



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 4478

Introduced by: REP. JOSE R. PING-AY and REP. CRESENTE C. PAEZ

EXPLANATORY NOTE

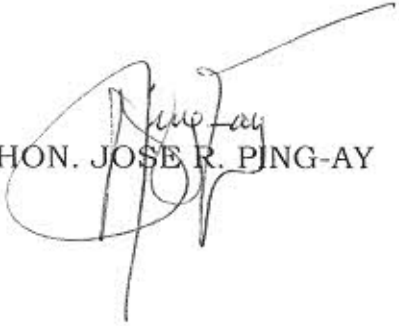
It has been a long awaited dream for the cooperative banking sector to have its own rule book distinct and different from that of rural and commercial banks. Management and operations of cooperative banks clearly manifest its peculiarities because of its nature in terms of ownership, governance, clients and profit allocation. It is along this line that these humble Representatives thought of finally coming up with a rule book that will govern the existence and operations of cooperative banks.

The important role of cooperative banks in the provision of credit and other financial services to the so-called non-bankable sector of our society has been very noteworthy. Cooperative banks are owned and financed by primary cooperatives and Samahang Nayons (SNs) using the small shareholding of farmers, fisher folks, micro-entrepreneurs, small traders, etc. In return, these primary cooperatives borrow money from cooperative banks to support its loan program for members. After the end of each year and after an external audit, net surplus generated by these cooperative banks are then returned back to owners, i.e. primary cooperatives and SNs in the form of dividends and patronage refund.

Aside from this, cooperative banks have been very active in helping our government in its poverty alleviation efforts. Moreover, with the new Philippine Cooperative Code of 2008, bigger challenges have been posted for the cooperative sector to play a bigger and more meaningful role in the delivery of credit and credit facilities to the countryside. This proposed Act will then make

cooperative banks more responsive to the challenges of the new cooperative code.

It is our humble prayer that this important piece of legislation be given utmost attention and speedy passage for the sake of the more than 2,500 primary cooperatives and SNs whose membership can reach not less than 5 million individuals. Hence, we urgently seek for its approval.



HON. JOSE R. PING-AY



HON. CRESENTE C. PAEZ



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**An Act Providing for the Creation of the Cooperative Banking Act
of 2011**

Section 1. Title. - This Act shall be known and cited as the "***Cooperative Banking Act of 2011.***"

Sec. 2. Declaration of Policy. - The State hereby recognizes the need to promote a holistic countryside development where the main beneficiaries are the development players themselves. It is aimed to attain a more equitable distribution of opportunities, income and wealth thereby expanding productivity and raising the quality of life for all, especially the underprivileged.

Towards these ends, the State hereby encourages and assists in the establishment of Cooperative Banks that would make needed credit available and readily accessible to primary cooperatives and non-bankable sectors of our society in the rural areas on affordable terms.

Sec. 3. In furtherance of this Act, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) and the Cooperative Development Authority (CDA) shall formulate the necessary rules and regulations governing the establishment and operation of cooperative banks, separate and distinct from rural and commercial banks. It shall be called Rule Book governing cooperative banks.

Sec. 4. Organization of Cooperative Banks. The organization of cooperative banks shall be based on Article 97 of RA 9520 otherwise known as the Philippine Cooperative Code of 2008.

Sec. 5. Administration of Cooperative Banks. The administration of cooperative banks shall be an utmost concern of the Board of Directors and Management pursuant to Article 98 of RA 9520. Provided, further, that the Board of Directors possess no disqualifications as indicated in Article 39 of RA 9520.

Sec. 6. Capital Requirements of Cooperative Banks. The capital requirements of cooperative banks shall be subscribed and paid by the listed primary cooperative shareholders, including Samahang Nayons, of the cooperative bank pursuant to Article 101 of RA 9520. Cooperative banks shall also institute capital build-up schemes to increase its capital subject to approved guidelines.

Individual and foreign investments shall be accepted by cooperative banks subject to guidelines by BSP and CDA.

Sec. 7. Supplemental Capital for Cooperative Banks. To provide supplemental capital to any cooperative bank until it has accumulated enough capital of its own or stimulate private investments in cooperative banks, the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or controlled bank or financial institution shall subscribe within thirty (30) days to the capital stock of any cooperative bank from time to time in an amount equal to the total equity investment of the shareholders which shall be paid in full at the time of the subscription or such amount as may be necessary to promote and expand rural economic development. Share capital held by the Land Bank of the Philippines, the Development Bank of the Philippines or by any government-owned or controlled bank or financial institution, 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 from the date of issuance in the amount to be set forth by BSP in consultation with the cooperative shareholders and the Cooperative Development Authority (CDA).

Subject to guidelines, government-owned and commercial banks who cannot abide by the 25% allocation of their loanable funds for agriculture and agrarian reform as mandated by the Agri-Agra law (RA 10000), can deposit the said allocation/amount to cooperative banks and such be treated as a compliance of the said law.

Sec. 8. Share capital certificates shall be issued to represent the contributions to capital stock of the cooperative bank to all cooperative-investors, LBP or any government-owned or controlled bank or financial institution and individuals who have paid and subscribed capital shares of the cooperative bank subject to conditions set forth by the BSP and CDA.

Sec. 9. The power to supervise the operation of any cooperative bank shall be vested to the Monetary Board of the BSP and CDA pursuant to Article 96 of RA 9520.

Sec. 10. In addition to the operations specifically authorized in this Act, any cooperative bank may;

- (a) Accept savings and time deposits;
- (b) Open current or checking accounts, provided the cooperative bank has net assets of at least Five Million pesos (P5,000,000) subject to such guidelines as may be established by BSP and CDA;
- (c) Act as correspondent for other financial institutions;
- (d) Act as a collection agent;
- (e) Operate an Automated Teller Machine;
- (f) Act as official depository of municipal, city or provincial funds in the municipality, city or province where it is located, subject to such guidelines as may be established by the Monetary Board of BSP and CDA.
- (g) Rediscount paper with the Land Bank of the Philippines, the Development Bank of the Philippines or any banking institution, including its branches and agencies. Said institution shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these institutions;
- (h) Offer other banking services as may be specified and allowed by the Monetary Board of BSP and CDA;
- (i) Extend loans to private and public employees in accordance with the provisions of Sections 5 or Republic Act No. 3779, as amended; and
- (j) Extend loans to primary cooperative-investors. At least 50% of the entire loan portfolio shall be allocated to primary cooperatives. Provided, that loans granted to primary cooperatives who are investors of the Bank shall not be considered DOSRI loans.

Sec. 11. The Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or controlled bank or financial institution shall within sixty (6) days of certification of the Monetary Board, which shall be final, extend to a cooperative bank a loan or loans from time to time repayable in ten (10) years, with concessional rates of interest, against security which may be offered by any shareholder or shareholders of the cooperative bank.

Sec. 12. In an emergency or when a financial crisis is imminent, the BSP shall provide financial assistance to any cooperative bank against assets of the

cooperative bank which may be considered acceptable by a concurrent vote of at least four (4) members of the Monetary Board of the BSP.

Sec. 13. To encourage consolidation and mergers of cooperative banks within three (3) years and that merged or consolidated banks shall be given the following incentives for a period of seven (7) years.

- (a) Its deposit liabilities shall be subjected to only one third (1/3) of reserves normally required for cooperative banks.
- (b) Its loans from government banks and financial institutions shall be restructured for a period of not less than 10 (ten) years and shall be converted as share capital (preferred) after the said period.
- (c) Its reserve requirement can all be maintained under interest-bearing government securities but kept unencumbered with government financial institutions or the BSP; and
- (d) It shall have unrestricted branching right within the region, free from any assessment or surcharges required in setting up a branch but under coordination with the BSP and CDA which will have to assess that there are qualified personnel, control and procedures to operate the branch.

Sec. 14. Assistance to Cooperative Banks. The BSP and the CDA shall be the lead agencies in extending assistance to cooperative banks pursuant to Article 103 of RA 9520.

Sec. 15. Cooperative Banks, after acquiring a Certificate of Tax Exemption from the BIR, shall be exempted from taxes as indicated in Articles 60 and 61 of the Philippine Cooperative Code of 2008.

Sec. 16. Without prejudice to any prosecution under any law which may have been violated, a fine of not more than one hundred thousand pesos (P100,000), or imprisonment for not less than six (6) months but more than ten (10) years, or both, at the discretion of the court, shall be imposed upon.

- (a) Any officer, employee, or agent of a cooperative bank who shall:
 - (1) Make false entries in any bank report or statement thereby affecting the financial interest of, or causing damage to, the bank or any person; or
 - (2) Without order of a court of competent jurisdiction, disclose any information relative to the funds or properties in the custody of the bank belonging to private individuals, corporations, or any other entity; or
 - (3) Accept gifts, fees or commission or any other form of remuneration in connection with the approval of a loan from said bank; or

(4) Otherwise or aid in overvaluing any security for the purpose of influencing in any way of the action of the bank on any loan; or

(5) Appear and sign as guarantor, endorser, or surety for loans granted; or

(6) Violate any of the provisions of this Act.

(b) Any applicant for a loan from, or borrower of a cooperative bank who shall:

(1) Misuse, misapply, or divert the proceeds of the loan obtained by him from its declared purpose; or

(2) Fraudulently overvalue property offered as security for a loan from said bank; or

(3) Give out or furnish false or willful misrepresentation of material facts for the purpose of obtaining, renewing, or increasing a loan or extending the period thereof; or

(4) Attempt to defraud the said bank in the event of court action to recover a loan; or

(5) Offer any officer, employee or agent of a cooperative bank as a gift, fee, commission or other form of compensation in order to influence such bank personnel into approving a loan application; or

(6) Dispose or encumber the property or the crops offered as security for the loan.

(c) Any examiner, or officer or employee of the BSP and the CDA or of any department, bureau, office, branch or agency of the Government who is assigned to examine, supervise, assist or render technical service to cooperative banks and who shall connive or aid in the commission of the same.

Sec. 17. Any municipal trial court judge or register of deeds who shall demand or accept, directly or indirectly, any gift, fee, commission or other form of compensation in connection with the service, or shall arbitrarily or without reasonable cause delay the acknowledgment or administration of oath or the registration of documents required to be performed by said judge shall be punished by a fine of not more than ten thousand pesos (P10,000) or by imprisonment for not more than one (1) year, or both, at the discretion of the court.

Sec. 18. Any bank not organized under this Act and any person, association, or corporation doing the business of banking, not authorized under this Act which shall use the words "Cooperative Bank" as part of the name or title of such bank or of such person, association, or corporation, shall be punished by a fine of not less than one thousand pesos (P1,000) for each day during which said words are so used.

Sec. 19. The Monetary Board of the BSP, CDA in consultation with the cooperative sector and in coordination with other government agencies shall promulgate rules and regulations to carry out the provisions of this Act within six (6) months from its effectivity. An oversight committee called the Joint Congressional Oversight Committee on Cooperative Banks of both the House of Representatives and the Senate shall be organized to review the implementing guidelines and monitor the implementation of the law. The budgetary requirement shall be provided for in the General Appropriations Act, annually.

Sec. 20. If, for any reason, any section or provision of this Act is declared unconstitutional or invalid, the other sanctions or provisions hereof shall continue to be in full force and effect.

Sec. 21. All laws, decrees, executive orders, proclamations, rules and regulations or parts thereof inconsistent are hereby repealed.

Sec. 22. This act shall take effect upon its publication in the Official Gazette or in two (2) newspapers of general circulation.

Approved: