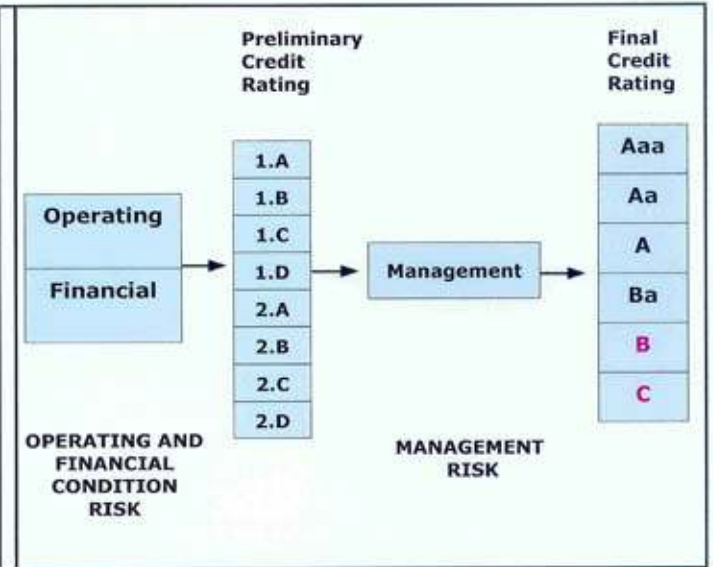
Credit screening aims to independently assess the general creditworthiness of an LGU and provides macro indications of an LGU's credit standing based on risk parameters. The credit screening stage is the initial assessment prior to credit rating and the output is the classification of LGUs into credit groups **A, B, C** and **D** that describe their distinctive characteristics in terms of long-term political, socio-economic endowment and development potential.



Phase 2: Credit Rating

Credit Rating

An LGU credit rating is an opinion by LGUGC about the capacity and willingness of an LGU to pay contracted obligations. This is based on the LGU's short-term operating, financial and management capabilities.



Credit Screening Classification

Credit Group	Tendency for Debt Repayment Risk	Development and Endowment risk
Group A	Low	Low
Group B	Low	High
Group C	High	Low
Group D	High	High

Definition of Credit Ratings

Aaa	highest credit standing
Aa	high credit standing
A	good credit standing
Ba	average credit standing
B	<i>below- average credit standing</i>
C	<i>poor credit standing</i>