

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 2016



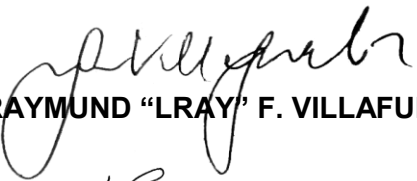
Introduced by **HON. LUIS RAYMUND “LRAY” F. VILLAFUERTE, JR.,**
HON. MIGUEL LUIS R. VILLAFUERTE, HON. TSUYOSHI ANTHONY G. HORIBATA
AND HON. NICOLAS ENCISO VIII

EXPLANATORY NOTE

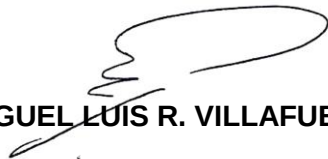
Republic Act No. 7353, Section 8, aims to provide ailing rural banks and supplemental capital until they have accumulated enough capital of their own or have simulated enough private investments. This section mandates that the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or controlled bank or financial institution, shall subscribe to the capital stock of any rural bank from time to time.

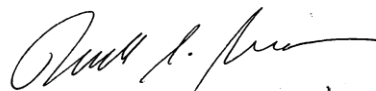
The second paragraph of Section 8 further provides the graduated dividend rates to be paid to the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or controlled bank or financial institution for their respective equity investments. These prescribed rates, however, have proven to be too onerous for the banks. There is a need for a more reasonable dividend rate to provide for and to help rehabilitate ailing rural banks.

The immediate approval of this bill is earnestly sought.


LUIS RAYMUND “LRAY” F. VILLAFUERTE, JR.


TSUYOSHI ANTHONY G. HORIBATA


MIGUEL LUIS R. VILLAFUERTE


NICOLAS ENCISO VIII

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AN ACT
PROVIDING FOR A NEW RURAL BANKS ACT,
REPEALING FOR THE PURPOSE REPUBLIC ACT NO. 7353,
OTHERWISE KNOWN AS THE RURAL BANKS ACT OF 1992, AS AMENDED

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

SECTION 1. *Short Title.* – This Act shall be known as the “*New Rural Banks Act.*”

SECTION 2. *Declaration of Policy.* – The State hereby recognizes the need to promote comprehensive local community development across the country with the end in view of attaining equitable distribution of opportunities, income and wealth, a sustained increase in the amount of goods and services produced by local communities and in expanding productivity as a key objective to improve the quality of life for all, especially the underprivileged.

Towards these ends, the State shall establish a rural banking system and assist in ensuring the viability of rural banks which are strategic agents for the attainment of financial inclusivity, and in recognition of their long-standing contribution in the pursuit of making financial services accessible to all individuals and business entities.

SECTION 3. *Regulatory and Supervisory Powers of the Monetary Board.* – In furtherance of this policy, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) shall formulate the necessary rules and regulations governing the establishment, supervision, and operation of rural banks to ensure that rural banks operate in a safe and sound manner in the performance of their mandate.

SECTION 4. *Organization.* – Rural banks shall be organized in the form of stock corporations, and no rural bank shall be operated without a certificate of authority from the BSP.

Duly established cooperatives and corporations primarily organized to hold equities in rural banks may organize a rural bank 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.

SECTION 5. *Ownership.* – No less than forty percent (40%) of the voting stocks of a rural bank shall be owned by citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least sixty percent (60%) of whose capital is owned by such citizens. Non-Filipino citizens may own, acquire or purchase up to sixty percent (60%) of the voting stocks in a rural bank. The percentage of foreign-owned voting stocks shall be determined by the citizenship of the individual stockholders in that rural bank. The citizenship of the corporation which is a stockholder in a rural bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

SECTION 6. *Subscription by Government-Owned or -Controlled Bank or Financial Institution.* – The following rules on subscription shall apply:

- (a) If subscription of a 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 (LBP), the Development Bank of the

Philippines (DBP), 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 and upon approval of the Monetary Board of the BSP, shall subscribe to the capital stock of such rural bank, 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.

- (b) To provide supplemental capital to any rural bank until it has accumulated enough capital of its own or stimulate private investments in rural banks, and subject to the investment guidelines, policies and procedures of the bank or financial institution, the LBP, the DBP or any government-owned or -controlled bank or financial institution may subscribe 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 LBP, the DBP or any government owned or controlled bank or financial institution may, pursuant to this Section, at any time, be paid off at par value 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 LBP, the DBP or any government- owned or - controlled bank or financial institution: *Provided, further,* That such shares of stock subscribed by the LBP, the DBP or any government-owned or controlled bank or financial institution may be sold at adjusted book value to qualified individuals and juridical entities, subject to the provisions of Section 25-A of Republic Act No. 7653, or the “*New Central 5 Bank Act*”, as amended: *Provided, finally,* That in the sale of shares of stock subscribed by the LBP, the DBP or any government-owned or controlled bank or financial institution, preference shall be given to residents and juridical entities of the locality or province where the rural bank is located.

In case of retirement of stock, replacement of equity investments of the LBP, the DBP or of any government-owned or -controlled bank or financial institution, the registered private shareholders of the rural bank shall have the right of preemption within one (1) year from the date of offer in proportion to their respective holdings.

SECTION 7. *Board of Directors.* – Non-Filipino citizens may become members of the board of directors of a rural bank but their participation in the board shall be limited to their proportionate share in the equity of the rural bank: Provided, however, that at least one (1) independent director shall be elected to the board of directors, unless otherwise prescribed by the Monetary Board of the BSP.

SECTION 8. *Directors and Officers.* – No director or officer of any rural bank shall, either directly or indirectly, on their behalf or as the representative or agent of another, borrow any of the deposits or funds of such banks, nor shall they 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 when it is 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 of the BSP.

After due notice to the board of directors of the bank, the office of any bank director or officer who violates the provisions of this section may be declared vacant and the director or officer shall be subject to the penal provisions under Section 23 of this Act.

SECTION 9. *Restrictions on Bank Exposures to Directors, Officers and their Related Interests.* – The Monetary Board may regulate the amount of loans, credit accommodations and guarantees that may be extended, directly or indirectly, by the rural bank to its directors, officers, stockholders and their related interests.

However, the outstanding loans, credit accommodations and guarantees which a rural bank may extend to each of its stockholders, directors, or officers and their related

interests shall be limited to an amount equivalent to the respective unimpaired outstanding deposits and book value of the paid-in capital contributions in the bank.

SECTION 10. *Loans and Credit Accommodations Against Real Estate.* – Loans or advances extended by rural banks shall be primarily for the purpose of meeting the credit needs of farmers, fishermen and farm families. For this purpose, rural banks may accept the following as collateral:

- (1) Lands without Torrens Title where the owner of private property can show five (5) years 50 or more of peaceful, continuous and uninterrupted possession in concept of owner; or
- (2) 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 Agrarian Reform (DAR) 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 DAR or corresponding governmental agency; or
- (3) Homestead tax declarations 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.

SECTION 11. *Loans and Credit Accommodation on the Security of Unissued Homestead or Free Patent.* – In the case of lands pending issuance of homestead tax declarations or free patent titles, copies of the notices for the presentation of the final proof shall 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, however, That proof of improvements made on the land is shown by the loan applicant who proffers an unissued homestead or free patent as security and the loan applied for is to be used for further development of the same or for other productive economic activities: *Provided, further,* That the responsibility for the appraisal and verification of the status of a land shall be incumbent upon the rural bank; and any loan granted on any land which shall be found later to be within a forestland shall be for the sole account of the rural bank.

SECTION 12. *Loans and other Credit Accommodations on Security of Farm Produce.* – Borrowers, especially those who are mere tenants, can secure their loans with the produce corresponding to their share.

SECTION 13. *Foreclosure of Mortgages.* – The foreclosure of mortgages covering loans granted by rural banks and executions of judgment thereon involving real properties levied upon by sheriff shall be exempt from the publications in newspapers as required by law where the total amount of loan, excluding interests due and unpaid, does not exceed One million pesos (P1,000,000.00) or such amount as the Monetary Board may prescribe by taking into account prevailing economic conditions.

It shall be deemed sufficient publication in such cases where 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, for a period of sixty (60) days immediately preceding the public auction or execution of judgment.

Proof of publication as required herein shall be accomplished via 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 the 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, other laws notwithstanding.

SECTION 14. *Foreclosure of Real Estate Mortgage.* – A rural bank shall be allowed to foreclose lands mortgaged to it including lands covered by Republic Act No. 6657, otherwise known as the Comprehensive Agrarian Reform Law of 1988, as amended: *Provided*, that said lands shall be subject to the retention limits provided under Republic Act No. 6657.

Rural banks which are not qualified to acquire or hold land in the Philippines shall be allowed to bid and take part in foreclosure sales of real property mortgaged to them, as well as to avail of enforcement and other proceedings, and accordingly to take possession of the mortgaged property, for a period not exceeding five (5)-years from actual possession. *Provided*, that in no event shall title to the property be transferred to such rural bank. In case the rural bank is the winning bidder, it shall, during the said five (5)-year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower's rights under applicable laws. Should a rural bank be not able to transfer such property within the five (5)-year period, the rural bank shall be penalized one-half (1/2) of one percent (1%) *per annum* of the price at which the property was foreclosed until the rural bank is able to transfer the property to a qualified Philippine National.

SECTION 15. *Features of Preferred Shares of Stock Held by LBP, DBP or any Government-Owned or -Controlled Bank or Financial Institution.* – Shares of stock held by the LBP, the DBP or by any government-owned or -controlled bank or financial institution, under the terms of Section 6 hereof, shall be considered preferred shares of stock only as to assets upon liquidation and without the power to vote and shall share in dividends distribution as declared by the board but not to exceed the prevailing 90-day T-bill rates at the date of declaration. Dividend rates for preferred shares of stock shall follow the same limits: *Provided, however*, That if such shares of stock of the LBP, the DBP or any government-owned or -controlled bank or financial institution is sold to private shareholders, the same may be converted into common shares of stock as provided for in Section 6 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 shares of stock of preferred shares of stock 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.

SECTION 16. *Report on Sale of Preferred Shares of Stock.* – The corporate secretary of the rural bank shall submit to the BSP and the Securities and Exchange Commission (SEC) a report on every transfer of preferred shares of stock to private shareholders, and such report received by the SEC shall form part of the corporate records of the rural bank. When all the preferred shares of stock of a rural bank held by the LBP, the DBP or by any government-owned or - controlled bank or financial institution have been sold to private shareholders, the Articles of Incorporation of the rural bank shall be amended in accordance with the provision of the Revised Corporation Code of the Philippines to reflect the conversion of the preferred shares of stock.

For this purpose, the application for the amendment of the Articles of Incorporation shall include a certificate issued by the president, the corporate secretary, and a majority of the board of directors that all preferred shares of stock have been sold to private shareholders.

This certification shall be attached to the original Articles of Incorporation on file with the SEC.

The SEC shall not register the amended articles of incorporation unless accompanied by the certificate of authority required under Section 14 of Republic Act No. 8791, otherwise known as the General Banking Law of 2000.

SECTION 17. *Powers of Rural Banks.* – In addition to the operations especially authorized in this Act, and subject to rules and regulations of the BSP, any rural bank may:

- (a) Accept savings and time deposits;
- (b) Open current or checking accounts;
- (c) Act as correspondent for other financial institutions;
- (d) Act as a collection agent;

- (e) Act as (i) official depository of municipal, city, provincial or GOCC funds in the municipality, city, and province where the rural bank is located in areas where there are no government banks, and (ii) depository bank of GOCCs and government agencies as to funds allocated for programs awarded to the rural bank in an amount equivalent to approved guarantee or credit line;
- (f) Act as conduit bank for the disbursement of government funds intended for lending to agriculture, micro, small and medium enterprises (MSMEs) and projects for local economic development;
- (g) Participate in government program allocations for agricultural lending, social housing, loans to rural micro enterprises and other initiatives towards inclusive growth;
- (h) Grant loans;
- (i) Rediscount paper with any banking institution. Said institutions shall specify the nature of paper deemed acceptable for rediscounting;
- (j) Offer other banking services such as trust, foreign currency loans and deposits, foreign and domestic remittances, and letters of credit; and
- (k) Extend credit facilities to private and government employees.

Nothing in this section shall be construed as precluding a rural bank from performing, with prior approval of the Monetary Board, other services allowed for thrift and commercial banks under an expanded banking authority.

SECTION 18. *Investment in Allied Undertakings.* – Subject to such guidelines as may be established by the Monetary Board, rural banks may invest in equities of allied undertakings as hereinafter enumerated: *Provided, that:* (a) the total investment to equities shall not exceed twenty-five percent (25%) of the net worth of the rural bank; (b) the equity investment in any single enterprise shall be limited to fifteen percent (15%) of the net worth of the rural bank; and (c) the equity investment of the rural bank in any single enterprise shall remain a minority holding in that enterprise: *Provided, further,* That equity investment shall not be permitted in non-related activities. Allied undertakings shall include.

- (a) Banks, financial institutions and non-bank financial intermediaries;
- (b) Warehousing and other post-harvest facilities;
- (c) Fertilizer and agricultural chemical and pesticides distribution;
- (d) Farm equipment distribution;
- (e) Trucking and transportation of agricultural products;
- (f) Marketing of agricultural products;
- (g) Leasing; and
- (h) Other undertakings as may be determined by the Monetary Board.

SECTION 19. *Tax Exemptions.* – Notwithstanding any law to the contrary:

- (a) All rural banks created and organized under the provisions of this Act shall be exempt from the payment of all 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) years from the date of commencement of operations;
- (b) A surviving or consolidated rural bank which is party to a merger or consolidation shall be exempt from the payment of all taxes, fees and charges of whatever nature and descriptions, except the corporate income tax and local taxes, fees and charges, for a period of five (5) years from the date of commencement of operation. *Provided, That*, the surviving or consolidated rural bank establishes an office or branch in an unbanked city or municipality as determined by the BSP.

SECTION 20. *Exemption from Single Borrower's Limit.* – Deposits of rural banks with government-owned or -controlled financial institutions like the LBP, and the DBP, are exempted from the single borrower's limit imposed by the General Banking Law of 2000.

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 the rules and regulations of the BSP.

SECTION 21. *Exemption from Registration Fees.* – Any Register of Deeds shall accept from any rural bank, its borrowers and mortgagors for registration, free from all charges, fees and documentary stamp tax, collectible under existing laws, any instrument, whether voluntary or involuntary, relating to loans or transaction extended by a rural bank in an amount not exceeding one million pesos (P1,000,000.00): *Provided, however,* That charges, if any, shall be collectible on the amount in excess of One million pesos; 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 One million pesos 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 22. *Conduit of LBP and DBP.* – Rural banks organized and operated under the provisions of this Act may act as agents or conduits of the LBP and the DBP in places where these banks have no offices, subject to accreditation guidelines.

SECTION 23. *Prohibited Acts.* – Without prejudice to any prosecution under any law which may have been violated, a fine of not more than One million pesos (P1,000,000.00) or a penalty of not less than *prision correctional* and not more than *reclusion temporal*, or both, at the discretion of the court, shall be imposed upon:

1. Any officer, employee, or agent of a rural bank who shall:
 - (a) make false entries in any bank report or statement thereby affecting the financial interest of, or causing damage to, the bank or any person;
 - (b) without order of a 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
 - (c) accept gifts, fees or commission or any other form of remuneration in connection with the approval of a loan from said bank; or
 - (d) overvalue or aid in overvaluing any security for the purpose of influencing in any way of the action of the bank on any loan; or
 - (e) appear and sign as guarantor, endorser, or surety for loans granted; or

(f) violate any of the provisions of this Act.

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

- (a) misuse, misapply, or divert the proceeds of the loan obtained by him from its declared purpose; or
- (b) fraudulently overvalue property offered as security for a loan from said bank; or
- (c) give out or furnish false or willful misrepresentation of material facts for the purpose of obtaining, renewing, or increasing a loan or extending the period 20 thereof; or
- (d) attempt to defraud the said bank in the event of court action to recover a loan; or
- (e) 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
- (f) dispose or encumber the property or the crops offered as security for the loan.

SECTION 24. *Unauthorized Advertisement of Business Representation.* – Any bank not organized under this Act, and any person, association, or corporation doing the business of banking, not authorized under this Act which shall use the words "rural bank" as part of the name or title of such bank or of such person, association, or corporation, shall be punished by a fine of not less than Five thousand pesos (P5,000.00) for each day during which said words are so used.

SECTION 25. *Assistance of Other Government Agencies in Implementation.* – For the purpose of carrying out the objectives of this Act, the BSP is authorized to enlist the assistance of any branch, department, bureau, office, agency, or instrumentality of the government, including government-owned or -controlled corporations, which may include the use of its personnel, facilities and resources.

SECTION 26. *Implementing Rules and Regulations.* – The BSP shall promulgate the rules and regulations for the effective enforcement of the provisions of this Act.

SECTION 27. *Separability Clause.* – Should any provision of this Act or any part thereof be declared invalid, the other provisions, insofar as they are separable from the invalid ones, shall remain in full force and effect.

SECTION 28. *Applicability of Other Laws.* – The provisions of Republic Act No. 7653, as amended, and Republic Act No. 8791, insofar as they are applicable and not in conflict with any provision of this Act, shall apply to rural banks organized hereunder.

SECTION 29. *Repealing Clause.* – Republic Act Nos. 7353 and 10574 are hereby repealed. All laws, executive orders, rules and regulations or parts thereof which are inconsistent with this Act are likewise hereby repealed or amended accordingly.

SECTION 30. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete publication in the *Official Gazette* or in a newspaper of general circulation.

Approved.