

AN ACT TO AUTHORIZE THE ORGANIZATION OF RURAL BANKS IN THE PHILIPPINE ISLANDS, AND FOR OTHER PURPOSES.

Act No. 3896, November 16, 1931

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

SECTION 1. The provisions of existing law to the contrary notwithstanding, rural banks may be organized hereunder in the Philippine Islands by an individual, duly registered general copartnership or corporation residing or established and doing business in the Philippine Islands, provided that the capital set aside, in the case of individuals and registered general copartnerships, or the capital subscribed and the paid-up capital, in the case of corporations, are equivalent to, or in excess, of the amounts fixed by the Philippine National Bank, and that, in the case of corporations, the said paid-up capital is in the possession of the treasurer of the bank.

SEC. 2. Before any individual, registered general copartnership, or corporation may operate a bank under this law, it shall first file an application with the Philippine National Bank, stating, among other things, the amount of capital it has available for investment and that it is willing and prepared to observe the provisions of this law and such rules and regulations as may be prescribed by the Philippine National Bank, which shall issue the corresponding certificate of authority in case it is satisfied that the applicant meets all the necessary requirements.

SEC. 3. Every individual, registered general copartnership, or corporation operating a bank under this Act shall at all times keep the bank's capital separate from all other funds, and such capital or any part thereof shall not be disposed of or employed for purposes other than those for which the bank is organized.

SEC. 4. Every rural bank organized under this Act shall keep its own separate books of account clearly reflecting all its operations.

SEC. 5. Rural banks operating under this law shall have the power of lending money to farmers with or without security under such terms and conditions as may from time to time be fixed by the Philippine National Bank.

Said banks shall likewise have the power of operating as collecting agencies.

SEC. 6. The banks organized under this Act may secure additional capital from the Philippine National Bank in its discretion in the form of a loan at a preferential rate of interest on first mortgage or other good security and under such other terms and conditions as may be fixed by the Philippine National Bank: Provided, That banks indebted to the Philippine National Bank shall set aside from their net profits, at each annual closing of accounts, a sum not less than twenty per centum of their net profits, until the amounts so set aside shall be equal to fifty per centum of the outstanding loan: Provided, further, That the amounts so set aside may be invested in securities or investments approved by the Philippine National Bank.

SEC. 7. The Philippine National Bank shall have supervisory and directory powers over all banks established under this Act. The supervision and direction herein provided for shall consist of the power to regulate the operation of the banks; particularly the amounts of loans that may be granted to farmers, the terms and conditions

under which such loans are to be made, to prescribe the books of account and other records to be kept by the banks, to examine the banks' accounts and business, and to liquidate, in its discretion and without the necessity of instituting court proceedings, any bank violating any provision of this law or any lawful requirement established by the Philippine National Bank in accordance with the law, and any bank the business of which is deemed by the Philippine National Bank to be conducted in an unsafe manner.

SEC. 8. A rural bank may voluntarily retire from business subject to the approval of the Philippine National Bank.

SEC. 9. The said banks may purchase, hold, and convey conveyance of property personal and real property as follows:

- The lot with the building thereon in which the bank conducts and carries on its business.
- Such property, personal or real, as may have been mortgaged, pledged or conveyed to it in good faith in trust for its benefit by reason of money loaned by it in pursuance of the regular business of the bank; and such personal or real property as may have been purchased by it at sales to satisfy pledges, mortgages or deeds of trust executed to it on account of money loaned by it, and such personal or real property as may have been conveyed to it by borrowers in satisfaction and discharge of loans made by the bank to them: Provided, however, That, if at the public auction held as a result of the foreclosure of a mortgage, no bidder offers for the property being sold a sum equal to the amount of the loan, the interest, and the costs of the litigation, the bank may purchase said property: Provided, however, That the bank shall sell real estate purchased at such auction within a period of three years: And provided, further, That before the real estate just mentioned is offered for sale, the original owner thereof shall be allowed to redeem the same upon payment of the principal, accrued interest, and other necessary expenses.

SEC. 10. The articles of association of registered general copartnerships and the by-laws of corporations organized for the sole purpose of operating as rural banks under this Act shall be made and carried out in accordance with rules and regulations to be prescribed by the Philippine National Bank.

SEC. 11. No owner, partner, director or officer of a rural bank shall borrow money directly or indirectly from it. The penalty for violation of this section shall be imprisonment for not less than three months nor more than one year, or a fine of not less than five hundred pesos nor more than one thousand pesos, or both such imprisonment and fine in the discretion of the court.

SEC. 12. Any owner, partner, director or officer of a rural bank who permits or causes to be paid out any funds of said bank, or who transfers or causes to be transferred liquidation, penalties, any security or property of said bank after said bank has been placed under liquidation by the Philippine National Bank, shall be punished by imprisonment for not less than one year nor more than five years, or by a fine of not less than one thousand pesos nor more than five thousand pesos, or by both such imprisonment and fine in the discretion of the court.

SEC. 13. All banks organized under this Act shall submit such reports of their operations and such other data as may be required by the Philippine National Bank, and they shall be subject to inspection at any time in the discretion of the Philippine National Bank.

SEC. 14. The said banks shall be exempt from all taxes, and charges, and fees of every name and nature, except the income tax.

SEC. 15. The funds and property of every rural bank organized under this Act shall likewise be exempt from attachment or execution during the period of its operation, unless the bank was organized in fraud of creditors, in which case it shall be liquidated, not in accordance with section seven hereof, but in the usual manner, as the

circumstances require, the Philippine National Bank to be considered as a preferred creditor to the extent of the total of such loans as it might have extended in favor of said bank.

SEC. 16. This Act shall take effect upon its approval.

Approved, November 16, 1931.

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