

H. No. 5360  
S. No. 3282

Republic of the Philippines  
Congress of the Philippines  
Metro Manila  
Fifteenth Congress  
Third Regular Session

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Begun and held in Metro Manila, on Monday, the twenty-third day of July, two thousand twelve.

[ REPUBLIC ACT NO. 10574 ]

AN ACT ALLOWING THE INFUSION OF FOREIGN EQUITY IN THE CAPITAL OF RURAL BANKS, AMENDING REPUBLIC ACT NO. 7353, OTHERWISE KNOWN AS "THE RURAL BANK ACT OF 1992", AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. Section 4 of Republic Act No. 7353, as amended, is hereby amended to read as follows:

"SEC. 4. No rural bank shall be operated without a Certificate of Authority from the Monetary Board of the Bangko Sentral ng Pilipinas. Rural banks shall be organized in the form of stock corporations. 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 or corporate stockholders of the rural bank. 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. 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 Bangko Sentral ng Pilipinas, 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 adjusted book value: *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. 2. Section 5 of Republic Act No. 7353, as amended, is hereby amended to read as follows:

"SEC. 5. 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.

"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. 3. Section 6 of Republic Act No. 7353 is hereby amended to read as follows:

"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.

"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 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,* 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 interest 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 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 foreclose lands mortgaged to it including lands covered by Republic Act No. 6657 (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."

SEC. 4. Section 8 of Republic Act No. 7353 is hereby amended to read as follows:

"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 bought at adjusted book value.

"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 an amount based on the lending benchmark approved by the Bangko Sentral ng Pilipinas plus the prevailing non-prime spread of the government financial institution: *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 sold to private shareholders, 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.

"x x x."

SEC. 5. The Bangko Sentral ng Pilipinas, consistent with Section 11 of Republic Act No. 7353, shall prescribe the necessary rules and regulations on the amendments of the Rural Banks Act of 1992 in consultation with various stakeholders as well as disseminate this information to allow entry of foreign equity into our rural bank system to revitalize the rural banking industry and improve access of banking services to the rural areas in the country.

The implementing rules and regulations shall be published within ninety (90) days from the publication of this Act in two (2) newspapers of general circulation in the Philippines.

