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SENATE
P.S. Res. No. 934

Introduced by Senator Richard J. Gordon

RESOLUTION
DIRECTING THE APPROPRIATE SENATE COMMITTEE TO CONDUCT AN INQUIRY,
IN AID OF LEGISLATION, INTO THE ALLEGED FAILURE OF REGULATION BY THE
BANGKO SENTRAL NG PILIPINAS OVER RURAL BANKS SPECIFICALLY IN
RELATION TO THEIR ENGAGEMENT IN ILLEGAL BANKING ACTIVITIES AND
MASSIVE DIVERSION OF FUNDS WHICH LED TO THEIR COLLAPSE,
WITH THE END IN VIEW OF ENACTING APPROPRIATE MEASURES
TO PROVIDE PROTECTION TO THE PUBLIC

WHEREAS, Republic Act No. 8791 or the General Banking Act of 2002 declares a State policy of recognizing the vital role that banks provide towards an environment conducive to the sustained development of the nation, by promoting and maintaining a stable and efficient banking system that is globally competitive, dynamic and responsive to the demands of a developing economy;

WHEREAS, pursuant to this policy, the Bangko Sentral ng Pilipinas (BSP) has been tasked as the supervisor and regulator of domestic banks, including rural banks as created under Republic Act No. 7353 or the Rural Banks Act of 1992, in generally all aspects of their business operations;

WHEREAS, the domestic banking industry has been racked by scandal with the recent declaration of bank holidays by 13 rural banks with financial ties to the Legacy Group of Companies, followed by their placement under receivership by the BSP;

WHEREAS, the rural banks were found to be severely undercapitalized and to have engaged in illegal banking activities including massive diversion of funds using fictitious loans, in what the BSP describes as the "grandest and most complete criminal banking model" the country has ever seen;

WHEREAS, in the specific instance of the Rural Bank of DARBCI, huge deposits amounting to P830 million were allegedly amassed through a "double your money in five/three years" scheme, and then siphoned using two other schemes—the "motorcycle loan program" and the "investment loan program";

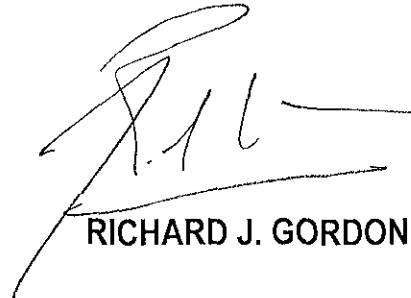
WHEREAS, the BSP began investigating the banks in 2005, but weaknesses in its charter prolonged the investigation;

WHEREAS, the banks involved have an estimated deposit liability of P24 billion, of which only P14 billion would be returned to some depositors whose bank accounts worth P250,000 and below are covered by the Philippine Deposit Insurance Corporation;

WHEREAS, there is a need for the Philippine Senate to investigate this controversy to identify the problems attending the evident deficiency in action by the BSP in the exercise of its supervisory and regulatory powers over rural banks, which have been created to promote comprehensive rural development with the aim of attaining a more equitable distribution of opportunities, income and wealth; *Now, therefore, be it*

RESOLVED, AS IT IS HEREBY RESOLVED by the Senate of the Philippines, to direct the appropriate Senate committee to conduct an inquiry, in aid of legislation, into the alleged failure of supervision and regulation by the Bangko Sentral ng Pilipinas over rural banks specifically in relation to their engagement in illegal banking activities and massive diversion of funds which led to their collapse, with the end in view of enacting appropriate measures to provide protection to the public.

Adopted,



RICHARD J. GORDON