

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS

First Regular Session

House Bill No. 4087



Introduced by Hon. Delphine Gan Lee and Hon. Orestes T. Salon

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.


HON. DELPHINE GAN LEE
Representative, AGRI Party-List


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Representative, AGRI Party-List

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

4 (A) Lands not yet covered by any Agrarian Refom Program;

5 (B) Lands with agricultural lessees, whether or not they have been the subject of the
6 landowner's prior exercise of Retention Rights granted by law, without prejudice
7 to the rights of the agricultural lessee;

8 (C) Lands covered and fully paid under Presidential Decree No. 27, or Republic Act
9 No. 6657 and beyond the 10-year prohibition period;

10 (D) Lands covered by homestead grants and free patents;

11 (E) Lands covered by Republic Act No. 6657 but not yet fully paid neither within or
12 beyond the 10-year prohibition period;

13 (F) Lands covered and fully paid under Republic Act No. 6657 but still within the 10-
14 year prohibition period.

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

1 Reform (DAR) and the Department of Agriculture (DA) shall provide technical assistance in
2 the preparation of such documents.

3 **SECTION 5. *Land Bank Authorization of the Loan; Additional Requirements.*** - For
4 partially paid and unpaid lands, all loans that are to be granted by lending institutions are
5 deemed to be with authorization and consent of the Land Bank of the Philippines (LBP) and
6 the DAR subordinated to any or all prior encumbrance existing in favor of LBP.

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

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

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

22 **SECTION 8. *Event of Default and Foreclosure of Mortgage.*** - In the event of default
23 by the borrower under this Act, the lender, bank or financial institution may proceed against

1 the security for the loan in accordance with existing laws and subject to the provisions of this
2 Act: Provided, that in the case of encumbered or non-transferable lands offered as security
3 classified under Subsections D, E and F of Section 3, the lender, bank or financial institution
4 shall be paid the guarantee only after assigning the mortgage credit to LBP; Provided further,
5 that if the farmer-beneficiary has not yet fully paid the amortization of the land awarded to
6 him or her under the Agrarian Reform Program, the agricultural productivity loan shall be
7 added to the total loans owed to the government; Provided finally, that in case the farmer-
8 beneficiary has fully paid for the land awarded, the agricultural productivity loan shall be
9 secured by the awarded land.

10 Foreclosure of mortgages constituted over unencumbered and transferable lands
11 categorized under Subsections A, B, C and D of Section 3 shall be governed by existing laws
12 subject to Sections 71, 72 (b) and 13-A of Republic Act No. 6657 as amended by Republic
13 Act 26 No.7881.

14 LBP foreclosure of mortgages constituted over encumbered or non-transferable lands
15 categorized under Subsections D, E and F shall be in accordance with Paragraph Two (2) of
16 Section 26 and Paragraph Four (4) of Section 27 of Republic Act No. 6657 with the terms
17 and conditions to be determined by LBP and DAR.

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

1 SECTION 10. *Exercise of Redemption Right.* - In case the landholding is sold to a
2 third person through public auction for failure of the borrower to pay the loan, the owner or
3 agrarian reform beneficiary shall have the right to redeem the same at a reasonable price and
4 consideration including interest thereon: provided, that the entire landholding must be
5 redeemed; provide further that if there are more than one redemptionist owner or agrarian
6 reform beneficiary, each shall be entitled to the said right of redemption only to the extent of
7 the area actually cultivated by him or can afford to pay but not exceeding the three (3)
8 hectares award limit. The right of redemption under this Section may be exercised within two
9 (2) years from the date of registration of the sale, and shall have priority over any other right
10 of legal redemption.

11 SECTION 11. *Monitoring of Loan and Bond Proceeds.* - The DAR shall be
12 responsible for the monitoring of the utilization of the loan proceeds of borrowers under this
13 Act; Provided, that banks and financial institutions shall provide semi-annual reports to the
14 Bangko Sentral ng Pilipinas (BSP), furnishing copies to the DAR, DA-Agricultural Credit
15 Policy Council (ACPC) and Quedancor, on the status of the loan as well as issues affecting
16 the implementation of the agricultural activity project for the latter government entities to
17 submit policy corrective actions and/ or recommendations; Provided, iirrther, that Quedancor
18 shall provide quarterly reports on the status of the utilization of bond proceeds to the
19 Department of Finance (DOF) and BSP 27 furnishing copies to DAR and DA-ACPC.

20 SECTION 12. *Guarantee Fund.* - There is hereby created a Guarantee Fund for
21 agricultural and agrarian borrowers with the amount of at least five billion pesos
22 (P5,000,000,000.00). The Fund which shall be managed and administered by the Quedan and
23 Rural Credit Guarantee Corporation (QUEDANCOR) shall be funded from the proceeds of
24 the Agri-Agra Reform Bonds to be issued by the DOF and guaranteed by the Republic of the
25 Philippines; Provided, that the DOF in coordination with the DAR may increase or decrease

1 the amount of Guaranteed Fund in accordance with the total level of utility and demand for
2 credit: Provided, further, that one percent (1%) of the total loanable funds of all public and
3 private banking institutions under the ten percent (10%) agrarian reform credit in Section 3 of
4 Presidential Decree No. 717 (Agri-Agra Law) shall be invested exclusively, without any
5 alternative mode of compliance, for the purchase of the Agri-Agra Reform Bonds
6 competitive with existing bonds and securities in domestic market circulation; Provided,
7 finally, that the BSP shall draft the incentive programs to encourage all public and private
8 banking institutions to purchase such bonds.

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

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

21 Any transaction of sale, transfer or conveyance of lands under this Act shall exempt
22 from the payment of capital gains tax, registration fees, and all other taxes and fees for the
23 conveyance and transfer thereof as provided under Sections 66 and 67 of Republic Act No.
24 6657.

1 SECTION 15. **Penalties.** - For lands which have already been covered under Republic
2 Act No. 6657, Presidential Decree No. 27 or related agrarian law, violations and other
3 prohibited acts contrary to the exclusivity of loan purpose as defined under Section 4 hereof,
4 such as misuse or diversion of financial and support services extended to agrarian reform
5 beneficiaries or a deviation by the mortgagor in the use of loan proceeds, shall result in the
6 cancellation of Emancipation Patents/ Certification of Land Ownership Awards (EPs/
7 CLOAs) or perpetual disqualification to be agrarian reform beneficiaries, or both Provided,
8 that if the offender is a public official or employee found to be in collusion to defraud the
9 farmer, lender, bank or other financial institution or the government, the penalty shall be
10 imprisonment or *prision mayor* with absolute disqualification as accessory penalty and a fine
11 of not more than double the amount of fraud but less than One hundred thousand pesos
12 (P100,000.00); Provided, further, that if the offender is a juridical person, the penalty shall be
13 imposed on the responsible officers thereof.

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

18 SECTION 16. **Transitory Provisions.** - An independent review of the ten (10) year
19 period of prohibition on the sale, transfer or conveyance of lands acquired by the
20 beneficiaries under the agrarian reform program shall immediately be undertaken by the
21 Presidential Agrarian Reform Council (PARC) upon the effectivity of this Act to determine
22 and recommend changes and other measures to induce the participation of the private sector
23 in lending to beneficiaries of the agrarian reform program.

24 The recommendations of the review shall be given to the appropriate congressional
25 committees within one (1) year from the date of effectivity of this Act for possible legislative

1 actions and to the executive branch for policy and program changes immediately after
2 submission.

3 SECTION 17. *Implementing Rules and Regulations.* - The DAR, DA, LBP, DOF,
4 QUEDANCOR, and Cooperative Development Authority (CDA) in consultation with
5 concerned government agencies, farmers, cooperatives and banking and financial institution
6 sectors, shall formulate the implementing rules and regulations of this Act within ninety (90)
7 days after its approval. Such rules and regulations shall take effect fifteen (15) days after the
8 publication in a newspaper of general circulation.

9 SECTION 18. *Separability Clause.* - If any provision, or part hereof is held invalid or
10 unconstitutional, the remainder of the law or the provision not otherwise affected shall remain
11 valid and subsisting.

12 SECTION 19. *Repealing Clause.* - Any law, presidential decree or issuance,
13 executive order, letter of instruction, administrative order, rule or regulation contrary to or
14 inconsistent with, the provisions of this Act is hereby repealed, modified, or amended
15 accordingly. Nothing in this shall be construed to amend existing policies, rules and
16 regulations on collateral free loans to small farmers and other institutions engaged in micro-
17 finance activities.

18 SECTION 20. *Effectivity Clause.* - This Act shall take effect fifteen (15) days after its
19 publication in at least two (2) newspapers of general circulation.

Approved,