



CHAMBER OF THRIFT BANKS

August 20, 2009

HON. LOREN B. LEGARDA

Chairperson, Committee on Agriculture and Food
Senate of the Philippines
GSIS Building, Financial Center
Roxas Boulevard, Pasay City



Dear **Senator Legarda**:

Subject: Amendments to the Agri-Agra Law (Senate Bill Nos. 1828, 833, 791, 363 and 75)

In response to a letter sent by the Committee on Agriculture and Food dated 10 August 2009 (and as agreed during the August 13 TWG meeting), we wish to submit our sector's comments/position on the above measures seeking to amend the Agri-Agra law.

While we fully support measures aimed at enhancing agricultural productivity and eventually alleviating the economic plight of farmers, we, however, would like to respectfully register our apprehension on legislation, viz:

1. We are not in favor of any form of mandatory lending. Global trends have supported the view that mandatory credit allocation programs tend to misallocate resources, and that mandatory credit programs are an inefficient way of allocating credit. The principle of a mandated lending scheme connotes a fundamental weakness in the sector being assisted or subsidized.
2. In helping the agri-agra sector, banks suffer in the form of higher non-performing loan ratios. The opportunity loss incurred because of lower interest rates compounded by losses due to agri-agra defaults will make the other creditworthy borrowers pay in the form of higher interest rates.
3. The bills run counter to the prevailing spirit or purpose of globalization. Instead of enacting a measure on mandated lending, government should be focusing instead on making the agriculture sector more efficient and competitive compared to imported agricultural products, achieving a significantly lower cost of production, providing necessary infrastructure to hasten delivery of agricultural products at a lower cost, at the same time incurring less wastage. This aspect should rightfully be assumed by Government and merely supported by the private sector.

4. Mandatory allocation of assets will not be to the best interest of the Philippines as a whole. Credit is just one component in having a successful agricultural sector. Supporting the agricultural sector makes sense but it must provide the right environment for that sector to prosper. Forcing banks to lend to a market that is not ready will just create another Financial Crisis since it will create a bubble of bad loans which the Philippines cannot afford.

Land Bank of the Philippines (LBP) can be a good vehicle where excess funds from universal banks that do not have adequate loans for agri-agra can be invested.

5. Lending to small farmers, small fisherfolk, and other similarly situated borrowers present a more risky proposition than other alternative borrower entities. Predicting the paying habits of small farmers, etc., who will most probably be affected by such natural phenomena as typhoons, earthquakes and drought will be very taxing. Mandated lending runs counter to what our regulators have been trying to impart on us, which is a risk based management system where prudence dictates the decisions of banks. Lending to small farmers should be left to the discretion of the banks rather than imposed on them.
6. Instead of mandated lending, we propose the granting of the following incentives to encourage banks to lend to the agri-agra sector:
 - no levying of Gross Receipts Tax (GRT)
 - no reserve requirement
 - capital relief on the amount lent to this sector
 - relaxing the documentary requirements in granting loans to this sector
7. We propose to retain all existing modes of alternative compliance and propose further to allow SDAs placed with Land Bank and DBP as another mode of compliance.
8. On the penalty provisions, we suggest maintaining existing Bangko ng Sentral Pilipinas (BSP) penalty provisions. Proposed additional penalties for non compliance are contrary to our proposal of granting incentives to encourage lending to this sector. This would also mean "double penalty" considering that there are already BSP penalties levied on the banks.
9. Loans to agri-agra must still comply with normal credit standards such that if there are no eligible borrowers, then banks will have alternative compliance through the purchase of treasury bills or bonds.

There is an apparent mismatch between the funds needed by agri-agra undertakings compared to the type of funds being provided for by banks. In general, banks source a considerable amount of deposits in the form of short-term funds while the funds as envisioned by PD 717 are longer-term in nature, considering that agri-agra undertakings take some time to complete.

We also urge the use of government financial institutions as main conduits of agri-agra lending as rightfully, they should be at the center of essential programs which are deemed to contribute immensely to the welfare of our less-capable citizenry.

We wish to re-affirm our sector's sincere intention to help our farmers obtain a more dignified way of life by the extension of loans to increase farm productivity. However, we are also committed to our fiduciary responsibility to our depositors whose funds we are bound to protect. Perhaps some enhancements can be done to effectively address our aforementioned concerns.

We trust that legislation on agri-agra lending will continue to be adjusted to realistic levels, for the good not only of the farmers but of the Filipino people.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Pascual M. Garcia III', with a long, sweeping horizontal line extending to the right.

PASCUAL M. GARCIA III
President