

AN ACT REGULATING THE CREATION AND OPERATION OF KURAL AGRICULTURAL COOPERATIVE ASSOCIATIONS; AND FOR OTHER PURPOSES.

Act No. 2508., February 05, 1915

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By authority of the United States, be it enacted by the Philippine Legislature, that:

DENOMINATION.

SECTION 1. The associations formed under the provisions of this Act shall be known as and denominated "Agricultural Credit Cooperative Associations."

Each association shall also adopt and affix to said generic denomination a specific denomination consisting of the names of the municipality and province in which it is organized.

PURPOSE.

SECTION. 2. It shall be the purpose of the aforesaid associations to accumulate funds, by means of cooperation, in order to extend to their members credit on reasonable terms for exclusively agricultural operations, and to encourage thrift, activity, and punctuality in meeting obligations among said members.

ORGANIZATION AND INCORPORATION.

SECTION. 3. In order to be entitled to the benefits of this Act, said associations shall organize by means of a public instrument and shall incorporate in accordance with the Corporation Law.

SECTION. 4. Not more than one association shall be organized within the limits of a municipality.

BUSINESS WHICH MAY BE TRANSACTED.

SECTION. 5. Agricultural credit cooperative associations may, upon incorporation, engage in the following operations: (a) Extend credit to the members of the association :

1. For the expenses of securing title to, and the registration of, their land under Act Numbered Four hundred and ninety-six, and for purchasing and securing title to new agricultural land;
2. For the purchase of live stock, fertilizers, preparations for the destruction of pests of various kinds, seeds, machinery, or implements which the borrower shall use for agricultural purposes exclusively;
3. For the redemption of incumbrances on agricultural lands;
4. For the cultivation and improvement of such lands;
5. For the expenses in connection with the planting, cultivation, harvesting, or care of any agricultural crop or product, or storage and housing until sold or marketed;
6. Upon gathered products stored in a safe place and at the disposal of the association in a sum not to exceed fifty per centum of the fair market value of such gathered products;

7. For the construction, repair, and maintenance of works for irrigation or drainage of land.

(b) Open credits in current account, with interest, with the members of the association.

(c) Acquire or purchase seeds, fertilizers, preparations for the destruction of pests of various kinds, machinery, live

stock, and agricultural implements of any kind and sell the same to the members of the association.

(d) Contract loans and receive deposits in order to increase their working and circulating capital.

CREDITS.

SECTION. 6. The credit operations of these associations must be witnessed by a promissory note or other document, signed by the applicant for the loan and accompanied by a personal, or pignorative, security or mortgage upon real estate.

SECTION. 7. Personal security shall consist in a bond signed by two or more persons of recognized solvency in the municipality concerned.

SECTION. 8. Pignorative security may consist either in the pledging to the association of stock of the same, the value whereof, in the judgment of the directors, shall be at least thirty per centum more than the sum borrowed: Provided, That the total of the loans which an' association may make upon the security of its own shares of stock shall not exceed one-third of its paid-up capital; or by the pledging to the association of standing or harvested, gathered, and stored crops; machinery and implements used in agricultural operations; live stock and any other property susceptible of being separated without deterioration of the land to which it is attached; the loan not to exceed in any case fifty per centum of the value of such property.

SECTION 9. Mortgage upon real estate shall consist in a first ta mortgage on unincumbered real estate; but the loan shall in no case exceed fifty per centum of the market value of such real estate in the case of unregistered titles and sixty per centum in the case of registered titles.

SECTION. 10. A member applying for a loan shall prove to the to satisfaction of the board of directors that at the time of contracting the loan he has paid up the par value of at least one share of stock and that he is not indebted to the association or to his bondsmen or sureties for said loan.

SECTION. 11. No director shall vote on a loan requested by him, for himself or any member of his family, natural or by affinity, to the third degree, or applied for by any member of his family, natural or by affinity, to the third degree, nor on a loan requested by any person who owes a debt to him or to any member of his family; nor shall he become bondsman, surety, or indorser of any loan contracted with the association.

SECTION. 12. Loans may be repaid in installments or in one payment; but the borrower may at any time pay the full amount or part of his indebtedness before it falls due, in which case a proportionate discount shall be made of the interest on the loan for the unexpired period.

The rate of interest on loans shall in no case exceed ten per centum per annum and shall be fixed annually in accordance with the by-laws.

SECTION. 13. In case a borrower is three months in arrears in the payment of the dues or of the interest on any loan, the entire loan may, at the option of the board of directors, be declared due and payable.

SECTION. 14. The association may purchase at any public or of private sale any property on which it has a mortgage, judgment, lien, or any other incumbrance, or in which it has any property interest; and may sell, convey, lease, or mortgage such property: Provided, That in case the property-purchased is real estate, it shall be

sold or definitively disposed of within three years after the adjudication of the title thereto to the association.

SECTION. 15. The period of duration of the loans shall not exceed one year, which period may be extended for a time not to exceed five years by annual extensions.

DEPOSITS.

SECTION. 16. An association may receive deposits payable on notice and time deposits; but the total amount of said deposits shall at no time exceed its paid-up capital stock.

SECTION. 17. The assets of the entire association shall constitute the guaranty of the depositors, who shall have a prior right to said assets as against all other creditors.

SECTION. 18. Married women and minors may in their own right and under their own names make deposits and receive and receipt for deposits or interest. If, however, a guardian shall notify the proper officer of an association in writing not to pay the deposits or interest to the minor whose guardian he is, then payment shall be made to such guardian only.

SECTION. 19. In the case of deposits payable on notice, it shall be lawful to require depositors to give notice, within a . period which shall not exceed thirty days, of their intention to withdraw their deposits; and in this case such association may refuse to pay any deposit until such notice shall have been given and the time prescribed therefor shall have elapsed.

SECTION. 20. Whenever the depositors shall request the return of their deposits and the money of the association actually available for this purpose is only sufficient or is insufficient for the payment of said deposits, the association shall make no new loan nor investment from the funds of the depositors or from the profits from said funds until the request of the depositors shall have been satisfied. Any officer or director of the association making or authorizing the making of any loan or investment from the funds of the depositors or the profits from said funds in violation of this section shall be punished by imprisonment for not more than one year, or by a fine of not more than one thousand pesos.

CAPITAL STOCK.

SECTION. 21. The funds of these associations shall be made up of the admission fees, the subscriptions of shares of stock, the reserve fund, and any other funds accruing under the law or the by-laws to the general funds of the association.

SECTION. 22. The association may charge an admission fee for each member and a conveyance fee for each share of stock transferred, which fee shall accrue to the general fund of the association.

SECTION. 23. The capital and the number of shares of stock of each agricultural credit cooperative association shall be fixed by the articles of incorporation: Provided, however, That it shall be lawful to fix in said articles of incorporation the minimum capital necessary for an association to begin operations, and to provide in its by-laws for the dissolution of the association if the capital stock shall be reduced to a sum less than said minimum.

SECTION. 24. The capital stock shall be divided into shares. The par value of each share shall not exceed five pesos. No person shall have for himself shares for more than five hundred pesos. The payment for each share of stock shall be made in one sum and upon delivery of the certificate therefor. The by-laws shall establish the value of each share and the manner of subscribing.

SECTION. 25. The shares shall be registered and shall not be deemed transferred, mortgaged, or pledged without

the consent of the board of directors.

SECTION. 26. It shall be lawful to prescribe the imposition of a reasonable fine on any delinquent stockholder or any stockholder who in any manner shall fail to comply with his stipulations with the association.

SECTION. 27. The reserve fund shall consist of a sum set aside by the board of directors from the net profits at each annual balance prior to the distribution of any dividend, which sum shall not be less than twenty per centum of said net profits. As soon as the reserve fund shall be equal to fifty per centum of the paid-up capital stock, the accumulation of the sum set aside from the net profits may be suspended; but it shall be renewed as soon as it shall fall below said fifty per centum.

The reserve fund may be invested in securities or investments to be approved by the Executive Secretary and shall be expended only for covering the deficits of the association.

MEMBERS.

SECTION 28. The by-laws shall determine the qualifications for membership, the form of admission and expulsion, the form of appeal against a resolution refusing admission, and the form of withdrawal from membership. The death of a member shall be considered a withdrawal from membership.

Each member shall be a resident of the municipality in which the association is organized, and shall have the reputation in the locality of being honest and industrious.

SECTION. 29. Each member shall have not more than one vote regardless of the number of shares held by him.

SECTION. 30. Any member may withdraw from the association, to take effect at the end of the current association year only, if the application for withdrawal was made before the last quarter of the association year; if made later, it shall take effect at the end of the next following association year.

An outgoing member shall be entitled to the benefits to which he may have been entitled under the by-laws during the time of his membership in the association; but an outgoing member shall not be permitted to demand the amount of his shares until the association shall have funds available therefor: Provided, however, That there shall not be appropriated, in any one month, for payment to retiring members and on account of their shares more than one-third of the total net receipts of the association: And provided further, That the sum which may be available shall be paid to the members in the order of the dates on which their applications for withdrawal are filed: And provided, also, That the association shall be obliged to pay, as soon as it has funds available, members who have withdrawn and have not been paid, after the conclusion of the year in which they have withdrawn. An outgoing member shall not be entitled to any participation in the reserve fund.

An outgoing member shall be liable for a proportionate share of the losses and obligations of the association for operations effected during the period of his membership.

ADMINISTRATION AND GOVERNMENT.

SECTION. 31. The government and administration of these associations shall be entrusted to a board of directors and to the stockholders' general assembly.

The powers and duties of the board of directors and the stockholders' general assembly and of any other committee that may be authorized for the supervision of the business of the association and the work of its directors shall be determined by the by-laws.

The board of directors shall consist of five members, who may serve with or without compensation. The directors

shall be members of the association and own at least one share of stock, which shall not be transferred, mortgaged, or pledged during their terms of office. If at any time it appears that this section has been violated, the position of the offending director shall forthwith be declared vacant.

SECTION. 32. The directors shall be elected for two years, and two of them shall be renewed each even-numbered year and three each odd-numbered year. During the first and the second year of the association the directors to be renewed shall be designated by lot. The board of directors shall ordinarily hold a meeting at least once a month to act upon the admission of members and other pending business of the association. A special meeting may also be held upon call by the president or a majority of the members.

SECTION. 33. Immediately after their election and each year thereafter upon a date to be fixed by the by-laws, the directors shall elect from amongst themselves a president and a secretary-treasurer and shall appoint such other officers as the by-laws may prescribe. The directors and officers shall perform the duties intrusted to them by law or by the by-laws. A majority of the directors shall constitute a quorum for the transaction of the corporate business of the association, and every resolution of the majority of the quorum, duly assembled in a meeting, shall be valid as a corporate act: Provided, That no loan shall be made except by affirmative vote of at least three members of the board.

SECTION. 34. The directors of the corporation may be removed from office by the stockholders' general assembly, and by the vote of two-thirds of all members at a regular meeting or a special meeting called for the purpose, upon notification in the latter case to the stockholders of the intention to propose such removal at such meeting.

SECTION. 35. The directors shall be jointly and severally responsible for operations effected in violation of the bylaws or resolutions of the general assembly, except those who entered a protest at the time when such operations were determined upon.

SECTION. 36. The stockholders' general assembly shall be composed of the members owning at least one share of stock, and when lawfully constituted it shall represent all the members. There shall be a regular convention of the general assembly at least once each year, on the date fixed in the by-laws, for the purpose of filling vacancies on the board of directors and receiving the report of the latter on the operations of the preceding year and hearing their recommendations regarding the distribution of the gains and profits for the same period, and for the purpose of transacting other general business of the association.

SECTION. 37. At the call of the board of directors or of one third of the members, the general assembly shall also convene for the transaction of special business covered by the call.

BY-LAWS.

SECTION. 38. Agricultural credit cooperative associations shall, within thirty days after their organization, adopt by-laws containing such regulations as may be deemed advisable for their management, administration, and interior government, provided they are not inconsistent with the articles of incorporation or with the provisions of this Act. The by-laws shall, among others, contain rules covering the following subjects:

- (a) Name and domicile of the association.
- (b) Purposes and sphere of action of the business operations of the association.
- (c) Procedure in the admission of members to the association, dues which they have to contribute toward the support thereof, and manner of communicating their accounts to the members.
- (d) Rights and duties of individual members toward the association, and of the association toward individual members.

- (e) Number of directors, form of appointment, term of office, resignation, removal, substitution, duties, and rights of the same.
- (f) Powers of the board of directors, quorum for passing resolutions, and manner of recording the same and protests in the part of any member or members.
- (g) Form of organization of the stockholders' general assemblies, classes of the latter, manner of calling the same, Powers and duties thereof, and quorum for passing resolutions.
- (h) Number, form of appointment, removal, powers, conduct, and obligations of the employees of the association and guaranty to be furnished by them for the performance of their official duties.
- (i) Manner of inspection and auditing of the accounts, books, and documents of the association, as well by the directors as by the members thereof and the several committees created for this purpose.
- (j) Books to be kept by the association and its employees and manner in which the accounts thereof shall be kept.
- (k) Manner in which the association shall carry on its work and guaranties which it shall or may require for its operations.
- (l) Manner of forming the funds of the associations and application of the profits obtained and investment thereof.
- (m) Rules for submission of social questions between members to final decision by arbitration.
- (n) Dissolution and liquidation of the association, persons empowered to effect the same, manner of proceeding thereto, and application of the funds on hand upon such " liquidation.

These by-laws shall be approved by a majority vote of the members present at the stockholders' general assembly.

The by-laws may from time to time be amended by said stockholders' general assembly subject to the approval of the Executive Secretary.

SECTION. 39. The original by-laws and their amendments, duly attested by a majority of the directors and countersigned by the president of the association, shall be forwarded to the chief of the division of archives, patents, copyrights, and trade-marks of the Executive Bureau, who shall attach said copy to the articles of incorporation on file in his office.

BALANCES AND DIVIDENDS.

SECTION. 40. The board of directors shall at least once each year prepare a balance sheet of the association, determine the profits and losses on all business transacted, and declare in accordance with such balance sheet the dividends to be paid to the stockholders.

No dividend shall be paid by any association to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due any association on which interest is past due and unpaid for a period of six months, unless same are well secured and in process of collection, shall be considered bad debts within the meaning of this section.

Interest accrued but not collected shall not be included among the profits for the computation of the dividend to be paid.

Directors who, in the annual balance sheet shall maliciously participate in a failure to state clearly the actual profits and losses of the association, or who shall willfully distribute dividends except out of the net earnings as determined in accordance with the provisions of this section or without lawful provision for reserve, or who shall in any other manner violate the provisions of this section, shall be punished by a fine of not to exceed two thousand pesos, or imprisonment not to exceed two years, or by both such fine and imprisonment.

LIQUIDATION AND DISSOLUTION.

SECTION. 41. Agricultural credit cooperative associations may be dissolved:

- (a) Upon expiration of the time limit prescribed in the articles of incorporation, if incorporated for a definite period.
- (b) By resolution of the stockholders' general assembly, adopted by a two-thirds vote of all members at a regular or special meeting called for this purpose.
- (c) By order of the Court of First Instance of the province in which the association is operating, whenever it shall appear to the satisfaction of the court that the business of the association is being transacted fraudulently or is causing, or liable to cause, injury to the public or to any person. In this case the procedure prescribed by the Corporation Law in similar cases shall be followed.
- (d) On account of bankruptcy or insolvency of the association.

The liquidation shall be made by the board of directors, unless otherwise provided by the by-laws or the stockholders' general assembly. The liquidation shall be made within one year's time, after the expiration whereof and upon petition by any member having made a loan or deposit the Court of First Instance of the province in which the association is operating may appoint another person or persons as liquidators.

EXEMPTIONS AND PRIVILEGES.

SECTION. 42. The associations created by this Act whose net assets do not exceed ten thousand pesos shall enjoy the following exemptions and privileges, the provisions of existing law to the contrary notwithstanding:

- (a) They shall be exempt from the payment of the registration fees established in section eight of Act Numbered Fourteen hundred and fifty-nine for the filing of their articles of incorporation, by-laws, and other documents provided for by this Act.
- (b) They shall not be subject to the payment of the taxes established by the Internal Revenue Law of Nineteen hundred and fourteen.
- (c) Persons making deposits with or loans to the said associations shall also be exempt from the payment of any tax established by existing law or hereafter established for deposits or loans.
- (d) These associations shall likewise be exempt from the payment of all court fees payable to the Insular Government for actions brought under this Act or to enforce the payment of obligations contracted in favor of the association.
- (e) The registration of the securities required by the associations for loans upon real estate, property rights, or personal property shall be exempt from the payment of the fees established by section one hundred and fourteen of Act Numbered Four hundred and ninety-six, as amended by section seven of Act Numbered Sixteen hundred and forty-eight, by the tariff of the Mortgage Law of Eighteen hundred and ninety-three, and by section fifteen of Act Numbered Fifteen hundred and eight, on chattel mortgages.
- (f) The credits of said associations against members of the same for sums borrowed by them shall have the preference as regards collection over any other claim except in case of a duly registered hypothecary credit on real or personal property, and in the case of taxes, within two years after such taxes become due.
- (g) Sums lent or deposited with the treasury of the association, up to the amount of two hundred pesos, shall enjoy exemption from attachment by virtue of any civil action, provided such loan or deposit has been made prior to the fact resulting in said action; otherwise, and in case said action is derived from a criminal action, said sums may be attached, but shall not be withdrawn from the treasury of the association, and the creditor shall merely succeed the lender or depositor concerned in his rights in the same: Provided, however, That none of the provisions of this subsection shall be applicable to debts contracted in favor of the association by lenders or depositors.

- (h) They shall also enjoy the privilege of depositing their cash closed cash boxes in the safes of the municipal or provincial or treasurers' offices, but no charge shall be made them for such deposit, nor shall said treasurers be responsible, except in their capacity as agents of said associations.
- (i) They shall enjoy the privilege of depositing with the postal savings banks such funds as they may desire to deposit, at the same rate of interest as granted to an individual and without limitation as to the amount.
- (j) They may receive from their provincial board, the postal savings banks, the Agricultural Bank of the Philippine Islands, or from similar agricultural credit cooperative associations loans or deposits, as may be granted to them, upon the security of the property belonging or mortgaged to them; the total of said loans and deposits not to exceed one-half of their paid-up capital stock.

GOVERNMENT SUPERVISION.

SECTION. 43. The Executive Secretary, either himself or through his agents or delegates, shall act as legal adviser to said associations and shall revise and approve the bylaws of each association, issue the necessary orders and rules regarding the manner in which they shall keep their account books and records, and the general manner of investing their funds of all kinds and the terms upon which they shall make loans to their members, and likewise the terms upon which they may receive loans and deposits from private or official persons or corporations.

Said Executive Secretary shall, either personally or through his agents and deputies, at least once every six months, cause an examination and audit to be made of the accounts and operations of each association in order to ascertain the condition of the funds thereof and whether its operations are in accordance with the law, the by-laws, or the orders and rules issued by his office. In case he finds that any association violates the law, the by-laws, or the orders and rules in the premises, he shall give the necessary orders to the board of directors of said association to have the defect remedied, and in case of noncompliance the secretary of the association shall, upon the request of the Executive Secretary or any of his agents or deputies, call a special meeting of the stockholders' general assembly in order to decide whether or not there are grounds for the removal from office of one or more of the responsible directors.

BOOKS AND RECORDS OF THE ASSOCIATION.

SECTION. 44. All agricultural credit cooperative associations shall carefully keep and preserve a record of all their business transactions and minutes of all meetings of their directors and of the stockholders' general assembly, setting forth in detail in each case the date and place where the meeting was held, whether the meeting was regular or special, and if special, what was its purpose and by whom it was called, the members present and absent, and all resolutions adopted at said meeting.

SECTION. 45. Each of these associations shall also keep a register of the members, which, on the first pages thereof, shall contain a copy of the articles of incorporation and the by-laws of the association translated into the dialect of the locality. These by-laws shall be deemed the real and original by-laws, the same as those filed with the division of archives, patents, copyrights, and trade-marks of the Executive Bureau. Immediately after the by-laws shall follow a complete list of the members, with their names and surnames, addresses, occupations, number of shares of stock, and amounts paid. Each member shall set his signature [^] opposite his name at the time of his admission, and the respective date shall be recorded and his signature or mark, as the case may be, shall be considered as an agreement of the signer to abide by said by-laws. The pages of this book shall be so arranged as to leave sufficient spaces for members who may die, withdraw, be expelled, or transfer their stock. In case of withdrawal the member withdrawing shall sign, and the signature or mark with the date shall be the best proof of

the fact of the separation.

The signature or mark of the member entering or withdrawing shall be witnessed by two persons, one of whom ° shall be a director of the association and the other a member thereof.

The books of agricultural credit cooperative associations shall be open for inspection by the members during office s hours on working days.

SECTION. 46. The provisions of the Corporation Law shall t apply to these associations except as otherwise expressly provided in this Act.

SECTION. 47. All Acts or parts of Acts inconsistent with the t provisions of this Act are hereby repealed.

Enacted, February 5, 1915.

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