

SIXTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
Third Regular Session)



Senate
Office of the Secretary

16 JAN 26 P3:01

SENATE
S. No. 3140

RECEIVED BY: *[Signature]*

Introduced by Senator Miriam Defensor Santiago

AN ACT
PROVIDING MEASURES TO ENHANCE THE ACCEPTABILITY OF
AGRICULTURAL LANDS AS SECURITY FOR LOANS OBTAINED FROM
LENDERS, BANKS, AND OTHER FINANCIAL INSTITUTIONS THEREBY
PROMOTING ACCESS TO RURAL CREDIT, PROVIDING MECHANISMS
THEREFOR AND FOR OTHER PURPOSES

EXPLANATORY NOTE

This bill seeks to provide measures to enhance the acceptability of agricultural lands as security for loans obtained from banks and other financial institutions. In the event that the acceptability of agricultural lands as collateral in loan applications is enhanced, access to rural credit will be upheld and encouraged.

The salient provisions of this measure and other points that are connected to other existing agrarian reform laws are projected to work toward the benefit of the poor and marginalized farming populace in our rural communities. Strengthening the capacity of the agrarian sector is a significant action to sustain and promote the welfare and interests of the farmers and other agrarian reform beneficiaries. This is a Senate counterpart bill to the one filed in the House of Representatives by Rep. Rodriguez D. Dadivas.¹

Miriam Defensor Santiago
MIRIAM DEFENSOR SANTIAGO
RP

¹ This bill was originally filed during the Fifteenth Congress, First Regular Session

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

1 SECTION 1. *Short Title.* – This Act shall be known as the "Enhanced Collateral
2 Value of Farm Lands Act."

3 SECTION 2. *Declaration of Policy.* – It is hereby declared the policy of the State
4 to promote a more equitable distribution of opportunities, income and wealth; a sustained
5 increase in the amount of goods and services produced by the nation for the benefit of the
6 people; and an expanding productivity as the key to raising the quality of life for all,
7 especially the underprivileged. Towards this end, the State shall ensure that the agrarian
8 reform beneficiaries and other rural and agricultural sectors of the economy shall be
9 given optimum opportunity to develop in order to promote the welfare of the agriculture
10 and rural population by increasing their income. To maximize productivity, promote
11 efficiency and equity, provide infrastructure network and accelerate sectors of the
12 country, credit shall be directed to the said directors.

13 SECTION 3. *Coverage.* – This Act shall apply to the following categories of
14 agricultural lands devoted to agricultural activity as defined in Republic Act No. 6657
15 (Comprehensive Agrarian Reform Law of 1988) as amended:

- 1 (A) Lands not yet covered by any Agrarian Reform Program;
- 2 (B) Lands with agricultural lessees, whether or not they have been the
3 subject of the landowner's prior exercise of Retention Rights granted
4 by law, without prejudice to the rights of the agricultural lessee;
- 5 (C) Lands covered and fully paid under Presidential Decree No. 27, or
6 Republic Act No. 6657 and beyond the 10-year prohibition period;
- 7 (D) Lands covered by homestead grants and free patents;
- 8 (E) Lands covered by Republic Act No. 6657 but not yet fully paid neither
9 within or beyond the 10-year prohibition period;
- 10 (F) Lands covered and fully paid under Republic Act No. 6657 but still
11 within the 10-year prohibition period.

12 SECTION 4. *Acceptability as Loan Collateral.* – All agricultural lands
13 enumerated under Section 3 of this Act shall be accepted as collateral by any lender, bank
14 and other financial institution to secure loans of the registered owners as appearing in the
15 Emancipation Patent, Homestead Patent, Free Patent, Certificate of Land Ownership
16 Award, Original certificate of Title or Transfer Certificate of Title. The proceeds of the
17 loan obtained herein shall be used exclusively for agricultural activity such as agricultural
18 production, land development, post-harvesting facilities, and shallow-tube well and pump
19 irrigation, distribution and marketing, livelihood or related activities. When the feasibility
20 of investment studies are required by the lender, bank or financial institution, the
21 Department of Agrarian Reform (DAR) and the Department of Agriculture (DA) shall
22 provide technical assistance in the preparation of such documents.

23 SECTION 5. *Land Bank Authorization of the Loan; Additional Requirements.* –
24 For partially paid and unpaid lands, all loans that are to be granted by lending institutions
25 are deemed to be with authorization and consent of the Land Bank of the Philippines

1 (LBP) and the DAR subordinated to any or all prior encumbrance existing in favor of
2 LBP.

3 The consent of the co-owners, in the case of co-owned lands, and the ratification
4 of the majority of the members, in the case of cooperative-owned lands, shall likewise be
5 obtained without prejudice to the submission of standard documentary requirements of
6 banks and other lending institutions for the processing of loans as provided by pertinent
7 banking laws, rules and regulations.

8 SECTION 6. *Valuation.* - For those lands covered under Section 3, DAR and LBP
9 shall undertake measures to disseminate the valuation formula and provide technical
10 assistance to all other lending institutions, based on applicable laws, rules and
11 regulations.

12 SECTION 7. *Access to Guarantee.* - Farmer-beneficiaries and owners of
13 encumbered or non-transferable lands classified under Section 3, paragraphs D, E and F
14 shall be provided with credit guarantee by the Quedancor: Provided, that the guarantee
15 cover shall not exceed the principal amount of the loan; Provided further, that the
16 principal amount shall not exceed the amount determined by Quedancor and DA based
17 on the agricultural activity and locality in which such is proposed: Provided, finally, that
18 credit guarantees shall be subject to prior approval by Quedancor.

19 SECTION 8. *Event of Default and Foreclosure of Mortgage.* - In the event of
20 default by the borrower under this Act, the lender, bank or financial institution may
21 proceed against the security for the loan in accordance with existing laws and subject to
22 the provisions of this Act: Provided, that in the case of encumbered or non-transferable
23 lands offered as security classified under Section 3, paragraphs D, E and F, the lender,
24 bank or financial institution shall be paid the guarantee only after assigning the mortgage
25 credit to LBP; Provided further, that if the farmer-beneficiary has not yet fully paid the

1 amortization of the land awarded to him or her under the Agrarian Reform Program, the
2 agricultural productivity loan shall be added to the total loans owed to the government;
3 Provided finally, that in case the farmer-beneficiary has fully paid for the land awarded,
4 the agricultural productivity loan shall be secured by the awarded land.

5 Foreclosure of mortgages constituted over unencumbered and transferable lands
6 categorized under Section 3, paragraphs A, B, C and D of shall be governed by existing
7 laws subject to Sections 71, 72 (b) and 13-A of Republic Act No. 6657 as amended by
8 Republic Act No. 7881.

9 LBP foreclosure of mortgages constituted over encumbered or non-transferable
10 lands categorized under Subsections D, E and F shall be in accordance with paragraph 2
11 of Section 26 and paragraph 4 of Section 27 of Republic Act No. 6657 with the terms and
12 conditions to be determined by LBP and DAR.

13 SECTION 9. *Bidders in Auction Sale of Agricultural Land.* - In all cases of
14 foreclosure of mortgages constituted over lands described in Section 3 of this Act,
15 whether by the LBP, bank, financial institution or any other lender, no person shall be
16 allowed to bid in the auction sale nor shall the agricultural land be sold to any person not
17 qualified to own agricultural land as determined by DAR in accordance with Republic
18 Act No. 6657, Sections 6 and 70.

19 SECTION 10. *Exercise of Redemption Right.* - In case the landholding is sold to a
20 third person through public auction for failure of the borrower to pay the loan, the owner
21 or agrarian reform beneficiary shall have the right to redeem the same at a reasonable
22 price and consideration including interest thereon: provided, that the entire landholding
23 must be redeemed; provide further that if there are more than one redemptionist owner or
24 agrarian reform beneficiary, each shall be entitled to the said right of redemption only to
25 the extent of the area actually cultivated by him or can afford to pay but not exceeding

1 the three hectares award limit. The right of redemption under this Section may be
2 exercised within two years from the date of registration of the sale, and shall have priority
3 over any other right of legal redemption.

4 SECTION 11. *Monitoring of Loan and Bond Proceeds.* – The DAR shall be
5 responsible for the monitoring of the utilization of the loan proceeds of borrowers under
6 this Act; Provided, that banks and financial institutions shall provide semi-annual reports
7 to the Bangko Sentral ng Pilipinas (BSP), furnishing copies to the DAR, DA-Agricultural
8 Credit Policy Council (ACPC) and Quedancor, on the status of the loan as well as issues
9 affecting the implementation of the agricultural activity project for the latter government
10 entities to submit policy corrective actions and/or recommendations; Provided, further,
11 that Quedancor shall provide quarterly reports on the status of the utilization of bond
12 proceeds to the Department of Finance (DOF) and BSP furnishing copies to DAR and
13 DA-ACPC.

14 SECTION 12. *Guarantee Fund.* – There is hereby created a Guarantee Fund for
15 agricultural and agrarian borrowers with the amount of at least Five Billion Pesos
16 (P5,000,000,000.00). The Fund which shall be managed and administered by the Quedan
17 and Rural Credit Guarantee Corporation (QUEDANCOR) shall be funded from the
18 proceeds of the Agri-Agra Reform Bonds to be issued by the DOF and guaranteed by the
19 Republic of the Philippines; Provided, that the DOF in coordination with the DAR may
20 increase or decrease the amount of Guaranteed Fund in accordance with the total level of
21 utility and demand for credit: Provided, further, that one percent (1%) of the total
22 loanable funds of all public and private banking institutions under the ten percent (10%)
23 agrarian reform credit in Section 3 of Presidential Decree No. 717 (Agri-Agra Law) shall
24 be invested exclusively, without any alternative mode of compliance, for the purchase of
25 the Agri-Agra Reform Bonds competitive with existing bonds and securities in domestic

1 market circulation; Provided, finally, that the BSP shall draft the incentive programs to
2 encourage all public and private banking institutions to purchase such bonds.

3 SECTION 13. *Assistance for Capacity Building and Feasibility Studies.* - The
4 DAR and DA shall provide technical assistance in capacity and preparation of feasibility
5 studies as may be required by the lender, bank or financial institution. For this purpose,
6 the Executive Department shall increase the appropriations for Capacity Building and
7 Feasibility Studies under the Program Beneficiaries Development Component of the
8 Comprehensive Agrarian Reform Program (CARP) to support the farmers in this Act, the
9 additional funding of which shall include in the General Appropriations Act of the year
10 following its enactment into law and thereafter.

11 SECTION 14. *Compliance with the Agri-Agra Law (Presidential Decree No. 717)*
12 *and Other Incentives.* - The purchase of Quedancor Agri-Agra Reform Bonds and loans
13 granted under this Act shall form part of compliance with the Agri-Agra Law
14 (Presidential Decree No. 717) by the lending institution.

15 Any transaction of sale, transfer or conveyance of lands under this Act shall
16 exempt from the payment of capital gains tax, registration fees, and all other taxes and
17 fees for the conveyance and transfer thereof as provided under Sections 66 and 67 of
18 Republic Act No. 6657.

19 SECTION 15. *Penalties.* - For lands which have already been covered under
20 Republic Act No. 6657, Presidential Decree No. 27 or related agrarian law, violations and
21 other prohibited acts contrary to the exclusivity of loan purpose as defined under Section
22 4 hereof, such as misuse or diversion of financial and support services extended to
23 agrarian reform beneficiaries or a deviation by the mortgagor in the use of loan proceeds,
24 shall result in the cancellation of Emancipation Patents/ Certification of Land Ownership
25 Awards (Eps/ CLOAs) or perpetual disqualification to be agrarian reform beneficiaries,

1 or both Provided, that if the offender is a public official or employee found to be in
2 collusion to defraud the farmer, lender, bank or other financial institution or the
3 government, the penalty shall be imprisonment or *prision mayor* with absolute
4 disqualification as accessory penalty and a fine of not more than double the amount of
5 fraud but less than One hundred thousand pesos (P100,000.00); Provided, further, that if
6 the offender is a juridical person, the penalty shall be imposed on the responsible officers
7 thereof.

8 Loans secured by lands that are not yet covered under Republic Act No. 6657,
9 Presidential Decree No. 27 or related agrarian reform law, or those lands which have
10 been retained pursuant to agrarian law, shall be governed by existing administrative and
11 penal sanctions under the pertinent banking laws and rules and regulations of the BSP.

12 SECTION 16. *Transitory Provisions.* - An independent review of the ten year
13 period of prohibition on the sale, transfer or conveyance of lands acquired by the
14 beneficiaries under the agrarian reform program shall immediately be undertaken by the
15 Presidential Agrarian Reform Council (PARC) upon the effectivity of this Act to
16 determine and recommend changes and other measures to induce the participation of the
17 private sector in lending to beneficiaries of the, agrarian reform program. The
18 recommendations of the review shall be given to the appropriate congressional
19 committees within one year from the date of effectivity of this Act for possible legislative
20 actions and to the executive branch for policy and program changes immediately after
21 submission.

22 SECTION 17. *Implementing Rules and Regulations.* - The DAR, DA, LBP, DOF,
23 QUEDANCOR, and Cooperative Development Authority (CDA) in consultation with
24 concerned government agencies, fanners, cooperatives and banking and financial
25 institution sectors, shall formulate the implementing rules and regulations of this Act

1 within ninety (90) days after its approval. Such rules and regulations shall take effect
2 fifteen (15) days after the publication in a newspaper of general circulation.

3 SECTION 18. *Separability Clause.* – If any provision of this Act is held invalid or
4 unconstitutional, the same shall not affect the validity and effectivity of the other
5 provisions hereof.

6 SECTION 19. *Repealing Clause.* – All laws, decrees, orders, and issuances, or
7 portions thereof, which are inconsistent with the provisions of this Act, are hereby
8 repealed, amended or modified accordingly.

9 SECTION 20. *Effectivity Clause.* – This Act shall take effect fifteen (15) days
10 after its publication in the *Official Gazette* or in two (2) newspapers of general
11 circulation.

Approved,

/lfd 27Nov2015