

NINETEENTH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES
First Regular Session

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HOUSE OF REPRESENTATIVES
HOUSE BILL NO. 7356

Introduced by **REPRESENTATIVE VIRGILIO S. LACSON**

EXPLANATORY NOTE

In times of great economic distress, Filipinos come together as a community to alleviate each other's financial burden. This practice has ripened into a decades-old system, also known as the paluwagan. Paluwagan is a Tagalog word that means "easing up" - a quite literal denomination of its purpose which is to ease up the each other's burden.

The concept of paluwagan is not unique in the Philippine setting. Although named differently at different societies, the concept stays the same. Each participant gives a fixed amount as contribution to a pooled fund. The pooled fund will be given to a certain member who is appointed as the manager of the funds on an agreed date. The money collected for the period is then given to a person scheduled to receive it. The order of the payout is usually determined by drawing of lots. The cycle continues until all the members have received their share.

The *Paluwagan* system has many benefits. First, it inculcates the habit of saving among its members. The duty to contribute to the pool regularly promotes accountability among the members.

Second, it enables access to a lump sum amount of money, even to the poorest of the poor. According to a United States Agency for International Development study, credit access in the Philippines was the most restrictive out of all Association of Southeast Asian Nations countries in 2015. Since then, certain reforms have been introduced to improve credit access especially in rural areas. Despite this, access to credit, insurance, or savings from formal institutions for low-income individuals remains elusive. There are many contributing factors why financial inclusion remains a problem. One of them is what we call the demand barrier. A demand barrier is a factor that effectively excludes individuals, especially the poor, from accessing financial services. It can be socioeconomic or cultural elements, such as lack of formal identification systems, and low levels of financial literacy, lack of awareness of available services, inappropriateness of certain services to the needs of the low-income sectors. Lack of financial inclusion in formal institutions causes people to be creative in addressing their financial necessities, hence the creation of *paluwagan*. These community-based financial systems are accessible even to those who are uneducated.

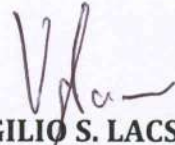
Thirdly, the system promotes a sense of *bayanihan*. It strengthens social and financial network within a community through unity, responsibility, and cooperation. When a member fails to pay, it affects the benefits of other participants in the *paluwagan*.

The advantages of the system are not without downsides. Although *paluwagan* has been in existence since time immemorial, the practice remains informal and unregulated. Anyone can form a group through verbal agreements. It is not regulated by any governmental body. Department of Trade and Industry (DTI) once tagged the *paluwagan* system as a form of pyramid scheme, because of the fact that the first person to receive the pot is actually the one who will get the most benefit from the system. The last persons to receive the pooled funds have the highest risk in case other participants fail to pay and the system collapses. Since the system only relies on trust, it also becomes prone to fraud. Since most *paluwagan* system is unregistered and undocumented, it is hard to prove claims of losses and damages in court.

This bill aims to regulate the *paluwagan* system by creating an independent agency called *Paluwagan Microfinance* Administration. The Administration shall prescribe rules and regulations for the creation and registration of *paluwagan*, and shall exercise the power of supervision over registered paluwagans. The bill also provides for the creation of the *Paluwagan Insurance Fund*, which aims to protect members of insured paluwagan in case of cessation of business.

This bill principally aims to provide an avenue for the Filipino people to achieve financial autonomy and self-sufficiency, by promoting entrepreneurship and providing them with affordable credit and financial assistance. It is hoped that the formalization and strengthening of the paluwagan microfinance system, as well as the establishment of the Paluwagan Microfinance Administration, shall contribute to the realization of the people's aspirations towards financial stability and self-reliance.

For the foregoing reasons, the passage of this bill is earnestly sought.


VIRGILIO S. LACSON
Manila Teachers Party-list

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Introduced by **REPRESENTATIVE VIRGILIO S. LACSON**

AN ACT
PROVIDING FOR THE REGULATION OF ORGANIZATION AND OPERATION OF
COMMUNITY MICROFINANCE GROUPS ALSO KNOWN AS *PALUWAGAN*, AND FOR OTHER
PURPOSES

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

CHAPTER I
Title and Definitions

SECTION 1. Title – This Act may be cited as “Community *Paluwagan* Microfinance Act.”

SEC. 2. Declaration of Policies. – The State hereby declares its policy to pursue a program that emboldens the people to achieve financial autonomy through capacity building and self-financing activities. The Filipino people shall be encouraged to come together and undertake self-financing activities to inspire them to cultivate a culture of entrepreneurship, meet their basic needs, improve their financial resources, and promote income security.

In this regard, the State shall place great importance on facilitating easy and efficient access to necessary funds and credits, for they are crucial elements in realizing the people's aspirations towards financial stability and self-reliance.

To achieve this end, the *paluwagan*, a traditional community microfinance system, shall be formalized and strengthened for the protection and benefit of the people. Through this system, the people shall have access to affordable credit and financial assistance, and they shall be empowered to engage in entrepreneurial activities and other forms of self-sustenance.

SEC.3. Definitions – As used in this Act, the term -

Community Paluwagan refers to a microfinance group that caters to a select group of persons with residence or employment in a defined community, created in accordance with the provisions laid out in this Act, for the noble purpose of instilling a culture of entrepreneurship, while simultaneously promoting their financial welfare by providing them with a ready source of credit for provident and productive objectives.

Chairman refers to the Chairman of the *Paluwagan* Microfinance Administration;

Administration refers to the *Paluwagan* Microfinance Administration;

Board refers to the *Paluwagan* Microfinance Administration Board;

Member means a person who holds an account in the *paluwagan*, which evidences member's contribution received or held in the usual course of business and for which it has given or is obligated to give credit to the account of the member;

Paluwagan refers to a duly registered Community *Paluwagan*;

Board of Trustees refers to the Board of Trustees of a registered *Paluwagan*.

CHAPTER II

Paluwagan Microfinance Administration

SEC. 4. Creation of *Paluwagan* Microfinance Administration – There is hereby established in the executive branch of the Government an independent agency to be known as the *Paluwagan* Microfinance Administration, which shall be under the management of the *Paluwagan* Microfinance Administration Board.

SEC. 5. Membership of the Board –The Board shall consist of three members, who are broadly representative of the public interest, appointed by the President of the Philippines upon consultation and recommendation of existing paluwagan. In appointing the members of the Board, the President shall designate the Chairman.

Pending the appointments by the President of the Philippines to the Inaugural *Paluwagan* Microfinance Administration Board, an interim board shall be established to oversee the operations of the *Paluwagan* Microfinance Administration. The interim board shall consist of the Secretary of the Department of Trade and Industry, the Commissioner of the Insurance Commission, and the Chairman of the Securities and Exchange Commission, or their designated representatives. The interim board shall have all the powers and duties of the *Paluwagan* Microfinance Administration Board until such time as the initial appointments to the Board have been made by the President of the Philippines. The Secretary of the Department of Trade and Industry shall serve as interim Chairman.

SEC. 6. Qualifications of Board Members –

(A) Experience in Financial Services – In considering appointments to the Board under the preceding section, the President shall give consideration to individuals

who, by virtue of their education, training, or experience relating to a broad range of financial services, financial services regulation, or financial policy, are especially qualified to serve on the Board.

(B) Limitations – Not more than one member may be appointed to the Board from among individuals who, at the time of the appointment, are involved with any *paluwagan* as a trustee, committee member, officer, or employee.

SEC. 7. Term of Office – Each member of the Board shall have a term of 6 years, except that of the two members, other than the Chairman, initially appointed shall expire, one upon the expiration of two years from date of appointment, and the other upon the expiration of four years from the date of appointment. In no case shall there be re-appointments.

In the event of death, resignation, removal of a member, the successor shall only serve the unexpired portion of the term of the predecessor.

SEC. 8. Functions of the Board. – The management of the Administration shall be vested in the Board. A majority of the Board shall constitute a quorum. Among its functions -

- (i) the Board shall adopt such rules as it sees fit for the transaction of its business and shall keep permanent and complete records and minutes of its acts and proceedings.
- (ii) the Board is authorized and empowered to require that every person appointed or elected by any *paluwagan* to any position requiring the receipt, payment, or custody of money or other personal property owned by a *paluwagan*, or in its custody or control as collateral or otherwise, give bond in a corporate surety company duly registered in the Philippines, any such bond or bonds shall be in a form approved by the Board with a view to providing surety coverage to the *paluwagan* with reference to loss by reason of acts of

fraud or dishonesty including forgery, theft, embezzlement, wrongful abstraction, or misapplication on the part of the person, directly or through connivance with others, and such other surety coverages as the Board may determine to be reasonably appropriate or as elsewhere required by this Act. Any such bond or bonds shall be in such an amount in relation to the money or other personal property involved or in relation to the assets of the *paluwagan* as the Board may from time to time prescribe by regulation for the purpose of requiring reasonable coverage. In lieu of individual bonds the Board may likewise approve the use of a form of schedule or blanket bond which covers all of the officers and employees of a *paluwagan* whose duties include the receipt, payment, or custody of money or other personal property for or on behalf of the *paluwagan*.

- (iii) The Board is authorized in carrying out its functions under this Act to appoint such personnel as may be necessary to enable the Administration to carry out its functions.
- (iv) The Board is authorized to expend such funds, enter into such contracts with public and private organizations and persons, make such payments in advance or by way of reimbursement, acquire and dispose of, by lease or purchase, real or personal property, without regard to the provisions of any other law applicable to executive or independent agencies of the Philippines, and perform such other functions or acts as it may deem necessary or appropriate to carry out the provisions of this Act, in accordance with the rules and regulations or policies established by the Board not inconsistent with this Act.
- (v) The Board shall make an annual report to the Congress through the Committee on Micro, Small, Medium Enterprise Development Committee of the House of Representatives. Such a report shall summarize the operations of the Administration and set forth such information as is necessary for the Congress to review the financial program approved by the Board.
- (vi) The financial transactions of the Administration shall be subject to audit by the Commission on Audit. Audit shall be conducted at the place or places where the accounts of the Administration are kept.

- (vii) Upon recommendation of the Board, the Administration may invest and reinvest such portions of the annual operating fees deposited under this Act as the Board determines are not needed for current operations. Such investments may be made only in interest bearing securities of the Government of the Philippines. All income derived from such investments and reinvestments shall be deposited to the account of the Administration.
- (viii) The Board shall fix the compensation and number of, and appoint and direct, employees of the Administration, in accordance with the applicable laws on government employee compensation.
- (ix) The Board shall provide technical assistance to duly registered paluwagan in the efficient management and operation of their respective microfinance systems. This includes the conduct of specialized training programs that are carefully crafted to equip members with vital knowledge, skills, and competencies necessary for their business operations and for enhancing their entrepreneurial skills.

SEC. 9. Chairman of the Board - The Chairman of the Board shall be the spokesman for the Board and shall represent the Board and the Administration in its official relations with other branches of the Government.

The Chairman shall determine each Board member's area of responsibility and shall review such assignments bi-annually. It shall be the Chairman's responsibility to direct the implementation of the adopted policies and regulations of the Board.

CHAPTER III

Community *Paluwagan*

SEC. 10. Creation of a Community *Paluwagan* - Any seven or more persons with residence or employment in a defined community, who desire to form a community *paluwagan* shall apply either before the Administration who shall approve the creation of said microfinance group. The application shall specifically state:

- (1) Name of the community *paluwagan*
- (2) Location of the proposed community *paluwagan*
- (3) Names and Addresses of the members
- (4) Proposed field of membership
- (5) Term of existence, not exceeding 50 years, renewable for another 50 years upon approval of the Administration
- (6) Articles of the *paluwagan*
- (7) By-Laws

SEC. 11. Application - In order to simplify the organization of *paluwagan*, the Board shall from time to time cause to be prepared a form of application and a form of bylaws, consistent with this Act, which shall be used by applicants, and shall be supplied to them on request.

Before any application is approved, an appropriate investigation shall be made for the purpose of determining: a) whether the *paluwagan* conforms to the provisions of this Act, b) the general character and fitness of members, c) economic viability of establishing the proposed *paluwagan*.

The Board may prescribe the payment of reasonable amount of fees for the processing of application under this provision.

SEC. 12. Powers and Functions of a *paluwagan* – Upon approval of the creation of a *paluwagan*, a certificate shall be issued by the Administration. The certification shall grant the *paluwagan* the authority to exist as body corporate and as such, subject to the limitations herein contained, shall be vested with all of the powers and charged with all of the liabilities conferred and imposed by this Act, which includes the power:

- (1) to make contracts;
- (2) to sue and be sued;

- (3) to adopt and use a common seal and alter the same at pleasure;
- (4) to purchase, hold, and dispose of property necessary, incidental, or beneficial to its operations;
- (5) to make loans, the maturities of which shall not exceed 30 years, except as otherwise provided herein, and extend lines of credit to its members, in accordance with the following:
 - a. loans to members shall be made in conformity with criteria established in the By-laws of the *paluwagan*. Provided, That—
 - (i) a residential real estate loan on a family dwelling, that is or will be used as the principal residence of a *paluwagan* member, and which is secured by a first lien upon such dwelling, may have a maturity not exceeding thirty years or such other limits as shall be set by the Board, subject to the rules and regulations of the Board;
 - (ii) a loan or aggregate of loans to a trustee or member of the supervisory or credit committee of the *paluwagan* making the loan which exceeds 5,000,000 Philippine Pesos, be approved by the board of trustees of the *paluwagan*; provided that the said trustee or member has no participation in the approval of said loan;
 - (iii) loans to other members for which trustees or members of the supervisory or credit committee act as guarantor or endorser be approved by the board of trustees of the *paluwagan* when such loans standing alone or when added to any outstanding loan or loans of the guarantor or endorser exceeds the amount of 5,000,000 Philippine Pesos;
 - (iv) loans shall be paid or amortized in accordance with rules and regulations prescribed by the Board after taking into account the needs or conditions of the borrowers, the amounts and

duration of the loans, the interests of the members, and such other factors as the Board deems relevant;

- (v) loans must be approved by the credit committee or a loan officer;
- (vi) the rate of interest is reasonable;
- (vii) a self-replenishing line of credit to a borrower may be established to a stated maximum amount on certain terms and conditions which may be different from the terms and conditions established for another borrower;

Provided, however, that a *paluwagan* shall not commit itself to make any loans for amounts in excess of the total of the following amounts:

- 1) amount of cash available for loan purposes;
- 2) amount of cash which can be readily realized upon the sale or redemption of permissible investments made by the *paluwagan*; and
- 3) amount of credit available for loan purposes from government or private financing institutions;

Provided further, any government office, agency, or instrumentality employing a *paluwagan* member is required, notwithstanding the provision of any existing law, rule and regulation to the contrary, to make deductions from his salary, wage, income or retirement pension pursuant to the terms of his loan, and all other deductions authorized by the member, to remit such deductions to the *paluwagan* concerned, and to collect such reasonable fee for his services as may be authorized by rules promulgated by the Board.

- (6) to receive from its members payments, representing member's contribution which shall be evidenced by a certificate of membership;
- (7) to invest its funds in accordance with rules and regulations prescribed by the Board, in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital;
- (8) to borrow, in accordance with such rules and regulations as may be prescribed by the Board, from any source, in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus;
- (9) to levy late charges and penalties, in accordance with the by-laws, for failure of members to meet promptly their obligations to the *paluwagan*;
- (10) to impress and enforce a lien upon the member's contribution of any member, to the extent of any loan made to him and any dues or charges payable by him;
- (11) in accordance with regulations prescribed by the Board—
 - (i) to sell to persons in the field of membership negotiable checks (including travelers checks), money orders, and other similar money transfer instruments (including international and domestic electronic fund transfers and remittance transfers), and;
 - (ii) to cash checks and money orders for persons in the field of membership for a fee;
 - (iii) to issue credit cards;
 - (iv) to engage existing digital platforms, or other financial technologies that may be devised in the future, to enhance or automate financial services for members;
- (12) in accordance with rules and regulations prescribed by the Board, to purchase, sell, pledge, or discount or otherwise receive or dispose of, in whole or in part, any eligible obligations (as defined by the Board) of its members and to purchase from any liquidating notes made by individual members of the liquidating *paluwagan* at such prices as may be agreed

upon by the board of trustees of the liquidating *paluwagan* and the board of trustees of the purchasing *paluwagan*, but no purchase may be made under authority of this paragraph if, upon the making of that purchase, the aggregate of the unpaid balances of notes purchased under authority of this paragraph would exceed 5 per centum of the unimpaired capital and surplus of the *paluwagan*;

- (13) to sell all or a part of its assets to another *paluwagan*, to purchase all or part of the assets of another *paluwagan* and to assume the liabilities of the selling *paluwagan* and those of its members subject to regulation of the Board;
- (14) to invest in securities that are offered and sold pursuant to Section 3, Chapter I of Republic Act no. 8799, subject to such regulation as the Board may prescribe, including regulation prescribing minimum size of the issue at the time of initial distribution, minimum aggregate sales prices, or both;
- (15) to exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated.
- (16) to provide additional services for the mutual benefit of its members, upon approval of the Board. Provided, that such services involve no risk to the assets of the *paluwagan* or the funds of its members;
- (17) Notwithstanding any other provision of law, to accept investment from a minimum seven persons within the defined community for the purpose of augmenting resources and increasing liquidity for the purpose of providing credit line to the development of micro, small and medium-sized businesses. The contributors shall be members of the *paluwagan*, and shall be subject to the same terms and conditions of membership as other members. The *paluwagan* shall have the discretion to determine the terms and conditions of the investments, including the amount of the investment, the duration of the investment, and the potential return on the investment. The *paluwagan* shall also have the discretion to limit the amount of investments it will accept;

(18) To collect member's contribution from its members upon admission, and distribute such member's contribution, plus any interest and earnings thereon, to the members after a certain period of time as share in the paluwagan's income. The *paluwagan* shall have the discretion to determine the frequency and amount of such distributions, based on the *paluwagan's* financial performance and other factors.

No person, association, partnership or corporation shall do business, or hold itself out as doing business, as a *paluwagan*, or shall use the term "*paluwagan*" or any other title or name tending to give the public the impression that it is engaged in the operations and activities of a *paluwagan*, unless so authorized under this Act.

SEC. 13. Duties of the *paluwagan* – In accordance with rules prescribed by the Board, each *paluwagan* shall pay to the Administration an annual operating fee which may be composed of one or more charges identified as to the function or functions for which assessed.

The fee assessed under this section shall be determined according to a schedule, or schedules, or other method determined by the Board to be appropriate, which gives due consideration to the expenses of the Administration in carrying out its responsibilities under this Act and to the ability of *paluwagan* to pay the fee.

The Board shall, among other things, determine the periods for which the fee shall be assessed and the date or dates for the payment of the fee or increments thereof.

All operating fees shall be for the account of the Administration and may be expended by the Board to defray the expenses incurred in carrying out the provisions of this Act including the examination and supervision of *paluwagan*.

CHAPTER IV

Membership

SEC. 14. Membership – Each member shall invest an amount which represents capital contribution, and pay the installments thereon, as may be prescribed by the Bylaws.

SEC. 15. Membership Field — The membership of any *paluwagan* shall be limited to a defined community, which shall be set out in by-laws.

SEC. 16. Additional membership eligibility - No individual shall be eligible for membership in a *paluwagan* on the basis of the relationship of the individual to another person who is eligible for membership in the *paluwagan*, unless the individual is within the second degree of consanguinity of the member.

SEC. 17. Retention of membership - Except as provided in this Act, once a person becomes a member of a *paluwagan* in accordance with this title, that person or organization may remain a member of that *paluwagan* until the person or organization chooses to withdraw from the membership.

SEC. 18. General membership meeting - The annual meeting of each *paluwagan* shall be held at such place as its bylaws shall prescribe. Special meetings may be held in the manner indicated in the bylaws.

Unless otherwise provided by the Articles and Bylaws of the *paluwagan*, a member shall be entitled to vote by proxy.

SEC. 19. Expulsion of members - A member may be expelled for cause by majority vote of the board of trustees, ratified by majority vote of the all members of a *paluwagan* present at a special meeting called for the purpose, but only after opportunity has been given to the member to be heard.

The board of trustees of a *paluwagan* may, by majority vote of a quorum of trustees, adopt and enforce a policy with respect to expulsion from membership based on non-participation by a member in the affairs of the *paluwagan*.

In establishing its policy, the board of trustees should consider a member's failure to vote in the *paluwagan* elections, failure to obtain or pay loan from *paluwagan*, among others. If such a policy is adopted, written or digi notice of the policy and the effective date of such policy shall be mailed to each member of the *paluwagan* at the member's current address appearing on the records of the *paluwagan* within 10 days from the adoption of of such policy. In addition, each new member shall be provided written notice of any such policy prior to or upon applying for membership.

The term "cause" under this section shall mean a substantial or repeated violation of the membership agreement of the *paluwagan*; a substantial or repeated disruption, including dangerous or abusive behavior to the operations of a *paluwagan*; or fraud, attempted fraud, or other illegal conduct that a member has been convicted of in relation to the *paluwagan*, including the employees conducting business on behalf of the *paluwagan*.

Expulsion of a member pursuant to this section shall not operate to relieve the member from any civil or criminal liability to the *paluwagan*.

SEC. 20. Due process - If a member will, subject to the policy adopted herein, be subject to expulsion, the member shall be notified in advance of the expulsion, along with the reason for such expulsion. Such notice shall be provided in person, by mail to the member's address, or, if the member has elected to receive electronic communications from the *paluwagan*, may be provided electronically.

A member shall have 30 days from the date of receipt of such notification request a hearing from the board of trustees of the *paluwagan*. If a member does not request a

hearing during the 30-day period as described, the member shall be expelled after the expiration of the 30-day period.

If a member requests a hearing during the 30-day period as described, the board of trustees of the *paluwagan* shall provide the member with a hearing within 30 days from receipt of request; and after such hearing, the board of trustees of the *paluwagan* shall hold a vote within 15 days whether or not to expel the member. If a member is expelled pursuant to the decision of the Board, the notice of the expulsion of the member shall be provided to the member in person or by mail to the member's address, in written form or, if the member has elected to receive electronic communications from the *paluwagan*, may be provided electronically.

The expulsion of a member pursuant to this Act shall be done individually, on a case-by-case basis, and neither the Administration nor any *paluwagan* may expel a class of members.

SEC. 21. Reinstatement - A member expelled under this section shall be given an opportunity to request reinstatement of membership; and may be reinstated by either a majority vote of a quorum of the trustees of the *paluwagan*; or a majority vote of the members of the *paluwagan* present at a meeting called for such purpose.

CHAPTER V

Management

SEC. 22. Management of *Paluwagan* - The management of a *paluwagan* shall be by a board of trustees, a supervisory committee, and a credit committee. The board of trustees shall consist of an odd number of trustees, at least five in number, to be elected annually by and from the members as the bylaws provide. Any vacancy occurring on the board shall be filled until the next annual election by appointment by the remainder of the trustees.

At their first board meeting, the trustees shall appoint corporate officers specified in the bylaws, which shall include a President, Secretary, and Treasurer. Corporate officers may be compensated in accordance with the industry standard. The bylaws shall specify the specific duties of each corporate officer.

SEC. 23. Composition of Supervisory and Credit Committee - The Committee members shall be appointed by the board of trustees and shall consist of not less than three members nor more than five members.

A record of the names and addresses of the executive officers, members of the supervisory committee, credit committee, and loan officers, shall be filed with the Administration within ten days after their election or appointment.

SEC. 24. Compensation - No member of the board of trustees or of any other committee shall, as such, be compensated. Per diems, health, accident, similar insurance protection, and the reimbursement of reasonable expenses incurred in the execution of the duties of the position shall not be considered compensation.

SEC. 25. Meetings of the Board of Trustees- The board of trustees shall meet at least once a month and shall have the general direction and control of the affairs of the *paluwagan*. Minutes of all meetings shall be kept by the Secretary.

Among other things, the board of trustees shall—

- (1) act upon applications for membership or appoint employees from among the members of the *paluwagan*, which shall include an internal auditor, and a loan officer;
- (2) provide adequate fidelity coverage for officers and employees having custody of or handling funds according to regulations issued by the Board;
- (3) fill vacancies on the board of trustees until successors elected at the next annual meeting have qualified;

- (4) have charge of investments including the right to designate an investment committee of not less than two to act on its behalf;
- (5) subject to any limitations of this Act, determine the interest rates on loans, the security, and the maximum amount which may be loaned and provided in lines of credit;
- (6) if the bylaws so provide, appoint one or more loan officers and delegate to these officers the power to approve or disapprove loans, lines of credit, or advances from lines of credit;
- (7) subject to the limitations of this title and the bylaws of the *paluwagan*, provide for the hiring and compensation of officers and employees;
- (8) if the bylaws so provide, appoint an executive committee of not less than three trustees to act on its behalf and any other committees to which it can delegate specific functions;
- (9) prescribe conditions and limitations for any committee which it appoints;
- (10) review at each monthly meeting a list of approved or pending applications for membership received since the previous monthly meeting together with such other related information as it or the bylaws require;
- (11) provide for the furnishing of the written reasons for any denial of a membership application to the applicant upon the written request of the applicant;
- (12) establish and maintain a system of internal controls consistent with the regulations of the Administration;
- (13) establish lending policies; and
- (14) do all other things that are necessary and proper to carry out all the purposes and powers of the *paluwagan*, subject to regulations issued by the Board.

CHAPTER VI

Committees

SEC. 26. Committee meetings - The committees created by the board of trustee shall hold such meetings as the business of the *paluwagan* may require, not less frequently than once a month.

SEC. 27. Functions of the Supervisory Committee – The supervisory committee shall have the following functions:

- (i) make or cause to be made an annual audit and shall submit a report of that audit to the board of trustees and a summary of the report to the members at the next annual meeting of the *paluwagan*.
- (ii) make or cause to be made such supplementary audits as it deems necessary or as may be ordered by the Board, and submit reports of the supplementary audits;
- (iii) by a unanimous vote, suspend any officer of the *paluwagan* or any member of the credit committee or of the board of trustees, for a maximum period of 30 days or until the next members' meeting, whichever comes first, at which meeting any such suspension shall be acted upon by the members;
- (iv) call by a majority vote a special meeting of the members to consider any violation of this Act, the charter, or the bylaws, or any practice of the *paluwagan* deemed by the supervisory committee to be unsafe or unauthorized.

Any member of the supervisory committee may be suspended by a majority vote of the board of trustees. The members shall decide, at a meeting held not less than seven nor more than fourteen days after any such suspension, whether the suspended committee member shall be removed from or restored to the supervisory committee.

The supervisory committee shall cause the passbooks and accounts of the members to be verified with the records of the treasurer from time to time, and not less frequently than once every two years. As used in this section, the term "passbook"

shall include any book, statement of account, or other record approved by the Board for use by *paluwagan*.

SEC. 28. Functions of the Credit Committee - The Credit Committee shall have the following functions:

- (i) appoint and delegate to loan officers the authority to approve applications;
- (ii) all applications not approved by the loan officer shall be reviewed by the credit committee, and the approval of a majority of the members who are present at the meeting when such review is undertaken shall be required to reverse the loan officer's decision provided a majority of the full committee is present.

CHAPTER VII

Regulation

SEC. 29. Regulation of *Paluwagan* - The Board may prescribe rules and regulations for the administration of this Act. Any duly registered *paluwagan* shall be subject to such rules, regulations, and orders as the Board deems appropriate and, except as otherwise specifically provided in such rules, regulations, or orders, shall be vested with or subject to the same rights, privileges, duties, restrictions, penalties, liabilities, conditions, and limitations that would apply to all *paluwagan* under Act.

SEC. 30. Power to revoke and suspend - The Board may suspend or revoke the registration of any *paluwagan*, or place the same in involuntary liquidation and appoint an authorized liquidating agent therefor, upon its finding that the organization is bankrupt or insolvent, or has violated any of the provisions of its charter, its bylaws, this Act, or any regulations issued thereunder.

The Board, through such persons as it shall designate, may examine any *paluwagan* in voluntary liquidation and, upon its finding that such voluntary liquidation is not being conducted in an orderly or efficient manner or in the best interests of its



members, may terminate such voluntary liquidation and place such organization in involuntary liquidation and appoint a liquidating agent therefor.

Such liquidating agent shall have power and authority, subject to the control and supervision of the Board and under such rules and regulations as the Board may prescribe –

- (i) to receive and take possession of the books, records, assets, and property of every description of the *paluwagan* in liquidation,
- (ii) to sell, enforce collection of, and liquidate all such assets and property, to compound all bad or doubtful debts, and to sue in his own name or in the name of the *paluwagan* in liquidation, and defend such actions as may be brought against him as liquidating agent or against the *paluwagan*;
- (iii) to receive, examine, and pass upon all claims against the *paluwagan* in liquidation, including claims of members on member accounts;
- (iv) to make distribution and payment to creditors and members as their interests may appear; and
- (v) to execute such documents and papers and to do such other acts and things which he may deem necessary or desirable to discharge his duties hereunder.

Subject to the control and supervision of the Board, and under such rules and regulations as the Board may prescribe, the liquidating agent of a *paluwagan* in involuntary liquidation shall cause notice to be given to creditors and members to present their claims and make legal proof thereof, which notice shall be published once a week in each of three successive weeks in a newspaper of general circulation in the place in which the *paluwagan* in liquidation maintained an office or branch for the transaction of business on the date it ceased unrestricted operations.

Upon certification by the liquidating agent in the case of an involuntary liquidation, and upon such proof as shall be satisfactory to the Board in the case of a voluntary

liquidation, that distribution has been made and that liquidation has been completed, as provided herein, the Board shall cancel the charter of such *paluwagan*; but the corporate existence of the *paluwagan* shall continue for a period of three years from the date of such cancellation of its charter, during which period the liquidating agent, or his duly appointed successor, or such persons as the Board shall designate, may act on behalf of the *paluwagan* for the purpose of paying, satisfying, and discharging any existing liabilities or obligations, collecting and distributing its assets, and doing all other acts required to adjust and wind up its business and affairs, and it may sue and be sued in its corporate name.

After the expiration of five years from the date of cancellation of the charter of a *paluwagan*, the Board may, in its discretion, destroy any or all books and records of such *paluwagan* in its possession or under its control.

CHAPTER VIII

Paluwagan Insurance Fund

SEC. 31. *Paluwagan Insurance* – The Board, as hereinafter provided, shall insure the member accounts of all *paluwagan* to the extent of amount as may be determined by the Board.

Applications for such insurance shall be in such form as the Board shall provide and shall contain an agreement by the applicant—

- (1) to pay the reasonable cost of such examinations as the Board may deem necessary in connection with determining the eligibility of the applicant for insurance: Provided, That examinations required under this Act shall be so conducted that the information derived therefrom may be utilized for insurance purposes;

- (2) to permit and pay the reasonable cost of such examinations as in the judgment of the Board may from time to time be necessary for the protection of the fund and of other insured *paluwagan*;
- (3) to provide protection and indemnity against burglary, defalcation, and other similar insurable losses, of the type, in the form, and in an amount at least equal to that required by the laws under which the *paluwagan* is organized and operates;
- (4) to maintain such special reserves as the Board, by regulation or in special cases, may require for protecting the interest of members or to assure that all insured *paluwagan* maintain regular reserves as may be required by the Board
- (5) To pay the premium charges for insurance imposed by this Chapter; and
- (6) To comply with the requirements of this title and of regulations prescribed by the Board pursuant thereto.

Before approving the application of any *paluwagan* for insurance of its member accounts, the Board shall consider—

- (A) the history, financial condition, and management policies of the applicant;
- (B) the economic advisability of insuring the applicant without undue risk of the fund;
- (C) the general character and fitness of the applicant's management;
- (D) the convenience and needs of the members to be served by the applicant; and
- (E) whether the applicant is a *paluwagan* organized for the purpose of creating a source of credit for entrepreneurial or productive purposes.

(2) The Board shall disapprove the application of any *paluwagan* for insurance of its member accounts if it finds that its reserves are inadequate, that its financial condition and policies are unsafe or unsound, that its management is unfit, that insurance of its member accounts would otherwise involve undue risk to the fund, or that its powers and purposes are inconsistent with the promotion of a culture of

entrepreneurship, and the creation of a source of credit for provident or productive purposes.

Upon the approval of any application for insurance, the Board shall notify the applicant and shall issue to it a certificate evidencing the fact that it is, as of the date of issuance of the certificate, an insured *paluwagan* under the provisions of this title.

SEC. 33. Insurance Premium Charges. - Each insured *paluwagan* shall, at such times as the Board prescribes (but not more than twice in any calendar year), pay to the Fund a premium charge for insurance in an amount determined by the Board.

SEC. 34. Payment of insurance. - Payment of an insured account to any person by the Administration shall discharge the Administration of the liability of insurance. The Administration may withhold payment of such portion of the insured amount of any member in a closed *paluwagan* as may be required to provide for the payment of any liability to the closed *paluwagan* or its receiver, which is not offset against the claim due from such *paluwagan*, pending the determination and payment of such liability by such member or any other person liable therefor.

SEC. 35. Prohibitions on insured *paluwagan*. - No insured *paluwagan* may be sponsored by or accept financial support, directly or indirectly, from any Government-sponsored enterprise. This provision shall not be construed as prohibiting any employee of a Government-sponsored enterprise from becoming a member of a *paluwagan*.

SEC. 36. Reports of Condition - Each insured *paluwagan* shall make reports of condition to the Board upon dates which shall be selected by them. Such reports of condition shall be in such form and shall contain such information as the Board may require.

The reporting dates selected for reports of condition shall be the same for all insured *paluwagan* except that when any of said reporting dates is a nonbusiness day for any *paluwagan* the preceding business day shall be its reporting date.

The total amount of the member accounts of each insured *paluwagan* as of each reporting date shall be reported in such reports of condition in accordance with regulations prescribed by the Board. Each report of condition shall contain a declaration by the president, by a vice president, by the treasurer, or by any other officer designated by the board of trustees of the reporting *paluwagan* to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

Unless such requirement is waived by the Board, the correctness of each report of condition shall be attested by the signatures of three of the officers of the reporting *paluwagan* with the declaration that the report has been examined by them and to the best of their knowledge and belief is true and correct.

The Board may call for such other reports as it may from time to time require. The Board may require reports of condition to be published in such manner, not inconsistent with any applicable law, as it may direct.

Reports required under this section shall be so prepared that they can be used for insurance purposes.

SEC. 37. Unsafe and unsound practice – If the Board shall find that any unsafe or unsound practice or violation specified in this Act has been established and has not been corrected within the time above prescribed by the Board in which to make such correction, the Board may order that the insured status of the *paluwagan* be terminated on a date subsequent to such finding after due notice and hearing. The Administration may publish notice of such termination and the *paluwagan* shall give notice of such termination to each of their members at the last address of record on

the books of the *paluwagan*, in such a manner and at such at time as the Board may find to be necessary and may order for the protection of the members.

The Board may treat the failure of any insured *paluwagan* to obtain an outside, independent audit for any fiscal year for which such audit is required as an unsafe or unsound practice.

SEC. 38. Accounting - Accounting principles applicable to reports or statements required to be filed with the Board by each insured *paluwagan* shall be uniform and consistent with generally accepted accounting principles.

CHAPTER VIII

Taxation

SEC. 39. Grant of tax exemption. – Notwithstanding the provisions of any law or regulation to the contrary, *paluwagan* shall enjoy the following tax exemptions:

1. Any *paluwagan* shall be exempt from payment of tax in respect to all income it receives, including interest on its deposits with any financial institution: *Provided, however,* That income derived from any of its properties, real or personal, or any activity conducted for profit, regardless of the disposition thereof, is subject to the corresponding internal revenue taxes imposed under the National Internal Revenue Code.

Interest on member's contribution of members with any *paluwagan* as well as the shares of its members from the net income of the *paluwagan* shall be exempt from income tax.

2. Any *paluwagan* duly registered with the Administration shall be exempt from the payment of value-added tax and documentary stamp taxes;
3. Any *paluwagan*, regardless of the amount of accumulated reserves and undivided net savings shall be exempt from payment of local taxes. Fees and charges

assessed by the cities or municipalities on the application of mayor's or local business permits, and other licenses and approvals shall in no case exceed Php 3,000.

CHAPTER IX

Confidential nature of capital contributions

SEC. 40. Prohibition against inquiry into or disclosure of contributions. – All capital contributions or all money deposited with a *paluwagan* in the Philippines are hereby considered as of an absolutely confidential nature and may not be examined, inquired or looked into by any person, government official, bureau or office, except upon written permission of the member, or in cases of impeachment, or upon order of a competent court in cases of bribery or dereliction of duty of public officials, or in cases where the money deposited or invested is the subject matter of litigation.

It shall be unlawful for any official or employee of a *paluwagan* to disclose to any person any information concerning said deposits, except in the cases mentioned in the preceding paragraph of this Section. Any official or employee of an Association who violates this Sec. shall be punished under Republic Act No. 1405, as amended.

CHAPTER IX

Offenses

SEC. 41. Refusal to Make Reports or Permit Examination. – Any trustee, corporate officer, or employee of any *paluwagan* within the purview of this Act who, being required in writing by the Administration, willfully refuses to file the required report or permit any lawful examination into the affairs of such *paluwagan* shall be punished by a fine of not less than Fifty thousand pesos (P50,000) nor more than One hundred thousand pesos (P100,000) or by imprisonment of not less than one (1) year nor more than five (5) years, or both, in the discretion of the court.

SEC. 42. False Statement. - The willful making of a false or misleading statement on material fact before the Administration or any of its authorized representatives shall

be punished by a fine of not less than One hundred thousand pesos (P100,000) nor more than Two hundred thousand pesos (P200,000), or by imprisonment of not more than (5) years, or both, at the discretion of the court.

SEC. 43. Proceedings Upon Violation of this Act and Other Laws, Rules, Regulations, Orders or Instructions. - Whenever a *paluwagan* willfully violates this Act or any other order, instruction, rule or regulation issued by the Administration, the person or persons responsible for such violation shall unless otherwise provided in this Act be punished by a fine of not less than Fifty thousand pesos (P50,000) nor more than Five hundred thousand pesos (P500,000) or by imprisonment of not less than two (2) years nor more than ten (10) years, or both, at the discretion of the court.

SEC. 44. Administrative Sanctions. - Without prejudice to the criminal sanctions against the culpable persons, the Administration may, at its discretion, impose upon any *paluwagan* their trustees and/or officers, for any willful violation of its charter or by-laws, willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the *paluwagan*, any willful making of a false or misleading statement to the Board or its committees or its representatives; any willful failure or refusal to comply with, or violation of any law, or any order, instruction or regulation issued by the Board, or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Board, the following administrative sanctions, whenever applicable:

(a) fines in amounts as may be determined by the Board to be appropriate, but in no case to exceed one thousand pesos (P1,000) a day for each violation, taking into consideration the attendant circumstances, such as the nature and gravity of the violation or irregularity and the size of the *paluwagan*;

(b) suspension of operations or authority to accept new contributions, grant new loans, and make new investments;



(c) suspension of authority to enter into new contracts

(d) revocation of registration

Resignation or termination from office shall not exempt such trustee or officer from administrative or criminal sanctions.

The Board may, whenever warranted by circumstances, preventively suspend any trustee or officer of a *paluwagan* pending an investigation: Provided, That should the case be not finally decided by the Administration within a period of one hundred twenty (120) days after the date of suspension, said trustee or officer shall be reinstated in his position: Provided, further, That when the delay in the disposition of the case is due to the fault, negligence or petition of the trustee or officer, the period of delay shall not be counted in computing the period of suspension herein provided.

Whether or not there is an administrative proceeding, if the institution and/or the trustees and/or officers concerned continue with or otherwise persist in the commission of the indicated practice or violation, the Board may issue an order requiring the institution and/or the trustees and/or officers concerned to cease and desist from the indicated practice or violation, and may further order that immediate action be taken to correct the conditions resulting from such practice or violation. The cease and desist order shall be immediately effective upon service on the respondents.

CHAPTER VII

Capacity-building

SEC. 45. Capacity-building. - The Board is authorized to conduct directly, or to make grants to or contracts with colleges or universities, state or local educational agencies, or other appropriate public or private non-profit organizations to conduct, programs for the training of persons engaged, or preparing to engage, in the operation of *paluwagan*, and in related counseling programs.

It is authorized to establish a program of experimental, developmental, demonstration, and pilot projects, either directly or by grants to public or private nonprofit organizations, or by contracts with such organizations or other private organizations, designed to promote more effective operation of *paluwagan*, and related consumer counseling programs.

In carrying out its authority under this paragraph, the Board shall consult with officials of appropriate agencies responsible for the administration of such programs and projects.

Additionally, the Board, in collaboration with public and private sector partners as needed, microcredit, financial literacy, and entrepreneurship programs to the public on a continuing basis.

CHAPTER VIII

Miscellaneous Provisions

SEC. 46. Appropriations. – The initial amount necessary for the implementation of this Act shall be included in the General Appropriations Act.

SEC. 47. Implementing Rules and Regulation. – For the purpose of carrying the objectives of this Act, the Administration is authorized to require the services and facilities of any department or instrumentality of the government or any officer or employee of any such department or instrumentality, to promulgate the necessary rules and regulations within 60 days from the effectivity of this Act. The rules and regulations issued pursuant to this section shall take effect thirty (30) days after its publication in two (2) national newspapers of general circulation.

SEC. 48. Separability clause - If any provision of this Act or the application thereof to any persons or circumstances is held unconstitutional, the other provisions of this Act

and the application of such provisions to other persons and circumstances, shall not be affected thereby.

SEC. 49. Repealing clause. – All laws, decrees, proclamations, issuances, or ordinances that are contrary to or inconsistent with the provisions of this act are hereby amended, repealed or modified accordingly.

SEC. 50. Effectivity. – This Act shall take effect fifteen (15) days following the completion of its publication in the Official Gazette or in two (2) national newspapers of general circulation.

Approved,