



Republic of the Philippines  
**DEPARTMENT of AGRARIAN REFORM**

15 March 1995

DAR MEMORANDUM CIRCULAR NO. 03  
Series of 1995

TO : ALL REGIONAL DIRECTORS

SUBJECT : CARP Credit Guarantee Fund for Agricultural Landowners

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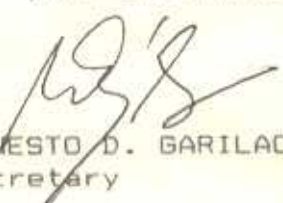
In line with the implementation of the CARP-Credit Guarantee Fund for Agricultural Landowners (CARP-CGFAL) which provides guarantee for loans whose collateral on lands covered by the Comprehensive Agrarian Reform Program (CARP) but are yet scheduled for distribution, we are sending you the following documents:

- a. Revised Rules and Regulations;
- b. CARP-CGFAL Primer;
- c. Process Flow on CARP-CGFAL Loan and Guarantee;
- d. CARP-CGFAL MARO Certification; and
- e. Memorandum Circular dated March 1995 citing further revision on the Revised Rules and Regulations on CARP-CGFAL.

Please note that the revised rules and regulations contain items which include livestock and aquaculture projects. However, these have been subject to further revision considering that livestock and aquaculture have already been exempted from CARP coverage per Supreme Court ruling and per R.A. No. 7881, respectively (please refer to attached Memorandum Circular).

You are expected to assume responsibility for the dissemination of the aforementioned documents to your respective Provincial Agrarian Reform Officers (PAROs) and Municipal Agrarian Reform Officers (MAROs). Should there be any inquiries regarding the CARP-CGFAL, please refer these to Land Bank Branch Office nearest you. The Land Bank is a participating bank in the CARP-CGFAL and the Development Bank of the Philippines (DBP) may soon follow.

For your information and compliance.

  
ERNESTO D. GARILAO  
Secretary

*Records*

DAR-GFSME CARP CREDIT GUARANTY FUND  
FOR AGRICULTURAL LANDOWNERS (CARP-CGFAL)  
REVISED RULES AND REGULATIONS

The Department of Agrarian Reform through the facilities of the Guarantee Fund for Small and Medium Enterprises (GFSME) shall guarantee loans of agricultural landowners whose properties are covered by the Comprehensive Agrarian Reform Program (CARP) but are not yet scheduled for distribution. This guarantee program, therefore, aims to intervene temporarily in the credit markets to ensure credit flows to the affected agricultural landowners.

For the purpose of CARP-CGFAL, the qualified CARPable land is/are:

In terms of hectarage:

- a. Above five (5) hectares but not more than twenty-four (24) hectares; Or,
- b. Twenty-four (24) hectares and above but being used for cattle raising, orchard growing, and aquaculture projects; Or,
- c. Other than a) or b) but satisfying the requirements in terms of status and certified by the DAR as acceptable.

In terms of status vis-a-vis DAR/CARP:

- d. Land not being offered under VOS; and
- e. No CARP Notice of Coverage has been issued on such land.

Only landowners of qualified CARPable land are eligible to borrow under the CARP-CGFAL Program.

1. Categories of Landowners

For eligibility under the DAR-GFSME CARP-CGFAL, the following landowner beneficiaries shall be categorized:

- A. Landowners who intend to borrow against the total property and will use the entire proceeds of the loan on the entire property.
- B. Landowners who intend to borrow against the entire property but will utilize an area within the property which he is authorized to retain under the CARP Law.
- C. Landowners who intend to borrow against the total property but will instead use the proceeds of the loan outside the property.

2. Loan Purpose

A. For Landowner A:

- o Temporary working capital (production loans / credit lines)

B. For Landowners B and C:

- o Temporary working capital (production loans/credit lines);
- o Permanent working capital;
- o Building improvement/expansion or construction of plant facilities;
- o Acquisition of land as project site is limited to not more than fifty percent (50%) of the approved loan amount. ALLOWED FOR LANDOWNERS OF CATEGORY C ONLY.
- o Term Loan or Financial lease/lease purchase of a single or variety of machineries, equipment and facilities. Provided that all capital assets for direct use in the business by agri-based and manufacturing projects under either a financial lease or lease purchase scheme shall have wide utility value.

3. Investment Area

- o Agriculture and Aquamarine  
Production  
Processing  
Post-Harvest Facilities  
Storage Facilities  
Distribution and Marketing provided they are  
integrated with production or processing  
activities
- o Agroforestry  
Production
- o Manufacturing



The GFSME seeks to encourage enterprises which are labor-intensive, export-oriented or import-substituting, increase government revenues, or have other socio-economic impact. The GFSME shall also actively assist enterprises which make maximum use of local raw materials as well as those which utilize new technologies with strong commercial potentials.

4. Investment Viability

The project must have a projected internal rate of return on investment of at least twenty percent (20%) per annum.

5. Amount of Loan

The amount of loan shall range from a minimum of FIFTY THOUSAND PESOS (P50,000.00) to a maximum of FIVE MILLION PESOS (P5,000,000.00). Provided, that if the loan is for production purposes the loan amount shall follow the crop loan ceiling established by the Department of Agriculture.

Provided further, that for landowners classified under Category C of Sec. 1 above, the loan limit shall be no more than THREE MILLION PESOS (P3,000,000.00). Furthermore, manufacturing projects shall have a loan limit of THREE MILLION PESOS (P 3,000,000.00).

6. Maturity of Loan/Lease

- o Temporary working capital - Max. of one (1) year.
- o Permanent working capital - Max. of five (5) years inclusive of one (1) year grace period on principal payments.
- o Acquisition of assets - Max. of five (5) years inclusive of one (1) year grace period on principal payments.
- o Financial Lease/Lease Purchase - maturity shall not exceed 70% of the economic useful life of an asset which would in no case exceed five (5) years.

7. Interest Rate Cap

The effective interest rate charged on the loan approved for guarantee under this program shall be set by the lending institutions subject, however, to an interest rate cap of twenty-eight percent (28%) per annum inclusive of all fees and charges. The interest rate cap shall be subject to review on a quarterly basis by the CARP-CGFAL Executive Committee.

8. Guarantee Ceiling

Except for loans granted to landowners under Category C, all loans may be guaranteed up to 85% of the outstanding loan amount which includes principal plus interest defined as follows: a) up to one (1) repayment period for quarterly or semi-annually amortized term loans; b) up to three (3) months for monthly amortized loans; c) interest upon maturity of availments for credit line or temporary working capital. Loans granted to landowners under Category C shall be covered up to 50% guarantee only.

9. Fees

- o Guarantee Fee - One and four-fifths percent (1.8%) per annum of the guaranteed portion of outstanding loan amount based on the diminishing balance thereof and paid one (1) repayment period in advance.
- o Documentary stamps, notarial fees, mortgage registration fees and transfer, capital gains and other taxes, if any.
- o Other charges of the lending institution but not to exceed 0.75% per annum of the outstanding loan amount (interest, penalties, and other charges excluded), based on the diminishing balance thereof and amortized during the term of the loan.

10. Loan-To-Equity Ratio

The borrower's equity shall not be less than twenty percent (20%) of the total project cost and said equity may be in the form of imputed labor cost, cash or fixed assets.

11. Collateral

All originated loans shall be fully secured. The primary collateral is the CARPable land. After appraisal of the CARPable land, the loan value of this collateral exclusive of the retention area must represent at least 60% of the total loan amount. Provided, however, that the BORROWER can opt to include the retention area in the 60% computation by providing the LENDER a waiver of his retention right or an undertaking that he is not exercising his retention right.

For purposes of valuation, the CARP land valuation procedures and formula used by the Land Bank of the Philippines (LBP) shall be adopted. The LBP will conduct seminars for the collateral appraisers of participating lending institutions.

In all cases, the project site shall be a required collateral of the loan. In addition, the collateral shall consist of assets, whether liquid or fixed, existing or to be acquired from the proceeds of the loan, or other assets acceptable to the lending institution.

Finally, the loan shall be secured by the joint and several guarantee of the partner members or principal stockholders of the borrower.

12. Manner of Payment

The loan shall be paid in equal monthly/quarterly/semi-annual amortizations which include payment of interest and other fees during the grace period and principal, interest and other fees after the grace period.

13. Provision for Substitution

In the event the land which is offered as collateral is finally subjected to acquisition by the Department of Agrarian Reform (DAR) within the term of the loan, the lending institution may call to substitute the DAR acquired collateral with its land value proceeds issued by the Land Bank of the Philippines.



Substitution may be resorted to when the following situations are prevailing:

1. The proceeds of the CARPable land and/or the mortgaged land has been deposited in trust by the Land Bank of the Philippines in the name of the BORROWER; and/or
2. The title covering the CARPable land and/or the mortgaged land has been transferred in the name of the Republic of the Philippines.

In case the collateral CARPable land is acquired under CARP, the BORROWER shall assign to the LENDER the right to collect the proceeds of the acquired land from the Land Bank of the Philippines (LBP). In turn the LENDER shall release the mortgage on the CARPable land which shall be turned over to the LBP.

#### 14. Insurance

The borrower shall insure the project assets offered as collateral against loss and destruction or damage caused by fire or other calamities during the term of the loan to the extent at least of the loan value. The assets used as collateral must be insured with reputable insurance companies acceptable to the accredited lending institution and DAR-GFSME CARP-CGFAL in the absence of an organized fire insurance pool. The borrower shall be responsible for the payment of the insurance premium.

The borrower or owner, Managing Partner, the Chief Executive/Operating Officer or the principal stockholder of the corporate borrower shall also be covered by a credit life insurance for an amount not less than the outstanding value of the loan: Provided that in case the loan is secured by real estate mortgage, the requirements for credit life insurance may be waived up to the extent of the loan value of the real estate collaterals.

#### 15. Event of Default

For term loans, there is a default in case the borrower fails to pay three (3) consecutive monthly amortizations or one (1) quarterly/semi-annual amortization, including all applicable fees. In the event of default, the loan shall immediately become due and demandable.

For credit lines, a Promissory Note shall be considered as a defaulted PN if the principal amount as well as interest thereon are not fully paid by the borrower on the maturity date thereof. All defaulted PNs in existence as such after the maturity date of the last PN drawn/issued during the term of the line shall be entitled to the guarantee cover of GFSME as provided herein.

In cases where the lending institution is unable to collect the loan obligations and it makes a claim on the guaranty fund, the land used as collateral for the loan shall immediately be assigned to the DAR for distribution to farmer beneficiaries who will amortize these lands with LBP. (This should be expressly reflected in the Loan Agreement).

16. Penalty Charges

- o In case of failure to pay any amortization when due, the borrower shall pay a penalty of two percent (2%) of said unpaid amortization per month or any fraction thereof, computed from the date payment became due.
- o Upon the occurrence of default, however, as provided for in the preceding item, the borrower shall be liable to pay an amount equivalent to twenty percent (20%) of the amount claimed in the complaint or One Thousand Pesos (P1,000), whichever is higher, as and for attorney's fees and cost of suit.

17. Loan Requirements

The borrower shall submit to the lending institution the following minimum requirements:

- a. MARO Certification on the CARPable land;
- b. Loan application form;
- c. Project plan which shall include the following:
  - 1. Proposed Investment Outlay
  - 2. Project Data
  - 3. Feasibility Study
- d. Pro-forma invoice/bill of materials and specifications, project loans and contracts;



- e. Titles, tax declaration, location plan, current tax receipt covering the collateral offered;
- f. Bio-data of borrower;
- g. Certificate of Registration with the Bureau of Domestic Trade and other authorities; and
- h. Latest audited financial statements - balance sheet, income statement, cash flow statement, including supplementary statements and schedules, and income tax returns.

For non-individual borrowers, the following additional documents are required:

- a. Bio-data of officers;
- b. Charter/Articles of Incorporation/Articles of Partnership together with all amendments thereto, and Certificate of Registration with the Securities and Exchange Commission (SEC) and other authorities; and
- c. Board Resolutions on the loan request and authorized signatories.

18. Accounting System

A uniform accounting system as may be prescribed by the CARP-CGFAL in accordance with Bangko Sentral ng Pilipinas (BSP) rules will be followed by all lending institutions or borrowers.

19. Other Provisions

- o The borrower's book of accounts shall be open for periodic review by the lending institution and the CARP-CGFAL Executive Committee.
- o The borrower shall open a deposit account with the lending institution, if applicable, for the depository of all proceeds of sales, assets, etc. and disbursements thereof of the borrower with no compensating balance requirements.

20. Amendments/Revisions

The CARP-CGFAL Executive Committee sitting en banc may revise, modify and/or amend any of these rules and regulations.

## PROCESS FLOW ON CARP-CGFAL LOAN & GUARANTEE

- BORROWER 1. Borrower, who is a landowner of property covered by CARP, gets a Certification from Municipal Agrarian Reform Officer (MARO) which has jurisdiction over the CARPable land of the borrower/landowner.
- MARO 2. MARO verifies in his records the property stated by the borrower/landowner. If the property is within the MARO's jurisdiction, MARO will issue the certification only when the land is qualified as CARPable land under the CARP-CGFAL Program. For the land to qualify, the following conditions should prevail:

### In terms of hectarage:

- a. Above five (5) hectares but not more than twenty-four (24) hectares; Or
- b. Twenty-four (24) hectares and above but being used for cattle raising, orchard growing, and aquaculture projects; Or
- c. Other than a) or b) but satisfying the requirements in terms of hectarage and certified by the DAR as eligible.

### In terms of status vis-a-vis DAR/CARP:

- d. Land not being offered under the Voluntary Offer to Sell (VOS); and
  - e. No CARP Notice of Coverage has been issued on such land.
3. MARO prepares, issues and signs two (2) copies of Certification using the prescribed Certification form as attached (CARP-CGFAL Form 1). MARO furnishes borrower/landowner the Original copy of Certification and retains the Duplicate copy as MARO's file.
- BORROWER 4. Borrower goes to CARP-CGFAL Participating Bank with his MARO Certificate and applies for a loan eligible under CARP-CGFAL.

PARTICIPATING  
BANK

5. Participating Bank evaluates loan application using the CARP-CGFAL Lending Guidelines as well as Participating Bank's own lending policy and guidelines.
6. The Participating Bank shall appraise the CARPable land offered as collateral according to the prescribed appraisal method by Land Bank of the Philippines. (Attached is the prescribed appraisal method of LBP)
7. Once Participating Bank approves the loan of the borrower under CARP-CGFAL, Participating Bank submits the loan to The Guarantee Fund for Small and Medium Enterprises (GFSME) for guarantee approval / confirmation under CARP-CGFAL.

1) For Approval/Confirmation of Loan Guarantee

The participating bank shall submit to the GFSME the following documents:

- a. Loan Evaluation Report use (GFSME Form - 1)  
[Sample Form attached]
- b. Appraisal Report on Loan Collateral (by the bank)
- c. Credit and Court Checking on the Borrower / Corporation and its Principal Stockholders (by the bank)
- d. Latest Audited / Unaudited Financial Statements (by the borrower)
- e. Feasibility Study / Project Appraisal Report (by the borrower / by the bank)
- f. Bank Approval of the Loan (by the bank)
- g. Financial Projections (by the borrower / by the bank)

If the borrower is Farmer Association / Cooperative Federation / Corporation the following shall also be submitted to GFSME:



- h. Article of Incorporation & By-Laws
- i. Certificate of Registration from SEC, CDA, Bureau of Rural Workers, etc.

PARTICIPATING BANK    2) After Approval / Confirmation of Loan Guarantee

The participating bank shall submit to the GFSME the following documents:

- a. Loan Agreement [GFSME Sample form attached]
- b. Promissory Note [by the bank]
- c. Signed Amortization Schedule [by the bank]
- d. Proof of Loan Releases [by the bank]
- e. Guarantee Agreement [GFSME Sample form attached]

C E R T I F I C A T I O N  
GFSME/CARP-CGFAL PROGRAM

This is to certify that \_\_\_\_\_  
(name of Landowner of CARPable land)  
residing at \_\_\_\_\_  
(residence address of landowner)  
has a land property of \_\_\_\_\_ located at \_\_\_\_\_  
(specify area in has. or sq. m.)  
\_\_\_\_\_  
(location of Property)  
which is covered under the comprehensive Agrarian Reform Program  
(CARP) but,

- (1) that same property is not yet scheduled and subject for acquisition by CARP; and
- (2) that no Notice of Coverage on the property has been issued to him for CARP purposes.
- (3) Further, the CARPable property has not been offered under Voluntary Offer to Sell (VOS).

Nothing in this certification warrants that the subject property is free from encumbrances, lien, and the like.

Issued this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_, at \_\_\_\_\_,  
Municipality of \_\_\_\_\_, Province of/City of \_\_\_\_\_.

Certified true and correct:

\_\_\_\_\_  
(Print name & signature)  
Municipal Agrarian Reform Officer  
Department of Agrarian Reform  
Municipality of \_\_\_\_\_

MEMORANDUM CIRCULAR  
March 9, 1995

FOR : ALL PARTICIPATING BANKS ON CARP-CGFAL,  
DAR REGIONAL OFFICES & FIELD OFFICES

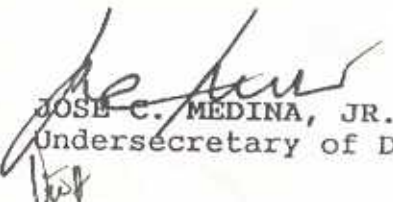
FROM : THE EXECUTIVE COMMITTEE ON CARP-CGFAL

SUBJECT : FURTHER REVISION ON THE RULES AND REGULATIONS ON  
CARP-CREDIT GUARANTEE FUND FOR AGRICULTURAL  
LANDOWNERS

- 
1. In the meeting of the Executive Committee on CARP-CGFAL (February 7, 1995) two investment areas using CARPable land are excluded from the program, namely:
- a. Cattle raising and livestock in general - since these are already exempted from CARP per Supreme Court decision; and
  - b. Aquaculture projects - application of this nature will have to be held in abeyance since there is a pending bicameral conference which expect to exempt these projects from CARP.
2. Accordingly, CARPable lands being used for the aforecited projects will not be included under the CARP-CGFAL program for purposes of loan and as collateral.

Please be guided accordingly.

For the Executive Committee, CARP-CGFAL

  
JOSE C. MEDINA, JR.  
Undersecretary of DAR