

[Act No. 3895, November 16, 1931]

AN ACT REGULATING THE CREATION AND OPERATION OF RURAL CREDIT ASSOCIATIONS, AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Legislature assembled and by the authority of the same:

DENOMINATION

SECTION 1. An association formed under the provisions of this Act shall be known and denominated a "Rural Credit Association." The name of the place where such an association is located shall form a part of its name.

PURPOSE

SEC. 2. It shall be the purpose of rural credit associations to accumulate funds through the cooperation of their members, to extend credit to their members on reasonable terms for exclusively agricultural purposes, and to encourage thrift and punctuality on the part of members in meeting their obligations to the associations.

ORGANIZATION AND INCORPORATION

SEC. 3. Before an association may begin to operate under this Act, it shall draw up articles of incorporation and by laws in accordance with rules and regulations to be issued by the Philippine National Bank; it shall submit such articles of incorporation and such by-laws to the Philippine National Bank for approval; and the Philippine National Bank shall issue to the association a certificate of authority to operate under this Act if the said articles of incorporation and by-laws of the association meet with its approval. For public information and reference purposes the Philippine National Bank shall file a copy of the articles of incorporation and by-laws of the association with the Bureau of Commerce and Industry. The provisions of Act Numbered One thousand four hundred and fifty-nine, as amended, known as the Corporation Law, shall not apply to associations organized under the provisions of this Act. The articles of incorporation and by-laws may from time to time be amended at a general assembly of the stockholders, but no amendment shall become effective until approved by the Philippine National Bank.

SEC. 4. More than one association may be organized within the limits of a municipality, municipal district, or township subject to the approval of the Philippine National Bank. The treasurer of the political subdivision in which an association is located shall be the treasurer of the association. He may receive such reasonable remuneration as the board of directors of the association may designate with the approval of the Philippine National Bank, provided that the earnings of the association warrant the payment of such remuneration.

SEC. 5 The by-laws shall provide for the qualifications of the members of, the manner of admission to, and the manner of withdrawal from an association.

SEC. 6. The membership of an association shall consist of not less than twenty nor more than one hundred members.

SEC. 7. Each member shall subscribe for at least one share of stock in the association and shall have made at least the first installment payment thereon as a condition of membership, but he shall have not more than one vote regardless of the number of shares of stock of the association owned or held by him.

SEC. 8. A member may withdraw from an association only in the manner and under the conditions prescribed in the by-laws of the association. A withdrawing member shall not be permitted to demand the sums paid in on his shares of stock in the association if such demand would in any way embarrass the association. In case a member withdraws from the association, there shall be forfeited to the association such part of the accrued dividend on each unmaturing share of such member as may be fixed in the rules and regulations to be issued by the Philippine National Bank. A withdrawing member shall be liable for a proportionate share of the losses and obligations of the association in connection with operations effected during the period of his membership.

CAPITAL STOCK AND SURPLUS RESERVES

SEC. 9. Before an association may begin operations, it shall have a subscribed capital of not less than one thousand pesos and not more than fifty thousand pesos and at least one-tenth of the subscribed capital must be paid in cash.

SEC. 10. The capital stock shall be divided into shares, the par value of each to be fifty pesos. No member shall own more than ten shares. Payment may be made for each share of stock in installments of at least fifteen per annum.

The stock shall not be redeemed except with the approval of the Philippine National Bank and in the manner prescribed in this Act and in the by-laws of the association, but stock may be sold to another member provided such member is eligible to purchase it. Stock may be mortgaged or pledged only to the association.

SEC. 11. The association may charge each member an admission fee and a conveyance fee for each share of stock transferred by him. These fees shall accrue to the general fund of the association.

SEC. 12. A reasonable penalty in the form of interest or damages, as the case may be, may be imposed upon any member who is delinquent in meeting the payments due upon his stock or who in any manner shall fail to carry out his agreements with the association.

SEC. 13. Each association shall accumulate a surplus equal to one hundred per centum of its paid-in capital by setting aside out of profits each year a sum equal to fifty per centum of such profits. In case for any reason the surplus should decrease below the amount of the paid-in capital, a sufficient amount of the net profits not exceeding fifty per centum thereof shall be set aside each year to restore the surplus to the required amount.

ACTIVITIES OF ASSOCIATIONS

SEC. 14. A rural credit association may engage in the following activities:

a. Extending credit to the members of the association within the following limitations:

1. Loans for crop production purposes shall not be granted for a period exceeding one year, and they shall be made to mature during the customary harvesting and marketing period of the particular crop.
2. Loans for the purpose of promoting agricultural operations in general may be granted for a period not exceeding one year, provided it is evident that the member applying for the loan will have sufficient income from his crop to liquidate the debt. The loans shall be made to mature during the customary harvesting and marketing period of the particular crop.
3. Loans for a period in excess of one year and for agricultural purposes may be granted, provided that the following conditions are complied with by the borrower: (a) The loan shall not have a maximum maturity exceeding ten years and shall be payable with interest in annual installments, and (b) The loan shall be secured by a first mortgage upon productive farm lands with Torrens title of an appraised value equal to at least twice the amount of the loan.

The only funds which may be loaned for a longer period than one year shall be those derived from one-half of the paid-in capital and one-half of the surplus of the association plus such sums as the association may borrow from the Philippine National Bank upon the pledge of such loans. Such loans may be used by the Philippine National Bank within existing legal limitations as collateral to the real estate mortgage bonds which it is authorized by law to issue.

4. Loans made under the provisions of paragraphs one and two, subsection (a) of this section, may be made from any funds belonging to the association and from funds borrowed for the purpose from the Philippine National Bank: *Provided, however,* That no deposits received from members, other than subscriptions for capital stock, may be used for making loans unless the depositor has agreed in writing to leave his deposit with the association for at least one year and unless the loans made with such deposit mature prior to the maturity date of the deposit.
5. Loans made under the provisions of paragraphs one and two, subsection (a) of this section, may be made upon the pledge of personal property or real estate with or without Torrens title and also upon personal security consisting of the signature of one or more solvent persons living in the municipality, municipal district, or township in which the association is located: *Provided, however,* That the responsibility and obligation of the guarantor or guarantors shall be exactly the same as that of the primary debtor. In the event of nonpayment of the debt when due the association may proceed against the guarantor or guarantors without the necessity of first exhausting its recourse against the primary debtor.
6. Rural Credit Associations in granting loans and in all other operations shall be subject to such rules and regulations as the Philippine National

Bank may issue from time to time.

7. An association shall require that all obligations due it be promptly paid. The Philippine National Bank shall proceed to liquidate any rural credit associations if one fourth of the total loans due such associations have been past due for more than ninety days from the original due date. Loans payable in installments shall be considered past due upon nonpayment of any installment at the maturity date of such installment.
8. An association granting loans shall distribute its funds available for loans as equitably as possible among the members soliciting loans. No member may borrow from the association an amount in excess of two hundred pesos: *Provided, however,* That if the paid-in capital and accumulated surplus of an association are equal in amount to the sum necessary to lend each member two hundred pesos, on the assumption that all members are borrowing at the same time, the Philippine National Bank is authorized to increase the loan limitation prescribed herein and to permit the association to make loans on adequate securities to farmers in the locality who are not members of the association: *Provided, however,* That such loans must meet the same conditions as are imposed by this act upon loans granted to members of the association, except the conditions in regard to membership.
9. The funds of the association not needed for making loans and in excess of the daily cash requirements of the association shall be deposited with the Philippine National Bank or invested in liquid securities which may be purchased for the association by the Philippine National Bank.
10. An association may, with the approval of the Philippine National Bank, make loans to another association. The liabilities of any association for money borrowed from any and all sources shall not exceed the limits prescribed by the Philippine National Bank.
11. Loans may be granted upon the pledge of stock in the association owned by the borrower, provided that the loan shall not exceed seventy per centum of the paid-in value of such stock and provided that the total loans of this class made by an association shall not exceed one-third of its paid-in capital.
12. A member may not borrow from an association for the purpose of paying another loan which he owes to the association or a loan which he owes to his guarantor or guarantors.
13. Any person who under false pretenses obtains a loan for another person or any person who under false pretenses succeeds in obtaining a loan from an association by using the name of somebody else shall be punished by a fine equivalent to the loan thus obtained, or imprisonment not to exceed two months, or by both such fine and imprisonment, in the discretion of the court.
14. No director shall vote for a loan in which he or any member of his family, natural or by affinity to the third degree, is interested. He shall not

become bondsman, surety, or endorser in connection with any loan contracted with the association. Violation of this provision shall be punished by a fine of not less than two hundred pesos nor more than one thousand pesos or by imprisonment for not less than one month nor more than one year, or by both such fine and imprisonment, in the discretion of the court.

15. A general meeting of the members of an association shall be held at least once each year at a time to be fixed in the by-laws. At least a majority of the members of the association shall be present to constitute a quorum. Among other things, the general meeting shall consider all applications for loans to be made during the year to the members of the association and it shall approve the loans to be granted to the members, within the limitations prescribed by this Act and after considering the total amount of funds from all sources which will be available during the year for the purpose of making loans. The applications for loans shall be submitted to the general assembly through the board of directors which shall make its recommendation regarding each application. Within the limitations fixed by law and the general assembly, the directors may distribute the loans to those members for whom loans have been approved: *Provided, however,* That before any distribution is made the board of directors shall first obtain approval of the Philippine National Bank of the action taken by the general assembly.
16. The members of an association shall be jointly and severally liable for all funds borrowed from the Philippine National Bank or from any creditor other than a member of the association: *Provided, however,* That such joint and several liability shall not extend to advances obtained by the association from the Philippine National Bank under paragraph three of this subsection (a).
17. A loan may be repaid before its date of maturity. In this case a proportionate amount of the interest paid will be refunded for the unexpired period of the loan in cases where interest for the whole period has been collected in advance.
18. All laws and provisions of laws to the contrary notwithstanding, an association may fix the rate of interest which it will charge on loans at such a figure, subject to the approval of the Philippine National Bank, as will enable it to cover all expenses and to set up adequate reserves against bad debts and accumulate the surplus prescribed in this Act.
19. An association may declare immediately due and payable the entire amount of any loan granted, if the borrower has not paid when due any installment of interest or principal on such loan. The association may proceed immediately, without resorting to any court proceedings, to advertise for sale at public auction in the manner to be prescribed by the Philippine National Bank, all property, real or personal, which might have been mortgaged, pledged, or otherwise conveyed to secure the loan. The actual sale of the property shall be conducted by the provincial sheriff or his representative and shall take place thirty days after the public