

**SENATE**

'21 MAY 25 AIO :26

**Senate Bill No. 2225**

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 Banks 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 municipalities<sup>1</sup> 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.

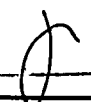
  
**JUAN MIGUEL F. ZUBIRI**

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

SENATE

'21 MAY 25 AIO :26

Senate Bill No. 2225

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**

*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 2021*".
- 2 **SEC. 2. Declaration of Policy** - The State hereby recognizes the need to  
3 promote comprehensive local community development across the country with  
4 the end in view of attaining equitable distribution of opportunities, income and  
5 wealth, a sustained increase in the amount of goods and services produced by  
6 local communities and in expanding productivity as a key objective to improve  
7 the quality of life for all, especially the underprivileged.
- 8 Towards these ends, the State hereby encourages and assists in the  
9 establishment of rural banking system and the operation of rural banks, being  
10 one of the channels for financial inclusion in recognition of their long standing  
11 contribution in the pursuit of making financial services accessible to all individuals  
12 and business entities.
- 13 **SEC. 3. Regulatory and Supervisory Powers of the Monetary Board** - In  
14 furtherance of this policy, the Monetary Board of the Bangko Sentral ng Pilipinas  
15 (BSP) shall formulate the necessary rules and regulations governing the  
16 establishment, supervision, and operation of rural banks to ensure that rural  
17 banks operate in a safe and sound manner in the performance of their mandate.
- 18 **SEC. 4. Organization** - Rural banks shall be organized in the form of stock  
19 corporations, and no rural bank shall be operated without a certificate of  
20 authority from the BSP.
- 21 Duly established cooperatives and corporations primarily organized to hold  
22 equities in rural banks may organize a rural bank and/or subscribe to the shares  
23 of stock of any rural bank; Provided, that a cooperative or corporation owning or  
24 controlling the whole or majority of the voting stock of the rural bank shall be  
25 subject to special examination and to such rules and regulations as the Monetary  
26 Board may prescribe.

1 **SEC. 5. Ownership** - No less than forty percent (40%) of the voting stocks of a  
2 rural bank shall be owned by citizens of the Philippines or corporations or  
3 associations organized under the laws of the Philippines at least sixty percent  
4 (60%) of whose capital is owned by such citizens. Non-Filipino citizens may own,  
5 acquire or purchase up to sixty percent (60%) of the voting stocks in a rural  
6 bank. The percentage of foreign-owned voting stocks shall be determined by the  
7 citizenship of the individual stockholders in that rural bank. The citizenship of the  
8 corporation which is a stockholder in a rural bank shall follow the citizenship of  
9 the controlling stockholders of the corporation, irrespective of the place of  
10 incorporation.

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

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

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

34 Provided, however, that shares of stock issued to the LBP, the DBP or any  
35 government-owned or controlled bank or financial institution, may, pursuant to  
36 this Section, at any time, be paid off at par and retired in whole or in part if the  
37 rural bank has accumulated enough capital strength to permit retirement of such  
38 shares, or if an offer is received from private sources to replace the equity  
39 investment of the LBP, the DBP or any government- owned or -controlled bank  
40 or financial institution.

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

45 Provided, finally, that in the sale of shares of stock subscribed by the LBP, the  
46 DBP or any government-owned or controlled bank or financial institution,  
47 preference, shall be given to residents and juridical entities of the locality or  
48 province where rural bank is located.

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

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

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

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

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

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

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

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

41 (2) Portions of friar land estates or other lands administered by the Bureau of  
42 Lands that are covered by sales contracts and the purchasers have paid at  
43 least five (5) years installment thereon, without the necessity of prior  
44 approval and consent by the director of lands, or of portions of other estates  
45 under the administration of the Department of Agrarian Reform (DAR) or  
46 other governmental agency which are likewise covered by sales contracts

1 and the purchasers have paid at least five (5) years instalment thereon,  
2 without the necessity of prior approval and consent of the DAR or  
3 corresponding governmental agency; or

4 (3) Homestead tax declarations or free patent lands pending the issuance of  
5 titles but already approved, the provisions of any law or regulations to the  
6 contrary notwithstanding. Provided, that when the corresponding titles are  
7 issued, the same shall be delivered to the register of deeds of the province  
8 where such lands are situated for the annotation of the encumbrance.

9 **SEC. 11. Loans and Credit Accommodation on the Security of Unissued**  
10 **Homestead or Free Patent** - In the case of lands pending issuance of  
11 homestead tax declarations or free patent titles, copies of the notices for the  
12 presentation of the final proof shall be furnished the creditor rural bank and, if  
13 the borrower applicants fail to present the final proof within thirty (30) days from  
14 date of notice, the creditor rural bank may do so for them at their expense.  
15 Provided, however, that the loan applicant using unissued homestead or free  
16 patent as security must show proof that he has already made improvements on  
17 the land and the loan applied for is to be used for further development of the  
18 same or for other productive economic activities. Provided, further, that the  
19 responsibility for the appraisal and verification of the status of a land shall be  
20 incumbent upon the rural bank; and any loan granted on any land which shall be  
21 found later to be within the forest zone shall be for the sole account of the rural  
22 bank.

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

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

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

39 Proof of publication as required herein shall be accomplished via an affidavit of  
40 the sheriff or officer conducting the foreclosure sale or execution of judgment  
41 and shall be attached with the records of the case:

42 Provided, that when a homestead or free patent is foreclosed, the homesteader  
43 or free patent holder, as well as his heirs shall have the right to redeem the  
44 same within one (1) year from the date of foreclosure in the case of land not  
45 covered by a Torrens Title or one (1) year from the date of the registration of  
46 the foreclosure in the case of land covered by a Torrens Title, other laws  
47 notwithstanding.

1 **SEC. 14. Foreclosure of Real Estate Mortgage** - A rural bank shall be  
2 allowed to foreclose lands mortgaged to it including lands covered by Republic  
3 Act No. 6657, otherwise known as the Comprehensive Agrarian Reform Law of  
4 1988, as amended. Provided, that said lands shall be subject to the retention  
5 limits provided under Republic Act No. 6657.

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

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

25 Provided, however, that if such stock of the LBP, the DBP or any government-  
26 owned or -controlled bank or financial institution is sold to private shareholders,  
27 the same may be converted into common stock as provided for in Section 6  
28 hereof.

29 Provided, further, that pending the amendment of the Articles of Incorporation of  
30 the rural bank, if necessary, for the purpose of reflecting the conversion into  
31 common stock of preferred stock sold to private stockholders, the transfer shall  
32 be recorded by the rural bank in the stock and transfer book and such  
33 shareholders shall thereafter enjoy all the rights and privileges of common  
34 stockholders.

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

45 For this purpose, the application for the amendment of the Articles of  
46 Incorporation shall include a certificate issued by the president, the corporate  
47 secretary, and a majority of the board of directors that all preferred shares have

1 been sold to private shareholders. This certification shall be attached to the  
2 original Articles of Incorporation on file with the SEC.

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

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

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

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

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

44 Allied undertakings shall include.

- 45 (a) Banks, financial institutions and non-bank financial intermediaries;
- 46 (b) Warehousing and other post-harvest facilities;
- 47 (c) Fertilizer and agricultural chemical and pesticides distribution;

- 1 (d) Farm equipment distribution;
- 2 (e) Trucking and transportation of agricultural products;
- 3 (f) Marketing of agricultural products;
- 4 (g) Leasing; and
- 5 (h) Other undertakings as may be determined by the Monetary Board.

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

7 (a) All rural banks created and organized under the provisions of this Act shall  
8 be exempt from the payment of all taxes, fees and charges of whatever  
9 nature and description, except the corporate income tax and local taxes,  
10 fees and charges, for a period of five (5) years from the date of  
11 commencement of operations;

12 (b) Surviving or consolidated Rural Bank which is party to a merger or  
13 consolidation shall be exempt from the payment of all taxes, fees and  
14 charges of whatever nature and description, except the corporate income  
15 tax and local taxes, fees and charges, for a period of five (5) years from  
16 the date of commencement of operation. *Provided, That,* the surviving or  
17 consolidated Rural Bank establishes an office or branch in an unbanked  
18 city or municipality as determined by the BSP.

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

23 In areas where there are no government banks, rural banks may deposit in  
24 private banks more than the amount prescribed by the single borrower's limit,  
25 subject to the rules and regulations of the BSP.

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

32 Provided, however, that charges, if any, shall be collectible on the amount in  
33 excess of one million pesos; and that in instruments related to assignments of  
34 several mortgages consolidated in a single deed, if any, shall be levied only on  
35 the amount in excess of one million pesos of the consideration in the assignment  
36 of each mortgage, or such amount as the Secretary of Finance, upon  
37 recommendation of the Monetary Board, may prescribe as may be necessary to  
38 promote and expand the rural economy.

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

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



- 1        1. Any officer, employee, or agent of a rural bank who shall:
- 2            (a) make false entries in any bank report or statement thereby affecting
- 3            the financial interest of, or causing damage to, the bank or any
- 4            person;
- 5            (b) without order of a court of competent jurisdiction, disclose any
- 6            information relative to the funds or properties in the custody of the
- 7            bank belonging to private individuals, corporations, or any other
- 8            entity; or
- 9            (c) accept gifts, fees or commission or any other form of remuneration
- 10           in connection with the approval of a loan from said bank; or
- 11           (d) overvalue or aid in overvaluing any security for the purpose of
- 12           influencing in any way of the action of the bank on any loan; or
- 13           (e) appear and sign as guarantor, endorser, or surety for loans granted;
- 14           or
- 15           (f) violate any of the provisions of this Act.
- 16        2. Any applicant for a loan from, or borrower of, a rural bank who shall:
- 17           (a) misuse, misapply, or divert the proceeds of the loan obtained by him
- 18           from its declared purpose; or
- 19           (b) fraudulently overvalue property offered as security for a loan from
- 20           said bank; or
- 21           (c) give out or furnish false or willful misrepresentation of material facts
- 22           for the purpose of obtaining, renewing, or increasing a loan or
- 23           extending the period thereof; or
- 24           (d) attempt to defraud the said bank in the event of court action to
- 25           recover a loan; or
- 26           (e) offer any officer, employee or agent of a rural bank as a gift, fee,
- 27           commission or other form of compensation in order to influence such
- 28           bank personnel into approving a loan application; or
- 29           (f) dispose or encumber the property or the crops offered as security for
- 30           the loan.

31        **SEC. 24. Unauthorized Advertisement of Business Representation** - Any

32        bank not organized under this Act, and any person, association, or corporation

33        doing the business of banking, not authorized under this Act which shall use the

34        words "rural bank" as part of the name or title of such bank or of such person,

35        association, or corporation, shall be punished by a fine of not less than five

36        thousand pesos (P5,000) for each day during which said words are so used.

37        **SEC. 25. Implementation** - For the purpose of carrying out the objectives of

38        this Act, the BSP is authorized to enlist the assistance of any branch,

39        department, bureau, office, agency, or instrumentality of the government,

40        including government-owned or -controlled corporations, which may include the

41        use of its personnel, facilities and resources.

42        **SEC. 26. Implementing Rules and Regulations** - The BSP shall promulgate

43        the rules and regulations for the effective enforcement of the provisions of this

44        Act.

45        **SEC. 27. Separability Clause** - Should any provision of this Act or any part

46        thereof be declared invalid, the other provisions, insofar as they are separable

47        from the invalid ones, shall remain in full force and effect.

- 1 **SEC. 28. Repealing Clause** - Republic Act Nos. 7353 and 10574 are hereby  
2 repealed. All laws, executive orders, rules and regulations or parts thereof which  
3 are inconsistent with this Act are likewise hereby repealed or amended  
4 accordingly.
- 5 **SEC. 29. Applicability of Other Laws** - The provisions of Republic Act No.  
6 7653, as amended, and Republic Act No. 8791, insofar as they are applicable and  
7 not in conflict with any provision of this Act, shall apply to rural banks organized  
8 hereunder.
- 9 **SEC. 30. Effectivity** - This Act shall take effect fifteen (15) days after its  
10 complete publication in the Official Gazette or in a newspaper of general  
11 circulation in the Philippines.

*Approved.*