

AMENDED DA-QUEDANCOR-SRA AGRIKULTURANG MAKAMASA SUGAR FARM MODERNIZATION PROGRAM

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The following amended guidelines shall govern the implementation of AGRIKULTURANG MakaMASA — Sugar Farm Modernization, which is a joint program of the Department of Agriculture, Quedan and Rural Credit Guarantee Corporation (Quedancor) and the Sugar Regulatory Administration.

1. RATIONALE

The past decade has been a decadent period for the Sugar Industry. During this time, crop production consistently declined culminating in crop year 1997-1998 where sugar production dropped to 1.74MMT. At this level, the industry could hardly meet local demand and the country's export commitment.

One of the factors, that brought about the sorry state of the Industry was inaccessibility to credit. During this period, institutional credit to the Sugar Industry was almost nil. Interest rates, when credit was available, were prohibitive and unconscionable.

Under the present dispensation where Food Security is the priority concern, the Agrikulturang Makamasa for Sugar Farm Modernization Program has been launched to frog leap the Sugar Industry towards modernization to regain its position as a major employment generator and export earner.

2. OBJECTIVES

1. To revitalize the Sugar Industry through mechanized farming.
2. To promote the bankability and access of sugar farmers/planters with formal credit institutions.
3. To facilitate the flow of credit from the banking system to the Sugar Industry.
4. To promote the acceptance of sugar farms as collateral.

3. LEGAL BASES

3.1 RA 7393, dated 13 April 1992, which mandated Quedancor to establish a credit support mechanism and guarantee system for the benefit of farmers, fisherfolk and other agricultural enterprises.

3.2 RA 8435, dated February 9, 1998, which mandated Quedancor to be the credit guarantee institution for the Agri-fishery sector.

3.3 Memorandum of Agreement, dated 14 April 1999, among the Department of Agriculture, the Quedan and Rural Credit Guarantee Corporation (Quedancor) and the Sugar Regulatory Administration (SRA).

3.4 Memorandum of Agreement, dated 13 September 1999, among the Department of Agriculture, the Quedan and Rural Credit Guarantee Corporation (Quedancor) and the Sugar Regulatory Administration (SRA).

4. DEFINITION OF TERMS

- 4.1 Sugar Production — refers to the cultivating, growing or tending of sugarcane in the open fields.
- 4.2 Sugar Farmer/Planter — any natural person whose primary livelihood is cultivation of land for sugarcane production, either by himself or primarily with the assistance of his immediate farm household or worker, whether the land is owned by him or another person under a leasehold tenancy agreement or arrangement with the owner thereof.
- 4.3 Cooperative — a group of farmers who voluntarily form themselves into a business enterprise to promote their common needs through mutual action, democratic control and sharing of economic benefits on the basis of the patronage of members.
- 4.4 Sole Proprietor — a natural person owning a business enterprise or engaged in commercial activity.
- 4.5 Partnership — an entity of two or more persons who bind themselves to contribute money, property or industry to a common fund with the intention of dividing profits among themselves.
- 4.6 Corporation — a juridical person, created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incidental to its existence.
- 4.7 Quedan Operations Officer (QOO) — Quedancor's field personnel duly authorized to implement the Agrikulturang MakaMASA for Sugar Farm Modernization Program.
- 4.8 Lending Bank (LB) — any banking institution organized and existing under the laws of the Philippines and duly accredited by Quedancor to participate under the SGM of AGRIKULTURANG MakaMASA — SFM.
- 4.9 Sole Guarantee Mode (SGM) — a model of lending to service the credit guarantee of farmers, sole proprietorships, cooperatives, partnerships or corporations wherein Quedancor provides guarantee cover on the loan fully funded by LB.
- 4.10 Guaranteed Co-Financing Mode (GCFM) — a mode of lending to service the credit guarantee of farmers, sole proprietors, cooperatives, partnerships or corporations wherein Quedancor provides guarantee cover on LB's exposure on the loan fund which is equally shared by LB and Quedancor.
- 4.11 Special Window Mode (SWM) — a mode of lending provided by Quedancor to its client where access to lending bank is not available or convenient.

5. SCOPE

Farmers, sole proprietors, cooperatives, partnerships or corporations, intending to purchase tractor/implements for the production of sugarcane.

6. STATEMENT OF POLICIES

6.1 Purpose of Loan

To finance the purchase of brand-new or second-hand tractors/implements.

6.2 Eligibility Requirements

6.2.1 Must be indorsed by SRA.

6.2.2 Must be duly accredited with Quedancor.

6.2.3 Must be able to put up 20% as down payment for tractor/implements.

6.3 Loaning Mode

Modes shall either be SGM, GCFM or SWM.

6.4 Security Arrangement

The loan shall be secured by a Chattel Mortgage on purchased tractor/implement and Joint and Several Signatures of at least three (3) officers for cooperatives and corporations or 2 co-makers for individual borrowers.

6.5 Loanable Amount

The loanable amount shall be 80% of the total cost of tractor/implement.

6.6 Interest Rates and Service/Guarantee Fees

6.6.1 SGM

The interest rate shall be at the discretion of the Lending Bank which has been observed to be lower than the prevailing commercial rates.

A guarantee fee of 2.5% per annum of the outstanding principal shall be paid by LB upon filing of guarantee cover and at the start of every anniversary year of the loan.

6.6.2 GCFM and SWM

Interest of loans shall be 12% per annum based on the present value of annuity to be imputed in the loan amortization. Under GCFM, however, lending banks have the option to apply their own interest rate on the bank's loan exposure provided that the borrower is furnished with the corresponding disclosure statement and that both borrower and Quedancor are amenable to said rate.

Additionally, Quedancor shall charge a non-refundable service fee of 2.5% per annum on its share of the outstanding principal. Service fee for the first year shall be deducted from the loan proceeds while payment of service fees for the succeeding years shall be at the start of every anniversary year of the loan.

6.7 Term and Mode of Payment

The term (ranging from one to five years) and the Mode of Payment (monthly, quarterly, semi-annually, annually) shall be based on the project study submitted.

On a case to case basis, a grace period may be allowed.

6.8 Guarantee Coverage

6.8.1 SGM

Quedancor's guarantee cover shall be 100% of the outstanding principal plus accrued interest up to maturity date or demand for full payment, whichever comes first.

6.8.2 GCFM

Quedancor's guarantee cover is on LB's share of the outstanding principal plus accrued charges up to maturity date or demand for full payment, whichever comes first.

6.9 Leveraging Ratio

Quedancor's total guarantee exposure on outstanding loans shall not, at any given period, exceed five (5) times the amount of available guarantee fund established therefor.

6.10 Compliance with Agri-Agra Law

Originating or secondary banks participating in the program may be credited for compliance with the Agri-Agra Law pursuant to Section 20 of RA No. 7393.

7. MECHANICS OF IMPLEMENTATION

7.1 Program Promotion

Quedancor, with the assistance of the Department of Agriculture and the Sugar Regulatory Administration, shall promote the program with prospective banks and borrower-clients to orient them with AGRIKULTURANG MakaMASA-SFM'S objectives, features and mechanics of implementation.

QOO shall promote the program through meetings and dialogues with prospective clients and use of promotional materials such as posters and brochures.

7.2 Lending Bank Accreditation (for SGM and GCFM)

Banks intending to participate under AGRIKULTURANG MakaMASA — SFM shall sign an Integrated or Supplemental Agreement with Quedancor, pay a non-refundable accreditation fee and submit the following documents:

7.2.1 Board resolution authorizing the bank to participate and designating the officer(s) with specimen signatures who shall represent the bank and sign all documents pertaining to its accreditation;

7.2.2 List of Key Lending Bank officers; and

7.2.3 Latest Audited Financial Statements.

7.3 Clientele Accreditation

Any farmer, sole proprietor, partnership, cooperative or corporation, intending to apply for a loan under AGRIKULTURANG MakaMASA-SFM shall submit an Application for Accreditation, pay a non-refundable accreditation fee of P1,000.00 and submit the following:

7.3.1 General Requirements

- a. Duly accomplished Application for Accreditation;
- b. Two 2x2 photos of individual applicant or authorized representative(s); and
- c. Duly certified Financial Statements for the last two years.

7.3.2 Additional Requirements

For Cooperatives

- a. Certificate of Registration or Confirmation CDA;
- b. Copy of Articles of Cooperation and By-Laws, and amendments, if any;
- c. Board Resolution and Secretary's Certificate authorizing the cooperative to participate in the specified program and designating its authorized representative(s) thereof with specimen signatures; and
- d. List of names and addresses of current key officials and members.

For Partnerships/Cooperations

- a. Certificate of SEC Registration;
- b. Copy of Articles of Partnership/Incorporation and By-Laws, and amendments, if any;
- c. Board Resolution and Secretary's Certificate authorizing the firm to participate in the specified program and designating its authorized representative(s) thereof with specimen signatures;
- d. List of names and addresses of current key officials; and

- e. List of Stockholders with corresponding percentage of ownership, if a corporation.

The QOO shall conduct a background/credit investigation of the applicant, accomplish the Evaluation Sheet and forward the application together with the required documents to the Regional Assistant Vice President (RAVP) for review, approval and issuance of Certificate of Accreditation.

7.4 Processing of loan

7.4.1 Application for loan shall be submitted by accredited applicants either to the QOO, SRA or through Lending Bank together with the following requirements:

- a. Two copies of Project Proposal;
- b. Two photocopies of documents supporting the collateral offered for the loan, to wit:

Chattel

- Certificate of Registration and/or substitute documents
- OR of latest payment of registration fee
- Insurance policy cover and OR of premium payment
- Comprehensive Surety Agreement (for cooperatives and corporations)/Co-Maker's Statement (for individual borrowers)
- Previous years Income Statement/Financial Statement of signatories

7.4.2 QOO shall authenticate photocopies of the above documents.

7.4.3 Inspection and appraisal of collateral, background/credit investigation and project proposal evaluation shall be conducted immediately by the QOO. Likewise, QOO shall screen and evaluate co-makers/signatories to the JSS.

7.4.4 The QOO shall prepare the corresponding Credit Evaluation Report (CER 1) and the Loan Proposal Memo (LPM) which shall be reviewed by the respective RAVP.

If the loan amount is not within the approving authority of the RAVP, the LPM together with all the loan documents should be forwarded to the AGRI-AQUA INVENTORY MANAGEMENT DIVISION, Program Operations Department (AAD-POD) for further review, evaluation, approval/disapproval. If the loan is beyond the approving authority of the AVP of the AAD, he shall recommend approval/disapproval to higher authorities in accordance with Circular No. 090-A on the Specifications of Authority.

7.4.5 For loans P2 Million and above, the LPM together with all the loan documents shall be subject for review by the Credit Review Committee (CRC) and the recommendation of the Executive Vice-President prior to approval/disapproval by the President.

7.4.6 For SGM/GCFM LB shall review the Credit Evaluation Report submitted by Quedancor or conduct its own investigation and evaluation, if deemed necessary. LB has the final discretion to approve/disapprove the loan application. It shall ensure that the amount and term of loan do not exceed Quedancor's recommendation and the collateral provided are, likewise, as recommended.

Any loan not favorably recommended, or which exceeds the amount or term of the loan recommended by the duly authorized Quedancor's representative, or is not covered by the recommended collateral shall not be shared nor guaranteed by Quedancor.

7.5 Preparatory Clearance for Guarantee Coverage (PCGC)

Using the prescribed form (Exhibit 1 — 1A *), Lending Bank shall secure a written clearance from QUEDANCOR

Central Office either through fax, telefax, radiogram, telegram or letter. This is to ensure that QUEDANCOR maintains a total guarantee exposure on outstanding loans under the program of not more than five (5) times the amount of available guarantee fund. The loan shall be released within ten (10) calendar days upon receipt of the PCGC.

7.6 Loan Documentation

7.6.1 Proper loan documentation shall be the sole responsibility of Lending Bank. This shall cover the LAF, duly notarized CM, as the case may be.

The Deed of CM shall be duly registered with the Registry of Deeds.

Under GCFM, all loan documents shall specify both Quedancor and LB as Lender/Mortgagees.

7.6.2 For GCFM, the LB shall notify the borrower of the approval of the loan as well as the terms and conditions thereof. Upon conformity of the borrower, LB shall submit to Quedancor a request for its fund share on the loan together with the terms and conditions with the borrower's confirmation and certified true copies of each loan document.

7.6.3 Upon favorable evaluation of all documents, Quedancor shall transmit its confirmation to LB together with the corresponding fund remittance, if under GCFM. The LB shall release the loan proceeds to the borrower within three (3) days from receipt of Quedancor's share of loan fund.

7.6.4 Original copies of loan documents (SGM/GCFM) shall be retained by Lending Bank. Quedancor shall receive two copies and the borrower, one copy.

7.6.5 The RAVP shall see to it that the original (under SWM) or duplicate copies (under GCFM and SGM) of all loan documents shall be received at POD within three (3) working days from release of loan for safekeeping by the Document's Custodian in accordance with the SOP on the Filing and Safekeeping of Loan and Collateral Documents.

7.7 Amortization of Loan

The borrower shall remit the loan amortization directly to LB for SGM/GCFM or to QOO/Cashier for SWM who shall issue the corresponding PR/OR on the scheduled amortization dates as specified in the PN.

7.8 Funding/Accounting System for GCFM

7.8.1 Quedancor shall open a Savings Account with LB to facilitate the receipt of borrower's payments on loan amortizations.

7.8.2 Quedancor and LB shall share in the loan funds and earnings thereon on a 50:50 basis.

7.8.3 LB shall credit to Quedancor SA its corresponding share on all collections from borrowers upon receipt thereof to be withdrawn by Quedancor anytime. For failure to do so, LB shall pay a penalty equivalent to 2% per month or a fraction thereof on the amount due to Quedancor.

7.8.4 LB shall submit the following reports/documents to Quedancor every 5th day of the month or as otherwise required by Quedancor:

- a. Statement of Bank Transactions
- b. Statement of Loan Releases
- c. Statement of Collections
- d. Statement of Loan Balance

7.8 Project Monitoring

During the term of the loan, periodic inspection and reporting shall be undertaken by the QOO to closely monitor the project. The QOO shall submit to Quedancor C.O. a bi-monthly Accounts Status Report.

Spot inspection shall be conducted at any time by Quedancor and/or Lending Bank personnel to check the project.

7.9 Certificate of Loan Settlement (CLS)

Upon full settlement of the loan, LB shall submit to Quedancor Head Office, at the soonest possible time, a CLS (Exhibit 2 *). Failure or delay in submission of CLS will affect LB's pending request for guarantee cover.

7.10 Restructuring of Loans

Restructuring of loans shall be covered by Standard Operating Procedures (SOP) No. 014 on Remedial Account Management.

8. APPLICATION FOR GUARANTEE COVERAGE

8.1 Nature of Guarantee Cover for SGM/GCFM

Quedancor's guarantee cover is on the loan per se.

8.2 Requirements/Procedure for Guarantee Coverage

8.2.1 The Lending Bank applying for guarantee coverage must submit within thirty (30) days from the date of loan release, two copies of the Request for Guarantee Coverage (RGC), Exhibit 3 *, together with the following, as the case may be:

- Guarantee fee payment (SGM);
- Certification on payment/deduction of service fee (GCFM).

The aforementioned requirements, shall be submitted directly either to Quedancor Head Office Cashier or to the nearest Quedancor District Office Cashier.

8.2.2 The date of acknowledgement by Quedancor Head Office/District Office on the copies of the RCG, shall be considered as the date of filing or submission.

8.3 Issuance of Guarantee Coverage

Issuance of Guarantee Coverage, duly signed by the authorized Quedancor representative, shall be issued upon submission by LB of the required documents pursuant to the procedures outlined in the preceding paragraphs and shall last until the maturity date of the loan which in no case be beyond Quedancor's recommended loan term.

8.4 Lending Bank's Option Against Borrowers

Whenever the loan is past due or in arrears for two (2) amortizations, Lending Bank has the option in lieu of filing a guarantee claim to foreclose the collateral or file a case against the borrower/co-makers. Within fifteen (15) days from date of such action taken, Lending Bank shall accordingly inform Quedancor in writing. Simultaneously, in case the account is under GCFM, LB shall credit Quedancor's SA for its share on the total outstanding principal inclusive of interest and other accrued charges.

8.5 Claim for Guarantee Payment

8.5.1 Lending Bank may claim for guarantee payment in the following cases after it has fully exhausted the remaining balance of the borrower's SA:

- a. When the loan account is in arrear; and

b. When the loan account is not settled upon maturity.

8.5.2 The following are documents required in filing a guarantee claim:

- a. Claim for Guarantee Payment - Exhibit 4 *;
- b. Affidavit of Non-Payment executed by the duly authorized Lending Bank officer - Exhibit 5 *;
- c. Statement of Account;
- d. Certified copy of the bank loan ledger updated as of filing of guarantee claim; and
- e. Copy of duly received demand letter issued by the bank.

8.6 Processing of Guarantee Claim

Claim for guarantee payment shall be submitted by Lending Bank to the QOO, who shall then verify its completeness. The District RAVP shall review the guarantee claim and forward it to AAD for processing and payment. An acknowledgment letter shall be sent by AAD to Lending Bank. If defects/deficiencies are discovered in the claim documents while being processed, Lending Bank shall accordingly be informed in writing to make immediate correction/completion.

Quedancor shall pay the Lending Bank within sixty (60) days after having submitted/completed all proper documents.

8.7 Subrogation of Rights

Lending Bank shall, on the same day of receipt of guarantee payment, surrender the original copy of the Certificate of Guarantee Coverage and provide Quedancor with a subrogation receipt (Exhibit 6 *) assigning and transferring to Quedancor the claim and demand against the defaulting borrower arising from or connected with the said borrower's loan obligation. Original copies of PN and documents listed in paragraph 7.4.1 shall now be required for submission.

8.8 Recoveries

Recoveries refer to any amount collected from the date a guarantee claim is filed by Lending Bank with Quedancor.

8.8.1 SGM

Any amount collected from the borrower shall be remitted to Quedancor.

8.8.2 GCFM

- a. All recoveries collected by LB from the borrower shall be covered by an OR and credited to Quedancor's SA with LB. The OR shall state that the amount is a recovery and whether the guarantee claim is already paid or still under process.
- b. Crediting of recoveries by LB to Quedancor's SA shall be made within one week from receipt thereof. Otherwise, LB shall pay a penalty equivalent to two (2) percent per month or fraction thereof, of the amount to Quedancor.
- c. Recoveries received by QOO shall be covered by a Quedancor PR and remitted directly to Quedancor Cashier or deposited to Quedancor's SA.
- d. If a borrower fully settles his loan obligation with LB while the claim is under process, LB shall accordingly inform Quedancor within forty eight(48) hours. In such case, processing shall be stopped and Quedancor's share shall be receipted and credited in accordance with the above 8.8.2a and 8.8.2b.

8.9 Grounds for Cancellation/Nullification of Guarantee Coverage

Any of the following shall be a ground for cancellation or nullification of guarantee coverage and/or non-payment of guarantee claim:

8.9.1 Collusion between and/or among the borrower, QOO and LB in the extension of credit such as but not limited to the following:

- a. When the borrower and the officer(s) and/or employee(s) of Quedancor/LB enter into an agreement for fraudulent purposes or whenever said parties conspire to defraud Quedancor; and
- b. When LB officer/employee acquiesces, consents, or agrees with anyone to the granting of loan to unqualified borrower.

8.9.2 When any LB officer/employee fails to apply in payment of the borrower's loan any amount authorized to be deducted from a deposit account and subsequently allows withdrawal by the borrower, without payment of the loan to the prejudice of Quedancor;

8.9.3 When LB makes false statement, misrepresentation, omission or concealment in the reports submitted and/or in the guarantee claim filed with Quedancor;

8.9.4 When LB releases a loan that is not favorably recommended, or exceeds the amount or term of loan recommended by the duly authorized Quedancor representative, or has incomplete or defective documentation and/or is not covered by the recommended collaterals; and documentation and/or is not covered by the recommended collaterals; and

8.9.5 When LB holds-out any portion of the borrower's loan.

Any aforementioned provisions shall not preclude Quedancor from cancellation or nullifying its guarantee coverage for violation of this Circular or for other causes involving fraud, bad faith or other machinations.

9. SPECIAL PROVISIONS

9.1 There shall be periodic consultation among the officers of Quedancor, SRA, LB and clients for the purpose of enhancing the effectiveness of the program.

9.2 The Quedancor reserves the right to promulgate such rules and regulations (including exemption thereto) and adopt other measures as may be incidental to, appropriate and necessary for the attainment of the objectives of the AGRIKULTURANG MakaMASA-SUGAR FARM MODERNIZATION.

10. EFFECTIVITY

This Circular shall take effect immediately.

Adopted: 29 Sept. 1999

(SGD.) GALO B. GARCHITORENA
President & CEO

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