

AN ACT AMENDING FURTHER REPUBLIC ACT NUMBERED THREE HUNDRED THIRTY-SEVEN, AS AMENDED, REGULATING BANKS AND BANKING INSTITUTIONS AND FOR OTHER PURPOSES, OTHERWISE KNOWN AS THE "GENERAL BANKING ACT"

BATAS PAMBANSA BLG. 61, April 30, 1980

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Be it enacted by the Batasang Pambansa in session assembled:

SECTION 1. Section 2-A of Republic Act Numbered Three hundred thirty-seven, as amended, is hereby further amended to read as follows:

"SEC. 2-A. The following entities shall not be considered as banking institutions but shall be subject to regulation by the Monetary Board which may include, but need not be limited to, the imposition of net worth to risk assets ratios, reserve requirements, interest rate ceilings, methods of computation thereof, prescribing maximum charges which may be collected, minimum capitalization, and submission of statistical reports:

"(a) Entities regularly engaged in the lending of funds or purchasing of receivables or other obligations with funds obtained from the public through the issuance, endorsement or acceptance of debt instruments of any kind for their own account, or through the issuance of certificates of assignment or similar instruments with recourse, trust certificates, or of repurchase agreements, whether any of these means of obtaining funds from the public-is done on a regular basis or only, occasionally;

"(b) Entities regularly engaged in the lending of funds which receive deposits only occasionally; and

"(c) Trust companies, building and loan associations, and non-stock savings and loan associations, but such non-deposit accepting entities shall continue to be supervised and regulated by the Monetary Board under the pertinent provisions of this Act, and/or Republic Act Nos. 265, as amended, and 3779."

SEC. 2. Section 2-B of the same Act is hereby amended to read as follows:

"SEC. 2-B. The operations and activities of non-bank financial intermediaries, except insurance companies, shall be subject to regulation by the Monetary Board which may include, but need not be limited to, the imposition of constraints covering the (a) minimum size of funds received, (b) methods of marketing and distribution, (c) terms and maturities of funds received, and (d) uses of funds: Provided, however, That if such entities are authorized by the Central Bank to perform quasi-banking functions, they may be further subject to regulation under Section 2-A of this Act."

SEC. 3. Section 6-A of the same Act is hereby further amended to read as follows:

"SEC. 6-A. For purposes of uniformity, simplicity and equality of treatment, banking institutions shall be classified into the following general categories: (a) Commercial banks, (b) Thrift banks, composed of (1) Savings and mortgage banks, (2) Stock savings and loan associations, and (3) Private development banks, and (c) Rural banks. Specialized and unique government banks, such as the Development Bank of the Philippines and the Land Bank, are not covered by this classification, but shall be subject to supervision and regulation by the Central Bank pursuant to the provisions of Section twenty-five of Republic Act No. 265.

"The Monetary Board shall determine the proper classification of other types of banking institutions that may be established after the approval of this Act."

SEC. 4. Section 6-B of the same Act is hereby further amended to read as follows:

"SEC. 6-B. With prior approval of the Monetary Board, commercial banks, thrift banks and rural banks may establish branches, agencies, or extension offices, on a nationwide basis.

"Notwithstanding the provisions of any law to the contrary, no government or private banks may open branches, agencies, or extension offices without prior approval of the Monetary Board."

SEC. 5. Section 8 of the same Act is hereby further amended to read as follows:

"SEC. 8. No banking institutions shall issue no-par value stock. For the purpose primarily of determining the permanency of equity, the types of stock a banking institution may issue, including the terms thereof and the rights appurtenant thereto, shall be subject to such rules and regulations as the Monetary Board may prescribe, the provision of any law to the contrary notwithstanding."

SEC. 6. Section 12-C of the same Act is hereby amended to read as follows:

"SEC. 12-C. A corporation organized primarily for the purpose of owning equity in thrift banks or rural banks may own more than thirty percent (30%) of the voting stock of a thrift bank and/or rural bank up to a majority or all of the equity thereof: Provided, That the acquisition of such equity is subject to the prior approval of the Monetary Board which shall promulgate appropriate guidelines to govern such investments : Provided, further, That the equity ownership of any individual, related group or corporation in the parent corporation owning more than thirty percent (30%) of the voting stock of the thrift bank or rural bank is in accordance with the provisions of Sections 12 12-A, 12-B and 12-D of this Act: Provided, finally, That the parent company owning, a majority or all of the equity in a bank may not engage in activities not allowed to the invested bank.

SEC. 7. The same Act is hereby amended by adding a new section after Section 12-D, to read as follows:

"SEC. 12-E. To promote competitive conditions in financial markets, the Monetary Board may further limit the equity investments, direct or indirect, in banks and non-bank financial intermediaries performing quasi-banking functions."

SEC. 8. Section 13 of the same Act is hereby further amended to read as follows:

"SEC. 13. At least two-thirds of the members of the board of directors of any bank or banking institution which may be established after the approval of this Act shall be citizens of the Philippines: Provided, That no appointive or elective public official, whether full-time or part-time, shall at the same time serve as officer of any private bank, except in cases where such service is incident to financial assistance provided by the government or a government-owned or controlled corporation to the bank: Provided, further, That in the case of a bank merger or consolidation duly approved by the Monetary Board, the limitation on the number of directors in a corporation, as provided for in section fourteen of the Corporation Code of the Philippines, shall not be applied so that membership in the new board may include up to the total number of directors provided for in the respective articles of incorporation of the merging or consolidating banks."

SEC. 9. Section 14-A of the same Act is hereby further amended to read as follows:

"SEC. 14-A. Foreign banking institutions without branches in the Philippines, including (a) their wholly-or majority-owned subsidiaries, and (b) their holding companies having majority holdings in such foreign banking institutions, may invest, with prior approval of the Monetary Board, in equities of local companies engaged in financial allied undertakings under the same restrictions imposed on domestic banks of the same category, as provided for in Sections twenty-one-A and thirty-one of this Act or in other banking laws. In any case, the aggregate holdings of voting stocks of all foreign entities in any single domestic financial enterprise

shall remain a minority participation in that enterprise.

"With prior approval of the Central Bank, these foreign entities may also purchase equities in domestic banks: Provided, That their aggregate holdings of voting stocks shall remain at all times subject to the limitations prescribed in Section 12-A of this Act.

"The foregoing limitations shall not apply either to international or regional inter-governmental financial organizations and their subsidiaries of which the Philippines is a member."

SEC. 10. Section 21 of the same Act is hereby further amended to read as follows:

"SEC. 21. A commercial banking corporation, in addition to the general powers incident to corporations: shall have all such powers as shall be necessary to carry on the business of commercial banking, by accepting drafts and issuing letters of credit, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debts; by receiving deposits; by buying and selling foreign exchange and gold or silver bullion, and by lending money against personal security or against securities consisting of personal property or mortgages on improved real estate and the insured improvements thereon.

"Commercial banks may acquire readily marketable bonds and other debt securities subject to such rules as the Monetary Board may promulgate. These rules may include, but need not be limited to, the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment."

SEC. 11. Section 21-A of the same Act is hereby further amended to read as follows:

"SEC. 21-A. Commercial banks, including Government banks and foreign banks with existing local branches, may invest in equities of the following allied undertakings: warehousing companies, leasing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds but not in the mutual funds themselves, banks, and such other similar activities as the Monetary Board may declare as appropriate from time to time: Provided, That (a) the total investment in equities shall not exceed twenty-five percent (25%) of the net worth of the bank; (b) the equity investment in any one enterprise shall not exceed fifteen percent (15%) of the net worth of the bank; (c) the total equity investment of the bank in any single enterprise shall remain a minority holding in that enterprise, except as provided in Section 21-C of this Act or where the enterprise is a non-financial allied undertaking; and (d) the equity investment in other banks shall be deducted from the investing bank's net worth for purposes of computing the prescribed ratio of net worth to risk assets. Equity investments shall not be permitted in non-related activities.

"Where the allied undertaking is a wholly- or majority-owned subsidiary of the bank, the Central Bank may subject it to examination."

SEC. 12. The same Act is hereby amended by adding three new sections after Section 21-A thereof, to read as follows:

"SEC. 21-B. The provisions in this or in any other Act to the contrary notwithstanding, the Monetary Board, whenever it shall deem appropriate and necessary to further national development objectives or support national priority projects, may authorize a commercial bank, a bank authorized to provide commercial banking services, as well as a government-owned and controlled bank, to operate under an expanded commercial banking authority and by virtue thereof exercise, in addition to powers authorized for commercial banks, the powers of an Investment House as provided in Presidential Decree No. 129, invest in the equity of a non-allied undertaking, or own a majority or all of the equity in a financial intermediary other than a commercial bank or a bank authorized to provide commercial banking services: Provided, That (a) the total investment in equities shall not exceed fifty percent (50%) of the net worth of the bank; (b) the equity investment in any one enterprise whether allied or non-allied shall not exceed fifteen percent (15%) of the net worth of the bank; (c) the equity investment of the bank, or of its wholly- or majority-owned subsidiary, in a single non-allied

undertaking shall not exceed thirty-five percent (35%) of the total equity in that enterprise nor shall it exceed thirty-five percent (35%) of the voting stock in that enterprise; and (d) the equity investment in other banks shall be deducted from the investing bank's net worth for purposes of computing the prescribed ratio of net worth to risk assets.

"In the exercise, of the authority granted herein, the Monetary Board shall take into consideration the capability of the bank in terms of its past performance as a bank or as a financial intermediary, financial resources and technical expertise, and the investment of the bank shall be subject to such regulations as the Monetary Board may prescribe which may include but need not be limited to the categories of undertakings or projects that may be invested in by the bank directly or through its wholly-or majority-owned subsidiary or the extent of exposure in any of the activities authorized in this section.

"Where the enterprise is wholly- or majority-owned by the bank, the Central Bank may subject it to examination.

"In order to avoid undue concentration of economic power, the total equity investments of banks, quasi-banks and their subsidiaries in a single enterprise or industry may be subject to such limitations as may be prescribed by the Monetary Board, but shall in any case remain a Minority in any enterprise except as may be otherwise approved by the President (Prime Minister).

"For the purpose of determining compliance with the limitations on equity holdings by a bank in a non-allied undertaking, the equity holdings of the bank in the undertaking, when combined with those of its directors, officers and substantial stockholders, and its wholly- or majority-owned subsidiaries shall not exceed the prescribed thirty-five percent (35%) of the equity of that undertaking. The same rule shall be observed in the case of an equity investment by a subsidiary wholly- or majority-owned by the bank, where the investors in the undertaking consist of the subsidiary, the bank which owns the majority or all of the equity of the subsidiary, the officers, directors and substantial stockholders of the bank, as well as those of the subsidiary.

"The regulations issued by the Monetary Board to implement the provisions of this section and Section 21-C of this Act shall be reported to the President (Prime Minister) and to the Batasang Pambansa within fifteen days from the date of their issuance. Such regulations shall be published in a newspaper of general circulation.

"SEC. 21-C. The provisions of this Act or of any other Act to the contrary notwithstanding, a commercial bank or any bank authorized to provide commercial banking services, or to operate under an expanded commercial banking authority, may own more than thirty percent (30%) of the voting stock of a thrift bank or a rural bank up to a majority or all of the equity thereof: Provided, That the acquisition of such equity or equities is subject to the prior approval of the Monetary Board which shall promulgate appropriate guidelines to govern such investments: Provided, further, That the equity ownership of any individual, related group or corporation in the investing bank is in accordance with the provisions of Sections 12, 12-A, 12-B and 12-D of this Act: Provided, finally, That the equity investment in other banks shall be deducted from the investing bank's net worth for purposes of computing the prescribed ratio of net worth to risk assets.

"SEC. 21-D. The Monetary Board is hereby authorized to take such measures as may be necessary, when the expanded commercial banking- authority permitted under the provisions of this Act would result in an undue concentration of economic power in one or more financial institutions or in corporations, partnerships, groups or individuals with related interest."

SEC. 13. Section 22 of the same Act is hereby further amended to read as follows:

"SEC. 22. The combined capital accounts of each commercial bank shall not be less than an amount equal to ten percent (10%) of its risk assets which is defined as its total assets minus the following assets:

"(a) Cash on hand;

"(b) Amounts due from the Central Bank;

"(c) Evidences of indebtedness of the Republic of the Philippines and of the Central Bank, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

"(d) Loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines;

"(e) Loans or acceptances under letters of credit to the extent covered by margin deposits; and

"(f) Other non-risk items which the Monetary Board may, from time to time, authorize to be deducted from total assets.

"The Monetary Board shall prescribe the manner of determining the total assets of banking institutions for the purposes of this section, but contingent accounts shall not be defined as being included, among total assets.

"The Monetary Board may, consistent with prudent banking and the general economic conditions obtaining at the time, prescribe ratios of net worth to risk assets lower than that hereinabove prescribed: Provided, That such ratios shall not be less than five percent (5%) : Provided, further, That the reduction from the ratio will apply uniformly to all banks, regardless of category, beyond a certain minimum size with respect to the level of their capital accounts: Provided, finally, That the Monetary Board may subsequently raise a ratio but any such upward adjustment shall be made effective only after a reasonable period of time. The Monetary Board may, at its discretion, require that the ratio of net worth to risk assets be determined on the basis of the combined risk assets of the parent bank and its subsidiaries, financial or otherwise.

"Whenever the capital accounts of a bank are deficient with respect to the requirements of this Act, the Monetary Board, after considering a report of the appropriate supervising department on the state of solvency of the institution concerned, shall limit or prohibit the distribution of net profits and shall require that part or all of net profits be used to increase the capital accounts of the institution until the minimum requirement has been met. The Monetary Board may, furthermore, after considering the aforesaid report of the appropriate supervising department and if the amount of the deficiency justifies it, restrict or prohibit the making of new investments of any sort by the bank, with the exception of purchases of readily marketable evidences of indebtedness included under Subsection (c) of this Section, until the minimum required capital ratio has been restored.

"Where in the process of a bank merger or consolidation, the merged or constituent bank may not be able to comply fully with the net worth to risk assets ratio herein prescribed, the Monetary Board may, at its discretion, temporarily relieve the bank from full compliance with this requirement under such conditions as it may prescribe."

SEC. 14. Section 23 of the same Act is hereby further amended to read as follows:

"SEC. 23. Except as the Monetary Board may otherwise prescribe, the total liabilities of any person, company, corporation or firm, to a commercial banking corporation for money borrowed, excluding (a) loans secured by obligations of the Central Bank or of the Philippine Government; (b) loans fully guaranteed by the government as to the payment of principal and interest; (c) loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines; (d) loans and acceptances under letters of credit to the extent covered by margin deposits; and (e) other loans or credits which the Monetary Board may, from time to time, specify as non-risk assets, shall at no time exceed fifteen percent (15%) of the unimpaired capital and surplus of such bank.

"The total liabilities of any borrower may amount to a further fifteen percent (15%) of the unimpaired capital and surplus of such banking corporation provided the additional liabilities are adequately secured by shipping

documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, nonperishable staples, which staples must be fully covered by insurance, and must have a market value equal to at least one hundred and twenty-five percent (125%) of such additional liabilities.

"The term 'liabilities', as used herein, shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such bank and the liability of the indorser, drawer or guarantor who obtains a loan from or discounts paper with or sells papers under his guaranty to such bank and shall include in the case of liabilities of a co-partnership or association the liabilities "of the several members thereof and shall include in the case of liabilities of a corporation all liabilities of subsidiaries thereof in which such corporation owns or controls a majority interest: Provided, That even if the parent corporation, co-partnership or association has no liability to the bank, the Monetary Board may prescribe the combination of the liabilities of subsidiary corporations or members of the co-partnership or association under certain circumstances, including but need not be limited to any of the following situations: (a) the parent corporation, co-partnership or association guarantees the repayment of the liabilities; (b) the liabilities were incurred for the accommodation of the parent corporation or another subsidiary or of the co-partnership or association; or (c) the subsidiaries through separate entities operate merely as departments or divisions of a single enterprise: Provided, finally, That the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed for the purpose, of this section.

"Loan accommodations granted by commercial banks to any other bank, as well as deposits maintained by them in any bank licensed to do business in the Philippines, shall be subject to the loan limit to any single borrower as herein prescribed."

SEC. 15. Section 29 of the same Act is hereby further amended to read as follows:

"SEC. 29. A savings and mortgage bank shall be any corporation organized for the purpose of accumulating the savings of depositors and investing them, together with its capital, in readily marketable bonds and debt securities; commercial papers and accounts receivables; drafts, bills of exchange, acceptances, or notes arising out of commercial transactions or in loans secured by bonds, mortgages on real estate and insured improvements thereon, and other forms of security or in loans for personal or household finance, whether secured or unsecured, and financing for home building; and home development; and in such other investments and loans which the Monetary Board may determine as necessary in the furtherance of national economic objectives: Provided, however, That investments made and loans granted pursuant to the provisions of this section shall be in conformity with such regulations as the Monetary Board may prescribe. A savings and mortgage bank may also issue a domestic letter of credit denominated in Philippine currency in accordance with such regulations as the Monetary Board may prescribe.

"Nothing in this section shall be construed as precluding a savings and mortgage bank from performing, with prior approval of the Monetary Board, commercial banking services, or from operating under an expanded commercial banking authority, nor from exercising, whenever applicable and not inconsistent with the provisions of this Act and Central Bank regulations, such other powers incident to a corporation.

"Notwithstanding any provision in any other Act to the contrary, savings and mortgage banks may lend money against the security of jewelry, precious stones and articles of similar nature, subject to such rules and regulations as the Monetary Board may prescribe."

SEC. 16. Section 31 of the same Act is hereby further amended to read as follows:

"SEC. 31. Savings and mortgage banks may invest in equities of allied undertakings as may be approved by the Monetary Board for banks of their category as provided under Section 6-A of this Act: Provided, That the total investment in equities shall not exceed twenty-five percent (25%) of the net worth of the bank; the equity investment in any single enterprise shall not exceed fifteen percent (15%) of the net worth of the bank; (3) the

total equity investment of the bank in any single enterprise shall remain a minority holding in that enterprise, except where the enterprise is a non-financial allied undertaking; and (4) the equity investment in other banks shall be subject to the same regulations governing similar investment of commercial banks and shall be deducted from the investing bank's net worth for the purposes of computing the prescribed ratio of net worth to risk assets. Equity investments shall not be permitted in non-related activities.

"Where the allied undertaking is a wholly- or majority-owned subsidiary of the bank, the Central Bank may subject it to examination."

SEC. 17. Section 33 of the same Act is hereby further amended to read as follows:

"SEC. 33. Any savings and mortgage bank may, with the approval of the Monetary Board, issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loans.

"Such mortgage and chattel mortgage certificates shall be issued exclusively in national currency and exclusively for the financing of equipment loans, mortgage loans for the acquisition of machinery and other fixed installations, conservation, enlargement or improvement of productive properties, and real estate mortgage loans (1) for the construction, acquisition, expansion or improvement of rural and urban properties; (2) for the refinancing of similar loans and mortgages; and (3) for such other purposes as may be authorized by the Monetary Board. The Monetary Board may issue such regulations as it deems necessary with respect to the maturities, rates of interest, denominations and other conditions pertaining to such certificates.

"The bank shall coordinate the amounts and maturities of its certificates with those of its loans, so as to ensure adequate cash receipts for the payment of principal and interest at the time they become due.

"Savings and mortgage banks shall accept their own certificates at least at the actual price of issue, in any prepayment of loans which mortgage or chattel mortgage debtors may wish to make, provided that the date of maturity of the certificates is not later than the date on which the payment would otherwise become due, in the absence of the aforesaid prepayment."

SEC. 18. Section 78 of the same Act is hereby further amended to read as follows:

"SEC. 78. Loans against real estate security shall not exceed seventy percent (70%) of the appraised value of the respective real estate security, plus seventy percent (70%) of the appraised value of the insured improvements, and such loans shall not be made unless title to the real estate shall be in the mortgagor. In the event of foreclosure, whether judicially or extra-judicially, of any mortgage on real estate which is security for any loan granted before the passage of this Act or under the provisions of this Act, the mortgagor or debtor whose real property has been sold at public auction, judicially or extrajudicially, for the full or partial payment of an obligation to any bank, banking or credit institution, within the purview of this Act shall have the right, within one year after the sale of the real estate as a result of the foreclosure of the respective mortgage, to redeem the property by paying the amount fixed by the court in the order of execution, with interest thereon at the rate specified in the mortgage, and all the costs and other judicial expenses incurred by the bank or institution concerned by reason of the execution and sale and as a result of the custody of said property less the income received from the property. However, the purchaser at the auction sale concerned shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of the auction sale and administer the same in accordance with law.

"Similarly, loans on the security of chattels shall not exceed fifty percent (50%) of the appraised value of the security, and such loans shall not be made unless title to the chattels, free from all encumbrances, shall be in the mortgagor.

"The Monetary Board may, by regulation, prescribe further security requirements to which the various types of bank credit shall be subject, and, in accordance with the authority granted to it in Section one hundred eleven

of the Central Bank Act, the Board may by regulation reduce the maximum ratios established in the present section, or, in special cases, increase the maximum ratios established herein.

"The Monetary Board may, similarly, in accordance with the authority granted to it in Section one hundred eleven of the Central Bank Act, and taking into account the requirements of the economy for the effective utilization of long-term funds, prescribe the maturities, as well as related terms and conditions for various types of bank loans. Any change by the Board in the maximum maturities shall apply only to loans made after the date of such action."

SEC. 19. This Act shall take effect upon its approval.

Approved, April 1, 1980.

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