

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City, Philippines

Seventeenth Congress  
First Regular Session

House Bill No. **3818**



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Introduced by Representative Anthony M. Bravo, Ph.D.

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**EXPLANATORY NOTE**

Considering the significance of micro, small, and medium enterprises (MSMEs) in sustaining economic growth, with official trade and industry statistics last year showing that the sector comprises 99.6% of businesses in the country generating 62.8% of all jobs, and their 35% contribution to Philippine GDP, it is incumbent upon government to create an enabling environment for their growth and expansion by ensuring access to financing at reasonable rates. To do this, there is a need to bridge the gap in financing small enterprises whose loan requirements are beyond the scope of micro-finance institutions and make SME financing attractive to banks by easing off long-held risk perceptions.

We have in place a secured transactions legal environment since the early 1900s with the enactment of the Chattel Mortgage Law and the establishment of a document-based movable collateral registry operated by the Registers of Deeds. Although the current regime recognizes a diverse set of movable assets acceptable as collateral for loan purposes, these assets are not being fully utilized nor preferred by banks as loan collateral, except motor vehicles. This leaves the efficacy of the law to increase trade or facilitate access to finance for MSMEs in serious question, and underscores the need to modernize these laws governing movable asset lending in the country.

The Secured Transactions measure seeks to enable financial institutions to rethink how they view collateral and reduce the perceived risks, by providing protection for both lender and borrower. It also seeks to establish a comprehensive legal framework to govern lending transactions that involve the use of personal property as collateral, as well as the design, establishment, and operation of a unified, centralized, online notice-based national collateral registry to assure banking institutions that collaterals are clean and were not previously utilized for another loan.

These reforms, aside from its potential to increase credit access for women and small businesses, reduce the risks of non-satisfaction of debt and thereby lower the cost of borrowing, and reduce the rate of non-performing loans of financial institutions, can also usher the sustained growth of MSMEs and financial institutions, and encourage our banks to take part in MSME development.

In view of the foregoing, immediate approval of this measure is earnestly sought.

  
Hon. Anthony M. Bravo, Ph.D.

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Introduced by Representative Anthony M. Bravo, Ph.D.

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**AN ACT**  
**STRENGTHENING THE SECURED TRANSACTIONS LEGAL FRAMEWORK IN THE**  
**PHILIPPINES, WHICH SHALL PROVIDE FOR THE CREATION, PERFECTION,**  
**DETERMINATION OF PRIORITY, ESTABLISHMENT OF A NOTICE REGISTRY, AND**  
**ENFORCEMENT OF SECURITY INTERESTS IN PERSONAL PROPERTY, AND FOR**  
**OTHER PURPOSES**

*Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:*

**SECTION 1. Title.** – This Act shall be known as the "Secured Transactions Act".

**SEC.. 2. Declaration of Policy.** – It is the policy of the State to promote economic activity by increasing access to least cost credit, particularly for micro-, small, and medium enterprises (MSMEs) by establishing a unified and modern legal framework for securing obligations with personal property as collateral.

**SEC. 3. Definition of Terms.** - As used in this Act, the following terms shall mean:

- (a) *Accession* - goods that are physically united with other goods in a manner such that the identity of the goods is not lost.
- (b) *Account receivable* - a right to payment of monetary obligation for goods sold or otherwise disposed of, or for services rendered, excluding a right to payment evidenced by a negotiable instrument, a right to payment of funds credited to a bank account, and a right to payment under non-intermediated security.
- (c) *Account debtor* - the person who is obligated on an account receivable, secured sales contract or payment intangible.
- (d) *Attachment* - completion of all conditions necessary to make a security interest enforceable against the grantor with respect to the collateral.
- (e) *Collateral* - any present or future personal property subject to a security interest or lien, including accounts receivable that is the subject of an outright transfer, and other kinds of intangible personal property, such as intellectual property, or specific or general categories of personal property.
- (f) *Commingled goods* - fungible goods that are physically united with other fungible goods in a way that their identity is lost in a product or mass.
- (g) *Consumer goods* - goods primarily used or intended to be used by the grantor for personal, family, or household purposes, but not licensed motor vehicles.

- (h) *Debtor* - a person who owes payment or other performance of a secured obligation, whether or not that person owns or has rights in the collateral, or whether or not that person is the grantor of the security right securing payment or other performance of that obligation.
- (i) *Default* - the failure of the debtor to pay or otherwise perform the secured obligation, and any other event constituting a default of the debtor to perform under a security agreement.
- (j) *Deposit account* - a demand, time, savings, passbook, or any similar account maintained by a bank to which funds may be credited or debited. The term does not include investment property or accounts evidenced by an instrument.
- (k) *Document* - a document of title, or a receipt such as a bill of lading, or warehouse receipt, issued by a person in the business of transporting or storing goods.
- (l) *Equipment* - goods that are not crops, livestock, inventory, or consumer goods that is primarily used or intended to be used by the grantor in the operation of its business.
- (m) *Fixture* - goods that are fixed or are intended to become fixed to real property in a manner that causes a property right in the goods to arise in favor of a person who has a right in the real property. Building materials, readily removable factory machines, office machines, and domestic appliances are not fixtures.
- (n) *Goods* - tangible personal property, including fixtures, crops, and livestock. The term does not include accounts receivable or secured sales contracts, money, documents, or instruments.
- (o) *Grantor* - (i) the person who grants a security interest in collateral to secure its own obligation or that of another person; (ii) a buyer or other transferee, lessee, or licensee of a collateral that acquires its right subject to a security interest; and (iii) a transferor in an outright transfer of an accounts receivable, or secured sales contracts, a lessee of goods, and a secondary obligor such as a guarantor of a secured obligation.
- (p) *Instrument* - a writing that evidences a right to payment of money, that is not a security agreement or lease, and that in the ordinary course of business may be transferred by delivery with endorsement or assignment.
- (q) *Inventory* - goods held for sale or lease [in the ordinary course of business], or goods that are raw materials, work-in-process (semi-processed), or materials used or consumed in a business.
- (r) *Investment property* - a security, whether or not evidenced by certificates, securities account, commodity contract, or commodity account.
- (s) *Lien* - a right in property which is created by operation of law, by an order of a court or other legal authority, or by the authority of an administrator in an insolvency proceeding; as used in this Act, lien does not include a right of retention.
- (t) *Notice* - a statement of information about a security interest or lien that is registered in the registry. The term includes an initial notice, amended notice, continuation notice, termination notice and notice of objection.
- (u) *Ordinary course of business* - a transfer of personal property by a person who deals in the kind of property transferred.
- (v) *Payment intangible* - a right to receive payment of a monetary obligation, other than an account or a secured sales contract.
- (w) *Perfection or Perfected security interest* - a security interest that has been created and attached, and becomes effective against third parties such as buyers, other secured parties, lien holders and an insolvency administrator, by control, possession, registration.
- (x) *Person* - includes a natural person or a juridical person, including a governmental entity.
- (y) *Personal property* - personal things of any nature, intangibles of any nature, and fixtures.

- (z) "Proceeds" amount received upon sale, lease or other disposition of collateral, or whatever is collected on or distributed with respect to collateral. Proceeds include money, property exchanged for the original collateral, property purchased with money proceeds, a deposit account into which money proceeds are deposited, and a right to insurance payment or other compensation for loss or damage of the collateral.
- (aa) *Purchase money security interest* - a security interest in goods purchased by the grantor, taken by the seller to secure their price or by a person who gives value to enable the grantor to acquire the goods.
- (bb) *Registry* - the electronic general security rights registry established in the Land Registration Authority where notice of a security interest or other interest in personal property is registered.
- (cc) *Right of retention* - the right of a person who provides services or materials to maintain or enhance the value of goods or who ships goods for delivery to retain possession of the goods until paid for the services or materials or the shipping fees.
- (dd) *Secured Creditor* - a person in whose favor a security interest is created under a security agreement. For the purposes of priority determination and registration only, it includes a buyer of accounts receivable or secured sales contracts and a lessor of goods for not less than two (2) years.
- (ee) *Secured sales contract* - a contract for the sale of goods on credit that includes a security agreement creating a security interest in the sold goods.
- (ff) *Security agreement* - an agreement between the grantor and the Secured creditor for the creation of the security interest.
- (gg) *Security interest* - a property right in collateral that secures performance of an obligation; for the purposes of perfection and priority, it includes the interests of a buyer of accounts receivable or secured sales contracts and a lessor of goods for not less than two (2) years.

#### **SEC. 4. Scope of the Act. –**

(a) This Act applies to:

- 1) transactions that secure an obligation with collateral, regardless of form or terminology used, and whether the collateral is owned by the secured creditor or the grantor.
- 2) for purposes of registering a notice and determining priority,
  - a. liens in personal property; and
  - b. the sale of accounts receivable and secured sales contracts and to the lease of goods for not less than two (2) years.

(b) This Act does not apply to a sale of accounts receivable or secured sales contracts as part of the sale of a business out of which they arose, assignment for collection action only, or the transfer of a claim for compensation of an employee.

### **CHAPTER 2 – CREATION OF SECURITY INTEREST**

#### **SEC. 5. Creation of a security interest. –**

- (a) A security interest is created by a security agreement.
- (b) A security agreement may provide for the creation of a security interest in a future property, but the security interest in that property is created only when the grantor acquires rights in it or the power to encumber it.

**SEC. 6. Security Agreement. –** A security agreement must be in writing signed by the grantor, or in an electronic form that may be printed, and it may consist of one or more writings or electronic records that, taken together, establish the intent of the parties, and:

- (a) identifies the secured creditor and grantor, and if different, the debtor;
- (b) describes the secured obligation;
- (c) describes the collateral, as provided in Sec. 12.



**SEC. 7. *Obligations that may be secured.*** – A security interest may secure one or more obligations, which may be of any type, pre-existing, present or future, described specifically or generally, conditional or unconditional, monetary or non-monetary, fixed or fluctuating.

**SEC. 8. *Property that may be encumbered.*** – A security interest may encumber:

- (a) Any type of personal property, including future property;
- (b) Parts of property and undivided rights in personal property;
- (c) Generic categories of personal property; and
- (d) All of a grantor's personal property.

**SEC. 9. *Description of collateral.*** –

- (a) A description of collateral is sufficient, whether it is specific or general, if it reasonably identifies what is described. A description such as "all personal assets", "all equipment", "all inventory", or "all personal assets within a generic category" of the grantor is sufficient.
- (b) Reasonable description of consumer goods requires a specific description.

**SEC. 10. *Attachment of security interest.*** – A security interest attaches to collateral and becomes enforceable against the grantor, if the grantor has signed a security agreement, if consideration has been given by the secured creditor, and if the grantor has rights in the collateral or the power to transfer rights in the collateral to the secured creditor.

**SEC. 11. *Right to proceeds and commingled funds.*** –

- (a) A security interest in personal property attaches to its identifiable proceeds.
- (b) Where proceeds in the form of funds credited to a bank account or money are commingled with other funds of the same kind:
  - 1) The security interest extends to the commingled funds, notwithstanding that the proceeds have ceased to be identifiable;
  - 2) The security interest in the commingled funds is limited to the value of the proceeds immediately before they were commingled; and
  - 3) If at any time after the commingling, the value of the balance credited to the bank account or of the commingled money is less than the value of the proceeds immediately before they were commingled, the obligation is enforceable against the commingled funds only to the extent of the lowest value of the commingled funds between the time when the proceeds were commingled and the time the security interest in the proceeds is enforced.

**SEC. 12. *Notice to account debtors not required.*** – Notwithstanding the provisions of Articles 1291 – 1304 of Republic Act No. 386 otherwise known as the Civil Code of the Philippines, when collateral consists of present or future accounts receivable, secured sales contracts or payment intangibles, notice to the account debtors is not required as a condition of attachment or perfection of the security interest.

**SEC. 13. *Tangible property covered by negotiable documents.*** – A security interest in a negotiable document extends to the tangible property covered by the document, provided that the issuer of the document is in possession of the property at the time the security interest in the document is created.

**SEC. 14. *Tangible property with respect to which intellectual property is used.*** – A security interest in a tangible property with respect to which intellectual property is used does not extend to the intellectual property and a security interest in the intellectual property does not extend to the tangible property.

**SEC. 15. *Continuity of security interest.*** – A security interest continues in collateral notwithstanding sale, lease, license, exchange, or other disposition of the collateral, except as otherwise provided in this Act or agreed upon by the parties.

**SEC. 16. *Extinguishment of a security interest.*** – Extinguishment of all present and future secured obligations, including conditional obligations, by payment or otherwise extinguishes a security interest.

## CHAPTER 3 – PERFECTION OF SECURITY INTEREST

**SEC. 17. *Perfection of security interest.*** – A security interest is perfected and becomes enforceable against third parties, when it has attached to the collateral and a means of perfection is completed in accordance to Sec. 18.

**SEC. 18. *Means of Perfection.*** – The means of perfection are:

- (a) registration of a notice with the Registry;
- (b) possession of the collateral by the secured creditor;
- (c) control of the collateral; and
- (d) automatic perfection as provided in Sec. 19.

**SEC. 19. *Perfection in special cases.*** – A notice must be registered in the Registry to perfect a security interest, with the following exceptions:

- (a) Perfection occurs automatically upon attachment of the security interest in case of a purchase money security interest in consumer goods of the grantor.
- (b) A security interest in goods may be perfected by the secured creditor's taking possession.
- (c) A security interest in money may be perfected only by the secured creditor's taking possession of the money, except for cash proceeds.
- (d) A security interest in a deposit account may be perfected only by the secured creditor's control of the deposit account.
- (e) Upon disposition of collateral, a security interest attaches to proceeds of the collateral without further act and is continuously perfected if the security interest in the collateral was perfected, if the proceeds are in the form of money, receivables, negotiable instruments or rights to payment of funds credited to a bank account. However, if the proceeds are in a form different from those referred to in the previous sentence, the security interest in such proceeds becomes unperfected fifteen (15) days after the grantor receives such proceeds, unless the means of perfection applicable to relevant type of collateral is completed in accordance with this section.
- (f) A lessor, a buyer of accounts receivable or secured sales contracts, or a lien holder may perfect its interest in the same manner as for a security interest or by means of registration of a notice with the Registry.
- (g) A security interest in a motor vehicle may be perfected by registering a notice that describes the motor vehicle generally or by serial number. As against a buyer or lessee, however, priority requires description by serial number.

**SEC. 20. *Perfection by different means.*** – A security interest is perfected continuously if it is first perfected in one manner and later perfected in another manner, without a period when the security interest is not perfected.

**SEC. 21. *Assignment of security interest.*** – If a secured creditor assigns a perfected security interest, a notice need not be registered under this Act to continue perfection of the security interest.

**SEC. 22. *Lapse of perfection.*** – When a registration period lapses as a result of a failure to register a continuation notice by the lapse date, perfection of the security interest also lapses, unless perfection is achieved by another means prior to the lapse.

## CHAPTER 4 – PRIORITY OF SECURITY INTEREST

**Sec. 23. *Priority rules.*** –

- (a) Security interests and interests of lien holders in the same collateral have priority according to time of registration of a notice, or perfection by other means, except as otherwise provided in this Act.
- (b) Priority is measured from the earlier to occur of registration of a notice or perfection by other means, provided that there is no time thereafter when a registered notice is not effective or perfection does not exist.
- (c) The first security interest to attach to collateral has priority among security interests for which there is no effective registered notice or other form of perfection.

**SEC. 24. *Priority of judgment lien.*** – The right of a judgment creditor in the property of the judgment debtor has priority over a security interest in some or all of the same property if, before the security interest is perfected, (a) the court has registered notice of the execution order, or (b) the

judgment creditor has taken possession of the property or taken control of the property by locking and posting the premises in which the property is located.

**SEC. 25. *Priority continues in proceeds.*** – The priority of a security interest in proceeds is the same as the priority of the security interest in the original collateral, subject to the provisions of Sec. 19 par (e).

**SEC. 26. *Purchase of secured sales contracts or instruments.*** – A purchaser of secured sales contracts or instruments has priority over a secured creditor's security interest in the secured sales contracts or instruments if, in the ordinary course of the purchaser's business, the purchaser gives new value and takes possession of the secured sales contracts or instruments.

**SEC. 27. *Transferee exceptions.*** –

- (a) A transferee takes collateral free of a security interest if the transferee gives value and takes delivery of the collateral without knowledge of the security interest and before a notice is registered or the security interest is otherwise perfected.
- (b) A person who buys or leases goods, including motor vehicles, in the ordinary course of business of the seller or lessor takes free of a security interest, even if the security interest is perfected and the person knows of its existence.
- (c) A buyer or lessee of a motor vehicle takes it free of a security interest if the buyer or lessee does not know of the security interest and if the serial number is not included on a registered notice of security interest.
- (d) A buyer takes free of a perfected security interest in goods if the secured creditor consents to the sale by the grantor.
- (e) A person who receives cash for value takes free of a perfected security interest in the cash.
- (f) A lien holder who takes control of collateral or causes collateral to be seized before a security interest is perfected takes free of the security interest.
- (g) A court or a liquidator of an insolvent company that takes physical custody or control of assets before a security interest is perfected in them takes free of the security interest.

**SEC. 28. *Effect of the grantor's insolvency on the priority of a security interest.*** – A security interest that is perfected at the time of the commencement of insolvency proceedings in respect of the grantor remains effective against third parties and retains the priority it had before the commencement of the insolvency proceedings.

**SEC. 29. *Purchase money security interest.*** –

- (a) A perfected purchase money security interest in equipment or its proceeds has priority over a conflicting security interest, if the purchase money security interest is perfected when the debtor receives possession of the equipment, or within ten (10) days thereafter.
- (b) A purchase money security interest in goods or their proceeds that is perfected by registration of notice not later than ten (10) days from the date the debtor obtains possession of the goods has priority over the rights in the goods of a buyer, lessee, or lien holder which arise between the time the security interest attaches and the time the notice is registered.
- (c) A perfected purchase money security interest in inventory, intellectual property or livestock has priority over a conflicting perfected security interest in the same inventory, intellectual property or livestock if:
  - 1) the purchase money security interest is perfected when the debtor receives possession of the inventory, intellectual property or livestock, and
  - 2) if, not later than ten (10) days after the debtor receives possession, the purchase money secured creditor gives written notice to the holder of the conflicting perfected security interest in the same types of inventory, intellectual property or livestock. The notice sent to the holder of the conflicting security interest may cover multiple transactions between the purchase money secured creditor and the grantor without the need to identify each transaction.

**SEC. 30. *Livestock.*** – A perfected security interest in livestock given for value to enable the grantor to obtain food or medicine for the livestock has priority over any other security interest in the livestock or their proceeds granted by the grantor, except for a perfected purchase money security interest in the livestock.



**SEC. 31. *Fixtures.* –**

- (a) A security interest may continue in goods that become fixtures.
- (b) A security interest in a fixture is subordinate to rights in the real property to which it is affixed unless a notice of the security interest in the fixture has been registered in the registry established by this Act and, if the right in the real property arose after the fixture became fixed, registration of notice of the security interest in the fixture preceded registration of the rights in or seizure of the real property.

**SEC. 32. *Crops.* –**

- (a) A perfected security interest in crops growing or to be grown has priority over a conflicting interest of the owner or mortgagee of the land if the grantor is in possession of the land or has an interest in the land that is registered in accordance with the land law.
- (b) A perfected security interest in crops or their proceeds, given for value to enable the grantor to produce or harvest the crops and given while the crops are growing crops or during the 6month period before the crops were planted has priority over any other security interest in the same collateral given by the same grantor.
- (c) An unperfected security interest in crops is subordinate to the rights of a judgment creditor who causes the land to be seized in order to enforce a judgment.

**SEC. 33. *Right of retention.* –** A right of retention has priority over a perfected security interest in goods if it arises in the ordinary course of business of the person in possession of the goods.

**SEC. 34. *Accessions.* –** A security interest continues in collateral that becomes an accession. If a security interest is perfected when the collateral becomes an accession, the security interest remains perfected in the accession.

**SEC. 35. *Commingled goods.* –**

- (a) A security interest may not be created in commingled goods. However, if collateral to which a security interest has attached becomes commingled, the security interest attaches to the product or mass.
- (b) If a security interest is perfected before the collateral becomes commingled, the security interest continues to be perfected in the product or mass. The priority of the security interest in the product or mass is measured from the time of perfection of the security interest in the collateral that became commingled, except as limited by paragraph (c)(3), below.
- (c) If more than one security interest attaches to the product or mass, the following rules determine priority:
  - 1) A security interest that is perfected has priority over a security interest that is unperfected at the time the collateral becomes commingled goods;
  - 2) The first security interest to attach to the product or mass has priority among unperfected security interests; and
  - 3) If more than one security interest is perfected, the perfected security interests rank equally in proportion to the value of the collateral at the time it became commingled.

**SEC. 36. *Subordination.* –** A secured creditor may, in a security agreement or otherwise, subordinate its security interest to any other interest. A subordination of security interest does not need to be registered. A subordination is effective only to the extent that it does not adversely affect the rights of other secured creditors.

**CHAPTER 5 – REGISTRATION  
REGISTRY OPERATION**

**SEC. 37. *Establishment of electronic registry.* –**

- (a) The registry will be established in the Land Registration Authority.
- (b) The registry shall provide electronic means for registration of notices of security interest and liens, and for searching for notices. The electronic records of the registry shall be the official records.

**SEC. 38. *Regulations.* –** The Land Registration Authority may issue regulations consistent with this Act.



**SEC. 39. *Public record.*** – Information contained in a registered notice is a public record. Indices and other records created by the registry with respect to notices are public records. Any person may inspect notices in the registry.

**SEC. 40. *Sufficiency of notice.*** –

- (a) An initial notice of security interest is sufficient if it:
  - 1) identifies the grantor by tax identification number if an individual, or SEC registration number if a legal entity;
  - 2) identifies the secured creditor or an agent of the secured creditor by name and provides an address; and
  - 3) describes the collateral covered by the notice. If the collateral is a fixture, the notice must describe the real property to which a fixture is to be affixed.
- (b) Each grantor must authorize the registration of an initial notice by signing a security agreement or a separate agreement. A signature may be any tangible indication of the debtor's and grantor's intent to enter the agreement.
- (c) A notice may be registered before a security agreement is concluded or before a security interest attaches to collateral. Once a security agreement is concluded, the date of registration of the notice shall be reckoned from the date notice was registered prior to the conclusion of the security agreement.
- (d) A notice of lien may be registered by a lien holder without the consent of the lienee. A notice of lien on the property of an insolvent company may be registered by the court or a liquidator constituted by the court. A notice of lien on the property of a judgment debtor may be registered by the court. A notice of lien on the personal property of a delinquent taxpayer may be registered by the government.
- (e) Information in a notice shall be entered in English.
- (f) A notice substantially complying with the requirements of this Section is effective unless it is seriously misleading. A notice that does not provide the numeric identifier of the grantor is seriously misleading.

**SEC. 41. *One notice sufficient for security interests under multiple security agreements.***

– The registration of a single notice may relate to security interests created by the grantor under one or more than one security agreement between the parties identified in the registered notice.

**Sec. 42. *Effectiveness of notice.*** –

- (a) A notice is effective at the time it is discoverable on the records of the registry.
- (b) A notice is effective for the duration of the term of the secured obligation unless a continuation notice is registered before the period lapses.
- (c) Upon lapse, a notice becomes ineffective, and the security interest that was perfected by the notice becomes unperfected unless it is perfected by another means.

**Sec. 43. *Amendment of notice.*** –

- (a) An initial notice may be amended. An amended notice must:
  - 1) identify the initial notice by its registration number;
  - 2) identify each secured creditor who authorizes the amendment; and
  - 3) provide all of the information required for an initial notice.
- (b) An amended notice that adds collateral must be authorized by the grantor by a written agreement.
- (c) An amended notice that adds a debtor or grantor must be authorized by the added grantor by written agreement.
- (d) An amended notice is effective only as to each secured creditor who authorizes it.
- (e) An amended notice that adds collateral or a grantor is effective as to the added collateral or grantor from the date of registration of the amended notice.

**Sec. 44. *Continuation of notice.*** –

- (a) The period of effectiveness of a notice may be continued by registering a continuation notice that:
  - 1) identifies the initial notice by its registration number; and
  - 2) identifies each secured creditor who authorizes the continuation notice.
- (b) A continuation notice may be registered only within six months before the expiration of the effective period of the notice.

**Sec. 45. *Termination of notice.*** –

- (a) The effectiveness of a notice may be terminated by registering a termination notice that:

- 1) identifies the initial notice by its registration number;
  - 2) identifies each secured creditor who authorizes the termination notice; and
  - 3) indicates that the initial notice is no longer effective with respect to each secured creditor who authorized the termination notice.
- (b) Within the prescribed number of days after a secured creditor receives a written demand by the debtor or grantor, the secured creditor shall register a termination notice if:
- 1) there is no outstanding secured obligation and no commitment to make an advance or otherwise give value; or
  - 2) the debtor or grantor did not authorize registration of the initial notice.
- (c) Within twenty (20) days after a lien holder receives a written demand, it shall register a termination notice if full payment of past due amounts, penalties and interest has been made.
- (d) A termination notice terminates effectiveness of the initial notice as to each authorizing secured creditor or the lien holder.

**Sec. 46. Notice of objection. –**

- (a) A person may register a notice of objection to a notice of security interest that identifies the person as a debtor or grantor if the person believes that the notice is inaccurate or was wrongfully registered.
- (b) A notice of objection must:
  - 1) identify the notice to which it relates by its registration number;
  - 2) name the person who registers the notice of objection; and
  - 3) provide the basis for the person's belief that the notice of security interest is inaccurate or was incorrectly or wrongfully registered.
- (c) Registration of a notice of objection does not affect the effectiveness of a notice of security interest.

**Sec. 47. Registry refusal to register notice. –**

- (a) The registry may refuse to register a notice because:
  - 1) in the case of an initial notice, it does not provide the numeric identifier of a grantor;
  - 2) in the case of an amended notice, it does not provide the registration number of the initial notice, it identifies an initial notice for which effectiveness has lapsed, or it does not identify an authorizing secured creditor;
  - 3) in the case of a continuation notice, it does not provide the registration number of the initial notice, it identifies an initial notice for which effectiveness has lapsed, it was not presented within the permitted six-month period, or it does not identify an authorizing secured creditor;
  - 4) in the case of a termination notice, it does not provide the registration number of the initial notice, it identifies an initial notice that has lapsed, or it does not identify an authorizing secured creditor;
  - 5) in the case of a notice of objection, it does not provide the registration number of the initial notice, it identifies an initial notice for which effectiveness has lapsed, or it does not name the person who registers the notice; or
  - 6) less than the full registration fee is tendered, or no arrangement has been made for payment of fees by other means.
- (b) If the registry refuses to register a notice, it shall promptly communicate the fact of and reason for its refusal to the person who presented the notice.

**Sec. 48. Registry duties. –**

- (a) For each notice registered, the registry shall:
  - 1) assign a unique registration number;
  - 2) create a record that bears the number assigned to the initial notice and the date and time of registration; and
  - 3) maintain the record for public inspection.
- (b) The registry shall index notices by the numeric identifier of the grantor and, for notices containing a serial number of a motor vehicle, by serial number.
- (c) The registry shall return a copy of the electronic record of the notice, to include the registration number and the date and time of registration.
- (d) The registry shall maintain the capability to retrieve a record by the numeric identifier of the debtor or grantor, by the registration number assigned to the initial notice and, for notices containing the serial number of motor vehicle, by serial number.
- (e) The registry shall maintain records of lapsed notices for a period of ten years beyond the date of lapse.

- (f) The duties of the registry are merely administrative. By registering a notice or refusing to register a notice, the registry does not determine the sufficiency, correctness, authenticity, or validity of any information contained in the notice.

**Sec. 49. Search of registry records and certified report. –**

- (a) The registry shall communicate the following information to any person who requests it:
  - 1) whether there are in the registry any effective notices that designate a particular registration number, grantor's numeric identifier or vehicle serial number;
  - 2) the registration number, and the date and time of registration of each notice; and
  - 3) all of the information contained in each notice.
- (b) If requested, the registry shall issue a certified report of the results of a search that is an official record of the registry and shall be admissible into evidence in the courts without extrinsic evidence of its authenticity.
- (c) The purpose of information provided by the registry is only to give notice of the possible existence of a security interest in collateral. For more complete information, the person who requested the information may inquire of the secured creditor. The secured creditor may, in its sole discretion, disclose:
  - 1) the nature and amount of the secured obligation;
  - 2) a detailed description of the collateral;
  - 3) the remaining balance on the obligation;
  - 4) whether or not the secured creditor has an obligation to make future advances under its agreement with the debtor;
  - 5) the duration of the obligation under the security agreement; and
  - 6) the identity of all debtors, grantors and secured creditors who are parties to the security agreement.

**Sec. 50. Fees set by regulation. –**

- (a) The fees for registering a notice and for requesting a certified search report shall be set by regulation to recover the reasonable costs of operation.
- (b) There shall be no fee for access to examine the records of the registry by electronic means or for other services.
- (c) There shall be no fee for registration of a termination notice.

**Chapter 6 - Enforcement of Security Interest  
Secured Creditor's Rights**

**Sec. 51. Secured creditor rights upon default by debtor. –**

- (a) If the debtor defaults on its obligation to pay or otherwise perform, or upon the occurrence of another event of default, the security interest becomes enforceable.
- (b) Upon default, the secured creditor shall have:
  - 1) the right to possession or control of the collateral, even if the security agreement is silent about possession or control;
  - 2) the right to dispose of the collateral; and
  - 3) other rights or remedies provided in the security agreement, this law or other law.

**Sec. 52. Recovery without judicial process. –**

- (a) Upon default, a secured creditor with a security interest in an account receivable, secured sales contract or payment intangible may instruct the account debtor to make payment to the secured creditor, and shall apply such payment to satisfaction of the obligation secured by the security interest after deducting the secured creditor's reasonable collection expenses. The secured creditor shall provide evidence of its security interest to the account debtor when it delivers the instruction to the account debtor. Payments made by an account debtor to the secured creditor pursuant to the instruction to do so serve to discharge the account debtor's obligation to the grantor.
- (b) Upon default, a secured creditor with a security interest in a document that is perfected by possession may proceed as to the goods covered by the document.
- (c) If so agreed, and in any event after default:
  - 1) A bank with a perfected security interest in a deposit account maintained by the bank may apply the balance of the deposit account to the obligation secured by the deposit account; and
  - 2) In other cases, a secured creditor that has a security interest in a deposit account perfected by control may instruct the bank to pay the balance of the deposit account to the secured creditor's account.



- (d) The secured creditor may act under this Section without judicial process, notwithstanding any other provision of this law.

**Sec. 53. Expedited possession by secured creditor. –**

- (a) In cases not covered by the prior Section, the secured creditor may take possession or control of collateral without legal process if the security agreement so provides or if the grantor has agreed in writing, provided that possession or control can be taken without a breach of the peace. If the collateral is a fixture, the secured creditor may remove it from the real property to which it is fixed without judicial process only if the grantor and, if the real property is subject to a mortgage, the mortgagee have agreed in writing after default.
- (b) As used in this Section, breach of the peace includes entering the premises of the grantor without permission, resorting to physical violence or intimidation, or being accompanied by a law enforcement officer when taking possession or confronting the grantor.
- (c) If, upon default, the secured creditor cannot take possession or control of collateral without breach of the peace, or if the grantor and any mortgagee do not agree to removal of collateral that is a fixture, the secured creditor may proceed as follows:
- 1) The secured creditor shall be entitled to an expedited hearing upon application for a pre-judgment order granting the secured creditor possession of the collateral. Such application shall include a statement by the secured creditor, under oath, verifying the existence of the security agreement attached to the application and identifying at least one event of default by the debtor under the security agreement.
  - 2) The secured creditor shall serve a copy of the application upon the debtor, the grantor and, if the collateral is a fixture, any mortgagee of the real property, including a copy of all documents and evidence submitted to the court in support thereof. The court shall schedule the hearing under subparagraph 1) at the earliest available time, provided that no hearing shall be conducted without service on the debtor, grantor and any mortgagee of the application and reasonable notice of the hearing unless (i) the court finds that the secured creditor has made reasonable efforts to make service on the debtor, grantor and any mortgagee, and that such efforts have not been successful; or (ii) the court finds that the hearing should be conducted without delay to prevent damage to the collateral, substantial loss of the collateral's value or impairment of the secured creditor's right to possession.
  - 3) If the court finds, after hearing, that it is probable that a default has occurred under the security agreement and that the secured creditor has a right to take possession of the collateral, the court shall enter an order granting the secured creditor possession of the collateral pending final judgment or further order of the court. The order may direct the grantor to take such action as the court deems necessary and appropriate so that the secured creditor may take possession.

**Sec. 54. Right to dispose of collateral. –**

- (a) After default, a secured creditor may sell or otherwise dispose of the collateral, publicly or privately.
- (b) The secured creditor may buy at any public or private sale.

**Sec. 55. Commercial reasonableness required. –**

- (a) In disposing of collateral, the secured creditor shall act in a commercially reasonable manner.
- (b) A disposition is not commercially unreasonable merely because a better price could have been obtained by disposition at a different time or by a different method from the time and method adopted by the secured creditor.
- (c) A disposition is commercially reasonable if the secured creditor disposes of the collateral in conformity with commercial practices among dealers in that type of property.
- (d) If a method of disposition of collateral has been approved in any legal proceeding, it is conclusively deemed to be commercially reasonable, but no such approval is required by this law.

**Sec. 56. Notice of disposition. -**

- (a) Not later than ten (10) days before disposition of the collateral, the secured creditor shall give notice to:
- 1) the grantor;



- 2) any other secured creditor or lien holder who, 5 days before the date notice is given, held a security interest or lien in the collateral that was perfected by registration; and
  - 3) any other person from whom the secured creditor received notice of a claim of an interest in the collateral if the notice was received before the secured creditor gives notice of the proposed disposition.
- (b) The grantor may waive the right to be notified.
  - (c) A notice of disposition is sufficient if the notice: identifies the grantor and the secured creditor; describes the collateral; states the method of intended disposition; and states the time and place of a public sale or the time after which other disposition is to be made.
  - (d) The requirement for notice described in paragraph (a) does not apply if the collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market.

**Sec. 57. *Repair or preparation of collateral.*** – The collateral may be disposed of by the secured creditor in its existing condition or after repair, processing or preparation for disposition.

**Sec. 58. *Notice and claim for distribution.*** –

- (a) At least 7 days before distribution of the proceeds of disposition, the secured creditor shall give notice of the proposed distribution to the persons required to receive notice of disposition in Section 56. The notice shall include the earliest date on which distribution may occur, that the person may present a claim for distribution, the address to which the claim must be presented and the type of proof of the claim that must be provided. The notice of proposed distribution may be included in the notice of disposition or provided separately.
- (b) If the secured creditor receives an authenticated claim from any other secured creditor, lien holder or other person from whom the secured creditor received notice of a claim of an interest in the collateral before distribution of the proceeds is completed, the claim shall be included in the distribution process. If the secured creditor so requests, a claimant shall furnish proof of the interest or lien before distribution is completed.

**Sec. 59. *Application of proceeds and clear title of buyer.*** –

- (a) The proceeds of disposition shall be applied in the following order.
  - 1) The reasonable expenses of retaking, holding, preparing for disposition, and disposing of the collateral, including reasonable attorneys' fees and legal expenses incurred by the secured creditor;
  - 2) The satisfaction of obligations secured by a senior security interest or lien;
  - 3) The satisfaction of the obligation secured by the security interest of the enforcing secured creditor;
  - 4) The satisfaction of obligations secured by any subordinate security interest or lien in the collateral if a written demand and proof of the interest are received before distribution of the proceeds is completed.
- (b) The secured creditor shall account to the grantor for any surplus, and, unless otherwise agreed, the debtor is liable for any deficiency.
- (c) Where collateral is sold to a purchaser who acquires the interest for value and in good faith and who takes possession of it, the purchaser acquires the collateral free from the interests of the secured creditor, grantor and any subordinate secured creditor or lien holder.

**Sec. 60. *Retention of collateral by secured creditor.*** –

- (a) After default, the secured creditor may propose to the debtor and grantor to take all or part of the collateral in satisfaction of all or a part of the debtor's obligation, and shall give notice of the proposal to:
  - 1) the debtor and the grantor;
  - 2) any other secured creditor or lien holder who, 5 days before the notice is given to the debtor and grantor, has perfected its security interest or lien by registration;
  - 3) any other person with an interest in the collateral who has given a written notice to the secured creditor before the notice is given to the debtor and grantor.
- (b) If the secured creditor receives objection in writing from a person entitled to receive notice under paragraph (a) within 20 days after the notice was given, the secured creditor must dispose of the collateral as provided in this Division.
- (c) If no objection is received within the 20-day period, the secured creditor may retain the collateral in satisfaction of the debtor's obligation in accordance with the proposal.

**Sec. 61. Redemption. –**

- (a) A person who is entitled to receive a notice of disposition may redeem the collateral provided that:
  - 1) the person has not, after the default, waived in writing the right to redeem;
  - 2) the secured creditor has not yet disposed of or contracted for disposition of the collateral; and
  - 3) the secured creditor has not irrevocably elected to retain the collateral.
- (b) To redeem the collateral, the person must tender performance of all obligations secured by the collateral, and pay the reasonable expenses that were incurred to seize, hold, repair and prepare the collateral for disposition.

**Sec. 62. Remedies for secured creditor noncompliance. –**

- (a) If the secured creditor does not comply with the requirements of this Part, the court may order or restrain disposition of collateral.
- (b) If disposition has occurred, the debtor, grantor or any person entitled to be informed or whose security interest has been made known to the secured creditor prior to the disposition has a right to recover from the secured creditor any loss caused by a failure to comply with this Part.

**Chapter 7 – Conflicts of Law provisions (UNCITRAL)**

**Sec. 63. Law applicable to the mutual rights and obligations of the grantor and the secured creditor. –** The law applicable to the mutual rights and obligations of the grantor and the secured creditor arising from their security agreement is the law chosen by them and, in the absence of a choice of law, the law governing the security agreement.

**Sec. 64. Law applicable to a security right in a tangible asset. –**

- (a) The law applicable to the creation, effectiveness against third parties and priority of a security right in a tangible asset is the law of the State in which the asset is located.
- (b) The law applicable to the priority of a security right in a tangible asset covered by a negotiable document made effective against third parties by possession of the document as against a competing security right made effective against third parties by another method is the law of the State in which the document is located.
- (c) The law applicable to the creation, third-party effectiveness and priority of a security right in a tangible asset of a type ordinarily used in more than one State is the law of the State in which the grantor is located.
- (d) A security right in a tangible asset that is in transit at the time of its putative creation or intended to be relocated to a State other than the State in which it is located at that time may be created and made effective against third parties under:
  - 1) The law of the State of the location of the asset at the time of the putative creation of the security right; or
  - 2) The law of the State of the asset's ultimate destination, provided that the asset reaches that State within [a short period of time to be specified by the enacting State] after the time of the putative creation of the security right.

**Sec. 65. Law applicable to a security right in an intangible asset. –** The law applicable to the creation, effectiveness against third parties and priority of a security right in an intangible asset is the law of the State in which the grantor is located.

**Sec. 66. Law applicable to a security right in a receivable relating to immovable property. –** Notwithstanding Section 67, in the case of a security right in a receivable that arises from the sale or lease of, or is secured by, immovable property, the law applicable to the priority of the security right in the receivable as against the right of a competing claimant that is registrable in the immovable property registry in which rights in the relevant immovable may be registered is the law of the State under whose authority the immovable property registry is maintained.

**Sec. 67. Law applicable to the enforcement of a security right. –** The law applicable to issues relating to the enforcement of a security right in:

- (a) A tangible asset is the law of the State in which enforcement takes place; and
- (b) An intangible asset is the law applicable to the priority of the security right.

**Sec. 68. Law applicable to a security right in proceeds of an encumbered asset. –**

- (a) The law applicable to the creation of a security right in proceeds is the law applicable to the creation of the security right in the original encumbered asset from which the proceeds arose.
- (b) The law applicable to the third-party effectiveness and priority of a security right in proceeds is the law applicable to the third-party effectiveness and priority of a security right in an original encumbered asset of the same kind as the proceeds.

**Sec. 69. Meaning of “location” of the grantor.** – For the purposes of the provisions of this chapter, the grantor is located:

- (a) In the State in which it has its place of business;
- (b) If the grantor has a place of business in more than one State, in the State in which the central administration of the grantor is exercised; and
- (c) If the grantor does not have a place of business, in the State in which the grantor has his or her habitual residence.

**Sec. 70. Relevant time for determining location.** –

- (a) Except as provided in paragraph (b), references to the location of the encumbered asset or of the grantor in the provisions of this chapter refer:
  - 1) For creation issues, to the location at the time of the putative creation of the security right; and
  - 2) For third-party effectiveness and priority issues, to the location at the time the issue arises.
- (b) If the right of a secured creditor in an encumbered asset is created and made effective against third parties and the rights of all competing claimants are established before a change in the location of the asset or the grantor, references in the provisions of this chapter to the location of the asset or of the grantor refer, with respect to third-party effectiveness and priority issues, to the location prior to the change.

**Sec 71. Exclusion of renvoi.** – A reference in the provisions of this chapter to “the law” of a State as the law applicable to an issue refers to the law in force in that State other than its rules of private international law.

**Sec. 72. Overriding mandatory rules and public policy (ordre public) –**

- (a) The provisions of this chapter do not prevent a court from applying overriding mandatory provisions of the law of the forum that apply irrespective of the law applicable under the provisions of this chapter.
- (b) The law of the forum determines when a court may or must apply or take into account overriding mandatory provisions of another law.
- (c) A court may only exclude the application of a provision of the law applicable under the provisions of this chapter if and to the extent that the result of such application would be manifestly incompatible with fundamental notions of public policy (ordre public) of the forum.
- (d) The law of the forum determines when a court may or must apply or take into account the public policy (ordre public) of a State other than the State the law of which would be applicable under the provisions of this chapter.
- (e) This article does not prevent an arbitral tribunal from applying or taking into account public policy (ordre public), or from applying or taking into account overriding mandatory provisions of a law other than the law applicable under the provisions of this chapter, if the arbitral tribunal is required or entitled to do so.
- (f) This article does not permit a court to displace the provisions of this chapter dealing with the law applicable to the third-party effectiveness and priority of a security right.

**Sec. 73. Impact of commencement of insolvency proceedings on the law applicable to a security right.** – The commencement of insolvency proceedings in respect of the grantor does not displace the law applicable to a security right under the provisions of this chapter.

## Chapter 7 – Miscellaneous Provisions

**Sec. 74. Interpretation.** – If there is conflict between a provision of this Act and a provision of any other law, this Act shall govern unless the other law specifically cites or amends the conflicting provision of this law.



**Sec. 75. *Transition provisions.*** — This section applies to transactions concluded prior to the effective date of this law that would be subject to this law if it had been in effect at the time the transactions were concluded. In this section, such a transaction is referred to as a “prior transaction.”

- (a) The validity and effect of a prior transaction that was concluded before the effective date of this law shall be determined by reference to the law in effect when the agreement was concluded, except as provided otherwise in this section.
- (b) A secured creditor in a prior transaction may register a notice of the interest in the same manner as provided for a notice of a security interest. The secured creditor shall deliver a copy of the notice to the debtor and grantor.
- (c) If the secured creditor in a prior transaction registered a notice or otherwise perfected its interest by a means provided in this law within 60 days after the effective date of this law, its priority shall be measured from the effective date of this law. If the notice of an interest created by such a prior transaction was registered or otherwise perfected after 60 days after the effective date of this law, its priority shall be measured from the date of registration.
- (d) Priority between a security interest perfected under this Law and an interest created by a prior transaction for which a notice has not been registered under paragraph (b) or otherwise perfected under this law shall be determined under this law. The interest created under the prior transaction shall, for that purpose, be deemed to be an unperfected security interest.

**Sec. 76. *Implementing Rules and Regulations.*** — Within sixty (60) days from the effectivity of this Act, the Department of Finance in coordination with the Land Registration Authority (LRA) and Department of Justice shall promulgate the necessary rules and regulations for the effective implementation of this Act.

**Sec. 77. *Appropriations.*** — The funds needed to implement this Act shall be included in the Annual General Appropriations Act.

**Sec. 78. *Separability Clause.*** — Should any provision herein be declared unconstitutional, the same shall not affect the validity of the other provisions of this Act.

**Sec. 79. *Repeal and Pre-emption of conflicting laws.*** — This Act repeals the following:

- 1) Sections 1 to 16 of Act 1508, otherwise known as the Chattel Mortgage Law;
- 2) Articles 2085 to 2141, and 2241, 2243, 2246 to 2247 of Republic Act No. 386, otherwise known as the Civil Code of the Philippines; and
- 3) Sections 114 to 116 of Presidential Decree No. 1529, otherwise known as Property Registration Decree.

If there is a conflict between a provision of this Act and a provision of any other law, this Act shall govern unless the other law specifically amends or repeals a provision of this law.

**Sec. 80. *Effectivity.*** — This Act shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

*Approved,*