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GRAINS PRODUCTION ENHANCEMENT PROGRAM – COOPERATIVE BANKS ASSISTANCE PROGRAM (CBAP) LENDING AND OPERATING GUIDELINES

DOA MEMORANDUM, June 22, 1993

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I

Introduction

The program is one of the financing strategies of the Department of Agriculture's Grain Productivity Enhancement Program (GPEP) which involves a partnership with Cooperative Banks (CoopBanks) in the delivery of credit to small farmers in GPEP priority areas.

The DA-ACPC Comprehensive Agricultural Loan Fund (CALF) to the tune of P100.0 million will be made available to supplement the existing resource base of CoopBanks for rice, rice seed and corn production, and grains marketing credit.

It is the intention of the program to encourage support and participation of CoopBanks in the GPEP, as well as bolster CoopBanks' operations given their limited capital funds.

The interest in CoopBanks as a credit delivery mechanism stems from the recognition that these intermediaries occupy a strategic segment of the rural finance system.

II

Program Description and Coverage

DA-ACPC will open a credit line to CoopBanks operating in identified GPEP areas to increase their loanable funds for rice, rice seeds and corn production and grains marketing. Although the amount shall be available for the entire duration of the GPEP (Crop Year 1993-1998), it is not intended to serve as the primary source of credit. Instead, the CoopBanks' resources for on-lending to small rice and corn farmers/farmers cooperatives targetted under the GPEP will be matched by CALF funds up to a maximum of seventy percent to be reduced gradually as the program progresses.

A capital formation and savings mobilization scheme shall be institutionalized to ensure that the CoopBanks can sustain their lending operations to rice and corn farmers even after the termination of the program.

The program shall be implemented in 24 GPEP priority provinces where CoopBanks operate as follows:

Region

Province (s)

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I

Pangasinan, Ilocos Norte

II

Isabela, Cagayan, Nueva Viscaya

III

Bulacan, Nueva Ecija, Pampanga, Tarlac,

IV

Laguna, Quezon, Batangas

V

Albay

VI

Iloilo, Aklan, Negros Occidental

VII

Bohol

VIII

Leyte

X

Bukidnon

XI

Davao Norte, Davao Sur, South Cotabato, Surigao Sur

XII

North Cotabato

These priority provinces may be revised during the implementation of the program subject to changes in the DA's Grains Production Enhancement Program.

III
Guidelines Governing Lending to CoopBanks
3.1 Eligibility Criteria for Participating CoopBanks -

3.1.1 Must be a CoopBank operating/currently servicing GPEP target provinces;

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3.1.2 Must be accredited under the rediscounting programs of the Land Bank of the Philippines and/or the Central Bank;

3.1.3 Must have no arrearages under existing CALF program(s) and/or other terminated programs consolidated under the CALF. CoopBanks with arrearages who wish to participate in the program must prepare a plan of payment acceptable to the DA/ACPC.

3.1.4 Must have a liquidity ratio of 1:1 based on the following formula:

Current Asset (i.e. Cash and Due from Banks + Current Loans Receivables net of allowance for Bad Debts + Recoverable Past Due + Investment in Government Securities)/Current Liabilities (i.e. Reserve Deposits + Current STDs + Rediscounting and Bills Payable); and

CoopBanks with a liquidity ratio of not less than or equal to 0.8:1 who intend to participate must put up a hold-out deposit and/or other requirements as may be determined by the DA-ACPC.

3.1.5 Must not exhibit serious internal management problem.

3.2 Credit Line Purpose — The credit line availed by the CoopBanks under the program shall be exclusively used for credit to small rice and corn farmers/cooperatives in the GPEP target areas covering the following activities:

3.2.1 Rice seed production provided that such seeds shall be used for the GPEP;

3.2.2 Rice and corn production; and

3.2.3 Rice and corn marketing.

3.3 Credit and Drawdown Limits — The annual credit line for each participating CoopBank shall be up to a maximum of P10.0 million. The credit line ceiling shall be equivalent to 25 percent of deposit liabilities plus capital balance/networth of the quarter immediately preceding the request.

The drawdown limit shall be equal to 1.5 times Y times the operating capital of the CoopBanks for the quarter preceding the request, provided that the drawdown does not exceed the total production and marketing funding requirement for the area/cropping season(s) to be covered.

Provided, further, that the total drawdown does not exceed the credit line limit at any given time.

In computing for the drawdown limit, Y is the percentage of rice and corn loans over the total loan portfolio of the CoopBanks. For new CoopBanks, the "Y" will be negotiated with the DA-ACPC.

3.4 Fund Sharing —The financial assistance for production loans will match the CoopBank's resources in the following ratios as shown below:

Fund Sharing (%)

Year

CoopBanks

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DA/ACPC

1

30

70

2

40

60

3

50

50

4

50

50

5

50

50

For marketing loans, the fund sharing is 50:50.

3.5 Interest Rate — The credit line to CoopBanks shall carry an interest rate equivalent to Manila Reference Rate less six percent (MRR-6%) for loans granted to cooperatives, and MRR less four percent (MRR-4%) for loans to individuals.

The DA-ACPC shall, on a quarterly basis, inform the participating banks of the weighted average MRR and interest rates.

3.6 Maturity and Mode of Payment — The maturity of the credit line drawdowns shall be a maximum of one year after the release of the drawdown.

The CoopBanks shall remit its payment to include the principal and interest on its loan availments/drawdowns to the ACPC for the account of CALF.

3.7 Credit Risks — The CoopBanks shall assume full credit risk on the loans (drawdowns) availed under the Program. Repayment of all drawdowns shall be independent of the CoopBank's collection efficiency and/or repayment performance of the end-borrowers.

It shall be the principal obligation of the CoopBank to collect from the borrowers. However, the DA/ACPC shall have the option to collect directly from the borrowers when it deems necessary.

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3.8. Security Requirements — The DA/ACPC will demand the following security requirements:

3.8.1 For rice seed production loans, a marketing contract with the DA Regional Office; and

3.8.2 For rice and corn production loans, a crop insurance/mutual guarantee coverage or other acceptable substitute collaterals; and

3.8.3 For working capital loans in support to rice and corn marketing, a Quedan receipt (warehouse receipt); OR

3.8.4 Any other form of collateral acceptable to both the DA/ACPC and the CoopBank.

3.8.5 In the absence of these security requirements, a Joint and Several Signatures of Officers shall serve as substitute.

3.8.6 In the event that DA/ACPC exercises its option to collect directly from the borrowers, the CoopBank shall execute a Deed of Subrogation in favor of the DA/ACPC.

3.9 Capital Formation and Deposits Mobilization — The CoopBank will be required to raise its capital and/or deposit base annually by at least twenty percent of the amount of drawdowns from the program.

3.10 Access to CoopBank Records — Participating CoopBanks shall provide the DA-ACPC through its authorized representative(s) access to records, books of account and documents pertaining to the program.

3.11 Renewal, Reduction, Suspension, or Termination of Credit Line Availments —

3.11.1 The DA-ACPC shall review the performance of participating banks on an annual basis. For renewals of credit line, the participating banks must satisfy the following minimum criteria:

a)

Pass the eligibility criteria cited in 3:1;

b)

Generate the required deposit/capital tar-gets set in 3.9; and

c)

Obtain a satisfactory repayment of loans to DA-ACPC and of its sub-loans.

3.11.2 The DA-ACPC holds the option to reduce, suspend or terminate credit line and drawdown availments or institute corrective measures in case of, but not limited to, misappropriation of the drawdowns and non-compliance with stipulations in the agreements executed and when the results of ACPC monitoring and evaluation warrant such action(s).

3.12 Penalties and Sanctions —

3.12.1 A CoopBank shall be declared as delinquent if it fails to pay its outstanding obligation at maturity inclusive of a 30-day grace period. A delinquent CoopBank shall be charged a penalty fee of 2% per month of its matured outstanding obligation.

In case of delinquencies, the DA/ACPC has the option to suspend or terminate succeeding drawdown privileges.

3.12.2 The DA/ACPC shall declare a CoopBank in default in cases of, but not limited to:

- Failure to pay two drawdowns within six (6) months from their maturities;

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- Diversion of the drawdown proceeds from the stated purpose;

- Insolvency, bankruptcy or closure or suspension of the CoopBank either by decision of its Board of Directors or by any government instrumentality;

- Violation of the terms and conditions in the Memorandum of Agreement and Loan Agreements entered into; and,

- Any misrepresentations made which proves to be false and misleading in any material respect.

3.12.3 In cases of default, the DA/ACPC shall demand full payment of all outstanding loan obligations of the CoopBank.

IV
Guidelines Governing On-Lending to End-Borrowers
The following are minimum guidelines governing on-lending to borrowers which shall be subject for review annually:

4.1 Eligible End-Borrowers — The credit line availed by the Coop Banks shall be used for on-lending to small farmers/farmer cooperatives* engaged in rice and/or corn production included in the masterlist of GPEP borrowers prepared by the DA. End-borrowers must be willing to adopt the technology prescribed by the GPEP. aDSHIC

4.2 Loan Ceiling — The production loan ceiling per hectare shall be pegged at P8,000. The working capital loans for rice and corn marketing must not exceed the coop-borrowers equity.

4.3 Interest Rate — The pass-on rates of CoopBanks shall be pegged at MRR for loans to cooperative borrowers and MRR + 3% for loans granted to individual borrowers.

4.4 Maturity and Payment of Loan — Coopbanks shall set the maturity period and the mode of payment of loan to borrowers provided that such terms do not exceed one year.

V
Procedures and Requirements
5.1. Credit Line Approval Procedures and Requirements -

5.1.1 The following documents shall be submitted by the CoopBanks applying for credit line to the DA/ACPC:

—

Duly approved Articles of Incorporation;

—

A Board Resolution indicating the CoopBank's authorized representative; the amount of credit line applied for; and its intent to enter into a Memorandum of Agreement with the DA/ACPC which will govern its participation in the GPEP-CoopBanks Financing Program. A pro-forma Board Resolution is attached as Form 1;* and

—

The CoopBank's Financial Reports for the last three years and the quarter preceding the date of application for the credit line.

5.1.2 The DA/ACPC shall, within a reasonable period upon receipt of complete documents from the applicant, advise the CoopBank regarding the approval of its application and the corresponding credit line approved.

5.1.3 Upon approval, the CoopBank shall execute a Memorandum of Agreement with the DA/ACPC.

5.2 Drawdown Procedure -

5.2.1 The CoopBank shall submit to the DA/ACPC the list of approved loans of farmers/farmer cooperatives duly certified by the DA Authorized Officer as bonafide GPEP clients Form (3)*;

5.2.2 The DA/ACPC shall evaluate the CoopBank's drawdown limit;

5.2.3 The DA/ACPC and the CoopBank shall execute the necessary loan agreement, promissory note and all other legal documents, and the former shall release the approved drawdown amount to the latter.

Drawdowns less than or equal to TWO MILLION PESOS (P2,000,000.00) shall be approved by the Executive Director/Officer-In-Charge of the ACPC; and above TWO MILLION PESOS (P2,000,000.00) by the DA Secretary.

5.2.4 The CoopBank shall release the proceeds of the drawdown inclusive of its counterpart fund to qualified borrowers per approved loan applications within 15 days from receipt thereof, and submit to DA/ACPC a report on the releases made within 15 days from date of release; and

5.2.5 For succeeding drawdowns, procedures 5.2.1 to 5.2.4 shall be followed.

VI
Program Monitoring
The CoopBank shall, in the prescribed form (Form 4) and on a quarterly basis, report to the DA/ACPC or its authorized agent the status of its GPEP lending operations.

This guidelines shall take effect immediately upon approval hereof.

Adopted: 22 June 1993

(Sgd.) ROBERTO S. SEBASTIAN
DA Secretary

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* Small farmers as defined in RA 7607 refer to natural persons dependent on small-scale subsistence farming as their primary source of income and whose sale, barter or exchange of agricultural products do not exceed a gross value of ONE HUNDRED THOUSAND PESOS (180,000.00). Farmers organizations, on the other hand, refer to farmers cooperatives, associations and corporations duly registered with appropriate government agencies and which are composed primarily of small agricultural producers, farmers, farmworkers, and other agrarian reform beneficiaries who voluntarily join together to form business enterprises which they themselves own control and patronize.

* Text available upon request at the Office of the National Administrative Register (ONAR), U.P. Law Center, Diliman, Quezon City.

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