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Prepared by the Committee on Banks, Financial Institutions and Currencies with  
Senators Miriam Defensor-Santiago, Edgardo Angara, and Sergio Osmeña III as  
authors

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**AN ACT ALLOWING 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 the House of Representatives of the Philippines in Congress  
assembled:*

1           **SECTION 1.** Section 4 of Republic Act No. 7353, as amended is hereby amended  
2 to read as follows:  
3           “Sec. 4. No rural bank shall be operated without a Certificate of Authority from the  
4 Monetary Board of the [Central Bank] **BANGKO SENTRAL NG PILIPINAS**. Rural  
5 banks shall be organized in the form of stock corporations. **NO LESS THAN 40% OF**  
6 **RURAL BANKS SHALL BE OWNED BY CITIZENS OF THE PHILIPPINES OR**  
7 **CORPORATIONS OR ASSOCIATIONS ORGANIZED UNDER THE LAWS OF**  
8 **THE PHILIPPINES AT LEAST 60% OF WHOSE CAPITAL IS OWNED BY**  
9 **SUCH CITIZENS. NON-FILIPINO CITIZENS MAY OWN, ACQUIRE, OR**  
10 **PURCHASE UP TO SIXTY PERCENT (60%) OF THE VOTING STOCKS IN A**  
11 **RURAL BANK. THE PERCENTAGE OF FOREIGN-OWNED VOTING STOCKS**  
12 **SHALL BE DETERMINED BY THE CITIZENSHIP OF THE INDIVIDUAL OR**

1 **CORPORATE STOCKHOLDERS OF THE RURAL BANK.** Upon consultation with  
2 the rural banks in the area, duly established cooperatives and corporations primarily  
3 organized to hold equities in rural banks may organize a rural bank and/or subscribe to the  
4 shares of stock of any rural bank: Provided, That a cooperative or corporation owning or  
5 controlling the whole or majority of the voting stock of the rural bank shall be subject to  
6 special examination and to such rules and regulations as the Monetary Board may  
7 prescribe. [With exception of shareholdings of corporations organized primarily to hold  
8 equities in rural banks as provided for under Section 12-c of Republic Act 337, as  
9 amended, and of Filipino-controlled domestic banks, the capital stock of any rural bank  
10 shall be fully owned and held directly or indirectly by citizens of the Philippines or  
11 corporations, associations or cooperatives qualified under Philippine laws to own and hold  
12 such capital stock: Provided, that any provision of existing laws to the contrary  
13 notwithstanding, stockholdings in a rural bank shall be exempt from any ownership ceiling  
14 for a period of ten (10) years from the approval of this Act: Provided, further, that any  
15 such exemption shall require the approval of the Monetary Board.] If subscription of  
16 private shareholders to the capital stock of rural bank cannot be secured or is not available,  
17 or insufficient to meet the normal credit needs of the locality, the Land Bank of the  
18 Philippines, the Development Bank of the Philippines, or any government-owned or  
19 controlled bank or financial institution, on representation of the said private shareholders  
20 but subject to the investment guidelines, policies and procedures of the bank or financial  
21 institution and upon approval of the Monetary Board of the Central Bank, shall subscribe  
22 to the capital stock of such rural bank, which shall be paid in full at the time of  
23 subscription, in an amount equal to the fully paid subscribed and unimpaired capital of the  
24 private stockholders or such amount as the Monetary Board may prescribe as may be  
25 necessary to promote and expand rural economic development: Provided, however, That

1 such shares of stock subscribed by the Land Bank of the Philippines, the Development  
2 Bank of the Philippines or any government-owned or controlled bank or financial  
3 institution may be sold at any time at [market] **ADJUSTED BOOK** value [to private  
4 individuals who are citizens of the Philippines]: Provided, finally, That in the sale of  
5 shares of stock subscribed by the Land Bank of the Philippines, the Development Bank of  
6 the Philippines or any government-owned or controlled bank or financial institution, the  
7 registered stockholders shall have the right of preemption within one (1) year from the  
8 date of offer in proportion to their respective holdings, but in the absence of such buyer,  
9 preference, however, shall be given to residents of the locality or province where the rural  
10 bank is located.

11 **SECTION 2.** Section 5 of Republic Act No. 7353, as amended, is hereby  
12 amended as follows:

13 “Sec. 5. [All members of the Board of Directors of the rural bank shall be citizens  
14 of the Philippines at the time of their assumption to office.] **NON-FILIPINO CITIZENS**  
15 **MAY BECOME MEMBERS OF THE BOARD OF DIRECTORS OF A RURAL**  
16 **BANK BUT THEIR PARTICIPATION IN THE BOARD SHALL BE LIMITED TO**  
17 **THEIR PROPORTIONATE SHARE IN THE EQUITY OF THE RURAL BANK:**  
18 Provided, however, that nothing in this Act shall be construed as prohibiting any  
19 appointive or elective public official from serving as director, officer, consultant or in any  
20 capacity in the SAID bank, **SUBJECT TO THE PROVISIONS OF EXISTING**  
21 **LAWS.**

22 No Director or officer of any rural bank shall, either directly or indirectly, for  
23 himself or as the representative or agent of another borrow any of the deposits or funds of  
24 such banks, nor shall he become a guarantor, indorser, or surety for loans from such bank  
25 to others, or in any manner be an obligor for money borrowed from the bank or loaned by

1 it except with the written approval of the majority of the directors of the bank, excluding  
2 the director concerned. Any such approval shall be entered upon the records of the  
3 corporation and a copy of such entry shall be transmitted forthwith to the appropriate  
4 supervising department. The director/officer of the bank who violates the provisions of  
5 this section shall be immediately dismissed from his office and shall be penalized in  
6 accordance with Section 26 of this Act.

7         The Monetary Board may regulate the amount of credit accommodations that may  
8 be extended directly to the directors, officers or stockholders of rural banks of banking  
9 institutions. However, the outstanding credit accommodations which a rural bank may  
10 extend to each of its stockholders owning two percent (2%) or more of the subscribed  
11 capital stock, its directors, or officers shall be limited to an amount equivalent to the  
12 respective outstanding deposits and book value of the paid-in capital contributions in the  
13 bank.”

14         **SECTION 3.** Section 8 of Republic Act No. 7353 is hereby amended to read as  
15 follows:

16         “To provide supplemental capital to any rural bank until it has accumulated enough  
17 capital of its own or stimulate private investments in rural banks, the Land Bank of the  
18 Philippines, the Development Bank of the Philippines or any government-owned or  
19 controlled bank or financial institution shall subscribe within thirty (30) days to the capital  
20 stock of any rural bank from time to time in an amount equal to the total equity investment  
21 of the private shareholders which shall be paid in full at the time of the subscription or  
22 such amount as may be necessary to promote and expand rural economic development:  
23 Provided, however, That shares of stock issued to the Land Bank of the Philippines, the  
24 Development Bank of the Philippines or any government-owned or controlled bank or  
25 financial institution, may, pursuant to this section, at any time, be **BOUGHT** [paid off]

1    **AT ADJUSTED BOOK VALUE** [par and retired in whole or in part if the rural bank has  
2    accumulated enough capital strength to permit retirement of such shares, or if an offer is  
3    received from private sources to replace the equity investment of the Land Bank of the  
4    Philippines, the Development Bank of the Philippines or any government owned or  
5    controlled bank or financial institution with an equivalent investment or more in the equity  
6    of such bank. In case of retirement of stock or replacement of equity investments of the  
7    Land Bank of the Philippines, the Development Bank of the Philippines or of any  
8    government-owned or controlled bank or financial institution, the registered private  
9    shareholders of the rural bank shall have the right of preemption within one (1) year from  
10   the date of offer in proportion to their respective holdings].

11        "Stocks held by the Land Bank of the Philippines, the Development Bank of the  
12   Philippines or by any government-owned or controlled bank or financial institution, under  
13   the terms of this Section, shall be made preferred only as to assets upon liquidation and  
14   without the power to vote and shall share in dividend distributions from the date of  
15   issuance in [the] **AN amount BASED ON THE LENDING BENCHMARK**  
16   **APPROVED BY THE BANGKO SENTRAL NG PILIPINAS PLUS THE**  
17   **PREVAILING NON-PRIME SPREAD OF THE GOVERNMENT FINANCIAL**  
18   **INSTITUTION** [of four percent (4%) on the first and second years, six percent (6%) on  
19   the third and fourth years, eight percent (8%) on the fifth and sixth years, ten percent  
20   (10%) on the seventh and eighth years and twelve percent (12%) on the ninth to the  
21   fifteenth years without preference;]; *Provided, however,* that if such stock of the Land  
22   Bank of the Philippines, the Development Bank of the Philippines or any government-  
23   owned or controlled bank or financial institution is sold to private shareholders, the same  
24   may be converted into common stock of the class provided for in Section 10 hereof:  
25   *Provided, further,* That pending the amendment of the Articles of Incorporation of the

1 rural bank, if necessary, for the purpose of reflecting the conversion into common stock of  
2 preferred stock sold to private shareholders, the transfer shall be recorded by the rural  
3 bank in the stock and transfer book and such shareholders shall thereafter enjoy all the  
4 rights and privileges of common stockholders. The preferred stocks so transferred shall be  
5 surrendered and cancelled and the corresponding common stocks shall be issued."

6         **SECTION 4.** The Bangko Sentral ng Pilipinas, consistent with Section 11 of  
7 Republic Act No. 7353, shall prescribe the necessary rules and regulations on the  
8 amendments of the Rural Banks Act of 1992 in consultation with various stakeholders as  
9 well as disseminate this information to allow entry of foreign equity into our rural bank  
10 system to revitalize the rural banking industry and improve access of banking services to  
11 the rural areas in the country.

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

15         **SECTION 5. *Separability Clause.*** – If, for any reason, any provision of this Act is  
16 declared invalid or unconstitutional, the remaining provisions not affected thereby shall  
17 continue to be in force and effect.

18         **SECTION 6. *Repealing Clause.*** – All laws, decrees, executive orders,  
19 proclamations, rules and regulations, and other issuances, or parts thereof, which are  
20 inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

21         **SECTION 7. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days  
22 after its complete publication in the Official Gazette or in at least two (2) newspapers of  
23 general circulation, whichever is earlier.

24         Approved,