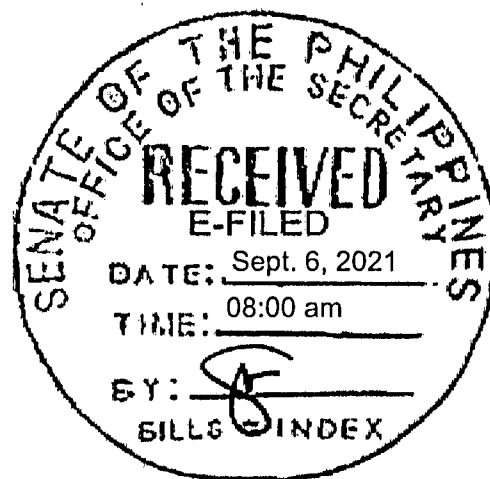


EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Third Regular Session)

SENATE
S. No. 2379



Introduced by SENATOR RAMON BONG REVILLA, JR.

AN ACT
STRENGTHENING RURAL BANKS IN THE PHILIPPINES, AMENDING
FURTHER FOR THE PURPOSE REPUBLIC ACT NO. 7353, OTHERWISE
KNOWN AS THE RURAL BANKS ACT OF 1992, AS AMENDED

EXPLANATORY NOTE

Republic Act No. 7353 or the Rural Banks Act of 1992 was enacted to promote comprehensive rural development through the establishment of a rural banking system designed to make the needed credit available and readily accessible¹. The system provides credit facilities to farmers and merchants, to their respective cooperatives, and in general, to the people of the rural communities². Through the years, rural banks have been instrumental in the empowerment of economies of remote areas; provided support to farmers, fisherfolk, micro and small enterprises; and ensured the financial inclusion of the rural communities.

While the rural banking industry comprises a small slice of the Philippine financial system in terms of asset size, it has a wide reach and is an integral component of the government's strategy to increase global competitiveness by strengthening rural economies³.

¹ Section 2, Republic Act No. 7353 or "An Act Providing for the Creation, Organization and Operation of Rural Banks, and for Other Purposes."

² Section 3, RA 7353.

³ "Capital Requirements of Rural Banks in the Philippines."

https://www.bsp.gov.ph/Media_And_Research/Publications/BS11_A3.pdf

As of December 2020, there are 2,746 rural banks in the country, 2,660 of which are located in the countryside. They catalyze development through unique products such as microfinancing, particularly for the agriculture sector, and assisted communities in building financial security. Specifically, rural and cooperative banks catered to the needs of most Barangay Micro Business Enterprises (BMBEs) borrowers. The vast network of rural banks has also been utilized in the disbursement of Social Amelioration Program (SAP) and service payout of beneficiaries during the Covid-19 pandemic.

This bill seeks to update the nearly three decade-old law to further strengthen the industry and promote its resilience amid the changing times. It expands the authorized functions of rural banks to include, among others: a) Act as official depository of municipal, city, provincial or government-owned or –controlled corporations (GOCC) funds in local government units where the bank is located in areas where there are no government banks; b) Act as conduit banks for the disbursement of government funds intended for lending to agriculture, micro, small and medium enterprises (MSMEs) and projects for local economic development; c) Participate in government program allocations for agricultural lending, social housing, loans to rural micro enterprises and other initiatives towards inclusive growth.

The proposed legislation also provides rules on subscription to capital stock of rural banks by government-owned and –controlled financial institutions. Lastly, it provides tax exemptions to surviving or consolidated rural banks, which are party to a merger or consolidation, for a period of five years, provided that they will be in an unbanked city or municipality.

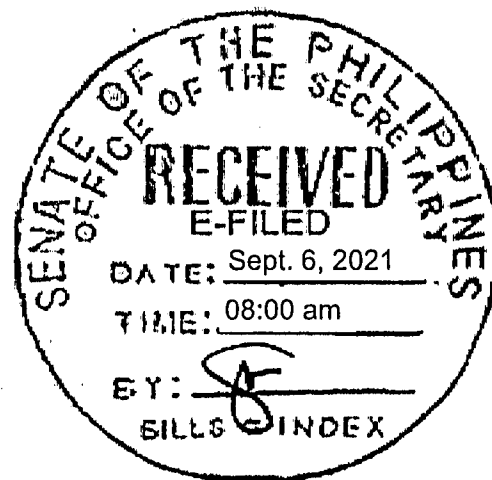
In the hopes of sustained countryside development, enhanced financial access of marginalized sectors, and reaching the large unbanked population that is one of the highest in Southeast Asia, the passage of this bill is recommended.


RAMON BONG REVILLA, JR.

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 Section 1. *Short Title.* - This Act shall be known as the "*Rural Banking Act of*
2 *2021.*"

3 Sec. 2. *Declaration of Policy.* - The State hereby recognizes the need to
4 promote comprehensive local community development across the country with the
5 end in view of attaining equitable distribution of opportunities, income and wealth, a
6 sustained increase in the amount of goods and services produced by local communities
7 and in expanding productivity as a key objective to improve the quality of life for all,
8 especially the underprivileged.

9 Towards these ends, the State hereby encourages and assists in the
10 establishment of rural banking system, and promotes the growth and resilience of
11 rural banks, being one of the channels for financial inclusion in recognition of their
12 long-standing contribution in the pursuit of making financial services accessible to all
13 individuals and business entities.

14 Sec. 3. *Regulatory and Supervisory Powers of the Monetary Board.* - In
15 furtherance of this policy, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP)
16 shall formulate the necessary rules and regulations governing the establishment,

1 supervision and operation of rural banks to ensure that rural banks operate in a safe
2 and sound manner in the performance of their mandate and authorized functions.

3 Sec. 4. *Organization.* – Rural banks shall be organized in the form of stock
4 corporations, and no rural bank shall be operated without a certificate of authority
5 from the BSP.

6 Duly established cooperatives and corporations primarily organized to hold
7 equities in rural banks may organize a rural bank and/or subscribe to the shares of
8 stock of any rural bank; Provided, That a cooperative or corporation owning or
9 controlling the whole or majority of the voting stock of the rural bank shall be subject
10 to special examination and to such rules and regulations as the Monetary Board may
11 prescribe.

12 Sec. 5. *Ownership.* - No less than forty percent (40%) of the voting stocks of
13 a rural bank shall be owned by citizens of the Philippines or corporations or
14 associations organized under the laws of the Philippines at least sixty percent (60%)
15 of whose capital is owned by such citizens. Non-Filipino citizens may own, acquire or
16 purchase up to sixty percent (60%) of the voting stocks in a rural bank. The
17 percentage of foreign-owned voting stocks shall be determined by the citizenship of
18 the individual stockholders in that rural bank. The citizenship of the corporation which
19 is a stockholder in a rural bank shall follow the citizenship of the controlling
20 stockholders of the corporation, irrespective of the place of incorporation.

21 Sec. 6. *Subscription by Government-Owned or –Controlled Bank or Financial*
22 *Institution.* – The following rules on subscription shall apply:

- 23 a) If subscription of a private shareholder to the capital stock of a rural bank
24 cannot be secured or is not available, or insufficient to meet the normal
25 credit needs of the locality, the Land Bank of the Philippines (LBP), the
26 Development Bank of the Philippines (DBP) or any government-owned or
27 controlled bank or financial institution, on representation of the said private
28 shareholders but subject to the investment guidelines, policies and
29 procedures of the bank or financial institution and upon approval of the
30 Monetary Board of the BSP, shall subscribe to the capital stock of such rural
31 bank, which shall be paid in full at the time of subscription, in an amount
32 equal to the fully paid subscribed and unimpaired capital of the private

1 stockholders or such amount as the Monetary Board may prescribe as may
2 be necessary to promote and expand rural economic development.

- 3 b) To provide supplemental capital to any rural bank until it has accumulated
4 enough capital of its own or stimulate private investments in rural banks,
5 and subject to the investment guidelines, policies and procedures of the
6 bank or financial institution, the LBP, the DBP or any government-owned
7 or –controlled bank or financial institution may subscribe to the capital stock
8 of any rural bank from time to time in an amount equal to the total equity
9 investment of the private shareholders which shall be paid in full at the time
10 of the subscription of such amount as may be necessary to promote and
11 expand rural economic development.

12 Provided, however, that shares of stock issued to the LBP, the DBP or any
13 government-owned or –controlled bank or financial institution, may, pursuant to this
14 Section, at any time, be paid off at par and retired in whole or in part if the rural bank
15 has accumulated enough capital strength to permit retirement of such shares, or if an
16 offer is received from private sources to replace the equity investment of the LBP, the
17 DBP or any government-owned or –controlled bank or financial institution.

18 Provided, further, that such shares of stock subscribed by the LBP, the DBP or
19 any government-owned or –controlled bank or financial institution may be sold at
20 adjusted book value to qualified individuals and juridical entities, subject to the
21 provisions of Section 25-A of Republic Act No. 7653, as amended.

22 Provided, finally, that in the sale of shares of stock subscribed by the LBP, the
23 DBP or any government-owned or –controlled bank or financial institution, preference
24 shall be given to residents and juridical entities of the locality or province where rural
25 bank is located.

26 In case of retirement of stock, replacement of equity investments of the LBP,
27 the DBP or of any government-owned or –controlled bank or financial institution, the
28 registered private shareholders of the rural bank shall have the right of pre-emption
29 within one (1) year from the date of offer in proportion to their respective holdings.

30 *Sec. 7. Board of Directors.* – Non-Filipino citizens may become members of the
31 board of directors of a rural bank but their participation in the board shall be limited
32 to their proportionate share in the equity of the rural bank: Provided, however, that

1 at least one (1) independent director shall be elected to the board of directors, unless
2 otherwise prescribed by the Monetary Board of the BSP.

3 Sec. 8. *Directors and Officers.* – No director or officer of any rural bank shall,
4 either directly or indirectly, for himself or as the representative or agent of another,
5 borrow any of the deposits or funds of such banks, nor shall he become a guarantor,
6 indorser, or surety for loans from such bank to others, or in any manner be an obligor
7 for money borrowed from the bank or loaned by it except when it is with the written
8 approval of the majority of the directors of the bank, excluding the director concerned.
9 Any such approval shall be entered upon the records of the corporation and a copy of
10 such entry shall be transmitted forthwith to the appropriate supervising department
11 of the BSP.

12 After due notice to the board of directors of the bank, the office of any bank
13 director or officer who violates the provisions of this section may be declared vacant
14 and the director or officer shall be subject to the penal provisions under Section 23 of
15 this Act.

16 Sec. 9. *Restrictions on Bank Exposures to Directors, Officers and their Related*
17 *Interests.* – The Monetary Board may regulate the amount of loans, credit
18 accommodations and guarantees that may be extended, directly or indirectly, by the
19 rural bank to its directors, officers, stockholders and their related interests.

20 However, the outstanding loans, credit accommodations and guarantees which
21 a rural bank may extend to each of its stockholders, directors, or officers and their
22 related interests shall be limited to an amount equivalent to the respective unimpaired
23 outstanding deposits and book value of the paid-in capital contributions in the bank.

24 Sec. 10. *Loans and Credit Accommodations Against Real Estate.* – Loans or
25 advances extended by rural banks shall be primarily for the purpose of meeting the
26 credit needs of farmers, fishermen and farm families. For this purpose, rural banks
27 may accept the following as collateral:

- 28 1) Lands without Torrens Title where the owner of private property can show
29 five (5) years or more of peaceful, continuous and uninterrupted possession
30 in concept of owner; or
- 31 2) Portions of friar land estates or other lands administered by the Bureau of
32 Lands that are covered by sales contracts and the purchasers have paid at

1 least five (5) years installment thereon, without the necessity of prior
2 approval and consent by the director of lands, or of portions of other estates
3 under the administration of the Department of Agrarian Reform (DAR) or
4 other governmental agency which are likewise covered by sales contracts
5 and the purchasers have paid at least five (5) years installment thereon,
6 without the necessity of prior approval and consent of the DAR or
7 corresponding governmental agency; or

- 8 3) Homestead tax declarations or free patent lands pending the issuance of
9 titles but already approved, the provisions of any law or regulations to the
10 contrary notwithstanding: Provided, that when the corresponding titles are
11 issued, the same shall be delivered to the Register of Deeds of the province
12 where such lands are situated for the annotation of the encumbrance.

13 Sec. 11. *Loans and Credit Accommodation on the Security of Unissued*
14 *Homestead or Free Patent.* – In the case of lands pending issuance of homestead tax
15 declarations or free patent titles, copies of the notices for the presentation of the final
16 proof shall be furnished the creditor rural bank and, if the borrower applicants fail to
17 present the final proof within thirty (30) days from date of notice, the creditor rural
18 bank may do so for them at their expense. Provided, however, that the loan applicant
19 using unissued homestead or free patent as security must show proof that he has
20 already made improvements on the land and the loan applied for is to be used for
21 further development of the same or for other productive economic activities. Provided,
22 further, that the responsibility for the appraisal and verification of the status of a land
23 shall be incumbent upon the rural bank; and any loan granted on any land which shall
24 be found later to be within the forest zone shall be for the sole account of the rural
25 bank.

26 Sec. 12. *Loans and Other Credit Accommodations on Security of Farm Produce.*
27 – Borrowers, especially those who are mere tenants, can secure their loans with the
28 produce corresponding to their share.

29 Sec. 13. *Foreclosure of Mortgages.* – The foreclosure of mortgages covering
30 loans granted by rural banks and executions of judgment thereon involving real
31 properties levied upon by sheriff shall be exempt from the publications in newspapers
32 as required by law where the total amount of loan, excluding interests due and unpaid,

1 does not exceed One Million Pesos (P 1,000,000.00) or such amount as the Monetary
2 Board may prescribe by taking into account prevailing economic conditions.

3 It shall be deemed sufficient publication in such cases where the notices of
4 foreclosure and execution of judgment are posted in the most conspicuous area of the
5 municipal building, the municipal public market, the rural bank, the barangay hall, and
6 the barangay public market, if any, where the land mortgaged is situated during the
7 period of sixty (60) days immediately preceding the public auction or execution of
8 judgment.

9 Proof of publication as required herein shall be accomplished via an affidavit of
10 the sheriff or officer conducting the foreclosure sale or execution of judgment and
11 shall be attached with the records of the case.

12 Provided, that when a homestead or free patent is foreclosed, the homesteader
13 or free patent holder, as well as his heirs shall have the right to redeem the same
14 within one (1) year from the date of foreclosure in the case of land not covered by a
15 Torrens Title or one (1) year from the date of the registration of the foreclosure in the
16 case of land covered by a Torrens Title, other laws notwithstanding.

17 *Sec. 14. Foreclosure of Real Estate Mortgage.* – A rural bank shall be allowed
18 to foreclose lands mortgaged to it including lands covered by Republic Act No. 6657,
19 otherwise known as the Comprehensive Agrarian Reform Law of 1988, as amended.
20 Provided, that said lands shall be subject to the retention limits provided under
21 Republic Act No. 6657.

22 Rural banks which are not qualified to acquire or hold land in the Philippines
23 shall be allowed to bid and take part in foreclosure sales of real property mortgaged
24 to them, as well as to avail of enforcement and other proceedings, and accordingly to
25 take possession of the mortgaged property, for a period not exceeding five (5) years
26 from actual possession. Provided, that in no event shall title to the property be
27 transferred to the rural bank. In case the rural bank is the winning bidder, it shall,
28 during the said five (5) year period, transfer its rights to a qualified Philippine National,
29 without prejudice to a borrower's rights under applicable laws. Should a rural bank be
30 not able to transfer such property within the five (5) year period, the rural bank shall
31 be penalized one-half (1/2) of one percent (1%) *per annum* of the price at which the

1 property was foreclosed until the rural bank is able to transfer the property to a
2 qualified Philippine National.

3 *Sec. 15. Features of Preferred Shares.* – Stocks held by the LBP, the DBP or by
4 any government-owned or –controlled bank or financial institution, under the terms
5 of Section 6 hereof, shall be made preferred only as to assets upon liquidation and
6 without the power to vote and shall share in dividends distribution as declared by the
7 board but not to exceed the prevailing 90-day T-bill rates at the rate of declaration.
8 Dividend rates for preferred shares shall follow the same limits.

9 Provided, however, that if such stock of the LBP, the DBP or any government-
10 owned or –controlled bank or financial institution is sold to private shareholders, the
11 same may be converted into common stock as provided for in Section 6 hereof.

12 Provided, further, that pending the amendment of the Articles of Incorporation
13 of the rural bank, if necessary, for the purpose of reflecting the conversion into
14 common stock of preferred stock sold to private stockholders, the transfer shall be
15 recorded by the rural bank in the stock and transfer book and such shareholders shall
16 thereafter enjoy all the rights and privileges of common stockholders.

17 *Sec. 16. Report on Sale of Preferred Stocks.* – The corporate secretary of the
18 rural bank shall submit to the BSP and the Securities and Exchange Commission (SEC)
19 a report on every transfer of preferred stock to private shareholders, and such report
20 received by the SEC shall form part of the corporate records of the rural bank. When
21 all the preferred shares of stock of rural bank held by the LBP, the DBP or by any
22 government-owned or –controlled bank or financial institution have been sold to
23 private shareholders, the Articles of Incorporation of the rural bank shall be amended
24 in accordance with the provision of the Revised Corporation Code of the Philippines to
25 reflect the conversion of the preferred shares.

26 For this purpose, the application for the amendment of the Articles of
27 Incorporation shall include a certificate issued by the president, the corporate
28 secretary, and a majority of the board of directors that all preferred shares have been
29 sold to private shareholders. This certification shall be attached to the original Articles
30 of Incorporation on file with the SEC.

1 The SEC shall not register the amended of the Articles of Incorporation unless
2 accompanied by the Certificate of Authority required under Section 14 of Republic Act
3 No. 8791, otherwise known as the General Banking Law of 2000.

4 Sec. 17. *Powers of Rural Banks.* – In addition to the operations especially
5 authorized in this act, and subject to rules and regulations of the BSP, any rural bank
6 may:

- 7 a) Accept saving and time deposit;
- 8 b) Open account or checking accounts;
- 9 c) Act as correspondent for other financial institutions;
- 10 d) Act as a collection agent;
- 11 e) Act as (i) official depository of municipal, city, provincial or GOCC funds in
12 the municipality, city and province where the rural bank is located in areas
13 where there are no government banks, and (ii) depository bank of GOCCs
14 and government agencies as to funds allocated for programs awarded to
15 the rural bank in an amount equivalent to approved guarantee or credit
16 line;
- 17 f) Act as conduit bank for the disbursement of government funds intended for
18 lending to agriculture, micro, small and medium enterprises (MSMEs) and
19 projects for local economic development;
- 20 g) Participate in government program allocations for agricultural lending,
21 social housing, loans to rural micro enterprises and other initiatives towards
22 inclusive growth;
- 23 h) Grant loans;
- 24 i) Rediscount paper with any banking institution. Said institution shall specify
25 the nature of paper deemed acceptable for rediscounting;
- 26 j) Offer other banking services such as, but not limited to, trust, foreign
27 currency loans and deposits, foreign and domestic remittances, and letters
28 of credit; and
- 29 k) Extend credit facilities to private and government employees in accordance
30 with Section 10 (k) of RA No. 7906.

1 Nothing in this section shall be construed as precluding a rural bank from
2 performing, with prior approval of the Monetary Board, other services allowed for thrift
3 and commercial banks under an expanded banking authority.

4 SEC. 18. *Investment in Allied Undertakings.* – Subject to such guidelines as may
5 be established by the Monetary Board, rural banks may invest in equities of allied
6 undertakings as hereinafter enumerated: Provided, that (a) the total investment to
7 equities shall not exceed twenty-five percent (25%) of the net worth of the rural bank;
8 (b) the equity investment in any single enterprise shall be limited to fifteen percent
9 (15%) of the net worth of the rural bank; and (c) the equity investment of the rural
10 bank in any single enterprise shall remain a minority holding in that enterprise;
11 Provided, further, that equity investment shall not be permitted in non-related
12 activities.

13 Allied undertakings shall include:

- 14 a) Banks, financial institutions and non-bank financial intermediaries;
- 15 b) Warehousing and other post-harvest facilities;
- 16 c) Fertilizer and agricultural chemical and pesticides distribution;
- 17 d) Farm equipment distribution;
- 18 e) Trucking and transportation of agricultural products;
- 19 f) Marketing of agricultural products;
- 20 g) Leasing; and
- 21 h) Other undertakings as may be determined by the Monetary Board.

22 Sec. 19. *Tax Exemptions.* – Notwithstanding any law to the contrary:

- 23 a) All rural banks created and organized under the provisions of this Act shall
24 be exempt from the payment of all taxes, fees, and charges of whatever
25 nature and description, except the corporate income tax and local taxes,
26 fees and charges, for a period of five (5) years from the date of
27 commencement of operations;
- 28 b) Surviving or consolidated Rural Bank which is party to a merger or
29 consolidation shall be exempt from the payment of all taxes, fees and
30 charges of whatever nature and description, except the corporate income
31 tax and local taxes, fees and charges, for a period of five (5) years from the
32 date of commencement of operations. Provided, That, the surviving or

1 consolidated rural bank establishes an office or branch in an unbanked city
2 or municipality as determined by the BSP.

3 *Sec. 20. Exemption from Single Borrower's Limit.* – Deposits of rural banks with
4 government-owned or –controlled financial institutions like the LBP, and the DBP, are
5 exempted from the single borrower's limit imposed by the General Banking Law of
6 2000.

7 In areas where there are no government banks, rural banks may deposit in
8 private banks more than the amount prescribed by the single borrower's limit, subject
9 to the rules and regulations of the BSP.

10 *Sec. 21. Exemption from Registration Fees.* – Any Register of Deeds shall accept
11 from any rural bank and its borrowers and mortgagors for registration, free from all
12 charges, fees and documentary stamp tax, collectible under existing laws, any
13 instrument, whether voluntary or involuntary, relating to loans or transaction extended
14 by a rural bank in an amount not exceeding One Million Pesos (P 1,000,000.00).

15 Provided, however, that charges, if any, shall be collectible on the amount in
16 excess of One Million Pesos; and that in instruments related to assignments of several
17 mortgages consolidated in a single deed, if any, shall be levied only on the amount in
18 excess of One Million Pesos of the consideration in the assignment of each mortgage,
19 or such amount as the Secretary of Finance, upon recommendation of the Monetary
20 Board, may prescribe as may be necessary to promote and expand the rural economy.

21 *Sec. 22. Conduit of LBP and DBP.* – Rural banks organized and operated under
22 the provisions of this Act may act as agents or conduits of the LBP and the DBP in
23 places where these banks have no offices, subject to accreditation guidelines.

24 *Sec. 23. Prohibited Acts.* – Without prejudice to any prosecution under any law
25 which may have been violated, a fine of not more than One Million Pesos (P
26 1,000,000.00) or a penalty of not less than *prision correccional* and not more than
27 *reclusion temporal*, or both at the discretion of the court, shall be imposed upon:

- 28 1) Any officer, employee, or agent of a rural bank who shall:
29 a) Make false entries in any bank report or statement thereby affecting the
30 financial interest of, or causing damage to, the bank or any person;

- b) 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;
- c) Accept gifts, fees or commission or any other form of remuneration in connection with the approval of a loan from said bank;
- d) Overvalue or aid in overvaluing any security for the purpose of influencing in any way of the action of the bank on any loan;
- e) Appear and sign as guarantor, endorser, or surety for loans granted; or
- f) Violate any of the provisions of this Act.

2) Any applicant for a loan from, or borrower of, a rural bank who shall:

- a) Misuse, misapply, or divert the proceeds of the loan obtained by him from its declared purpose;
- b) Fraudulently overvalue property offered as security for a loan from said bank;
- c) Give out or furnish false or wilful misrepresentation of material facts for the purpose of obtaining, renewing, or increasing a loan or extending the period thereof;
- d) Attempt to defraud the said bank in the event of court action to recover a loan;
- e) Offer any officer, employee or agent of a rural bank as a gift, fee, commission or other form of compensation in order to influence such bank personnel into approving a loan application; or
- f) Dispose or encumber the property or the crops offered as security for the loan.

Sec. 24. *Unauthorized Advertisement of Business Representation.* – 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 “rural 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 Five Thousand Pesos (P 5,000.00) for each day during which said words are so used.

Sec. 25. *Implementation.* – For the purpose of carrying out the objectives of this Act, the BSP is authorized to enlist the assistance of any branch, department,

1 bureau, office, agency or instrumentality of the government, including government-
2 owned or –controlled corporations, which may include the use of its personnel,
3 facilities, and resources.

4 *Sec. 26. Implementing Rules and Regulations.* – The BSP shall promulgate the
5 necessary rules and regulations for the effective enforcement of the provisions of this
6 Act.

7 *Sec. 27. Separability Clause.* – If any provision or part hereof is held invalid or
8 unconstitutional, the remainder of the law or the provision or part not otherwise
9 affected shall remain valid and subsisting.

10 *Sec. 28. Repealing Clause.* – Any law, presidential decree or issuance, executive
11 order, letter of instruction, administrative order, rule, or regulation contrary to or
12 inconsistent with the provisions of this Act are hereby repealed, modified, or amended
13 accordingly.

14 *Sec. 29. Applicability of Other Laws.* – The provisions of Republic Act No. 7653,
15 as amended, and Republic Act No. 8791, insofar as they are applicable and not in
16 conflict with any provision of this Act, shall apply to rural banks organized hereunder.

17 *Sec. 30. Effectivity.* – This Act shall take effect fifteen (15) days after its
18 publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,