Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1223

Introduced by: **HON. FELIX R. ALFELOR, JR.**

EXPLANATORY NOTE

This bill was filed with the Twelfth Congress as House Bill No. 5115 with the following explanatory note:

"The National Government has been campaigning for poverty eradication of 32 million Filipinos in the poverty line. However, poverty, which resides mainly in the rural areas, cannot be eradicated simply with the influx of foreign investments and the revitalization of export-oriented industries. Without discounting the value of these efforts, their benefits seldom trickle down to the lowest levels of society. Poverty eradication can be better addressed if the government starts from the bottom, from the local economies growing upward to the national economy.

The rural banks play a major role in socio-economic development of the countryside, as more than eighty per cent (80%) of rural banks' clients are within the poverty line. They keep the rural sectors at pace with current economic trends and developments, injecting dynamism to the rural areas through the motion of entrepreneurship, food production, livelihood projects, values formation, training and new forms of economic activities in the provinces. They mobilize small savings and provide farmers, fishermen, micro entrepreneurs, employees, market vendors and other rural workers access to credit in order to give them opportunity to improve the quality of their life by engaging in productive activities. Furthermore, the rural banks are the best antidotes to the usurious practices of informal moneylenders who charge exorbitant interest rates to the hapless borrowers.

The Rural Banks Act of 1992 or Republic Act No. 7353 was passed in recognition of the need to make credit available and accessible in the rural areas. It was a manifestation of government's sensitivity to the plight of the rural folks who can barely gain access to the financial services offered by banking institutions because of their economic status. Among the incentives granted were the exemption of rural bank owners from the ownership ceiling, exemption from publication requirement of bank, foreclosures and exemption from the payment of gross receipts tax. These measures were meant to enhance the operation of the rural banks after the

financial turbulence of the mid-80's resulting from misguided government financial policies at that time.

Due to political and economic crisis, rural banks have not recovered, remained in the state where they were in the 1980's and the poverty in the countryside widened. Such a situation has a negative impact on key sections of our economy that needs immediate attention and our unwavering support.

This amendatory bill claims to resolve the issues, plug the loopholes, decrease financial cost of borrowers and re-direct the flow of funds to the countryside that diluted the real intent of R.A. 7353. Some of the important features of the bill are as follows:

- That the compliance of the small credit allocation is full compliance of medium credit allocation as medium term borrowers rarely apply credit to rural banks,
- Incentives in the development of local economy to reach and decrease the cost of intermediation to the poor,
- Providing for collateral integrity on untitled lands,
- Increase of loan amount exempted from publication and registration fees passed on the borrowers,
- Eliminate irritations on acquired lands in satisfaction of loans to decrease non-performing assets,
- Defer payment of capital gains tax upon consolidation until after sale to prevent double taxation,
- Loans granted by financial institutions to rural banks is compliance of Agri-Agra Law to propel funds to the rural areas,
- Extension of exemption from taxes, except income tax, to ten (10) years to decrease financial cost of borrowers and level the playing field,
- Exemption of withholding tax on deposits to redirect funds from urban to rural areas."

In view of the foregoing reasons, the approval of this bill, which was filed before the 12th Congress but was not acted upon at the time of its adjournment, is earnestly sought.

HON. FELIX R. ALFELOR, JR.
Representative
Fourth District, Camarines Sur

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1223

Introduced by: **HON. FELIX R. ALFELOR, JR.**

AN ACT
TO LIBERALIZE THE OPERATIONS OF RURAL BANKS AMENDING FOR THAT PURPOSE REPUBLIC ACT NO. 7353, OTHERWISE KNOWN AS THE NEW RURAL BANKS ACT OF 1992 AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

Section 1. Section 3 of Republic Act No. 7353 otherwise known as the "Rural Banks Act of 1992" is hereby amended to read as follows:

> "Section 3. In furtherance of this policy, the Monetary Board of the (Central Bank of the Philippines) **BANGKO SENTRAL NG PILIPINAS** shall formulate the necessary rules and regulations governing the establishment and operation of rural banks for the purpose of providing adequate credit facilities to farmers and merchants, or to cooperatives of such farmers and merchants and, in general, to the people of the rural communities, and to supervise the operation of such banks."

Section 2. Section 4 of the same Act is hereby amended to read as follows:

> "Section 4. No rural bank shall be operated without a Certificate of Authority from the Monetary Board of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS.** Rural Banks shall be organized in the form of stock corporations. Upon consultation with the rural banks in the area, duly established cooperatives and corporations primarily organized to hold equities in rural banks may organize a rural bank and/or subscribe to the shares of stock of any rural bank: Provided, That a cooperative or corporation owning or controlling the whole or majority of the voting stock of the rural bank shall be subject to special examination and to such rules and regulations as the Monetary Board may prescribe. With the exception of shareholdings of corporations

organized primarily to hold equities in rural banks as provided for under Section (12-C) 13of Republic Act No. (337) 8791, as amended, and of Filipino-controlled domestic banks, the capital stock of any rural bank shall be fully owned and held directly or indirectly by citizens of the Philippines or corporations, associations or cooperatives qualified under Philippine Laws to own and hold such capital stock: **PROVIDED, THAT CITIZEN SHALL INCLUDE FILIPINOS WHO LOST THEIR CITIZENSHIP BY THE ACQUISITION OF FOREIGN CITIZENSHIP AND THEIR DESCENDANTS UP TO 3RD DEGREE OF CONSANGUINITY OR AFFINITY**: Provided FURTHER, That any provisions of existing laws to the contrary notwithstanding, INDIVIDUAL stockholdings in a rural bank shall be **UP TO 40% OF VOTING STOCK AS PROVIDED BY SECTION 11 OF REPUBLIC ACT NO. 8791:** (exempt from any ownership ceiling for a period of ten (10) years from the approval of this Act:) Provided, further, That any (such) exemption shall require the approval of the Monetary Board. If subscription of private shareholders to the capital stock of a rural bank cannot be secured or is not available, or insufficient to meet the normal credit needs of the locality, the Land Bank of the Philippines, the Development Bank of the Philippines, or any government-owned or -controlled bank or financial institution, on representation of the said private shareholders but subject to the investment guidelines, policies and procedures of the bank or financial institution **TO BE FORMULATED WITHIN SIX (6) MONTHS FROM THE APPROVAL OF THIS ACT** and upon approval of the Monetary Board of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS**, shall subscribe to the capital stock of such rural bank **AT A PREFERABLE TERMS,** which shall be paid in full at the time of subscription, in an amount equal to the fully paid subscribed and unimpaired capital of the private stockholders or such amount as the Monetary Board may prescribe as may be necessary to promote and expand rural economic development: Provided, however, That such shares of stock subscribed by the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or -controlled bank or financial institution may be sold at any time at market value to private individuals who are citizens of the Philippines: Provided, finally, That in the sale of shares of stock subscribed by the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or – controlled bank or financial institutions, the registered stockholders shall have the right of free-emption within one (1) year from the date of offer in proportion to their respective holdings, but in the absence of such buyer, preference, however, shall be given to residents of the locality or province where the rural bank is located".

Section 3. Section 5 of the same Act is hereby amended to read as follows:

"Section 5. All members of the Board of Directors of the rural bank shall be citizens of the Philippines at the time of their assumption to office: Provided, however, That nothing in this Act shall be construed as prohibiting any appointive or elective public official from serving as director, officer, consultant or in any capacity in the bank; **PROVIDED FURTHERMORE THAT RURAL BANKS SHALL BE EXEMPT FROM INDEPENDENT DIRECTORS AS PROVIDED BY SECTION 15 OF REPUBLIC ACT NO. 8791.**

No director or officer of any rural bank shall, either directly or indirectly, for himself or as the representative or agent of another, borrow any of the deposits or funds of such banks, nor shall he become a guarantor, endorser, or surety for loans from such bank to others, or in any manner be an obligor for money borrowed from the bank or loaned by it except with the written approval of the majority of the directors of the bank, excluding the director concerned. Any such approval shall be entered upon the records of the corporation and a copy of such entry shall be transmitted forthwith to the appropriate supervising department. The director/ officer of the bank who violates the provisions of this section shall be immediately dismissed from his office and shall be penalized in accordance with Section 26 of this Act.

The Monetary Board may regulate the amount of credit accommodations that may be extended directly to the directors, officers, or stockholders of rural banks of banking institutions. However, the outstanding credit accommodations which a rural bank may extend to each of its stockholders owning two percent (2%) or more of the subscribed capital stock, its directors, or officers shall be limited to an amount equivalent to the respective outstanding deposits and book value of the paid-in capital contributions in the bank".

Section 4. Section 6 of the same Act is hereby amended to read as follows:

"Section 6. Loans or advances extended by the rural banks organized and operated under this Act shall be primarily for the purpose of meeting the normal credit needs of farmers, fishermen, or farm families owning or cultivating land dedicated to agricultural production as well as the normal credit needs of cooperatives and (merchants) **MICRO, SMALL AND MEDIUM ENTERPRISES.** In the granting of loans, the rural bank shall give preference to the application of farmers and (merchants) **ENTREPRENEURS** whose cash requirements are small: **PROVIDED, THAT RURAL BANKS WHICH HAVE EXTENDED EIGHT PERCENT (8%) OR MORE TO SMALL ENTERPRISES SHALL BE CONSIDERED AS FULL COMPLIANCE OF THE SMALL AND MEDIUM**

CREDIT MANDATORY ALLOCATION AS PROVIDED IN R.A. NO. 6977 AS AMENDED BY R.A. 8289.

AS POVERTY RESIDES IN THE COUNTRYSIDE, RURAL BANKS SHALL ACTIVELY PARTICIPATE IN THE DEVELOPMENT OF LOCAL ECONOMY THRU MICROFINANCE, LIVELIHOOD PROJECTS, VALUES FORMATION, TRAINING AND EDUCATION: PROVIDED THAT RURAL BANKS WITH AT LEAST TWENTY PERCENT (20%) MICROFINANCE LOAN PORTFOLIO SHALL BE ALLOWED TO OPEN BRANCH OR EXTENSION OFFICES: PROVIDED FURTHER THAT TO REDUCE THE COST OF LOANS AND DEPOSITS OF MARGINALIZED CLIENTS, ALL MICROFINANCE TRANSACTIONS SHALL BE EXEMPT FROM ALL TAXES, FEES AND CHARGES OF WHATEVER NATURE.

Loans may be granted by rural banks on the security of lands without Torrens Title where the owner of private property can show five (5) years or more of peaceful, continuous and uninterrupted possession in concept of owner; or of portions of friar land estates or other lands administered by the Bureau of Lands that are covered by sales contracts and the purchasers have paid at least five (5) years installment thereon, without the necessity of prior approval and consent by the Director of Lands; or of portions of other estates under the Administration of the Department of the Agrarian Reform or other governmental agency which are likewise covered by sales contracts and the purchasers have paid at least five (5) years installment thereon, without the necessity of prior approval and consent of the Department of Agrarian Reform or corresponding governmental agency; or of homesteads or free patent lands pending the issuance of titles but already approved, the provisions of any law or regulations to the contrary notwithstanding: Provided, That when the corresponding titles are issued, the same shall be delivered to the Register of Deeds of the Province where such lands are situated for the annotation of the encumbrance: Provided, further, That in the case of lands pending homestead or free patent titles, copies of notices for the presentation of the final proof shall also be furnished the creditor rural bank and, if the borrower applicants fail to present the final proof within thirty (30) days from date of notice , the creditor rural bank may do so for them at their expense: Provided, furthermore, That the applicant for homestead or free patent has already made improvements on the land and the loan applied for is to be used for further development of the same or for other productive economic activities: Provided, (finally) **FURTHERMORE,** That the appraisal and verification of the status of the land is a full responsibility of the rural bank and any loan granted

on any land which shall be found later to be within the forest zone shall be for the sole account of the rural bank: **PROVIDED FINALLY, THAT SAID LANDS NOT COVERED BY TORRENS TITLE BUT COVERED BY TAX DECLARATIONS, HOMESTEAD OR FREE PATENT OR EMANCIPATION PATENT TITLES AND OTHER LAND TITLES SHALL BE ACCEPTED AS REAL ESTATE COLLATERAL BY BANGKO SENTRAL NG PILIPINAS, LAND BANK OF THE PHILIPPINES, DEVELOPMENT BANK OF THE PHILIPPINES AND OTHER GOVERNMENT-OWNED OR CONTROLLED FINANCIAL INSTITUTION FOR LOANS GRANTED TO RURAL BANKS.**

The foreclosure of mortgages covering loans granted by rural banks and executions of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspapers now required by law where the total amount of loan, excluding interests AND **OTHER CHARGES due and unpaid, does not exceed One hundred thousand pesos (P 100,000.00) One Million Pesos (P 1,000,000.00)** or such amount as the Monetary Board may prescribed as may be warranted by prevailing economic conditions. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in the most conspicuous area of the municipal building, the municipal public market, the rural bank, the barangay hall, and the barangay public market, if any where the land mortgaged is situated during the period of sixty (60) days immediately preceding the public auction or execution of judgment. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached with the records of the case: Provided, That when a homestead or free patent is foreclosed, the homesteader or free patent holder, as well as his heirs shall have the right to redeem the same within one (1) year from the date of foreclosure in the case of land not covered by a Torrens Title or one (1) year from the date of the registration of the foreclosure in the case of land covered by a Torrens title: Provided, finally, That in any case, borrowers, especially those who are mere tenants, need only to secure their loans with the produce corresponding to their share.

A rural bank shall be allowed to foreclosure lands mortgaged to it: **PROVIDED THAT AGRICULTURAL LANDS ACQUIRED THROUGH FORECLOSURE OF MORTGAGE OR DACION EN PAGO OR OTHER MEANS OF ACQUISITION IN SATISFACTION OF LOANS, CAN BE SOLD DIRECTLY TO ANY INTERESTED BUYER REGARDLESS OF AREA;**

PROVIDED FURTHER, THAT RURAL BANKS SHALL BE EXEMPTED FROM TENANCY CLAIMS ARISING FROM SUCH LOANS GRANTED ON THE SECURITY OF AGRICULTURAL LANDS WHEN SUCH AGRICULTURAL LANDS ARE CERTIFIED TO AS UNTENANTED AT THE TIME THE LOAN IS GRANTED: PROVIDED FURTHERMORE, THAT MORTGAGE AND FORECLOSURE OF FAMILY HOME CAN BE EFFECTED BY WRITTEN CONSENT OF HUSBAND AND WIFE; Provided FURTHERMORE, That said lands shall be covered under Republic Act No. 6657.

PROVIDED FINALLY, THAT PAYMENT OF CAPITAL GAINS TAX AND OTHER TAXES OF WHATEVER NATURE ON FORECLOSED LANDS OR LANDS ACQUIRED THRU DACION EN PAGO OR LANDS ACQUIRED IN SATISFACTION OF LOANS GRANTED BY RURAL BANKS, SHALL BE DEFERRED UNTIL SOLD BY THE RURAL BANK TO ANY INTERESTED BUYERS WITHIN FIVE (5) YEARS FROM THE DATE OF CONSOLIDATION OF OWNERSHIP AS PROVIDED BY SECTION 52 OF REPUBLIC ACT NO. 8791."

Section 5. Section 8 of the same Act is hereby amended to read as follows:

"Section 8. To provide supplemental capital to any rural bank until it has accumulated enough capital of its own or stimulate private investments in rural banks, the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or-controlled bank or financial institution shall subscribe within thirty (30) days to the capital stock of any rural bank from time to time in an amount equal to the total equity investment of the private shareholders which shall be paid in full at the time of the subscription or such amount as may be necessary to promote and expand rural economic development: Provided, however, That shares of stock issued to the Land Bank of the Philippines, the Development Bank of the Philippines, or any government-owned or -controlled bank or financial institution, may, pursuant to this section, at any time, be paid off at par and retired in whole or in part if the rural bank has accumulated enough capital strength to permit retirement of such shares, or if an offer is received from private sources to replace the equity investment of the Land Bank of the Philippines, the Development Bank of the Philippines, or any government-owned or-controlled banks or financial institution with an equivalent investment or more in the in the equity of such bank. In case of retirement of stock or replacement of equity investments of the Land Bank of the Philippines, the Development

Bank of the Philippines or any government-owned or- controlled bank or financial institution, the registered private shareholders of the rural bank shall have the right of pre-emption within one (1) year from the date of offer in proportion to their respective holdings.

Stocks held by the Land Bank of the Philippine, the Development Bank of the Philippines or by any government-owned or- controlled or financial institution, under the terms of this section, shall be made preferred only as to assets upon liquidation and without the power to vote and shall share in dividend distributions from the date of issuance in the amount of four percent (4%) on the first and second year, six percent (6%) on the third and fourth years, eight percent (8%) on the fifth and sixth years, ten percent (10%) on the seventh and eight years and twelve percent (12%) on the ninth to the fifteenth years without preference: Provided, however, That if such stock of the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or-controlled bank or financial institution is sold to private shareholders, the same may be converted into common stock of the class provided for in Section 10 hereof: Provided, further, That pending the amendment of the Articles of Incorporation of the rural bank, if necessary, for the purpose of reflecting the conversion into common stock of preferred stock to sold to private stockholders, the transfer shall be recorded by the rural bank in the stock and transfer book and such shareholders shall thereafter enjoy all the rights and privileges of common stockholders. The preferred stocks so transferred shall be surrendered and cancelled and the corresponding common stocks shall be issued.

The corporate secretary of the rural bank shall submit to the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** and the Securities and Exchange Commission a report on every transfer of preferred stock to private shareholders, and such report received by the Securities and Exchange Commission shall form part of the corporate records of the rural bank. When all the preferred shares of stock of a rural bank have been sold to private shareholders, the Articles of Incorporation of the rural bank shall be amended to reflect the conversion of the preferred shares of stock into common stock. For this purpose, the President, the corporate secretary, and a majority of the Board of Directors shall issue a certificate that all preferred shares have been sold to private shareholders which, together with a copy of the Articles of Incorporation, as amended, duly certified correct by the President, corporate secretary, and majority of the Board of Directors, shall be filed with the Securities and Exchange Commission, which shall attach the same to the original Articles of Incorporation on the file with said office.

The Securities and Exchange Commission shall not register the amended Articles of Incorporation unless accompanied by the Certificate of Authority required under Section (9) 14 of Republic Act No. (337) 8791, as amended.

All supervised past due and restructured past due loans, including those covered under existing rehabilitation programs of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS,** and fifty percent (50%) of non-supervised past due and restructured past due loans including accrued interest thereon of rural banks organized under Republic Act No. 720, as amended, as of December 31, 1986, shall be converted into preferred stocks of the rural bank and issued in favor of the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or-controlled bank or financial institution: Provided, That penalties thereon are hereby waived except accrued interest on arrearages: Provided, further, That the equivalent penalties due from corresponding farmers are likewise waived: Provided, further, That rural banks that prefer to settle their arrearages under a plan of payment or a combination of both plan of payment and conversion may do so in accordance with existing regulations and provisions of this Act: Provided, furthermore, That rural banks shall match these preferred stocks with private equity in equal annual installments over a period of fifteen (15) years to begin three (3) years after conversion: Provided, finally, That the (Central Bank) **BANGKO SENTRAL NG PILIPINAS,** the Land Bank of the Philippines, the Development Bank of the Philippines and any government-owned or-controlled bank or financial institution shall continue to rediscount subject to their respective programs, policies and guidelines against papers evidencing a loan granted by a rural bank in order to achieve the declared policy and promote the objectives of this Act".

Section 6. Section 11 of the same Act is hereby amended to read as follows:

"Section 11. The power to supervise the operation of any rural bank by the Monetary Board as herein indicated shall consist in placing limits to the maximum credit allowed to any individual borrower; in prescribing the interest rate; in determining the loan period and loan procedures; in indicating the manner in which the technical assistance shall be extended to rural banks; in imposing a uniform accounting system and manner of keeping the accounts and records of rural banks; in instituting periodic surveys of loan and lending procedures, audits, test-check of cash and other transactions of the rural banks; in conducting training courses for personnel of rural banks; and, in general, in supervising the business operations of the rural banks.

The (Central Bank) **BANGKO SENTRAL NG PILIPINAS** shall have the power to enforce the laws, orders, instructions, rules and regulations promulgated by the Monetary Board applicable to rural banks; to require rural banks, their directors, officers and agents to conduct and manage the affairs of the rural banks in a lawful and orderly manner; and, upon proof that the rural bank or its Board of Directors, or officers are conducting and managing the affairs of the bank in a manner contrary to laws, orders, instructions, rules and regulations promulgated by the Monetary Board or in a manner substantially prejudicial to the interest of the Government, depositors or creditors, to take over the management of such bank when specifically authorized to do so by the Monetary Board after due (hearing) process until a new Board of Directors, and officers are elected and qualified without prejudice to the prosecution of the persons responsible for such violations under the provisions of Sections 32, 33, and 34 of Republic Act No. 265, as amended.

The management of the rural bank by the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** shall be without expense to the rural bank, except such as is actually necessary for its operation, pending the election and qualification of a new board of directors and officers to take place of those responsible for the violations or acts contrary to the interest of the government, depositors or creditors.

The director and the examiners of the department of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** charged with the supervision of rural banks are hereby authorized to administer oaths to any director, officer or employee of any rural bank or to any voluntary witness and to compel the presentation of all books, documents, papers or records necessary in his or their judgment to ascertain the facts relative to the true condition of any rural bank or to any loan.'

Section 7. Section 12 of the same Act is hereby amended to read as follows:

"Section 12. In addition to the operations specifically authorized in this Act, any rural bank may:

Accept savings and time deposits;

Open current or checking accounts, provided the rural bank has net assets of at least Five Million Pesos (P5,000,000.00) subject to such guidelines as may be established by the Monetary Board;

Act as a correspondent for other financial institutions;

Act as a collection agent;

Act as an official depository of municipal, city or provincial funds in the municipality, city or province where it is located, subject to such guidelines as may be established by the Monetary Board;

Rediscount paper with the Philippine National Bank, the Land Bank of the Philippines, the Development Bank of the Philippines, or any other banking institution, including its branches and agencies. Said institution shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these institutions; **PROVIDED THAT SUCH LOANS EXTENDED TO THE RURAL BANKS ARE SUFFICIENT COMPLIANCE OF AGRI-AGRA LAW;**

Offer other banking services as provided in Section (72) 53 of Republic Act No. (337) 8791, as amended; and

Extend financial assistance to private and public employees in accordance with the provisions of Section 5 of Republic Act No. 3779, as amended.

(I)PURCHASE, HOLD AND CONVEY REAL ESTATE AS PROVIDED IN SECTION 52 OF REPUBLIC ACT NO. 8791.

With written permission of the Monetary Board of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS,** any rural bank may act as trustee over estates or properties of farmers and merchants.

Nothing in this section shall be construed as precluding a rural bank from performing, with prior approval of the Monetary Board, all the services authorized for savings and mortgage banks, or for commercial banks, under Republic Act No. (337) 8791, as amended, or from operating under an expanded banking authority as provided in (Section 21-B of) the same Act."

Section 8. Section 15 of the same Act is hereby amended to read as follows:

"Section 15. **TO REDUCE COST OF LOANS TO BORROWERS AND PROMOTE FINANCIAL DEEPENING IN THE COUNTRYSIDE,** all rural banks created and organized under the provisions of this Act shall be exempt from the payment of all DIRECT and INDIRECT taxes, fees and charges of whatever nature

and description, except the corporate income tax and local taxes, fees and charges, for a period of five (5) TEN (10) years from the date of commencement **of** operations, **EXCEPT RURAL BANKS HEREIN AFTER BECOME A SUBSIDIARY OR AFFILIATES OF OTHER TYPES OF BANKING INSTITUTION OTHER THAN APEX BANK OR HOLDING CORPORATION OR RURAL BANKS.**

TO REDUCE COST OF LOANS TO BORROWERS AND PROMOTE FINANCIAL DEEPENING IN THE COUNTRYSIDE, all rural banks in operation as of the date of approval of this Act shall be exempt from the payment of all DIRECT and INDIRECT taxes, fees, and charges of whatever nature and description, except the corporate income tax and local taxes, fees and charges, for a period of five (5) TEN (10) years from the approval of this Act. **EXCEPT RURAL BANKS HEREINAFTER BECOME A SUBSUDIARY OR AFFILIATE OR OTHER BANKING INSTITUTION OR CORPORATION OTHER THAN APEX BANK OR HOLDING CORPORATION OF RURAL BANKS.**

IN ORDER TO PROMOTE RURAL SAVINGS, INTEREST EARNINGS ON DEPOSITS WITH RURAL BANKS SHALL BE EXEMPT FROM WITHHOLDING TAX."

Section 9. Section 16 of the same Act is hereby amended to read as follows:

"Section 16. In an emergency or when a financial crisis is imminent, the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** may give a loan to any rural bank against assets of the rural bank, which may be considered acceptable by a concurrent vote of at least four (4) members of the Monetary Board.

In normal times, the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** may rediscount against paper evidencing loan granted by a rural bank to any of its customers which can be liquefied within a period of three hundred sixty (360) days: Provided, however, That for the purpose of implementing a nationwide program of agricultural and industrial development, rural banks are hereby authorized, under such terms and conditions as the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** shall prescribe, to borrow, on a medium- or long –term basis, funds that the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** or any government financing institution shall borrow from the Development Bank of the Philippines or other international or foreign-lending institutions, for the specific purpose of financing the above stated agricultural and industrial program. Repayment of loans obtained by the (Central bank of the Philippines)

BANGKO SENTRAL NG PILIPINAS or any other government financing institution from said foreign-lending institutions under this section shall be guaranteed by the Republic of the Philippines."

Section 10. Section 17 of the same Act is hereby amended to read as follows:

"Section 17. Deposits of rural banks with government-owned or-controlled financial institutions like the Land Bank of the Philippines and the Development Bank of the Philippines (and the Philippine National Bank) are exempted from the Single Borrower's Limit imposed by the General Banking Act, **AND TREATED AS NON-RISK ASSETS IN THE COMPUTATION OF RISK ASSET RATIO AS PROVIDED UNDER SECTION 34 OF REPUBLIC ACT NO. 8791.**

In areas where there are no government banks, rural banks may deposit in private banks more than the amount prescribed by the Single Borrower's Limit, subject to Monetary Board regulations."

Section 11. Section 18 of the same Act is hereby amended to read as follows:

"Section 18. To encourage consolidation and mergers of rural banks, if there are five (5) TWO (2) or more rural banks within the region that merge and consolidate within three (3) years from the enactment of this Act, the merged or consolidated entity will be given the following incentives for a period of seven (7) years:

Its deposit liabilities shall be subjected to only one third (1/3) of reserves normally required fro rural banks;

Its reserve requirement can all be maintained under interest-bearing government securities but kept unencumbered with government financial institutions of the (Central Bank) **BANGKO SENTRAL NG PILIPINAS;** and

It shall have unrestricted branching right within the region, free from any assessment or surcharges required in setting up a branch but under coordination with the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** which will have to assess that there are qualified personnel, control and procedures to operate the branch."

Section 12. Section 19 of the same Act is hereby amended to read as follows:

"Section 19. The (Central Bank) **BANGKO SENTRAL NG PILIPINAS** shall extend technical assistance to any rural bank in the process of organization or during the course of operations whenever it

is requested to do so or whenever the Monetary Board deems it necessary to preserve, protect and promote the objectives of this Act: Provided, however, That said assistance shall be without cost or obligation on the part of the rural bank."

Section 13. Section 20 of the same Act is hereby amended to read as follows:

"Section 20. Any city or municipal trial court judge in his capacity as notary public ex officio shall administer the oath to or acknowledge the instruments of any rural bank and its borrowers or mortgagors, free from all charges, fees and documentary stamp tax, collectible under existing laws, relative to any loan or transaction not exceeding Fifty Thousand Pesos (P50, 000.00) **ONE MILLION PESOS (P1, 000,000.00)**, or such amount as the Secretary of Finance, upon recommendation of the Monetary Board may prescribe as may be necessary to promote and expand the rural economy."

Section 14. Section 21 of the same Act is hereby amended to read as follows:

"Section 21. Any Register of Deeds shall accept from any rural banks and its borrowers and mortgagors for registration, free from all charges, fees and documentary stamp tax, collectible under existing laws, in any involvement, whether voluntary or involuntary, relating to loans or transaction extended by a rural bank in an amount not exceeding Fifty Thousand Pesos (P50, 000.00) **ONE MILLION PESOS (P1, 000,000.00)**: Provided, however, That charges, if any, shall be collectible on the amount in excess of Fifty Thousand Pesos (P50,000.00) **ONE MILLION PESOS (P1,000,000.00;** and that in instruments related to assignments of several mortgages consolidated in a single deed, if any, shall be levied only on the amount in excess of Fifty Thousand Pesos (P50,000.00) **ONE MILLION PESOS (P1,000,000.00)** of the consideration in the assignment of each mortgage, or such amount as the Secretary of Finance, upon recommendation of the Monetary Board, may prescribe as may be necessary to promote and expand the rural economy."

Section 15. Section 22 of the same Act is hereby amended to read as follows:

"Section 22. Any rural bank organized under this Act may, pursuant to regulations promulgated for the purpose by the Monetary Board, be required to contribute to the (Central Bank) **BANGKO SENTRAL NG PILIPINAS)** an annual fee to help defray the cost of maintaining the appropriate supervising department within the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** in an amount to be determined by the Monetary Board but in no case to exceed one-fortieth of one percent (1/40 of 1%) of its average total assets during

is requested to do so or whenever the Monetary Board deems it necessary to preserve, protect and promote the objectives of this Act: Provided, however, That said assistance shall be without cost or obligation on the part of the rural bank."

Section 13. Section 20 of the same Act is hereby amended to read as follows:

"Section 20. Any city or municipal trial court judge in his capacity as notary public ex officio shall administer the oath to or acknowledge the instruments of any rural bank and its borrowers or mortgagors, free from all charges, fees and documentary stamp tax, collectible under existing laws, relative to any loan or transaction not exceeding Fifty Thousand Pesos (P50, 000.00) **ONE MILLION PESOS (P1, 000,000.00)**, or such amount as the Secretary of Finance, upon recommendation of the Monetary Board may prescribe as may be necessary to promote and expand the rural economy."

Section 14. Section 21 of the same Act is hereby amended to read as follows:

"Section 21. Any Register of Deeds shall accept from any rural banks and its borrowers and mortgagors for registration, free from all charges, fees and documentary stamp tax, collectible under existing laws, in any involvement, whether voluntary or involuntary, relating to loans or transaction extended by a rural bank in an amount not exceeding Fifty Thousand Pesos (P50, 000.00) **ONE MILLION PESOS (P1, 000,000.00)**: Provided, however, That charges, if any, shall be collectible on the amount in excess of Fifty Thousand Pesos (P50,000.00) **ONE MILLION PESOS (P1,000,000.00;** and that in instruments related to assignments of several mortgages consolidated in a single deed, if any, shall be levied only on the amount in excess of Fifty Thousand Pesos (P50,000.00) **ONE MILLION PESOS (P1,000,000.00)** of the consideration in the assignment of each mortgage, or such amount as the Secretary of Finance, upon recommendation of the Monetary Board, may prescribe as may be necessary to promote and expand the rural economy."

Section 15. Section 22 of the same Act is hereby amended to read as follows:

"Section 22. Any rural bank organized under this Act may, pursuant to regulations promulgated for the purpose by the Monetary Board, be required to contribute to the (Central Bank) **BANGKO SENTRAL NG PILIPINAS)** an annual fee to help defray the cost of maintaining the appropriate supervising department within the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** in an amount to be determined by the Monetary Board but in no case to exceed one-fortieth of one percent (1/40 of 1%) of its average total assets during

the preceding year, as shown on its end-of-month balance sheets, after deducting its cash on hand and amounts due from banks, including the (Central Bank) **BANGKO SENTRAL NG PILIPINAS."**

Section 16. Section 24 of the same Act is hereby amended to read as follows:

" Section 24. For the purpose of carrying out the objectives of this Act, the (Central Bank) **BANGKO SENTRAL NG PILIPINAS** is authorized to require the services and facilities of any department or instrumentality of the Government or any officer or employee of any such department or government instrumentality."

Section 17. Section 25 of the same Act is hereby amended to read as follows:

"Section 25. Rural banks organized and operated under the provisions of this Act shall act as agents of the (Philippine National Bank) the Land Bank of the Philippines (and), the Development Bank of the Philippines **OR OTHER GOVERNMENT OWNED OR CONTROLLED FINANCIAL INSTITUTIONS** in places where these banks have no office, subject to accreditation guidelines."

Section 18. Section 26 of the same Act is hereby amended to read as follows:

"Section 26. Without prejudice to any prosecution under any law which may have been violated, a fine of not more than Ten Thousand Pesos (P10, 000.00) or imprisonment for not less than six (6) months but not more than ten (10) years, or both, at the discretion of the court, shall be imposed upon:

Any officer, employee, or agent of a rural bank who shall:

Make false entries in any bank report or statement thereby affecting the financial interest of, or causing damage to, the bank or any person; or

Without order of the court of competent jurisdiction, disclose any information relative to the funds or properties in the custody of the bank belonging to private individuals, corporations, or any other entity; or

Accept gifts, fees or commission or any other form of remuneration in connection with the approval of a loan from said bank; or

Overvalue or aid in overvaluing any security for the purpose of influencing in any way the action of the bank on any loan; or

Appear and sign as guarantor, endorser, or surety for loans granted; or

Violate any of the provisions of this Act.

Any applicant for a loan from, or borrower or a rural bank who shall:

Misuse, misapply, or divert the proceeds of the loan obtained by him from its declared purpose; or

Fraudulently overvalue property offered as security for a loan from said bank; or

Give out or furnish false or willful misinterpretation of material facts for the purpose of obtaining, renewing, or increasing a loan or extending the period thereof; or

Attempt to defraud that said bank in the event of court action to recover a loan; or

Offer any officer, employee or agent of a rural bank as a gift, fee, commission or other form of compensation in order to influence such bank personnel into approving a loan application; or

Dispose or encumber the property or the crops offered as security for the loan.

Any examiner, or officer or employee of the (Central Bank of the Philippines) BANGKO SENTRAL NG PILIPINAS or of any department, bureau, office, branch or agency of the Government who is assigned to examine, supervise, assist or render technical service to rural banks and who shall connive or aid in the commission of the same."

Section 19. Section 29. Of the same Act is hereby amended to read as follows:

"Section 29. The Monetary Board of the (Central Bank) BANGKO SENTRAL NG PILIPINAS shall submit a report to the Congress of the Philippines as of the end of each calendar year of all the rules and regulations promulgated by it, in accordance with the provisions of this Act, as well as its other actuations in connection with rural banks, together with an explanation of its reasons therefor."

Section 20. Section 31 of the same Act is hereby amended to read as follows:

"Section 31. Republic Act No. (720) 7353, as amended, is hereby repealed. The provisions of Republic Act No. 265, as amended, and Republic Act No. (337) 8791, as amended, insofar as they are applicable and not in conflict with any of this Act, are hereby made a part of this Act."

Section 21. Section 32 of the same Act is hereby amended to read as follows:

"Section 32 (This Act shall take effect upon its approval)."

THIS ACT SHALL TAKE EFFECT FIFTEEN (15) DAYS FOLLOWING THE COMPLETION OF ITS PUBLICATION IN THE OFFICIAL GAZETTE OR IN TWO (2) NATIONAL NEWSPAPERS OF GENERAL CIRCULATION.