

(S. B. 2833)

(No. 239)

(Approved September 1, 2004)

AN ACT

To adopt a new “General Cooperative Associations Act of 2004,” and to repeal Act No. 50 of August 4, 1994, as amended, known as the “General Cooperative Associations Act.”

STATEMENT OF MOTIVES

The cooperative movement is a socioeconomic system which pursues the enfranchisement of human beings and their integrated betterment through economic justice and social cooperation. A cooperative is an autonomous association of persons who have united voluntarily to address their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. Cooperatives are based on the values of mutual assistance, responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Cooperatives have two foundations that underlie their main purpose of satisfying human needs: the first foundation is the structuralization of society through the practice of principles such as equity and social harmony, among others; the second foundation is the economic aspect, addressed through the organization of production, distribution, and consumption of wealth abiding by the cooperative movement’s formula.

Cooperatives are private entities that operate without seeking personal profit. Savings generated thereby are returned to their members on the basis of the investment made into the same and of the sponsorship by each member of the services used, the goods purchased or sold, the hours worked, or any other means whereby their formal relation with the cooperative is identified.

In cooperative enterprises, the people are the service providers, and they produce, work on and consume the goods of the enterprise of which they are also proprietors. The members of such cooperatives exercise the decision-making power in equal standing, regardless of the amount of capital they have contributed.

Cooperatives use constant expansion as one of its methods, and they seek to transform the popular mindset by their educational and economic action, whereby a new social and economic order is made possible.

The mission of the Puerto Rican Cooperative Movement is to improve the quality of life of our Island by serving as a socioeconomic model for democratic development and organization. In order to accomplish this mission, the following objectives have been set forth:

- Successfully integrating the Cooperative Movement by developing and consolidating the appropriate entities and by devising a common project that convenes the transformative actions of the cooperative movement to address the social and economic issues of Puerto Rico.
- Devising a political-economic project that lays the groundwork for the Cooperative Movement Development Model for Puerto Rico.
- Defining and consolidating a social sector of the economy upon which to hinge the alternative economic development model of our Island, for which the Cooperative Movement shall be the hub.
- Developing drive and creativity in the entrepreneurial endeavor as a key element for cooperative development.

- Promoting the democratization of the Puerto Rican economy by encouraging the conversion of public and private enterprises into the cooperative system, thus fostering the administrative efficiency and expediting participation processes inside our cooperatives.
- Encouraging the formation of cooperative movement leaders and workers who understand and apply our doctrine and who commit to excellence in the entrepreneurial endeavor.
- Seeking the successful approval of an appropriate legal framework for the development of the Puerto Rican Cooperative Movement in light of the postulates of Cooperative Law.
- Developing and consolidating other key economic sectors by means of the cooperative organization of production, services, agriculture and housing.
- Strengthening the financing mechanisms of the Cooperative Movement and striving to have these mechanisms respond to the developmental needs of the Movement.

Act No. 50 of August 4, 1994, as amended, known as the “General Cooperative Associations Act,” was promulgated to stimulate activities such as production and services through the cooperative structure and to govern consumption, housing, agriculture and transportation cooperatives, among others. Sectors such as insurance and savings and credit are addressed by laws especially promulgated therefor.

Since its creation to the present, Act No. 50 of August 4, 1994, has been amended seven times. Despite the fact that it is a recent law which has benefited cooperatives for years, the Puerto Rican Cooperative Movement has manifested the need to create a new law that conforms to the new cooperative movement realities. The adoption of this new Act, which includes many of the provisions of Act No. 50

of August 4, 1994, as amended, shall open new chapters to expedite the proper management of these cooperatives.

Furthermore, this measure stands as a piece of forefront legislation that proposes the creation of a Cooperative Housing Owner Regime, whereby a more defined legal framework is provided in order to create a housing model in which members can become owners of individual housing units within a real property structure, whether a multifamily building or a community, but always within the framework of the cooperative endeavor and while establishing a procedure for the voluntary conversion of present housing cooperatives and public housing projects into this regime. In order to secure the title deeds and to assure compliance with the statutes and regulations approved by the owner cooperatives to be created, the pertinent sections of the Mortgage Law and the Property Registry are hereby amended. Likewise, the public policy specific to this regime is also established, which policy makes manifest that, in the balance of interests, the Commonwealth wishes to protect these communities from speculation and the dispersion of cooperative assets, for the Commonwealth believes that this is of no assistance whatsoever to the improvement of their quality of life.

Despite the fact that it contains elements relative to registry mechanics which are similar to Act No. 104 of June 25, 1958, as amended, known as the Horizontal Property Act, this is a piece of legislation which has its own features and is not to be confused with the former, since its *raison d'être*, its functional schematics, and the issues it seeks to solve are different. The same shall be construed in light of the Cooperative Law and the public policy set forth herein.

It is the public policy of the Commonwealth of Puerto Rico to direct the path of the social and economic development of Puerto Rico predicated on the tenets of social justice, personal effort, and democratic control of the cooperative movement.

Therefore, the Cooperative Movement constitutes an integral piece and a stronghold for the economic and social development of the Island, for which reason, the growth and the strengthening of the cooperative movement in Puerto Rico is highly invested with public interest.

This Act is the result of the consultations made with the Puerto Rican Cooperative Movement and seeks to provide this sector with a forefront piece of legislation in order to address claims arising from the changes which have taken place in the cooperative enterprise.

BE IT ENACTED BY THE LEGISLATURE OF PUERTO RICO:

PART 1.-PRELIMINARY PROVISIONS

CHAPTER 1.-TITLE, OBJECTIVE AND DEFINITIONS

Section 1.0.-Title

This Act shall be known as the “Puerto Rico General Cooperative Associations Act of 2004.”

Section 1.1.-Objective of the Act

The objective of this Act is to provide the cooperatives and the cooperative sector in general a juridical framework for their organization, operation and regulation.

Section 1.2.-Definitions

For the purpose of this Act, the following terms shall have the following meanings:

(a.) “Shares” shall mean the economic contribution made by each member of a cooperative to the capital or equity of the cooperative enterprise.

(b.) “Preferred Shares” shall mean the shares issued by any cooperative in which the amount, term and interest, if any, to be earned is provided. Preferred shares shall be part of the capital of the cooperative and shall never exceed the total amount of issued common shares. The power of a cooperative to issue preferred

shares shall be previously agreed upon by the general assembly of members.

(c.) “General Assemblies” shall mean the meetings of the cooperative members, or their delegates, who exert the maximum authority of the cooperative.

(d.) “Sponsor” shall mean to support the creation of another cooperative pursuant to the provisions of this Act.

(e.) “Cooperative” for purposes of this Act, shall mean any institution organized pursuant to the provisions of this Act, excluding those cooperative institutions organized and regulated by other laws.

(f.) “Central” shall mean an entity with economic purposes, constituted by member cooperatives.

(g.) “Articles” shall mean the main constituting document of the cooperative, which is called the “articles of incorporation.”

(h.) “Department” shall mean a commercial activity organized by the cooperative that is not a part of its main activities and that is established as an additional service to its members.

(i.) “Inspector” shall mean the Office of the Cooperatives Inspector of Puerto Rico.

(j.) “Board” shall mean the Board of Directors of a cooperative.

(k.) “Governing Bodies” shall mean the Board of Directors, Credit Committee, Supervision Committee, Education Committee, and any committee that performs duties delegated by the Board of Directors and any standing elected body duly instituted by law, regulation or the general rules of the cooperative.

(l.) “Delinquency” shall mean the member’s failure to or delay in complying with the responsibilities of a member.

(m.) “Officer” shall mean a member appointed by the Board to a specific position in said Board.

(n.) “Operation” shall mean the sowing, cultivation, extraction, receipt,

storage, production, manufacture, use, purchase, sale, repair, service or any other means of managing items or merchandise.

(o.) “Sponsorship” shall mean that proportion of the total volume of business or services of the cooperative generated, carried out, rendered or received by a member.

(p.) “Person,” for purposes of this Act, means: (1) every natural person; (2) every cooperative organized under the laws of Puerto Rico; (3) any non-profit association or juridical person registered under the laws of Puerto Rico.

(q.) “By-laws” shall mean the internal regulations of a cooperative.

(r.) “Corporate Reserve” shall mean the special reserve established by every cooperative for any eventuality or contingency.

(s.) “Service” shall mean any measure of a lawful nature which may be rendered or obtained by a cooperative for itself, its members or other sponsors; it includes the provision of funds, the capacity to receive and make loans, deposits and investments, and to organize activities of an educational and business nature.

(t.) “Member” shall mean any person admitted as a member into a cooperative pursuant to this Act and the general by-laws of said cooperative, provided that, for profit juridical persons shall not be accepted as members.

(u.) “Type” shall mean the main activity or purpose of a cooperative.

(v.) “Chief Executive” shall mean any natural or juridical person, including the Executive Chairman, General Manager, Administrator, Administrative Agent, Auditor or Comptroller of a cooperative who holds a position of trust by virtue of trust of an appointment or fixed, indefinite or temporary work contract, and for salary or compensation.

(w) “Family Unit” shall mean the spouse of a member of a directing body or an employee of the cooperative, the relatives up to the second degree of consanguinity or affinity, and the persons who share their legal residence or whose

financial affairs are under his/her legal control.

(x.) “Improper Conduct” shall mean any conduct that violates the provisions of this Act, the by-laws of housing cooperatives or the housing contract.

(y.) “Family Structure” shall mean the members of the family nucleus of the member that appear in the registry books of the cooperative.

CHAPTER 2.-PUBLIC POLICY

Section 2.0.-Autonomy

The Commonwealth of Puerto Rico guarantees the free development and autonomy of all cooperatives and shall harmoniously seek the form and manner to assist, stimulate, develop, promote and support the Cooperative Movement.

Section 2.1.-Equality of Rights

The Commonwealth of Puerto Rico guarantees that all cooperatives shall enjoy all the powers and prerogatives granted by law to other juridical persons, and that no discriminatory restrictions or additional requirements shall be established for them.

Section 2.2.-Applicable Law

Cooperatives organized pursuant to this Act shall be governed by its provisions and by Cooperative Law in general. Otherwise, they shall be governed by applicable laws inasmuch as they are compatible with their nature.

Section 2.3.-Cooperative Acts

Cooperative acts shall be those carried out between the cooperatives and their members, or between the cooperatives themselves and with the Commonwealth of Puerto Rico in order to comply with their corporate purposes, and they shall be subject to Cooperative Law.

Section 2.4.-Time without Charge for Meetings

All government instrumentalities, including the departments, agencies and public corporations of the Commonwealth of Puerto Rico and its municipalities

shall grant working hours, without any charge, to the members of the directing bodies of cooperatives organized in said instrumentalities for the purpose of rendering to their employees an essential service for them to carry out their tasks. The Secretary of the Board of Directors shall certify the employees that are members of the directing bodies, the days for meetings and attendance to the respective meetings of their cooperatives to the government instrumentality concerned. Time granted by said instrumentalities to the employees that are directing members of the cooperatives to hold their meetings shall not exceed three (3) hours per month for the members of the Board of Directors, the Supervision Committee and the Education Committee.

CHAPTER 3.-LEGAL CAPACITY

Section 3.0.-Concept

Cooperatives are private juridical persons of social interest founded upon their solidarity and self-efforts to carry out socioeconomic activities in order to fulfill individual and collective needs without seeking profit.

Section 3.1.-Principles

Cooperatives shall observe the following principles:

- a. **Open and Voluntary Membership-** Cooperatives are voluntary organizations for all those persons willing to use their services and to accept the responsibilities entailed by membership without discrimination by reason of gender, race, social class, political affiliation or religion.
- b. **Democratic Control by the Members-** Cooperatives are democratic organizations controlled by their members, who actively participate in the definition of policies and decision-making. The persons elected to represent their cooperative report to the members. The decisions are made in Assemblies in which each member is entitled to one (1) vote, regardless of their contribution.

- c. **Economic Participation of the Members-** The members contribute equally and control the capital of the cooperative democratically. At least one part of said capital is common property of the cooperative. Generally, they receive a limited compensation, if any, on the capital subscribed as a condition for membership. The members appropriate any surplus for any of the following purposes: the development of the cooperative through the possible creation of reserves from which at least one part shall be indivisible; member benefits that are in proportion with their transactions with the cooperative; and support for other activities as approved by the membership.
- d. **Autonomy and Independence-** Cooperatives are autonomous mutual assistance entities controlled by their members. If they enter into agreements with other organizations, including governments, or have capital from outside sources, they use it in terms that ensure democratic control by its members and maintain the autonomy of the cooperative.
- e. **Education, Training and Information-** Cooperatives offer education and training to their members, elected officers, managers and employees in order for them to contribute efficiently to the development of their cooperatives. Cooperatives give information to the general public, particularly youths and creators of public opinion regarding the nature and benefits of cooperative movement.
- f. **Cooperation between Cooperatives -** Cooperatives serve their members more efficiently and strengthen the Cooperative Movement by working together through local, regional, national and international structures.
- g. **Social Responsibility-** Cooperatives work towards the sustainable development of their communities through the policies approved by their members.

Section 3.2.-Characteristics

Cooperatives must be consistent regarding the following characteristics:

- a. indefinite term of duration;
- b. variability and non-restriction of capital;
- c. independence from partisan politics;
- d. equality in the rights and obligations of the members;
- e. recognition of one (1) single vote to each member of first grade cooperatives;
- f. corporate reserves shall not be distributed;
- g. admission as a member shall not be denied to any person by reason of race, gender, color, social position, religious belief, citizenship or political affiliation;
- h. non-profit purposes; and
- i. to promote socioeconomic development through common efforts.

Section 3.3.-Nature of Cooperatives

According to their nature, cooperatives may be comprised by workers, consumers, housing, and users and mixed groups, and may devote themselves to provide services or to production, or to both activities.

Section 3.4.-Powers

Every cooperative organized under the provisions of this Act is a juridical person. It may perform any kind of lawful activity that is proper or incidental to the achievement of its ends and purposes on equal footing with others subject to private law.

Section 3.5.-Specific Powers

Without it being construed as a limitation, every cooperative may:

- a. Carry out its activities in or outside of Puerto Rico, as the laws may permit;

- b. possess its own seal and alter it with the agreement of the Board;
- c. sue and be sued;
- d. execute all types of legal contracts;
- e. accept gifts, provided they do not contain conditions that limit its power to act;
- f. acquire, possess, sell, dispose of, exchange, mortgage, acquire or convey in lease, and otherwise operate with real property and chattels in any way;
- g. acquire, issue, endorse, discount, sell or otherwise operate with bills of sale, bonds, obligations and securities, and otherwise operate with real property and chattels in any other way;
- h. establish and accrue capital reserves and surplus, and invest said reserves and surplus in other properties and securities;
- i. borrow money without limit to the amount;
- J. act as agent, representative or proxy of any member;
- k. grant advances to its members and to members of another cooperative which is, in turn, a partner or a subsidiary of the grantor, on merchandise delivered or services rendered. This power does not apply to housing cooperatives;
- k. limit its operations, activities and services exclusively to its members, or extend them to non-members;
- l. serve as sponsor to other cooperatives;
- n. engage in more than one activity;
- o. broaden its activities through the creation of departments as defined in its articles of incorporation;
- p. establish and accrue corporate reserves for the benefit of its members or the community, for emergencies or natural disasters, pursuant to the criteria established in the by-laws of the cooperative; and

q. dissolve, liquidate, merge or consolidate within the framework of this Act.

Section 3.6.-Denomination

The name of every cooperative must include the word “Cooperative” or “Coop” and the word or abbreviation that identifies its main activity. The use of the word “Cooperative” or of a word or symbol that could give the impression that it is a cooperative, by any person or entity which is not organized pursuant to the provisions of this Act is hereby prohibited. This prohibition does not apply to savings and credit unions organized under Act No. 255 of October 28, 2002, known as the “Cooperative Savings and Credit Unions Act.”

Section 3.7.-Cooperatives in Formation

Cooperatives in formation shall be those which, having initiated the procedure with the presentation of the incorporation papers, are not yet registered at the Department of State.

The period of formation shall not be more than one (1) year from the date of filing the articles of incorporation and the by-laws before the Cooperative Development Administration. During that period, which may be extended for just cause, the previously mentioned shall be empowered to execute acts before third parties. The incorporators shall be personally and solidarily liable for said acts before third parties.

Section 3.8.-Entities Becoming Cooperatives

Partnerships and corporations in the process of becoming cooperatives through the initiative of their workers or users shall have the same rights and obligations as cooperatives in formation.

Section 3.9.-Relationships with Other Entities

A cooperative may own stock in other cooperatives, corporations or entities pursuant to Section 19.10.

PART II.-ESTABLISHMENT AND RECOGNITION
CHAPTER 4.-FORMATION OF THE COOPERATIVE

Section 4.0.-Number of Persons Required

Eight (8) or more persons domiciled in Puerto Rico may incorporate a cooperative provided they comply with the provisions of this Act, with the exception of worker cooperatives, which may be formed by five (5) persons.

Section 4.1.-Constituting Assembly

Interested parties shall hold an Assembly to consider and approve the articles of incorporation and the by-laws of the cooperative, and to elect the Board of Directors and a Supervision Committee.

Section 4.2.-Constituting Requirements

Any group that intends to organize as a cooperative shall file the necessary documents for its incorporation at the Cooperative Development Administration. Said documents are the articles of incorporation and the by-laws.

Section 4.3- Content of the Articles

The articles of incorporation of every cooperative shall include the following information:

- a. the name, which must accompany the word “cooperative” or an abbreviation thereof; it shall be such as not to be confused with that of any other cooperative, federation, league, association or corporation organized or doing business in Puerto Rico;
- b. the objectives, ends or purposes for its organization;
- c. the exact address where the main office of the cooperative is to be located;
- d. the name, address and personal characteristics of the incorporators, as well as the number of shares subscribed by each of them;
- e. the total amount of capital with which the cooperative shall begin operations, should it decide to have it;

- f. the value and the rights pertaining to the contributions or shares, whether common or preferred;
- g. the number of members with which the cooperative shall begin operations;
- h. norms regarding amendments to the articles; and
- i. any other provision which regulates the administration of the affairs, businesses, activities or services of the cooperative, provided they are consistent with this Act.

Section 4.4-Contents of the By-laws

At the time the Constituting Assembly is held, the incorporators or members of the cooperative shall approve the by-laws of the cooperative which shall specify the provisions contained in the articles of incorporation. It shall also include such other provisions that the members deem convenient for the best operation of the cooperative, provided they do not contradict the provisions of the articles of incorporation and this Act.

Without it being construed as a limitation, the general by-laws of every cooperative shall provide, pursuant to cooperativist principles and characteristics, the following:

- a. the date, place and means to convoke and hold regular and special assemblies of the members and the requirements to enable them to include matters in the agenda of the Assembly;
- b. how to vote and the conditions under which the members may cast their vote at the regular, special, general or district assemblies, in agreement with the cooperativist principle of “one person, one vote;”
- c. the organization of the cooperative by districts and the qualifications, obligations and terms of office of the delegates elected by the districts;
- d. the number, qualifications, powers, obligations and terms of office of the

- directors and officers;
- e. the organization and duties of the Assembly, the Board of Directors, the education committee and the Supervision Committee;
 - f. the date, place and manner for the constitution of a Board and for convoking and holding meetings of the directors and, should there be one, of the executive committee;
 - g. the dismissal, resignation or substitution of a director or officer;
 - h. conditions for membership, requirements prior to becoming a member; the way to determine and pay the members their interest in the cooperative upon their death, retirement, removal or any other circumstance for which they cease to be members; the conditions under which and the date that a member ceases as such; the manner and effect of the suspension and expulsion of a member;
 - i. the conditions or terms for making withdrawals and transfers of contributions or stock; regarding housing cooperatives, the provisions in Chapter 35 of this Act shall apply;
 - j. the duties and responsibilities which may be delegated to the Chief Executive of the cooperative;
 - k. the staggered election of the members of the directing bodies providing so that the terms of election do not expire on the same year;
 - l. how the net savings of the cooperative shall be distributed among the members and the establishment of the reserves. The manner in which the cooperative shall relate to non-members;
 - m. penalties for violations to the by-laws and the procedure to file complaints; and
 - n. norms of social coexistence on cooperative integration.

CHAPTER 5.-OFFICIAL RECOGNITION

Section 5.0.-Presentation of Constituting Documents

Upon initiating the steps for incorporation before the Cooperative Development Administration, it shall be presented with the original and two (2) copies of the articles of incorporation and the by-laws for the amount provided in this Act for registration in the Department of State.

Section 5.1.-Examination of the Constituting Documents

The Cooperative Development Administration shall examine the constituting documents for compliance with all the requirements in this Act, and to determine if any of the provisions contravene the laws of Puerto Rico. The Cooperative Development Administration shall submit the articles of incorporation to the Secretary of State within the prescriptive term of forty-five (45) working days from the date said documents are filed.

Section 5.2.-Legal Objections

The Cooperative Development Administration may refuse to submit the articles of incorporation for their registration when the group interested in organizing the cooperative fails to comply with the requirements established by law, provided that, it notifies the interested parties of the deficiencies found and explains the reasons for its refusal within the established term.

Section 5.3.-No response

In case the Cooperative Development Administration has not discharged its duties within the specified term, the incorporators may submit the articles of incorporation directly to the Department of State, which, after verifying due compliance with the law, shall file said articles of incorporation and issue the corresponding certificate of incorporation.

Section 5.4.-Registration

The cooperative shall be duly constituted when the Department of State

registers its articles of incorporation and issues the corresponding certificate of registration.

Section 5.5.-Initiation of Activities

The cooperative may begin its operations officially when the Department of State has registered its articles of incorporation. The Cooperative Development Administration shall forward the certificate of registration and two (2) copies of the articles of incorporation and the by-laws to every duly constituted cooperative and to the Inspector of Cooperatives.

Section 5.6.-Confirmation of Acts

The acts held and the documents signed on behalf of the cooperative before it has been legally constituted may be confirmed if ratified by the first subsequently held General Assembly of Members.

CHAPTER 6.-AMENDMENTS TO THE ARTICLES AND THE BY-LAWS

Section 6.0.-Amendments to the Articles and the By-Laws

The articles of incorporation and the by-laws of the cooperative may be amended at any Regular General Assembly or at any Special General Assembly held for such a purpose. Amendments must be approved by the vote of two thirds (2/3) of the members present, or by two thirds (2/3) of the delegates present in cooperatives organized by district.

Section 6.1.-Notice to the Members

The Board of Directors shall notify the members or delegates, as the case may be, of the proposed amendments no later than ten (10) days before the Assembly. For cooperatives organized by district, the Board of Directors shall notify all the members of the amendments proposed and grant them the opportunity to discuss them in district Assemblies.

Section 6.2-Approval by the Inspector of Cooperatives

The original and two (2) copies of the amendments to the articles of

incorporation or to the by-laws, certified by the Secretary of the cooperative, shall be sent to the Inspector of Cooperatives. Said amendments shall take effect once they are approved by the Inspector of Cooperatives, who shall have a prescriptive term of forty-five (45) days from the date the documents are filed at his/her Office to notify the cooperative concerned their approval or denial, pursuant to the provisions of this Act. In the case of a denial, the reasons for said denial shall be stated. A copy of the approved amendments and of the decision made by the Inspector of Cooperatives shall be sent to the Cooperative Development Administration. Amendments to the articles of incorporation shall be filed before the Department of State to be duly registered.

Section 6.3.-No Response

In case the Office of the Inspector of Cooperatives has not performed his duty within the specified term, the interested parties may submit the amendments to the articles of incorporation directly to the Department of State for the Secretary to acknowledge that the documents comply with the legal requirements and therefore issue the corresponding certificate.

PART III.-MEMBERS

CHAPTER 7.-ADMISSION

Section 7.0- Membership in a Cooperative

A person becomes a member of a cooperative by participating in the act of incorporation or through a resolution of the Board accepting his/her admission at the request of the interested party.

Section 7.1.-Requirements

In order to become a member of a cooperative the following requirements must be met:

- a. to have legal capacity; and
- b. to meet the requirements of this Act and of the articles and by-laws of the

cooperative, and not to be a for profit juridical person.

Section 7.2-Conditions for Membership

Admission as a member of a cooperative shall not be denied to any person by reason of race, gender, citizenship, religious or political beliefs, or social or economic position. Eligibility of members may be defined as groups of similar members exercising their constitutional right to free association. The Board may deny admission to any person as a member of the cooperative when there are grounds to believe that such a person may impair or obstruct the pursuit of goals and purposes of the cooperative, has been expelled from membership, dismissed from any office in the directing bodies of any other cooperative entity, or fails to comply with the requirements for admission set forth in the by-laws of the cooperative.

Section 7.3.-Rejection of Application; Review

Should the Board of Directors reject an application for admission and the applicant deems that the decision is contrary to the law and the articles of incorporation of the cooperative, he/she may request a reconsideration of the decision before the Supervision Committee. The Supervision Committee shall prepare and submit a report with its recommendations to the Board of Directors for the same to make the decision, which shall be final and binding.

Section 7.4.-Register of Members and Others

Cooperatives shall prepare and keep an updated register of members, which shall include the following information:

- a. name, address and occupation of each of the members, after duly verifying the credentials and identity of said members;
- b. the number of shares owned by each member, with the corresponding series, should they be numbered, and the amount paid for such shares;
- c. the exact date of admission of the member to the cooperative; and

- d. the date that the member ceases to belong to the cooperative and the reason therefore.

Cooperatives shall also prepare and keep a register of the persons or entities that receive the services of the cooperative.

CHAPTER 8.-RIGHTS AND OBLIGATIONS

Section 8.0.-Acceptance of Preceding Conditions

All members shall accept the obligations incurred by the cooperative prior to their admission thereto.

Section 8.1.-Voting

Every member shall be entitled to cast one (1) vote, regardless of his/her interest, number of shares or contributions to the cooperative. Voting by proxy is prohibited, except to determine quorum when a second Regular General Assembly is convened.

Section 8.2.-Inspection of Books

Any member, upon prior written request to the Board of Directors, may inspect the books and registers of his/her cooperative in the main office of the cooperative, during working hours that will not impair or interrupt the business, activities and services of the cooperative. This authorization does not include the right to duplicate or photocopy the books, registers or documents of the cooperative. The books, registers and documents open to inspection do not include files or personal records of employees or members, nor any book, register or document that contains the trade secrets of the cooperative. Any request denied may be appealed to the Supervision Committee, and through it, to the Inspector of Cooperatives.

Section 8.3.-Rights

In addition to all the rights granted by this Act and by the articles, members shall have the following rights:

- a. to participate with voice and vote in all Assemblies on an equal basis;

- b. to nominate candidates, elect and be elected to office in the Board of Directors, the Supervision Committee and auxiliary committees;
- c. to use the services of the cooperative according to the established norms;
- d. to request information from the Board of Directors or the Supervising Committee regarding the progress of the cooperative;
- e. to file charges for non-compliance with the law, the articles of incorporation or the by-laws before the Supervision Committee;
- f. to request that the General Assembly be called, in compliance with the conditions required by the law and the by-laws; and
- g. to submit amendments to the articles of incorporation and the by-laws for the consideration of the General Assembly, provided that the same are submitted in compliance with the terms and conditions of the articles of incorporation and the by-laws.

Section 8.4.-Duties

All members must comply with the obligations imposed by this Act, the articles and the by-laws and with:

- a. any contract, or corporate or monetary obligation with the cooperative;
- b. the agreements of the Assembly and its Board;
- c. hold office as elected; and
- d. protect the interests of his/her cooperative.

Section 8.5.-Members of Two or More Cooperatives

Any person may be a member of one or more cooperatives. However, his/her rights and obligations may be subject to the measures adopted by the cooperatives in order to avoid conflicting situations.

CHAPTER 9.-TERMINATION

Section 9.0.-Termination

The members of a cooperative may be dismissed and deprived of their rights

when they incur one or more of the following causes:

- a. death of the member;
- b. resignation of the member;
- c. expulsion of the member; or
- d. dissolution of the cooperative.

Section 9.1.-Resignation or Voluntary Retirement of the Member

Any member of a cooperative may voluntarily retire from the aforesaid, except when he/she holds office as a director of the cooperative, in which case he/she shall be subject to the limitations established in this Act and in the by-laws of the cooperative.

Section 9.2.-Submission of Resignation

When a member wishes to terminate his/her relationship with the cooperative, he/she shall submit his/her resignation in writing to the Board of Directors.

Section 9.3.-Adverse Decision Concerning Resignation

When the resignation and voluntary retirement of a member adversely affect the financial interests of the cooperative, its Board of Directors shall make a decision regarding said retirement so that it does not substantially impair the operations and services of the cooperative. When the cooperative has issued Preferred Shares, said shares shall be subject to the provisions of this Section.

Section 9.4.-Causes for Removal of Members

The Board of Directors may remove or expel a member from the cooperative when it considers that the member incurs one or more of the following causes:

- a. has acted contrary to the interests of the cooperative or its objectives and purposes;
- b. has been delinquent in complying with his/her obligations with the cooperative, after having been previously notified of the same;
- c. has performed improper acts that are morally or materially prejudicial to

the cooperative;

- d. has been in violation of the provisions in this Act;
- e. has incurred any grave wrong doing deemed in the by-laws to be just cause for removal;
- f. has issued or cashed, through the cooperative, fraudulent checks or without sufficient funds, and in violation of the provisions of the Penal Code of Puerto Rico; or
- g. has voluntarily ceased to perform the duties assigned to him/her as a member of a cooperative of workers.

Section 9.5.-Separation Procedure before the Board

When the Board determines that there is cause for action to remove a member, it shall notify the member thus affected by certified mail, specifying causes for the same. Said notice shall summon the member to appear before the Board, which shall hold an administrative hearing within a term of not less than ten (10) days nor more than thirty (30) days from the receipt of the notice.

The affected member may attend the hearing accompanied by an attorney and shall have the right to examine the evidence against him, to cross-examine witnesses and to submit evidence in his/her own behalf. The Board shall evaluate the evidence presented and shall issue its decision within a term of fifteen (15) days from the date of the administrative hearing and shall notify the affected party by certified mail within five (5) days from the date said decision is issued. Any decision of the Board to separate a member of a cooperative shall take effect on the date the affected member is notified of said decision. With respect to housing cooperatives, the provisions set forth in Sections 35.4 to 35.8 of this Act shall apply.

Section 9.6.-Review of the Decision to Separate

Within a term of ten (10) days from the date in which said member has been

notified of his/her separation, the removed or expelled member may request the Board to include his/her case in the agenda of the next General Assembly of Members, for said Assembly to review the case and decide upon it. The member may appear accompanied by counsel. In case the cooperative is organized by districts, it shall be included in the assembly of delegates.

Any member who deems that he/she has been unjustly expelled and that the lapse of time until the next Assembly may cause him/her irreparable harm, may file a petition for review before the Office of the Inspector of Cooperatives within ten (10) days following the date on which he/she is notified of his/her separation. The petition for review filed with the Inspector shall not render ineffective the decision of the Board.

Section 9.7-Liability for Debt Contracted

Any person who has ceased to be a member of the cooperative shall continue to be liable for any debt contracted with the cooperative that is greater than the corresponding liquidation payment.

PART IV- ASSEMBLIES

CHAPTER 10.-GENERAL PROVISIONS

Section 10.0-Authority of the Assembly

The General Assembly, Regular or Special, is the maximum authority of the cooperative and its decisions are binding for the Board of Directors, the committees and all its members, present or absent, provided that the same have been adopted pursuant to the articles of incorporation, the by-laws and the applicable laws.

The making of administrative decisions delegated by this Act to the Board of Directors is hereby excluded from the authority of the Assembly.

Section 10.1.-Classification

Assemblies held by the cooperatives may be:

- a. General Assemblies of Members;
- b. General Assemblies of cooperatives organized by districts, constituted by delegates;
- c. District Assemblies; or
- d. Special Assemblies

Section 10.2.-Notice of Assemblies

The notice for the holding of an Assembly shall be sent in writing to every member to his/her last known address at least ten (10) days prior to the date set for the holding of the Assembly, unless the articles of incorporation or the by-laws provide a longer term.

Section 10.3. Matters of the Exclusive Jurisdiction of the Assembly

It is of the exclusive jurisdiction of the Assembly, provided that the provisions of this Act are not contradicted:

- a. to approve and modify the articles of incorporation and the by-laws;
- b. to elect and remove the members of the Board of Directors and the Supervision Committees;
- c. to ratify or reject the recommendations of the Board of Directors regarding the compensation, if any, of the members of the Board of Directors and the committees;
- d. to resolve on the merger, incorporation or dissolution of the cooperative;
- e. to decide on the action to be taken against the members of the Boards of Directors and the Supervision Committee, when they act in violation of their responsibilities;
- f. to decide on the capitalization or distribution of the surplus;
- g. to decide on the creation or operation of departments, subsidiaries and affiliates not considered or provided for in the articles of incorporation or the by-laws of the cooperative;

- h. to decide on the constitution of districts, their representation and the respective rights of the members; and
- i. to receive the reports of the Board of Directors and the Supervision and Education Committees.

Section 10.4.-Challenges to the Determinations of the Assemblies

Any challenge to the determinations of the Assemblies shall be handled by the Office of the Inspector of Cooperatives.

CHAPTER 11.-GENERAL ASSEMBLIES OF MEMBERS

Section 11.0.-General Assembly of Members; Definition

A General Assembly of Members shall be that meeting which is open to all members of the cooperative who, according to its by-laws, qualify as such.

Section 11.1-The Obligation to Hold Assemblies

Every cooperative that is not organized by districts shall hold at least one General Assembly of Members annually.

Section 11.2.-Date for Holding Assemblies

The General Assembly of a cooperative shall be held on the date, time and place determined by the Board of Directors, within six (6) months following the close of its fiscal year, and on the convenient date closest to the referred close.

Section 11.3.-Quorum for General Assemblies of Members

A General Assembly of Members shall be legally constituted when the following conditions are present:

- a. when membership is of, or exceeds one hundred (100) persons, quorum shall be ten percent (10%) thereof; plus five per cent (5%) of the excess over one thousand of the total number of members; and
- b. when membership is less than one hundred (100) members, quorum shall be a minimum of fifteen (15) persons or two thirds (2/3) of the membership, whatever is less.

Section 11.4-Lack of Quorum

If a first summons to a General Assembly of Members does not attain the required quorum, a second summons to the General Assembly shall be issued in which those members or delegates present shall constitute quorum. The second summons shall never be prior to one hour later than the first summons, provided that the first and second summonses have been expressly scheduled in the written notices sent to the members or delegates, as the case may be, stating expressly that those present shall constitute quorum in second summons.

CHAPTER 12.-ASSEMBLIES IN COOPERATIVES ORGANIZED BY DISTRICTS

Section 12.0.-Division by Districts

The by-laws of the cooperative may provide for the division by districts of the territory where its members reside.

Section 12.1.-District Assemblies

The members of each district shall hold at least one Assembly every year, and such Special Assemblies as may be duly convoked by the Board of Directors of the cooperative.

Section 12.2.-Direction of the Work

The works of Regular Assemblies and District Special Assemblies shall be directed by the Chairperson of the Board of Directors of the cooperative or by a director designated by the Board.

Section 12.3-Quorum for the District Assemblies

The quorum required to hold a District Assembly shall be five percent (5%) of the first thousand members and three percent (3%) of the excess over one thousand members who reside in the district.

Section 12.4.-Election of Delegates

A number of delegates that shall never be less than three (3), or the number

corresponding to one percent (1%) of the members in the district, whichever is greater, shall be elected at the District Assembly. The delegates elected shall take office in the Constituting Assembly.

When two (2) summonses are issued for a District Assembly of delegates and the required quorum is not achieved, incumbents holding office as directors of the cooperative shall continue to hold said positions until their successors are elected and take office.

Section 12.5.-General Assembly in Cooperatives Organized by Districts

Cooperatives organized by districts shall hold at least one annual General Assembly composed of delegates. Delegates elected in the District Assembly shall constitute the official representation of the members of the district at the Regular or Special General Assemblies of the cooperative. Each district delegate shall be entitled to a single vote.

Section 12.6.-Quorum for the General Assembly of a Cooperative Organized by Districts

A General Assembly of a cooperative organized by districts shall be legally constituted when two thirds (2/3) of the total number of delegates elected by the districts are present.

CHAPTER 13.-SPECIAL ASSEMBLIES

Section 13.0.-Notice

The Board of Directors may convoke General or District Special Assemblies, when it deems it convenient.

The Board of Directors shall be bound to convoke Special Assemblies when requested by:

- a. ten percent (10%) of the total number of members of the cooperative, when it is a matter of a General Assembly of Members;
- b. ten percent (10%) of the total number of members of a district, when it is

- a matter of a District Assembly; or
- c. thirty percent (30%) of the total number of delegates, when it is a matter of a General Assembly of a cooperative organized by districts.

The petition to the Board shall specify the issues to be discussed at the Special Assembly.

Section 13.1.-Quorum for Special Assemblies

The number de members needed to legally constitute a Special Assembly shall be the same as that required for Regular Assemblies according to their classification.

PART V.-DIRECTORS, OFFICERS AND COMMITTEES

CHAPTER 14

Section 14.0.-Requirements

The Board and Supervision Committee may be constituted by members who meet the following requirements:

- a. Have not been convicted of a felony or misdemeanor involving fraud, breach of trust or moral turpitude. Members of Cooperatives of Inmates are exempted from the application of this subsection, provided that an officer, duly authorized by the Corrections Administration certifies that the inmate is in a program of the institution and shows clear signs of rehabilitation to hold office.
- b. Do not have a direct or indirect financial interest in any enterprise whose business is in competition with that of the cooperative.
- c. Do not hold office or fill a position in other profit or non-profit entities that may create a conflict in the performance of their responsibilities.
- d. Have not been separated as members of the Board or Committee, or as Executive Officer of another cooperative for the reasons established in this Act.

- e. Meet all the requirements established in the by-laws of the cooperative.
- f. Are eligible to be covered by a fidelity bond.
- g. Are up to date in their obligations with the cooperative.
- h. Take and approve cooperative training courses containing principles and applicable laws according to the nature of the cooperative. Such courses shall be taken during the first year of their appointment and shall be endorsed by the Cooperative League.

Section 14.1-Terms of Office

The terms of office of the members of the Board of Directors and the Supervision Committee shall be for a minimum of one (1) year and a maximum of three (3) consecutive years. A term of twenty-four (24) months must elapse for a person who has been elected for three (3) consecutive terms to aspire to office as a director or member of the committee of the cooperative. No one shall be elected for more than three (3) consecutive terms.

Section 14.2.-Staggered Election

The by-laws of the cooperative shall provide for the staggered election of the members of the Board and the Supervision Committee so that the terms of office of the members of said bodies do not expire in the same year. In the case that a director ceases to be in office prior to the end of his/her term, the director who substitutes him/her shall be elected for the remainder of said term.

Section 14.3.-List of Directors and Committee Members

Cooperatives must remit to the Inspector of Cooperatives, the Cooperative Development Administration and the League of Cooperatives a complete list of the members of the Board, indicating the position, if any, of the members of the Supervision Committee and of any other standing committee established by regulations.

Said list, which shall be accompanied by any other information required by the

Inspector, shall be remitted to the Inspector no later than twenty (20) days from the date in which said members have taken office, including those appointed to fill vacant positions.

Section 14.4.- Reasons for the Separation of Directors and Committee Members

Any member or official of the Board, of the Supervision Committee or of any other standing committee may be separated from office for the following reasons:

- a. Incurs any of the acts which are cause for separation of members from a cooperative, as provided for by this Act.
- b. Violation of the provisions of this Act or the by-laws adopted by virtue thereof to ensure the faithful performance of their fiduciary obligations.
- c. Violation the by-laws of the cooperative;
- d. Violation or disregarding the resolutions or agreements adopted by the Assembly of the Cooperative's pursuant to the applicable laws and by-laws.
- e. Is no longer eligible to hold office, as provided by this Act;
- f. Incurs gross negligence in the performance of their duties.
- g. Incur negligent or fraudulent practices in the administration and operation of the cooperative.

CHAPTER 15.-DIRECTORS

Section 15.0.-Directors; Number and Requirements

All matters of the cooperative shall be directed by a Board of Directors constituted by an odd number of members, not less than three (3) nor more than eleven (11), elected by the members in an Assembly.

Section 15.1.-Constitution of the Board

The Board shall meet within ten (10) days following the date on which the General Assembly is held to elect its officers from among its members. In the case

of cooperatives organized by district, the directors elected in such districts shall take office in the Constituting Assembly.

Section 15.2.- Officers of the Board

The officers of the Board of Directors shall be the Chairperson, the Secretary, the Treasurer and any other provided in the by-laws.

Section 15.3-Duties of the Board

The Board of Directors shall have, the following duties, among others:

- a. Shall be responsible for defining and adapting the institutional policies of the cooperative; they shall have fiduciary responsibility towards the same and its members and shall act as a reasonable person in all matters pertaining to the cooperative.
- b. Establish the general norms and directives pertaining to the operation and functions of the cooperative, the implementation of which shall be the responsibility of the management.
- c. Consider, approve or make determinations on applications for membership, voluntary retirement or dismissal of members. It may appoint one or more officers with authority to approve the admission or voluntary separation of members, and shall render a monthly report to the Board.
- d. Ensure that any person handling money or securities of the cooperative is covered by a fidelity bond.
- e. Make recommendations to the members at the General Assembly regarding capitalization or distribution of surplus, subject to the limitations imposed by this Act.
- f. Notify the members the Assemblies to be held and keep them informed of the proposed amendments to the by-laws and the articles.
- g. Establish the investment policy of the cooperative and see to its

compliance.

- h. Appoint the necessary work committees to assist it in the performance of its duties.
- i. Appoint and supervise the Chief Executive Officer of the cooperative, who shall exercise those powers, duties and responsibilities established by means of a contract by the Board.
- j. Establish the norms for the compensation to be earned by executive officers and employees of the cooperative;
- k. Contract the services of certified public accountants to audit the accounts of the cooperative in compliance with the requirement of law to performing an annual audit of the cooperative pursuant to the regulations promulgated by the Office of the Inspector and at any other time that the Board deems necessary or convenient.
- l. Authorize the contracting of other professionals in order to fulfill its responsibilities and the objectives of the cooperative.
- m. Provide the cooperative with protection against burglaries, embezzlement and other insurable losses.
- n. Submit to the Inspector, the Cooperative Development Administration and the League of Cooperatives an annual report on the affairs of the cooperative within one hundred twenty (120) days following the close of its fiscal year.
- o. Submit to the Inspector, the Cooperative Development Administration and the League of Cooperatives annual financial statements within one hundred eighty (180) days after the fiscal year-end close of operations. The audited financial statements of the cooperatives remitted to the aforementioned entities shall be available to the general public and may be copied subject to the payment of fees. The cooperative shall also remit to

the Inspector, within an equal term, a copy of the letter to the management issued by the external auditors.

- p. Meet at least once a month and prepare minutes that must be approved in the next Board meeting. Such minutes shall be signed by the Secretary and the Chairperson of the Board.
- q. Attend Assemblies and official acts and faithfully comply with the responsibilities entrusted by the Assembly, the by-laws, the articles of incorporation and the laws.
- r. Be liable for violations of the law, the articles of incorporation and the by-laws. A member of the Board shall only be exempted from liability should his/her negative vote be confirmed in the minutes of the meeting.
- s. Coordinate meetings with the committees to harmonize duties or resolve situations; and
- t. Assign the required resources to the committees to comply with their work plans.

Section 15.4.-Executive Committee

The directors of a cooperative may appoint an Executive Committee constituted by not less than three (3) members of the Board. Said committee shall execute the agreements of the Board of Directors and whatever the by-laws entrusts to them.

Section 15.5.-Exercise of Powers

The directors shall exercise their powers through the Board. The decisions of the Board shall be made by the agreement of the majority of voting directors who participate in the duly notified and constituted meetings.

However, every decision shall be valid when adopted at a meeting at which all directors are present and sign a waiver of compliance with the requirement to give notice of the meeting. Said waiver must be included in the minutes of the meeting.

Section 15.6.-Quorum

Quorum for said meetings shall be the absolute majority of the total number of directors in office.

Section 15.7.-Rules of Operation

The Board shall adopt rules for the internal operation, which must contain procedural rules, definitions of duties and tasks, and on the drafting and preservation of the minutes.

Section 15.8.-Duties of the Chairperson of the Board

The Chairperson of the Board of Directors, pursuant to the agreements and policies established by the Board of Directors of the cooperative, shall have the following duties:

- a. Legal representation of the cooperative, which may be delegated to one or more of the members, pursuant to what is established in the by-laws;
- b. Formal representation before the management of the cooperative, which may be delegated to one or more of the members; and
- c. Preside the meetings of the General Assembly and of the Board of Directors, as well as all official acts of the cooperative.

Section 15.9.-Vacancies

Vacancies arising among the members of the Board shall be covered by the majority vote of the remaining members at a meeting duly constituted for such a purpose.

When the cooperative is organized by districts and the member creating the vacancy is a district director, said vacancy shall be covered by the Board with another member of the corresponding district.

Section 15.10.-Removal of Officers

Two thirds (2/3) of the members of the Board may, by means of a written petition filed before the Secretary or the Chairperson of the Board, remove a

director from the position he/she holds as an officer of the Board. From the time the petition is filed, the director shall cease to exercise the designated position as Chairperson, Vice-president, Secretary or any other, but may continue working as a Director of the Board.

Section 15.11.-Dismissal of Directors

Any member may initiate dismissal proceedings against a director by filing a written petition before the Secretary or the Chairperson of the cooperative and with a copy to be remitted to the Supervision Committee, signed by five percent (5%) of the remaining members of the members, stating the charges brought against said director.

Any director may initiate dismissal proceedings against another director by filing a written petition before the Secretary or the Chairperson of the Board of Directors and with a copy to be remitted to the Supervision Committee, signed by two thirds (2/3) of the remaining members of the Board, stating the charges brought against said director.

Said petition shall be submitted for the consideration of the next Assembly of Members, which may be specially called for that purpose. Said Assembly may dismiss the Director of the Board with the concurrent vote of the majority of the members present.

No member of a directing body shall be dismissed from office in a General Assembly of Members by reason of labor-management conflicts.

Section 15.12.-Dismissal; Procedure before the Assembly

The Director facing charges leading to his/her dismissal from the Board shall be notified in writing of said charges within not less than (10) days prior to an Assembly. Said director shall have the opportunity to be heard at the Assembly, in person or through his/her attorney, and to offer evidence. The person or persons that have filed said charges against him/her shall have the same right.

CHAPTER 16.-COMMITTEES

Section 16.0.-Supervision Committee

The by-laws of the cooperative shall provide for the designation of a Supervision Committee, whose members shall be elected in the General Assemblies. Any person who has been in office as Director for a term shall not be eligible for the Supervision Committee until one year has elapsed from the end of the term of his/her office.

The Supervision Committee is in charge of supervising the financial and social activities of the cooperative and of overseeing that the Board of Directors complies with the law, the articles, the by-laws and the resolutions of the Assemblies. It shall exercise its powers in a manner that shall not hinder the operations and activities of the other bodies.

Section 16.1. Election of the Supervision Committee

A Supervision Committee, constituted by not less than three (3) persons shall be elected in the General Assemblies of each cooperative.

Section 16.2 -Obligations and Powers of the Supervision Committee

The Supervision Committee shall have the following duties and powers:

- a. Elect, from within its members, a Chairperson, Vice-President and Secretary, and accept the dismissal or the resignation of its members;
- b. Establish the internal rules of procedure of the committee;
- c. Perform internal and external interventions in the audit of the accounts and operations of the cooperative and carry out the interventions it deems necessary and convenient for the best interests of the cooperative;
- d. Request from the Board the funds required to obtain the services of professional personnel needed to discharge its duties. The Board shall contract the external auditors requested by the Supervision Committee, in writing, when the Committee expresses the need for said contracting in

- order to perform its account audit responsibilities to the Board;
- e. Receive and analyze the reports of the internal and external auditors, as well as those of the Inspector;
 - f. Examine the minutes of the Board of Directors and of the Committees to oversee that they are kept according to the established procedures;
 - g. Evaluate the constitution and subsistence of the guarantees and fidelity bonds;
 - h. Follow-up on the course of the judicial actions in which the cooperative is a party;
 - i. Render a report on the results of the audits made to the cooperative to the Board of Directors no later than thirty (30) days following the date on which the same is concluded;
 - j. Render a written report to the General Assembly and the Inspector of Cooperatives on the work performed during the year, being it understood that the Committee shall not comment on the effectiveness or efficiency of the administrative actions of the Board. The Supervision Committee shall present and discuss said report with the Board no later than thirty (30) days prior to holding of said Assembly;
 - k. It may request the Board of Directors to convoke a Special Assembly of Members to discuss matters of importance and interest to the members;
 - l. Fill vacancies which may arise in the Committee until the next General Assembly is held and the new members are elected;
 - m. The Supervision Committee may recommend the suspension or dismissal of any member of the Board or of another Committee who incurs violations against the provisions in this Act to the General Assembly, after the filing and notice of the charges, and holding a hearing before the Committee. The person accused may attend the hearing accompanied by

counsel; and

n. Exercise all other powers in its competence by express provision of law.

Section 16.3 .-Dismissal from the Supervision Committee

Members of the Supervision Committee may be dismissed from office during any General Assembly of Members or Delegates, after charges have been filed against them and duly notified. The same process established by law for the Board of Directors shall be followed.

Section 16.4.-Education Committee

The Board may appoint an Education Committee, whose duties, in addition to those established in the by-laws of the cooperative, shall be the following:

1. Pursuant to the policies established by the Board, to prepare an education plan containing the following:
 - a. Address issues the training needs of the directors and members of the Committee on those issues inherent to the duties they perform;
 - b. Instruct the personnel of the cooperative on the principles, methods and characteristics of the cooperate movement and the management of the cooperative; and
 - c. Provide information on the benefits of cooperative movement to the community.
2. Render a report to the Board of Directors.

In the event that an Education Committee is appointed, the Board shall annually approve cooperative education program annually.

Section 16.5.-Vacancies in the Education Committee

When a vacancy arises in the Education Committee, said vacancy shall be filled by the Board of Directors each year.

CHAPTER 17.-CHIEF EXECUTIVE

Section 17.0.-Appointment of the Chief Executive

The Board of Directors shall be in charge of appointing the Chief Executive of the cooperative, who shall report to the Board of Directors. Said appointment shall be formalized in a contract signed by both parties.

Section 17.1-Duties of the Chief Executive

Pursuant to the institutional policies adopted by the Board of Directors of the cooperative, the Chief Executive shall have the following duties and responsibilities:

- a. Exercise administrative representation of the cooperative in matters concerning business transactions and as an employer;
- b. On behalf of the cooperative, sign those contracts that correspond to the responsibilities delegated on him/her by the Board of Directors;
- c. Implement the institutional policies adopted by the Board;
- d. Select, hire, evaluate and remove personnel of the cooperative pursuant to labor laws, the policies of the cooperative and the budget approved by the Board of Directors. He/she shall also be responsible for the coordination and supervision of the administrative areas and for ensuring the efficiency of the managerial and financial procedures of the cooperative;
- e. Prepare and implement the regulation compliance programs to ensure faithful compliance with local and federal laws and regulations that apply to the operations of the entity;
- f. Prepare the projected budget, which shall be submitted to the Board of Directors for its consideration and approval prior to the beginning of the operating year of the cooperative;
- g. Keep the Board of Directors informed on the operational,

administrative and financial status of the cooperative, for which he/she shall render regular monthly reports to the Board of Directors, as well as any other special reports as he/she or the Board of Directors deem warranted;

- h. Perform any other tasks within the scope of his/her duties, pursuant to the signed contract;
- i. Advise the directing bodies on administrative matters related to the purposes, objectives and nature of the cooperative; and
- j. Be the custodian of the books and registers of the cooperative, except of those which are the responsibility of the Board of Directors.

Section 17.2-Bond of the Chief Executive

Before taking office, the Chief Executive shall post a bond to ensure proper compliance of his/her responsibilities towards the cooperative. The amount and the type of the bond shall be established by regulations promulgated by the Inspector of Cooperatives for such purposes.

Section 17.3 Responsibilities of the Chief Executive

The Chief Executive shall be liable to the cooperative for any of the following causes:

- a. Damages caused to the cooperative itself for his/her noncompliance of obligations, gross negligence, deceit or abuse of power;
- b. The existence, regularity and veracity of the books and other documents which must be kept by the cooperative to comply with the law, except those for which the Board of Directors is responsible;
- c. the veracity of the information provided to the General Assembly of Members and the Board of Directors;
- d. the existence of the assets consigned in the inventories;
- e. the concealment of irregularities observed by him/her in the activities

- of the cooperative;
- f. the preservation and custody of the capital stock in cash, at a bank or in other institutions and in accounts in the name of the cooperative;
 - g. the use of cooperative resources in those activities which differ from the purposes of the cooperative;
 - h. the improper use of the name or assets of the cooperative; and
 - i. non-compliance with the law, the by-laws and the duties established in the contract.

CHAPTER 18.-PROHIBITIONS; CONFLICTS OF INTEREST

Section 18.0-Fiduciary Duties and Conflicts of Interest

- a. The members of the directing bodies of a cooperative are subject to fiduciary duties toward the cooperative. Said fiduciary duties include the duty of due diligence, loyalty toward the cooperative as well as the duty to oversee and care, as a responsible person would, for the assets and operations of the cooperative, as well as for the property, shares and deposits of the members and depositors placed in the entity.
- b. The members of the directing bodies, delegates and employees of a cooperative shall not incur direct or indirect conflicts of interest with respect to the cooperative. All members of the directing bodies, delegates and employees of the cooperative shall be subject to the following ethical prohibitions of a general nature:
 - (1) No property with financial value, including discounts, tips, gifts, favors or services shall be solicited or accepted from any person, directly or indirectly, for him/herself or for any member of his/her family unit, nor for any other person, business or entity, in exchange for any action by the member of the Board, or

committee, or by a delegate or employee, to be influenced in favor of that or any other person;

- (2) Shall not disclose or use any information or documents acquired in the performance of his/her duties or employment for purposes foreign to the same. All members of a directing body, delegates and employees shall maintain the confidentiality of matters pertaining to their duty or employment, as applicable, unless he/she receives a request requiring the disclosure of any such matter and that the same is authorized by a competent authority.
 - (3) He/she shall not obtain any personal profit by taking advantage of the office he/she holds.
 - (4) No member of a directing body, delegate or employee of the cooperative shall accept any fees, compensation, gifts, payment of expenses or any other benefit of monetary value under circumstances in which such acceptance may result in or create the appearance of conflict of interest regarding his/her duties and responsibilities in the cooperative; and
 - (5) No member of a directing body or employee of the cooperative who is authorized to execute contracts on behalf of the cooperative may execute a contract between the cooperative and any entity or business in which either he/she or any member of his/her family unit has any direct or indirect financial interest.
- c. The Board of every cooperative shall be bound to promulgate by-laws to protect the integrity of the cooperative and avoid conflicts of interest within the same, which shall be in agreement with the provisions of this Act and with the applicable regulations adopted by the Inspector. As a minimum, said norms shall include the following:

- (1) ethical prohibitions concerning other positions, employment, contracts or businesses;
 - (2) ethical prohibitions concerning the representing of private interest conflicting with the interests of the cooperative; and
 - (3) the duty of the members of the governing bodies, the delegates and employees to report situations of possible conflict of interest to the Board of Directors.
- d. The Inspector, through regulations, shall establish additional ethics norms applicable to the members of the governing bodies, the delegates and employees of a cooperative. Among such norms, he/she shall include norms on the conflicts of interest arising from family relations between the different components and entities of the cooperative.
 - e. No Director or member of the Supervision Committee of a cooperative shall be a relative, up to the third degree of consanguinity and second degree of affinity, of another member of the Board of Directors or the Supervision Committee.
 - f. No Director or member of the Supervision Committee shall be a relative up to the third degree of consanguinity or second degree of affinity of any employee of the cooperative.
 - g. Those person whose personal, marital or corporate interests are in conflict with those of the cooperative, or who may benefit from having commercial links with the cooperative shall not be members of the Board of Directors or of the Committees, nor may they hold any employment position in the cooperative.
 - h. No employee of the Cooperative Development Administration, the Office of the Inspector of Cooperatives, Public Corporation for the

Supervision and Insurance of Cooperatives in Puerto Rico, or of the League of Cooperatives may be a delegate or director of a cooperative, except when the cooperative is organized in the place in which he/she works.

- i. No employee of a cooperative may be a delegate or director of the cooperative for which he/she works, except for industrial, agro-industrial or services worker cooperatives.
- j. No person who holds an elective office in the Government of Puerto Rico may be a member of the Board of Directors or of the Committees, nor hold the office of manager or administrator of a cooperative. This prohibition shall not apply to members of municipal assemblies.
- k. No member of the family unit of the Director or of any committee member of the cooperative may be part of any committee of the cooperative while said relative is the Director or a member of a committee.

Section 18.1 -Compensation

The members of the Board, the Supervising, Credit or Education Committees, or the members of any other committee elected by the General Assembly shall receive no compensation or remuneration whatsoever for the performance of their duties. However, they may be reimbursed for expenses actually incurred in the performance of their duties, pursuant to the by-laws adopted by the Board of Directors of each cooperative, with the approval of the Assembly.

Cooperatives may provide the members of the Board and of the Supervising, Credit or Education Committees the necessary insurance so that, while the interests of the cooperative are protected, each one of them is personally protected while performing the duties inherent to their office.

Section 18.2.-Employment Limitations

No Director or Committee Member shall be an employee of the cooperative until at least one (1) year has elapsed after ceasing to hold office in the Board, except when the appointment is approved by three fourths (3/4) of the members of the Board of Directors and by the majority of the members of the Supervision Committee.

PART VI.-BUSINESS AND FINANCES

CHAPTER 19.-MAIN ENTRIES

Section 19.0.-Capital of the Cooperative

The capital of the cooperatives shall consist of the sum of:

- a. member contributions;
- b. preferred or preference shares;
- c. net savings accrued and not distributed;
- d. capital obligations;
- e. gifts received; and
- f. permanent reserves and funds.

Section 19.1.- Member Contributions

The articles of incorporation shall indicate the initial capital of the cooperative and the by-laws shall provide the minimum sum a member must contribute, or the shares he/she must own.

Contributions or shares may be paid in cash, goods or services, according to the provisions of the by-laws of the cooperative.

The by-laws of the cooperative shall provide the form and procedure to be used to determine the worth of the goods or services rendered to pay for the contributions or shares. The personal work of the incorporators or promoters of the cooperative performed prior to the organization thereof shall not be valued as a contribution nor compensated with shares.

Section 19.2.-Certificate of Contributions

Member contributions may be represented by continuously and individually numbered certificates, or by an account or investment statement.

Section 19.3-Preferred or Preference Shares

The general rules of the cooperative shall provide on the form and procedure for the issuing of preferred shares certificates. Such preferred shares may be acquired by members or non-members, provided that the total amount of preferred shares shall be limited to the total amount of the capital of the cooperative. This provision shall not apply to housing cooperatives.

Section 19.4.-Net Savings

Net savings shall be the favorable result of the operations of the cooperative during the fiscal year, after deducting expenses and depreciations. This provision shall not apply to housing cooperatives.

Section 19.5.-Reserves

The reserves shall be constituted by funds resulting from the net savings of the cooperative. A specific amount of said funds shall be set aside and its use shall be restricted by the provisions of this Act.

Section 19.6.-Number of Reserves; Priority

Every cooperative, except housing cooperatives, shall establish the following reserves by the order of priority indicated hereinbelow:

1. corporate reserve;
2. service reserve; and
3. legal reserves required to carry out specific activities

Section 19.7.-Deducted Losses

When the cooperative is operating with losses, it must distribute said losses among the shares issued in case of any withdrawal of shares. The cooperative shall not disburse more for a withdrawn share than its real value, calculated taking into

consideration the accrued reserves on the date of the last closing of the books. This Section does not apply to housing cooperatives.

Section 19.8.-Corporate Reserve

The articles, by-laws or the Board of Directors shall govern the amount to be set aside to nourish the corporate reserve, but said amount shall not be less than ten percent (10%) of the net savings, until the amount accrued in said reserve is equal to thirty percent (30%) of the book value of the tangible assets of the cooperative.

The corporate reserve of the cooperative is non-distributable, and therefore, neither the members nor those who have resigned or been excluded, nor in the case of natural person, the heirs thereof, have the right to claim or receive any portion of it. Any charge against this reserve shall be for an emergency of the cooperative through previous authorization of the Board of Directors and the Supervision Committee, and shall be reported in the next Assembly of Members, provided that, in such case, the approval of the Inspector shall be required.

Section 19.9.-Service Reserve

The service reserve shall be nourished by ten percent (10%) of the net savings of the cooperative.

The service reserve shall be used for:

- a. the education of members and non-members; and
- b. community services.

The Board of Directors shall determine how this reserve is to be used within the above mentioned alternatives

Section 19.10.-Investments

The external investments of the cooperative shall be preferably made in other cooperative organizations.

The cooperative may also make its investments in the following manner:

- a. In bank accounts or institutions insured by the “Federal Deposit

Insurance Corporation,” or in cooperative savings and credit unions insured by the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico, or in any other entity insured by banking insurance institutions of the Federal Government or of the Commonwealth of Puerto Rico;

- b. In bonds of the Commonwealth of Puerto Rico or the United States of America;
- c. In bonds or stocks of government corporations of the Commonwealth of Puerto Rico and the United States of America;
- d. In entities which meet the requirements for trusts; and
- e. In shares and securities of any organization whose activities are in accordance with the operations of the cooperative.

CHAPTER 20.-CONTRACTS OF THE COOPERATIVE

Section 20.0.-Power to Contract

Cooperatives may enter into any type of contract which is convenient or proper to achieve their ends and purposes.

Section 20.1.-Contract as a Requirement

As a condition of membership or as a condition to extend their activities to non-members, cooperatives may establish that a contract be entered into to regulate the business or service relations between the interested parties.

Section 20.2.-Marketing Contract

Every contract in which the cooperative is the agent of a member for the purpose of marketing the products or goods of the member may stipulate that the aforementioned transfers to the cooperative his/her fee simple ownership rights of the goods which are the subject to the contract. Said contract shall allow the cooperative to encumber the goods in question in the measure it may deem convenient in order to achieve the ultimate purpose of the contract. Such a contract

may be in effect for a maximum term of ten (10) years.

Section 20.3.-Loan Capital

The articles of incorporation or the by-laws may provide for the creation of loan capital in favor of the cooperative.

Said loan capital shall be collected through the cash contribution of members, through savings or interest accrued by the members in their transactions with the cooperative. The maximum limit of the contributions or investments of the members shall be fixed in the articles or the by-laws. If the contract between the cooperative and the member does not stipulate a fixed date for withdrawal nor include any other limiting provision, the member may withdraw his/her investment at any time. Should the Board of Directors deem that said withdrawal is prejudicial to the operations of the cooperative, it may require a term of not less than ninety (90) days to execute the same.

Section 20.4.-Loan Contract

Any cooperative whose articles allow it may grant loans to members. The loan application shall indicate the purpose for which it is being requested, the security offered and any other information deemed pertinent.

The loan shall be secured by a promissory note drafted according to the instructions of the Board. Its signatories shall be deemed to be joint debtors. The cooperative may accept other securities.

The debtor may pay his/her loan, in whole or in part, during the working hours of the cooperative.

Section 20.5.-Cooperatives Do Not Restrict Business

Cooperatives organized under this Act shall not be considered to be conspiracies or cartels to restrict business, nor as illegal monopolies due to their contracts, business or activities; Furthermore, they shall not be considered to have been organized for the purpose of reducing competition or of fixing prices

arbitrarily, nor shall the contracts entered between the same and their members and other sponsors, nor other authorized contracts or contracts entered by virtue of this Act, be interpreted as illegal restrictions of business and as parties to a conspiracy or cartel to carry out an improper or illegal purpose and act.

CHAPTER 21.-DISTRIBUTION OF SURPLUS

Section 21.0-Surplus

After the reserves are set aside, the cooperative, except for housing cooperatives, may distribute the remainder or surplus of its net savings at the close of the fiscal year, or capitalize it. Said distribution must be carried out on the basis of sponsorship and by shares.

Section 21.1.-Calculation of Sponsorship

In calculating sponsorship, the market price, time invested, weight, amount, or any other reasonable measure may be used to determine the value of a service or an article. The determination regarding this matter shall be made by the Board of Directors of the cooperative. This section does not apply to housing cooperatives.

CHAPTER 22.-TRANSACTIONS ON MEMBER'S ACCOUNTS

Section 22.0.-ISSUANCE

The cooperative shall not issue any stock or contribution certificate until the same has been paid in full.

Section 22.1.-Notice of Withdrawals

The cooperative may require that any deposit withdrawal notice be made thirty (30) days in advance; and that the withdrawal of shares or contributions be notified ninety (90) days in advance.

Section 22.2.-Liquidation of the Member's Participation

In case the retirement, death or separation of a member, the cooperative shall pay him/her, his/her authorized representative, beneficiaries or heirs, as the case may be, the amount of money equivalent to his/her contribution, plus any sum on

account of interest accrued by the member in the cooperative within ninety (90) days of his/her retirement, death or separation. The cooperative shall also be diligent in paying the declared dividends and in carrying out any transaction with regard to life insurance policies carried by the person who has ceased to be a member. Any outstanding debt of the member with the cooperative must be deducted from said payment.

In the case of the death of a member, the cooperative shall comply with the provisions of the Civil Code of Puerto Rico regarding matters of bequests and estates, with the exception of a claim of money for funeral expenses. Provided, that the administration of the cooperative may disburse, at the request of an authorized person, up to a maximum of one thousand dollars (\$1,000) to defray funeral expenses of the deceased member. The administration of the cooperative shall submit to the Board of Directors the claim for the assets of the deceased member for its consideration in the next regular meeting once the relative has remitted the following documents: a sworn statement declaring the relationship of the petitioner with the member; death certificate; and funeral parlor invoice. The corresponding payment shall be made out in the name of the funeral parlor that rendered the services.

Section 22.3.-Postponement of Payment

When a cooperative has a capital deficit, or if its financial situation does not allow for it, it may postpone the payment corresponding to the withdrawal of membership in the cooperative for a period not to exceed two (2) years, except for life insurance payments.

Section 22.4.-Withdrawals by Members of the Governing Bodies

No director, officer, committee member or member of the cooperative who is participating directly in the administration of a cooperative may make withdrawals of shares or contributions, unless the cooperative enjoys a solid financial condition

and has the approval of the Board of Directors, the Supervision Committee and the Credit Committee, should there be one.

Section 22.5.-Nullity of Withdrawals

Any withdrawal of shares or contributions of a member made within ninety (90) days prior to a declaration of insolvency of the cooperative shall be null and void. Any member who has withdrawn contributions during said period shall continue to be liable to the creditors of the cooperative for the value of said contributions.

CHAPTER 23.-FISCAL PROVISIONS

Section 23.0.-Property Tax Exemption

- (a) The cooperatives, their subsidiaries or affiliates, as well as their income from all their activities or operations, all of their assets, capital, reserves and surplus, and those of their subsidiaries or affiliates shall be exempted from the payment of all types of income tax, property taxes, excise taxes, municipal licenses fees and any other tax imposed or to be imposed in the future by the Commonwealth of Puerto Rico or any of its political subdivisions.
- (b) All the shares and securities issued by the cooperatives and by any of their subsidiaries or affiliates shall be exempt, both in their total value as well as in the dividends or interest paid thereto, from the payment of any type of income tax, property tax, excise tax, municipal license or any other tax imposed or to be imposed in the future by the Commonwealth of Puerto Rico or any of its political subdivisions.
- (c) The cooperatives and their subsidiaries or affiliates shall be exempt from the payment of duties, state or municipal excise taxes or fees, including the payment of licenses fees, municipal licenses, permits

and registrations, from the payment of charges, fees, internal revenue stamps or vouchers pertaining to the issuing of any type of public or private documents, and from the payment of charges, fees, internal revenue stamps or vouchers pertaining to the registration thereof in the Property Registry, any other public registry or government office, and from the payment of charges, fees, internal revenue stamps or vouchers pertaining to the issue of certifications by said registries or any other government office. The cooperatives and their subsidiaries or affiliates shall be exempt from the payment of charges, fees, internal revenue stamps or vouchers, excise taxes or duties required by the General Court of Justice of Puerto Rico, or by any agency, instrumentality, or public corporation of the Commonwealth of Puerto Rico or any of its political subdivisions.

- (d) The tax exemptions granted to the subsidiaries or affiliates of the cooperatives pursuant to this Section shall apply while said subsidiaries or affiliates are under the control of one or more cooperatives.

Section 23.1.-Unclaimed Accounts

The money and other liquid assets in the custody of a cooperative that are not claimed or which have been subjected to any transaction in the previous five (5) years shall be transferred to a corporate capital reserve of the cooperative or to its indivisible capital item, at the option of the cooperative. For purposes of this Section, neither the imposition of service charges nor the payment of interest or dividends shall be considered as a transaction or activity in the account. Ninety (90) days prior to the transfer of these liquid assets to the aforementioned reserves, the cooperative shall publish a notice in its branches and service offices with a list of the accounts that shall be subject to transfer. During said ninety (90) day term,

the list shall be available for the review by any member and the general public. Any person who, during the aforementioned ninety (90) day term, presents attesting evidence of ownership of one or more of the accounts identified in the list shall be entitled to have said accounts withdrawn from the list and not to be transferred to the capital reserves. After the transfer of an account or liquid assets into the capital reserves has been made, only those claims presented no later than two (2) years after the transfer shall be admitted. In such cases, the cooperative may impose the corresponding administrative charges for the investigation and analysis transactions conducted regarding the claim.

Pursuant to these provisions, the cooperatives, their accounts of shares and deposits and their reserves shall be exempt from the provisions in Act No. 36 of July 29, 1989, as amended, known as the “Abandoned or Unclaimed Money and Other Liquid Assets Act.”

Section 23.2.-Unattachable Property

The contribution of members of the cooperatives and their corresponding interest, whether capitalized or not, shall be deemed as unattachable property, except by the cooperative itself.

Section 23.3.-Goods and Services Transactions with the Government

The Commonwealth Government and the Municipal Governments may sell, lease, exchange or otherwise transfer to those cooperatives organized pursuant to the laws of Puerto Rico, real property belonging to said governments without being subject to the requirement of a bid in those cases in which it is a requirement of law, provided that it is for a reasonable price.

Property thus acquired, and in the event the cooperative wishes to sell it, shall first be offered for resale to the government, which shall have thirty (30) days to inform the cooperative of its intention to reacquire said property.

The Commonwealth Government and the Municipal Governments may

purchase, lease, exchange or otherwise, obtain goods and services offered or produced by the cooperatives without being subject to the requirement of a bid, in those cases in which it is a requirement of law.

The Commonwealth Government and the Municipal Governments shall exempt cooperatives from the payment of rent for the use of the facilities in the offices of the different agencies, instrumentalities and public corporations.

Section 23.4.-Collection of Fees

The Secretary of State of Puerto Rico shall charge and collect the following duties in favor of the Commonwealth of Puerto Rico, in internal revenue stamps, for filing in his/her office any certificate or any documents related to the cooperatives referred to in this Act:

- | | | |
|----|---|---------|
| a. | For receiving, filing and registering the articles of incorporation or amendments thereto | \$10.00 |
| b. | For the issue of certificates of registration as a juridical person | \$2.00 |
| c. | For filing certificates of dissolution agreements | \$2.00 |
| d. | For the issue of certificates of dissolution | \$2.00 |
| e. | For issuing a copy of any filed document or paper pertaining to associations of this type, ten (.10) cents for every hundred (100) words. | |
| f. | For certifying the aforementioned copy and for affixing the stamp of the Commonwealth of Puerto Rico | \$1.00 |

PART VII-COOPERATIVE INTEGRATION
CHAPTER 24.-MERGER OR CONSOLIDATION

Section 24.0.-Merger

Two or more cooperatives organized under this Act may merge. On doing so, one or more cooperatives shall transfer its (their) name, assets and other properties and rights to the other cooperative, which shall be the one remaining in existence as a recognized juridical entity.

Section 24. 1.-Consolidation

Two or more cooperatives may consolidate, in which case, the two or more cooperatives shall form a new cooperative entity different from those existing before, which shall be in charge of their assets and liabilities.

Section 24.2-Voting

The cooperatives may merge or consolidate with the affirmative vote of two thirds (2/3) of the members present at an Assembly, duly called and constituted for that purpose. In the case of cooperatives organized by districts, the aforesaid shall apply to the Assembly of Delegates.

Section 24.3.-Bill of Agreement

A bill of agreement for the merger or consolidation of the cooperatives shall be distributed among all the members of each cooperative together with the summons to said Assembly. The bill shall establish the terms and conditions of the merger or consolidation, the manner in which it shall be carried out, and the way in which the capital is to be represented, the rights and obligations of the members and directors, and all other details and provisions which the directors may deem necessary or pertinent in order to perfect the merger or consolidation.

Section 24.4.-Registration Transaction

Should the cooperatives that merge or consolidate approve said agreement, the President and the Secretary of each cooperative shall certify, under oath, the

resolution approved to that effect. Said resolution, thus approved and certified, shall be submitted with three copies to the Inspector of Cooperatives, together with the merger agreement signed by the President and the Secretary of each of the cooperatives for its final approval.

Should the Inspector of Cooperatives determine that said merger or consolidation was executed pursuant to the provisions of this Act, he/she shall submit the original of the resolution approving the agreement to the Department of State, for its registration, together with the pertinent incorporation and cancellation documents within sixty (60) days after the agreement was filed. The Inspector shall retain in his files the original agreement, a copy of the resolution approving said agreement, and a copy of the Certificate of Registration.

Should the Inspector of Cooperatives determine that the provisions of this Act have not been met, he/she shall notify his/her decision to all cooperatives concerned. The Inspector shall notify his/her decision to reject it within thirty (30) days after having received said documents, and shall state the reasons for rejection in his/her notice.

CHAPTER 25.- SUPERIOR INTEGRATION

Section 25.0- General Provision

Cooperatives may associate among themselves in order to exchange services, to execute contracts and hold activities, to complement business transactions and comply in the best way possible with their corporate goals, and in brief, to fulfill the principles of cooperative integration.

Section 25.1.-Organization of Superior Grade Cooperatives

Cooperatives may constitute second level or superior grade cooperatives, or enter into association with them by means of resolutions by two thirds (2/3) of the incumbent directors of the Board of Directors.

They may also become associated with similar organizations and with non

profit associations.

Second or superior grade cooperatives thus organized shall be governed by the provisions of this Act and shall be registered at the Department of State.

Section 25.2.-Integration Organizations

The following are superior grade cooperative organizations:

- a. central cooperatives;
- b. cooperative federations; and
- c. the League of Cooperatives of Puerto Rico.

Section 25.3.-Norms for the Integration Organizations

The following shall be officially recognized as juridical persons pursuant to the present Act:

- a. the League and the federations may be members of international cooperative organizations.
- b. may carry out financial activities compatible with their needs and functions as a means of achieving their ends;
- c. shall have Boards or general assemblies of delegates as sovereign bodies and shall be composed of the delegates from the respective integrated cooperative organizations, who shall be members of said cooperatives.
- d. the general assemblies or boards, councils or committees of the central cooperatives, the federations and the League shall be constituted solely by the delegates of the organizations which have been integrated with them provided they maintain their nature as such.
- e. as regarding other aspects, the provisions of the present Act which refer to the organizational and operational structure of primary cooperatives are applicable to the League, the federations and the

central cooperatives; and

- f. the League and the federations shall not refuse the incorporation to their organization any cooperative organization which meets the requirements of law.

CHAPTER 26.-CENTRAL COOPERATIVES

Section 26.0.-Purpose of the Central Cooperatives

Central cooperatives shall be officially recognized as juridical persons pursuant to the present Act. They are profit-making entities organized to carry out activities such as the following, at the service of the cooperatives that constitute, the same, their members or the public:

- a. provide machinery, equipment, tools, supplies, construction material, provisions and other goods necessary or convenient for their use, consumption, production or distribution;
- b. preferentially market and/or industrialize the products of the integrated organizations;
- c. carry out import and export operations;
- d. provide goods or services to be used in common;
- e. provide advisory services in the specialty areas of the central cooperatives;
- f. coordinate or unify services common to integrated cooperative organizations;
- g. carry out any other financial activities allowed by the laws of the Commonwealth of Puerto Rico.

Section 26.1.-Norms which Govern Central Cooperatives

Central cooperatives are governed by the following basic norms;

1. These may be constituted:
 - a. second grade central cooperatives, composed by primary

cooperatives of the same or different types, or by other cooperative organizations; and

- b. central cooperatives of a grade superior to those provided in the preceding paragraph, composed by central cooperatives or other cooperative organizations.
2. The minimum number of cooperatives which constitute a central cooperative shall be that established through regulations according to the nature thereof.
 3. The operating range of a central cooperative shall be determined by its articles of incorporation.
 4. Cooperative organizations may be integrated into one or more central cooperatives.
 5. Central cooperatives composed exclusively by cooperatives of the same type may be integrated into the Federation corresponding to the same.

CHAPTER 27.-FEDERATIONS

Section 27.0.-Purposes

Cooperative Federations are associations constituted to carry out the following activities at the service of the cooperative organizations of which they are constituted:

- a. Represent and defend the interests of federated cooperatives and coordinate their activities;
- b. oversee the progress of federated cooperatives,
- c. perform audits through certified public accountants at cooperatives of their type when requested by their Boards of Directors by recommendation of the federate body to the Board of Directors of their affiliates;

- d. intervene as arbitrators in conflicts which arise between cooperatives of their type or between the aforesaid and their members, when the parties so request it;
- e. provide permanent advisory services to those cooperatives of their type which request it, primarily in the cooperative, juridical, administrative, managerial, accounting, financial, economic and educational areas;
- f. promote the constitution of new cooperatives in their field and perform feasibility studies at their request;
- g. promote cooperative education;
- h. promote cooperative integration;
- i. carry out financial operations which are not in conflict with the services or operations of their affiliates as a means for achieving their goals; and
- j. other functions for or on behalf of their affiliates that do not compete against the purposes of the cooperatives.

Section 27.1.-Basic Norms for Federations

Cooperative Federations are governed by the following basic norms:

- a. Only one federation may be constituted for each type of cooperative throughout the Island.
- b. Each federation shall be constituted by not less than twenty percent (20%) of the primary cooperatives of the same type. Not less than fifty percent (50%) shall be required in those cases in which a federation is constituted by less than forty percent (40%).

Section 27.2.-Quorum for Assemblies

A Federation Assembly shall be duly constituted with the representation of not less than twenty-five percent (25%) of the affiliated cooperatives or the delegates.

If quorum is not obtained in the first assembly, a second assembly shall be called in which the quorum shall be ten percent (10%) of the affiliated cooperatives or of the delegates. If quorum is not obtained in the second assembly called, quorum shall be constituted by the members present at the third assembly called.

Section 27.3.-Member Certification

The Federation may request a certification of members from the affiliated cooperative or from the Inspector of Cooperatives at the last close of operations of the cooperative.

CHAPTER 28.-LEAGUE OF COOPERATIVES

Section 28.0-League of Cooperatives

The League of Cooperatives of Puerto Rico is the association of the third grade of the Puerto Rican cooperative movement which groups the cooperatives, federations and central cooperatives organized pursuant to this Act or any other law passed by the Legislature of Puerto Rico.

Section 28.1.-Functions

The League of Cooperatives shall carry out the following functions:

- a. Act as representative of the cooperative movement.
- b. Promote, coordinate and defend the general interests of the cooperative movement and the cooperative sector.
- c. Promote a relationship of cultural and commercial exchange between cooperative organizations at the national and international levels.
- d. Coordinate the actions of the cooperative movement in Puerto Rico with the cooperative activities of the public sector.
- e. Coordinate the representation of the movement before the Commonwealth of Puerto Rico in order to set forth those measures which are necessary and convenient for cooperative development and for perfecting Cooperative Law.

- f. Carry out research and studies regarding problems common to the cooperative movement with the purpose of achieving an integrated plan for its development.
 - g. Promote a process for the permanent integration of cooperative organizations at all levels.
 - h. Promote intensive and permanent cooperative education at all levels of the cooperative movement in all other sectors.
 - i. Promote the unification and strengthening of the cooperative financial system.
 - j. Defend the effectiveness of the universal principles of the cooperative movement and of those basic doctrines acknowledged and accepted by the cooperative movement.
 - k. Perform feasibility studies and promote the creation of new cooperatives in non-federated sectors.
1. Perform any other functions delegated by its affiliates, in harmony with its ends and purposes.

Section 28.2.-Structure

The League of Cooperatives of Puerto Rico is the federated cooperative organization at the highest level of cooperative integration and it shall be exclusively composed, with equal rights and obligations by:

- a. Cooperatives federations;
- b. Central cooperatives;
- c. the Cooperative Bank, insurance cooperatives, and other cooperative institutions which in any case enjoy the juridical nature of central cooperatives but, because of their activities, must comply with certain particular requirements of the Commonwealth; and
- d. basic or first level cooperatives, until the development of a second

level structure which ensures due representation of basic cooperatives.

- e. The organizational structure of the League of Cooperatives shall be established in the by-laws adopted by its assembly of delegates, following the same procedure for approval and amendments established in the by-laws of the cooperatives.

Section 28.3.-Quorum in General Assemblies

League assemblies shall be legally constituted when at least twenty percent (20%) of the delegates of the affiliated cooperatives are present. Every cooperative shall have the right to one official delegate and one alternate delegate.

Section 28.4.-Contribution to the League of Cooperatives

All cooperatives, central cooperatives, banks and cooperative federations, as well as any other entity organized or to be organized under any law of the Commonwealth of Puerto Rico, shall be bound to set aside annually not less than one tenth of one percent (0.10%) of the total volume of its operations to contribute to the support of the League. Said cooperatives shall deposit with the League of Cooperatives of Puerto Rico that sum which is the product of the aforesaid computation up to a maximum of four thousand dollars (\$4,000).

Cooperatives, central cooperatives, banks and federations which during their annual operations obtain a net surplus shall contribute an additional amount of five percent (5%) of their annual net surplus up to a maximum of three thousand dollars (\$3,000).

During the month following the close of each fiscal year's operations of the cooperatives, they shall have deposited with the League of Cooperatives the total sums which they were bound to pay for the year thus ending. Deposits shall be made each quarter and each partial payment shall be estimated at one fourth of the amount they were bound to pay for the preceding year. The pertinent adjustments

shall be made at the close of the year and should there be a payment in excess, it shall be credited to the estimated payment for the following first subsequent quarter.

PART VIII- RECEIVERSHIP OR DISSOLUTION OF COOPERATIVES

CHAPTER 29.- RECEIVERSHIP FOR REHABILITATION

Section 29.0-Causes for Syndication

The Cooperative Development Administration may decree that a cooperative be placed under the administration of an administrative receiver at the request of the members, the Board of Directors, the parties or at its own initiative when, after an audit, investigation, assessment or inspection conducted by the Office of the Inspector of Cooperatives, it is found that the cooperative is in one or more of the following situations:

- a) it is being managed or administered in such a manner that the members and creditors are at risk of being defrauded or of suffering severe losses;
- b) it lacks an economic and financial situation which shall prevent it from continuing to do business if immediate action is not taken; it does not have effective internal controls for the administration of its affairs; it does not have adequate reserves or its accounting is not up to date nor reasonably accurate;
- c) there are no corrective or rehabilitation procedures which are less drastic to adequately address the risk of loss for the members and creditors of the cooperative; y
- d) when there are no directing bodies as provided in this Act.

Section 29.1- Procedure for Receivership

The Cooperative Development Administration shall hold a hearing prior to issuing an order to place a cooperative under receivership. However, it shall issue a

temporary order designating an administrative receiver without the need to hold a hearing when, in its judgment the situation of the cooperative is of such nature that irreparable damage is being caused or may be caused to its own interests, its members or creditors. When the Cooperative Development Administration issues a temporary order and designates an administrative receiver, it shall hold an administrative hearing within ten (10) days following the date of the notification of said hearing, after which it shall decide whether it is made permanent or revoked.

In the case of voluntary receivership requested by the Board of Directors, the Cooperative Development Administration shall call its members to an informative Assembly immediately after it appoints an administrative receiver.

Section 29.2.-Appointment of an Administrative Receiver

In each case in which the Cooperative Development Administration issues a temporary or permanent order to place a cooperative under receivership, the latter shall operate it him/herself or through an external entity or person, pursuant to the regulations he/she promulgates to attain the rehabilitation of the cooperative.

Section 29.3.-Returning the Cooperative to its Members

When the Cooperative Development Administrator deems that the operations of the cooperative have reached the necessary stability, he/she shall return the management or administration of the cooperative to the duly elected and designated officers and employees under those stipulated conditions.

Section 29.4.-Right to a Review

The order of the Cooperative Development Administrator's to designate an administrative receiver may be reviewed by the Court which corresponds to the domicile of the cooperative through a recourse filed within ten (10) days from the date of the notification of the decision to the Board of Directors of the cooperative.

Section 29.5 Order of Dissolution

When the receivership does not achieve the financial recovery of a cooperative within a reasonable term, the Cooperative Development Administrator may order the receiver to proceed with the total dissolution of the cooperative.

CHAPTER 30. DISSOLUTION OF COOPERATIVES

Section 30.0.- Voluntary Dissolution

Every cooperative organized pursuant to this Act may be dissolved voluntarily through the vote of two thirds (2/3) of the members present at an assembly called and constituted for that purpose. Said assemblies shall be convoked by mail, at least fifteen (15) days prior to the holding thereof.

The dissolution agreement shall be signed and certified by the Chairperson and the Secretary of the Board of Directors, and notified to the Inspector of Cooperatives and the Cooperative Development Administration.

Section 30.1.- Involuntary Dissolution

The Inspector of Cooperatives of Puerto Rico may decree the dissolution of a cooperative:

- a. When it has been impossible to gather its members or delegates in an assembly for more than two consecutive years;
- b. When a cooperative has been inactive for a period of not less than three (3) years. An inactive cooperative shall be understood to be one that does not perform the activities needed to achieve its ends and purposes;
- c. When a cooperative fails to correct, within a reasonable period of time and according to a work plan for such purpose, violations of the law indicated by the Inspector of Cooperatives, and when said violations represent or may represent irreparable damages for the members of the community; and

- d. When a cooperative has reduced the real value of its shares by more than fifty percent (50%).

CHAPTER 31.-BOARD OF RECEIVERS

Section 31.0-Appointments

After the Assembly has approved the agreement of dissolution, it shall appoint Board of Receivers, which shall consist of not less than three members. Should the Assembly fail to elect said receivers, they shall be appointed by the Inspector of Cooperatives.

In those cases in which the Inspector has decreed the dissolution, he/she shall appoint the members of said Board. The Board of Receivers shall be required to obtain a fidelity bond underwritten by an insurance company of Puerto Rico. When it is not possible to appoint three (3) receivers, the Inspector shall appoint a single trustee to carry out the dissolution procedures.

Section 31.1.-Obligations

The Board of Receivers shall liquidate the assets of the cooperative, pay its debts and distribute the remainder, if any, pursuant to the provisions stated below. The Board of Receivers shall notify the fact to all known creditors.

The Board of Receivers shall complete the dissolution within the term established in its appointment by the Assembly or in its designation by the Inspector. The term thus established may be extended with the authorization of the Inspector of Cooperatives.

Section 31.2.-Vacancies

Any vacancy on the Board of Receivers due to the death, resignation or dismissal of a receiver shall be filled through an appointment made by the remaining members of that Board of Receivers. Should they not act within twenty (20) days after the vacancy occurred, the Inspector shall fill the same.

Section 31.3.-Destitution

When the Inspector of Cooperatives deems that the Board of Receivers or any of its members are not performing their duties according to the provisions of the law, or are acting against the interests of the cooperative, he/she may dismiss said Board or any of its members. Prior to the dismissal or removal, the Inspector shall give notice in writing to the members regarding the charges brought against them and offer them the opportunity to refute said charges at a hearing before him/her.

CHAPTER 32. –PROCEDURES

Section 32.0.-Notice

Once the dissolution of a cooperative has been approved or decreed, the Board of Receivers or the Inspector shall cause a notice of the dissolution thereof to be published in a newspaper of general circulation thirty (30) days prior to the beginning of the liquidation. In case that the cooperative undergoing the process of dissolution lacks sufficient funds to publish said notice in a newspaper, the notice may be published at the office of the Collector of Internal Revenue in the municipality where the main office of the cooperative is located.

Section 32.1.-Claim before Receivers

Any member or person affected who has a claim against the cooperative shall file said claim before the Board of Receivers within three (3) months following the publication of the notice of dissolution.

Section 32.2.-Distribution of Assets

Upon the dissolution of the cooperative, its assets shall be liquidated and distributed in the following order:

1. Reasonable expenses incurred by the Board de Receivers.
2. All insured obligations.
3. All obligations except those incurred by virtue of certificates of indebtedness and loan capital.

4. Loan capital, if any.
5. Certificates of indebtedness to holders thereof.
6. Par value of common and preferred stock, if any.

If after the aforementioned distribution has been carried out, corporate reserves remain in whole or in part, they shall not be distributed among the members and they shall be destined for and form part of the savings of the Federation of the sector, and in default thereof, of the League of Cooperatives.

Section 32.3.-Petition to Halt the Procedures for Dissolution

Any person having the intention of suing a cooperative undergoing procedures for dissolution, and with the purpose of preventing or annulling said procedure for receivership, shall file the corresponding action before the competent Court of First Instance within thirty (30) days following the publication of the notice for dissolution. Said action shall be notified to the Inspector of Cooperatives and to the Chairperson of the Board of Receivers or to any of the receivers, if no person has been designated as Chairperson of said Board.

Section 32.4.- Diverse Petitions

The Board of Receivers, the Inspector of Cooperatives, any affected member and any creditor of the cooperative may resort to the competent Court of First Instance to request it to issue orders and resolutions regarding the following cases:

- a. The sale and disposal of any remaining property of the cooperative or division or distribution in favor of the members or other persons entitled to it.
- b. The payment, whole or in part, of the claims and suits against the cooperative and the withholding of funds for that purpose.
- c. The existence of any trust constituted by or for the cooperative, if it concerns the disposal of any property of the cooperative.
- d. Any other matters requiring court action.

Section 32.5.-Custody of Documents

The Inspector of Cooperatives shall be the custodian of the books and documents of the dissolved cooperative. He/she shall retain those documents deemed pertinent for a period of not less than three (3) years from the date that the certificate of registration was cancelled.

Section 32.6- Judicial Consignment and Notification

When, upon the dissolution of a cooperative, it is not possible to locate those persons entitled to receive assets, or it is not possible to determine to whom said assets correspond, the Inspector of Cooperatives is authorized to consign the aforesaid judicially, free of charge, through the procedure established hereinbelow:

- a. The Board of Receivers appointed by the Inspector of Cooperatives for the dissolution of the cooperative shall evidence through sworn statements the reasonable measures taken to locate the members or persons entitled to receive assets.
- b. If the last address of the member is known, the Board of Receivers shall send him/her a certified letter with return receipt requested indicating to the member the dissolution procedures of the cooperative and his/her right to claim his/her share of the assets. If there are insufficient funds in the cooperative, or the assets of the member are less than fifty dollars (\$50.00), the member shall be notified by regular mail.
- c. If within thirty (30) days from the notification established in the previous subsection the member does not claim his/her share of the assets, his/her whereabouts are unknown, or the persons to whom the assets belong are unknown, the Inspector of Cooperatives shall file a petition of consignment accompanied by the sworn statement of the Liquidation Receiver, as established in subsection (a) of this Section,

with a request for publication of a notice in a newspaper of general circulation.

- d. Once it is shown that the reasonable action has been taken to locate the persons entitled to receive assets and that their location is unknown or otherwise that it cannot be determined who is entitled to such assets to the satisfaction of the Court by means of a sworn statement by the Liquidation Receiver, the Court shall order the publication of a notice in a newspaper of general daily circulation in Puerto Rico and shall excuse the Inspector of Cooperatives from sending by regular mail or by certified mail with return receipt requested a copy of the petition of consignment to the persons entitled to receive the assets.
- e. The content of the edict shall contain the following information:
 - (1) Title - Summons by Edict;
 - (2) Part of the Court of First Instance;
 - (3) Case Number;
 - (4) Name of Petitioner;
 - (5) Name of the persons subpoenaed;
 - (6) Nature of the Petition;
 - (7) Name, address and telephone number of the petitioner's attorney;
 - (8) Name of the person who issued the edict;
 - (9) Date of issue; and
 - (10) Thirty (30) days for the person thus subpoenaed to reply to the petition as provided in Rule 10.1 of the Rules of Civil Procedure, with an admonishment stating that if there is no reply to the petition by filing the original of the reply at the

corresponding Court and sending a copy to the petitioner, the person shall be held in contempt and the judgment shall grant the requested remedy without further subpoena or consideration.

The assets thus consigned and which have remained inactive for a period of five (5) years or more shall be transferred to the Research Fund for Cooperatives of the Office of the Inspector of Cooperatives of Puerto Rico.

Section 32.7.-Cancellation of the Certificate of Registration

The final report of the Board of Receivers, duly signed and sworn to by all its members shall be approved by the Inspector of Cooperatives. Once the report has been approved, the Inspector shall notify the Secretary of State of the Commonwealth of Puerto Rico, who shall proceed to register it and issue the certificate of dissolution of the cooperative. A copy of the final report and of said certificate shall be kept by the Inspector of Cooperatives, who shall remit a copy to the Receiver or the Board of Receivers. In case the cooperative has no assets and the receivers do not comply with the submission of said final report, the Inspector, through a sworn statement, may request of the Secretary of State, the cancellation of the registration of the cooperative undergoing dissolution.

Subtitle.-Special Provisions

PART IX.-TYPES OF COOPERATIVES

CHAPTER 33.- PRELIMINARY PROVISIONS

Section 33.0.-Extension of the Act

It shall not be understood that the types of cooperatives included in this part are the only types allowed under this Act.

Section 33.1.-Special Provisions

Those cooperatives recognized as belonging to a type of cooperative regulated by this part shall be governed by the provisions included in the chapter

corresponding to their type.

Section 33.2.-Special Provisions Regarding General Cooperatives

The above provisions of this Act, unless they contradict the provisions of this part, shall be equally applicable to all cooperatives.

CHAPTER 34.-ASSOCIATED LABOR COOPERATIVES

Section 34.0- Purpose

Associated labor cooperatives are those whose purpose is the shared execution of productive services or professional work with the goal of providing stable and convenient work sources for themselves in which their worker members manage all activities for the purpose of generating productive activities which allow them to receive financial and social benefits. The property regime of the production means in these cooperatives is of a social and indivisible nature.

Section 34.1- Definitions

- a) “Associated Labor Cooperatives” shall mean those cooperatives whose members contribute work and capital for the development of a entrepreneurial activity for the production in common of goods and services for third parties in which most of the capital of the cooperative is owned by the workers.
- b) “Worker-Members” shall mean natural persons who are legally able to perform any economic activity for the cooperative, whether professional or for the production of goods and services of any sort, in exchange for participation in its government and in the earnings generated by the cooperative, including persons over eighteen (18) years or more, provided that their parents with patria potestas or their guardian give their express written consent thereto.
- c) “Non-member Workers” shall mean employees contracted by the cooperative who are not members thereof, but carry out work in

exchange for a salary.

- d) “Collaborators” shall mean non-profit natural or juridical public or private persons who contribute to the corporate capital pursuant to the provisions of the by-laws and the articles of incorporation of the cooperative. The collective contributions of the workers shall not exceed forty-five percent (45%) of the corporate capital of the cooperative.
- e) “Chief Executive” shall mean a duly qualified person appointed by the Board of Directors to conduct the administrative duties of the cooperative. The Board of Directors shall establish in writing the selection criteria and qualifications that such administrator shall have, according to the demands of the cooperative, as well as the terms, conditions and responsibilities of the position, if they are in addition to those established herein.

Section 34.2- Membership Requirements

The by-laws of the cooperative shall establish the term of the probation period and the conditions for granting membership to worker-members.

Section 34.3- Number of Members Required

Associated labor cooperatives shall be constituted by a minimum of five (5) members with legal capacity to contribute their productive work. The number of members shall be determined by the productive resources of the cooperative and its ability to generate regular work positions. The cooperative shall not be bound to maintain or accept new members when said number of members is surpassed.

Section 34.4-Admission and Reduction of Members

Once a worker requests admission to the Board of Directors as a member, the Board shall have a maximum of six (6) months to accept or reject his/her request. Permanent cessation as a worker in the cooperative shall determine cessation as a

worker-member.

The definite reduction of the number of member work positions in the cooperative shall only be used to maintain its entrepreneurial feasibility when the Board of Directors or the Assembly of Members so determine due to financial, technical, or organizational causes, or due to force majeure. The by-laws of the cooperative shall provide regarding these matters.

Section 34.5-Capital Contributions

Worker-members as a group shall own not less than fifty-five percent (55%) of the corporate capital of the cooperative. No members may individually own more than forty-five percent (45%) of the corporate capital.

Section 34.6-On Work Committees within the Cooperative

All associated labor cooperatives with less than eight (8) members shall be exempted from the duty to elect or appoint a Supervision Committee, in which case the Assembly shall provide for said position to be filled by a member who is not a member of the Board of Directors.

Section 34.7- Exemptions

All income obtained from preferred shares or loans granted to the associated labor cooperative shall be exempted from the payment of income tax pursuant to state laws.

CHAPTER 35.-HOUSING COOPERATIVES

Section 35.0.-Definition

Housing cooperatives are those devoted to the administration, purchase, construction, sale, lease, and to any other activity related to housing and community living. Their purpose is to provide adequate housing for low and moderate income families, to ensure a peaceful and safe environment for the community, to educate members of the cooperative and residents of the community with respect to the principles of self-management, responsibility and community

living; and to further this type of alternative housing cooperative to increase effectiveness in the achievement of these goals. It is in the interests of the Commonwealth of Puerto Rico to provide for the protection and development of this type of housing.

Section 35.1.-Members

The rights and duties of members of housing cooperatives apply solely to natural persons of legal age who belong to the same family and reside in the same housing unit, according to the books of the cooperative and in compliance with the by-laws of the aforesaid. Juridical persons are excluded from participating as members.

Each cooperative shall have by-laws to govern the operations of the cooperative. All housing cooperatives, including those of titleholders, shall be bound to inform each candidate to membership regarding the by-laws, conditions, rights and responsibilities of the person once he/she achieves the status of member. This shall include informing him/her of the causes and conditions which may cause the loss of membership or rights as a titleholder, as the case may be.

Section 35.2-Members Who Are Subject to Joint Membership

The rights of the original member may be exercised by any family members of legal age and who comply with the provisions established in the by-laws of the cooperative, through a written order by the member specifically stating the right the exercise of which is being delegated, the reason for which the member is not able to exercise said right, the purpose and the term for which such delegation is to be limited. Voluntary withdrawal from the cooperative is a right that cannot be delegated.

The registries of the cooperative shall contain the name and surname of those family members of legal age who may exercise the rights of membership delegated to them in order of preference.

Section 35.3 -Transfer of the Rights of Members

Should there be a change in the civil status of the member, whether due to a divorce, separation or any other cause, or if any other event takes place which bars the member from continuing as a member of the cooperative, the Board of Directors shall make an evaluation as to whether the remaining person or family complies with the requirements for admission established in the by-laws of the cooperative. If said requirements are not met, the Board of Directors may issue an order to vacate the housing unit, pursuant to the procedures established in this Act and in the by-laws of the cooperative.

Section 35.4.-Improper Conduct

Every member of a housing cooperative shall incur improper conduct when said member, a member of the family unit or a visitor commits any of the following faults:

- a. when the conduct of the member, or any of the persons who reside with him/her in the same housing unit, or through any third party, is unlawful or otherwise causes an unhealthy or dangerous condition for the community or the real property, or constitutes a hindrance against the safety or peace of the neighbors;
- b. when the member or person belonging to his/her family nucleus, or through any third party fails to comply with the by-laws of the cooperative, the housing contract, or the agreements of the Board of Directors;
- c. when the member has conveyed to another person the use of the housing unit, in whole or in part, without due authorization from the Board of Directors, in violation of the written contract established between the parties;
- d. when the member devotes the housing unit to a purpose other than

- that agreed upon in the contracts with the cooperative;
- e. when the member or a person belonging to his/her family nucleus, on their own or through third parties, alters the structure of the housing unit or causes considerable damage to the property, on their own or through third parties, whether maliciously or negligently;
 - f. when the member or a person belonging to his/her family nucleus, on their own or through third parties, physically attacks employees, residents or any other person within the property of the cooperative; and
 - g. when the member or a person belonging to his/her family nucleus, on their own or through third parties, vandalizes property belonging to the cooperative or to any of its residents.

Section 35.5.-Determinations of the Board

When a member fails to fulfill his/her payment obligations to the cooperative or incurs improper conduct, as defined in Section 35.4 of this Act, the Board of Directors may make the following decisions, after a summons and hearing:

- a. accept the allegations of the member and dismiss the case;
- b. admonish the member verbally or in writing;
- c. impose upon the member fair penalties in proportion to the conduct incurred, including conditions or probationary terms, in addition to those that are allowed pursuant to the by-laws;
- d. suspend any of the utilities originating from a common area enjoyed by the member, such as water, electric power, and television and telephone systems, or the use and enjoyment of the common areas of the cooperative in cases of failure to comply with payments; and
- e. separate the member depriving him/her of his/her rights as such and granting him/her a term of thirty (30) days to vacate the unit. In the

case of the separation of members in cooperatives subject to the Member-Owner Cooperative Housing Regime, the latter may acquire the housing unit or allow the member to sell it, following the procedures established in the general rules.

All determinations of the Board shall be made within thirty (30) days following the date of the hearing and the member shall be notified at his/her last known address, personally or by certified mail, in a term which shall not exceed ten (10) days from the date on which the decision is made.

Section 35.6.-Procedure for Expulsion

In the case of housing cooperatives, when the Board of Directors determines that a member is delinquent in complying with the periodic monetary contributions contracted with the cooperative, or has incurred conduct which is improper or unacceptable as defined in Section 35.4 of this Act, it may separate said member and deprive him/her of the rights and benefits in the cooperative, pursuant to the procedure established hereinbelow:

- a. The Board shall grant the member, with prior opportunity to be heard at a hearing held before it, after being notified at least ten (10) days before the hearing. Said notice shall be delivered personally or by certified mail to the last known address of the member.
- b. Said notice shall include the date, time and place of the hearing, a statement providing the legal authority to hold the hearing, and a brief statement of the allegations against the member.
- c. The hearing shall be carried out simply and informally, without the need to comply strictly with the evidentiary procedures of the administrative, adjudicative and judicial systems.
- d. The member may be represented or advised by an attorney.
- e. If the member fails to appear at the hearing and does not justify said

absence, the Board may proceed to separate the member by completely depriving him/her of every right he/she may have as such and granting him/her thirty (30) days to vacate the unit.

Section 35.7.-Recourse to the Court in Case of Eviction

Should the Board determine that a person is to be evicted and said person does not comply within thirty (30) days, the Board of Directors may request the issue of an eviction order to demand compliance with said determination from a competent part of the Court of First Instance. Said request shall have priority in the calendar of the Court, since it is a summary proceeding.

Any eviction order issued by the Court shall specify a term of forty (40) days from the date the notice of said order is issued for the eviction to take place. The Court order shall be accompanied by a certified copy of the decision of the Board and must be notified to the Secretary of the Department of the Family and the Secretary of the Department of Housing.

Section 35.8.- Review by the Court

Any person who has adversely affected by the final decision of the Board of Directors and who has exhausted every legal recourse presented before the Board shall be entitled to have the Court of First Instance review said decision.

The provisions in this Chapter shall be construed considering the protection of the special social nature of this type of community housing and Cooperative Law, and no other guidelines shall be applied whose effect is contrary to this. For example, provisions regarding what constitutes improper conduct shall not be construed pursuant to the strictest standards of criminal law.

The proceedings for the judicial review shall be initiated by filing the corresponding petition at the competent part of the Court of First Instance within thirty (30) days after delivery by certified mail of the notice of the final decision of the Board. This term shall be jurisdictional in nature. Copies of the petition shall be

delivered to the Board and to the parties involved.

The act of filing the petition for a judicial review shall not prevent the decision of the Board from being put into effect unless the court of review orders its suspension while the review is pending, upon due justification therefor.

Any party who is adversely affected by the judgment issued by the Court of First Instance may request a review of said ruling through writ of certiorari within thirty (30) days after the decision of the Court of First Instance is filed. This term shall be jurisdictional in nature.

Section 35.9.-Exemption from Payment of Excise Taxes

In addition to the exemptions established in this Act, housing cooperatives shall be exempt from the payment of excise taxes on materials or equipment acquired to render those services which are compatible with their objectives and purposes.

SUBCHAPTER 35A.- Member-Owner Cooperative Housing Regime

Section 35A.0.-Public Policy Statement

It is the public policy of the Commonwealth of Puerto Rico to promote the creation of housing cooperatives in which the members own exclusive titles to their housing units within the legal framework of cooperatives as an additional alternative which shall result in better quality of life, self-management initiatives and community organization, as well as security for low and moderate income families. Since this is a voluntary regime, private property is subject to rules of conduct normally established in housing cooperatives and restrictions on the powers to dispose in order to avoid speculation and ensure the preservation and development of the cooperative property and capital. The provisions in this Chapter shall be liberally construed in order to achieve the social purposes contained in this public policy and for the preservation of the cooperative entity.

Section 35A.1 -Creation and Definition of the Regime

The “Member-Owner Cooperative Housing Regime,” which has been especially designed for housing cooperatives, is hereby created in order to make feasible for members to own individual housing units in a building or real property subject to said regime pursuant to the criteria which shall be established hereinbelow. In this regime, in which the common elements shall always be the exclusive property of the cooperative, the member designated as member-owner of a housing unit, shall be entitled to the benefits of his/her housing unit and the common elements, provided that he/she does not infringe upon the right of the other member-owners to the benefits of their respective housing units and that he/she complies with the rules and by-laws of the cooperative and the provisions of this Act. Membership shall be an essential requirement to be able to own a housing unit under this regime. Only natural persons may be Member-Owner under this regime. Every owner shall acknowledge that the exercise of his/her ownership rights is subject to the rules of peaceful coexistence and respect for the rights of others. In the exercise and assertion of their rights, the owners shall conduct themselves according to the principles of good faith, the prohibition on going against his/her own acts and the doctrine on abuse of rights, as well as the demands of community living in a cooperative. In order to preserve the status of cooperative of the property, the cooperative shall always have full ownership rights over all the common areas and elements of general use, designated as common elements of the property, and any agreement otherwise shall be null and void.

Section 35A.2-Applicable Law

The provisions in this Sub-chapter shall apply solely to the housing-units and common elements owned by the housing cooperatives that expressly state their will to subject the real property to this regime by registering it through of a public instrument and registration with the Property Registry. The regime may be

established over real property located on land owned by others, provided that the owner of the land grants to the cooperative the leasing, usufruct or surface rights in perpetuity, or otherwise transfers the right of use without the transfer of ownership rights. The deed to establish the regime shall clearly and specifically state the purpose and use of all areas which comprise the real property, and, unless otherwise authorized in this Act, once established, said purpose and use shall only be changed with the unanimous consent of the members of the cooperative. The members of the cooperative shall be given orientation and education on this organizational concept and on the cooperative principles, values and doctrines prior to the establishment of the regime or to becoming a member of a cooperative under said regime, including orientation regarding the causes and conditions for the loss of membership or rights as member-owner, as the case may be.

Section 35A.3-Transfers of Titles

Once the real property is constituted under this regime pursuant to this Sub-chapter, the aforementioned housing units may be transferred and encumbered individually, become objects of control or possession and of any other type of *inter vivos* or *causa mortis* legal acts, independent from the remainder of the real property of which they are part, subject to the provisions in this Sub-chapter and the regulations approved pursuant to it, and the corresponding deeds shall be registered in the Property Registry, according to the provisions of this Act and of the Mortgage Law and the Property Registry Act.

Section 35A.4-Housing Unit

For the purposes of this Act, a housing unit shall be deemed to be with respect to a building or multi-family complex as any sufficiently delimited structure, consisting of one or more closed, partially closed or open cubic spaces and their ancillary facilities, if any, even if they are not adjoining, provided that said structure is suitable for independent use for housing purposes and that it has a

direct access to public thoroughfares or to certain common spaces leading to a public thoroughfare. In single family structures, a housing unit shall mean any structure to be used for housing purposes.

Section 35A.5-Common Elements

Common elements are those which belong to the cooperative and are not subject to individual ownership by the Member-Owners.

In multi-family structures the general elements shall be the following:

- a) The offices of the cooperative, community centers and all areas reserved for recreational activities.
- b) The foundations, framing walls and load-bearing walls, roofs, corridors, lobbies, stairs, and entrances or exits.
- c) Projection, this being understood as the right to project vertically.
- d) Patios, basements and gardens, except for those located within the area of a housing unit.
- e) The areas destined to accommodate doormen, persons in charge and access control guard stations.
- f) Locations or facilities for central services, such as power, lighting, gas, hot and cold water, refrigeration, cisterns, tanks and water pumps, and others of similar nature.
- g) Elevators, waste incinerators and, in general, all devices or facilities that exist for the common good.
- h) All areas reserved for parking.
- i) All areas reserved for business.
- j) The land, when it is not the property of another, this being a matter of surface rights, the leasing or usufruct in perpetuity in favor of the cooperative or otherwise its use and enjoyment is transferred to the cooperative, but without the transfer of ownership rights.

- k) All else which is reasonably for the common use of the real property or necessary for its existence, conservation, security and adequate use and enjoyment.

The common elements in single family housing project shall be those provided in the general rules, the articles of incorporation and the by-laws of the cooperative.

Section 35A.6-Pro-common Elements

Those housing units assigned to the cooperative, which it holds in a conversion and which it acquires by any other legal means shall be pro-common elements. Said units may be transferred or encumbered. Once transferred to a member-owner, they shall cease to be a pro-common element and become a private element. As long as they are pro-common elements, their maintenance and conservation shall be the responsibility of the cooperative, without prejudice to its right to take action against former owners or others, if that were the case, as provided in the general rules.

Section 35A.7.- Private Elements

Shall be those for the exclusive enjoyment of their respective owners as provided in the Master Deed for transfer in full ownership rights to its members.

Section 35A.8.-Unanimous Consent to Encumber Holdings and Common Areas

Cooperative holdings and the common areas cannot be encumbered without the unanimous consent of all the members.

Section 35A.9.-Restrictions on the Capability to Establish Liens

Member-Owner shall not voluntarily establish any burdens or liens the effects of which contravene the nature of this type of cooperative or the express public policy to hinder or undermine the rights of the cooperative or any provision in this Act or the general regulations. The corresponding norms to ensure such an

endeavor shall be established in the general rules.

Section 35A.10.-Changes to the Purpose and Use Provided in the Master Deed

The purpose and use of all the real property areas and of the housing structures shall be established in the Master Deed of the Cooperative of members-owner, and shall only be altered with the unanimous consent of the members-owner.

Section 35A.11-Mortgage Credits

Mortgage credits constituted before submitting the real property to this regime shall be subject to the provisions of the Mortgage Law and of the Property Registry Act, but the creditor, upon beginning the collections process, shall direct the action simultaneously for the total amount guaranteed against the cooperative and all the member-owners of the housing units encumbered by such credit. If said credits are constituted after the organization of the real property, the distribution of said credits shall be made according to the provisions of the Mortgage Law and of the Property Registry Act, establishing the amount or part of the lien that corresponds to each housing unit.

Section 35A.12.-Contents of the Master Deed

The deed mentioned in Section 35A.2 above is the “Master Deed” and it shall contain the following:

- a) A description of the land and a general description of the structures thereon and its respective areas and construction materials.
- b) A description of each housing unit, and in the case of apartment, the number of each, their measurements, location, its consisting parts, the main entrance door and the location to which it immediately communicates, as well as other information needed for its identification.
- c) A description of the common elements.
- d) A clear indication of the purpose and use of the real or personal

property and of each of its housing units and common elements.

- e) The entire surface of the housing units in the real property in the case of multi-family structures.
- f) Matters pertaining to the administration of the real property, including any reserves to be established.
- g) Restricting conditions that arise from the Articles of Incorporation and the by-laws which shall include, without it being limited to, the requirement of membership prior to the acquisition of a housing unit, ownership resolving conditions, or resale agreements in the event of the loss of membership, right of revocation, prior claim or right of first refusal in favor of the cooperative in the case of the transfer of ownership to a third party, the prohibition on the transfer of property for a certain number of years, and the limitation to a single housing unit for each family. Any other reasonable restrictions on the property that appear in the by-laws of the cooperative according to the public policy described in this sub-chapter shall also be included.
- h) Any other matter pertaining to the real property and which is relevant to include or required by the Mortgage Law and the Property Registry Act, Act No. 198 of August 8, 1979, as amended, and its regulation.
- i) The statement of circumstances included in subsections (a), (b), (c) and (e), shall be made according to a certified description provided by the engineer or architect who was in charge of the blueprints of the real property, which shall be filed at the Property Registry, pursuant to Section 35A.14 in this Act.

The following shall also be included with the deed:

- 1) A certified copy of the license of the developer or constructor, issued by the Secretary of the Department of Consumer Affairs, if so required, pursuant to the provisions in Act No. 130 of June 13, 1967, as amended.
- 2) A sworn certification from the person who submits the real property to the horizontal property regime attesting to the following:
 - a) that the blueprints filed at the Property Registry are a faithful and exact copy of those approved by the Regulations and Permits Administration and include any changes made in the real property up to the time of the granting;
 - b) the private and common areas that are still under construction and the projected date in which they shall be completed, as well as the promise to file at the Property Registry copies of the blueprints, including the changes made during the construction process, duly certified by the Regulations and Permits Administration;
 - c) that in order to submit the real property to the regime, all the requirements of this Act, as well as the resolutions and permits from government agencies have been complied with;
 - d) that a faithful copy of the certified description provided by the engineer or architect in charge of executing the blueprints of the real property has been included with the deed.

Section 35A.13-Contents of the Individual Deeds of the Housing Units

The deed of each housing unit shall state the circumstances established in subsection (b) of Section 35A.12 with respect to the housing unit in question and shall refer to the master deed, the articles of incorporation, the general rules and the by-laws of the cooperative, indicating it is subject to such and the restrictions

that affect it. In the case of developers, attention shall also be given to the provisions of the Mortgage Law and of the Property Registry Act, Act No. 198 of August 8, 1979, as amended, and its regulation.

Section 35A.14.-Complementary Documents of the Master Deed, Exemptions on Registration

The certified copy of the deed that originates the first registration of the entire real property and the certified copy that originates the first registration of the individual housing unit for its registration in the Property Registry shall be attached as complementary documents to the faithful and complete copies of the blueprints of said real property or the sketches of the housing unit in question, as the case may be, in order to file them in the Property Registry. Said blueprints shall be certified, without the payment of fees, by the Administrator of Regulations and Permits and shall graphically indicate the characteristics of the real property or housing unit, as the case may be.

When submitting an existing real estate property whose blueprints are not filed in the Regulations and Permits Administration to the regime, it shall be so stated in a certification issued to such effects by the Administrator. In such a case, a set of blueprints, as built, certified by an engineer or architect authorized to practice his/her profession in Puerto Rico, that graphically indicates the characteristics of the real property or housing unit, as the case may be, shall be added to a certified copy of the deed originated under said regime and to a certified copy of the deed originated by the registration of the individual housing unit.

The certified copy of the deed that originates the first registration of the entire real property for its registration in the Property Registry shall also have attached an appraisal of said real property certified by an appraiser authorized to practice his/her profession in Puerto Rico, in order to comply with the provisions of the Mortgage Law and of the Property Registry Act and its regulation, if so provided

or required by the Honorable Registrar. However, the cooperative shall be exempted from the payment of registration fees, pursuant to the provisions in Chapter 23 of this Act. Said exemption is not extended to the registration of the rights of the Member-Owners on their respective housing units.

Section 35A.15.-Procedure for Registrations in the Registry

This Regime is organized in the Property Registry as a system of property connected one to another by marginal cross references notes. The registration of what is to be built on the land shall be carried out in the property in which the land appears registered and shall be denominated as the main property.

Each housing unit shall be registered as an individual property, in a particular registry filial to the main property, unless the structure is built on land owned by another, in which case the main property shall be the one in which the structure is registered. All these registration shall be preceded by the words “Member-Owner Cooperative Housing Regime.”

Section 35A.16.- Circumstances of the Entry of the Registration of the Master Deed

Upon registering the real property in the original property, those circumstances which are stated in Section 87 of the Mortgage Law and the Property Registry Act, in accordance with the regulations established for its execution and with Section 35A.12 in this Act, shall appear as circumstances of the entry, except that regarding the description of each housing unit in the real property, for purposes of the registration in the master deed, it shall be sufficient to state the number de housing units in the real property, and the number and type of housing units on each floor or street, stating the number of each housing unit, all this without prejudice to the provisions of Section 35A.17 below, for the registration of individual housing units. The works projected, those started and those concluded, as the case may be, shall also be stated. The common areas in favor of the

cooperative shall also be registered therein.

Section 35A.17.-Circumstances of the Entry of the Registration of the Housing Units

Upon registering the apartments in the filial properties, the circumstances of the entry shall be those established in Section 87 of the Mortgage Law and the Property Registry Act in accordance with those in the Regulation promulgated for their execution and with Section 35A.12 in this Act, except for those stated in subsection (a) of Section 35A.12.

Until the construction work on the land of the respective housing unit is begun, it cannot be registered as a filial or independent property. When the works of the housing units have begun, but are not yet concluded, those that are already built and those that are still pending construction shall be stated.

Section 35A.18.-Inscription of Projected or Initiated Construction Works

Projected or initiated construction works which have been registered pursuant to Section 35A.16 in this Act, or construction works which have already begun pursuant to the provisions in Section 35A.17, shall be declared in public deed at the conclusion of the works. Said statement shall be made by the interested parties and registered in the individual registration of the respective property. The final description of every housing unit built may be registered even though those projected works or works under construction appear registered, by making a cross reference in the margin in the master deed.

Section 35A.19.- Records of the Successive Chain of Title

The successive chain of title shall be carried out in the filial registries of the respective housing units.

Section 35A.20.-Associations, Acquisitions, and Liens

Notwithstanding the provisions in Section 35A.19, the addition of new stories or the acquisition of new adjoining lots by the cooperative to become part of the

common areas of the real property shall be registered in the master deed. Likewise, the total or partial cancellation of liens prior to the construction of the real property under the Member-Owner Cooperative Housing Regime and the preventative registrations or annotations expressly referring to the real property or to the common areas thereof, shall be made in the master deed and always with an annotation in the margin filial registers.

Section 35A.21.-Segregation of Common Land

In the segregation of portions of common land transferred by the cooperative, the public deed shall contain a description of the real property exactly as it should remain after deducting the portions of land. This new description shall be included in the master deed.

Section 35A.22-Segregation, Unit Groupings

Unless the master deed, the by-laws of the real property or the Regulations and Permits Administration specifically prohibit it, the housing units and their ancillary facilities may be subject to material division through segregation to form other units subject to independent use, or may be increased by the grouping of other adjoining parts of the real property, but no segregation or grouping thus executed shall vary the purpose or use provided in the master deed for the housing unit so modified.

In such cases, in addition to the consent of the affected member-owners, the approval of the cooperative shall also be registered and it shall be the duty of the Assembly of Members to make the pertinent amendments to adjust the documents to the new conditions. The new description of the affected housing units shall be consigned in the public deed of individualization, segregation or grouping to be issued, which shall not take effect until it is registered in the individual registry of each of the affected filial properties, by filing a certified copy in the Property Registry, with the master deed. The master deed shall be amended pursuant to the

changes made by means of an instrument which shall also be submitted for registration. Said certified copy shall be accompanied by a blueprint, certified by an engineer or architect authorized to practice his/her profession in Puerto Rico, which graphically and clearly indicates the details of the housing units or common areas, as they have been modified. In the case of segregation, said blueprint shall also be approved and certified by the Regulations and Permits Administration.

Section 35A.23.-Registration of Rights on Tangible Property

Whoever holds any tangible property rights over any housing unit that is not registered as a property may request its registration by following the provisions in the second paragraph of Section 442 through Section 448, both inclusive, of the Regulation for the Execution of the Mortgage Law.

When the property is registered in the name of a different person, the person holding the tangible property rights over the housing unit may request the registration of his/her right by following the pertinent provisions of Section 246 of the Mortgage Law and the Property Registry Act. The requirement or requirements to the owner or owners of the real property that do not yet appear in the registry shall be notarized and for a term of ten (10) working days in order to register their right.

Section 35A.24.-Dissolution of the Regime

The total of the owners of the real property constituted as a Member-Owner Cooperative Housing Regime may renounce said regime and request from the Registrar the regrouping or unification of the filial properties in the master deed, provided that these are free of liens, or if otherwise, that the persons in whose favor the property is registered give their consent to substitute the guarantee they have with the corresponding participation to those member-owners in the entire real property within the regime of community assets stated in Sections 326 et seq. of the Civil Code. They shall also comply with any requirements established in this

Act or in the General Rules.

Section 35A.25.-Reconversion to the Regime

The unification provided in Section 35A.24 shall not prevent the subsequent constitution of the real property into a Member-Owner Cooperative Housing Regime in any way whatsoever, as many times as desired and according to the provisions in this Act.

Section 35A.26.-Duties of the Members Regarding the Housing Unit

For purposes of the cooperative, there shall only be one member per housing unit. In the case of married couples, the spouses shall determine which one shall be the member. However, in the event of a divorce, all matters concerning titles and ownership shall be governed by Section 35A.27 of this Sub-chapter. No member may be the member-owner of more than one housing unit.

Prior to their enrollment in the Regime, the Member-Owner or residents shall be provided with a document that explains all their duties and responsibilities, including any situations that would entail the loss of the property rights.

Section 35A.27.-Rules for the Use and Enjoyment of the Housing Units

The property rights, use and enjoyment of the housing units shall be subject to the following rules:

The housing units shall not be used for any purposes that are unlawful, immoral or against good habits and cooperative principles. The housing units shall be exclusively used as housing for the family nucleus in the cooperative community. The transfer, lease or conveyance of the ownership of the housing unit, in whole or in part, shall not be allowed, even if free of cost.

The Member-Owner shall make, at their own expense, any repairs, cleaning, security and improvements to their housing unit without altering the external façade nor decorating external areas with colors different from those agreed upon in the Assembly of Member-Owner, and without disturbing the legitimate use and

enjoyment of the other Member-Owner, unless otherwise established in the regulation of the cooperative. The exterior architectural design of the structure shall be understood to be the façade, as established in the master deed or in the by-laws of the member-owner cooperative.

In the event of a hurricane, storm or meteorological hazard warning, the use of any type of temporary or removable shutters shall not constitute an alteration of the facade when performed according to the general rules. Said shutters shall be removed immediately after the meteorological hazard is over.

Member-Owner are under the obligation to allow passing through the common area limits of their housing unit or apartment when necessary to conduct maintenance works or improvements to equipment or common elements. Said access shall be coordinated with the member-owner in question so that the enjoyment of the housing unit is affected as little as possible.

The owner of the housing unit shall maintain his/her condition of member-owner of the cooperative, and it shall so be established in the master deed of the cooperatives of member-owners when it is constituted.

All member-owners and resident of the housing unit shall be in strict compliance with the provisions in this Act, the master deed, the general rules and the by-laws of the Cooperative.

The member-owner shall be diligent in the use of the real property and of the common areas, and shall answer to the cooperative for any violations committed by any tenants, visitors or employees of the housing unit, without prejudice to any action which may be in order against such persons.

Section 35A.28.-Termination of the Membership

Membership shall cease only for the following causes:

- a) death of the member;
- b) resignation by the member;

- e) dissolution of the cooperative;
- d) in the case of a divorce or dissolution of the conjugal partnership, the spouses shall designate which one of them shall continue to be the member-owner; otherwise, it shall be understood that the membership has been waived; and
- e) the gross violation of rules of behavior, as established in the general rules.

The general rules shall establish, in detail, all matters pertaining to the procedures to be carried out in each case, including but not limited to, provisions on the rights of heirs and surviving spouses or ex spouses. The general rules shall also address cases in which the conjugal partnership is established by a consensual relationship.

Section 35A.29.-Provisions in Case of Sale

In the case of sale, the new resident shall be admitted as a member-owner of the cooperative, pursuant to the provisions in this Act, prior to carrying out the housing unit sales transaction.

Section 35A.30.-Administration

The highest authority of the cooperative of member-owners shall be the General Assembly of Member-Owners, whether regular or extraordinary, and its decisions shall be binding for the Board of Directors, the committees and all the Member-Owners, whether present or absent, provided that its decisions are adopted pursuant to Law and the regulations. Every Cooperative of member-owners shall hold at least one General Assembly of members per year. Regarding the notification of all assemblies, the dates and quorum shall be established in the general rules.

In addition to those provided in this Act, the duties of the Assembly of Member-Owner shall include the following:

- a) establish the general policy of the member-owner cooperative and receive the reports of the Board of Directors and of the respective committees established by law or regulation;
- b) establish the maintenance fees or mandatory contributions in addition to those established in the regulation, upon evaluation and recommendation of the Board of Directors; and
- c) make decisions regarding the use of reserves in the case of extraordinary expenses as they are defined in the general rules.

The challenging of the decisions of the Assemblies of Member-Owners shall be filed through recourse of review before the Office of the Inspector of Cooperatives. Those powers, rights and obligations granted to the Board of Directors, the Supervision Committee or any other directing body by this Act shall not be altered in an Assembly.

Section 35A.31-Alternate Procedure for Notifying Members Who Do Not Attend Assemblies

When a decision requiring the vote of two thirds (2/3) of the Member-Owners cannot be adopted in an Assembly, those who did not attend shall be notified by certified mail of the details of the agreement made by the majority and granting thirty (30) days from the date of the notification to state, in writing, their opposition to said agreement. The members who do not state their discrepancy within the established term shall be considered to be in favor of the proposal.

Section 35A.32.-Additional Duties of the Board of Directors

The duties of the Board of Directors for the Member-Owners Cooperative Housing Regime in addition to those established in this Act shall be the following:

- a) contract and supervise the Administrator of the cooperative, whether a natural or juridical person, who shall carry out the functions, duties and responsibilities established by law, the regulation or those

delegated to it by the Cooperative through a contract. The Administrator, whether a natural or juridical person, shall be certified as a qualified housing cooperative administrator by the Cooperative Development Administration or by a competent entity with authority to do so.

- b) approve the annual income and expense budget, based upon, among others, the maintenance fees that apply to the Member-Owners according to the regular and necessary expenses for the best operations of the cooperative.

Section 35A.33.-General Regulations - Adoption and Content

The Cooperative Development Administration, in consultation with the League of Cooperatives, shall promote the creation of housing cooperatives submitted to this regime and in common agreement shall prepare the necessary regulation for such purpose. These regulations shall be designated as the “general regulations,” and shall establish all matters that are mandatory to the cooperatives submitted to this regime. It shall provide guidelines on the manner in which the mandatory contributions shall be distributed among the members, including shares and fees, common area and housing unit expenses, and the capitalization and conservation of the cooperative assets, as well as exceptions to the restrictions on owning pets. It shall determine the rules on the notification and holding of Assemblies, quorum and the definition of majority. It shall also establish the percentages for approval required to approve different matters. It shall determine the rules for the use and assignment of parking spaces, access control, surveillance and security, counseling and social work, and matters regarding mandatory insurance, recreational and cultural activities, quality standards, physical inspections in the real property for both common and private areas when necessary for the security and repair of common areas, and it shall also include a plan for community education in which

the legal implications of the regime shall be included.

It shall also address the parameters to be followed in the contracting of Administrators, including their qualifications and certification. It shall establish the reserves necessary for the sound operations and financial solidity of this particular regime, in addition to those matters already established in this Act, the mechanisms to ensure that the sale offers to third parties are bona fide and reasonable, the formula for determining the charges to be collected when the housing unit is acquired by the cooperative, the formula to calculate the percentage of the maintenance fees assigned to the reserve for the acquisition of housing units by the Cooperative, and the norms for the regulation of liens on the housing units. The “general regulations” shall address those aspects related to restrictions on property rights, including their transfer, allowed liens, procedures for grievances and conflict resolution, delinquency in payments, rules of conduct and their adjudication procedures when not provided in this Act and which do not affect the constitutional rights of the parties. It shall provide on the rights of heirs, surviving spouses or ex spouses in the event of the death or divorce of the member, including cases of consensual relationships in which the conjugal partnership is established. It shall also establish norms on any other matters necessary for the implementation of this Act.

This regulation shall contain the model for the Master Deed and the individual deed that cooperatives shall use as basis for their constituting deeds. The by-laws of the cooperatives shall be established pursuant to these general regulations and any provision in contravention shall be null and void. The adoption of this regulation shall be carried out pursuant to the provisions of Act No. 170 of August 12, 1988, as amended, known as the “Uniform Administrative Procedures Act.”

Section 35A.34.-Payment of Maintenance Fees

The payment of maintenance fees or lack thereof and other matters shall be governed by the following norms:

All Member-Owners are bound to contribute with the payment of the maintenance fees established by regulation or the Assembly of Members.

Said fees shall be paid in monthly installments and shall be due on the first day of each month. The member-owner shall have a grace period of ten (10) days to pay or otherwise sanctions or conditions may be imposed, pursuant to the general rules.

Any member who owes the equivalent of three (3) installments shall be deprived of his/her rights as a member to participate with voice and vote and to elect or be elected in the Assembly of the cooperative until the total amount of the debt is settled. In addition, he/she may be suspended from any service provided from a common area, such as water, electricity, telephone or other utilities, or the use and enjoyment of the common areas of the cooperative, except for those common areas that are essential for access to the housing unit.

The debts of the members with the cooperatives shall constitute a lien upon their housing unit. Any voluntary or involuntary acquirer of a housing unit shall be solidarily liable for said debt, without prejudice to his/her right to collect from the grantor those amounts he/she paid as joint debts.

If the mortgage creditor of a housing unit acquires it involuntarily through the foreclosure of a mortgage, he/she shall assume the responsibility to continue to pay the contributions corresponding to said housing unit.

Mortgage credits constituted prior to submitting the real property to this regime shall be subject to the provisions of the "Mortgage Law and the Property Registry Act," but the creditor, upon initiating the procedure for their collection, shall direct the action simultaneously for the total amount guaranteed against the cooperative

and all the member-owners of the housing units that are subject to such credits. If said credits are constituted after the organization of the real property, they shall be distributed in the manner provided in the “Mortgage Law and the Property Registry Act,” establishing the amount or part thereof for which each housing unit shall be responsible.

Section 35A.35.-Procedure for Improper Conduct

When a member-owner incurs any improper conduct, as defined in this Act, the Board of Directors shall summon said member to a hearing, notifying him/her in advance in a term of not less than ten (10) days nor more than thirty (30) days, guaranteeing due process of law, which shall include: the date, time and place of the hearing, due notice of the charges, opportunity to present adequate defense, whether personally or through legal counsel, the right to examine the records of the case and to testify, present witnesses and evidence in his/her defense, to cross examine witnesses and adverse evidence. The Board of Directors shall record the proceedings and shall guarantee an official record of the hearing. All decisions issued by the Board of Directors shall contain findings of fact and findings of law pursuant to the law and the regulations that may apply and shall always act as an impartial judge that issues decisions founded upon the evidence that is presented and the merits of the proceedings.

The Board of Directors shall name an impartial examiner to hear the evidence and submit recommendations.

Violations to the norms of conduct of a grave nature which may entail the loss of member status, which in turn implies the dissolution of the acquisition of property rights over the housing unit shall be governed pursuant to the provisions of the master deed and the general rules, stated as a condition for resolution or a resale agreement in the case of the loss of member status. In such a case, the cooperative shall acquire the housing unit or shall give the affected party

reasonable time to sell it to a qualified member. This remedy may be used as an alternative or jointly with any other legal remedy or one established by regulation. Grave violations shall be those pertaining to conduct that directly damages the community or the cooperative, such as assault, threats, mutilation or death of any member or his/her relatives, vandalism, disturbance of the peace, theft, or any other such act which takes place within the premises of the cooperative which is directed against any member or any person who works in or visits the premises.

Any improper conduct in which the member-owner may engage which entails a grave nature shall be defined in the general rules, thus guaranteeing due process of law to the affected member.

All determinations issued by the Board of Directors shall be made within thirty (30) days following the date on which the hearing is held and shall be notified to the member within a term of not more than ten (10) days of the date on which the determination is issued, at the last known address, delivered personally, or sent by certified mail.

Section 35A.36.-Guarantees

The debts of the members with the Cooperative shall constitute a lien over their housing unit. Any voluntary or involuntary acquirer of a housing unit shall be jointly responsible for such a debt without prejudice to his/her right to collect from the grantor those sums he/she has paid as joint debts which the acquirer may register in the Property Registry.

The cooperative shall impose a lien upon the housing unit of the member-owner for any debt and may resort to the mechanism of seizure provided by the Rules of Civil Procedure and the “Mortgage Law.”

Section 35A.37.-Subordination of Rights to Member Status

All property rights over the housing unit shall be subject to maintaining the status of member the cooperative of the member-owners. Loss of membership by

a member-owner for any reason established in this Act or in the general rules shall give to the cooperative preferential rights for the acquisition of the housing unit in question, as established herein. If after six (6) months have elapse, since the loss of membership by the member-owner or before, if the parties reach an agreement, and the member-owner has not been able to sell or legally transfer the title of his/her housing unit to a person who qualifies and is accepted as a member of the Cooperative, the cooperative may acquire the housing unit for the appraisal value established by an appraiser licensed in the Commonwealth of Puerto Rico. During said six (6) month period, the owner shall be bound to inform the cooperative of any offer for the purchase or transfer of the title he/she accepts. The Cooperative shall have preferential rights for the acquisition of the housing unit at the same price given to the third party that made an offer. The procedures to ensure that the offer is bona fide, reasonable and proportional to the appraisal shall be established in the general rules. When it acquires the housing unit at appraisal price, the Cooperative may collect from the member-owner a charge based on a percentage of the sales price for administrative, appraisal and legal expenses incurred. The formula to calculate these charges and the alternative of reducing said charge by an agreement favorable to the Cooperative shall be established in the general rules.

Section 35A.38.-Operational and Reserve Accounts

All cooperatives organized pursuant to this Act shall establish and maintain operational and reserve accounts, including one which may be used for expenses related to the acquisition of housing units, as established in this Act, as well as extraordinary expenses agreed upon by the Assembly of Member-Owners. The percentages of the maintenance fees and other income according to the formulas established in the general rules shall be deposited in these accounts. All income generated by the cooperative, including income from the sale of housing units by the cooperative and from the operation of businesses shall be deposited in these

accounts. Provisions pertaining to the use of funds in the corresponding administrative and financial operations, including operational funds, deposits and investments, shall be established in the general rules in agreement with the operational freedom and flexibility of the cooperatives. A procedure shall be provided to negotiate with the corresponding regulating entity those changes and variations in the percentages and formulas necessary and reasonable for the adequate operation, development and advancement of the cooperatives.

35A.39-Final Provisions which Could Affect the Members

For purposes of obtaining a remedy, any member-owner who is object of any type of measure or action by part of the cooperative and who is not satisfied with said measure or action may challenge the determinations made through the internal institutional procedures of the Cooperative. The internal procedures of the cooperative for the resolution of controversies shall be exhausted with respect to any controversy that should be addressed by these means. In any controversy which may arise between member-owners, residents, or both, in a Member-Owner Cooperative which is originated or based upon, or in which a legitimate cooperative movement controversy, is involved, the courts shall refrain from intervening in the resolution and adjudication of such issues, unless it is shown that the intervention of the court is necessary to avoid irreparable damages because the internal procedures of the cooperative would be ineffective or inoperative. This provision shall not be construed in such a manner that it interferes with the duty of the courts of justice to adjudicate controversies for the good civil or criminal order of our society, nor with their constitutional mandate to resolve the issues that are brought before them.

Section 35A.40.-Judicial Review

The final determinations of the Board of Directors may be resorted by the judicial review proceedings established in Section 35.8 of this Act. Any judicial

construal under this regime shall be remitted to Cooperative Law and to the established public policy. The provisions, concepts, applicable rules and court decisions which construe the Horizontal Property Act shall not apply. The sole exception to this norm shall be with respect to the provisions established in Section 35A.34, subsection g and in Section 35A.35 of this Sub-chapter.

Section 35A.41.-Acquisition of Housing Units by the Cooperative

The Cooperative may acquire housing units in addition to those consigned to it in the master deed and may use them for any purpose allowed by the law with the prior consent of two thirds (2/3) of the Member-Owners, pursuant to the procedures established herein.

Section 35A.42.-Exemption from the Payment of Property Tax

Every owner of a dwelling in a Member-Owner Cooperative may avail him/herself of the benefits of property tax payments pursuant to the provisions of Act No. 83 of August 30, 1991, as amended.

Section 35A.43.-Procedures for Conversion to the Regime

Existing cooperatives that wish to avail themselves of the rights and responsibilities established in this Act shall submit a draft of the master deed of the regime as it is to be submitted to the Property Registry for the consideration of the Cooperative Development Administration.

Section 35A.44.-Requirements for the Procedure of Conversion into the Regime

All housing cooperatives that are active according to the registry of the Cooperative Development Administration may convert into a member-owner cooperative housing regime provided that they comply with the following requirements:

An amendment to the articles of incorporation and the by-laws is approved pursuant to this Act. The cooperative submits to the Cooperative Development

Administration a conversion plan together with the approved amendments to obtain the approval of the Administration.

The conversion plan shall address the following matters:

- a) the manner in which the cooperative shall settle or renegotiate the mortgages or other financial obligations that burden the cooperative or the real property, pursuant to the local or federal regulations that apply;
- b) the formula to be used to calculate the sponsorship of each member for purposes of exchanging said financial interest for the value of the housing unit, in whole or in part, and the manner in which that portion of the value of the housing unit to be covered shall be financed;
- c) the manner in which it shall be provided for the conservation of the reserves produced in this Act and the contributions to be made by each member;
- d) submit a draft of the master deed to be submitted to the Property Registry; and
- e) any other matter that is provided by regulation to ensure a fair, equitable and feasible transition plan.

Section 35A.45.-Conversion Requirements for Public Housing Projects

The Department of Housing, in consultation with the Cooperative Development Administration, shall establish through regulations the additional or special requirements that should be contained in the statutes, regulations and master deed of public housing projects interested in converting into housing cooperatives pursuant to this Sub-chapter which are necessary to carry out its public policy, taking into consideration any legal restrictions, whether federal or state, that may apply. Said requirements, however, shall have to be in harmony

with the provisions of this Act and of the general rules, especially with respect to the conversion procedures. As with any other type of cooperative, the conversion shall be determined through the express will of the residents in compliance with the cooperative principle of free and voluntary adhesion.

Section 35A.46.-The Cooperative Development Administration shall adopt and promulgate the general regulations needed to comply with the provisions of this Act, within the following one hundred eighty (180) days of its effectiveness.

Section 35A.47.- Procedure Applicable to New Cooperatives

Housing cooperatives submitted to the Member-Owner Cooperative Housing Regime shall be created pursuant to Chapters 4 and 5 in this Act, with the exception that in addition to the provisions of Section 5.0 of Chapter 5, they shall also submit a draft of the master deed for the constitution of this regime, as it is to be submitted to the Property Registry for the consideration of the Cooperative Development Administration.

Section 35A.48.-Conversion into the Active Cooperative Housing Regime

All active housing cooperatives pursuant to the registry of the Cooperative Development Administration may convert into a member-owner cooperative housing provided that they comply with the following requirements:

- (1) Amendments to the articles of incorporation and the by-laws pursuant to Chapter 6 in this Act are approved.
- (2) That the cooperative submits a conversion plan together with the approved amendments to the Cooperative Development Administration for its approval.
- (3) The conversion plan shall address the following matters:
 - a) the manner in which the cooperative shall settle or renegotiate the mortgages or other financial obligations that burden the cooperative or the real property;

- b) the formula to be used to calculate the sponsorship of each member for purposes of exchanging said financial interest for the value of the housing unit, in whole or in part, and the manner in which that portion of the value of the housing unit to be covered shall be financed;
- c) the manner in which it shall be provided for the conservation of the reserves established in this Act and the contributions that shall be made by each member;
- d) the submittal of a draft of the master deed that shall be submitted to the Property Registry; and
- e) any other matter that is provided by regulation to ensure a fair, equitable and feasible transition plan.

Section 35A.49.-The Department of Housing shall establish through regulations those requirements that should be contained in the statutes, regulations and master deed of those public housing projects interested in converting into housing cooperatives pursuant to this Subchapter and that are necessary to carry out their public policy, taking into consideration any legal federal or state restrictions that may apply. Said requirements, however, shall be in harmony with the provisions of this Act and with the general rules.

Section 35.50.-The cooperative may retain as many housing units it decides to as community or pro-community elements for the use of members that cannot become owners of the housing units.

Section 1.-The second subsection 2 of Section 82 of Act No. 198 of August 8, 1979, as amended, is hereby amended to read as follows:

“Section 82.-Each property that is registered for the first time shall be distinguished by a distinct and correlative number. The entries which refer to the same property shall also have special correlative numbering.

The following shall be recorded under the same number:

- (1) ...
- (2) ...

The following shall be registered separately, with a different number:

- (1) ...
- (2) Pursuant to the provisions in special laws on the subject, the different floors, parts of floors or apartments capable of separate ownership in the same building, known as horizontal property, as well as the housing units under the Member-Owner Cooperative Housing Regime.”

Section 2.- Section 86 of Act No. 198 of August 8, 1979, as amended, is hereby amended to read as follows:

“Section 86.-In order to be able to join or attach properties in accordance with the section in common pro indiviso.

The following may be grouped as a single property and under the same number:

- (1) ...
- (5) Properties which, even though not abutting, are connected to a building or property under a Member-Owner Cooperative Housing Regime, so that as common elements and inseparable annexes they may render services to the property or be used for maintenance, causing said joined real property to be common elements subject to the legal regime of said cooperative.

Section 3.-Section 158 of Act No. 198 of August 8, 1979, as amended, is hereby amended to read as follows:

“Section 158.-The following may also be mortgaged:

1st . . .

14th. Housing units that are a part of a real property under a Member-Owner Cooperative Housing Regime, said mortgage being subject to the provisions of the laws in effect regarding to such regimes.

Section 4.-The Department of Justice is hereby authorized to amend the general rules for the Enforcement of the Mortgage Law and the Property Registry Act to incorporate any of the amendments needed to enforce the amendments provided of this Act into Act No. 198 of August 8, 1979, as amended.

PART X.-REGULATORY AGENCIES

CHAPTER 36.-OFFICE OF THE INSPECTOR OF COOPERATIVES

Section 36.0.-Granting Permits for Cooperatives

The Inspector shall grant a written permit to any cooperative which has met the requirements of this Act so that it may commence operations.

Section 36.1.-Supervising the Cooperatives

The Inspector shall ensure that every cooperative complies with its articles of incorporation, its by-laws and the provisions of this Act.

Section 36.2.-Annual Examination of the Operations of the Cooperatives

The Inspector shall examine, at least once (1) a year, the audits conducted on the operations of every cooperative incorporated and operating in Puerto Rico. The audit may be conducted by an auditor contracted by the cooperative, but the Inspector may review the audit and perform every related inspection he/she deems pertinent.

Section 36.3.-Handling Complaints

Within the term of ninety (90) days after a complaint has been filed, the Inspector shall address those complaints presented by a cooperative, a member of a cooperative or by any person affected by an action of a cooperative, Board of Directors, the members of a committee, officers and employees, who present evidence of acts constituting any substantial violation of the law, the regulation,

the articles of incorporation or an internal agreement that cannot be resolved internally by the cooperative.

If the Inspector deems it meritorious, an adjudication procedure shall begin, pursuant to Act No. 170 of August 12, 1988, as amended, known as the “Uniform Administrative Procedures Act of the Commonwealth of Puerto Rico.”

Decisions made by the Inspector may be appealed at the Court of First Instance within thirty (30) days following the date of the notification of the decision.

Section 36.4.-Handling Consultations and Opinions

The Inspector shall attend inquiries, offer technical advice and issue opinions on any matters that concern the cooperatives. Within a term of ninety (90) days, the Inspector shall promulgate regulations to establish the uniform procedure to be followed in the case of inquiries and opinions.

Section 36.5.-Other Legal Obligations

The Inspector shall comply with all other duties imposed upon him/her by this Act.

Section 36.6.-Requirement for Cooperatives to Keep Books and Documents

The Inspector shall require cooperatives to keep and maintain the needed books and documents pursuant to the provisions of this Act.

Section 36.7.-Requirement to Correct Deficiencies

The Inspector may take any action provided by this Act to correct deficiencies indicated by a cooperative, including that the Board of Directors of a cooperative be required to correct said deficiencies or call an Assembly of Members for such purposes.

Section 36.8.-Issuing of Orders

The Inspector or the officer designated by him/her, after due notice and hearing, may issue orders to cease and desist and prescribe terms and corrective conditions which may be determined in view of the evidence at his/her disposal

and pursuant to applicable law. Provided that a prior hearing shall not be necessary to issue a temporary corrective order if, in the opinion of the Inspector, immediate or serious damages are or may be caused. Within ten (10) days after the issuing of the temporary order, the Inspector shall hold an administrative hearing in which he/she shall resolve whether said order becomes permanent or is revoked. Orders issued under this Section shall be notified to the parties in conflict by certified mail with return receipt requested.

Section 36.9.-Imposing Fines

The Inspector or the officer designated by him/her may impose administrative on any natural or juridical person up to a maximum of two thousand dollars (\$2,000) for any violation of this Act, or of the regulations approved by the Office of the Inspector. Should a cooperative fail to submit a report required by the Inspector on time, he/she may impose a fine of ten dollars (\$10) for every day of delinquency.

Section 36.10.-Resorting to the Court

The Inspector may resort to the Court of First Instance of Puerto Rico in order to petition that any order issued by him/her be put into effect. The Court shall give preference to the course and dispatch of said petition.

Section 36.11.-Establishment of Rules and Regulations

After holding the duly announced hearings, the Inspector shall prepare, approve, amend and repeal rules and regulations to comply with the provisions of this Act. Any rule or regulation issued by the Inspector shall have the force of law thirty (30) days after having been circulated among the cooperatives it intends to govern.

Section 36.12.-Investigations Fund

The Inspector of Cooperatives is hereby authorized to collect from every cooperative the total cost incurred on account of, or as a result of the examinations

and investigations made with regard to said cooperative and shall cover these funds, plus those collected on account of the imposed fines, into the “Cooperatives Investigations Fund.” Said fund may be used for any purpose provided by the law.

Section 36.13.-Adjudication Procedures

When by provision of this Act or of the regulations adopted by virtue thereof, the Inspector must formally adjudicate a controversy, the procedures established in Act No. 170 of August 12, 1988, as amended, known as the “Uniform Administrative Procedures Act of the Commonwealth of Puerto Rico,” and the regulations promulgated to that effect, shall be observed.

Section 36.14.-Other Powers

The Inspector of Cooperatives of Puerto Rico shall also have all the powers conferred upon him/her by this Act.

CHAPTER 37.-APPEALS

Section 37.0.-Examining Officer

The decisions of the Inspector of Cooperatives before the Examining Officer of the Office of the Inspector.

Section 37.1.-Procedure

The Examining Officer shall adopt the rules and regulations needed to address the appeals of the decisions of the Inspector pursuant to Act No. 170 of August 12, 1988, as amended, and known as the “Uniform Administrative Procedures Act of the Commonwealth of Puerto Rico.”

Section 37.2.-Judicial Review

Decisions made by the Examining Officer may be appealed before the Part with competence of the Court of First Instance.

PART XI.-PROHIBITIONS AND PENALTIES
CHAPTER 38.- PROHIBITIONS AND PENALTIES

Section 38.0.-Responsibilities for Violations of the Act

It shall be understood that any violations of the provisions in this Act incurred by any cooperative are also committed by the officer or employee of said cooperative who is responsible due to his/her duties, pursuant to the regulations, policies and procedures of the cooperative. If such a responsibility has not been expressly assigned to any officer or employee of the cooperative by regulations, policies and procedures, all the members of the Board of Directors and the Committees of the Cooperative shall be responsible, unless said member proves that he/she did not have any knowledge or that he/she took all actions possible and made reasonable efforts to prevent incurring the violation in question. The continued action or omission which constitutes a violation of the provisions in this Act shall be considered as a new offense for each subsequent week in which the action or omission in question persists.”

Section 38.1.-Felonies

- (a) Any member of the Board of Directors or the Committees and any executive officer, employee or agent of a cooperative who incurs and is convicted of any of the following felonies shall be punished with imprisonment for a fixed term of six (6) years:
- (1) Takes or unlawfully uses money, funds or credits of a cooperative or existing securities thereof;
 - (2) Without being duly authorized, issues a certificate of deposit, change order or transfers a note, bond, money order, letter of exchange, or accepts or makes any false entry in any book, report, or statement of the cooperative with the intent to defraud it or to defraud any other natural or juridical person or any other

cooperative entity, or with the intent to deceive the Office of the Inspector of Cooperatives or any other executive employee or person designated to audit, review or investigate the affairs of the cooperative;

(3) Receives any fees, commissions, gifts or things of value from any person, entity or corporation for obtaining or attempting to obtain any loan, purchase or discount from any document, note, money order, check or letter of exchange from any cooperative; or

(4) Receives any benefit for the rendering of any service that would ordinarily be rendered by the cooperative to the person if he/she complies with the requirements it has established.

(b) Likewise, any person who incurs any of the following felonies and is convicted thereof shall be sanctioned with the penalty of imprisonment for a fixed term of six (6) years:

(1) Assisting or allowing any member of the Board or the Committees or any executive officer, employee or agent of a cooperative to incur any of the acts described in subsections (1), (2), (3) and (4) of this Section with the intent to defraud or deceive; or

(2) Giving false information on any application or document through which any right, obligation or interest is created, transferred, or terminated or affected, or in other words, giving false information in credit applications, notes, or in any other document with the intent to defraud the cooperative.

(c) If there are aggravating circumstances in one or more of the abovementioned acts, the fixed penalty established may be increased

up to a maximum of ten (10) years; if there are mitigating circumstances, the penalty may be reduced to a minimum of four (4) years. The Court may impose the penalty of restitution in addition to the penalty of imprisonment established in any of the modalities previously mentioned, or both penalties, at its discretion.

- (d) Any juridical person that is not a cooperative and attempts to control, limit, influence or otherwise interfere unlawfully with the powers and actions of Cooperatives organized pursuant to this Act shall incur a felony, and upon conviction, shall be punished with a minimum fine of ten thousand (10,000) dollars or the suspension of its certificate of incorporation or organization for a minimum term of one year, or both penalties at the discretion of the Court.

Section 38.2-Crimes Against the Funds of the Cooperatives

Any member of the Board or of the committees, or any officer, employee or agent of a cooperative and any person in charge of receiving, keeping, transferring or disbursing funds belonging to a cooperative who commits one or more of the following acts shall be sanctioned with imprisonment for a fixed jail term of eight (8) years:

- (a) without legal authority taking funds, in whole or in part, for his/her own benefit or the benefit of another person;
- (b) lending the funds, in whole or in part, or speculating with them, or otherwise using the funds for any purpose that is not authorized by this Act;
- (c) not maintaining the funds in his/her custody until disbursing or delivering them pursuant to the authorizations established by law;
- (d) illegal depositing the funds, in whole or in part, in any cooperative, bank or financial institution, or placing them under the power of

- another person;
- (e) keeping any false accounts or making any false entries of said funds, or pertaining to said funds;
 - (f) altering, falsifying, concealing, destroying, or deleting any account or document pertaining to said funds;
 - (g) denying payment or failing to pay upon presentation any note, order or order of payment made by any competent authority against the funds in his/her power;
 - (h) failure to transfer the funds in cases in which by law or regulation such transfer is required;
 - (i) denying delivery or failure to deliver to any officer or to any other person authorized by law for its receipt, any amount of money that he/she is legally bound to deliver;
 - (j) exchanging or converting funds in coin, paper or any other legal tender or instrument without legal authority to do so; or
 - (k) negligence or failure to keep or disburse the funds in the manner established in this Act or its regulations.

Any person who is not a member of the Board or of the committees, nor an executive officer, employee or agent of a cooperative who is guilty of committing one or more of the acts forbidden in this Section, regardless of whether or not said person obtained personal financial gains, he/she shall be sanctioned with the penalty established herein.

PART XII.-FINAL PROVISIONS

CHAPTER 39.- FINAL PROVISIONS

Section 39.0.-Cooperative Entities Not Subject to This Act

The following cooperative organizations shall be subject to the special laws mentioned fallow, as well as to other norms applicable to similar entities:

- a. The Cooperative Bank has the purpose of carrying out all types of Commercial Banking operations and is governed by Act No. 88 of June 21, 1966, as amended.
- b. Insurance cooperatives have the purpose of rendering contractual insurance services pertaining to insurance entities and are governed by the Insurance Code.
- c. Savings and credit union cooperatives have the purpose of carrying out savings and loan and other financial operations and are mainly governed by Act No. 255 of October 28, 2002. Provided, however, that those references to Act No. 50, as amended, made in the aforementioned Act No. 255 of October 28, 2002, shall be addressed by this Act as follows:

This Act shall substitute Act No. 50 of August 4, 1994, as amended, known as the “General Cooperative Associations Act of Puerto Rico.” The provisions established in this Act shall apply when reference is made to the “General Cooperative Associations Act of Puerto Rico” or to Act No. 50 of August 4, 1994, as amended, which is substituted by this Act.

-For purposes of the references in Section 2.06 (a) of Act No. 255 of October 28, 2002, to Act No. 50 of August 4, 1994, the current Act shall apply.

-For purposes of the references in Section 2.06 (b) of Act No. 255 of October 28, 2002, to Act No. 50 of August 4, 1994, the current Act shall apply.

-For purposes of the references in Section 9.01 (a), subsection 4, of Act No. 255 of October 28, 2002, to Act No. 50 of August 4, 1994, the current Act shall apply.

-For purposes of the references in Section 11.03 of Act No. 255 of October 28, 2002, to Act No. 50 of August 4, 1994, the current Act shall apply.

Section 39.1.- Repealing Clause

Act No. 50 of August 4, 1994, as amended, General Cooperative Associations Act, is hereby repealed.

Section 39.2.- Separability

If any provision in this Act is ruled unconstitutional, in whole or in part, by a court with jurisdiction, said ruling shall not affect nor invalidate the remaining provisions of this Act, and its effect shall be limited to the clause, paragraph, section or part declared to be unconstitutional.

Section 39.3- Effectiveness

This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following Act No. 239 (S.B. 2833) of the 7th Session of the 14th Legislature of Puerto Rico:

AN ACT adopt a new “General Cooperative Associations Act of 2004,” and to repeal Act No. 50 of August 4, 1994, as amended, known as the “General Cooperative Associations Act,”

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, today 3rd of March of 2009.

Solange I. De Lahongrais
Director