

**NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)**



Senate
Office of the Secretary

'22 JUL 14 P1:59

SENATE

Senate Bill No. 607

RECEIVED BY: _____

Introduced by Senator Juan Miguel F. Zubiri

**AN ACT
STRENGTHENING RURAL BANKS IN THE PHILIPPINES AMENDING FURTHER
FOR THE PURPOSE REPUBLIC ACT NO. 7353, OTHERWISE KNOWN AS THE
RURAL BANKS ACT OF 1992, AS AMENDED**

EXPLANATORY NOTE

As mandated in Republic Act No. 7353 or the Rural Act of 1992, the State recognizes the role of the rural banking system in attaining comprehensive and inclusive rural development by making credit available and readily accessible to the underserved, unserved and unbanked sectors of the economy, such as agricultural and rural workers.

With the rural banks' strong links to rural communities, they are in a position to effectively connect with and provide the appropriate financial products and services as they are more familiar with the needs of these communities.

This bill, thus, seeks to further strengthen the rural banking system by mandating the Landbank of the Philippines, the Development Bank of the Philippines, and other government-owned and controlled banks and financial institutions to subscribe to the capital stock of rural banks that are in need of funds. This will hopefully expand the market reach of rural banks to the 499 unbanked cities and municipalities¹ in the country to better serve farmers, fisherfolks, agricultural and other rural workers, and even our micro entrepreneurs.

In view of the foregoing, the passage of this bill is earnestly sought.

JUAN MIGUEL F. ZUBIRI

¹ <https://www.bsp.gov.ph/Lists/Directories/Attachments/10/unbanked.pdf>

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

1 **SECTION 1. Title.** - This Act shall be known as the "*Rural Banking Act of 2022*".

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

8 Towards these ends, the State hereby encourages and assists in the establishment of
9 rural banking system and the operation of rural banks, being one of the channels for
10 financial inclusion in recognition of their long standing contribution in the pursuit of
11 making financial services accessible to all individuals and business entities.

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

17 **SEC. 4. Organization.** - Rural banks shall be organized in the form of stock
18 corporations, and no rural bank shall be operated without a certificate of authority from
19 the BSP.

1 Duly established cooperatives and corporations primarily organized to hold equities in
2 rural banks may organize a rural bank and/or subscribe to the shares of stock of any rural
3 bank: *Provided*, That a cooperative or corporation owning or controlling the whole or
4 majority of the voting stock of the rural bank shall be subject to special examination and
5 to such rules and regulations as the Monetary Board may prescribe.

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

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

17 (a) If subscription of a private shareholders to the capital stock of a rural bank cannot
18 be secured or is not available, or insufficient to meet the normal credit needs of
19 the locality, the Land Bank of the Philippines (LBP), the Development Bank of the
20 Philippines (DBP), or any government-owned or controlled bank or financial
21 institution, on representation of the said private shareholders but subject to the
22 investment guidelines, policies and procedures of the bank or financial institution
23 and upon approval of the Monetary Board of the BSP, shall subscribe to the capital
24 stock of such rural bank, which shall be paid in full at the time of subscription, in
25 an amount equal to the fully paid subscribed and unimpaired capital of the private
26 stockholders or such amount as the Monetary Board may prescribe as may be
27 necessary to promote and expand rural economic development.

28 (b) To provide supplemental capital to any rural bank until it has accumulated enough
29 capital of its own or stimulate private investments in rural banks, and subject to
30 the investment guidelines, policies and procedures of the bank or financial
31 institution, the LBP, the DBP or any government-owned or -controlled bank or
32 financial institution may subscribe to the capital stock of any rural bank from time
33 to time in an amount equal to the total equity investment of the private
34 shareholders which shall be paid in full at the time of the subscription or such
35 amount as may be necessary to promote and expand rural economic development:

1 *Provided however,* That shares of stock issued to the LBP, the DBP or any government-
2 owned or controlled bank or financial institution, may, pursuant to this Section, at any
3 time, be paid off at par and retired in whole or in part if the rural bank has accumulated
4 enough capital strength to permit retirement of such shares, or if an offer is received
5 from private sources to replace the equity investment of the LBP, the DBP or any
6 government- owned or -controlled bank or financial institution.

7 *Provided further,* That such shares of stock subscribed by the LBP, the DBP or any
8 government-owned or controlled bank or financial institution may be sold at adjusted
9 book value to qualified individuals and juridical entities, subject to the provisions of
10 Section 25-A of Republic Act No. 7653, as amended.

11 *Provided finally,* That in the sale of shares of stock subscribed by the LBP, the DBP
12 or any government-owned or controlled bank or financial institution, preference, shall be
13 given to residents and juridical entities of the locality or province where rural bank is
14 located.

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

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

24 **SEC. 8. Directors and Officers.** - No director or officer of any rural bank shall,
25 either directly or indirectly, for himself or as the representative or agent of another,
26 borrow any of the deposits or funds of such banks, nor shall he become a guarantor,
27 endorser, or surety for loans from such bank to others, or in any manner be an obligor
28 for money borrowed from the bank or loaned by it except when it is with the written
29 approval of the majority of the directors of the bank, excluding the director concerned.
30 Any such approval shall be entered upon the records of the corporation and a copy of
31 such entry shall be transmitted forthwith to the appropriate supervising department of
32 the BSP.

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

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

5 However, the outstanding loans, credit accommodations and guarantees which a
6 rural bank may extend to each of its stockholders, directors, or officers and their related
7 interests shall be limited to an amount equivalent to the respective unimpaired
8 outstanding deposits and book value of the paid-in capital contributions in the bank.

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

13 (1) Lands without Torrens Title where the owner of private property can show five (5)
14 years or more of peaceful, continuous and uninterrupted possession in concept of
15 owner; or

16 (2) Portions of friar land estates or other lands administered by the Bureau of Lands that
17 are covered by sales contracts and the purchasers have paid at least five (5) years
18 installment thereon, without the necessity of prior approval and consent by the
19 director of lands, or of portions of other estates under the administration of the
20 Department of Agrarian Reform (DAR) or other governmental agency which are
21 likewise covered by sales contracts and the purchasers have paid at least five (5)
22 years instalment thereon, without the necessity of prior approval and consent of the
23 DAR or corresponding governmental agency; or

24 (3) Homestead tax declarations or free patent lands pending the issuance of titles but
25 already approved, the provisions of any law or regulations to the contrary
26 notwithstanding: *Provided*, That when the corresponding titles are issued, the same
27 shall be delivered to the register of deeds of the province where such lands are
28 situated for the annotation of the encumbrance.

29 **SEC. 11. Loans and Credit Accommodation on the Security of Unissued**
30 **Homestead or Free Patent.** - In the case of lands pending issuance of homestead tax
31 declarations or free patent titles, copies of the notices for the presentation of the final
32 proof shall be furnished the creditor rural bank and, if the borrower applicants fail to
33 present the final proof within thirty (30) days from date of notice, the creditor rural bank
34 may do so for them at their expense: *Provided however*, That the loan applicant using
35 unissued homestead or free patent as security must show proof that he has already made

1 improvements on the land and the loan applied for is to be used for further development
2 of the same or for other productive economic activities. *Provided further,* That the
3 responsibility for the appraisal and verification of the status of a land shall be incumbent
4 upon the rural bank; and any loan granted on any land which shall be found later to be
5 within the forest zone shall be for the sole account of the rural bank.

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

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

15 It shall be deemed sufficient publication in such cases where the notices of
16 foreclosure and execution of judgment are posted in the most conspicuous area of the
17 municipal building, the municipal public market, the rural bank, the barangay hall, and
18 the barangay public market, if any, where the land mortgaged is situated during the
19 period of sixty (60) days immediately preceding the public auction or execution of
20 judgment.

21 Proof of publication as required herein shall be accomplished via an affidavit of the
22 sheriff or officer conducting the foreclosure sale or execution of judgment and shall be
23 attached with the records of the case: *Provided,* That when a homestead or free patent
24 is foreclosed, the homesteader or free patent holder, as well as his heirs shall have the
25 right to redeem the same within one (1) year from the date of foreclosure in the case of
26 land not covered by a Torrens Title or one (1) year from the date of the registration of
27 the foreclosure in the case of land covered by a Torrens Title, other laws notwithstanding.

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

33 Rural banks which are not qualified to acquire or hold land in the Philippines shall be
34 allowed to bid and take part in foreclosure sales of real property mortgaged to them, as
35 well as to avail of enforcement and other proceedings, and accordingly to take possession
36 of the mortgaged property, for a period not exceeding five (5)-years from actual

1 possession: *Provided*, That in no event shall title to the property be transferred to such
2 rural bank. In case the rural bank is the winning bidder, it shall, during the said five (5)-
3 year period, transfer its rights to a qualified Philippine National, without prejudice to a
4 borrower's rights under applicable laws. Should a rural bank be not able to transfer such
5 property within the five (5)-year period, the rural bank shall be penalized one-half (1/2)
6 of one percent (1%) *per annum* of the price at which the property was foreclosed until
7 the rural bank is able to transfer the property to a qualified Philippine National.

8 **SEC. 15. *Features of Preferred Shares.*** - Stocks held by the LBP, the DBP or by
9 any government-owned or -controlled bank or financial institution, under the terms of
10 Section 6 hereof, shall be made preferred only as to assets upon liquidation and without
11 the power to vote and shall share in dividends distribution as declared by the board but
12 not to exceed the prevailing 90-day T-bill rates at the date of declaration. Dividend rates
13 for preferred shares shall follow the same limits.

14 *Provided however*, That if such stock of the LBP, the DBP or any government-owned
15 or -controlled bank or financial institution is sold to private shareholders, the same may
16 be converted into common stock as provided for in Section 6 hereof.

17 *Provided further*, That pending the amendment of the Articles of Incorporation of the
18 rural bank, if necessary, for the purpose of reflecting the conversion into common stock
19 of preferred stock sold to private stockholders, the transfer shall be recorded by the rural
20 bank in the stock and transfer book and such shareholders shall thereafter enjoy all the
21 rights and privileges of common stockholders.

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

31 For this purpose, the application for the amendment of the Articles of Incorporation
32 shall include a certificate issued by the president, the corporate secretary, and a majority
33 of the board of directors that all preferred shares have been sold to private shareholders.
34 This certification shall be attached to the original Articles of Incorporation on file with the
35 SEC.

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

4 **SEC. 17. Powers of Rural Banks.** - In addition to the operations especially
5 authorized in this act, and subject to rules and regulations of the BSP, any rural bank
6 may:

- 7 (a) Accept saving and time deposit;
- 8 (b) Open current or checking accounts;
- 9 (c) Act as correspondent for other financial institutions;
- 10 (d) Act as a collection agent;
- 11 (e) Act as (i) official depository of municipal, city, provincial or GOCC funds in the
12 municipality, city, and province where the rural bank is located in areas where
13 there are no government banks, and (ii) depository bank of GOCCs and
14 government agencies as to funds allocated for programs awarded to the rural bank
15 in an amount equivalent to approved guarantee or credit line;
- 16 (f) Act as conduit bank for the disbursement of government funds intended for lending
17 to agriculture, micro, small and medium enterprises (MSMEs) and projects for local
18 economic development;
- 19 (g) Participate in government program allocations for agricultural lending, social
20 housing, loans to rural micro enterprises and other initiatives towards inclusive
21 growth;
- 22 (h) Grant loans;
- 23 (i) Rediscount paper with any banking institution. Said institutions shall specify the
24 nature of paper deemed acceptable for rediscounting;
- 25 (j) Offer other banking services such as, but not limited to, trust, foreign currency
26 loans and deposits, foreign and domestic remittances, and letters of credit; and
- 27 (k) Extend credit facilities to private and government employees.

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

31 **SEC. 18. Investment in Allied Undertakings.** - Subject to such guidelines as may be
32 established by the Monetary Board, rural banks may invest in equities of allied
33 undertakings as hereinafter enumerated: *Provided*, That: (a) the total investment to
34 equities shall not exceed twenty-five percent (25%) of the net worth of the rural bank;
35 (b) the equity investment in any single enterprise shall be limited to fifteen percent (15%)
36 of the net worth of the rural bank; and (c) the equity investment of the rural bank in any

1 single enterprise shall remain a minority holding in that enterprise. *Provided further,* That
2 equity investment shall not be permitted in non-related activities.

3 Allied undertakings shall include:

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

12 **SEC. 19. Tax Exemptions.** - Notwithstanding any law to the contrary:

- 13 (a) All rural banks created and organized under the provisions of this Act shall be
14 exempt from the payment of all taxes, fees and charges of whatever nature and
15 description, except the corporate income tax and local taxes, fees and charges, for
16 a period of five (5) years from the date of commencement of operations;
- 17 (b) Surviving or consolidated Rural Bank which is party to a merger or consolidation
18 shall be exempt from the payment of all taxes, fees and charges of whatever
19 nature and description, except the corporate income tax and local taxes, fees and
20 charges, for a period of five (5) years from the date of commencement of
21 operation: *Provided,* That the surviving or consolidated Rural Bank establishes an
22 office or branch in an unbanked city or municipality as determined by the BSP.

23 **SEC. 20. Exemption from Single Borrower's Limit.** - Deposits of rural banks with
24 government- owned or -controlled financial institutions like the LBP, and the DBP, are
25 exempted from the single borrower's limit imposed by the General Banking Law of 2000.
26 In areas where there are no government banks, rural banks may deposit in private banks
27 more than the amount prescribed by the single borrower's limit, subject to the rules and
28 regulations of the BSP.

29 **SEC. 21. Exemption from Registration Fees.** - Any Register of Deeds shall
30 accept from any rural bank and its borrowers and mortgagors for registration, free from
31 all charges, fees and documentary stamp tax, collectible under existing laws, any
32 instrument, whether voluntary or involuntary, relating to loans or transaction extended
33 by a rural bank in an amount not exceeding One Million Pesos (P1,000,000.00).

34 *Provided however,* That charges, if any, shall be collectible on the amount in
35 excess of one million pesos; and that in instruments related to assignments of several
36 mortgages consolidated in a single deed, if any, shall be levied only on the amount in

1 excess of one million pesos of the consideration in the assignment of each mortgage, or
2 such amount as the Secretary of Finance, upon recommendation of the Monetary Board,
3 may prescribe as may be necessary to promote and expand the rural economy.

4 **SEC. 22. Conduit of LBP and DBP.** - Rural banks organized and operated under
5 the provisions of this Act may act as agents or conduits of the LBP and the DBP in places
6 where these banks have no offices, subject to accreditation guidelines.

7 **SEC. 23. Prohibited Acts.** - Without prejudice to any prosecution under any law
8 which may have been violated, a fine of not more than one million pesos or a penalty of
9 not less than prison correctional and not more than reclusion temporal, or both, at the
10 discretion of the court, shall be imposed upon:

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

- 12 (a) make false entries in any bank report or statement thereby affecting the
13 financial interest of, or causing damage to, the bank or any person;
14 (b) without order of a court of competent jurisdiction, disclose any information
15 relative to the funds or properties in the custody of the bank belonging to
16 private individuals, corporations, or any other entity; or
17 (c) accept gifts, fees or commission or any other form of remuneration in
18 connection with the approval of a loan from said bank; or
19 (d) overvalue or aid in overvaluing any security for the purpose of influencing in
20 any way of the action of the bank on any loan; or
21 (e) appear and sign as guarantor, endorser, or surety for loans granted; or
22 (f) violate any of the provisions of this Act.

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

- 24 (a) misuse, misapply, or divert the proceeds of the loan obtained by him from its
25 declared purpose; or
26 (b) fraudulently overvalue property offered as security for a loan from said bank;
27 or
28 (c) give out or furnish false or willful misrepresentation of material facts for the
29 purpose of obtaining, renewing, or increasing a loan or extending the period
30 thereof; or
31 (d) attempt to defraud the said bank in the event of court action to recover a
32 loan; or
33 (e) offer any officer, employee or agent of a rural bank as a gift, fee, commission
34 or other form of compensation in order to influence such bank personnel into
35 approving a loan application; or

1 (f) dispose or encumber the property or the crops offered as security for the
2 loan.

3 **SEC. 24. *Unauthorized Advertisement of Business Representation.*** - Any
4 bank not organized under this Act, and any person, association, or corporation doing the
5 business of banking, not authorized under this Act which shall use the words "rural bank"
6 as part of the name or title of such bank or of such person, association, or corporation,
7 shall be punished by a fine of not less than five thousand pesos (P5,000) for each day
8 during which said words are so used.

9 **SEC. 25. *Implementation.*** - For the purpose of carrying out the objectives of
10 this Act, the BSP is authorized to enlist the assistance of any branch, department, bureau,
11 office, agency, or instrumentality of the government, including government-owned or -
12 controlled corporations, which may include the use of its personnel, facilities and
13 resources.

14 **SEC. 26. *Implementing Rules and Regulations.*** - The BSP shall promulgate
15 the rules and regulations for the effective enforcement of the provisions of this Act.

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

19 **SEC. 28. *Repealing Clause.*** - Republic Act Nos. 7353 and 10574 are hereby
20 repealed. All laws, executive orders, rules and regulations or parts thereof which are
21 inconsistent with this Act are likewise hereby repealed or amended accordingly.

22 **SEC. 29. *Applicability of Other Laws.*** - The provisions of Republic Act No.
23 7653, as amended, and Republic Act No. 8791, insofar as they are applicable and not in
24 conflict with any provision of this Act, shall apply to rural banks organized hereunder.

25 **SEC. 30. *Effectivity.*** - This Act shall take effect fifteen (15) days after its
26 complete publication in the Official Gazette or in a newspaper of general circulation in the
27 Philippines.

Approved,