

PROVIDING FOR THE INCREASE IN CAPITALIZATION OF RURAL BANKS

PRESIDENTIAL DECREE NO. 447, May 07, 1974

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WHEREAS, the rural banking system is an effective instrument that can be employed in the implementation of the agrarian reform program envisioned in Presidential Decree No. 27;

WHEREAS, mobilization of funds from both the government and private sectors for agricultural credit through the rural banking system will speed up the attainment of widespread increased agricultural and industrial production and commercial activities in the countryside or rural areas;

WHEREAS, existing capital inadequacy in the rural banking system impairs its active involvement in the current effort of the government to accelerate the implementation of the objectives outlined in the preceding paragraphs;

WHEREAS, outstanding rediscounting obligations of the rural banks with the Central Bank of the Philippines can be utilized as additional capitalization of rural banks through conversion thereof into government counterpart investments in such rural banks under terms and conditions as may be prescribed by the Central Bank of the Philippines.

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby decree and order that:

SECTION 1. In order to strengthen the capital base of rural banks and expand their capacity to meet the credit needs of their respective areas in the countryside, especially those covered by the agrarian reform program, their present government and private capitalizations shall be increased to such amounts, in such proportion, and within such periods as the Central Bank of the Philippines shall determine.

SEC. 2. Subject to such terms and conditions as it may prescribe, the Central Bank of the Philippines, the provisions of any existing law to the contrary notwithstanding, is authorized to convert the rediscounting obligations of rural banks into equity in the name of the Land Bank of the Philippines, and the Secretary of Finance shall correspondingly issue government bonds in favor of the Central Bank of the Philippines. In consideration of the equity acquired by it, the Land Bank shall issue its own shares of stock in favor of the Republic of the Philippines.

SEC. 3. Whenever the outstanding rediscounting obligations of a rural bank, when converted into government equity, are insufficient to meet the required capitalization as determined in Section 1 hereof, the Government shall directly subscribe to the balance thereof, such investment to be paid by government bonds to be issued by the Secretary of Finance to the rural bank concerned, which bonds may be pledged, sold or otherwise disposed of by the rural bank in accordance with rules and regulations that the Monetary Board shall prescribe. In case a rural bank has no outstanding rediscounting obligations with the Central Bank, the Secretary of Finance shall likewise issue the necessary amount of government bonds in favor of the rural bank to raise the Government equity to the desired level: Provided, however, That the total sum of such, direct investment of the Government and the rediscounting obligations converted into equity shall not exceed the aggregate rediscounting obligations of rural

banks with the Central Bank of the Philippines outstanding as of June 30, 1974.

SEC. 4. All preferred shares that rural banks may issue in favor of the Land Bank under Section 2 and Section 3 of this Decree shall share hi dividend distribution at three per cent (3%), without preference. By virtue of its holdings of preferred shares, the Land Bank shall be entitled to nominate one director in any rural bank where preferred shares are held by it.

SEC. 5. Government bonds that may be issued in consideration of Government preferred shares in rural banks shall bear interest at three per cent (3%) per annum. Such bonds as the Secretary of Finance may issue directly to rural banks for said purpose shall be given Central Bank support and shall be eligible as part of the required reserves against deposit liabilities of the original rural bank holders of the bonds.

SEC. 6. The Central Bank of the Philippines is authorized to require rural banks to match government equity with private equity. The provisions of R.A. 720 to the contrary notwithstanding, the Central Bank of the Philippines may open for the establishment of a new rural bank the area served by an existing rural bank in any of the following events:

- Upon failure of a rural bank to submit a viable capitalization program to raise its private sector capital to the level of government equity;
- Upon failure of the rural bank, after submission and approval of a viable capitalization program, to comply with the terms and conditions of the program.

The Central Bank may take such other action or actions necessary to cause the sale of the unissued shares of stock of the rural bank to the public or to other parties acceptable to it.

SEC. 7. The Monetary Board of the Central Bank shall promulgate rules and regulations necessary for the effective implementation of this Decree.

SEC. 8. This Decree shall take effect immediately.

Done in the City of Manila, this 7th day of May, in the year of Our Lord, nineteen hundred and seventy four.

(Sgd.) FERDINAND E. MARCOS

President of the Philippines

By the President:

(Sgd.) ALEJANDRO MELCHOR

Executive Secretary

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