

[REPUBLIC ACT No. 720, June 06, 1952]

AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS, AND FOR OTHER PURPOSES.

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

SECTION 1. The short title of this Act shall be "Rural Banks' Act".

SEC. 2. *It shall be the declared policy of Congress*-promote and expand the rural economy in an orderly effective manner by providing the people of the rural communities with the means of facilitating and improving their productive activities, and to encourage cooperatives. Toward this end, the Government shall encourage and assist in the establishment of a system of rural banks which will place within easy reach and access of the people credit facilities on reasonable terms. The Department of Agriculture and Natural Resources, the Department of Commerce and Industry, and other appropriate agencies oil instrumentalities of the Government shall, in cooperation with the Rural Bank, provide advice on business or farm management and proper use of credit for production and marketing.

SEC. 3. In furtherance of this policy, the Monetary Board of the Central Bank of the Philippines, shall formulate the necessary rules and regulations governing the establishment and operation of Rural Banks for the purpose of providing adequate credit facilities to small farmers and merchants, or to cooperatives of such farmers or merchants, and to supervise the operation of such banks.

SEC. 4. No Rural Bank shall be operated without a Certificate of Authority of the Monetary Board of the Central Bank. Rural Banks shall be organized in the form of stock corporations. Duly established cooperatives may organize Rural Banks and/or subscribe to the shares of stock of any Rural Bank. At least sixty per cent of the capital stock of any Rural Bank shall be owned and held by citizens of the Philippines: *Provided, however,* That if said subscription of private shareholders to the capital stock of a Rural Bank cannot be secured or is not available, the Rehabilitation Finance Corporation, on representation of the said private shareholders and upon approval of the Monetary Board of the Central Bank, shall subscribe to the capital stock of such rural bank, which shall be paid in full at the time of subscription, in an amount equal to the fully paid subscribed capital of the private shareholders: *Provided, further,* That such shares of stock subscribed by the Rehabilitation Finance Corporation may be sold at any time at par to private individuals who are citizens of the Philippines: *Provided finally,* That in the sale of the shares of stock subscribed by the Rehabilitation Finance Corporation, the registered stockholders shall be given at least six months option within which to purchase the same in proportion to their respective holdings, but in the absence of such buyer, preference, however, shall be given to residents, of the locality or province where the Rural Bank is located. All members of the Board of Directors of

the Rural Banks shall be citizens of the Philippines.

SEC. 5. Loans or advances extended by Rural Banks, organized and operated under this Act, shall be primarily for the purpose of meeting the normal credit needs of any small farmer or farm family owning or cultivating, in the aggregate, not more than fifty hectares of land dedicated to agricultural production, as well as the normal credit needs of cooperatives and small merchants. For the purposes of this Act, a small merchant shall be one whose capital investment does not exceed twenty-five thousand pesos. In the granting of loans, the Rural Bank shall give preference to the application of farmers whose cash requirements are small: *Provided, however,* That in the case of loans secured by real estate no Torrens title shall be required.

SEC. 6. With the view to insuring balanced rural economic growth and expansion, Rural Banks may, within limits and conditions fixed by the Monetary Board, devote a portion of their loanable funds to meeting the normal credit needs of small business enterprises whose capital investment does not exceed twenty-five thousand pesos and of essential rural enterprises or industries, other than those which are strictly agricultural in nature.

SEC. 7. To provide supplemental capital to any Rural Bank until it has accumulated enough capital of its own ,or stimulate private investments in Rural Banks, the Rehabilitation Finance Corporation shall, upon certification of the Monetary Board of the existence of such need, subscribe to capital stock of any Rural Bank from time to time in an amount equal to but not exceeding the total equity investment of the private shareholders: *Provided, however,* That shares of stock issued to the Rehabilitation Finance Corporation, pursuant to this section, may at any time be paid off at par and retired in whole or in part if, in the opinion of the Monetary Board, the Rural Bank has accumulated enough capital strength to permit retirement of such shares; or if an offer is received from private sources, to replace the equity investments of the Rehabilitation Finance Corporation with an equivalent investment or more in the common stock of such Bank. In case of such retirement of stock or replacement of equity investments of the Rehabilitation Finance Corporation, the registered private shareholders of the Rural Bank shall be given the right of preemption in proportion to their respective holdings.

Stock held by the Rehabilitation Finance Corporation, under the terms of this section, shall be made preferred only as to assets upon liquidation and without the power to vote and shall share in dividend distributions without preference: *Provided, however,* That if such stock of the Rehabilitation Finance Corporation is sold to private shareholders, the same shall thereupon have the right to vote.

SEC. 8. The Rehabilitation Finance Corporation is authorized to obtain from the "Counterpart Fund" and "Special Account" authorized under Republic Act Numbered Six hundred and four such amounts as it may require, but not more than ten million pesos, for the purpose of subscribing to the shares of stock of Rural Banks, and of granting loans to such banks as provided in section twelve of this Act. All funds obtained by the Rehabilitation Finance Corporation from the "Counterpart Fund" and "Special Account" shall constitute a revolving fund and together with the interest which will accrue thereon will be used solely as provided for in this section.

SEC. 9. Stock preferred as to assets upon liquidation shall be issued only to represent the contributions to capital stock of the Rural Bank by the Government

through the Rehabilitation Finance Corporation. If there are no such public investments, only one class of stock shall be issued by any Rural Bank. The powers of the Monetary Board over Rural Banks shall extend to prescribing the amount, value and class of stock issued by any Rural Bank, organized under this Act.

SEC. 10. The power to supervise the operation of any Rural Bank by the Monetary Board of the Central Bank, as herein indicated, shall consist in placing limits to the maximum credit allowed any individual borrower; in prescribing the interest rate; in determining the loan period and loan procedures; in indicating the manner in which technical assistance shall be extended to Rural Banks; in imposing a uniform accounting system and manner of keeping the accounts and records of the Rural Banks; in undertaking regular credit examination of the Rural Banks; in instituting periodic surveys of loan and lending procedures, audits, test check of cash and other transactions of the Rural Banks; in conducting training courses for personnel of Rural Banks; and, in general, in supervising the business operation of the Rural Bank.

SEC. 11. With the written permission of the Monetary Board of the Central Bank, any Rural Bank may:

- a. accept savings and time deposits;
- b. open current or checking accounts. The Monetary Board shall determine when a Rural Bank may be authorized to open current or checking accounts;
- c. act as a correspondent for other financial institutions;
- d. act as a collection agent;
- e. rediscount paper with the Philippine National Bank or Rehabilitation Finance Corporation or other banks and their branches and agencies. The Central Bank shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these institutions.

SEC. 12. The Rehabilitation Finance Corporation shall, upon request of the Monetary Board, extend to a Rural Bank a loan or loans repayable in not more than ten years, with interest at the rate of two per cent per annum against securities which may be offered by any stockholder or stockholders of the Rural Bank and which the Monetary Board may consider adequate: Provided-

- a. That the Monetary Board is convinced that the resources of the Rural Bank are inadequate to meet the legitimate credit requirements of the locality wherein the Rural Bank is established;
- b. That there is a dearth of private capital in the said locality; and
- c. That it is not possible for the stockholders of the Rural Bank to increase the paid-up capital thereof.

SEC. 13. In an emergency or when a financial crisis is imminent, the Central Bank may give a loan to any Rural Bank against assets of the Rural Bank which may be considered acceptable by a concurrent vote of at least five members of the Monetary Board.

SEC. 14. All Rural Banks created and organized under the provisions of this Act, with assets not exceeding five hundred thousand pesos shall be exempt from all taxes of whatever nature as well as charges and fees required in filing articles of incorporation.