

**[ REPUBLIC ACT NO. 7353, April 02, 1992 ]**

**AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS, AND FOR OTHER PURPOSES**

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

SECTION 1. This Act shall be known and cited as the  $\frac{1}{2}$ Rural Banks Act of 1992. $\frac{1}{2}$

SEC. 2. The State hereby recognizes the need to promote comprehensive rural development with the end in view of attaining a more equitable distribution of opportunities, income and wealth; a sustained increase in the amount of goods and services produced by the nation for the benefit of the people; and in expanding productivity as a key to raising the quality of life for all, especially the under-privileged.

Towards these ends, the State hereby encourages and assists in the establishment of a rural banking system designed to make needed credit available and readily accessible in the rural areas on reasonable terms.

SEC. 3. In furtherance of this policy, the Monetary Board of the Central Bank of the Philippines 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.

SEC. 4. No rural bank shall be operated without a Certificate of Authority from the Monetary Board of the Central Bank. 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 of Republic Act No. 337, 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 any provisions of existing laws to the contrary notwithstanding, stockholdings in a rural bank shall be 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 and upon approval of the Monetary Board of the Central Bank, 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: *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 institution, the registered stockholders shall have the right of preemption 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.

SEC. 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.

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, indorser, 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.

SEC. 6. Loans or advances extended by 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. In the granting of loans, the rural bank shall give preference to the application of farmers and merchants whose cash requirements are small.

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 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 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*, That the appraisal and verification of the status of a 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.

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 due and unpaid, does not exceed One hundred thousand pesos (P100,000) or such amount as the Monetary Board may prescribe 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 of execution of judgement. 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 foreclose lands mortgaged to it: *Provided*, That said lands shall be covered under Republic Act No. 6057.

SEC. 7. With the view to ensuring the balanced rural economic growth and expansion, rural banks may, within limits and conditions fixed by the Monetary Board, devote a portion of their loanable funds to meeting the normal credit needs of small business enterprises: *Provided*, That loans shall not exceed fifteen percent (15%) of the net worth of a rural bank or such amount as the Monetary Board may prescribe as may be warranted by prevailing economic conditions, and of essential enterprises or industries, other than those which are strictly agricultural in nature.

SEC. 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 bank or financial institution with an equivalent investment or more 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 preemption within one (1) year from the date of offer in proportion to their respective holdings.

Stocks held by the Land Bank of the Philippines, the Development Bank of the Philippines or by any government-owned or controlled bank 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 years, 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 eighth 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 share holders, 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 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 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 a 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 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 of Republic Act No. 337, as amended.

All supervised past due and restructured past due loans, including those covered under existing rehabilitation programs of the Central Bank, 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, 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.

SEC. 9. The Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or controlled bank or financial institution may obtain from any source as may be authorized under existing laws and regulations such amounts as it may require for the purpose of subscribing to the shares of stock of rural banks, and of granting loans to such banks as provided in Section 13 of this Act.

SEC. 10. Stock certificates shall be issued to represent the contributions to capital stock of the rural bank by the Government through the Land Bank of the Philippines, the Development Bank of the Philippines or through any government-owned or controlled bank or financial institution, and by qualified persons under such terms and conditions as the Monetary Board may prescribe. The powers of the Monetary Board over rural banks shall extend to prescribing the amount, value and class of stock issued by any rural bank, organized under this Act.