



Joint LBP-DAR Memorandum Circular No. 06
Series of 2015

**Implementing Guidelines on Credit Assistance
Program - Program Beneficiaries Development
(CAP-PBD) Window III**

A. RATIONALE

Republic Act No. 6657 instituted the Comprehensive Agrarian Reform Program (CARP) to promote social justice and industrialization through land tenure improvement and the provision of appropriate program interventions in support of the development and productivity of lands awarded to agrarian reform beneficiaries (ARBs). In line with this, LANDBANK, as the CARP's financing arm, is tasked to provide affordable credit to ARBs and their organizations.

Due to the rising number of ARBs with un-served credit needs, CAP-PBD was conceptualized in 1996. It has two credit windows for two types of clients. Window I was intended to fund the production of traditional crops and Window II finances rubber replanting activities in Region IX. In 2006, the Window I was extended for another 10 years under the name of Window III. The expanded program shall continue to be an alternative credit window for ARB Organizations in both ARC and non-ARC areas.

B. OBJECTIVES

- 1) Make credit available for agri-based livelihood/enterprises or other projects of non-bank eligible ARB co-ops and Farmers Associations (FAs).
- 2) Provide ARB co-ops and FAs with enterprise and institutional development assistance.
- 3) Develop and implement capacity development intervention to program implementers.

C. COVERAGE

The CAP-PBD shall cover the provision of credit and technical assistance to all ARBs nationwide through their ARB Organizations.

D. GENERAL GUIDELINES

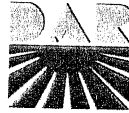
1. The CAP-PBD Window III is a transitory credit window and will use a graduated scheme in providing credit. All accounts shall graduate from the program to the regular lending window after the maximum transition period of five years reckoned from date of first release of loan subject to the following:
 - a) All existing borrowers for more than two (2) years shall undergo the Enhanced Co-op Accreditation Criteria (ECAC)/Co-op Categorization Scoring Matrix (CCSM).



- b) All new borrowers and existing borrowers for less than two (2) years, they shall be subject to the ECAC/CCSM after two (2) years.
- c) Those that will pass the ECAC/CCSM shall graduate outright from the program, otherwise, they can continuously avail of loans within the remaining year/s of the transition period.

The ECAC/CCSM shall be jointly undertaken by DAR-LBP LC Personnel subject to the following:

- a) Approval of a specific work plan and budget to be charged against the CAP-PBD Fund and CAP-PBD Support Fund;
 - b) Provision of training on how to conduct the ECAC/CCSM for DAR Personnel; and
 - c) The LC Personnel shall handle the financial aspect of the ECAC/CCSM.
2. The CAP-PBD Window III shall continue to assist existing rubber plantation cooperatives and Window I client-organizations.
 3. The debt-to-equity ratio shall be waived.
 4. All accounts that have been past due for the past three (3) years shall be automatically turned over to DAR with Deeds of Assignment, Promissory Note and Chattel Mortgage. In the case of restructured loans, the prescribed period of three (3) years shall commence from date when the loan turned past due after restructuring. Any collections made by the borrower prior to such turn over shall remain in the CAP-PBD Fund. All expenses related to the foreclosure of mortgaged assets and administration of foreclosed assets shall be charged against the CAP-PBD Fund.
 5. Loan restructuring may be done even before the loan becomes past due. The following are considerations for restructuring or restructuring with refinancing of accounts:
 - a) Admission by the cooperative/association that it can no longer comply with amortization schedule due to business reverses and unfavourable events beyond its control, which will greatly impair cash flow and/or liquidity of the project. These events include natural calamities, fire, labor and management problems.
 - b) The borrower still has the capacity and willingness to pay its loan obligations.
 - c) No increase of approved loan ceiling.
 - d) A written repayment plan shall be submitted to ensure capability to meet the loan amortization under a new repayment term.



- e) Loan restructuring with refinancing shall be allowed for new availers under CAP-PBD Window III. For existing CAP-PBD Window I availers with past due accounts, only restructuring shall be allowed (without refinancing).
6. Foreclosure of fixed assets shall be made after specific remedial measures have been undertaken by DAR and LANDBANK. All incidental expenses incurred in the foreclosure proceedings shall be charged to the CAP-PBD Program Management Fund. Approval of foreclosure and setting up of minimum bid price is lodged with the LPMC. Disposal of acquired assets shall be deliberated and approved by the National Technical Review Committee (NTRC) and Executive Committee (EXECOM).
7. Dacion en Pago or payment in kind may be accepted to pay off the borrower's obligations by conveyance of ownership of its property/ies under the following circumstances:
 - a) The borrower's enterprise/business is no longer viable and the only way out is through dacion of a property, whether or not mortgaged with LANDBANK.
 - b) The dacion would help make the borrower's enterprise/business more viable by way of reducing debt-service burden.
8. A rebate of 3% per annum shall be granted as incentive to borrowers who have fully settled their loans on or before the due date.
9. An administrative fee of 2% based on average loan balance (ALB) shall be charged by LANDBANK computed as: $ALB = \text{Sum of quarterly outstanding balances (end of calendar quarter)} / 4$. The administrative fee shall cover all loans under Windows I, II and III until the loan account/s is/are turned over to DAR.

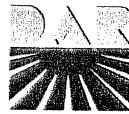
E. GENERAL PROCEDURES

1. Upon receipt of complete documentary requirements, the LBP Lending Center shall request fund allocation from LBP PMD I.
2. PMD I shall allocate funds and send notice of allocation or non-allocation due to insufficient funds to the LBP LC, cc: DAR-BARBD.
3. If fund is not available, PMD I and LBP LC shall inform DAR-BARBD and PPMC, respectively.

F. LENDING POLICIES

1. Eligible Borrowers

- a) ARB Cooperatives
- b) Farmers Associations with ARB members



2. Eligibility Criteria

- a) With juridical personality (duly registered with CDA or SEC)
- b) Must be operational for at least one (1) year
- c) With Core Management Team
- d) Must have an accounting and internal control system
- e) Must pass the following risk asset acceptance criteria:
 - 1) Minimum paid-up capital of P15,000
 - 2) No existing past due account with any government or private lending institution
 - 3) Past due ratio of not more than 25% of the consolidated loan

3. Eligible Projects

- a) Agricultural crop/livestock/aquaculture production
- b) Purchase of farm tools, machines, processing equipment, and construction cost of mini-processing facilities (30-40 square meters) needed in the operation of the enterprise
- c) Working capital for livelihood/enterprise, including operating costs such as crop insurance and other start-up costs

4. Loanable Amount

Up to 80% of project cost not to exceed P 5 Million.

5. Loan Purpose and Tenor

a) For Agricultural Production Loans

The loan shall be good for a maximum of four production cycles (depending on the type of crop) up to maximum of two years. However, the credit line shall be renewed annually.

b) For Fixed Asset Loans

Term of loan shall not exceed five (5) years. However, for second hand units, the term of loan shall be based on the estimated useful life but shall not exceed three years.



c) Working Capital

- 1) Revolving Working Capital – the loan shall be good for a maximum of four cycles or up to a maximum of two (2) years. However, the credit line shall be renewed annually.
- 2) Permanent Working Capital-the loan shall have a fixed term of up to a maximum of two years, depending on the remaining useful life of the equipment of the enterprise or business.

6. INTEREST RATE

- a) For Short Term Loans – 8.5% p.a.
- b) For Term Loans – 9.5% p.a.

7. PENALTY

A penalty of 3% per annum for non-payment of loans shall be imposed starting from the 61st day of the date of default up to the full settlement of the loan.

8. MODE OF PAYMENT

- a) **Principal** - payable monthly, quarterly, or semi-annually based on cash flow reckoned from the date of initial booking/drawdown of the loan. Grace period on principal will be based on the project cycle/cash flow but not to exceed one year.
- b) **Interest** - shall be paid simultaneous with principal amortization if no grace period is provided on principal. If grace period is provided, interest shall be paid quarterly or semi-annually, reckoned from the date of booking.

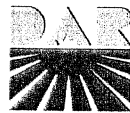
Loans with balloon payments must be at least 70% amortized before the last amortization period.

9. INSURANCE

PCIC insurance shall be mandatory for rice and corn production. For fixed assets, insurance shall be coursed through the Land Bank Insurance Brokerage, Inc. Production loans not covered by PCIC will be required to come up with a Cooperative Mutual Guarantee Fund, if applicable.

10. COLLATERAL

- a) Any or combination of the following:
 - 1) Real Estate Mortgage
 - 2) Chattel Mortgage on Object of Financing
 - 3) Deed of assignment of PNs plus underlying collaterals



- 4) Deed of Assignment of inventory, receivables and proceeds of market contracts

11. BASIC DOCUMENTARY REQUIREMENTS

- a. Endorsement by DAR of eligible conduits
- b. Certification from the ARB Coop/FA that its members have no outstanding loan from any financing institutions for the same project being applied for.
- c. Photocopy of Registration Certificate and Articles of Cooperation/Incorporation and Constitution/By-laws
- d. Audited Financial Statements for the preceding year, if applicable, and interim financial statements for the current year.
- e. Copy of marketing contract between the conduit and market provider
- f. Notarized General Assembly Resolution authorizing the BOD to borrow (specify the amount)
- g. Notarized BOD Resolution applying for loan and designating authorized signatories
- h. List of members with their corresponding address, work area, farm location and paid-up share capital duly certified by its Secretary and attested by Chairperson
- i. Certified list of Board of Directors and Officers with their corresponding bio-data
- j. Farm plan and budget (if applicable)
- k. Business Plan (if applicable)
- l. Photocopy of manual of accounting and internal control systems

G. IMPLEMENTATION STRUCTURE

1. National Program Management Committee (NPMC)
2. Executive Committee (EXECOM)
3. National Technical Review Committee (NTRC)
4. National Program Secretariat (NPS)
5. The PPMC and RPMC shall be consolidated and renamed as Local Program Management Committee (LPMC) and shall be composed of the following:

Chairperson:

- Regional Director, DAR



Vice Chairperson :

- LC Head, LBP

Members:

- PARPO II*, DAR
- PBDD, BDCD, DAR
- PCAO*, DAR
- Regional CAPPBD Point Person, DAR
- PARCCOM Chair
- AO, LBP

H. EFFECTIVITY

All orders/issuances inconsistent herewith are deemed superseded or amended. This circular shall take effect upon approval.

By:

DEPARTMENT OF AGRARIAN REFORM

[Signature]
VIRGILIO R. DELOS REYES
Secretary

SEP 18 2015

Date

LAND BANK OF THE PHILIPPINES

[Signature]
GILDA E. PICO
President and CEO

02 SEP 2015

Date

Department of Agrarian Reform
Office of the Secretary



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