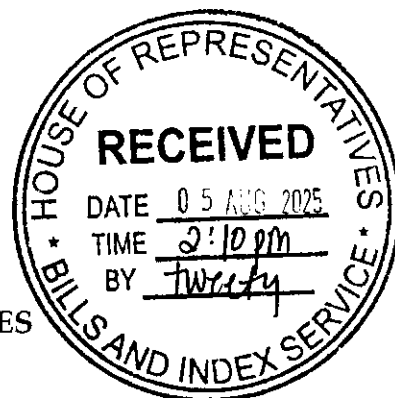


TWENTIETH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES

First Regular Session

HOUSE OF REPRESENTATIVES
HOUSE BILL NO. **3100**



Introduced by **REPRESENTATIVE MA. NINA FRANCESCA P. 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*.

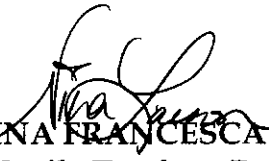
The advantages of the system are not without downsides. Although *paluwagan* has been in existence since time immemorial, the practice remains informal and unregulated. Anyone can form a group through verbal agreements. It is not regulated by any governmental body. Department of Trade and Industry (DTI) 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 *Community Paluwagan Administration*. The Administration shall prescribe rules and regulations for the creation and registration of *paluwagan*, and shall exercise the power of supervision over registered unions. The bill also provides for the creation of the

Paluwagan Insurance Fund, which aims to protect members of insured unions in case of cessation of business.

The enactment of this bill shall insure that traditionally informal financial systems such as the *paluwagan* system will fall within the protection of the law.

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


MA. NINA FRANCESCA P. LACSON
Manila Teachers Party-list

TWENTIETH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES

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First Regular Session

HOUSE OF REPRESENTATIVES

HOUSE BILL NO. 3100

Introduced by MA. NINA FRANCESCA P. LACSON

AN ACT
REGULATING THE ORGANIZATION AND OPERATION OF COMMUNITY
FUND POOLING OR PALUWAGAN GROUPS AND PROVIDING PENALTIES
FOR VIOLATION THEREOF

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

SEC. 1. Title. - This Act shall be known as the "*Bagong Paluwagan ng Bayan Act*".

SEC. 2. Declaration of Policies. - It is hereby declared the policy of the State 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, which are crucial elements in realizing the people's aspirations towards financial stability and self-reliance.

To achieve this end, the paluwagan, a traditional community fund pooling system for savings and investments, 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 shall be empowered to engage in entrepreneurial activities and other forms of self-sustenance.

SEC. 3. Definitions. - As used in this Act:

- (a) Community Paluwagan refers to a small group of persons with residence or employment in a defined community, created in accordance with the provisions laid out in this Act and supervised by the Community Paluwagan Administration created in Section 4 of 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; and
- (b) Member refers to a person who holds an account in a duly registered paluwagan, which is evidenced by a member's contribution (hulog) 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.

CHAPTER II

COMMUNITY PALUWAGAN ADMINISTRATION

SEC. 4. Creation of the Community Paluwagan Administration. – There is hereby created a Community Paluwagan Administration, herein referred to as the Administration, to be attached to the Department of Trade and Industry (DTI) for policy and program coordination.

SEC. 5. The Community Paluwagan Administration Board and Its Composition. – The Community Paluwagan Administration shall be managed by the Community Paluwagan Administration Board, hereinafter referred to as the Board, which shall consist of three (3) members, who are broadly representative of the public interest, appointed by the President of the Philippines upon consultation with and recommendation of non-government organizations, people's organizations, social welfare and development associations, and cooperatives. The President of the Philippines shall designate the Chairperson from among the members of the Board.

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

SEC. 6. Qualifications of the Board Members. – The Board members shall have the following qualifications:

- (a) Experience in Financial Services – In considering appointments to the Board under the preceding section, the President of the Philippines 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 in 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 registered community paluwagan as a trustee, committee member, officer, or employee.

SEC. 7. Term of Office. – All members of the Board shall have a term of six (6) years: Provided, That for the first appointees, the Chairperson shall hold office for six (6) years, one (1) member shall hold office for four (4) years, and one (1) member shall hold office for two (2) years. In no case shall there be re-appointments.

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

SEC. 8. Functions of the Board. – A majority of the Board shall constitute a quorum. The Board shall have the following powers and functions:

(a) Adopt such rules as it sees fit for the transaction of its business and to keep permanent and complete records and minutes of its acts and proceedings;

(b) Require 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, to give a 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;

(c) 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;

(d) Submit an annual report to the Congress of the Philippines through the Committee on Micro, Small and Medium Enterprise Development of the House of Representatives and the Committee on Trade, Commerce and Entrepreneurship of the Senate of the Philippines. 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;

(e) Subject the financial transactions of the Administration to audit by the Commission on Audit which shall be conducted at the place or places where the accounts of the Administration are kept;

(f) Recommend to the Administration the investment and reinvestment of such portions of the annual operating fees deposited under Section 51, Chapter XIII of this Act which 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 in an authorized government depository bank to the account of the Administration;

(g) Determine the organizational structure and staffing pattern of the Administration in accordance with the Revised Compensation and Position Classification System subject to the evaluation and approval of the Department of Budget and Management (DBM) and in accordance with the civil service and other pertinent laws, rules, and regulations;

(h) Formulate policies to promote savings, financial education, and financial services with digital capacities and connectivity to increase viability of an established paluwagan; and

(i) Provide technical assistance to duly registered paluwagan for the efficient management and operation of their respective systems. This shall include 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. Chairperson of the Board. - The Chairperson shall be the spokesperson of the Board and shall represent the Board and the Administration in its official relations with other branches of the Government.

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

CHAPTER III

COMMUNITY PALUWAGAN

SEC. 10. *Creation of a Paluwagan.* - Any nine (9) or more persons with residence, occupation, employment, or activities in a defined community, who desire to form a *paluwagan* shall apply for registration with the Administration. The application shall specifically state the following:

- (a) Name of the *paluwagan*;
- (b) Location of the proposed *paluwagan*;
- (c) Names and addresses of the members;
- (d) Proposed field of membership;
- (e) Term of existence, not exceeding fifty (50) years, renewable for another fifty (50) years upon approval of the Administration;
- (f) Articles of the *paluwagan*; and
- (g) By-Laws.

SEC. 11. *Application for Registration.* - In order to simplify the organization of the *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 for registration 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; and
- c) economic viability of establishing the proposed *paluwagan*.

An application for registration shall be processed within fifteen (15) calendar days upon submission of complete requirements, otherwise, the said application shall be deemed approved.

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

SEC. 12. *Powers and Functions of a Paluwagan.* - Upon the approval of the registration 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 following powers:

- (a) Make contracts;
- b) Sue and be sued;

- (c) Adopt and use a common seal and alter the same at pleasure;
- (d) Purchase, hold, and dispose of property necessary, incidental, or beneficial to its operations;
- (e) Apply for loans, the maturities of which shall not exceed thirty (30) years, except as otherwise provided herein, and extend lines of credit to its members, in accordance with the following:

(1) Loans to members shall be made in conformity with the criteria established in the By-laws of the paluwagan, subject to the following:

(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 (30) 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 Five million pesos (P5,000,000.00) shall 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 shall 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 Five million pesos (P5,000,000.00);

(iv) Loans shall be paid or amortized in accordance with the 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 shall be approved by the credit committee or a loan officer;

(vi) The rate of interest is reasonable; and

(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.

(2) A paluwagan shall not commit itself to make any loans for amounts in excess of the total of the following amounts:

- (i) cash available for loan purposes;
- (ii) cash which can be readily realized upon the sale or redemption of permissible investments made by the paluwagan; and
- (iii) credit available for loan purposes from government or private financing institutions.

(3) The treasurer, cashier, paymaster, or employer of the office employing a member is required, notwithstanding the provision of any existing law, rule and regulation to the contrary, to make deductions from one's salary, wage, income, or retirement pension pursuant to the terms of one's loan, obligations, investments and all other deductions authorized by the member, to remit such deductions to the paluwagan concerned, and to collect such reasonable fee for one's services as may be authorized by rules promulgated by the Board.

(f) Receive from its members payments, representing member's contribution (hulog) which shall be evidenced by a certificate of membership;

(g) Invest its funds in accordance with the rules and regulations prescribed by the Board, in the total amount not exceeding Twenty-Five per centum (25%) of its paid-in and unimpaired capital;

(h) Borrow, in accordance with such rules and regulations as may be prescribed by the Board, from any source, in an aggregate amount not exceeding Fifty per centum (50%) of its paid-in, and unimpaired capital and surplus;

(i) Levy late charges and penalties, in accordance with the by-laws, for failure of members to promptly meet their obligations to the paluwagan;

(j) Impress and enforce a lien upon a member's contribution (hulog), to the extent of any loan made and any dues or charges payable by such member;

(k) In accordance with regulations prescribed by the Board:

(1) Sell to members negotiable checks, travelers checks, money orders, and other similar money transfer instruments, including international and domestic electronic fund transfers and remittance transfers;

(2) Encash checks and money orders for members for a fee;

(3) Issue credit cards; and

(4) Engage existing digital platforms, or other financial technologies that may be devised in the future, to enhance or automate financial services for members;

(l) In accordance with the 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: Provided, That 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 five per centum (5%) of the unimpaired capital and surplus of the paluwagan;

(m) 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;

(n) Invest in securities that are offered and sold pursuant to Section 3, Chapter I of Republic Act (RA) No. 8799 or "The Securities Regulation Code", subject to such regulation as the Board may prescribe, including a regulation prescribing the minimum size of the issue at the time of initial distribution, minimum aggregate sales prices, or both;

(o) Exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated;

(p) 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;

(q) Notwithstanding any other provision of law, to accept investment from a minimum of nine (9) persons within the defined community for the purpose of augmenting resources and increasing liquidity to be able to provide credit line for the development of micro, small and medium-sized businesses. The contributors shall become members of the paluwagan, and shall be subject to the same terms and conditions of membership as other existing members. The paluwagan shall have the discretion to determine the terms and conditions of the investments, including the amount and 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; and

(r) Collect member's contribution (hulog) from its members upon admission, and distribute such member's contribution (hulog), 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 the 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 it is 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 the ability of the 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 the paluwagan.

CHAPTER IV

MEMBERSHIP

SEC. 14. Membership. - Each member of a paluwagan 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 the 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 the Articles or bylaws of the paluwagan provide for a greater number, a quorum shall consist of the majority of the members of the paluwagan. The members shall also be entitled to vote by proxy, when so authorized by the bylaws.

SEC. 19. Expulsion of Members. – A member may be expelled for cause by a vote of the majority of all of the members of the board of trustees, ratified by the vote of the majority of all of the 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 a majority vote, there being a quorum, 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 shall consider a member's failure to vote in the paluwagan elections, failure to obtain or pay one's loan from the paluwagan, among others. If such a policy is adopted, a written or digital 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 ten (10) days from the adoption of such policy. In addition, each new member shall be provided a 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. – Subject to the policy adopted herein, if a member shall be subject to expulsion, such member shall be notified in advance of the proceedings for 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 thirty (30) days from the date of receipt of such notification to request for a hearing from the board of trustees of the paluwagan. If a member does not request for 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 for a hearing during the 30-day period as described, the board of trustees of the paluwagan shall provide the member with a hearing within thirty (30) days from receipt of the request. After such hearing, the board of trustees of the paluwagan shall hold a vote within fifteen (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 Section 19 of this Act shall be given an opportunity to request for 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 the 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 (5) in number, to be elected annually by and from the members as the bylaws provide. Any vacancy occurring in the board of trustees shall be filled through appointment by the remaining members of the board of trustees: Provided, That the appointee shall only serve the unexpired term of the member being substituted.

At their first board meeting, the board of 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 the Supervisory and Credit Committees. – The Committee members shall be appointed by the board of trustees and shall consist of not less than three (3) members nor more than five (5) 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 (10) 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.

The board of trustees shall have the following powers and functions:

- (a) 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;

- (b) Provide adequate fidelity coverage for officers and employees having custody of or handling funds according to regulations issued by the Board;
- (c) Fill by appointment vacancies on the board of trustees until successors elected at the next annual meeting shall have qualified;
- (d) Have charge of investments including the right to designate an investment committee of not less than two to act on its behalf;
- (e) 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;
- (f) 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;
- (g) Subject to the limitations of this title and the bylaws of the *paluwagan*, provide for the hiring and compensation of officers and employees;
- (h) 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;
- (i) Prescribe conditions and limitations for any committee which it appoints;
- (j) 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;
- (k) 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;
- (l) Establish and maintain a system of internal controls consistent with the regulations of the Administration;
- (m) Establish lending policies; and
- (n) Perform all other functions 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 trustees shall hold such meetings as the business of the *paluwagan* may require, at least once a month.

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

- (a) Make or cause to be made an annual audit, and 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*;
- (b) 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;
- (c) By a unanimous vote, recommend to the board of trustees the suspension of any officer of the *paluwagan* or any member of the credit committee, for a maximum period of thirty (30) days or until the next members' meeting, whichever comes first, at which meeting any such suspension shall be acted upon by the members; and
- (d) 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 (7) nor more than fourteen (14) 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, at least once every two (2) 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 the *paluwagan*.

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

- (a) Appoint and delegate to loan officers the authority to approve applications; and
- (b) Review all applications not approved by the loan officer. 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, That a majority of the full committee is present.

CHAPTER VII

REGULATION

SEC. 29. Regulation of the 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 this 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, subject to the control and supervision of the Board and under such rules and regulations as the Board may prescribe, have the following powers and authorities:

- (a) Receive and take possession of the books, records, assets, and property of every description of the paluwagan in liquidation;
- (b) Sell, enforce collection of, and liquidate all such assets and property, to compound all bad or doubtful debts, and to sue in one's name or in the name of the paluwagan in liquidation, and defend such actions as may be brought against such liquidating agent or against the paluwagan;
- (c) Receive, examine, and pass upon all claims against the paluwagan in liquidation, including claims of members on member accounts;
- (d) Make distribution and payment to creditors and members as their interests may appear; and
- (e) Execute such documents and papers and to do such other acts and things deemed necessary or desirable to discharge the 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. Such notice shall be published once a week for three (3) 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. The corporate existence of the paluwagan shall continue for a period of three (3) years from the date of such cancellation of its charter. During this period, the liquidating agent, or the 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 may sue and be sued in its corporate name.

After the expiration of five (5) 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 they may determine.

Applications for such insurance shall be in such form as the Board shall provide and shall contain the following terms to be agreed upon by the applicant:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) 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;
- (e) To pay the premium charges for insurance imposed by this Chapter; and
- (f) To comply with the requirements of this chapter 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 the following:

- (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.

The Board shall disapprove the application of any paluwagan for insurance of its member accounts if it finds that its reserves are inadequate, its financial condition and policies are unsafe or unsound, its management is unfit, insurance of its member accounts would otherwise involve undue risk to the fund, or 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. 32. Insurance Premium Charges. - All paluwagan shall, at such times as the Board prescribes, pay to the fund a premium charge of not less than one-fifth of one per centum ($1/5$ of 1%) of Total Guaranteed Contribution of the paluwagan.

The term "Guaranteed Contributions" shall pertain to funds enjoying insurance coverage as prescribed by the provisions delineated in this section. These contributions shall yield guaranteed income and offer inherent withdrawal flexibility for members.

Minimum Fixed Contribution shall be maintained by all paluwagan and shall refer to funds not covered by the insurance coverage. It shall not be withdrawable until the membership to the paluwagan is terminated.

SEC. 33. 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. 34. 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. 35. 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, vice president, treasurer, or 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. 36. 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 a 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 a 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. 37. 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.

SEC. 38. Report to an Independent Auditor. – Each insured paluwagan which has engaged the services of an independent auditor to audit such institution for the past

two (2) years shall transmit to such auditor a copy of the most recent report of condition made by such paluwagan, and a copy of the most recent report of examination received by such paluwagan.

SEC. 39. Requirements Governing Insured Paluwagan. – Insured paluwagan must meet net worth standards, lending limits, and investment restrictions to be eligible for insurance. The Administration shall have the power to establish and enforce these standards and restrictions.

SEC. 40. Termination of Insured Paluwagan Status. – The Board shall have the power to terminate a paluwagan's insured status if it fails to meet the requirements for insurance.

SEC. 41. Special Assistance to Avoid Liquidation. – The Board shall have the power to provide special assistance to a paluwagan in danger of insolvency to help them avoid liquidation. The Board shall have the power to recommend appropriate action including changes in management or operations.

SEC. 42. Nondiscriminatory Provision. – Insured paluwagan shall not discriminate in the provision of financial services based on factors such as race, religion, national origin, sex, marital status, or age.

SEC. 43. Board Disapproval of Directors, Committee Members, and Senior Executive Officers of Insured Paluwagan. – The Board shall have the power to disapprove individuals who have been proposed to serve as directors, committee members, or senior executive officers of insured paluwagan. It may disapprove such individuals if they have been convicted of a crime with the penalty of prison mayor or higher.

SEC. 44. Prompt Corrective Action. – The Administration shall have the power to take prompt corrective action to address problems of insured paluwagan before they become insolvent. The Administration shall establish standards for prompt corrective action, which shall include mandatory corrective actions for a paluwagan that fails to meet certain thresholds. The Administration shall also have the power to require additional supervisory actions or take conservatorship or liquidation actions as necessary to the continued economic viability of the paluwagan.

SEC. 45. Certified Statement. – For each calendar year, in the case of an insured paluwagan with total assets of not more than Fifty million pesos (P50,000,000.00), and bi-annually for an insured paluwagan with more than Fifty million pesos (P50,000,000.00), an insured paluwagan shall file with the Board, at such time as the Board prescribes, a certified statement showing the total amount of insured member's contributions at the close of the relevant period, and the amount of insurance charge due to the Fund for that period, based on the prescribed computation as may be provided by the Board.

The Treasurer of the paluwagan shall certify, with respect to each statement required to be filed with the Board pursuant to this section, that, to the best of the said Treasurer's knowledge and belief the statement is true, correct, complete, and in accordance with this Act.

CHAPTER IX

TAXATION

SEC. 46. Grant of Tax Exemption. – Notwithstanding the provisions of any law or regulation to the contrary, a paluwagan shall enjoy the following tax exemptions:

(a) 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 and loan transactions with members: 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 (NIRC) of 1997, as amended: Provided, further, That the exemption from income tax shall not include those taxes wherein the paluwagan is only constituted as the withholding or remitting agent;

(b) Interest on member's contribution with any paluwagan as well as the shares of its members from the net income of the paluwagan shall be exempt from income tax;

(c) Any paluwagan duly registered with the Administration shall be exempt from the payment of value-added tax and documentary stamp tax, in relation with its operations and transactions with members;

(d) 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 Three thousand pesos (P3,000.00).

CHAPTER X

CONFIDENTIAL NATURE OF CAPITAL CONTRIBUTIONS

SEC. 47. 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 capital contributions, except in the cases mentioned in the preceding paragraph of this Section. Any official or employee of an Association who violates this section shall be punished under RA 1405 or the Law on Secrecy of Bank Deposits, as amended.

CHAPTER XI

OFFENSES AND PENALTIES

SEC. 48. Penal Clause. - Penalties shall be imposed for violation of the following prohibited acts:

(a) Refusal to Make Reports or Permit Examination. - Any trustee, 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 (P50,000.00) nor more than One hundred thousand pesos (P100,000.00) or by imprisonment of not less than one (1) year nor more than five (5) years, or both, in the discretion of the court.

(b) False Statement. - The willful making of a false or misleading statement on a 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 (P100,000.00) nor more than Two hundred thousand pesos (P200,000.00), or by imprisonment of not more than (5) years, or both, at the discretion of the court.

(c) Proceedings upon Violation of this Act and Other Laws, Rules, Regulations, Orders or Instructions. - Whenever a paluwagan willfully violates any of the provisions of 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 (P50,000.00) nor more than Five hundred thousand pesos (P500,000.00) 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. 49. 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, 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; and
- (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: 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, trustees, 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, trustees, 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 XII

CAPACITY-BUILDING

SEC. 50. Capacity-Building. – The Board is authorized to directly conduct, provide grants to or enter into contracts with colleges or universities, state or local educational agencies, or other appropriate public or private non-profit organizations to implement programs for the training of persons engaged, or preparing to engage, in the operation of a paluwagan, and in related counseling programs.

The Board is likewise 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 a 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 similar programs and projects.

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

CHAPTER XIII

MISCELLANEOUS PROVISIONS

SEC. 51. Utilization of Registration and Annual Fees for the Community Paluwagan Administration. –

(a) All registration fees, annual fees, and other associated charges collected from paluwagan groups shall be designated as 'Initiation Fund' herein, to serve as the initial fund to establish the Administration.

(b) The Initiation Fund shall be dedicated to the operational and administrative needs of the Administration, including staff salaries, capacity building, regulatory oversight, and program development.

(c) The Administration shall prudently manage and utilize the Initiation Fund in a transparent and accountable manner, adhering to all relevant financial and administrative regulations.

(d) The Administration shall regularly report to the appropriate oversight committee regarding the status, utilization, and impact of the Initiation Fund.

SEC. 52. Implementing Rules and Regulations. – There shall be a Committee of five (5) members which shall formulate the rules and regulations necessary to implement the provisions of this Act within sixty (60) days from the approval of this Act.

The Committee shall be composed of the following:

- (a) DTI Secretary as Chairperson;
- (b) SEC Commissioner as Vice-Chairperson;
- (c) Representative from the academe who must be a financial expert as member;
- (d) Representative from a financial institution, whether public or private as member; and
- (e) Lawyer as member.

The Secretary of the DTI and the Commissioner of the SEC shall have the authority to appoint a designated representative. The representatives from the academe and financial institution, and the lawyer shall be appointed by the Chairperson upon recommendation of organizations or advocates of financial inclusion. The rules and regulations issued pursuant to this section shall take effect thirty (30) days after its publication in a newspaper of general circulation.

SEC. 53. Separability Clause. – If any provision of this Act or the application thereof to any persons or circumstances shall be held unconstitutional, the remainder of this Act and the application of such provisions to other persons and circumstances not otherwise affected shall remain in full force and effect.

SEC. 54. 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. 55. Effectivity. – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a national newspaper of general circulation.

Approved,