Republic of the Philippines
SECURITIES AND EXCHANGE COMMISSION
SEC Bldg. EDSA, Greenhills, Mandaluyong City

IN THE MATTER OF

NORTH EAST LUZON FOUNDATION, INC.
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SEC Admin Case No. 01-08-91
(CED Case No. 03-2771)
For: Revocation of Corporate Registration

DECISION

For consideration of the Commission *En Banc* is the Petition for Revocation of Corporate Registration of respondent North East Luzon Foundation, Inc. ("NELFI" for brevity) dated 18 December 2007, filed by the Compliance and Enforcement Department[1] ("CED" for brevity) on the ground of serious misrepresentation as to what the corporation can do or is doing to the damage and prejudice of the public, in violation of Section 6(l)(2) of Presidential Decree No. 902-A, as amended.

FACTS OF THE CASE

Petitioner CED is the department of the Commission mandated to file petitions for revocation of certificates of registration for violation of the Securities Regulation Code ("SRC"), the Corporation Code, P.D. 902-A as amended, including their Implementing Rules and Regulations, and such other relevant laws enforced by the Commission.

NELFI, formerly the Cagayan Valley Farmer Workers Association, Inc., is a corporation duly registered with the Commission on 08 September 1997 under SEC Registration No. A199717282, with principal office at No. 70 Diamond Street, Plaridel Heights Subdivision, Santiago City, Isabela.

NELFI's Amended Articles of Incorporation ("AOI")[2] provide that its primary purposes are:

1. To uplift the living conditions of members by assisting them in the establishments of livelihood facilities, services and enterprise.

2. To encourage the members in the effective utilization of

[1] Now known as the Enforcement and Prosecution Department.
[2] Annex "B" of the Petition.

local resources in livelihood activities and thereby improve the living condition in the community.

3. To acquire loans or other financial accommodations from the government and private lending institutions in order to finance productive livelihood enterprises.

4. To assist and support the members in the promotion of their business.

5. To develop and harness the people's participation in every economic activity towards the development of the community through self-help and self-reliance.

6. To offer and provide the members, including their families, opportunities to participate actively in any program relative to the promotion and encouragement of small business entrepreneurs.

Also, as stated in its AOI, the names of the incorporators and trustees of NELFI with their respective addresses, nationalities and capital contributions are as follows:

NAME	ADDRESS	NATIONALITY	NO. OF SHARES
Jimmy S. Torres	Santiago Lodge, Santiago City	Filipino	10,000
Simon M. Sebastian	Santiago Lodge, Santiago City	Filipino	10,000
Ireneo M. Nicolas	Santiago Lodge, Santiago City	Filipino	10,000
Azucena A. Bonilla	Basilio Street, Sampaloc, Manila	Filipino	10,000
Artemio L. Corpus	Basilio Street, Sampaloc, Manila	Filipino	10,000

This petition stemmed from numerous complaints and/or queries from various individuals inquiring about the activities of NELFI, the first of which was a letter-complaint[3] dated 16 July 2003 from the office of Representative Arthur F. Celeste, informing the Commission that NELFI has been allegedly using his name to entice and recruit prospective members in his district, with the promise that each member, upon payment of three hundred seventy five pesos (P375.00), shall be entitled to a loan of up to five hundred thousand pesos (P500,000.00) without collateral.

The letter-complaints[4], queries and endorsements allege, among others, that:

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[3] Adressed to Jose Tomas Syquia, Director of CED, CED Petition, Annex C.
[4] CED's Petition, Annexes D-1 to D-6.

1. NELFI is engaged in wide scale recruitment of members from various parts of the country, promising each prospective member a collateral and interest free loan ranging from fifty thousand pesos (P50,000.00) to five hundred thousand pesos (P500,000.00).

2. NELFI's scheme is to recruit persons who would be acting as coordinators, by recruiting other prospective members, usually two hundred (200) members each. The members shall be entitled to the interest and collateral free loans, a study-now-pay-later for students, pension for senior citizens, and disability benefits for disabled persons.

3. The members shall act as marshals, barangay coordinators, municipal coordinators, and district coordinators, depending on the number of members recruited by each. They were promised by NELFI salaries ranging from fifteen thousand pesos (P15,000.00) to thirty thousand pesos (P30,000.00) plus at least five thousand pesos (P5,000.00) allowance, depending on the position.

4. As conditions for membership, NELFI charges a membership fee ranging from two hundred pesos (P200.00) to three hundred pesos (P300.00), and identification card fee ranging from fifteen pesos (P15.00) to twenty-five pesos (P25.00).

On 16 October 2003, acting on the numerous complaints and queries regarding NELFI, the Commission issued a SEC Advisory[5], which was posted on its website, informing the public that NELFI is not authorized to grant loans, as such is not included as one of the foundation's purposes enumerated in its AOI. Subsequently, a similar advisory[6] was again issued by the Commission on 27 November 2003.

However, despite the posting of these Notices, the Commission continued to receive letter-complaints, queries, affidavits and similar communications from individuals from various parts of the country.[7]

On 09 January 2008, the CED, on the basis of its own findings, filed the instant petition.

On 21 January 2008, the Commission issued an Order directing the officers and the board of trustees of subject corporation to file their comment on the

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[5] CED's Petition, Annex F.
[6] Id., Annex F-1.
[7] Id., Annexes G, G-1 to G-16.

petition. On 11 February 2008, NELFI filed a request for extension of time to file the comment/answer to the petition. Thus, the Commission issued an Order dated 03 March 2008 directing NELFI to file its comment/answer within a non-extendible period of ten (10) days from actual receipt of the Order.

In its Answer dated 10 March 2008, NELFI alleged, among others, the following defenses:

1. No loan was promised to entice membership with NELFI. The prospective members were only informed of a possibility of acquiring financial assistance ranging from one hundred thousand pesos (P100,000.00) to five hundred thousand pesos (P500,000.00), which shall depend on the feasibility of the proposed projects of the members and their capability to effectively manage the same. This financial assistance shall be payable in five (5) years without any interest and collateral required, in contrast to a loan.

2. No membership fee was required and collected as a condition for membership. Although its By-laws provide that admission fees, annual dues and special assessments are to be collected from the members, NELFI did not implement such provision. The charges for the identification cards and the conduct of seminars are all minimal, which could not possibly enrich the officers of NELFI.

3. No salary was promised to member recruiters.

4. NELFI offers benefits such as financial assistance, educational assistance, social and health services. At the moment, the foundation has yet to extend financial assistance to any of its members since it has not finished and complied with the documentation demanded by its donors and benefactors.

ISSUE

The sole issue to be resolved in this case is whether or not there is a sufficient ground to revoke NELFI's certificate of registration.

We rule in the affirmative.

Section 6(l)(2) of P.D. 902-A, as amended reads:

"SEC. 6. In order to effectively exercise such jurisdiction,

the Commission shall possess the following powers:

x x x

(l) To suspend, or revoke, after proper notice and hearing, the franchise or certificate of registration of corporations, partnerships or associations, upon any of the grounds provided by law, including the following:

x x x

2. **Serious misrepresentation as to what the corporation can do or is doing to the great prejudice of or damage to the general public**;

x x x"(emphasis supplied)

NELFI was purportedly organized for noble and philanthropic purposes such as: (1) uplifting the living conditions of members by assisting them in the establishments of livelihood facilities, services and enterprise, and (2) encouraging the members in the effective utilization of local resources in livelihood activities, thereby improving the living conditions in the community. However, while holding itself out as a legitimate foundation, it is more interested in resorting to devices and schemes to defraud the public by recruiting members, collecting from them various fees and charges, and promising them with all sorts of benefits, which were never delivered.

In its Answer, NELFI explained that it has not promised interest and collateral free loans to entice the public to become members of the foundation. On the contrary, NELFI reiterates that it is only offering financial assistance to members, which is different from a loan since such financial assistance bears neither interest nor collateral.

Apparently, the records of the case show that NELFI is, indeed, promising loans ranging from one hundred thousand pesos (P100,000.00) to five hundred thousand pesos (P500,000.00) to entice a person to become a member of the foundation. This fact is evidenced by numerous complaints[8] by individuals who have personal knowledge of the alleged illegal and fraudulent activities of the foundation. Several affidavits[9] were also executed by members of NELFI, who were lured to

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[8] CED's Petition, Annex G-1 – Letter dated 21 July 2004, addressed to ABSCBN.
Annex G-2 – E-mail dated 22 November 2004.
Annex G-3 – Letter dated 25 October 2004, addressed to The Office of the President.
Annex G-8 – E-mail dated 16 July 2006.
Annex G-9 – E-mail dated 06 November 2006.
Annex G-12 – E-mail dated 03 February 2007.

[9] Id., Annex G-11 – Affidavit dated 28 December 2006, executed by Minda A. Manicdo.
Annex G-14 – Malayang Salaysay dated 13 June 2007, executed by Leonardo Bagtas.
Annex G-16 – Affidavit dated 26 July 2007, executed by Elinda S. Inabangan.

become members and coordinators.

Moreover, a sample flyer[10] being disseminated by NELFI to the public, shows that contrary to NELFI's assertions, the foundation represents that it extends loans to its members, the pertinent portion of which reads:

"x x x

Tanong: *Anong tulong ang matatanggap ko sa NELFI?*

Sagot: *Ang NELFI ay nagbibigay ng tulong pinansyal mula Php 100,000.00 hanggang Php 500,000.00 upang puhunan sa ano mang livelihood project na inyong sadya. Ang tulong pinansyal ay 'INTEREST FREE' o walang patubo. Itong tulong pinansyal ay kailangan lamang maibalik ang puhunan sa loob ng 5 taon upang maitulong din sa iba na nangangailangan.*

[**Question**: What benefit can NELFI provide to a member?

Answer: NELFI provides financial assistance ranging from P100,000.00 to P500,000.00 to fund any livelihood project intended by the member. This financial assistance shall bear no interest and shall be payable within five (5) years to benefit other members.]

x x x"

From the foregoing, it is evident that NELFI made false representations to the public that it has a capacity to extend loans to its members, which is not included in the purpose clause of NELFI's Articles of Incorporation ("AOI"). It is well settled that once a corporation has been granted juridical personality by the State, it is allowed and can legally exercise only those powers provided for by law and those enumerated in its charter.[11] As regards the latter, such powers are provided for in the AOI pursuant to Section 45[12] of the Corporation Code.[13]

In the present case, nowhere in NELFI's AOI is it stated that NELFI is authorized to grant loans to its members. Although it is within its power to "acquire loans or other financial accommodations from the government and private lending institutions in order to finance productive livelihood enterprises," it is not, however, clothed with the authority to grant loans. In fact, in two (2) separate SEC Advisories, dated 16 October 2003 and 27 November 2003, the Commission took a stand on the

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[10] CED's Petition, Annex J.
[11] Cesar L. Villanueva, PHILIPPINE CORPORATE LAW 232 (2001 ed.).
[12] SEC. 45. *Ultra vires acts of corporations.* - No corporation under this Code shall possess or exercise any corporate powers except those conferred by this Code or by its articles of incorporation and except such as are necessary or incidental to the exercise of the powers so conferred.
[13] Batas Pambansa Blg. 68 (1980).

matter and informed the public to take necessary precautions in dealing with NELFI, as it is not authorized to grant loans, the same not being included in the purposes of NELFI's Articles of Incorporation.

Apart from granting loans, NELFI also offers salaries and benefits to entice the public to become member-coordinators, which were also confirmed in the same complaints, queries and affidavits gathered as evidence by the CED. In one of the flyers/handouts distributed by NELFI to entice the public to become members, NELFI outlined some of the benefits that a member may avail of as follows:

"x x x

FOR THE PRINCIPAL MEMBER

- P500,000.00, Life Insurance Benefits
- P500,000.00, Accident Insurance Benefits
- P50,000.00, Memorial Services Benefits
- P50,000.00, Accident Family Medical and Health Care Benefits
- P100,000.00, Aggregate Family Medical and Health Care Benefits

FOR THE MEMBER'S SPOUSE. If Member is married; or to the parents if Member is Single, not more than 60 years old.

- P250,000.00, Accident Medical Benefits
- P25,000.00, Accident Medical Reimbursement Benefits
- P100,000.00, Aggregate Family Medical and Health Care Benefits

FOR THE MEMBERS' CHILDREN. If Member is married, or to brothers or sisters if Member is Single, who are below 21 years old, Unmarried and staying with the Member.

- P50,000.00, Accident Insurance Benefits
- P5,000.00, Accidental Medical
- P100,000.00, Aggregate Family Medical and Health Care Benefits

SENIOR CITIZENS

Senior Citizens are covered up to P250,000.00 to Life & Accident Insurance Benefit; P50,000.00 in Medical Services Benefits; and P100,000.00 Medical and Health Care Benefits, in addition to the Monthly Pension of P15,000.00 for as long as the Member/Senior Citizen is living."

The foregoing are just some of the promises and representations made by NELFI in an obvious ploy to attract people to become members of the foundation,

Certainly, to an ordinary person, such proposals are difficult to resist, which verily explain the reason why NELFI was able to attract thousands of members.

To make matters worse for the deceived members, not a single loan, much less any benefit as promised by NELFI, were ever granted and enjoyed by any member of the foundation. In its Answer to the Petition, NELFI even admitted such fact, when it stated that "[W]hile it is true that at the moment NELFI has not extended any financial assistance to any of its members, it is because it has not finished and complied with the documentation demanded by its donors and benefactors." Such reasoning is rather absurd considering that the foundation was organized since 1997.

As if adding insult to injury, it appears that NELFI was able to collect sums of money from its members to enrich its officers. Although it is within its power to collect membership dues and other assessments,[14] as well as solicit funds[15] from its members as provided in its By-Laws,[16] it consistently declares to the public that "no fees shall be collected"[17] from the members.

Records show that the members were obliged to pay for various fees such as:

Type of Fee	Amount Collected
Membership Fee	P200.00-P300.00[18]
Certificates of Attendance of seminars and trainings[19]	P30.00-P250.00[20]
Rentals for Venue	P200.00[21]
Identification Cards[22]	P15.00-P25.00[23]
Parking Fees	P1,000.00[24]
Passbook and Bank Service Charge Transmittal[25]	P20.00

Notwithstanding all these payments made by each member, not a single member to date was able to avail of the numerous benefits promised to them by NELFI. Thus, with thousands of people from different parts of the country apparently deceived by NELFI's misrepresentations, the collection of these charges has become

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[14] NELFI's By-Laws, SEC. 3(c), Article V.
[15] *Id.*, SEC. 1, Article VII.
[16] CED's Petition, Annex K.
[17] NELFI's Information Sheet, Annexes L, L-1 and L-2 of CED's Petition.
[18] CED's Petition, Annexes G-9, G-14.
[19] Samples of which are attached as Annexes O, O-1, O-2 and O-3 of CED's Petition.
[20] CED's Petition, Annexes G-14, G-16.
[21] *Id.*, Annex G-2.
[22] A sample of which is attached as Annex Q of CED's Petition.
[23] CED's Petition, Annexes G-2 and G-7.
[24] *Id.*, Annex G-11.
[25] *Id.*, Annex R.

a money-making scheme of the foundation to the great prejudice of the public.

Moreover, the CED found out in its investigation that NELFI's total funds balance for the year 2005 was only 0.20% of its minimum aggregate promised loans,[26] which means that it can only grant the promised loan to a maximum of only five (5) members without financing its daily operations.

Adding more suspicion to the activities of NELFI is the lack of information regarding the sources of its funds. NELFI refused to disclose the specific sources of its funds when petitioner CED inquired of the same. NELFI's Operation Plan[27] for the year 2004-2009, certified[28] by Jeremias S. Torres, chairman and president of NELFI, merely states that NELFI shall receive "donations and grants from foreign countries and local." When compelled by the CED to furnish the Commission a certification of the sources of funds, Torres still refused on the ground that it will only comply once the Commission approves its application for amendment of its AOI.[29] Torres even failed to appear before the CED despite numerous notices and subpoena sent to him, raising the presumption that he is deliberately evading the possibility of being questioned with regard to NELFI's alleged fraudulent activities. Since no proof was established determining the particular sources of NELFI's funds, it augurs well with petitioner's conclusion that the foundation's funds came from the miscellaneous fees and charges paid by its members, the total number of which, as of 2007, was targeted at eighteen million (18,000,000) members throughout the country. This could easily transform to millions or even billions of pesos worth of funding, which are being extorted from unsuspecting members.

Hence, considering the foregoing evidence, it is undoubtedly established that NELFI committed acts amounting to serious misrepresentation to the great prejudice of or damage to the general public, in violation of Section 6(l)(2) of Presidential Decree 902-A, as amended.

WHEREFORE, premises considered, the Petition is hereby **GRANTED**. The corporate registration of North East Luzon Foundation, Inc. is hereby **REVOKED**.

Let a copy of this Decision be furnished to the Company Registration and Monitoring Department for its appropriate action, as well as to the Economic Research and Information Department and the Commission's extension offices for dissemination to the general public.

SO ORDERED.

Mandaluyong City, 26 August 2010.

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[26] NELFI's Financial Statement as of 31 December 2005.
[27] CED's Petition, Annex T.
[28] *Id.*, Annex T-1.
[29] NELFI's Letter dated 03 May 2004, attached as Annex U of CED's Petition.

FE B. BARIN
Chairperson

MA. JUANITA E. CUETO
Commissioner

RAUL J. PALABRICA
Commissioner

MANUEL HUBERTO B. GAITE
Commissioner

ELADIO M. JALA
Commissioner