

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Fifteenth Congress
First Regular Session

HOUSE BILL NO. 4054

**Introduced by Honorable Cresente C. Paez, Honorable Jose R. Ping-ay and
Honorable Agapito H. Guanlao**

EXPLANATORY NOTE

The State recognizes the vital and unique social role of cooperatives in the national economic development especially in the countryside communities.

This recognition is evident in Article 2 (Declaration of Policy) of the New Philippine Cooperative Code (RA 9520) which so eloquently provides:

"It is the declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The state shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives."

In the same Article, it further mandates the Government and all its implementing arms to afford cooperatives the necessary assistance and guidance to guarantee the promotion and development of this distinctive sector. To wit:

"Toward this end, the Government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, FINANCIAL ASSISTANCE, and other services to enable said cooperatives to develop into VIABLE AND RESPONSIVE ENTERPRISES and thereby bring about a strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives."

Moreover, Article 103, Chapter XII (Chapter on Cooperative Banks) of RA 9520, clearly state the unequivocal obligation of the Government to provide Assistance to Cooperative Banks. The said Article says:

"In accordance with existing policies, government agencies, government-owned or controlled corporations and financial institutions shall provide assistance, technical or otherwise, to cooperative banks to permit them to grow, develop and perform their role in countryside development towards a sustainable national economic development."

In the Philippines, Cooperative Banks are part of the rural banking system, and BSP classifies them as rural banks. As one of the vital sources of financing in the countryside, the rural banking industry continues to deliver sustainable and market-driven financial services to the agricultural sector and the enterprising households."

At this instance, consider some interesting statistics integral on the status of cooperative banks:

- There were 55 co-op banks organized under PD 175 (29) and under the Cooperative Code (26), and now, it is down to 43, or decrease by 22% (12). Last year, 3 were closed. Of the 43, 10 (or 23%) are under PCA (Prompt Corrective Action). Again, of the 43 co-op banks, 30 (or 70%) have failed to comply with the Capital Adequacy Ratio (CAR).
- In the year 2009, cooperative banks reported an impressive growth in earnings as net profit rose by 29.5% (P84 million) to P368 million from P284 million in 2008. As a result, the industry achieved higher return on assets (ROA) and return of equity (ROE) at 2.8% (from 1.9% in 2008) and 20.2% (from 12.1%), respectively.
- The industry's total assets were at record high at P15.2 billion, up by 17.9% from P12.9 billion in the previous year.
- Loans extended to borrowers in the rural areas increased by 17.4% to P10.9 billion from P9.3 billion over the previous year. The non-performing loans (NPL) and non-performing assets (NPA) ratios got better to 8% (from 9.1% previous year) and 7.9% (from 9.6%), respectively.
- Deposit liabilities posted double digit growth of 20% to P9.2 billion from P7.6 billion in the previous year. These were provided with adequate cover as the liquid assets-to-deposits ratio stood at 35.7% (up from 34.9% at end-2008) while cash and due from banks to deposit ratio widened to 31% (from 28.9%) over 2008.
- Although the cooperative banking industry continued to expand, the industry's share of banking offices remained the smallest within the Philippine banking system. As of December 2009, the industry has a reach-out of 119 branches/offices all-over the country.

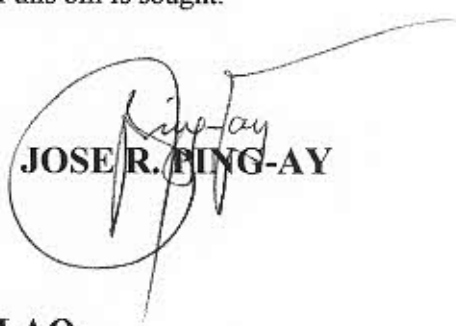
* A recent alarming report however shows that ten (10) coop banks are in trouble and are under "Prompt Corrective Action" (PCA) by the Bangko Sentral ng Pilipinas (BSP), or under the "ICU" due to capital deficiency or hemorrhage. The government will stand to lose P1.8 billion if these 10 distressed cooperatives will eventually be foreclosed by the BSP due to a "PCA failure." And very likely, ordinary people numbering 258,000 will lose their hard-earned P244.2 million equity funds invested in these distressed cooperative banks if nothing is done to prevent their closures. The most precarious consequence of this situation is the lost of the public's trust and confidence to this sector that the agricultural and household markets earnestly depend for lifeblood financial services.

This bill seeks to provide a more prudent and strategic remedy to capital inadequacy of financially distressed cooperative banks by proposing for the establishment of a Provident Endowment and Viability Enhancement Fund for the rehabilitation of cooperative banks in financial distressed. Needless to stress, the sustainability and capital enhancement of cooperative bank institutions is a crucial consideration for the poorest of the poor, and a thorough review of the characteristics of these institutions should be given high priority by all regulatory agencies task with their supervision and henceforth granting said sector the necessary assistance, support, and guidance to address the demands of current operational, industry, and socio-economic challenges. In the end, government assistance through this proposed program of equity endowment would empower the disadvantaged sectors of the society in their fight against poverty.

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



CRESENTE C. PAEZ



JOSE R. PING-AY



AGAPITO H. GUANLAO

Quezon City, Metro Manila

First Regular Session

HOUSE BILL NO. 4054

Introduced by Honorable Cresente C. Paez and Honorable Jose R. Ping-ay

**ESTABLISHING A PROVIDENT ENDOWMENT AND VIABILITY-
ENHANCEMENT FUND FOR COOPERATIVE BANKS IN THE
PHILIPPINES, KNOWN AS THE COOPERATIVE BANKS
SECURITY AND REHABILITATION FUND.**

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 “Cooperative Banks Security and Rehabilitation Fund Act of 2010”.

SECTION 2: DECLARATION OF POLICY. It is the declared policy of the state to foster the creation and growth of cooperatives as medium for poverty eradication and as a mechanism for harnessing people power towards the attainment of economic development and social justice. Further, the state shall give high priority to the sustainability of the Philippine Cooperative Banking Sector in consideration of its vital role in

1 the improvement and betterment of the quality and standard of life and
2 livelihood of the people in the rural and provincial regions by extending a
3 wide range of financial services to its members as well as the community for
4 productive and prudent purposes.

5 In pursuance of this objective, the Government shall economically
6 invigorate Cooperative Banks (CB) through the provision of technical
7 guidance, financial assistance and other services. Towards this end, a
8 Cooperative Bank Enhancement and Rehabilitation Program (CBERP) is
9 hereby provided and a Cooperative Bank Security and Rehabilitation Fund is
10 established for this purpose.

11 **SECTION 3: OBJECTIVES OF THE PROGRAM.** The program
12 intends to solidify the economic and institutional structure of the Philippine
13 Cooperative Banking System by encouraging the strategic Merger and
14 Consolidation of eligible individual cooperative banks thereby pooling their
15 resources into a larger, more unified, and stronger cooperative. This program
16 ultimately aims to transform CBs into progressive economies of scale
17 through the infusion and provision of capital and regulatory incentives
18 granted under this act, thereby optimistically perpetuating their unique
19 financial services which are specially catered to clearly defined and
20 identified markets.

1 **SECTION 4: DEFINITION OF TERMS.** As used in this Act, the

2 term:

3 a) "Cooperative Bank" shall refer to one legally organized for the
4 primary purpose of providing a wide range of financial services to
5 cooperatives and their members.

6 b) "Program" shall refer to the Cooperative Bank Enhancement
7 and Rehabilitation Program to be established and managed by the respective
8 Government Agencies and Government Financial Institutions enjoined under
9 this Act to implement the said Program.

10 c) "Fund" shall refer to the Coop Bank Endowment and Viability-
11 Enhancement Fund created by this Act.

12 **SECTION 5: APPROPRIATIONS.** The amount of Two Billion Five
13 Hundred Million Pesos (Php 2,500,000,000.00) shall be appropriated by the
14 National Government as initial fund through the joint participation of the
15 Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP), and
16 the Philippine Deposit Insurance Corporation (PDIC) as partner-benefactors
17 in the accomplishment of the program.

18 **SECTION 6: IMPLEMENTING AGENCY.** The Cooperative
19 Development Authority, Bangko Sentral ng Pilipinas, Land Bank of the

1 Philippines, and the Philippine Deposit Insurance Corporation is directed to
2 implement this Act within ONE HUNDRED EIGHTY (180) days from the
3 passage of this Act by promulgating the implementing Rules and Guidelines.

4 **SECTION 7: SEPARABILITY.** If any provision of this Act is declared
5 invalid, the remainder hereof or any provision not affected shall remain in
6 full force and effect.

7 **SECTION 8: REPEALING CLAUSE.** All laws, decrees, orders, and rules
8 and regulations or parts thereof, inconsistent with the provisions of this Act
9 are hereby repealed, amended or modified accordingly.

10 **SECTION 9: EFFECTIVITY.** This Act shall take effect fifteen (15) days
11 after its publication in at least two (2) national newspapers of general
12 circulation.

13 Approved,